

MAY 1, 2000

Business Insurance

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

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Looking ahead...



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Updates

NCCI forecasts worsening workers comp combined ratios

ORLANDO, Fla.—Workers compensation insurers are facing “a pattern of accelerating deterioration” as two key combined ratios are both expected to increase several percentage points this year, according to new estimates from the National Council on Compensation Insurance.

The accident-year ratio, which considers losses only from accidents in a given year, is predicted to climb five percentage points to a record 130% this year, up from 125% last year. This is occurring despite stable loss

See Updates on next page

Work comp takes smaller piece of the public pie

Public entities' cost of risk



Source: Public Risk Management Assn., Deloitte & Touche L.L.P.
GRAPHICS BY LANCE PRATHER

Public entity cost of risk declined

By RODD ZOLKOS

Public entities' cost of risk declined from 1996 to 1998, largely as a result of the soft insurance market but also due to a clearly increased investment in risk management.

Those are among the key findings of a new survey conducted by the Public Risk Management Assn. and Deloitte & Touche L.L.P. The survey, based on fiscal 1998 data, is the third biennial Cost of Risk Evaluation in State and Local Government.

Perhaps most significantly, the latest survey is the first to show an increase in the number of full-time public entity risk managers and the number of full-time employees in their departments.

The percentage of respondents employing full-time risk managers increased to 86% in 1998 from 72% in the 1996 study and 73% in the 1994 report. And the size of their departments doubled on average during the period, to an average of 12 full-time employees in 1998, from six in both 1996 and 1994.

“We see a substantial increase in the number of full-time risk managers,” said Edward A. Pouzar, a director at Deloitte & Touche in New York, who led the government cost of risk evaluation project. “It’s really increased in the category called ‘All Other,’ which is probably your utilities and your transit agencies,” he said.

In 1998, 83% of the public entities in the “other” category reported having full-time risk managers, up from 65% in the 1996 study.

The survey also showed that public sector risk managers still typically report to entities’ finance departments, as they did two years ago, Mr. Pouzar said.

As for government entities’ cost of risk, the survey found that for 1998, the total average cost of risk was \$6.2 million, down \$500,000 from the 1996 average cost of risk.

“It’s got to be primarily a function of the soft market,” Mr. Pouzar said. “If you look at the categories, *See Public on page 109*

Superior National enters bankruptcy

By DOUGLAS McLEOD

WOODLAND HILLS, Calif.—Superior National Insurance Group Inc. is seeking bankruptcy protection after losing a court fight with California regulators over a rehabilitation plan for its insolvent workers compensation insurance units.

Superior National, the holding company for four California-domiciled insurers now in conservation, had proposed a plan to continue operating the insurers with reinsurance support from General Electric Co.’s Employers Reinsurance Corp. Instead, though, a

Los Angeles judge last month approved another plan submitted by regulators under which Kemper Insurance Cos. will provide the reinsurance backing.

Citing the ruling, Superior National filed for bankruptcy reorganization for itself and three non-underwriting units on Thursday.

“Superior National is disappointed that a demonstrably better (reinsurance) offer which we solicited and supported was rejected by the (California Department of Insurance),” J. Chris Seaman, the company’s president and chief executive officer, said

in a statement.

“The confidential and rushed approach by the (insurance department) limited its own ability to review our better offer and left the Superior Court judge with no choice but to uphold the (department’s) puzzling recommendation of a less worthy deal,” Mr. Seaman charged.

Meanwhile, Foundation Health Systems Inc. announced last week that it expected to be sued by Superior National over FHS’s 1998 sale of Business Insurance Group Inc. to the troubled insurer. The biggest insolvency

See Bankrupt on page 109

High court closely watched

Ruling could limit review of jury verdicts in civil cases

By JUDY GREENWALD

WASHINGTON—Depending on how the U.S. Supreme Court rules in an upcoming age discrimination case, employers could find it more difficult to successfully appeal unfavorable jury verdicts in all civil cases filed in federal court, some attorneys say.

Attorneys say the Supreme Court’s ruling in *Roger Reeves vs. Sanderson Plumbing Products Inc.*, which is expected next month, may in effect limit appellate judges’ discretion to reverse jury verdicts. Be-

cause juries tend to favor plaintiffs in such cases, this could negatively affect employers.

Other attorneys say the Supreme Court decision is more likely to narrowly focus on the “bread and butter” issue presented in the case, which concerns the amount of evidence needed to establish that an employer is guilty of age discrimination.

Because both issues were presented to the court, it is not clear on which one the justices will focus their decision.

“This is a sleeper case,” said Eric

Schnapper, a University of Washington School of Law professor in Seattle, who co-wrote the plaintiff’s Supreme Court brief.

“This could bring about a real sea change in practice in the appellate courts in reviewing civil jury verdicts generally, or it could be sort of a non-event in which the court writes a very narrow decision... and just doesn’t go any further.”

The case involves Roger Reeves, a 57-year old employee of Columbus, Miss.-based Sanderson Plumbing, who lost his job as supervisor in

See Appeals on page 112

Med mal, product awards up

Jury awards rising: Study

By MICHAEL BRADFORD

Sharp increases in jury awards in product liability and medical malpractice cases are fueling increases in the size of all personal injury awards, according to a new study.

The median amount of compensatory damages awarded by juries in personal injury cases rose 7% in 1998 to \$50,000 from \$46,695 in 1997, according to the 1999 edition of “Current Award Trends in Personal Injury,” published earlier this month by Jury Verdict Research of Horsham, Pa. The study analyzes only awards and not the amounts paid to plaintiffs at settlement, which often can be considerably lower.

Contributing to the increase were a 137% jump in the median compensatory award in product liability cases and a 46% rise in the median in medical malpractice cases.

JVR compiled the report from its database of 168,000 personal injury cases in state and federal courts. While the database does not include all personal injury cases, JVR maintains that the number is sufficient to provide accurate award statistics. Because it takes time to compile informa-

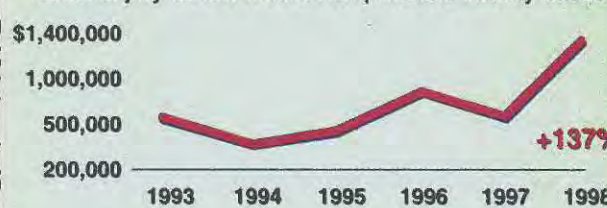
See Awards on page 110

Median awards move up

National jury-award median for personal injury cases



National jury-award median for products liability cases



Source: Jury Verdict Research

GRAPHIC BY LANCE PRATHER

Captive report

Employers look for way around captive benefit laws

By JERRY GEISEL

Amid anxious waiting for what could be a crucial U.S. Department of Labor ruling, employers and their advisers are exploring new ways to fund employee benefits through captive insurance companies. The pending ruling involves a request by Herndon, Va.-based Columbia Energy Group to fund long-term disability risks through a Vermont "branch" of its Bermuda-domiciled captive. Columbia Energy's filing has been viewed by risk management and employee benefit experts as a test case of whether the de-

partment will relax a key restriction that has been making it difficult for most companies to use captives to fund employee benefit risks, like group life and LTD programs.

Under the most significant restriction, the department requires that at least 50% of a domestic captive's premiums be third-party business for the parent to fund employee benefit risks through the captive. That test rules out most captives from funding their parents' benefit risks since few companies would want their insurance subsidiaries to take on so much unrelated business.

Virtually all of the Columbia Energy captive's business relates to

Columbia Energy. As a result, if the Labor Department were to rule in favor of the energy giant, that would give the green light to hundreds of other employers to fund benefit programs through their domestic captives.

The Labor Department, though, has yet to rule on Columbia Energy's application, which was filed last August. While there was initial speculation—triggered by comments made a Labor Department official—that the department might rule in favor in Columbia Energy, no one knows when the department will rule, much less how the ruling will go.

"This is a very sensitive issue," said

Henry Saveth, an attorney with New York-based William M. Mercer Inc., in theorizing why the department has been slow to issue a ruling.

While the waiting continues, some legal experts are advancing ways employers could fund benefits through their captives even if the insurance subsidiaries haven't met the 50% test.

For example, the law firm LeBoeuf, Lamb, Greene & MacRae L.L.P. in New York is asking the Labor Department for an advisory opinion on whether a group of Fortune 100 companies with captives could use those captives to fund each other's benefit risks.

According to the letter: "Company

A would place risks relating to one or more of its benefit plans with the affiliated insurers of Companies B and C, while Companies B and C would place risks relating to their benefit plans with the affiliated insurer of Company A."

Through this arrangement, the 50% test would be met since the captive would not be funding "related" employee benefit business, the letter says. The department currently is reviewing the letter.

Meanwhile, captive and benefit experts note that there are benefit risks that employers can fund through their captives without having to secure Labor Department approval. The department only has jurisdiction over benefit plans, such as group health and life, covered by the Employee Retirement Income Security Act. So-called non-ERISA plans that the department does not regulate include benefit plans covering employees outside the United States, group auto and homeowners' plans, as well as benefit plans sponsored by public employers.

So far, few employers have ever considered funding non-ERISA benefit plans through their captives. Employer misunderstanding may be at least partly to blame.

"There have been myths propagated that you can't fund benefits through a captive," said Mitchell Cole, a principal with Tillinghast-Towers Perrin in New York.

In fact, Mr. Cole says, "There are a lot of non-ERISA benefits that can be funded through captives in a cost-effective way."

And some employers already are funding ERISA benefits through their captives because they have been able to meet the Labor Department's 50% test.

Since Oct. 1, Danbury, Conn.-based Union Carbide Corp. has used a U.S. Virgin Islands branch of its Bermuda-domiciled captive, Westbridge Insurance Co., to reinsure a portion of life insurance policies written by Metropolitan Life Insurance Co. MetLife has written the policies for about 10 years. More than 60% of Westbridge's premiums are unrelated to Union Carbide risks.

Union Carbide Assistant Treasurer Richard Inserra says the life reinsurance business is broadening the captive's book of business, controlling costs and allowing the captive to share in the profits with the primary insurer.

Mr. Inserra says life insurance is an excellent risk to fund through a captive.

"It is one of those risks that over the long run, you are going to make a profit. You will not make a lot of money, but you should make an underwriting profit and you will have investment income," he said.

And, using a captive to substantially reinsure life insurance risks may "put a bit of a damper" on the primary fronting insurer's ability to raise costs, he added.

Still, Mr. Inserra notes, barring the Labor Department easing the 50% test, few other employers will be able to do the same.

While Columbia Energy doesn't meet the 50% test, it said, in anticipation of the ruling, that benefits were sweetened so that disabled employees receive 60% of their salary. Previously, the plan offered a LTD benefit of 30% of salary up to the Social Security wage base and 60% of salary over the wage base. Other changes included a more liberal definition of liability.

Those improvements preceded comments made by a key Labor Department official.

See **Benefits on page**



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What can we do to help you?

Captive report

Benefits

Continued from page 4

partment official who said the meeting the 50% test no longer would be an absolute prerequisite to win department approval.

The department would consider, for example, the quality of primary insurers used by a captive and whether plan participants benefit from the arrangement.

Funding employee benefit programs through captives has been discussed for years as a way to broaden captives' risks and cut costs.

Since the early 1990s an additional, albeit potential, reason to fund benefits through captives emerged: increasing the likelihood a parent company can deduct property/casualty

premiums paid to its captive.

Discussion of the tax advantage was triggered by court decisions and an Internal Revenue Service ruling. Several appellate courts ruled that a parent can deduct premiums paid to its captives so long as the captive writes a significant amount of unrelated business.

Those rulings preceded an IRS ruling that said employers can deduct group term life insurance premiums paid to the captives because the premiums represent unrelated business.

So, if the parent funds enough employee benefit business through the captive, the captive could be considered as writing a significant amount of outside business. That would increase the likelihood the parent would be able to deduct property/casualty premiums paid to the captive. **BI**

Captive insurers keep an eye on tighter reinsurance market

By JUDY GREENWALD

Signs of a hardening reinsurance market are beginning to be felt by captive insurers, but the firming process still is in its early stages.

Although loss-beset lines, such as California workers compensation, are most likely to feel the pinch of higher reinsurance pricing, there has been some overall hardening as well and, in response, captive programs are sometimes being restruc-

tured to retain more risk. Reinsurers also are paying closer attention to their underwriting.

Capacity, however, remains readily available. Furthermore, as in any market, good businesses continue to get the best deals.

Although the market is slowly tightening, "it's not a disaster area," said Michael Woodroffe, president of Bermuda-based Meadowbrook International Ltd., a reinsurance intermediary that specializes in captives. He added, though, "I would say a client

needs to pay more attention to their reinsurance buying. It's not something that will take care of itself any more."

"It's definitely bottomed out," said Mary Harrington, corporate risk management director for Subaru of America Inc., based in Cherry Hill, N.J. "I anticipate that we'll see some hardening in the reinsurance next year," said Ms. Harrington, whose firm has a Bermuda captive, Pleiades Insurance Co. Ltd.

"Reinsurers seem more reluctant to want to do multiyear reinsurance deals today than they were even 12 months ago," said James D. Hinton, vp-insurance for Nashville-based Columbia/HCA Healthcare Corp., which operates Nashville-based Health Care Indemnity Inc. Although it technically is not a captive because it has a commercial license, 95% of its business comes from its parent company, Mr. Hinton explained.

Meanwhile, a continuing hot topic in captive reinsurance is cross-class or basket aggregate coverage, in which property and casualty risks are reinsured within the same reinsurance policy over a captive's retention.

So far, though, there continues to be more talk than action in terms of business written, say reinsurers, intermediaries and others. Some believe, though, that cross-class coverage may become more popular if the market continues to harden.

Similarly, securitization deals using captives are more often talked about than actually done.

Some market observers believe that, in general, the captive reinsurance market has been hurt by the consolidation in the industry. Consolidation, they say, has inevitably cut down on the number of underwriters in the business and, by extension, the pace of innovation.

As reinsurance pricing increases, the opportunity to cut costs by using a captive operation... is very appealing," said Donald Watson, a director of Standard & Poor's Corp. in New York. "The critical point right now is that reinsurers are walking away from poorly priced risks, said Mr. Watson. "On the other hand, they're very anxious to grow."

"To the extent they can find well-priced captive risk, they will jump on it," Mr. Watson said, "and I think that's the issue for captives."

"Reinsurance is becoming more expensive, and they end up having to retain more risk as a result. Typically, the way to accommodate higher pricing is to increase the attachment points by the captive," he said.

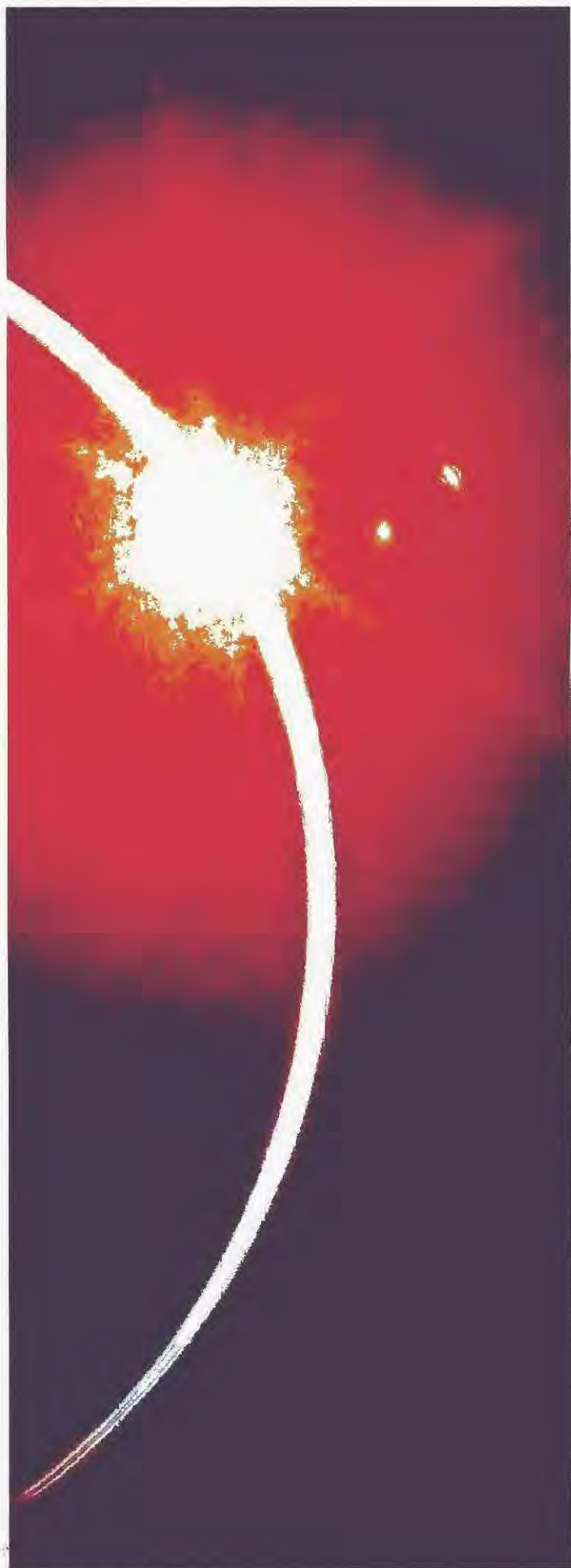
Bill Watson, executive vp at Reliance National Insurance Co. in New York, said that, as in the overall market, "there is some hardening, but it's selective hardening, and it's not major at this point." He did say, though, that property coverage is hardening more than casualty.

Overall, however, "it's very competitive," said Reliance's Mr. Watson. "The price may be going up slightly, but the capacity is there," he said.

Meadowbrook's Mr. Woodroffe said, "We're seeing the vanilla stuff pretty much renewing as expiring, but it's getting harder to find capacity for start-ups, and there is definitely an increase in certain lines."

R. Lincoln Trimble, vp-underwriting manager property/casualty at Chubb Atlantic Indemnity Ltd. in Bermuda, agreed. "We clearly see

See Reinsurers on page 1



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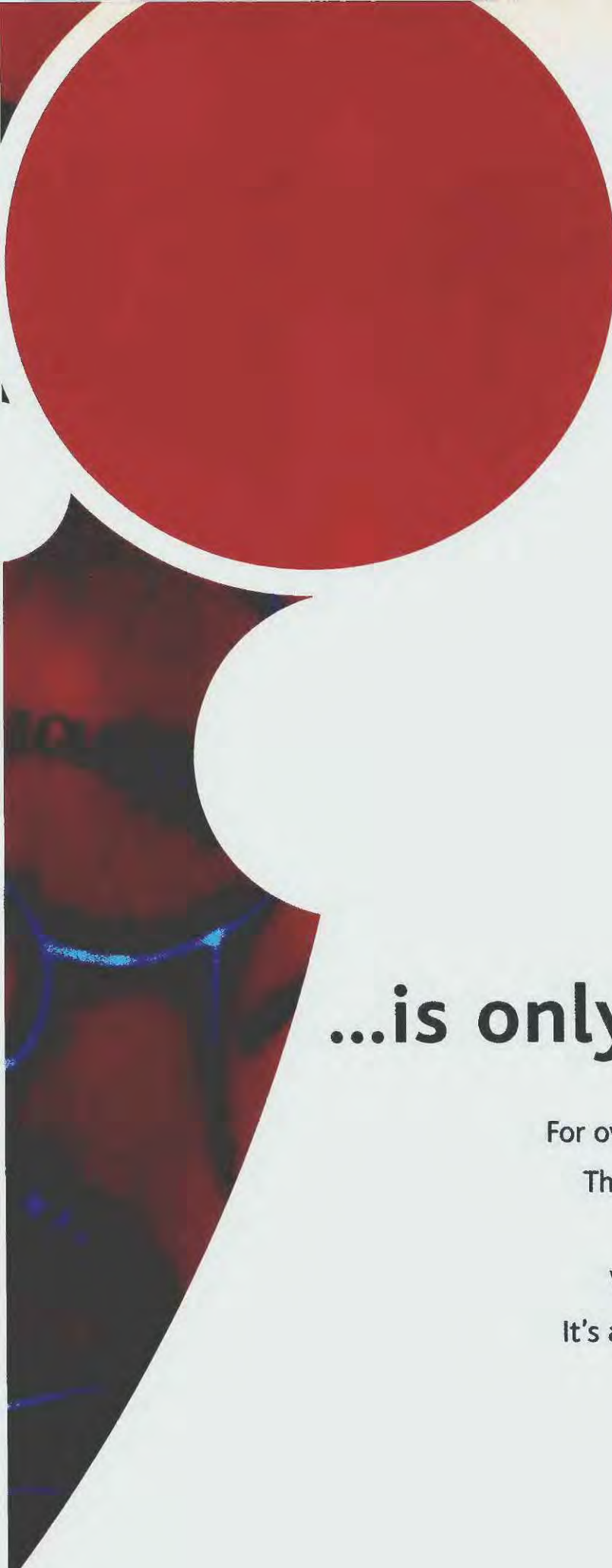
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Captive report

Reinsurers

Continued from page 6

hardening and are part of the hardening process itself," he said. Certain classes of business are particularly difficult to place. These include workers comp in California, workers comp for professional employee organizations and contractors and trucking automobile liability, he said.

Robert A. Mulderig is chairman and CEO of Bermuda-based Mutual Risk Management Inc. which has a rent-a-captive operation and manages captives and brokers reinsurance. "I think there's still plenty of capacity, but I think reinsurers have been through a period where their results have been less than stellar in the second half of 1999," Mr. Mulderig said. "And I think the market's beginning to turn and reinsurers are beginning to demand a bit more price and better terms."

Mr. Mulderig also said that reinsurers are "probably being more deliberate in their analysis of the risk than certainly what we saw last year."

Dow Walker, Nashville-based chairman of Willis' health care practice, agreed. "I think we're seeing a return to underwriting on the reinsurance side, rather than just filling out capacity," which is applicable to captives as well as the industry overall, Mr. Walker said.

"However, of course, in a captive, there's much more likelihood that the captive would retain a greater amount of risk," which means the reinsurance is further away from the

ground-up loss exposure. "So, from that standpoint, you have a lessening of the effect," he said.

Gregory Myers, president and CEO of Woodland Hills, Calif.-based Becher + Carlson Cos., a unit of American Re-Insurance Co., said that, while there is still plenty of capacity available, "what we're typically seeing in the marketplace is people are less interested in writing guaranteed-cost programs, or they're demanding a higher retention or participation for a captive owner or insured."

"In general, I think the marketplace is just less aggressive than it was a year ago. For a good account, though, the market's still pretty open for them," Mr. Myers said.

Others agree. "The history that you track is the key to getting the lower price," said S&P's Mr. Watson.

John Lower, executive VP of Iselin, N.J.-based International Risk Management Americas Inc., a captive insurance company manager, said he is "seeing some movement in the marketplace in terms of rates increasing, depending upon the hazard, location, exposure."

"On the other hand, risks that have a good spread of risk and don't have exposure to any particular catastrophe type of loss... are also seeing stability in the marketplace," he added.

Mr. Lower also pointed to the long-term partnerships he said captives traditionally foster with their reinsurers. Because of these strong relationships, the pricing will not be as severe nor the changes as dramatic for captives as they will be for others if the market hardens, he said.

Tom Wronski, director of insurance and risk management for Boston-based Fidelity Investments, for instance, said the company's captive, Bermuda-domiciled Fidvest Ltd., has renewed its reinsurance program of July 1 with no problem.

"We have had some loss experience, but nothing that's pierced the reinsurance layer," he said. "The way our program is structured, of course, we retain a large part of the risk."

Mr. Wronski said that Fidelity has strong long-term relationships with Lloyd's syndicates, which are the captive's main reinsurers.

Meanwhile, there is still more talk than action on the cross-class front.

Mr. Lower said, "I think there's still a lot of people talking about it, but I don't think it's being done with the frequency that some people would like you to believe." But, he added, "I do believe there are still people seriously considering that type of an option."

"That's still a difficult sale," because it is a complicated transaction, said S&P's Mr. Watson. But it appeals to the corporate risk manager as a way to manage volatility, he said.

Furthermore, "it's not necessarily efficient to buy several different types of policies to cover every type of risk" if one policy that covers several risks can be obtained, he said.

"I would expect that, as more people understand the product and fine-tune the solutions," there will be more cross-class deals, S&P's Mr. Watson said.

Mr. Mulderig agreed that "it's been more talked about than it has been

business reality."

In the soft market, capacity in each of the individual lines "has been so plentiful and relatively inexpensive that it has been somewhat of a solution looking for a problem. But, I think, as the situation changes, it could hold more appeal," Mr. Mulderig said.

Becher + Carlson's Mr. Myers said, "It seems like how finite risk was in the early '90s, where there's a lot of education but not as many programs actually completed."

But unlike some others, he does not necessarily believe that more of this business will be written in the future. Insurers are not "going to be as aggressive in writing the more-creative types of programs. It's going to work for the right insureds that have the right exposures and are interested in the product."

There has also been relatively little securitization involving captives.

Willis' Mr. Walker, said though, that "clearly, securitization is something that we're going to see more of" in the future.

"So far, we've seen more talk than any actual action," although there continues to be a real interest in looking at more creative uses for captives, said Becher + Carlson's Mr. Myers.

Meanwhile, finite risk continues to be popular.

"I think that finite risk has been applied to captives for a number of years now successfully," Mr. Mulderig said.

Mr. Walker agreed. "I think that we have seen a continuous need or interest" on the part of captives in loss

portfolio transfers." With the market very soft, "it just seemed to make sense to do a loss portfolio transfer to take liabilities off your books, because the cost of transfer was very attractive. And I think we're seeing a continuation of that, but I don't know that the trend has actually picked up any."

Mr. Myers said, "I'd say it's still being used for the insured that needs the spread of risk protection, but it's for a unique type of insured."

"Most of the insureds are able to get the coverage they need without having to do a finite risk transaction," he said.

Centre Solutions, which focuses primarily on finite risk and some other coverages not traditionally available in the marketplace, has, in fact, seen little captive reinsurance business in the past year or so, though the reinsurer remains interested in the business, said Tom Dickson, its New York-based chief underwriting officer.

The more conventional markets "are offering favorable terms that are allowing companies to rely less on their captives than they have in the past," Mr. Dickson said.

Another factor that may be having an indirect but real impact on captive reinsurance is the smaller number of underwriters. Although total capacity may remain undiminished, each consolidation deal removes from the market an underwriter who may have proposed an innovative program, idea, or concept, Mr. Walker said. "It's sort of a shrinkage of the talent pool, more or less," he said. **BI**

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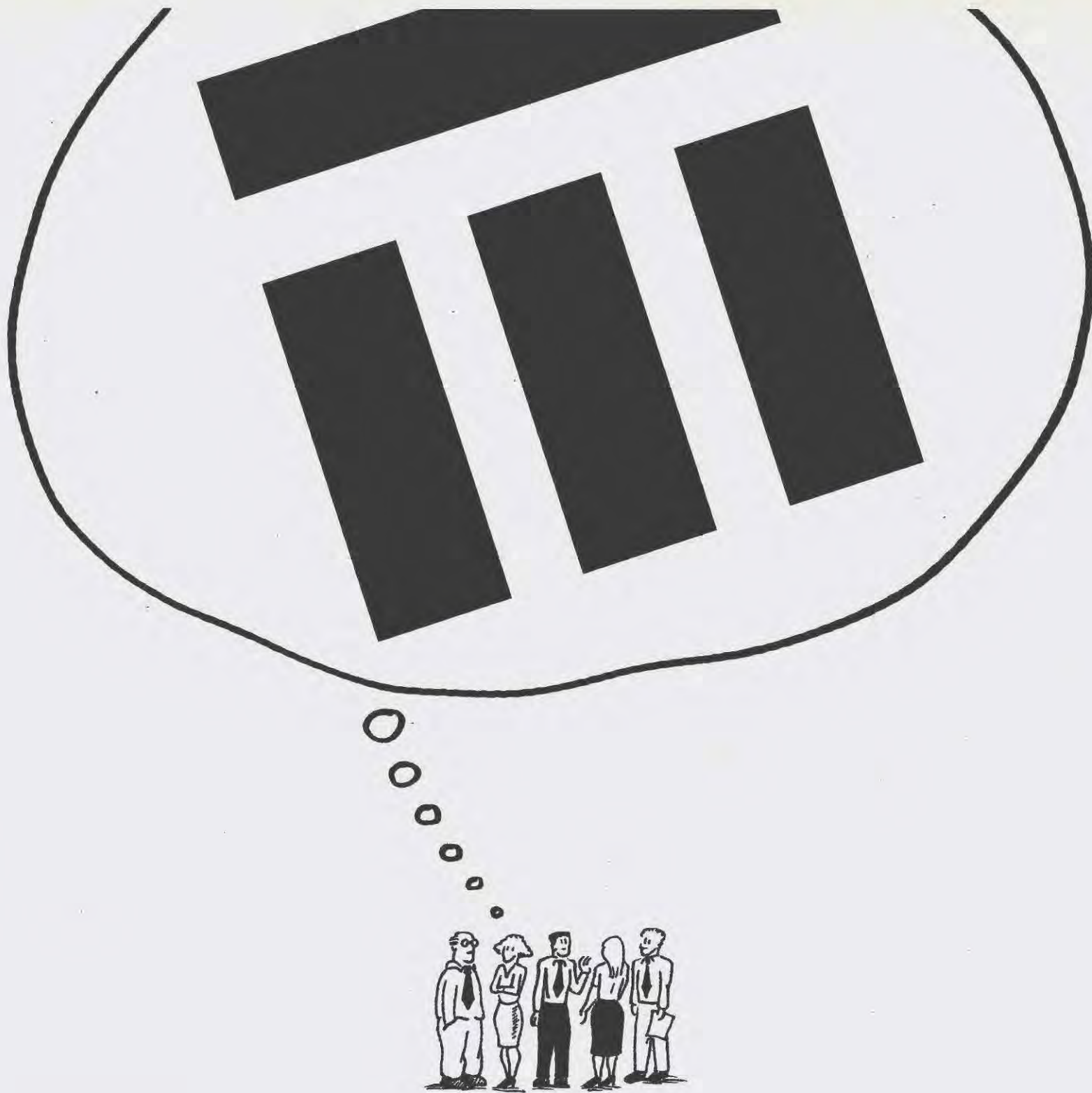
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Management of Capital and Risk

Captive report

Bermuda

Continued from page 14

The UBP had been viewed as the pro-business establishment party, whereas the PLP traditionally has been seen as a radical party concerned more with social issues than the success of Bermuda's business.

But, soon after the election, business leaders felt reassured that the new premier, Jennifer Smith, would not make radical changes that would harm business on the island.

Over the past year, however, the government has implemented or proposed several policies that some captive managers say could hurt the international business sector.

So far, the government has raised the payroll tax in Bermuda to 12.75%, from 12%, and increased the fees levied on companies by 5%.

In addition to raising the payroll tax, the government now imposes the tax on the actual pay of employees. Previously, a "notional" pay figure of \$73,200 could be used, which, in effect, lowered the taxation.

While the increases may appear moderate, the effect of taxing real pay is significant and increases the costs for captive managers and international insurers, several captive managers said.

"Government has to finance its initiatives somehow. We all understand that, and we recognize that we all do well out of Bermuda, but there is the risk of killing the goose that laid the golden egg," Mr. Gorman said.

Increases in fees and employment taxes do add to the cost of doing business in Bermuda, said Mr. Cossar of Aon. "It's something we are not happy about, but it's not the end of the world," he said.

But government proposals to tighten immigration rules could cause significant problems for international businesses in Bermuda, some captive managers say.

The proposal that is causing the biggest concern is a nine-year limit on work permits for non-essential personnel, defined as senior executives and those who possess skills not readily available in Bermuda.

"We have got challenges in that area, in terms of the flexibility we are given in how we staff our companies," said Mr. Ezekiel of IAS, who is also chairman of the international companies' division of the Bermuda Chamber of Commerce and is involved in the discussions with the government over the proposals.

Limiting the time foreign personnel can spend in Bermuda would make it more difficult to attract high-quality staff, he said.

The government proposals, if they go through unchanged, could hamper the ability of captive managers to attract and retain staff, said Mr. Cossar of Aon.

Employees who come to Bermuda may be put off by the proposed nine-year maximum for non-key employees, because it would limit their possibilities for career progression, he said.

"But the dialogue we have with the government is very positive," Mr. Cossar said.

If employment restrictions are tightened, it could hurt captive managers, said Mr. Durrant of IRM.

"It's difficult for us to have a free hand in moving our staff and motivating our staff with changes in responsibilities when you have to look over your shoulder," he said.

The limit on work permits could discourage self-managed captives from establishing in Bermuda, because it is crucial that they be staffed for the long term by managers in whom the captive owners have confidence, said Mr. Gorman of Marsh.

Another government proposal, which seeks to ascertain the racial makeup of staff of all the island's companies, is also creating a stir.

The Government's Commission for Unity and Racial Equality's rules on race reporting in the workplace would require each company to provide an annual breakdown on the race, employment level and pay of all its employees.

The rules were passed by Bermuda's House of Assembly but defeated by the Senate. Nevertheless, because the second chamber can only delay legislation, the rules could still be applied next year.

Mr. Ezekiel welcomed the delay. "We believe in equality in the workplace... but we have to make sure that we don't get involved in a lot of bureaucracy," he said.

The CURE proposals will increase administration costs, Mr. Cossar said.

"There is a cost involved in completing all the forms, and the question is, 'What will be the benefit?' So, we want further discussions," he said.

The proposed employment rules and the CURE legislation is causing concern among captive clients, said Mr. Gorman of Marsh.

"This is a very sensitive area, and we have had some clients that have reported their nervousness to us," said Mr. Gorman.

"People are worrying about the bureaucracy and are questioning whether they should set up a captive in Bermuda," Mr. Gorman said.

Mr. Inserra of Union Carbide observed that the government proposals seem unlikely to change Bermuda radically and should not be a worry to

risk managers. But, he added, if the policies lead to significant personnel changes, then risk managers could be disappointed.

"Account managers are key people, almost indispensable, so you would not want to lose them," he said.

And although it is understandable that the government wants Bermudians to take as many of the jobs available in the island's insurance industry as possible, it could harm the industry if it inhibits companies from recruiting foreigners to fill positions where qualified Bermudians can't be found, Mr. Inserra said.

"Otherwise, international companies will move elsewhere. They are very portable," he said.

"International business and the government seems to be significantly apart on some of the issues, and there

is a lot of work that needs to be done," Mr. Gorman said.

Another concern is proposed U.S. legislation to close an alleged tax loophole enjoyed by some insurers and reinsurers located in Bermuda. The legislation would impose additional taxes on business reinsured to Bermuda-based companies by their affiliates in the United States.

The legislation is not expected to apply to most captives in Bermuda however, because the majority of captives pay premiums to unaffiliated fronting companies that then cede the business to Bermuda captives.

The U.S. insurers backing the legislation acknowledge that they have deliberately worded it to exclude captives.

Some rent-a-captives, however, could be subject to the taxation. **BI**

It was just a matter of time.

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auto liability business, where rate increases are being imposed by traditional insurers, Mr. James said.

Current trends reflect the soft commercial in-

1999 premium volume increased to \$1.61 billion, from \$1.64 billion in 1998.

For the most part, the increase in premium volume resulted from the addition of one large

Willis Management (Bermuda) Ltd.

* Includes International Advisory Services Ltd.
Source: BI survey

123.0

101.0

21-22

Captive report

Agency business fueling Bermuda rent-a-captive growth

By GAVIN SOUTER

HAMILTON, Bermuda—Most rent-a-captives in Bermuda thrived in 1999, and that success is expected to continue.

The soft commercial market in the United States, which some say stymies the development of captives, as more and more agents and brokers sought to take a share of the profits from their top-performing books of business, captive managers say.

And as commercial insurance prices for workers compensation and other casualty risks begin to increase this year, corporate insurance programs

will likely be attracted to the captive and rent-a-captive market, they say.

Bermuda could attract still more rent-a-captives if the government finally passes segregated cell legislation later this year, as is expected. The legislation was due to be in place in 1999, but it made slow progress and is now expected to be passed in the second half of 2000.

Still, not everything is rosy for Bermuda's rent-a-captive market.

A bill proposed in the U.S. Congress that would impose additional taxes on Bermuda-based insurers and reinsurers could dim slightly an otherwise bright outlook.

The legislation, which is targeted at

ACE Ltd., XL Capital Ltd. and other large Bermuda-based reinsurers, could also impose new taxes on a few rent-a-captives in Bermuda that own U.S. fronting companies.

If the legislation passes, however, slight adjustments to the arrangements between fronting companies and rent-a-captives should allow members to circumvent the tax, captive managers say.

And the proposed legislation has done little to thwart interest in rent-a-captives, which still is strong in 2000, managers say.

The rent-a-captive market in Bermuda has welcomed a spate of agency programs over the past sever-

al years. The programs provide agents with an opportunity to share in the profits of their profitable books of business by placing the risks in their own rent-a-captive programs. So, in addition to their commissions and fees for the business, the agents take a slice of the underwriting profits.

The agency programs are often too small to justify the expense of establishing single-parent captives, but they can easily be slotted into existing rent-a-captives, managers say.

Agency captives made up a large proportion of the new programs at Bermuda's largest rent-a-captive, the Insurance Profit Center. IPC added 33 new accounts in 1999, while 28 ac-

counts were not renewed. That leaves IPC with 503 total programs, of which 153 are active.

Despite the increase in the number of programs, gross premiums fell in 1999, to \$155 million from \$158 million in 1998. The decrease was due to the soft commercial liability market, according to David Alexander, president of Mutual Indemnity (Bermuda) Ltd., which owns IPC.

The new accounts included 12 traditional corporate programs, covering workers compensation and other liability risks, and 21 agency programs.

Traditionally, IPC has written mainly corporate programs. Over the past several years, however, the rent-a-captive has been transformed by the large influx of agency programs, Mr. Alexander said.

Currently, about 60% of IPC's accounts are agency programs; five years ago, 90% of the accounts were corporate programs, he said.

Rent-a-captives managed by Atlantic Security Ltd. grew in terms of both membership and premiums, said Colin C. James, president and chief executive officer of Atlantic. In particular, rent-a-captives for agency and program business grew in 1999, he said.

"Everybody is trying to maintain business, so they are using rent-a-captives to give agents and brokers a piece of the action," Mr. James said.

In 1999, one of Atlantic's facilities, Magna Carta Insurance Co. Ltd., doubled both its membership, to 100, and its premium, to \$10 million. In addition to agency business, the rent-a-captive specializes in punitive damages wrap-around coverage, for which there is still a strong demand, Mr. James said.

Another rent-a-captive, First Sterling Reinsurance Co., doubled its membership, to six, and increased its premiums to \$2.1 million from \$1 million. The rent-a-captive insures agency programs.

Hanseatic Insurance Co. Ltd. also doubled its membership, to 20, and increased its premiums to \$8 million from \$5 million, Mr. James said. The facility covers auto liability and general liability programs.

Universal International Reinsurance Co. Ltd. increased its membership to 22 from 20; premium volume, however, remained flat at \$17.5 million. The rent-a-captive is an offshore facility for U.S. entities seeking to minimize federal excise taxes on direct placements, Mr. James said.

Universal Re-Insurance Co. Ltd. saw its premium volume increase to \$40 million in 1999 from \$28.8 million in 1998, while its membership grew to 41 from 37, said Hal Forkush, president of the rent-a-captive.

In 1999, Universal Re reverted to signing up traditional programs, such as auto liability, workers comp and medical malpractice, Mr. Forkush said. In 1997 and 1998, Universal Re had concentrated more on punitive damages wrap-around programs, he noted. "But, beginning in 1998, the sources of that business set up their own offshore facility. So, in 1999, we went back to our core business," Mr. Forkush said.

Skandia International Risk Management Ltd. has seen "an explosion of interest in agency rent-a-captives," said Robert J. Rosser, senior vp.

In 1999, the number of members of SINSER Insurance Ltd., Skandia's rent-a-captive, increased to 40 from 33. Most of them were agency programs, Mr. Rosser said.

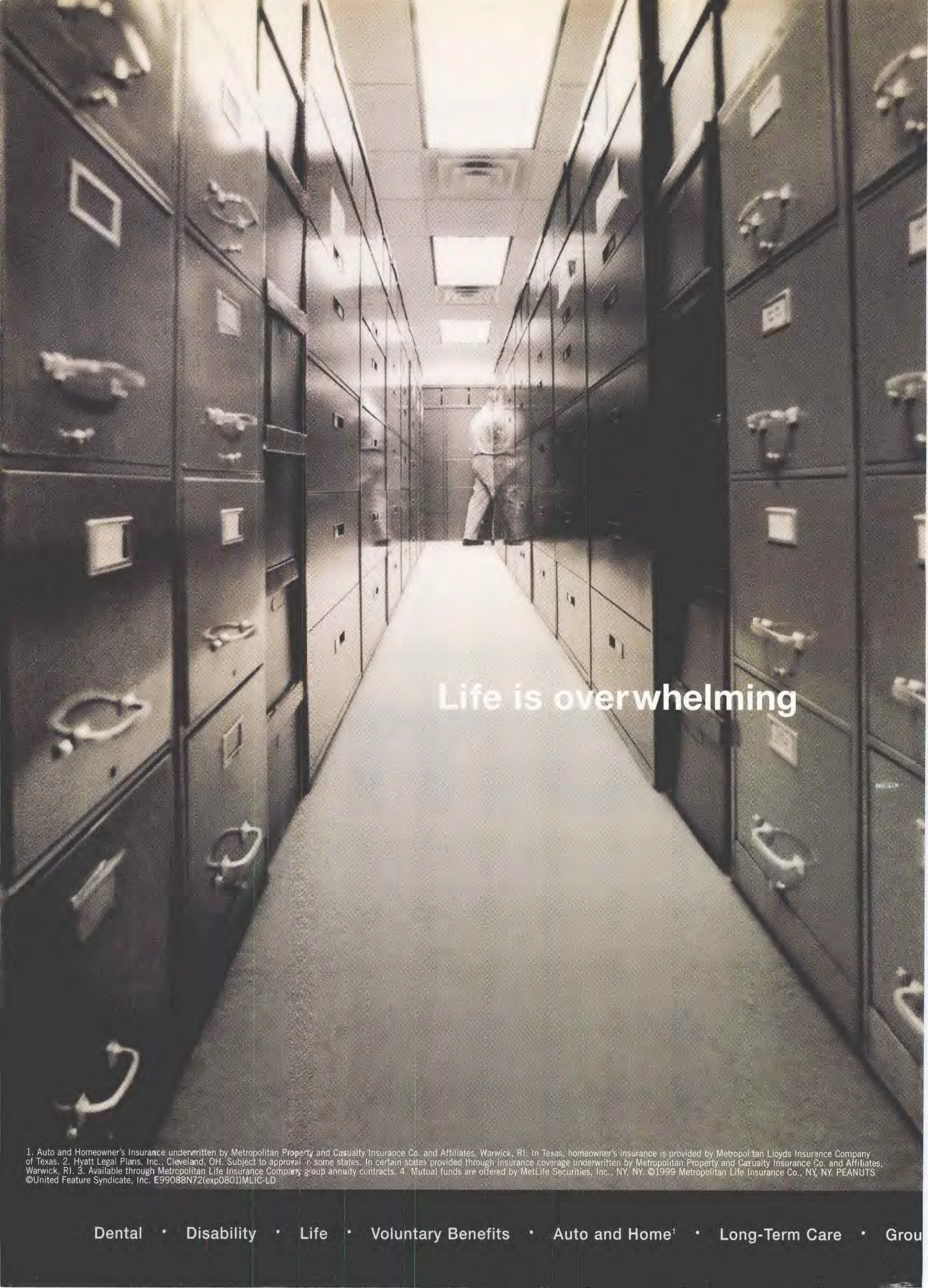
In an effort to attract more agency business, Skandia has formed an

See Rental on page 20

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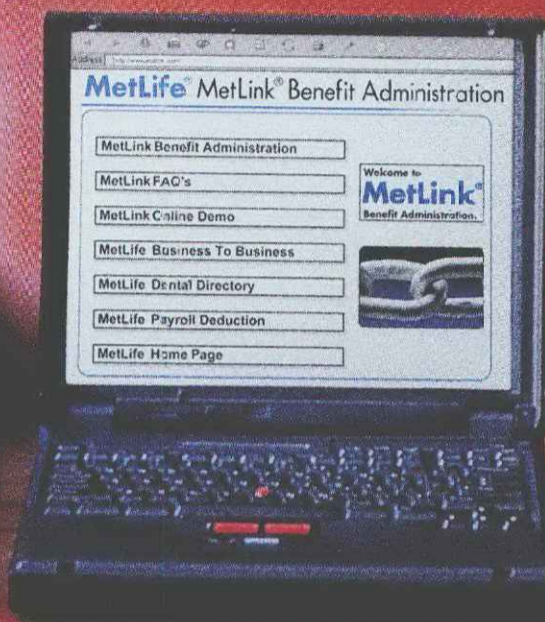


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Captive report

Rental

Continued from page 17
alliance, called Triad Captive Development, with Transamerica Insurance Finance Corp. and insurance consultant Michael Maglaras, Mr. Rosser said.

Mr. Maglaras will conduct feasibility studies, Transamerica will provide premium financing, and Skandia will manage the program, he said.

Benefits Insurance Co. Ltd., which Skandia also manages, has only one member, said Mr. Rosser.

"There is still a lot of talk about putting benefits into captives, and once a few programs get done, I think it will be an area of opportunity for us," he said.

Hurst Holme Insurance Co. in-

creased its membership in 1999 to 21 from 14, said David Pickering, president of the rent-a-captive, which is managed by International Advisory Services Ltd.

But the rent-a-captive lost one large property program in 1999, and several of the new members joined in the second half of the year, so gross premiums increased only to \$15.5 million from \$14.8 million, Mr. Pickering said.

Again, agency programs accounted for much of the growth in program numbers, according to Mr. Pickering.

"Rent-a-captives remain a very efficient way to test the alternative risk market and also to provide for additional income for agents on speciality books of business," he said.

Anticipation of future insurance rate increases has also drawn attention to rent-a-captives, managers say.

This year should see renewed interest in corporate programs, as the workers compensation market clearly is hardening, particularly in California, said Mr. Alexander of MRM.

"When you have 20% to 30% rate increases, that puts a lot more people on our radar screen, and we are starting to see that in California," he said.

Concerns over rate hikes in conventional medical malpractice have been a boon for rent-a-captives over the past nine months, said Andrew McComb, president and CEO of The Powerscourt Group Ltd., which manages 17 rent-a-captives.

"We've set up three (rent-a-captives) in the past nine months, and they are all owned by hospital medical malpractice insurers," he said.

Increases in workers comp rates should further expand use of rent-a-

captives this year, Mr. McComb said.

Powerscourt's own rent-a-captive facility, Platinum Indemnity Ltd., covers workers comp and general liability. Platinum Indemnity added four members in 1999, bringing its membership to 20; and it has already added another four this year, Mr. McComb said.

"There are definitely indications that rates are increasing, particularly in California. Prospects are looking good this year," Mr. McComb said.

Middle-market accounts are increasingly attracted to rent-a-captives, said Alan Cossar, executive director of Aon Insurance Managers (Bermuda) Ltd.

Aon set up two rent-a-captives recently to add to its existing facilities, which are Gateway Insurance Ltd. in Bermuda, with five members; White

Rock Insurance Co. Ltd. in Guernsey; and Aon Insurance PCC Africa Ltd. in Mauritius.

Gibbs Hill Insurance Ltd. was formed in Bermuda in December 1999, and Northsound Insurance Ltd. was formed in January in Cayman as a segregated cell rent-a-captive, Mr. Cossar said.

"We really wanted to make sure that we are offering the full range of rent-a-captive resources," he said.

AIG Insurance Management Service (Bermuda) Ltd. formed a rent-a-captive, Norfolk Reinsurance Co. Ltd., in March 1999. Norfolk Reinsurance now has four members, said David Conway, vp at AIG.

AIG has not targeted rent-a-captives, but there is currently a strong demand for the facilities, as smaller companies that may not be prepared to capitalize single-parent captives become interested in finding alternative coverage, he said.

The cost of setting up rent-a-captive facilities in Bermuda should drop later this year if segregated cell legislation is passed by the Bermuda Parliament.

The legislation has been delayed due to changes proposed by industry groups that commented on the draft bill, said Warren Cabral, a partner at the Bermuda law firm of Appleby, Spurling & Kempe. Mr. Cabral drafted the legislation.

In segregated account rent-a-captives, individual members are legally separated and protected from the losses of other members. Segregated account facilities can currently be established in Bermuda, but each one requires a private act of Parliament, which can take up to 10 weeks to pass and cost \$30,000, Mr. Cabral said.

If the segregated account bill is passed, the approval period will be reduced to three weeks, and the administrative costs will be reduced to \$450, he said.

In another legislative matter, Bermuda-based rent-a-captives are closely watching the proposed tax measure in Washington.

H.R. 4192, which was introduced early last month, seeks to impose additional taxes on U.S. risks that are insured by U.S.-based insurers and then reinsured to their Bermuda-based affiliates (BI, April 10).

Backers of the legislation say Bermuda-owned insurers currently enjoy an unfair tax advantage over their U.S.-owned rivals, because the loss reserves for the reinsured businesses grow tax-free in Bermuda.

The bill was specifically targeted at commercial insurers in Bermuda that own substantial U.S. operations, such as ACE, XL and several formerly U.S.-based reinsurers that have recently relocated their holding companies to Bermuda.

Most Bermuda rent-a-captives, because they do not own fronting companies, are not expected to be affected by the U.S. legislation, should it pass. Still, those rent-a-captives that do own U.S. fronting companies could suffer negative consequences.

Legion, the fronting company for IPC, is owned by Mutual Risk Management Ltd., and thus could be affected by the legislation. MRM officials would not comment on the bill.

Some rent-a-captives managed by Atlantic Security could also be affected, said Mr. James of Atlantic.

Nevertheless, Mr. James said, he was not terribly concerned about the consequences of the proposed legislation. "From my reading of the bill, it would be fairly easy to amend the reinsurance treaties to negate the impact of the bill," he said.

A variety of fronting or reinsurance arrangements could easily be made to shield the rent-a-captives from any additional taxes, Mr. James said. **BI**

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Captive report

Cayman managers report being 'as busy as ever'

By SALLY ROBERTS

GRAND CAYMAN, B.W.I.—After a decrease in growth following back to back years of record captive formations, the Cayman Islands is poised for what could be another record year.

The Caribbean domicile licensed 36 new captives in 1999. Although that growth is consistent with growth in other domiciles around the world in 1999, compared to the 52 and 49 captives formed in 1998 and 1997 respectively, new business appears to have been slower in 1999.

Not so says Clive Thursby, Cayman's new head of insurance supervision, and several leading captive man-

agers on the island.

They attribute the perceived decline in activity to a hesitation on the part of many prospective captive owners who submitted applications in 1999, but did not execute the deals.

At the end of 1999, "we had nearly 20 approvals in principle that were not quite ready to go... and some are still waiting for lift-off," said Mr. Thursby, who came to Cayman in January, succeeding William N. McCullough, who retired.

"My sense is that there is not less interest, it's just taking people longer to pull the trigger," said Peter Jones, managing director of Aon Insurance Managers (Cayman) Ltd.

Aon added 10 captives in 1999, giving it a total of 28, with \$198 million in premium volume.

"We're as busy as ever," added Peter MacKay, chairman and chief executive officer of Mutual Risk Management (Cayman) Ltd. "We have two (captives) already formed and six



more in the process." He said that he expects MRM to shortly have a total of eight new captives under management, all of which "should have been done in '99," he said, referring to what he called a "timing error" at the end of the year.

Other captive managers say that attractive commercial insurance prices in the United States inhibited companies from turning to alternative mechanisms last year, which resulted in slower captive growth in 1999.

That may be changing, however, as rumblings of a hardening market are triggering a flurry of inquiries and formations in Cayman, managers say.

Workers compensation is the risk of

choice at the moment as rates, especially in California, have begun to increase, managers say. Some clients are looking to form new workers comp captives, while others are choosing to add workers comp risks to their already established captives, they say.

In addition to continued growth coming from new health care captives—Cayman's bread and butter—managers say they also are seeing increased interest from nursing homes and employee leasing companies wanting to insure their liability risks. Insurance agencies also are looking to Cayman to set up captives as a means to participate in the profits of their good books of business.

Managers and regulators say Cayman is uniquely positioned for the new growth. The island has gained a reputation over the years for flexible regulation, easy access to regulators and a well-developed financial infrastructure. In addition to being the world's second largest captive domicile, Cayman also is home to a vast array of other financial firms, including more than 500 banks, all the major accounting firms and many law firms.

If the first quarter of 2000 is any indication, Cayman seems to be back on track for another record year of captive formations. Cayman had issued 10 new licenses by the end of March, had another 27 approvals in principle outstanding and another eight applications under review. Seven licenses have been canceled.

"We would expect the 35 licenses in the pipeline to be issued in the coming weeks or months, which together with new inquiries, which are gathering momentum, should result in 2000 showing accelerated growth," Mr. Thursby said.

Anthony Stelling, president of International Risk Management (Cayman) Ltd., said that IRMG is "seeing a significant interest in captives right now."

"We are working on three captives at the moment... and two other dormant captives that are without licenses are in the process of being resurrected," Mr. Stelling said. "With the gradual hardening of the market, the signs are that we'll see an increased interest in captives and all rent-a-captives, and maybe we'll see some figures at the end of the year that approach '98 figures."

At the end of 1999, IRMG had 29 captives under management, up one from 1998. IRMG added three new medical malpractice captives, but lost two others in 1999; one as a result of liquidation and another transferred to another Cayman manager. The transferring captive had \$250 million in premium volume, which left IRMG with captives generating \$203 million in premiums in 1999, a 56% drop.

Overall, 25 licenses were surrendered in Cayman in 1999. Taking into account the 36 new captive formations, and excluding two life and annuity reinsurance companies, Cayman was home to 495 captive companies at the end of 1999, a majority of which are single-parent, group and association captives.

The 25 licensed captive managers on the island managed \$2.5 billion in premium volume in 1999, up 6.7% from the end of 1998.

Much of the growth is attributed to Cayman's newest captive vehicles, segregated portfolio companies and special purpose vehicles.

Mr. Thursby said that 40% of Cayman's captive growth in 1999 came from new SPCs and SPVs.

Like Guernsey's protected cell companies, Cayman's SPCs are a

See Cayman on page 24

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Captive report

Cayman

Continued from page 22
more secure form of a rent-a-captive, where a shell company is divided into individual cells, whose assets and liabilities are isolated and protected from one another. Two years after passing a law allowing for SPCs, Cayman is home to 25 SPCs with 34 active cells among them.

Although the number of cells seems small in comparison to the number of shell companies, managers and regulators say it is still a new concept and that it will take time before more cells are formed.

"SPCs are definitely being formed and very slowly are taking business into them... it's gathering momentum," said Linda G. Haddleton, assistant director of HSBC Insurance Management. "We have several SPCs, but only a few of them have cells," she said. HSBC formed its own SPC in 1999, HSBC Insurance SPC Ltd. While it has no cells, it does have "several prospects actively under consideration," she said.

Despite adding six new captives, HSBC's captive totals were down one in 1999 to 87 under management and \$225 million in premium volume.

"I can't speak for anybody else, but we've certainly had a tremendous interest in our rent-a-captive facility, United SPC," IRMG's Mr. Stelling said. "A lot of time was spent (in 1999) handling approaches we received."

United SPC currently has two cells, but "we're working on a considerable number of potential ones," Mr.

Stelling said.

Willis Management (Cayman) Ltd. also added two SPC companies in 1999, but neither has formed a cell, said Stephen Gray, vp of Willis Management.

Willis added seven new captives, but lost six others, giving the manager 33 captives under management and \$375 million in premium volume in 1999.

Passage of the SPC legislation was the key issue for the HDH Group Inc. to form a new group captive in Cayman this year, said Vp Bill Knox.

The Pittsburgh-based insurance brokerage and employee benefits consulting firm assisted in the formation of PennBanks Insurance Co. SPC. Each of PennBanks' 10 active cells are represented by a community bank in Pennsylvania selling, at the moment, credit life and disability insurance products. Another two banks are awaiting board approval to form cells, Mr. Knox said.

Cayman's SPC legislation solved most of the financial concerns of regulators who worried about unlimited liability and the commingling of funds among the group of banks wanting to form a captive, Mr. Knox said. In addition, Cayman's proximity to the United States was attractive, and "we found it very pro-business; very flexible and very bank-savvy," he said.

The SPC legislation has spurred "excellent growth" for MRM, noted John M. Pitcairn, president and chief operating officer, noting that MRM now manages four SPCs, including PennBanks.

In addition to SPCs, special purpose

vehicles or SPVs, also continue to be a growth area for Cayman. SPVs are independent reinsurance companies set up by insurers as formal issuers of catastrophe bonds and providers of reinsurance contracts.

The 1997 deal in which United Services Automobile Assn. issued \$477 million in cat bonds through Cayman-based SPV Residential Reinsurance Ltd. set off what many perceive as Cayman's second niche to medical malpractice captives.

Marsh Management Services Cayman Ltd. established the first Cayman-based SPV in 1996 with Georgetown Re, which provided increased capacity for high windstorm property exposures for The St. Paul Cos. Inc. Marsh added two new SPVs to its roster last year, as did HSBC Insurance Managers, which manages the majority of the SPVs on the island.

Aon Insurance Managers jumped into the market for the first time last year with the formation of Namazu Re Ltd. The SPV issued catastrophe bonds to cover a major reinsurer's earthquake risks in Japan, Mr. Jones said.

Overall, five new SPVs were formed in Cayman in 1999,

bringing its total to 22. All of the 22 SPVs have insurance licenses, but Cayman also is home to a number of non-insurance SPVs.

For example, Koch Energy Trading, a Houston-based subsidiary of Koch Industries Inc., recently securitized a portfolio of 28 weather derivative contracts as a \$50 million, three-year deal sold by Kelvin Ltd., a Cayman-based SPV (BI, Jan. 31).

Although Cayman has successfully broadened its scope of business over the years, it is still widely known for its medical malpractice captives. Of the island's captive population, 35% cover medical malpractice risks. For

this reason, Cayman continues to attract health care companies.

Emory Healthcare, an Atlanta-based health care system affiliated with Emory University, relocated its Clifton Casualty Insurance Ltd. captive in March from Bermuda.

Although Clifton insures Emory's general liability risks, medical malpractice represents the majority of its exposure, said Shulamith Klein, Emory's senior director for the Office of Risk and Insurance Services. "For that reason, the Clifton board made a decision to relocate from Bermuda to Cayman," she said.

See Cayman on page 26

Largest managers of Cayman captives

Ranked by gross premium volume in millions of dollars

Manager	Premium volume		Captives	
	1999	1998	1999	1998
Marsh Management Services Cayman Ltd.	\$576.5	\$817.0	130	145
Willis Management (Cayman) Ltd.	375.0	220.0	33	32
Mutual Risk Management ¹	291.7	109.0	71	50
HSBC Financial Services (Cayman) Ltd./ HSBC Insurance Management ²	225.0	220.0	87	88
International Risk Management (Cayman) Ltd.	203.0	461.3	29	28
Aon Insurance Managers (Cayman) Ltd.	198.0	170.0	28	18
Cayside Insurance Management Ltd.	70.0	57.4	20	22
Chandler Insurance Management Ltd.	36.7	27.9	10	10
Britannia Insurance Management (Cayman) Ltd.	31.0	38.0	3	3
Crusader International Management (Cayman) Ltd.	21.0	21.5	7	7

1. Includes Mutual Risk Management (Cayman) Ltd. and Kensington Management Group Ltd. 2. Formerly Midland Bank Trust Corp. (Cayman) Ltd./ HSBC Insurance Management.
Source: BI survey

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Captive report

Cayman

Continued from page 24

"Cayman is viewed by many as the leader in health care-owned captives," she said. "Caymanian regulators are particularly knowledgeable and sensitive to the needs of health care-based captives."

The Caymanian government has introduced e-commerce legislation, which, if passed, will set the legal framework to recognize transactions conducted over the Internet, said Steven Butler, director of Chandler Insurance Management Ltd.

"It will be interesting to see if we start picking up e-commerce type based captive business" as a result, he said. "In my view that is the next potential large captive growth area."

The legislation will not only open the door for Internet companies wanting to form captives to cover their intellectual property, business interruption and other risks, but it also "is going to be more of an assistance to get captives interested in Cayman by legally recognizing any e-commerce type business that they want to do," he said.

Chandler did not pick up any new captives in 1999, but Mr. Butler said there are two captives that are in the process of organizing their applications.

At the end of 1999, Chandler managed 10 captives and \$36.7 million in premium volume.

Cayman did add a new captive manager to its ranks in 1999.

As a result of Mutual Risk Management Ltd.'s acquisition last October of

Captive Resources Inc. of Schaumburg, Ill., MRM formed a new captive manager in Cayman in 1999 called Kensington Management Group Ltd. MRM Ltd. also is the parent of Mutual Risk Management (Cayman) Ltd.

CRI, a captive consulting firm, had previously formed and was providing consulting services to 21 captives in Cayman. CRI subcontracted management of those captives with Marsh Management Services Cayman Ltd. The captives are now being managed by Kensington.

Michael W.B. Gibbs, formerly with Marsh, is the new president of Kensington, which had 21 captives under management and \$199.7 million in premium volume at the end of 1999. Of the 21 captives, 19 are large group and association captives, one is an SPC and one is a single-parent cap-

tive.

Since Kensington and MRM are owned by the same parent, their captive totals and premium volumes are combined for purposes of *Business Insurance's* rankings. As a combined entity, MRM becomes the third largest captive manager on the island with 71 captives under management and \$291.7 million in premium volume.

In reference to losing 21 captives to Kensington, Toni Silich, vp-account executive for Marsh Management Services, said that it was "a logical business decision" for MRM to use its own captive manager.

As a result of the migration, however, Marsh's total captives under management fell to 130 from 145 in 1998 and premium volume dropped 29.4% to \$576.5 million. Marsh also lost six staff members, all of whom had

worked on the CRI accounts and are now with Kensington.

Marsh remains the largest captive manager in Cayman.

"From our point of view, we don't regard it as a bad year," Ms. Silich said. "Although we lost a group of captives, we did put on quite a bit."

Indeed, Marsh added 11 new captives in 1999, two of which were transfers from other Cayman managers. Ms. Silich said that the new captives represent a variety of industries from health care to construction and also include a new SPC and two new SPVs. **BI**

Taking over in Cayman

GRAND CAYMAN, B.W.I.—The Cayman Islands has a new face at the helm of insurance supervision.

Clive Thursby, who left his post as a risk management consultant at Tillinghast-Towers Perrin in London, became Cayman's insurance regulator in January. He succeeds William N. McCullough, who retired at the end of last year.

"The Cayman government has gone out and found someone with private sector background and knowledge of regulation and a strong knowledge of the industry," said Gordon Rowell, deputy head of insurance for the Cayman Islands Monetary Authority, the quasi-governmental body that oversees insurance and banking services on the island. "The flexible approach carries on," he said.

"It's a tradition in Cayman that a practical pair of hands is used as opposed to a bureaucratic, civil service approach that is sometimes seen elsewhere," Mr. Thursby said. "Most territories are regulated by regulators rather than practitioners. The style developed here is one of trying to understand what clients are trying to achieve in forming a captive. We're not trying to tie them up in red tape," he said.

"The fact that I've been advising people using captives for 25 years may help," he added.

Furthermore, Mr. Thursby said that the regulators within the Monetary Authority also are well-versed in insurance.

"There is more understanding of what insurance and risk management is about in this department, by virtue of the career paths taken, than exists in any regulatory regime anywhere," according to Mr. Thursby.

"And that's very important. It means that we are on the same wavelength of what (clients) are trying to do."

Mr. Thursby said he would like to tighten up the island's insurance law.

The main weakness in the law, according to Mr. Thursby, is that it does not give the Monetary Authority much power to intervene "when things go seriously wrong" with a captive.

"With the population of (nearly) 500, it's inevitable that there will be one or two bad apples in there. We want the power to control that," he said.

The plan is to review the law and by mid-year produce a discussion paper on needed changes, Mr. Thursby said.

Despite substantial growth in Cayman—nearly 140 captives have been licensed in the last three years—Mr. Thursby said he would like to emphasize quality over quantity.

It's most important that the nearly 500 captives in Cayman are well run, he says. "It's important that we ensure they don't run into trouble."

—By Sally Roberts

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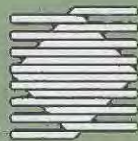
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Captive report

Captive managers predict more growth in Guernsey

By STACY SHAPIRO

ST. PETER PORT, Guernsey—Captive business is picking up this year in Guernsey following a quiet 1999.

Some managers attribute the flurry of activity to rates firming in certain traditional lines of insurance, while others see the growth as a result of new risks and new clients from different regions of the world. Captive managers also say there is continued interest in setting up protected cell companies in Guernsey.

In 1997, Guernsey became the

first domicile to permit PCCs, though the concept has since spread to several other domiciles. Of the 460 offshore insurers operating in Guernsey at the end of last year, 20 were PCCs and 96 were cells within the PCCs. On the other hand, there were only 12 new single-parent captives set up in Guernsey last year, while 17 shut down, yielding a net loss of five.

The total number of captives in Guernsey at the end of 1999 was 364, including 20 PCCs—a slight increase from 1998's figure of 362 captives, which included 13 PCCs. The figure of 349 captives in 1998

reported last year did not include PCCs.



The premium volume from all offshore insurance entities in Guernsey increased to about £2.5 (\$3.95 billion) in 1999, from £2.1 billion (\$3.32 billion) in 1998.

Captive managers in Guernsey believe the heightened activity will continue through 2000 in spite of attempts from outside the Channel Islands to thwart Guernsey's favorable tax regime, including a European Union crackdown on certain tax practices.

"There was no abatement in interest in setting up captives last year," said Callum Beaton, managing director of SINSEER (Guernsey) Ltd. and regional director outside the Americas for the SINSEER Group. "But there has been a big flurry of queries in the last few weeks," he said.

Whether the activity is due to proposed changes in U.K. financial legislation or to "an upturn in the reinsurance market" is unclear, said Mr. Beaton. "But it's very exciting." SINSEER managed 23 single-parent captives at the end of last year and three PCCs.

The parents of SINSEER-managed captives include the South African Reserve Bank and Hollard Insurance Co., one of the largest non-life insurance companies in South Africa.

"I definitely think it's a change in the market" that has sparked renewed interest in captives this year, said Paul Wakefield, manager of client development at International Risk Management (Guernsey) Ltd.

IRMG, he noted, added two captives last year, compared with six the year before. At the end of 1999, the company managed 40 active captives and one inactive captive. The total includes four PCCs under management.

Already this year, though, IRMG has signed on two captives—one from an Ireland-based company and another from a U.K. conglomerate that is seeing its insurance rates rise, said Mr. Wakefield. "The rating at renewal made (the U.K. conglomerate) decide to use a captive."

IRMG also is doing a feasibility study for a dormant captive in light of possible hardening of rates in the traditional market, said Mr. Wakefield. Some European clients are seeing their liability rates rise by as much as 40%, and they are expecting increases when property damage and business interruption policies come up for renewal later this year, said Mr. Wakefield.

Property insurance rates are expected to rise in Europe as a result of the ferocious windstorms in France and elsewhere in the continent late last year.

"Underwriters are making an effort to increase rates and/or deductibles," said Mr. Wakefield.

IRMG also is seeing increased interest in setting up captives for non-traditional risks, added Mr. Wakefield. These include captives for defective title insurance to cover each property loan made by a lending company, and for asbestosis and environmental impairment coverage.

"We've put on a lot of new business already this year," said Richard Falla, director of Willis Management (Guernsey) Ltd., which had 40 captives under management at the end of last year.

Willis currently manages three PCCs. In addition, another is being licensed and one more will be formed in the next few months.

Business was quiet until the past six months, when Willis added a lot of new business from companies based in Japan, the Far East, Spain, Sweden, Switzerland and South Africa. Willis has been actively marketing outside the United Kingdom following a 1996 change in U.K. tax law that stripped away some of the tax benefits once enjoyed by U.K. captive parents.

"This year the sky is quite rosy," said Nigel Goodlad, account manager at Willis. "The market is hardening in spots, but I don't know if that acts as a catalyst" for the activity.

"Overall, 1999 was a less successful year" than previous years, when there had been a 10% annual

See Guernsey on page 32

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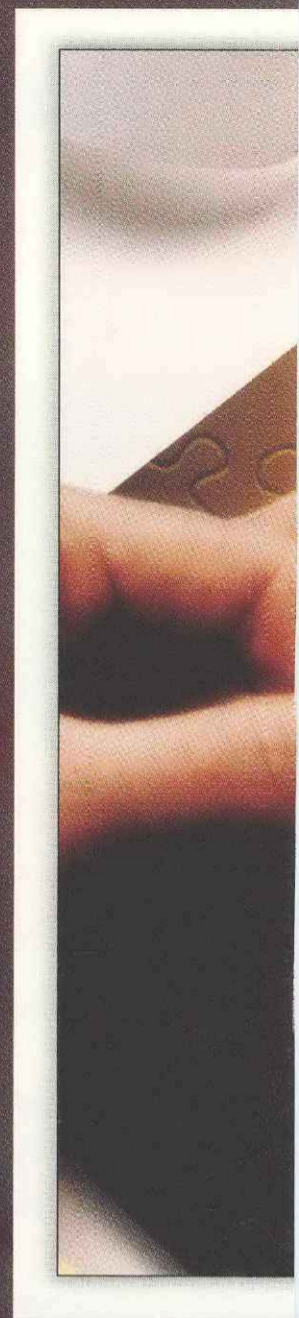
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Captive report

Guernsey

Continued from page 28
growth, said John Copeland, vp/general manager of Marsh Management Services (Guernsey) Ltd. Marsh last year managed 57 active and four inactive captives; its numbers were unchanged from 1998.

This year, however, has been different, said Mr. Copeland.

"We've seen a lot of new business in the first three months of this year, and we don't know why," he said.

For example, he said, Marsh has seen interest from U.K. retail companies seeking solutions for credit and warranty coverages they offer their clients. Marsh has already set up one such captive this year and is in discussions over another. It also

won the bid to manage the consolidated BP Amoco captive in Guernsey. The petrochemical giant is consolidating five or six existing captives into one giant captive. "So that's good news for our office," said Mr. Copeland.

Mr. Copeland isn't convinced that the increased activity stems from the threat of a hard market. "I think it's more down to specifics," he said, citing the example of the credit/warranty captive. Marsh also has gained a few captives from other managers and from other domiciles, he noted.

Meanwhile, the growing interest in protected cell companies is boosting Guernsey's profile as an offshore insurance domicile. The PCC structure, which is similar to that of a rent-a-captive, allows the creation of an umbrella company,

or core cell, around which any number of subsidiary cells operate. Although members of a PCC contribute to the capital of the core cell, the subsidiary cells operate independently of one another, and their assets are protected from debts incurred by any other cell.

Financial institutions have shown interest in using cells in securitization deals, captive managers say. In addition, multinational companies are developing PCCs and using the cells to segregate the risks involved in joint ventures.

"Every day brings a new query" about setting up a PCC or a cell, said Steve Butterworth, director of insurance for Guernsey. Last year saw a big increase in the number of PCCs and cells set up, and 2000 "will be bigger," he said.

A lot of organizations don't want

to commit the capital needed to form a captive, so they set up a PCC and tailor the cells cost-effectively, said Richard Tee, director of Polygon Group Ltd. Polygon is best known for one of Guernsey's only offshore insurers for third-party risks, aviation underwriter Polygon Insurance Ltd. But its captive management company, set up in 1997 and known as Prism Insurance Management Ltd., manages about 20 captives for airline operators, manufacturers and travel companies.

Prism also manages three PCCs, including Harlequin Insurance PCC Ltd., which is a joint venture with The Benfield & Rea Investment Trust P.L.C. that includes 15 cells.

Last August, Polygon also set up Ark Consulting Ltd. in London to

consult on alternative risk transfer products.

"Guernsey's PCC legislation has provided us with a significant market presence," said Mr. Falla of Willis. "Guernsey has provided the lead in this area, and it is evident that it's the innovative legislation."

PCCs, which are generally most useful for companies too small to own captives, are here to stay, said Mr. Copeland of Marsh. "I see them as a useful addition, rather than as a replacement" for single-parent captives, he said.

What Guernsey has not developed in its many years as a captive domicile is a major offshore insurance center similar to the one in Bermuda.

Captive managers speculate that Guernsey's proximity to the London market may be one hindrance, as London tends to attract the capital needed to set up underwriting companies. In addition, those companies interested in third-party underwriting tend to set up in Dublin, which allows them to be a licensed insurer in the European Union. Guernsey is not an E.U. member.

The major exception is Polygon Insurance Ltd., owned by five airlines, which wrote £85.8 million (\$135.48 million) in gross written premiums at year-end 1998, the latest available accounts. However, a question mark over the ownership of Polygon Group caused Standard & Poor's Corp. last year to revise its outlook of Polygon Insurance to negative from stable (*BI*, Nov. 15, 1999).

What might put a damper on Guernsey's growth this year are actions, taken by outside regulators that directly or indirectly affect offshore financial centers. These include the European Union's wish to impose a withholding tax on investment income; an E.U. code of conduct on harmful tax practices; and the Organization for Economic Cooperation and Development's threatened list of tax havens, which is expected to be published in June. The Paris-based OECD has identified at least 47 jurisdictions that may end up on this list (*BI*, June 14, 1999).

"I get fed up with these doomers and gloomers (who think) it's the end of the road," said Mr. Beaton of SINSEER. "The captive movement has grown because of fiscal authorities. We have a very credible presence that won't disappear overnight."

In addition, the U.K. tax authorities have been investigating captives for years, and captives still exist, he said.

There is no doubt that Guernsey will be on the OECD's list of tax havens, added Mr. Butterworth, director of insurance for Guernsey. But there are some countries in the OECD that also benefit from special tax treatments, "so it's a matter of keeping a level playing field," he said.

To speak with one voice on such issues, the Guernsey Insurance Company Managers Assn. voted last year to expand its membership beyond captive managers. The association now welcomes captive owners and other organizations as well as individuals who deal with captives, including local non-executive directors, accountants, lawyers, bankers and investment managers.

GICMA had 60 new members in the first three months of this year, over half of which were captive owners, said Mr. Copeland, who is chairman of GICMA. The total membership now exceeds 100, he said.

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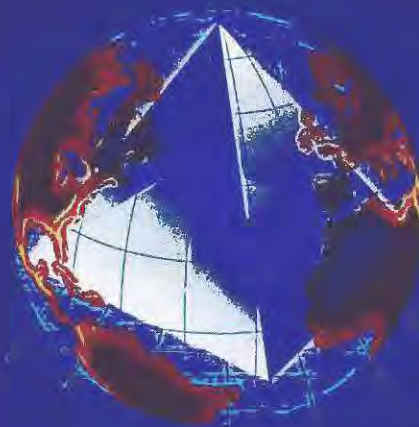
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Captive report

Vermont stays on top as No. 1 U.S. domicile

By RODD ZOLKOS

MONTPELIER, Vt.—Vermont's growth as a captive domicile continues soft market or not, with the first signs of a hardening conventional market offering the promise of even better things ahead.

Vermont insurance regulators licensed 35 new captives in 1999, down slightly from the 40 licensed the year before. Factoring in the dissolution of 12 captives in the state last year, the number of Vermont-based captives grew to 357 at year-end 1999, up from 334 a

year earlier.

And growth in gross premium volume was even more dramatic, a 19.2% jump to more than \$4.24 billion in 1999 from 1998's \$3.56 billion.

"Vermont continues to demonstrate why it's the No. 1 domestic domicile," said W. Scott Frazier, executive director of Aon Insurance Managers (USA) Inc. in Burlington. "I think by the end of this year the state will have a good year again."

While much of last year's captive growth in Vermont was attributable to the formation of

mortgage insurance vehicles, this year's applications are reflecting more traditional captive uses.



Of last year's new formations, 12 were mortgage insurance captives, according to Peter Raymond, chief examiner-captives in

the Vermont Department of Banking, Insurance, Securities & Health Care Administration.

"But a lot of the other stuff is back to the good old days—workers comp and liability," Mr. Raymond said.

So far this year, Vermont has licensed one pure captive and has two applications pending, one for a sponsored captive and one "a risk retention group, of all things," said Derick A. White, assistant director of the captive division.

This would be among the first risk retention groups to apply in

some time, due to the competitive commercial insurance market.

"The traditional market is going to change over the next few years," predicted Leonard D. Crouse, Vermont's director of captive insurance. "We've seen some large reinsurers having to dig deep and strengthen their reserves and I think that's going to happen to traditional insurers."

"For the first time in a long time we've got a Fortune 500 company talking to us through a broker," said Gary Osborne, senior vp at Vermont Insurance Management Inc./USA Risk Group in Montpelier. "So with your legendary market hardening, we're hearing its footsteps."

"It is happening fairly quickly," added Andrew Sargeant, president of Vermont Insurance Management.

Mr. Sargeant noted that he's seen signs of a change in the soft market environment that has forced many group captives to struggle to find ways to retain members in recent years.

"It's been a real battle for them in the past few years," he said. "Now they're starting to get back to some of the more traditional reasons for their being."

"Right now I would not hesitate to say that we have more prospects and people looking at captive programs than we have had in the past four or five years," said Guy F. Ragosta, managing director at Willis Management (Vermont) Ltd. in Burlington.

"We're seeing it in some property programs," Mr. Ragosta said. "You got finance guys and risk managers looking at it and saying, 'OK, if the market does turn, do we need to have a captive in place?'"

Some who haven't yet started to consider a captive as a way of coping with a market turn might find they've waited too long to lock in the greatest benefits, suggested George A. Chaffee, president of Skandia International Risk Management (Vermont) Inc. in Burlington.

"Just in the last few weeks, it may be my imagination, but it just seems like some new property/casualty captives are starting to pop up," Mr. Chaffee said. "And it may be that they're too late."

"People are going to be very busy," he explained. "The best arrangements have already been made, multi-year (reinsurance) pricing arrangements, and those that are coming along now may find it difficult to find substantial benefits for their alternative financing programs."

If there is a significant market turn, Vermont's acceptance last year of sponsored captives could be particularly fortuitous, providing smaller businesses the benefits of captive insurance.

"We had the foresight to see this sponsored vehicle as an opportunity for them," said Lisa Ventriss, president of the Vermont Captive Insurance Assn. in Burlington.

This year Vermont fine tuned last year's law allowing their formation. The new law "in effect removes an unintended obstacle that had been included in the first version," Ms. Ventriss said. "The first one said every sponsor had to be fronted, but the term 'fronted' was never defined."

Under the new measure, the
See Vermont on page 36

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Captive report

Vermont

Continued from page 34
business written by a sponsored captive with respect to each of its protected cells can be fronted by an insurance company licensed in any state, reinsured by a Vermont-approved reinsurer or secured by a trust fund.

"It's viewed as a tweaking and not a major change, something that's needed to clean it up a little

bit," said Julie S. Boucher, senior vp and branch manager at Marsh Management Services Inc. in Burlington. "We have some sponsored captives now, and there's a tremendous amount of interest in sponsored captives."

The change in the sponsored captive provision will open the door quickly for at least one new sponsored captive formation, Mr. Crouse said.

"We have a large program that's going to be coming in the door

with a sponsored captive," he said. "It's already an established captive that we have."

"We're working with a client that is keenly interested in seeing that law passed," Peter A. Joy, president of IRMG/American Risk Management Corp. in Burlington, said, prior to the bill's enactment in April. "It will broaden the uses to which a sponsored captive can be put while still satisfying any regulatory concerns or financial concerns."

With the change in place, "I think you'll see a few more imaginative uses of the captive law," Mr. Joy said. "I think you'll see some insurers using these vehicles to provide insurance to some captive owners."

Such an arrangement can give the insurer the benefit of the lower captive premium tax, he said. "It gives them an economic edge."

While saying he expects this year's sponsored captive measure to help prompt new formations, "it's still not going to create rent-a-captive heaven," Mr. Osborne said.

But, he noted, there is considerable interest in these vehicles, which elsewhere are known as protected cell vehicles.

"There seems to be a lot of association-type interest in them," he said. "It's something they can do for the larger members."

"The market turn, if it comes, is going to draw them, too," Mr. Osborne added.

Vermont Insurance Management manages one Vermont sponsored captive currently, and it has an application pending for another.

While agreeing with his colleague's assessment of this year's legislation, Mr. Sargeant said he expects the state's sponsored captive provision "to work better than I thought it would," adding, "I think by this time next year, there will be a few of them."

The changing market also is prompting another change on the Vermont captive landscape: higher reinsurance rates and less favorable terms for many captives.

"Rates are definitely up with reinsurance," said Mr. Osborne. "They're looking for 50% or more and getting 10% to 20%."

And, while as recently as last year reinsurers were willing to agree to attachment points of \$100,000, that's becoming less common. "It's getting hard to get them to come down below \$250,000," Mr. Osborne said. "They used to be willing to come down to \$50,000 or \$100,000."

"Pricing has gone up, that's what we're hearing, but I haven't

seen a capacity problem yet," said Roger D. Teese, president and chief executive officer of SB&T Captive Management Co. in Burlington. "It doesn't seem that companies are overreacting and trying to double their rates overnight."

"They need to correct their financial position, but they seem to be doing it incrementally," he said.

Mergers and acquisitions among all businesses is leading some Vermont captives to dissolve.

Of the 12 captives that dissolved in Vermont last year, eight were single-parent captives, "and they all were mergers," Mr. Crouse said.

"That's just a fact of life right now," the captive division director said. "And now, with the Gramm-Leach bill, you're going to see more mergers," Mr. Crouse said, referring to the new financial services industry modernization law.

Some of the Vermont captives dissolved due to mergers did move their business into other existing Vermont captives, Mr. Raymond noted. "We didn't really lose the business, we lost the license."

"We actually took over a couple because of mergers," said ARM's Mr. Joy. But, he noted, with merger activity continuing at a high rate, inevitably Vermont "will see some of the drop-offs that have been reported because there is no longer a need for the captive—two captives become one."

One factor that doesn't seem to be having a significant impact on Vermont's captive industry is the rush of other states to form new onshore domiciles.

Those within the industry recognize the need to maintain Vermont's competitive advantages. But, the state's established track record, the quality of its regulatory environment, its captive infrastructure and the momentum and critical mass it enjoys as a mature domicile are all factors weighing heavily in its favor, they say.

Plus, they note, there must be something to the fact that many of the new domiciles pattern their captive laws on Vermont's.

"You have all these other states passing 'me too' legislation," SB&T's Mr. Teese said. "The more that you have, the better off we're going to look."

"I'm not sure they quite know how to do it," Skandia's Mr. Chaffee said of the new domiciles. "How many look-alike captive domiciles do you need? I think a domicile is going to have to do something pretty substantially different to attract potential captive business."

"I think the new states that want

to get into the industry have to take a long-term view," Aon's Mr. Frazier said. "It's not simply a matter of looking at premium tax rates and undercutting Vermont."

And, he noted, "Vermont's not going to do anything that's going to drive business away."

"I think for another state to jump into the industry and to have a real dramatic bounce in new creation can only result from Vermont doing something really dramatically wrong, which I don't think anybody sees," Mr. Frazier said.

Mr. Joy says that Vermont's biggest competitor is Bermuda. "Whenever we have clients in the feasibility stage, it's always between Bermuda and Vermont," he said.

Vermont's longevity, coupled with its consistent commitment to the captive industry, gives it a considerable competitive advantage, captive experts in Vermont say.

"Vermont will be celebrating its 20th anniversary as a captive domicile next year, which is a tremendous accomplishment," the VCIA's Ms. Ventriss said. "But it's (also) been a highly productive two decades. Other domiciles have been up and running longer and had less activity."

"So, in terms of Vermont's advantages over these new startups there is a credibility factor and maturity and a comfort factor that exists here," she said.

"We've talked to a couple of the new domiciles," Vermont Insurance Management's Mr. Osborne said. "Trying to be as courteous as possible, they're not terribly organized yet. We've had clients who asked, 'Can we do this in Maine or Nevada?' and we say, 'Yeah, but you'll be the first.'"

"I've dealt with some of these other states and you're dealing with insurance examiners and people who just aren't familiar with the nuances of the alternative risk marketplace. They just think differently," Mr. Joy said.

And history has shown that some states' regulators have a difficult time making that commitment to becoming familiar with the alternative risk transfer market, Vermont captive managers say.

"Other states have also demonstrated that they don't have the commitment to captive insurance over time," Marsh's Ms. Boucher said. "You're clearly saying we're exempting these companies from the standard insurance laws, and I think that makes some regulators uncomfortable."

The commitment extends beyond
See Vermont on page 38

20 largest Vermont-based group captives

Ranked by 1999 premium volume

Group captive Parent (Manager)	Gross written premiums	Net premiums	Net income
Attorneys' Liability Assurance Society Inc., A Risk Retention Group Law firms (Yankee Captive Management Inc.)	\$313,911,029	\$10,364,549	\$(496,297)
MCIC Vermont Inc., A Risk Retention Group Academic medical centers (Marsh Management Services Inc.)	43,088,227	21,158,755	(13,836)
United Educators Insurance Risk Retention Group Inc. Educational institutions (Aon Insurance Managers (USA) Inc.)	38,978,938	4,209,401	201,178
Controlled Risk Insurance Co. of Vermont Inc. (A Risk Retention Group) Harvard-affiliated medical institutions (Marsh Management Services Inc.)	36,131,114	5,231,444	(1,522,160)
ICI Mutual Insurance Co. Members of Investment Company Institute (SB&T Captive Management Co.)	30,565,922	15,014,195	1,625,666
NLC Mutual Insurance Co. Public entities (Yankee Captive Management Inc.)	22,475,437	10,181,430	3,087,209
American Excess Insurance Exchange, Risk Retention Group Non-profit U.S. health care facilities (Marsh Management Services Inc.)	21,788,100	20,517,350	(19,428,280)
Housing Authority Risk Retention Group Housing authorities (Yankee Captive Management Inc.)	21,020,889	16,042,432	4,688,672
Housing Authority Property Insurance Inc. Public housing authorities (Yankee Captive Management Inc.)	17,011,374	15,236,429	441,431
Ophthalmic Mutual Insurance Co. (A Risk Retention Group) American Academy of Ophthalmology (Marsh Management Services Inc.)	15,047,925	11,882,174	1,394,321
American Safety Risk Retention Group Inc. Asbestos abatement contractors (SB&T Captive Management Co.)	12,256,516	5,211,823	(642,194)
The Ordinary Mutual, A Risk Retention Group Corp. Catholic dioceses (IRMG/American Risk Management Corp.)	7,790,360	6,600,360	171,458
CPA Mutual Insurance Co. of America Risk Retention Group Accounting firms (IRMG/American Risk Management Corp.)	7,156,291	3,676,172	150,197
VHA Risk Retention Group Voluntary Hospitals of America members (Marsh Management Services Inc.)	6,803,269	103,500	80,682
Bar Vermont Risk Retention Group Inc. New York City law firms (IRMG/American Risk Management Corp.)	6,772,090	685,610	(211,578)
National Catholic Risk Retention Group Inc. Catholic dioceses (SB&T Captive Management Co.)	6,258,022	3,760,863	1,174,409
Terra Insurance Co. (A Risk Retention Group) Geoscience engineers (Vermont Insurance Management Inc.)	6,027,539	5,091,011	2,219,122
Mental Health Risk Retention Group Inc. Non-profit mental health centers (Skandia International Risk Management (Vermont) Inc.)	5,531,226	1,992,448	248,781
Eastern Dentists Insurance Co. (A Dental Society Risk Retention Group) Massachusetts Dental Society (Willis Management (Vermont) Ltd.)	4,924,961	4,219,525	(105,523)
States Self-Insurers Risk Retention Group Inc. States Self-Insurers Trust (Berkley Risk Services of Vermont Inc.)	4,817,919	1,747,043	671,178

Source: Vermont Department of Banking, Insurance, Securities and Health Care Administration

Largest managers of Vermont captives

Ranked by gross premium volume in millions of dollars

Manager	Premium volume		Captives	
	1999	1998	1999	1998
Marsh Management Services Inc.	\$1,450.6	\$1,459.2	128	125
IRMG/American Risk Management Corp.	589.1	652.9	44	44
Aon Insurance Managers (USA) Inc.	483.8	434.8	53	47
Yankee Captive Management Inc.	374.4	304.8	5	5
Becher + Carlson Cos.	338.0	29.1	7	7
AIG Insurance Management Services Inc.	251.2	141.0	23	20
Willis Management (Vermont) Ltd.	176.1	36.9	20	16
Vermont Insurance Management Inc.	167.4	97.3	29	25
SB&T Captive Management Co.	122.7	109.7	15	13
Skandia International Risk Management (Vermont) Inc.	101.1	31.1	20	19

Source: BI survey

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Captive report

Vermont

Continued from page 36

and the state's insurance regulators to its governor and Legislature as well, both of which consistently demonstrate their support for the captive business.

"The captive division is certainly a bright spot," Mr. Chaffee said. "The can-do attitude is still there. And I think everything is strong at all levels throughout the state. The

Legislature's still supportive, the governor is."

Ms. Ventriss noted that Gov. Howard Dean has acknowledged the need for incrementally increasing the staff in the captive division as Vermont adds more captives.

"He said as long as the industry continues to support itself, which it does in spades, he is in favor of increased staffing," she said. "That's great because again a key to Vermont's success has been the hands-on regulation.

"Not that there's a lot of it. But the regulation has been very responsive," Ms. Ventriss said.

She noted that as the Vermont's captive business grows, ongoing monitoring of the state's captives has become a sizable task. "And, as the industry becomes more sophisticated and corporate decision makers are beginning to view their captives in different ways, the business plans are going to become more complicated."

That level of commitment to the

captive industry was one of Vermont's key attractions when the Boston-based Stop & Shop Cos. Inc. looked for a captive domicile.

"There was a real strong commitment by the state," said Raymond Bucci Jr., president of MAC Risk Management Inc., the risk management arm of Ahold USA, Stop & Shop's parent. "The captive business was important to Vermont, and that was important to us."

The captive infrastructure offered by Vermont was another factor

leading the company to choose Vermont, where its Molyanna Co. captive was ultimately licensed in 1996.

"We looked at domiciles both foreign and domestic and were attracted to Vermont," Mr. Bucci said. "We found there was a strong support group up there," he said. "Accessibility of information was very easy. People took time out of their day to meet with us."

And, he noted, "Their success rate with captives was very high."

"They don't want you to fail," agreed Mark M. Boll, director of risk management at Apogee Enterprises Inc. in Minneapolis and chairman of the Vermont Captive Insurance Assn.

"They probably have higher capitalization requirements, but that's good for us that are there because we don't want to have a blemish," Mr. Boll said.

Mr. Crouse speculated that much of the new domicile activity is being driven by agency captives, the sort

'Our philosophy is still the same: If it makes good business sense, we'll listen and try to accommodate it,' says Leonard Crouse.

of entrepreneurial activity Vermont doesn't welcome.

"We've had a few people come into our shop here and ask to do some agency-type programs. They've ended up in other domiciles," he said.

"You can say what you want, but in my mind those aren't captives," Mr. Crouse said. "We've tried to avoid that kind of thing."

While avoiding entrepreneurial captives and uncontrolled third-party business, Vermont's regulatory philosophy is often described as firm but fair, and the captive division is often praised for its flexibility in working with captive owners.

"Our philosophy's still the same: If it makes good business sense, we'll listen and try to accommodate," Mr. Crouse said. "That's always been our philosophy here."

"Len Crouse and Derick White and his team there in Montpelier are tremendous to work with," Mr. Boll said. "They're so open. We've expanded our program just about every year since we've been there."

"They're very flexible," Mr. Bucci said. "We filed a business plan and, lo and behold, as soon as we filed it we saw that there were other things we wanted to put in the captive and they were amenable to working with us on that."

The infrastructure serving captives in Vermont, including local captive managers, attorneys and accountants, is seen as another significant plus.

"It takes more than a law to make a captive domicile," Mr. Crouse said. "There's as much captive knowledge in this state as there is in Bermuda. The people managing the Vermont offices are in charge of captives worldwide in some cases."

The captive division's Mr. White noted that many captives located in other states are being managed out of offices in Vermont. "So we may not get the premium tax, but we get the jobs, without the headache of regulation," he said.

"We can't be all things to all people, but we certainly will look at everything in terms of benefit to the industry," said Aon's Mr. Frazier. "And if there are benefits to be had, Vermont will be part of it." **BI**



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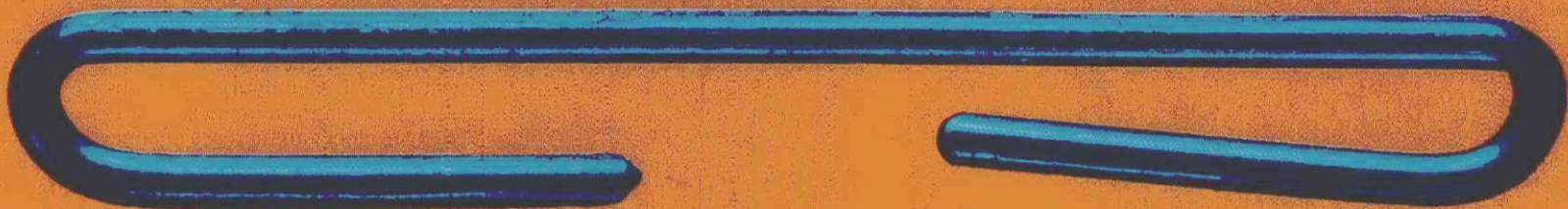
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Captive report

Duchy nets slight gain in total captives

By SARAH VEYSEY

LUXEMBOURG—Last year was another fairly quiet one in terms of captive activity in Luxembourg.

The number of captives registered in the grand duchy grew by just two in 1999 to 222. "We lost eight units and gained 10 new ones," said Insurance Commissioner Victor Rod. Luxembourg's number of captives remained constant from 1997 to 1998.

While the premium volume written by Luxembourg's 222 captives in 1999 is still being calculated, "we expect an increase of some 8%-10%," said Mr. Rod.

Captives operating in Luxembourg are authorized only to write reinsurance business.

It was also quiet in 1999 on the regulatory front for Luxembourg's Insurance Commissioner and his colleagues at the Commissariat aux Assurances, but 2000 could see some changes, Mr. Rod said. Some tax regimes, Luxembourg's included, have come under close scrutiny from bodies within the European Union. The European Commission last year began a wide-ranging study into special tax regimes across the European Union, and a decision as to the treatment of these regimes could come soon.

At issue is Luxembourg's tax treatment of catastrophe reserves. A captive formed in Luxembourg can establish cat reserves of 12.5 to 20 times its average annual net premium volume over the previous five years, depending on the business written. These so-called "equalization reserves" are not taxed.

"Luxembourg has the tax advantage in that it allows companies to build up tax-free reserves. So you get interest from companies which do not have to pay out big dividends every year," said Lambert Schroeder, managing director of Aon Insurance Managers (Luxembourg) S.A.

"Luxembourg is one of, I think, about 56 regimes in the E.U. which are on the list as potentially harmful," explained Mr. Rod. "We have to wait and see whether, on a political level, agreement or disagreement is reached." Mr. Rod noted that the sheer number of tax regimes under examination by the European Commission could hinder any such agreement.

If the European Commission decides that certain aspects of Luxembourg's tax regime are unfair, there could be changes to captive regulation in the grand duchy. "For the moment, we are not going to move because we are still convinced that our system is not harmful. But if there is political agreement, then we are prepared to rethink our position and eventually amend our regime," said Mr. Rod. "There are no direct plans for regulatory change this year. As for the E.U., we will wait and see," he said.

Luxembourg's membership in the European Union is another important factor, Mr. Rod said. "The fact that we are European is definitely one of the big attractions—we are a full member of the E.U. We are subject to all the E.U. supervisory regulations, so regulations are in place;

they do work and they work with 100% compliance with European regulations," he said. In addition Luxembourg is one of only two captive domiciles—Dublin is the other—that are part of the so-called "Eurozone," the group of countries that have agreed to use the European single currency.

"I think the fact that Luxembourg is within the European Union is very important," said Jean Thilly, chief executive officer of Sogecore in Luxembourg.

"Our clients come from Europe, basically—from Italy, Spain, France, Belgium and the Netherlands." Many European companies are attracted to the Grand Duchy because of cultural similarities, Mr. Thilly said.

Mr. Schroeder noted that more of the captives managed by Aon in Luxembourg are beginning to cover financial risks. "There is a mix of traditional risks—like property and casualty—but more and more people are going into financial-type losses," he said. "They are now geared more toward the financial risks of the corporation, the more entrepreneurial risks that may endanger the survival of the company, rather than specifically property or liability. This is a broader scope of cover."

Credit risk has been a growth area for Luxembourg captives managed by Sogecore, Mr. Thilly said. "Mainly the business done by the captives we manage is natural damage, a bit of liability, pollution risks, and also credit risks. About 60%-70% of our captives do some credit-risk business. This is because it is a cyclical sort of risk, and people are making provisions for the future," he said.

No new captive managers set up shop in Luxembourg in 1999, which Mr. Rod attributes to a waning demand for captive formations in Europe.

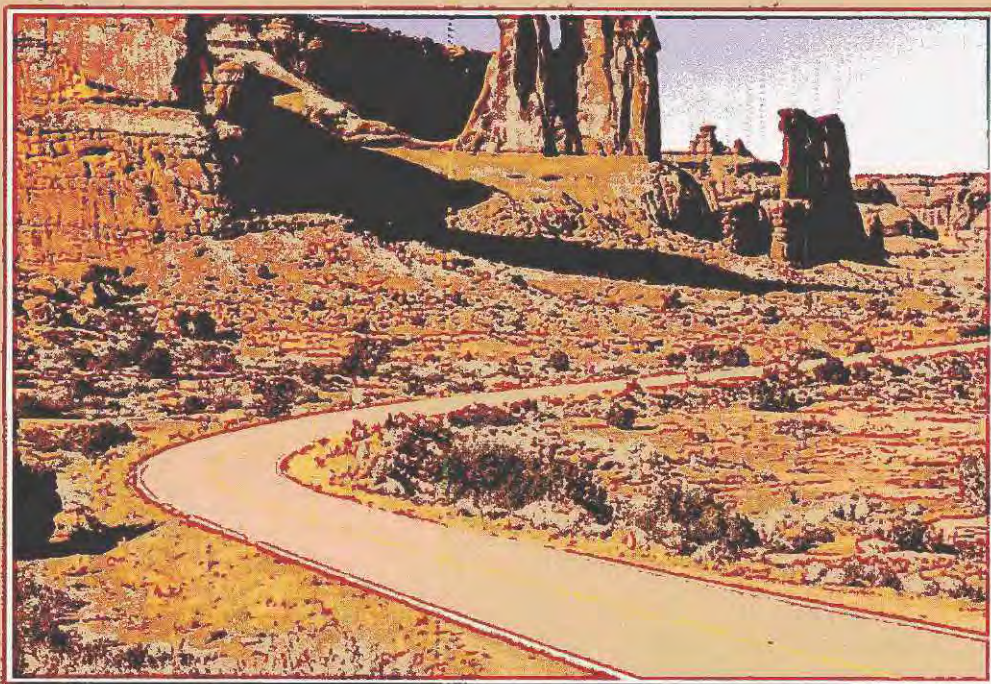
"We have seen a certain stagnation in the number of companies (forming in Europe) in the last few years," he said. "There has been slow growth, unlike in some other places. . . . But we are quite happy."

Mr. Rod noted that the recent spate of mergers among large industrial companies is one reason why the number of new captives is growing only moderately. He also noted that many major companies have already developed captive operations, slowing the rate of formations. "The big European companies—which are our main target—are now mainly served by captives, they have now got their captives either in Luxembourg or elsewhere."

If market rumblings about a hardening in traditional insurance rates are true, there could be a renaissance for the captive industry, according to Mr. Rod. "Over the last 15 years, there have always been ups and downs in the number of captives. If the price of business goes up, there is a natural tendency to create captives, and the other way around," he said. "But if there is a soft market—as seems to be the case right now, I don't know how long it will last—the eagerness to create captives is not so great." **BI**



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Captive report

Barbados looking to protected cell concept for expansion

By DOUGLAS McLEOD

BRIDGETOWN, Barbados—After a slow year for captive development, Barbados is drafting legislation that could open up a new source of international insurance business.

The domicile, which licensed only five new exempt insurers last year, is preparing new laws that would permit the formation of protected cell companies. Such a company, which would be allowed to segregate assets and liabilities related to a specific risk from the rest of the company's business, could be used for risk securitization deals, among other things.

Other offshore domiciles, notably Guernsey and the Cayman Islands, already allow such companies; and the National Assn. of Insurance Commissioners has approved a model law governing protected cell companies in U.S. domiciles (BI, March 20).

The language of Barbados' proposed legislation is still being reviewed by the nation's attorney general and has not yet been submitted to the Barbados Parliament. The island's insurance managers, though, are optimistic about its prospects.

"As it stands right now, Barbados is losing a source of income to other domiciles that already allow this business," said Richard E. Ince, general manager of International Risk Management (Barbados) Ltd. "We need to get this legislation as soon as possible."

"It would move us from being just a captive domicile to being an insurance domicile, which is where we want to go," said Christopher Towner, president of Towner Risk Management Ltd.

New business would be welcome after last year, which saw the smallest number of new insurer formations since Barbados enacted its Exempt Insurance Act in 1983.

Last year, the Barbados government issued five new exempt insurance licenses and revoked one, leaving a total of 367 exempt insurers at the end of 1999, up slightly from 363 the previous year, according to Ian Carrington, Barbados' supervisor of insurance.

Of the 367 licensees, *Business Insurance* estimates that roughly 40% are commercial insurers or reinsurers set up mainly to write third-party business. This would leave an estimated 220 captive insurers at year-end, up from 218 at the end of 1998.

Not all of the licensed exempt companies are active, however. Mr. Carrington said that, of the 367 licensees, 191 are actively underwriting and 176 are inactive.

"Last year was not a very productive year for us," he noted.

From 1997 to 1998, Barbados added about eight captive insurers. Mr. Carrington and several captive managers cite a variety of possible reasons for the slowdown, including continuing uncertainty about the tax treatment of some Canadian-owned insurers.

Canada, which accounts for about one-third of Barbados' exempt insurance business, put a crimp in that business in 1994 when it adopted tax reforms that curtailed benefits for certain Canadian-owned captives.

Before the reforms, a tax treaty between Canada and Barbados allowed companies to accumulate captive earnings tax-free if they were related to third-party Canadian risks or the risks of the owners' non-Canadian operations.

The reforms, though, eliminated the tax break for third-party Canadian business, making earnings on all Canadian business taxable unless

non-Canadian risks account for more than 90% of the captive's volume.

Canadian multinational corporations were given the chance to keep one part of their tax break; captive earnings on all non-Canadian busi-



ness—such as risks of a corporation's non-Canadian subsidiaries—would remain exempt from taxation under the reforms.

To qualify for this benefit, though, a captive would have to be considered a Barbados "resident" under the terms of the tax treaty, subjecting the captive to Barbados taxation.

The Barbados government first responded to the reforms by imposing a tax of 0% and agreeing to offset a later tax increase by waiving an equivalent amount of annual government fees. Canadian tax authorities weren't happy with the plan, though, leading Barbados to enact its Insurance (Miscellaneous Provisions) Act of 1998.

Under the 1998 act, captive owners may choose to become licensed under either the Exempt Insurance Act, which exempts international insurers from local taxation, or the Insurance Act, which governs local Barbados insurers.

While Barbados imposes a 40% corporate income tax on insurers licensed under the Insurance Act, captives writing international business would qualify for foreign currency tax credits that could reduce the rate to as little as 2.8%. Life insurers subject to a 5% tax on gross investment income would likewise see that rate reduced to as little as 0.35%.

The law also extends a variety of other exempt insurer benefits to "qualifying insurance companies" registering under the insurance act. These benefits include reduced rates for value-added tax, stamp duty, property-transfer tax, premium tax, exchange controls and certain employees' income tax.

To get these benefits, though, qualifying insurance companies must derive at least 90% of their premiums from outside the Caribbean Community and Common Market's member nations, and 90% of their risks must be situated outside that region.

The Barbados law is intended to apply retroactively to an insurer's first fiscal year after 1995—roughly when the Canadian reforms took effect.

Although captives were originally required to re-license as qualifying insurance companies by the end of 1999 and pay taxes retroactively to get this treatment, the deadline has been extended until the end of this year, Mr. Carrington confirmed.

The extension, Mr. Carrington and captive managers say, was granted to allow more time for Canadian tax authorities to indicate whether the Barbados law and its retroactive provision are acceptable, as well as to give captive owners more time to decide whether to re-license as qualifying insurers, with or without word from Canada.

"People were hoping there would be an announcement by Revenue Canada that the benefit would be extended," but no such announcement has come, noted Kevin Walton, senior vp with Marsh Management Services (Barbados) Ltd. and president of the Barbados International Insurance

Assn.

Canadian authorities likely will not offer any opinion on the law until the Canadian and Barbados governments conclude tax negotiations currently under way, managers say.

Lynette Eastmond, director of the Barbados Ministry of Industry and International Business, declined to comment on the substance of the talks but said that "negotiations should come to an end by the end of the year."

While tax experts say that the Barbados law meets the Canadian requirement for local taxation, Barbados would use foreign currency tax credits to a greater degree than they are used by Canada's other tax treaty partners. Credits allowed insurers in Ireland's International Financial Services Centre, for example, initially to cut the corporate tax rate to 10%.

As the tax situation becomes clearer, though, several managers say they expect more Canadian-owned captives to re-license as qualifying insurers.

Only one exempt insurer—a captive of the Vancouver, British Columbia-based mining company Placer Dome Inc.—opted to re-license last year. But more will follow, Mr. Walton predicted.

"There will be a number of re-licensings this year," he said, noting that Barbados has roughly 85 Canadian captives and that 30 to 40 of them will likely opt to re-license as qualifying insurers.

The uncertainty, meanwhile, may be one factor behind the domicile's quiet year last year.

"You tend not to see a lot of Canadian companies forming as exempt (insurers) only to re-license as qualifying insurance companies later," Mr. Walton said. "There are a few in the works that are holding off for that reason."

Captive experts also say the soft commercial insurance market has contributed to the slowdown.

"The soft market has not created a lot of new opportunities for captives," said IRMG's Mr. Ince, who is also vp of the Barbados International Insurance Assn.

Companies with established captives are also using them less, as they tap commercial market capacity and hold their captive option in reserve, Mr. Carrington suggested.

Along with the five new exempt insurers formed last year, Barbados issued licenses to five new qualifying insurance companies that did not previously hold exempt licenses, according to Mr. Carrington.

This year is already off to a faster start: Six new exempt insurers have been licensed so far, with two more applications pending, he said.

Single-parent captives are probably not where the domicile's future growth lies, Mr. Walton said.

"You will not see the true risk management captive being formed in this type of market," he said. Instead, "it's unique opportunities and profit-center captives."

These, he noted, could include the kind of "special-purpose vehicles" formed in the Cayman Islands to handle risk securitization deals.

Mr. Ince agreed. With regard to U.S. business in particular, "there is going to be more specialization," with fewer new captives formed to manage a broad array of property/casualty risks, he said.

For this reason, legislation allowing the creation of protected cell companies in Barbados is a high priority for some managers.

PCCs, which can be similar to rent-

a-captives, can consist of a parent organization with any number of subsidiary cells. Each cell can house the assets and liabilities associated with a single risk or program, and each cell's business is segregated from that of other cells.

"We're chomping at the bit to get this protected cell legislation," Mr. Ince said, underlining the competitive advantage enjoyed by some domiciles that allow the companies.

The government is hoping to have the law in place by September, Mr. Carrington said.

Meanwhile, Barbados captive managers—whose ranks have thinned in recent years from mergers among insurance brokerage parent companies—saw more changes last year.

Merchant Corporate Management Ltd., a management subsidiary of Toronto-based Connor, Clark & Co. Ltd., sold its business to IRMG only two years after acquiring it from benefit consultant Watson Wyatt Worldwide. Watson Wyatt withdrew from captive management in 1997.

The sale came after Connor, Clark was acquired by Royal Bank of Canada, which did not want to continue in the captive management business, confirmed Bill Andrus, former managing director of a Merchant affiliate.

IRMG gained three clients in the sale—two property/casualty captives and a professional liability pool—according to Mr. Ince.

Several other Merchant accounts had previously moved to Towner Risk Management, after Towner hired Christopher Evans, former head of the Watson Wyatt management unit.

Separately, Fiona Williams, who oversees the now-inactive CNA Risk Services (Barbados) Ltd., has formed her own management company, Coleman Williams Risk Management Ltd.

The Barbados International Insurance Assn. changed its name this year from the Barbados Exempt Insurance Management Assn., reflecting a membership that includes self-managed reinsurers and that will expand to encompass insurance units other than exempt insurers, managers say. BI

Largest managers of Barbados captives

Ranked by gross premium volume in millions of dollars

Manager	Premium volume		Captives	
	1999	1998	1999	1998
MIMS International (Barbados) Ltd.	\$469.0	\$376.0	20	20
Mutual Risk Management (Barbados) Ltd.*	214.0	213.0	13	13
Towner Risk Management Ltd.	198.0	7.7	13	10
Aon Insurance Managers (Barbados) Ltd.	138.0	162.0	25	26
Marsh Management Services (Barbados) Ltd.	80.0	84.0	29	28
AIG Insurance Management Services (Barbados) Ltd.	70.0	47.5	4	3

*Includes Mutual Risk Management Ltd. and IAS (Barbados) Ltd.
Source: BI survey

Uncertain tax status stifles Manx growth

By CAROLYN ALDRED

DOUGLAS, Isle of Man—Isle of Man's captive count fell last year, to 169 from 171, and captive managers on the island see no signs of growth in the near future.

A soft insurance market through most of 1999, several



mergers and acquisitions among captive parent companies and uncertainty surrounding the island's tax status with other countries stifled growth on the Isle of Man, according to captive managers. While four new captives formed last year, six ceased operating.

Although figures for net premiums written in 1999 will not be available until the summer, Glyn Gilbert, assistant supervisor of its Insurance and Pension Authority, expects them to remain at about the 1998 level of £1 billion (\$1.6

billion).

Over the last several years, there has been a tremendous amount of insurance capacity and the rates have been very soft, he said. As a result, there has been less incentive for companies to form captives or expand the amount of business they write.

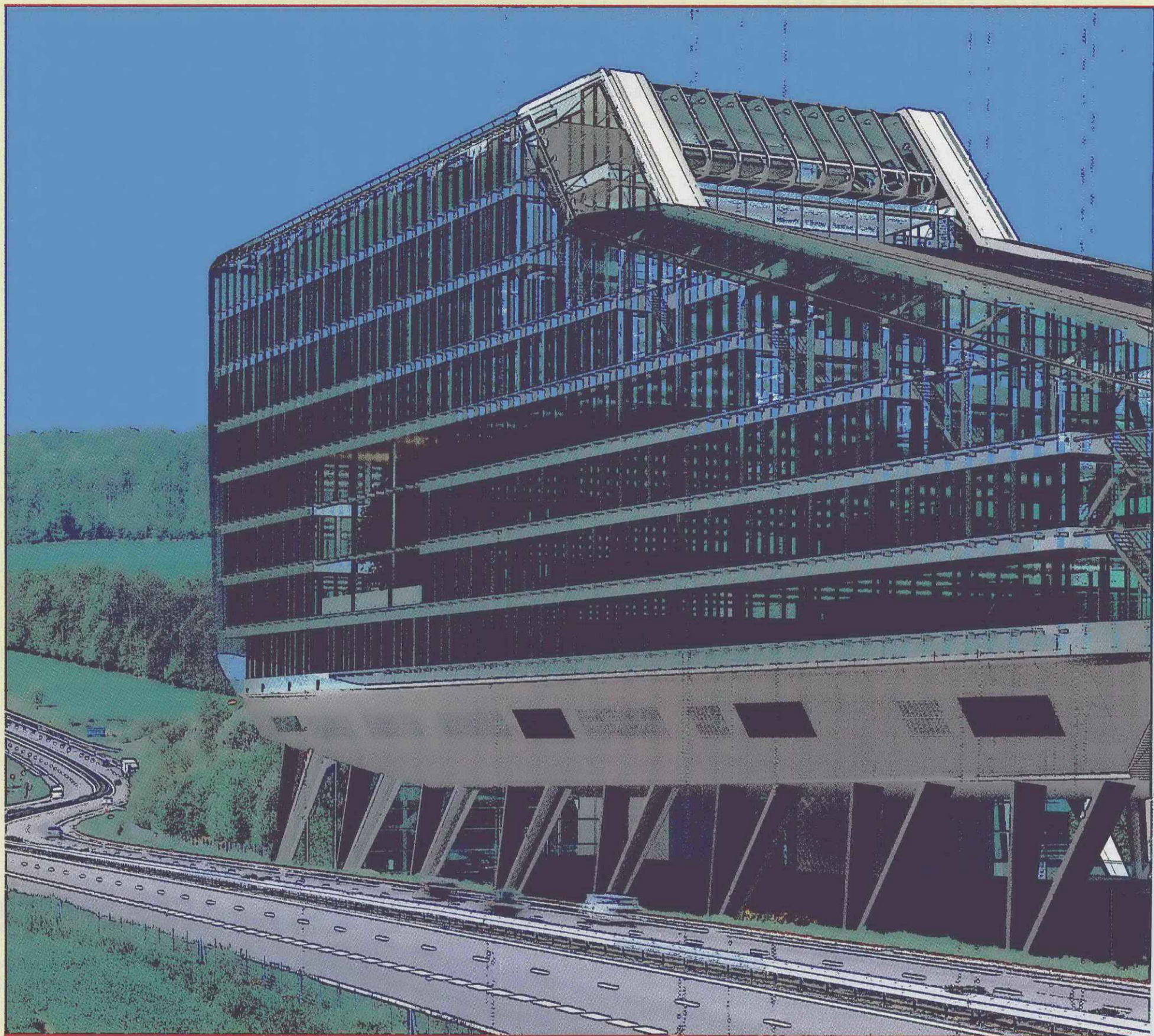
However, many captive managers believe that it is the continuing uncertainty over the tax status of offshore domiciles, more than the competitive insurance market, that is putting the brakes on new growth.

The Isle of Man is one of 47 jurisdictions that may be included in a list of tax havens being prepared by the Paris-based Organization for Economic Cooperation and Development. The OECD announced last June that it was preparing a list of jurisdictions that generate harmful tax competition for its 29 member nations (BI, June 14, 1999).

The list is due to be published this June, according to a spokeswoman from the OECD.

At the same time, several countries are tightening their tax rules for offshore-based companies, noted Mr. Gilbert.

See Isle of Man on page 44



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Captive report

Isle of Man

Continued from previous page

Of most concern to captive managers on the island are indications in South Africa's latest budget that the country may tighten up tax rules for transferring money from overseas companies. Much of the Isle of Man's captive growth in recent years has come from South Africa-based parent companies.

"South Africa has been an active area for us, and we are still getting inquiries," said Mr. Gilbert of the Insurance and Pension Authority, noting that 16 Manx captives have South African parent companies.

"As a result, any change in the tax rules there could impact the island adversely, and we will be looking closely at the tax implications," said Graham King, a director of Marsh Management Services (Isle of Man) Ltd., which has several South African company clients considering setting up captives on the Isle of Man.

The Isle of Man has had good connections with South Africa for a long time with a history of Manx miners immigrating to South Africa, noted David Brown, managing director of Caledonian Management Ltd. and SINSER (Isle of Man) Ltd. Furthermore, Mr. Brown said, there are good relationships between South African companies and many of the financial sectors on the island, including insurance.

Meanwhile, European countries, including Italy, also are looking at introducing legislation to tax income from

overseas companies, which "potentially could be a problem," said Mr. King.

While captive managers agree that the introduction of a corporate tax on controlled foreign companies by the U.K. government in 1995 did not result in U.K. parents winding up their Isle of Man captives, many believe that it did discourage some U.K. companies from forming captives.

The British government changed the tax on CFCs in the 1995 budget (*BI* Dec. 4, 1995). Prior to that time, offshore companies, other than investment firms, had been able to reduce their U.K. tax liability through the accounting and reserving practices in their country of domicile, and only half of the investment income generated by each CFC's profits had to be paid in dividends to the U.K. parent. Following the 1995 budget, CFCs had to distribute 90% of their taxable profits, minus capital gains and foreign taxes, to the parent.

That legislation prompted the Isle of Man to introduce its own new legislation, the International Business Act 1996.

Under the 1996 Manx act, captives could meet a provision of the U.K. CFC legislation by registering as international businesses under the new act and electing to pay tax to the Isle of Man at 75% of the normal U.K. tax rate instead of the usual 20% Manx corporate tax rate.

Although many of the captives chose to register under the new legislation, the new CFC tax rates still have stifled U.K. parent start-ups, managers believe.

"Captives are not being formed as they used to be, and there is a lot less new formation by U.K. parents," said Mr. King.

Part of that is due to the fact that most large U.K. companies already have formed captives and the market is becoming saturated, he noted. But there is no doubt that the U.K. CFC legislation has had an impact, he said.

The number of new captives with U.K.-based parents slowed down when CFC rules changed and "90% of a captive's profit had to come back," agreed Mr. Gilbert of the IPA.

Now, "France and Italy are bringing in their own versions of CFC legislation," added Mr. Gilbert.

Michael Skehan, director and general manager of International Risk Management (Isle of Man) Ltd., which manages seven captives for parents based throughout Europe, does not "anticipate any growth" of captives on the Isle of Man at the moment.

The European Union and the OECD are "looking at the Isle of Man" and other offshore captive domiciles, and many European countries "are not happy with us," he said.

Although captives are formed not for tax reasons but to provide insurance coverage for their parent companies more effectively and economically, the tax issue is of concern to many countries, Mr. Skehan said.

Meanwhile, Dublin, the Isle of Man's nearest and fast-growing competitor domicile, does not face the same problems, Mr. Skehan pointed out.

The Isle of Man, Guernsey and Jersey are self-governing crown depen-

dencies of the United Kingdom. Unlike Dublin, they are not part of the European Union. Dublin also has a European Commission exemption that allows it to offer a 10% corporate tax until the end of 2001 and a 12.5% rate thereafter. This favorable tax rate has helped Ireland's capital become one of the largest captive domiciles in the world in little more than a decade. It also benefits from the fact that it is one of the few captive domiciles not under OECD scrutiny.

Because Dublin is in the European Community, captives and insurers based there are able to write direct business into Europe, making it an attractive domicile to European parent companies, said Mr. Skehan. He also pointed out that one of IRM's clients currently is considering relocating its Isle of Man-based captive to Dublin.

Clients increasingly are "looking to Dublin if they have European interests," agreed Marsh's Mr. King.

As a result, the Isle of Man is losing a potential source of business to its competitor across the Irish Sea, he noted.

Scrutiny by the OECD and moves by several countries to introduce CFC legislation have prompted Marsh as a group to "look at strategies to get round CFC legislation, such as introducing third-party business into captives in a controlled manner," said Mr. King.

"Most companies would like to be able to grow their captive and take more risk. U.K. companies, in general, are looking to see how they can maximize the use of their captives. Marsh is looking at strategies such as

pooling arrangements," he said.

Other issues concerning captive managers on the island include proposed changes in the recent U.K. budget to tax loss reserves set aside by property/casualty insurers (*BI*, March 27). If implemented, such taxation would affect captives on the Isle of Man with U.K. parents, said Mr. Gilbert.

Meanwhile, the debate over whether the island's authorities should introduce protected cell company legislation rumbles on.

A 1998 decision by the IPA not to introduce legislation to allow PCCs disappointed many of the island's captive managers, who see the entities as an important vehicle for the domicile to attract new business. The PCC structure allows the creation of an umbrella company, or core cell, around which any number of independent subsidiary cells operate.

Guernsey has gained many new captives since introducing PCC legislation.

The IPA rejected introducing similar legislation because the barriers between cells have never been tested in court and there is no certainty that courts outside of the Isle of Man would respect the boundaries. (*BI*, June 1, 1998).

However, captive managers are "still lobbying for (PCC legislation). It is still on the agenda," said Mr. King.

"Guernsey has benefited from having the legislation, and if we haven't got it we can't compete" as effectively, noted Mr. King. He added, however, that the island does have rent-a-captive facilities. **B**

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Captive report

Dublin intends to raise profile in captive market

By SARAH VEYSEY

DUBLIN, Ireland—As the number of captives registered in Dublin continues to grow, some in the financial services industry are looking at ways to transform the Irish capital into a true financial marketplace.

"What we would like to see is Dublin go through a kind of convergence process from a financial center to a financial market," said Larry Sherin, general manager of Zurich International Services and chairman of the Dublin Insurance Managers Assn. "There were no international companies here 10 or 12

years ago; now we have a very vibrant financial center. What we want now is to see more transactions, more deals, more market-making being done in Dublin, rather than companies traditionally going to Europe, the U.K. or Bermuda."

Dublin had 165 captives registered at year-end 1999, up from 153 in the prior year.

Mr. Sherin said he hopes to see companies from within Dublin's International Financial Services Centre doing business with those outside the IFSC. The IFSC, set up in the late 1980s to stimulate the Irish economy, gave incentives and tax

breaks to overseas companies conducting international business from the center.



"The vast majority of companies in Dublin and in the IFSC transact business from overseas, but what we would like to see is people coming to do business in Ireland. That is

the next step in the development. It is an ongoing process, but we feel we are going to get there in a couple of years' time," Mr. Sherin said.

As part of its bid to become an international financial marketplace, Dublin has begun to promote itself throughout the world. For the first time, representatives from the Industrial Development Agency of Ireland will be exhibiting at the annual Risk & Insurance Management Society Inc. conference. David Smith, the IDA's international insurance representative, said: "We are hoping to attract captives, both direct-writing and reinsurance captives, from anywhere in the world.

We are not closing off the center in terms of what we are looking for."

Mr. Smith, appointed after a 1998 Tillinghast-Towers Perrin report said that Dublin needed to promote itself more aggressively, is embarking on a tour of most of the major insurance and reinsurance conferences this year in a bid to raise Dublin's profile. Part of that effort will involve a new Web site, insuranceireland.com. The site, launched in February to provide information on what Dublin has to offer, includes a link to the insurance arm of the Department of Enterprise, Trade and Employment, the principal financial regulator.

The site "gives us an opportunity to reach more companies farther afield with the message that Ireland is an ideal location for international insurance and reinsurance," Mr. Sherin said, noting that the site will be an integral element of the DIMA marketing strategy. "It will serve as a first port of call for people interested in setting up in Dublin. . . . We have to make sure that (the site) becomes known in the marketplace."

The 1998 Tillinghast-Towers Perrin report also suggested that Dublin enact protected-cell captive legislation to broaden the options available to captive parents. The issue, still at the discussion stage, is being examined by the IFSC Insurance Committee.

Eamon O'Brien, managing director of Aon Insurance Managers (Dublin) and chairman of the prime minister's insurance task force, the Taoiseach Insurance Group, has said that his team is looking into the PCC issue. "We have a subcommittee exploring it, and we are hopeful that we will pull together something that will be acceptable to the authorities," said Mr. O'Brien. But Ireland's non-life insurance regulator, Emily Sheerin of the DETE, has expressed reservations about PCCs, so it could be some time before agreement is reached, observers note.

Dublin's favorable tax environment has always helped attract captives, and recent tax changes are expected to boost the number of companies setting up in Ireland. Beginning in 2003, corporate tax across Ireland will be 12.5%, ending any concerns over Dublin's current 10% tax rate, approved by the European Union as part of the IFSC provisions. The Irish Treasury calculated that the average weighted tax rate in Ireland was about 15% and that setting the level at 12.5% would be offset by the fact that certain sheltered industries would become subject to a slightly higher tax rate.

Slashing the corporate tax to almost half its current level of 24% is expected to provide an incentive for companies to set up outside the IFSC. An agreement reached between the Irish authorities and the European Commission states that the IFSC will cease to exist in 2005. The IFSC is already effectively closed to new business, as new projects had to be approved by December 31, 1999. The harmonization of corporate tax will serve as "a long-term attraction for stable growth outside the IFSC," according to Mr. Sherin.

Garry Cullen, managing director of International Risk Management (Dublin) Ltd., said: "We have seen an increase in the number of captives we manage. We had seven last year, and now we have 12 at this stage. I think Dublin is becoming more recognized as an international

See Dublin on page 48

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Captive report

Dublin

Continued from page 46

captive insurance center, particularly now that the tax situation has been clarified.

"There may have been a reluctance on the part of some people to come to Dublin because of the uncertainty as to what was going to happen after the 10% tax rate expired," he said.

In addition to its favorable taxation environment, Dublin's status as a full-fledged member of the European Union is a trump card in attracting new captive business, according to local industry observers. "Our main advantage is that we are an onshore E.U. domicile," said Mr. Smith. "So if you want a direct-

writing captive to cover your European business, you can set it up in Ireland with one regulator and it can write risks right across Europe."

Ireland also is the only English-speaking country within the so-called "Eurozone"—the group of countries that have agreed to use the single European currency. "That is another added value," said Mr. Sherin. "Being part of the Eurozone does give a very stable basis to currency transactions."

Mr. Cullen of IRMG agrees that Ireland's membership in the European Union is an asset. "I think that it is very important that Ireland is within the E.U. Particularly with big corporations within Europe, companies which may have hesitated to set up an offshore company," said Mr. Cullen. "We are a full

member of the E.U., and that gives great comfort, not just to the risk manager who would be contemplating the establishment of a captive, but particularly to the board of these big companies who in the past—particularly within mainland Europe—may have hesitated to commit to an insurance or reinsurance operation."

In January 2000, Dublin licensed its first transatlantic captive. Daimler Chrysler Reinsurance Dublin is the captive for the recently merged automobile manufacturer. Daimler has an insurance operation in Europe and Chrysler has a direct writer in the United States, and the Dublin captive's manager is now exploring a way to combine the operations.

Both Mr. Sherin and Mr. Smith

acknowledge that a hardening of rates in the traditional insurance and reinsurance market could prompt a new wave of captive formations. At the same time, they stress that they are happy with the current formation rate in Dublin. "I think 1999 was a good year, and the pipeline business coming through for 2000 is steady, if not dramatic," said Mr. Sherin. "From a DIMA point of view, we are very satisfied with the business coming through. We would like to see a steady process of companies coming in—which can be managed more easily—rather than a dramatic increase in numbers."

Mr. Smith agreed. "I'd like to see captives continue to increase at the rate they are. I'd like to see more stand-alone captives and perhaps a

few more of the reinsurers we don't have here—a few more of the Bermudian companies perhaps," he said.

"Ireland has developed very well not just as a captive domicile but also as an insurance and reinsurance domicile," said Mr. Sherin. "What we are seeing now is a lot of major reinsurance companies from Bermuda stepping in to Dublin as their channel to approach and integrate into the European market."

IRMG's Mr. Cullen said he does expect an increase in the number of captive formations if traditional insurance markets harden. "I think there might be (growth), particularly from countries such as Germany, where captives have tended in the past not to be used by the top 50 or 100 companies. If the (German) insurance market were to harden, more and more companies would move toward the captive solution."

Some reinsurers are coming to Ireland because of the favorable tax treatment they are set to receive in 2003.

The influx of big-name reinsurers has strengthened Ireland's position as a growing insurance center, Mr. Sherin said. "We have big names such as Renaissance Re, Allianz, Gerling, Max Re—so we have big players from Europe and Bermuda. The arrival of reinsurers brings a lot of new capital, which in turn will attract more business."

Reinsurance regulation is not part of Ms. Sheerin's purview as the non-life insurance regulator of the DETE. Reinsurers currently must undergo only a notification procedure, informing the DETE that they are conducting business, though that could change. A reinsurance bill currently being debated in the Irish Parliament addresses reinsurance regulation, but it is not anticipated that any regulations will take effect in the short term, said Ms. Sheerin.

Mr. Smith said that, at present, reinsurance regulation is not needed in Dublin. "I think that the situation is only really likely to change if the European Union issues a directive on it," he said. "We have examined it, and they are happy with it. But if things were to change in the industry and DIMA lobbied for a change, then the regulators would listen to them. And, obviously, if Europe changes, we will change with that."

Captive managers are also keen to see an expansion of the range of business done in Dublin. Already the home to insurance securitization special purpose vehicle Atlas Re, more SPVs are expected to be established in Ireland.

"There is a huge amount of asset securitization business here," said Mr. Smith. "Securitization is a big part of the center, and we are expecting the launch of at least two more SPVs this year. This is an area we are promoting quite heavily."

IRMG's Mr. Cullen said, "We manage mainly single-parent captives still, and they mainly write property and casualty risks, but we are seeing some companies looking at... alternative risk transfer and securitization."

The success story that is the IFSC provides a steady platform on which Dublin will now seek to grow as an international financial services marketplace. As well as the favorable tax climate, E.U. membership, and strong reputation it has created for itself, Mr. Smith added that there is another reason to do business in Dublin. "The Guinness and the golf courses are good," he quipped. **BI**

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Captive report

Hawaii witnesses resurgence in captive activity

By ROBERTO CENICEROS

HONOLULU—Hawaii's captive industry has burst out of a growth slump, adding a record 11 new captives in 1999.

That easily eclipsed the state's prior record, which was set in 1993 when Hawaii licensed eight captives, said Craig Watanabe, captive insurance administrator for Hawaii's Insurance Division in Honolulu.

Six facilities, however, dissolved last year because of changes at their parent companies, bringing the number of Hawaii captives licensed at the end of 1999 to 59, up from 54 the previous year, according to the Insurance Division and captive managers.

By comparison, five captives were licensed in Hawaii in 1998 and three were dissolved, resulting in a net increase of two that year.

The 59 captives operating in 1999 generated premiums of \$237.5 million, compared with \$272.2 million in 1998. Observers attribute the decline to positive investment returns that allowed captive owners to reduce premiums and to merger activity leading to captive dissolutions.

Hawaii is poised to continue its

growth, captive managers, regulators and risk managers concur. Some managers expect growth this year to surpass that of 1999.

As of April 7, Hawaii had licensed seven captives. By the same date last year, Hawaii had only two new captives.

In addition, two new managers were licensed in 1999, bringing to eight the number of managers in the state.

Several factors are expected to help sustain Hawaii's captive boom, including California's hardening workers compensation market, a growing number of West Coast e-commerce companies, state-sponsored marketing of Hawaii's captive industry and growing demand for insurance alternatives among Japanese companies.

On March 24, Hawaii Gov. Benjamin J. Cayetano personally handed a new certificate of authority to Takashi Iwamura, president of Yazaki International Corp. The Japanese company, with \$2.3 billion in annual sales, provides products and services for most of the world's automobile producers. It is the largest manufacturer of automotive wiring harness systems.

Yazaki International's new cap-

itive, Yazaki Insurance Co. Inc., initially will insure its parent's North American property risks, and plans call for it to eventually insure the company's international risks as well.



Yazaki formed its captive in Hawaii because "non-U.S. jurisdictions... create potentially severe tax-haven penalties for Japanese owners," Mr. Iwamura said in a statement.

Mr. Watanabe of the Hawaii Insurance Division said other Japanese companies currently are inquiring about forming captives in the state.

A departure from Japan's traditional business practices, coupled with deregulation of its insurance market and a newfound interest in risk management practices, will fuel interest in captives, experts predict.

In addition, a merger trend among smaller Japanese property/casualty insurers should soon subside, Mr. Watanabe said. Once that happens, Mr. Watanabe expects Japanese insurers to focus more on promoting captives and issuing fronting policies, just as U.S. insurers now do. That should result in more business for Hawaii, he said.

Aggressive marketing of the domicile by the state also should fuel growth, said Sherman S. Hee, president of Hawaii Captive Insurance Management/USA Risk Group in Honolulu.

Mr. Watanabe was hired by the state in 1999 to promote Hawaii as a captive domicile. Previously, the Insurance Division only had a part-time captive representative, and that individual was unable to focus on marketing because of other responsibilities. As a result, leaders of the Hawaii Captive Insurance Council, which represents the state's captive industry, were on their own to promote the domicile.

The state's help "has really been a plus," Mr. Hee said. "There has been a significant focus on marketing and sales. Now you still have guys like us out in the trenches, and the state."

The state's commitment has boosted insurance industry confidence in the domicile, said Wanda Jong, vp and manager of Becher + Carlson Risk Management Inc. in Honolulu.

As an example of the state's marketing efforts, Gov. Cayetano, Mr. Watanabe, and HCIC members in September visited Tokyo to produce an alternative risk financing seminar for 250 Japanese businessmen.

Because of that presentation, Yazaki International, which had already investigated several other domiciles, decided to form its new captive in Hawaii, said Peter J. Lowe, a former senior vp of Marsh Management Services Inc. in Honolulu. Yazaki International's captive is managed by Marsh Management Services.

Mr. Lowe, a driving force in shaping Hawaii's captive industry, resigned from Marsh last month and stepped down as HCIC president, citing personal reasons. He was replaced at Marsh by Seamus Tivnan, who was appointed general manager and vp. Becher + Carlson's Ms. Jong is now the acting president of HCIC.

Other changes in Hawaii include the addition of two captive management companies—Triesco Insurance Services and Risk Services Hawaii.

Triesco, based in Tustin, Calif., does not have a Hawaii office. But because it maintains records at a local law firm, it qualifies as a Hawaii captive manager, said Mr. Watanabe. Triesco had two captives under management as of December 31, 1999.

Risk Services Hawaii is a unit of Risk Services L.L.C. in Montpelier, Vt. Several factors drove the Vermont-based parent to launch a separate Honolulu operation, said Jon Harkavy, vp and general counsel in the Arlington, Va., office of Risk Services L.L.C.

Hawaii has a very progressive captive law and a supportive Insurance Division, he said. Hawaii also provides convenient access for potential clients from Japan, Korea and the West Coast. In addition, the domicile has a favorable tax structure and, unlike Vermont, does not have an aversion to risk retention groups that insure automobile service warranties, Mr. Harkavy noted.

Because of that reputation, Hawaii has become a haven for risk retention groups that provide liability coverage for automobile extended service warranty contracts. It is now home to five such RRGs, according to the division, three of which obtained licenses in 1999.

"Hawaii is definitely a prime domestic player alongside Vermont," Mr. Harkavy said.

One of the captives that Risk Services Hawaii manages, e-Coverage Reinsurance Co. Inc., was formed in February. The captive is a unit of San Francisco-based e-Coverage, which sells personal auto liability insurance coverage through the Internet.

West Coast e-commerce companies "can certainly be another feeding base" for Hawaii's captive industry, Mr. Harkavy said.

Jon Kelly, vp of products and strategy for e-Coverage, interviewed regulators from other domestic domiciles before deciding upon Hawaii. He found Hawaiian regulators the most receptive to his company's plans for its facility, he said.

"They were very excited, and we appreciated that excitement," Mr. Kelly said. The captive is used to reinsure e-Coverage's auto liability policies.

Hawaii's proximity to California was also an advantage, Mr. Kelly said. The four-and-a-half hour flight to Hawaii from San Francisco also helped John Donahue, director of risk finance for CSAA Life and Financial Services Inc., select Hawaii as the domicile for Pacific Beacon Life Reassurance Inc.

CSAA—the California State Automobile Assn.—is the American Automobile Assn. insurer for Northern California, Nevada and Utah. CSAA obtained a license for Pacific Beacon in 1999.

CSAA formed the captive after it joined with other auto associations to purchase a life insurance company that now sells life and annuity products to AAA members. By using its captive to reinsure the life products, CSAA can increase the profitability of the life operations, Mr. Donahue explained.

CSAA also has a Bermuda captive for its property/casualty risks, but the captive for its life business had to be domiciled in an onshore facility, as life insurance operations face a greater federal tax burden in their early years if they operate offshore, Mr. Donahue said.

"When you combine everything, including the regulatory atmosphere, the (Hawaii) department of insurance was extremely receptive to us," Mr. Donahue said. "They went out of their way to work with us, to understand what we were doing before they approved it."

Upon its formation, Pacific Beacon Life Reassurance Inc. became one of the domicile's 10 largest captives, according to the Insurance Division. The Division, however, does not release captives' specific premium volumes.

Other California companies are also considering Hawaii.

"That is where all our (client) inquiries are coming from," said Marc Lapointe, managing director in Phoenix for Aon Insurance Managers (USA) Inc., which has captive management operations in Honolulu.

California's hardening workers compensation market is driving risk managers to consider captive insurance as an alternative to renewal-time rate increases, Mr. Lapointe said.

Meanwhile, Hawaiian captive industry leaders continue to push for legislative changes. In 1999, they were instrumental in enacting legislation that clarified Hawaiian captive statutes by creating four clearly defined captive classes that can be licensed by the Division: Class 1 is a pure captive that writes business only as a reinsurer; Class 2 is a pure captive that can write direct and/or reinsurance business; Class 3 is an association captive and/or risk retention group; and Class 4 covers rent-a-captive facilities.

State lawmakers in 1999 failed to pass legislation that would have allowed private investors to create facilities that provide reinsurance or excess insurance. That legislation faced stiff opposition from the Washington-based Reinsurance Assn. of America (BI, April 12, 1999).

But supporters of such a measure once again are pushing for passage of a similar bill during the 2000 legislative session, which is scheduled to end next month. As of April 7, S.B. 3192 had cleared the Senate and was moving through the House.

The new measure also faces opposition from the RAA, and bill supporters say they are unsure of its prospects. The RAA opposes the bill because it lacks adequate capital and solvency requirements, said Marsha Cohen, vp of state relations for the RAA. The bill's supporters, however, contend that the Insurance Division is capable of adequate solvency oversight. Additionally, they argue that the RAA opposes the measure because its members want to quash competition. BI

Hawaii's largest captives

Ranked by 1999 gross premium volume

Captive	Parent
Nissan Motor Insurance Corp.	Nissan North America Inc.
F.L. Insurance Corp.	Marriott International Inc.
Entertainment Risk Management Insurance Co. Inc.	Draney Information Service Corp.
Meridian Pacific Insurance Co. Inc.	Nestle Holdings Inc.
Sutter Insurance Services Corp.	Sutter Health
Medical Professional Liability Insurance Co. Inc.	University of California, San Francisco-Stanford Health Care
Pacific Beacon Life Reassurance Inc.	CSAA Life & Financial Services Inc.
California Healthcare Insurance Co., A Risk Retention Group	California acute care hospitals
Attorneys Insurance Mutual Risk Retention Group	California law firms
Transamerica Pacific Insurance Co. Ltd.	Transamerica Corp.

Source: Hawaii Insurance Division; premiums not released

Managers of Hawaii captives

Ranked by gross premium volume in millions of dollars

Manager	Premium volume		Captives	
	1999	1998	1999	1998
Marsh Management Services Inc.	\$98.6	\$118.1	26	25
Becher + Carlson Risk Management Inc.	74.4	55.6	7	8
Aon Insurance Managers (USA) Inc.	32.0	10.5	6	3
Hawaii Captive Insurance Management Inc./USA Risk Group	16.8	76.8	8	11
50th State Risk Management Services Inc.	5.0	2.2	6	3
Willis Management Ltd.	4.5	5.4	3	2
Triesco Insurance Services	4.3	NA	2	NA
Risk Services (Hawaii) Ltd.	1.9	NA	1	NA

Captive report

Asia may be source of more Singapore captives

By KATE TILLEY

SINGAPORE—A hardening market is expected to increase interest in the development of captives in Singapore, but the domicile's major growth will likely come from a new area, one captive management executive says.

George McGhie, senior vp of Marsh Management Services Singapore Pte. Ltd., said that Asian nations will be the largest source of captive business this year, rather than Australia, which has traditionally held that role.

Singapore at year-end had 52 captives, one more than last year,

said Catherine Leo, manager of reinsurers and captives in the Insurance Department, a branch of the Monetary Authority of Singapore.

During 1999, four new captives—one formed by an Australian parent and three with Japanese owners—were registered in Singapore, while three were de-registered.

In 1999, gross written premiums for all captives domiciled in Singapore totaled \$209.9 million Singapore (\$123.6 million), down only slightly from \$211.8 million Singapore (\$127.5 million) in the previous year.

Marsh, the country's largest captive manager, has 23 Australian-owned captives under management, as well as five



Japanese, one New Zealand and one Singaporean captive. Marsh's Singapore operation also manages two Bermuda-domiciled captives.

Mr. McGhie said Marsh had registered one new captive for an Australian parent so far this year. Japan, however, is the country with the greatest potential for new Singapore captives, despite the fact that Japanese parent companies historically have taken a long time—six years or more—to decide to develop captive operations.

Other potential markets for Singapore captives include Taiwan, the Philippines and Malaysia, though Mr. McGhie said there were "a lot of prospects, but not much action" from those countries last year.

Marsh is confident of registering at least one more Australian-owned captive this year. In addition, the captive manager has "four or five projects on the go that look positive," Mr. McGhie said.

While Australia's maturity in terms of forming captives makes it "a restricted market," with less growth potential than some Asian countries, Mr. McGhie said there are some Australian companies that have increased their asset bases, due to mergers and acquisitions, for example, and companies generally are "better focused on cost control." Those factors make captive formations more feasible, he said.

Plus, a hardening property/casualty insurance market is also a factor for them, he added.

The Monetary Authority, Singapore's regulatory authority for captives, is currently considering making captives' catastrophe reserves tax deductible.

Deductibility of catastrophe reserves was recommended in a review of captive regulations conducted by the authority in 1998. Other recommendations, which were implemented that year, included reducing captives' minimum capital requirement and solvency margin, which was lowered to \$400,000 Singapore (\$235,560) from \$1 million Singapore (\$588,900).

Mr. McGhie said that while making cat reserves tax deductible likely would not stimulate much growth in Singapore's captive industry, it would give captives greater flexibility in managing their funds.

Captive owners could use incurred-but-not-reported loss and catastrophe reserves to greater advantage to spread their risks over time, he noted.

Some captives, he noted, already use catastrophe reserves "as smoothers," regardless of tax deductibility.

Mr. McGhie said the regulatory body backed the proposal, but final approval must come from the Inland Revenue Authority of Singapore, and there is no time frame for that decision.

Mr. McGhie said the Monetary Authority's decision to allow captives to write business for related entities had helped the industry, but he noted there is "still a perception (that such business) is not allowed in Singapore."

Since 1998, captives have been permitted to write business for companies partly-owned by the parent; reinsurance for employee personal lines coverages; travel, transit and warranty insurance; and joint-venture programs where the parent has control of risk management functions (*BI*, April 12, 1999).

The soft market has slowed captive growth in Singapore, Mr. McGhie noted. "The financial incentives are not there," he said. But he expects the "dramatically hardening" markets to prompt parent companies to consider developing captive operations.

"There's still a lot of capacity, but it's very choosy. There's a lot of push to get rates up. Low-risk accounts can still get good prices, but if you have a loss record, you will get hit. They (direct insurers) are starting to underwrite risks technically, and it's a shock," he said. **BI**

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Captive report

World captive domiciles at a glance

The charts that follow were developed by *Business Insurance* to make it easier for risk managers to track developments and regulatory requirements in captive insurance domiciles worldwide.

The information is provided only for domiciles with specific legislation or regulations pertaining to captives; domiciles that merely allow the formation of captives under existing insur-

ance legislation are not included.

The charts provide information on captive domiciles—listed in alphabetical order—beginning with the number of licensed captives at year-end 1999 and 1998. Those figures include the number of inactive captives registered in the domicile.

Listed next are the minimum capital and surplus for captives and premium-to-surplus re-

quirements followed by application fees and annual license fees pertaining to captive insurers. Also listed are applicable local taxes as well as the name of law that governs captives and the year it was passed.

Each listing concludes with information on the domicile's regulator, including contact information for those seeking additional information. **BI**

DOMICILE	CAPTIVES 1999	CAPTIVES 1998	CAPITAL & SURPLUS	PREMIUM TO SURPLUS	FEES	TAXES	LAWS	REGULATOR
Bahamas	30	29	\$200,000 capital	5-to-1 or at discretion of regulator	\$25 application fee; \$2,500 annual registration fee; \$1,000 business license	None	The External Insurance Act; 1983. Chapter 318 as amended December 24, 1996. The Subsidiary Legislation/Chapter 318 External Insurance; 1987	Kendal C. Munnings, Registrar of Insurance/ Insurance Section, Ministry of Economic Development/ Ministry of Finance, P.O. Box N-4849, Nassau, N.P., Bahamas; 242-328-1068; fax: 242-328-1070
Barbados	220 (BI est.)	218* (BI est.)	\$125,000 cash	5-to-1 net premium to surplus. Less than \$5 million in premiums: net assets of \$125,000 or 20% of premium written. More than \$5 million: net assets of \$1 million plus 10% of premiums written	\$250 application fee; \$2,500 annual license	None	Exempt Insurance Act of 1983	Ian Carrington, Supervisor of Insurance, Ministry of Finance and Economic Affairs, Bridgetown, Barbados; 246-426-3815; fax: 246-436-2699
Bermuda	1,080 (BI est.)	1,054 (BI est.)	\$120,000 for Class 1 (single-parent insuring only risks of parent and affiliates); \$250,000 for Class 2 (group/association deriving no more than 20% of net premiums from unrelated companies); \$1 million for Class 3 (more than 20% from unrelated companies)	20% below \$6 million and 10% above for Classes 1 and 2; 15% for Class 3	Registration fees: Classes 1 and 2, \$1,575; Class 3, \$2,625. Annual fee: Classes 1 and 2, \$840; Class 3, \$2,625	Company tax: minimum for Class 1 is \$3,633; minimum for Classes 2 and 3 is \$5,607	Amendments to Insurance Act 1975	Jeremy E. Cox, Registrar of Companies, Government Administration Building, 30 Parliament St., Hamilton HM 12, Bermuda; 441-297-7578; fax: 441-292-6640
British Columbia	16	16	\$200,000 Canadian (\$135,640)	None	\$500 Canadian (\$339) application fee; \$2,500 Canadian (\$1,696) registration fee; \$2,500 Canadian annual renewal fee	30% federal income tax; 16% provincial income tax	The British Columbia Insurance (Captive Company) Act of 1987	Larry A.W. Neilsen, Deputy Superintendent, Insurance and International Financial Business, Suite 1000, 1050 West Pender St., Vancouver, B.C. V6E 3S7; 604-660-2947
British Virgin Islands	131	81	\$200,000 for P/C captives writing up to \$1 million in net premiums; \$250,000 for life/health captives	5-to-1 for P/C insurers writing up to \$5 million in net premiums	\$500 application fee; \$2,000 annual renewal fee	None	The Insurance Act; 1994. Insurance regulations; 1995	Peter Bates, Supervisor of Insurance, Financial Services Department, The Haycroft Building, Pasa Estate, Road Town, Tortola, British Virgin Islands; 284-494-4190
Cayman Islands	497	485	\$120,000 for Class B license (most single-parent, property/casualty captives); \$240,000 if writing long-term coverages; \$360,000 if writing both long-term and general business	At discretion of regulator	\$6,098 annual licensing fee	None	The Insurance Law (1999 revision)	Clive Thursby, Monetary Authority, Elizabethan Square, George Town, Grand Cayman, B.W.I.; 345-949-7089; fax: 345-949-2532
Colorado	12	13	\$300,000 capital/ \$200,000 surplus for single-parent and group captives	Pure captives: none; group captives: 3-to-1	\$500 application fee; \$500 annual fee	Direct: greater of \$5,000 or 0.5% of first \$25 million of direct premiums written, 0.25% of next \$50 million, and 0.1% thereafter. Reinsurance: 0.25% of first \$20 million in premiums and 0.1% thereafter.	The Colorado Captive Insurance Act of 1972	William J. Kirven, Insurance Commissioner, Colorado Division of Insurance, 1560 Broadway, Suite 850, Denver, Colo. 80202; 303-894-7499, ext. 7480
Delaware	3	5	Single-parent: \$250,000; industrial: \$500,000; association: \$750,000	None	\$100 annual statement fee, and \$50 for continuation of certificate	Premiums: 0.7% for first \$20 million; 0.5% for next \$20 million; 0.3% for next \$20 million; and 0.1% for each dollar thereafter	Chapter 69 (Captive Insurance Companies) of the Insurance Code; 1984	Donna Lee H. Williams, Insurance Commissioner, 841 Silver Lake Blvd., Dover, Del. 19904; 302-739-4251; fax: 302-739-2709; e-mail: deins.state.de.us

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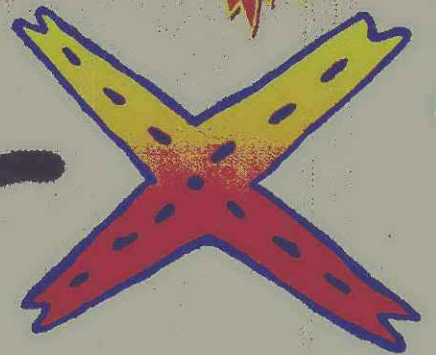
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Captive report

DOMICILE	CAPTIVES 1999	CAPTIVES 1998	CAPITAL & SURPLUS	PREMIUM TO SURPLUS	FEES	TAXES	LAWS	REGULATOR
Dublin	165	153	Reinsurance: subject to review of business plan; direct: minimum share capital of 500,000 Irish punts (\$595,150)	None, other than approval of business plan	Reinsurance: none. Direct: 4,000 Irish punts (\$4,761) application fee; supervision fee between 500 and 25,000 Irish punts (\$595 and \$29,758), depending on premium volume	None on premiums; corporate tax at 10% until Dec. 31, 2002, 12.5% after	European Union insurance directives; International Financial Services Centre regulations	Emily Sheerin, Non-Life Insurance Supervisor; or Eamon Henry, Life Insurance Supervisor; Department of Enterprise, Trade and Employment, Frederick Building, Setanta Centre, S. Frederick St., Dublin 2, Ireland; 353-1-661-4444
Georgia	15	15	\$500,000	3-to-1	\$600 application fee, \$700 annual fee	Gross premiums written in Georgia: 2.25% state tax, 2.5% county and municipal tax. Workers comp captives must contribute to Subsequent Injury Trust Fund	O.C.G.A. Title 33, Chapter 41; 1989	Christopher Taylor, Financial Analyst; 2 Martin Luther King Jr. Drive, Suite 604, West Tower, Atlanta, Ga. 30334; 404-657-7273; fax: 404-657-7743
Gibraltar	8	10	No statutory minimum; based on level of business written	19% of annual premiums or 26% of average claims over prior three years	£500 (\$790) application fee; £2,000 (\$3,160) annual license fee	Tax exempt by paying £225 (\$395) per year for 25 years; "qualifying companies" are taxed at up to 35%	Insurance Companies Ordinance of 1987 and associated regulations	Commissioner of Insurance Financial Services Commission, P.O. Box 940, Suite 943, Europort, Gibraltar; 350-40-283; fax: 350-40-282; e-mail: fsc@gibnet.gi
Guam	1	1	Capital: \$50,000 pure captive; \$100,000 group captive; \$150,000 industrial insured captive (stock insurer). Surplus: \$100,000 pure captive; \$150,000 group captive (stock insurer); \$200,000 industrial insured or group captive (mutual insurer)	No more than five times paid-in capital/surplus	\$2,500 application fee. \$2,500 annual license fee. \$200 incorporation fee. \$750 fee for qualifying certificate. \$1,000 qualifying certificate annual surveillance fee	Rebate of all income tax on underwriting income and on dividends to shareholders. No gross receipts or premium tax	Public Law 23-109; 1997. 1998 amendments to Public Law 24-266 allowing rebate of income tax on dividends	Joseph T. Duenas, Director, Department of Revenue and Taxation, 13-1 Mariner Drive, P.O. Box 23607 GMF, Barrigada, Guam 96921; 671-475-1817; fax: 671-472-2643 revtax@ns.gov.gu
Guernsey	364	362	£100,000 (\$157,980)	18% of net premiums for first £5 million and 16% thereafter	£1,950 (\$3,081) upon application and annually. Protected cell companies: £2,500 (\$3,950) upon application and £1,950 annually plus 0.25% of gross premiums	Four options: no tax but annual fee of £600 (\$948); sliding-scale tax on investment income of shareholders' funds; 20% of net profits; fixed rate of up to 30% for five years	Insurance Business (Guernsey) Law; 1986	Steve Butterworth, Director of Insurance, Guernsey Financial Services Commission, La Plaiderie Chambers, La Plaiderie, St. Peter Port GY1 1WG, Guernsey; 44-148-171-2706; fax: 44-148-171-2010; e-mail: info@guernseyci.com
Hawaii	59	54	Minimum requirements vary by type of captive; additional requirements determined on a case-by-case basis	Varies by case	Application review fees vary. \$300 license renewal fee	Premiums taxed at 0.25% for single-parent and 1% for association captives/RRGs	1986 changes to Hawaii insurance law in Chapter 431, Article 19 of Hawaii's Revised Statutes	Wayne Metcalf, Insurance Commissioner, 250 S. King St., P.O. Box 3614, Honolulu, Hawaii 96811-3614; 808-586-2799
Hong Kong	1	0	\$2 million Hong Kong (\$256,800)	5% of net premiums written or net claims outstanding	\$22,600 Hong Kong (\$2,902)	None	The Insurance Companies (Amendment) Ordinance 1997	Office of the Commissioner of Insurance, 21st Floor, Queensway Government Offices, 66 Queensway, Hong Kong; 852-2867-2554; fax: 852-2869-0252; e-mail: iamail@oci.gov.hk
Illinois	5	5	\$2 million	None	\$3,500 application fee	Subject to same taxes as domestic insurers	Article VIIC of the State Insurance Code; 1987	Etta Mae Credi, Assistant Deputy Director, Illinois Insurance Department, 320 W. Washington, Springfield, Ill. 62767; 217-782-4515; fax: 217-782-5020; e-mail: etta_mae_credi@ins.state.il.us
Isle of Man	169	171	£500,000 (\$789,600) for long-term; £150,000 (\$236,970) for general; £100,000 (\$157,980) for reinsurance; £50,000 (\$78,990) for restricted	None	£1,500 (\$2,370) application fee; £3,000 (\$4,739) annual license renewal fee	Standard tax is 20%. Isle of Man companies operating internationally may elect 1% to 35% taxation under International Business Act. Captives operating under a 1981 act enjoy partial or full exemptions if business is not transacted with Isle of Man residents	Insurance Act 1986; Insurance (Amendment) Acts 1993 and 1995	W.J. Hastings, Chief Executive/Insurance Supervisor, Isle of Man Government Insurance and Pensions Authority, HSBC House, Ridgeway St., Douglas, Isle of Man IM1 1ER; 44-162-464-6000; fax: 44-162-464-6001; e-mail: ipa@gov.im

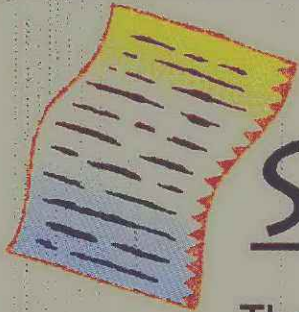


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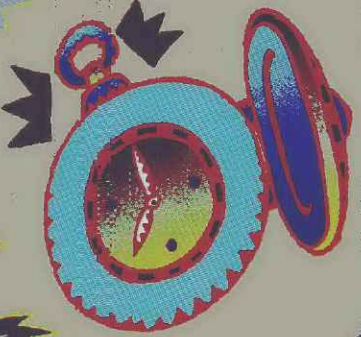
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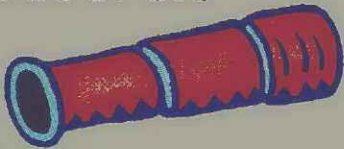
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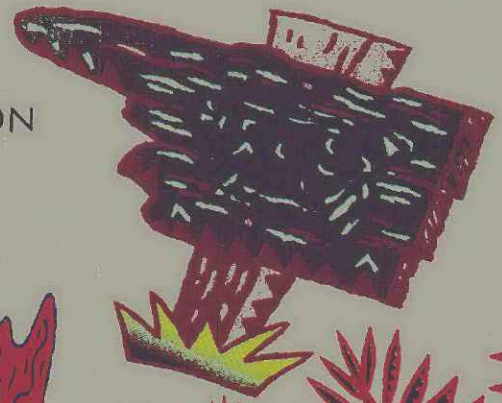
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Captive report

DOMICILE	CAPTIVES 1999	CAPTIVES 1998	CAPITAL & SURPLUS	PREMIUM TO SURPLUS	FEES	TAXES	LAWS	REGULATOR
Jersey	17	14	£100,000 (\$157,980) or at regulator's discretion	17.5% of net premium income	£1,500 (\$2,370) property/casualty, £3,000 (\$4,739) life	Maximum stamp duty is £2,500 (\$3,950). 20% standard rate; exempt captives pay £600 (\$948) per year	Insurance Business (Jersey) Law 1996, General Provisions and Solvency Margin Orders 1996	Nigel Woodroffe, Director of Insurance, Jersey Financial Services Commission, P.O. Box 267, Nelson House, David Place, St. Helier, Jersey JE4 8TP; 44-1534-822-000; fax: 44-1534-822-001; e-mail: info@jerseyfsc.org
Labuan	7	3	300,000 ringgit (\$78,960)	NA	6,000 ringgit (\$1,579) for incorporation; 10,000 ringgit (\$2,632) annual license fee	Lesser of 3% of net income or 20,000 ringgit (\$5,264)	The Offshore Insurance Act 1990	Labuan Offshore Financial Services Authority, Level 17, Main Office Tower, Financial Park, Jalan Merdeka, 87000 WP Labuan; 60-87-408188; fax: 60-87-413328; e-mail: lofsa@gov.my
Lloyd's of London	1	0	£500,000 (\$789,900); £1.5 million (\$2.4 million) if captive parent is U.S. based	Surplus must equal greater of 16% of annual premium income or 23% of average claims incurred over a three-year period	£20,000 (\$31,596) for new captive syndicate; £25,000 (\$39,495) + 8.03% VAT for captive corporate member. Annual fees of about 2.35% of captive's overall premium limit	U.K. corporate tax rates (up to 30%) on underwriting business	Captive Corporate Members Bylaw (No. 19 of 1998)	The Council of Lloyd's, Lloyd's of London, 1 Lime St., London EC3M 7HA; 44-207-327-1000; fax: 44-207-626-2389
Luxembourg	222	220	50 million Luxembourg francs (\$1.2 million)	None	50,000 Luxembourg francs (\$1,161) for incorporation plus 1% tax on capital. Annual license fee of 100,000 Luxembourg francs (\$2,323)	Varies. Basic rates: 30% corporate income tax plus 4% commercial business tax on income over 700,000 Luxembourg francs (\$16,259)	1991 Insurance Law and Grand Ducal Regulations; amended 1994	Victor Rod, Insurance Commissioner, Commissariat aux Assurances, 7 Blvd. Royal, B.P. 669, Luxembourg L-2016; 352-226-911; fax: 352-226-910
Maine	1	1	Pure: \$100,000 in capital, \$150,000 in surplus; industrial insured (stock): \$200,000 in capital, \$300,000 in surplus; industrial insured (mutual): \$500,000 in surplus; association stock: \$400,000 in capital, \$350,000 in surplus; association mutual: \$750,000 in surplus	3-to-1	\$1,000 initial fee; \$100 for license; \$100 for financial statement	0.375% of first \$20 million in direct gross premiums; 0.275% of next \$20 million; 0.175% of next \$20 million; 0.075% thereafter; slightly less for captive reinsurers. Minimum tax is \$4,000 per year; 2% of gross direct premiums if parent is a Maine corporation	Title 24-A, Chapter 83, Sections 6701-6720; 1997	Enya Carter, Director of Financial Analysts, Maine Bureau of Insurance, 34 State House Station, Augusta, Maine 04333-0034; 207-624-8496; fax: 207-624-8599; e-mail: nya.h.carter@state.me.us
Malta	3	2	100,000 lira (\$223,294)	Solvency margin set in accordance with European Union directives	500 lira (\$1,116) application fee; 500 lira acceptance fee; 1,000 lira (\$2,232) annual renewal fee	Corporate tax is 35%. Companies may operate foreign income accounts and get a tax refund on distributions to non-resident shareholders	Insurance Business Act; 1998	Malta Financial Services Centre, (Insurance Unit), Attard, Malta; 356-441-155; fax: 356-441-189 email: communications@mfscc.com.mt
Netherlands Antilles	18	16	Determined by review of business plan	None	6,000 guilders (\$2,552) application fee; 3,000 guilders (\$1,276) annual license fee	2,500 guilders (\$1,063) fixed	Special Insurance License Decree; 1992	Nataly Davelaar, Superintendent of Insurance, Bank van de Nederlandse Antilles (Central Bank), Breedestraat 1 (P), Curacao, Netherlands Antilles; 599-9-434-5500; fax: 599-9-461-5004
New York	2	2	\$250,000 for single parent captives; \$500,000 for group captives. Parent or group must have total net worth of at least \$100 million	None	None	Premiums related to N.Y. risks: 0.4% to 0.075% (direct) and 0.225% to 0.025% (reinsurance). Captives also pay Insurance Dept. assessments of 0.02% to 0.03% of N.Y. direct written premiums	Article 70 of the New York Insurance Law	Mike Moriarty, Supervising Examiner, New York Insurance Department, 25 Beaver St., New York, N.Y. 10004; 212-480-5127
Panama	2	2	\$150,000 for non-life; \$250,000 for life	5-to-1	\$1,000 application fee; \$2,000 annual license fee	None	Law 60; 1996	Ana Lorena Broce, Superintendent of Insurance and Reinsurance, Ave. Ricardo Arias y Calle 51, P.O. Box 832/1683, World Trade Center, Panama City, Republic of Panama; 507-214-7484; fax: 507-214-7482

Captive report

DOMICILE	CAPTIVES 1999	CAPTIVES 1998	CAPITAL & SURPLUS	PREMIUM TO SURPLUS	FEES	TAXES	LAWS	REGULATOR
Rhode Island	2	1	Minimum capital: single-parent, \$100,000; industrial insured, \$200,000; association, \$400,000. Minimum surplus: single-parent, \$150,000; industrial insured, \$300,000 (stock) or \$500,000 (mutual); association, \$750,000	At discretion of regulator	\$1,000 application fee; \$500 annual license fee	Minimum tax of \$2,500. Direct premiums: 0.2% on first \$20 million; 0.15% on next \$20 million; 0.10% on next \$20 million of direct premium; 0.0375% on each dollar thereafter. Reinsurance premiums: 1.25% on first \$20 million; 0.075% on next \$20 million; 0.025% on next \$20 million; 0.0125% on each dollar thereafter	Rhode Island Statutes: Title 27 Insurance; Chapter 43 Captive Insurance Companies	Joseph Torti, Chief Examiner, Department of Business Regulation- Insurance Division, 233 Richmond St., Suite 233, Providence, R.I. 02903; 401-222-5446; fax: 401-222-5475; e-mail: jtorti@doa.state.ri.us
Singapore	52	51	Minimum is \$400,000 Singapore (\$235,520)	Same as capital and surplus	\$5,000 Singapore (\$2,944) annual fee	Corporate tax is 25.5%. Captives may apply for a 10% concessionary tax rate on their offshore insurance business	Insurance Act (Chapter 142)	Insurance Department, Financial Supervision Group, Monetary Authority of Singapore, 10 Shenton Way, MAS Building, Singapore 079117; 65-229-9440; fax: 65-229-9694
South Dakota	0	0	\$100,000 capital/\$100,000 surplus	None	\$500 for certificate of authority	0.25% of premiums; minimum tax is \$5,000	Chapter 58-46; 1996	Wendell Malsam, Chief Examiner, South Dakota Division of Insurance, 118 W. Capitol Ave., First Floor, Pierre, S.D. 57501-2000; 605-773-4359; e-mail: wendellm@crpr1.state.sd.us
Switzerland	17	14	1 million Swiss francs (\$596,500) and 20% of premium for captive reinsurers. Capital requirement for direct captives or captives writing third-party business is 10 million Swiss francs (\$6 million). Group captives: 1 million Swiss francs capital and surplus of 20% of premium for each shareholder	Same as capital and surplus	Varies annually by market share; minimum of 1,000 Swiss francs (\$597)	8.5% federal tax on profit; additional tax rates vary by district. Stamp duty is 1%	1978 Insurance Supervisory Law; captive exemptions introduced in early 1990s	Peter Pfund, Swiss Insurance Commissioner, BVP, Friedheim Weg 14, CH 3003, Bern, Switzerland; 41-31-322-7906; fax: 41-31-323-7156
Turks & Caicos Islands	129*	76*	\$100,000 for general insurers; \$180,000 for life insurers. Subject to review of business plan	5-to-1 for captives writing up to \$5 million in net premiums	\$500 license application fee; \$2,000 annual renewal fee	None	Turks & Caicos Insurance Ordinance of 1989 and accompanying 1990 regulations	Harold Wong, Superintendent of Insurance, P.O. Building, Front St., Grand Turk, Turks & Caicos Islands; 649-946-2791; fax: 649-946-2821; e-mail: tsc@tcway.ic
Tennessee	9	9	\$750,000 for single-parent, non-profit, municipality and utility district captives; \$1 million for group captives	None. Minimum premiums: \$500,000 for single-parent; \$1 million for group captives	\$500 application fee. Annual minimum fee: \$5,000 for single-parent; \$10,000 for group captives. Any premium tax paid is counted against minimum	1% of gross direct written premiums (includes out-of-state premiums if not taxed by another state)	The Tennessee Captive Insurance Company Act, Chapter 13, Title 56; 1978	Bill Hosea, Director of Financial Affairs, Department of Commerce and Insurance, 500 James Robertson Parkway, Nashville, Tenn. 37243-1135; 615-741-1692; fax: 615-532-2788; e-mail: bhosea@state.tn.us
U.S. Virgin Islands	9	7	Single-parent captives: \$50,000 (capital), \$70,000 (surplus); industrial insured: \$75,000 (capital), \$125,000 (surplus); association captives: \$100,000 (capital), \$220,000 (surplus)	NA	\$1,000 application fee; \$6,000 annual licensing fee	Annual franchise tax of \$1,000	Title 22, Virgin Islands Code, Chapter 55, Sections 1400-1421	Office of the Lieutenant Governor, Division of Banking and Insurance, 18 Kongens Gade, St. Thomas, U.S.V.I. 00802; 340-774-7166; fax: 340-774-9458
Virginia	0	0	Stock captives: \$1 million capital stock, \$3 million surplus. Non-stock: \$4 million surplus	None. Minimum gross written premiums: \$500,000 for single-parent, \$1 million for association captives	\$500 non-refundable application fee	Premium tax of 2.25% for business written in Virginia and out-of-state business not taxed by another state	Chapter 11, Title 38.2; 1980	Jim Ware, State Corporation Commission, Bureau of Insurance, Company Licensing and Regulatory Compliance, Commonwealth of Virginia, P.O. Box 1157, Richmond, Va. 23218; 804-371-9801; fax: 804-371-9511; e-mail: jware@scc.state.va.us
Vermont	357	334	\$250,000 for single-parent; \$500,000 for industrial insured; \$750,000 for association captives. Approved letters of credit can be used to meet capitalization requirements. Captives organized as reciprocal insurers must maintain a minimum free surplus of \$1 million	None	\$200 initial application fee; \$300 annual license fee	\$5,000 minimum annual premium tax. Direct written premiums: 0.4% on first \$20 million; 0.3% on next \$20 million; 0.2% on next \$20 million; 0.075% on each dollar thereafter. Reinsurance premiums: 0.225% on the first \$20 million; 0.15% on next \$20 million; 0.05% on next \$20 million; 0.025% on each dollar thereafter	Special Insurer Act of 1981	Leonard D. Crouse, Director of Captive Insurance, Vermont Department of Banking, Insurance, Securities and Health Care Administration, 89 Main St., Drawer 20, Montpelier, Vt. 05620-3101; 802-828-3304; fax 802-828-3460

*Excludes credit life insurers.

Captive report

BI directory of captive insurance company managers



AIG Insurance Management Services Inc.

156 College St.,
Burlington, Vt. 05401;
802-658-9405; fax: 802-658-0112
www.aig.com

Founded: 1989.
Parent: American International Group Inc.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; managing underwriting facilities; actuarial studies; loss forecasting; association captive management; rent-a-captive management.

Subcontracted services: captive feasibility studies; claims processing; claims reserves analysis; actuarial studies; loss forecasting.

Staff: 9 total, 2 professionals.
Clients: 26 total captives: 24 active captives, 2 inactive captives, 26 directly managed, 1 currently in formation. Captive premium volume, \$259,429,875. Capital and surplus managed, \$221,269,184.

Compensation: annual fee, \$15,000 minimum; hourly: professional, \$160; clerical, \$50.
1999 gross revenue: 100% from fees charged for captive management.

Officers: Paul Obolensky, president.
Contact: Ann W. Wick, David Provost.
**Manages 23 captives in Vermont, two captives in Hawaii and one in Bermuda. The captive premium volume for Vermont is \$251,238,348.*

AIG Insurance Management Services (Barbados) Ltd.

Aico Building, Cheapside,
Bridgetown, Barbados;
246-436-4771; fax: 246-427-5809

Founded: 1985.
Parent: American International Group Inc.
Direct services: captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; investment management; association captive management; rent-a-captive management.

Staff: 3 total.
Clients: 4 total captives: 4 active captives. Captive premium volume, \$70,000,000.
Compensation: annual fee, \$25,000 minimum; hourly: professional, \$100 to \$130; clerical, \$50 to \$75.

1999 gross revenue: 100% from fees charged for captive management.
Officers: James Bohan, acting president; L.M. Murphy, Paul Obolensky, directors.
Contact: James Bohan; David Conway, 441-298-5300.

AIG Insurance Management Services (Bermuda) Ltd.

American International Building,
29 Richmond Road
Pembroke HM 08, Bermuda;
441-298-5300; fax: 441-292-6735

Founded: 1947.
Parent: American International Group Inc.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; actuarial studies; loss forecasting; underwriting and ratemaking for captives; investment management; association captive management; rent-a-captive management.

Subcontracted services: actuarial studies.
Staff: 8 total, 3 professionals.
Clients: 21 total captives: 16 active captives, 5 inactive captives, 21 directly managed. Captive premium volume, \$96,000,000. Capital and surplus managed, \$163,500,000. No minimum size client.
Compensation: annual fee, \$25,000 minimum; hourly: professional, \$115 to \$150; clerical, \$55 to \$80.

Officers: J.C.H. Johnson, president/CEO-American International Co. Ltd.; P. Obolensky, president, AIG Insurance Management Services; L.M. Murphy, senior vp/general counsel, American International Co. Ltd.
Contact: David Conway, vp; david.conway@aig.com.

AIG Insurance Management Services (Gibraltar) Ltd.

57163 Line Wall Road,
P.O. Box 703, Gibraltar;
350-52-699

Parent: American International Group Inc.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; managing underwriting facilities; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; association captive management; rent-a-captive management.

Staff: 1 total.
Clients: 1 total captive: 1 active captive.
Officers: Michael J. Matthews, director; David Stafford, financial controller.
Contact: Michael J. Matthews; Paul Obolensky, 212-770-5728.

AIG Insurance Management Services (Guernsey) Ltd.

Helvetia Court, Les Echelons,
P.O. Box 255, St. Peter Port,
Guernsey GY1 4HV, Channel Islands;
44-148-171-6000;
fax: 44-148-171-6565

Founded: 1994.
Parent: American International Group Inc.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; managing underwriting facilities; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management.

Subcontracted services: captive formation; government reporting; computerized accounting; claims processing.
Officers: Michael J. Matthews, managing director; David Stafford, financial controller Charles Allen, director.
Contact: Michael J. Matthews; Paul Obolensky, 212-770-5728.
Subcontracts for some captive management services with Prism Insurance Management.

AIG Insurance Management Services (Ireland) Ltd.

AIG Centre, N. Wall Quay,
Dublin 1, Ireland;
353-1-672-0202;
fax: 353-1-672-0288

Founded: 1989.
Parent: American International Group Inc.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; managing underwriting facilities; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; association captive management; rent-a-captive management.

Staff: 10 total, 9 professionals.
Clients: 15 total captives: 10 active captives, 5 inactive captives.
Compensation: annual fee, hourly.
Officers: Michael J. Matthews, managing director; David Stafford, financial controller.
Contact: Michael J. Matthews; Paul Obolensky, 212-770-5728.

AIG Insurance Management Services (Isle of Man) Ltd.

Ioma House, Prospect Hill,
Douglas, Isle of Man;
44-162-468-1230;
fax: 44-162-468-1399

Founded: 1994.
Parent: American International Group Inc.
Direct services: captive feasibility studies; captive formation; government reporting; computerized accounting; claims processing; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management.

Subcontracted services: captive formation; government reporting; computerized accounting; claims processing.
Clients: 1 total captive: 1 active captive.
Officers: Michael J. Matthews, Colin Bowen, directors; David Stafford, financial controller.
Contact: Michael J. Matthews; Paul Obolensky, 212-770-5728.
Subcontracts for some captive management services with Isle of Man Insurance Management Ltd.

AIG Insurance Management Services (Luxembourg) S.A.

11 Ave. Guillaume, P.O. Box 615,
L-2016 Luxembourg;
352-44-3032; fax: 352-44-3107

Founded: 1994.
Parent: American International Group Inc.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; managing underwriting facilities; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management.

Staff: 2 total.
Clients: 2 total captives: 1 active captive, 1 inactive captive, 1 directly managed, 1 subcontracted, 2 currently in formation.
Officers: Michael J. Matthews, director; Jacques Emsix, general manager/director.
Contact: Michael J. Matthews, Paul Obolensky, 212-770-5728.

Subcontracts for some captive management services with SINSEER (Luxembourg) S.A.R.L.

AIM Associated Insurance Management (Ireland) Ltd.

International House,
3 Harbourmaster Place, IFSC,
Dublin 1, Ireland;
353-1-670-0677;
fax: 353-1-670-0688

Founded: 1989.
Parent: AXA Colonia Versicherung A.G.
Direct services: captive feasibility studies; captive formation; government reporting; computerized accounting; accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; tax advice; legal advice.

Staff: 1 total, 1 professional.
Clients: 1 total captive: 1 active captive, 1 directly managed. Captive premium volume, \$2,700,000.
Compensation: annual fee.
1999 gross revenue: 100% from fees charged for captive management.

Officers: Michael Doering, managing director (until July 31); Paul Moragha, (managing director after July 31), Richard Kelly, directors.

ARS Management

85 Prim Road, P.O. Box 545,
Colchester, Vt. 05446;
802-860-1958; fax: 802-863-2198
www.captive.com/service/ars/index.html

Founded: 1995.
Parent: Winterthur International.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; actuarial studies; loss forecasting; underwriting and ratemaking for captives.

Staff: 9 total, 7 professionals.
Clients: 9 total captives: 8 active captives, 1 inactive captive, 9 directly managed, 3 currently in formation. Captive premium volume, \$86,000,000. Capital and surplus managed, \$1,269,000,000. No minimum size client.
Compensation: annual fee.
1999 gross revenue: 90% from fees charged for captive management, 10% from other services.

Officers: J. Brady Young, president; Brent Clark, vp; Kathryn A. Westover, COO.
Contact: Kathryn A. Westover.

Aberdeen Insurance Managers (Turks & Caicos) Ltd.

Aberdeen House, Barracks Hill,
Palmgrove Drive, P.O. Box 169,
Grand Turk, Turks & Caicos Islands;
649-946-2670; fax: 649-946-2856

Founded: 1989.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management.

Staff: 3 total, 1 professional.
Clients: 7 total captives: 7 active captives, 7 directly managed, 1 currently in formation. No minimum size client.
Compensation: annual fee, \$6,000 minimum.
1999 gross revenue: 100% from fees charged

for captive management.

Officers: Ross Blumentritt, resident managing director/secretary; H.F. Christoph Elumentritt, director; Tricia Smith, assistant secretary-claims.

Contact: Ross Blumentritt; aberdeen@chi-way.tc.

Alternative Insurance Management Services Inc.

6021 S. Syracuse Way, Suite 205
Englewood, Colo. 80111;
303-694-9360; fax: 303-694-9363

Founded: 1989.
Parent: Catholic Health Initiatives.
Direct services: captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; association captive management; rent-a-captive management.

Staff: 9 total, 5 professionals.
Clients: 2 total captives: 2 active captives, 2 directly managed. Captive premium volume, \$3,000,000. Capital and surplus managed, \$18,000,000. No minimum size client.

Compensation: annual fee, \$10,000 minimum; hourly: professional, \$150; clerical, \$50.
1999 gross revenue: \$800,000. 25% from fees charged for captive management, 75% from other services.

Officers: Richard A. Johnson, president/CEO; Geraldine Hoyer, treasurer; John Dicola, secretary.
Contact: Richard A. Johnson; dickjohnson@chi-national.org.

Aon Insurance Managers (Antilles) N.V.

Tamson Building, Prof.
Kernkampweg, M 370-C
Curacao, Netherlands Antilles;
599-9-736-9294;
fax: 599-9-736-9350

Founded: 1995.
Parent: Aon Corp.
Direct services: captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss control services; managing underwriting facilities; tax advice; rent-a-captive management.

Staff: 2 total, 1 professional.
Clients: 7 total captives: 7 active captives, 7 directly managed. Captive premium volume, \$4,000,000. Capital and surplus managed, \$10,000,000. No minimum size client.

Contact: Rudy Maasdamme, managing director.

Aon Insurance Managers (Barbados) Ltd.

1 Financial Place,
Lower Collymore Rock,
St. Michael, Barbados;
246-436-4895; fax: 246-436-9016

Founded: 1984.
Parent: Aon Corp.
Direct services: captive formation; government reporting; accounting; computerized accounting; claims processing; investment management; association captive management.

Staff: 13 total, 7 professionals.
Clients: 25 total captives: 25 active captives, 25 directly managed, 3 currently in formation. Captive premium volume, \$138,000,000. Capital and surplus managed, \$407,000,000. No minimum size client.

Compensation: annual fee, hourly.
Officers: Ronald Jones, deputy chairman
Vinston Hampden, managing director.
Contact: Vinston Hampden.

Aon Insurance Managers (Bermuda) Ltd.

Craig Appin House, 8 Wesley St.,
Hamilton HM 11, Bermuda;
441-295-2220; fax: 441-292-4911

Founded: 1965.
Parent: Aon Corp.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; managing underwriting facilities; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; association captive management; rent-a-captive management.

Staff: 75 total, 37 professionals.
Clients: 195 total captives: 191 active captives,

4 inactive captives, 195 directly managed, 5 currently in formation. Captive premium volume, \$1,810,000,000. Capital and surplus managed, \$1,876,000,000. No minimum size client.

Compensation: annual fee, hourly.
Officers: Alan Cossar, executive director; Philip Barnes, managing director; Rochelle Simons, senior vp.
Contact: Philip Barnes.

Aon Insurance Managers (Cayman) Ltd.

Anderson Square,
Third Floor, P.O. Box 1125,
George Town, Grand Cayman,
Cayman Islands, B.W.I.;
345-945-2888; fax: 345-945-2889

Founded: 1986.
Parent: Aon Corp.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; association captive management; rent-a-captive management.

Subcontracted services: claims processing.
Staff: 7 total, 3 professionals.
Clients: 28 total captives: 28 active captives, 28 directly managed, 5 currently in formation. Captive premium volume, \$198,000,000. Capital and surplus managed, \$162,000,000. No minimum size client.

Compensation: annual fee.
Officers: Peter Jones, managing director; Dan Maclean, assistant vp.
Contact: Peter Jones.

Aon Insurance Managers (Dublin) Ltd.

22 Upper Fitzwilliam St.
Dublin 2, Ireland;
353-1-6762911; fax: 353-1-6762744

Founded: 1990.
Parent: Aon Corp.
Direct services: captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; managing underwriting facilities; loss forecasting; underwriting and ratemaking for captives; investment management*; association captive management.

Subcontracted services: claims processing; claims reserves analysis; loss control services; managing underwriting facilities; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management*; tax advice; legal advice.

Staff: 16 total, 9 professionals.
Clients: 22 total captives: 21 active captives, 1 inactive captive, 22 directly managed, 3 currently in formation. Captive premium volume, \$787,000,000. Capital and surplus managed, \$328,000,000.

Compensation: annual fee, hourly.
Officers: Eamon O'Brien, managing director; Ann Finn, director; Alain Dufraisse, client services director.

Contact: Eamon O'Brien.
**Basic deposits only.*

Aon Insurance Managers (Guernsey) Ltd.

Maison Trinity, Trinity Square,
P.O. Box 33, St. Peter Port,
Guernsey, GY1 4AT, Channel Islands;
44-148-170-7909; fax: 44-148-171-0551

Founded: 1977.
Parent: Aon Corp.
Direct services: captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; managing underwriting facilities; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.

Subcontracted services: loss control services; actuarial studies; reinsurance brokered for captives; investment management; tax advice; legal advice.

Staff: 43 total, 8 professionals.
Clients: 88 total captives: 82 active captives, 6 inactive captives, 88 directly managed, 5 currently in formation. Captive premium volume, \$504,000,000. Capital and surplus managed, \$766,000,000. No minimum size client.
Officers: Clive James, managing director; Ric Gale, Graham Powell, directors.
Contact: Clive James.

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Captive report

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Aon Insurance Managers (Isle of Man) Ltd.

Jubilee Buildings,
Victoria St., Third Floor,
Douglas, IM1 2LR, Isle of Man;
44-162-468-9400;
fax: 44-162-461-7441

Founded: 1985.

Parent: Aon Corp.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; association captive management.

Subcontracted services: actuarial studies; loss forecasting.

Staff: 23 total, 10 professionals.

Clients: 21 total captives: 21 active captives, 21 directly managed, 6 currently in formation. Captive premium volume, \$176,000,000. Capital and surplus managed, \$477,000,000. No minimum size client.

Compensation: annual fee, commission; hourly.

Officers: Geoff Hunt, managing director; Duncan Donald, director-financial services; David Newman, director-insurance services.

Contact: Geoff Hunt.

Aon Insurance Managers (Jersey) Ltd.

Le Gallais Chambers, 54 Bath St.,
St. Helier, Jersey, Channel Islands;
44-148-170-7909; fax: 44-148-172-0235

Founded: 1994.

Parent: Aon Corp.

Direct services: captive feasibility studies; captive formation; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss forecasting.

Clients: 2 total captives: 2 active captives, 2 directly managed. No minimum size client.

Compensation: annual fee, hourly.

Contact: Clive James, Aon Insurance Managers (Guernsey) Ltd.

Aon Insurance Managers (Luxembourg) S.A.

283 Route D'Ar on
Strassen, 8011, Luxembourg;
352-31-7171; fax: 352-31-7174

Founded: 1994.

Parent: Aon Corp.

Direct services: captive feasibility studies; captive formation; accounting; computerized accounting; claims processing; claims reserves analysis; reinsurance brokered for captives; underwriting and ratemaking for captives.

Staff: 4 total, 3 professionals.

Clients: 11 total captives: 11 active captives 11 directly managed. Captive premium volume \$44,000,000. Capital and surplus managed \$99,000,000.

Compensation: annual fee, hourly.

Contact: Lambert Schroede, managing director.

Aon Insurance Managers (Nederland)

16 Marconistraat, Rotterdam
3029 AK, Netherlands;
31-10-448-8830; fax: 31-10-477-7059

Founded: 1995.

Parent: Aon Corp.

Direct services: captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss forecasting.

Staff: total, 1 professional.

Clients: 2 total captives: 2 active captives, 2 directly managed. Captive premium volume, \$4,000,000. Capital and surplus managed, \$19,000,000.

Contact: Paul Kabel.

Aon Insurance Managers (Panama) S.A.

Third Ave., 77th St., P.O. Box 37-1990,
San Francisco, Zone 7, Panama;
507-270-3411; fax: 507-270-5424

Founded: 1996.

Parent: Aon Corp.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; claims processing; reinsurance brokered for captives; investment management; tax advice; legal advice; rent-a-captive management.

Subcontracted services: captive feasibility studies; investment management; tax advice; legal advice.

Staff: 2 total, 2 professionals.

Compensation: annual fee, hourly.

Officers: Louis Ducruet, president; Carlos Montero, managing director.

Contact: Louis Ducruet.

Aon Insurance Managers (Singapore) Pte. Ltd.

50affles Place, Suite 32-00,
048623 Singapore;
65-221-8222; fax: 65-338-9880

Founded: 1987.

Parent: Aon Corp.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; investment management.

Staff: 3 total, 3 professionals.

Clients: 2 total captives: 2 active captives, 2 directly managed, 3 currently in formation. Captive premium volume, \$7,000,000. Capital and surplus managed, \$15,000,000. No minimum size client.

Compensation: annual fee.

Officers: Mike Parrish, managing director; Carissa Teo, client services director.

Contact: Mike Parrish.

Aon Insurance Managers (USA) Inc.

201 Merchant St.,
Honolulu, Hawaii 96813;
808-540-4315; fax: 808-540-4301

Founded: 1994.

Parent: Aon Corp.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; association captive management; rent-a-captive management.

Staff: 1 total, 1 professional.

Clients: 6 total captives: 6 active captives, 6 directly managed, 1 currently in formation. Captive premium volume, \$32,000,000. Capital and surplus managed, \$13,000,000. No minimum size client.

Compensation: annual fee, hourly.

Officers: Marc Lapointe, managing director; Jill Miura, assistant managing director.

Contact: Marc Lapointe, 602-468-3200.

Aon Insurance Managers (USA) Inc.

346 Shelburne Road,
Burlington, Vt. 05401;
802-860-0444; fax: 802-860-0440
www.aon.com

Founded: 1965.

Parent: Aon Corp.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; managing underwriting facilities; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.

Subcontracted services: claims reserves analysis; loss control services; actuarial studies; loss forecasting; investment management; tax advice; legal advice.

Staff: 15 total, 10 professionals.

Clients: 56 total captives: 56 active captives, 56 directly managed, 4 currently in formation. Captive premium volume, \$496,000,000*. Capital and surplus managed, \$563,000,000. No minimum size client.

Compensation: annual fee, hourly.

Officers: W. Scott Frazier, executive director; James Murray, managing director; Beth Albright.

Contact: James Murray.

* Manages 53 captives in Vermont with a premium volume of \$483,832,505. Also operates two captives in Delaware and one in Colorado with an aggregate premium volume of \$12,167,495

Continued on page 64

Collaborative Litigation Management

The screenshot displays the LitigateWay web application in a Microsoft Internet Explorer browser window. The main content area shows the 'Edit Case Profile' for 'Estamino vs. Bowler Construction'. The case details include:

- Claim #:** 234238-343
- Category:** Construction
- Status:** Open
- Trial:** Westchester County (Local)
- Docket Number:** 34-3337574
- Judge:** [Blank]
- Plaintiff:** Estamino, Gustavo
- Plaintiff Counsel:** Gary Grant, Thomakins, Pennyworth & Kyle
- Defendant:** Adjuster Frank Miller

On the right side, there is a section for 'All Documents for Estamino vs. Bowler Construction' with a list of documents including assignments, authority, case analysis reports, case strategy reports, and recent activity. At the bottom, there are navigation buttons for 'New Case File', 'Add Document to a Case File', 'Invite New User onto LitigateWay', 'Assign a Task', and 'Schedule an Arbitration, Trial, Hearing, or Conference'.

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Directory terms explained

The annual *Business Insurance* directory of captive managers lists companies that manage captive insurance companies, either directly or through subcontracts.

The directory is published as an editorial service; there is no charge to be included. To be listed, companies are required to complete a BI questionnaire.

To identify the organizations managing captives in a particular domicile, refer to the geographical index that follows the directory. The index lists the companies that provide captive management services, either directly or through subcontracts, in each domicile. This index will also be available on the Web at www.businessinsurance.com under "Directories."

Each listing begins with the company's name, address, telephone and fax numbers. In addition, the year **founded** and **parent** company are listed.

Listed next are the direct and subcontracted captive management services the company provides. **Staff** information is reported on a full-time equivalent basis for year-end 1999 and includes the total number of staff members and the number of professional staff members involved in captive management services.

The **clients** section includes the number of active and inactive captives managed at year-end 1999; the number of captives that are directly managed vs. those subcontracted; and the number of captives in formation. The total gross premium volume and the capital and surplus of captives managed in 1999 also are provided. The minimum premium volume requirement for a client is included as well.

The section on **compensation** details how the company bills for services. "Commissions" refers to funds generated through reinsurance brokerage. **1999 gross revenues** are also included, and a breakout of 1999 gross revenues indicates the percentage of total revenue generated from fees charged for captive management, commissions charged for insurance and/or reinsurance brokered and other services the company provides.

Names and titles of the company's principal **officers** and a **contact** for readers seeking additional information complete each listing.

Although every effort is made to publish complete and accurate information, BI is unable to verify all information received.



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Captive report

Continued from page 62

Aon Insurance Managers (Vancouver)

900 Howe St., Box 3228, Vancouver, British Columbia V6B 3X8; 604-683-2561; fax: 604-643-5235 www.captive.com/service/aon

Founded: 1988.

Parent: Aon Corp.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; reinsurance brokered for captives; reinsurance processing; claims reserves analysis.

Subcontracted services: loss control services; actuarial studies; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking for captives.

Staff: 3 total, 2 professionals.

Clients: 11 total captives: 11 active captives, 11 directly managed. Captive premium volume, \$31,000,000. Capital and surplus managed, \$24,000,000. No minimum size client.

Compensation: annual fee, hourly.

Contact: Bill Morgan, managing director.

Atlantic Security Ltd.

Windsor Place, 18 Queen St., Hamilton, Bermuda; 441-295-5425; fax: 441-295-5444

Founded: 1974.

Parent: ASL Holdings Ltd.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; reinsurance brokered for captives; reinsurance processing; claims reserves analysis; reinsurance brokered for captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.

Staff: 12 total, 5 professionals.

Clients: 44 total captives: 43 directly managed, 1 subcontracted. Captive premium volume, \$155,000,000. Capital and surplus managed, \$90,000,000. No minimum size client.

Compensation: annual fee, \$15,000 minimum; commissions; hourly; professional, \$150 to \$300; clerical, \$75 to \$125.

Officers: Hal Forkush, chairman; Colin James, president; Richard Witkowski, senior vp.

Contact: Colin James.

**Subcontracts for some captive management services with Cayside Insurance Management Ltd.*

B

BF&M Management Ltd.

P.O. Box HM 1007, Hamilton, HM DX, Bermuda; 441-292-6396; fax: 441-292-6682 www.bfm.bm

Founded: 1969.

Parent: BF&M Ltd

Direct services: captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; managing underwriting facilities; reinsurance brokered for captives; reinsurance bro-

kered to captives; underwriting and ratemaking for captives; investment management; association captive management; rent-a-captive management.

Subcontracted services: captive feasibility studies; online access to claims data; loss control services; actuarial studies; loss forecasting; tax advice; legal advice.

Staff: 9 total, 4 professionals.

Clients: 27 total captives: 26 active captives, 1 inactive captive, 27 directly managed, 2 currently in formation. Captive premium volume, \$408,526,814. Capital and surplus managed, \$252,886,418. No minimum size client.

Compensation: annual fee, \$20,000 minimum; commissions; hourly.

1999 gross revenue: 95% from fees charged for captive management, 5% from other services.

Officers: Irmgard Viera, vp; Elizabeth A.C. Durrant, manager.

Becher + Carlson Cos.

84 Pine St., 600 Financial Plaza, P.O. Box 5599, Burlington, Vt. 05401; 802-658-7831; fax: 802-658-7843 www.amre.com

Founded: 1982.

Parent: American Re-Insurance Co.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; loss control services; actuarial studies; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking for captives; investment management.

Staff: 3 total, 2 professionals.

Clients: 7 total captives: 7 active captives, 7 directly managed. Captive premium volume, \$337,867,262. Capital and surplus managed, \$68,717,362. No minimum size client.

Compensation: annual fee.

Officers: Gregory K. Myers, president/CEO; Robert L. Glicksteen, senior vp/COO; Robert W. Hessel, senior vp.

Becher + Carlson Management Ltd.

25 Church St., P.O. Box HM 2461, Hamilton, HM JX, Bermuda; 441-295-0519; fax: 441-295-0933 www.amre.com

Founded: 1981.

Parent: American Re-Insurance Co.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance processing; claims reserves analysis; reinsurance brokered for captives; association captive management; rent-a-captive management.

Staff: 9 total, 5 professionals.

Clients: 17 total captives: 13 active captives, 4 inactive captives, 17 directly managed. Captive premium volume, \$147,500,000. Capital and surplus managed, \$399,000,000. No minimum size client.

Compensation: annual fee, hourly.

Officers: Robin Mehta, senior vp/general manager; Krystalle Tobin, Francis Tonge, vps.

Contact: Pam Brooskin; 818-598-4250.

Becher + Carlson Risk Management Inc.

Pacific Tower, 1001 Bishop St., Suite 2788, Honolulu, Hawaii 96813; 808-521-1121; fax: 808-521-1288 www.amre.com

Founded: 1991.

Parent: American Re-Insurance Co.

Direct 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.

Staff: 2 total, 1 professional.

Clients: 7 total captives: 5 active captives, 2 inactive captives, 1 currently in formation.

Captive premium volume, \$74,400,000. Capital and surplus managed, \$55,300,000. No minimum size client.

Compensation: annual fee.

1999 gross revenue: 100% from fees charged for captive management.

Officers: Gregory Myers, president/CEO; Robert Glicksteen, senior vp/COO; Wanda Jong, vp/manager.

Contact: Pam Brooskin; 21700 Oxnard St., Suite 1800, Woodland Hills, Calif. 91367.

Berkley Risk Services of Vermont Inc.

1775 Williston Road, South Burlington, Vt. 05403; 802-862-7279; fax: 802-862-2816 www.berkleyrisk.com

Founded: 1997.

Parent: W.R. Berkley Corp.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; managing underwriting facilities; loss forecasting; reinsurance brokered for captives; reinsurance processing; claims reserves analysis; reinsurance brokered for captives; underwriting and ratemaking for captives; investment management; association captive management.

Subcontracted services: actuarial studies.

Staff: 1 total, 1 professional.

Clients: 2 total captives: 2 active captives, 2 directly managed, 1 currently in formation. Captive premium volume, \$7,400,000. Capital and surplus managed, \$6,250,000. No minimum size client.

Compensation: annual fee, \$25,000 minimum.

Contact: Jeffrey S. Kenneson, assistant vp; jkneson@berkleyrisk.com.

Bott & Associates Ltd.

Armoury Building, 37 Reid St., P.O. Box HM 1087, Hamilton, HM EX, Bermuda; 441-292-6564; fax: 441-292-5796

Founded: 1979.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; managing underwriting facilities; reinsurance brokered for captives; reinsurance processing; claims reserves analysis; reinsurance brokered for captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.

Staff: 6 total, 3 professionals.

Clients: 10 total captives: 8 active captives, 2 inactive captives, 10 directly managed, 3 currently in formation. No minimum size client.

Compensation: annual fee, \$12,000 minimum; commissions.

1999 gross revenue: 50% from fees charged for captive management, 45% from commissions charged for brokering insurance and/or reinsurance, 5% from other services.

Officers: Michael F. Bott, president; Roy V. Bray, executive vp.

Contact: Roy V. Bray.

Britannia Insurance Management (Cayman) Ltd.

Piccadilly Centre, Elgin Ave., P.O. Box 10139 APO, George Town, Grand Cayman, Cayman Islands, B.W.I.; 345-945-7700; fax: 345-945-7701 www.britannia.com.ky

Founded: 1997.

Parent: Britannia Holdings Ltd.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; managing underwriting facilities; actuarial studies; underwriting and ratemaking for captives; association captive management; rent-a-captive management.

Subcontracted services: claims processing; loss control services; loss forecasting; reinsurance brokered for captives; reinsurance processing; claims reserves analysis; reinsurance brokered for captives; investment management; tax advice; legal advice.

Staff: 2 total, 1 professional.

Clients: 3 total captives: 3 active captives, 3 directly managed, 2 currently in formation. Captive premium volume, \$31,000,000. Capital and surplus managed, \$98,000,000. No minimum size client.

Compensation: annual fee, hourly; professional, \$200; clerical, \$100.

Contact: J. Terry Burke, managing director; big_ins@candw.ky.

C

CCMSI Captive Services Ltd.

Genesis Building, P.O. Box 1363, George Town, Grand Cayman, Cayman Islands, B.W.I.; 345-949-7966; fax: 345-949-8068 www.ccmsi.com

Founded: 1998.

Parent: Cannon Cochran Management Services Inc.

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An explanation of the terms used in this directory appears on page 62.

Continued on page 66

RIMS 2000

At RIMS in San Francisco everyone will be watching *Business Insurance's RIMSTV*.

Since 1995, *BI's* expanded news coverage of the Risk and Insurance Management Society's Annual Conference & Exhibition has included televised conference reporting.

Business Insurance's RIMSTV will be produced in San Francisco and shown on exclusive channels in the following conference hotels on May 1st, 2nd and 3rd:

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Canterbury Hotel	11
Clift Hotel	6
Crowne Plaza Union Square	18
The Fairmont Hotel	15
Grand Hyatt San Francisco	21
Handlery Union Square	1
Hotel Nikko San Francisco	15
Mark Hopkins Inter-Continental	3
Palace Hotel	12
The Pan Pacific	13
The Pickwick	16
Renaissance Parc 55	35
Renaissance Stanford Court Hotel	3
The Ritz-Carlton, San Francisco	26
San Francisco Marriott	11
Sir Francis Drake	17
W San Francisco	15
The Westin St. Francis	19

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RIMS



TV

Captive report

Continued from page 64

Direct services: captive feasibility studies; captive formation; claims processing; online access to claims data; loss control services; managing underwriting facilities; loss forecasting; underwriting and ratemaking for captives; association captive management; reinsurance brokered for captives.

Subcontracted services: government reporting; accounting; claims reserves analysis; actuarial studies; investment management; tax advice; legal advice; rent-a-captive management.

Staff: 5 total, 2 professionals.
Clients: 4 total captives, 4 active captives, 4 subcontracted, 3 currently in formation. Captive premium volume, \$5,000,000. No minimum size client.

Compensation: annual fee, \$25,000 minimum; commissions.

1999 gross revenue: \$1,200,000. 100% from fees charged for captive management.

Officers: G. Bryan Thomas, president/CEO; Steven Luebbert, executive vp/corporate market officer; Rodney Golden, senior vp/COO.

Contact: Dale Fenwick; 407-804-0234, ext. 3789; d.fenwick@ccmsi.com.

Subcontracts for some captive management services with Mutual Risk Management (Cayman) Ltd.

CNA Risk Services Ltd.

Continental Building, 25 Church St.,
P.O. Box HM 824,
Hamilton HM CX, Bermuda;
441-295-6015; fax: 441-295-1702

Founded: 1980.

Parent: CNA Financial Corp.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; actuarial studies; loss forecasting; association captive management; rent-a-captive management.

Staff: 6 total, 4 professionals.

Clients: 11 total captives; 10 active captives, 1 inactive captive, 11 directly managed. No minimum size client.

Compensation: annual fee, commissions.

Officers: Doug May, chairman; Thomas R. McMahon, COO; Leslie Boughner, CEO.

Contact: Thomas R. McMahon; thomas.mcmahon@cna.bm.

Captive Resources Inc.

201 E. Commerce Drive,
Schaumburg, Ill. 60173;
847-781-1400; fax: 847-781-1455
www.captiveresources.com

Founded: 1981.

Parent: Mutual Risk Management Ltd.

Direct services: captive feasibility studies; captive formation; government reporting; claims reserves analysis; managing underwriting facilities; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; association captive management; rent-a-captive management.

Subcontracted services: accounting; computerized accounting; claims processing; online access to claims data; loss control services; actuarial studies; loss forecasting; investment manage-

ment; tax advice; legal advice.

Staff: 51 total, 44 professionals.

Clients: 23 total captives; 23 active captives, 23 subcontracted, 5 currently in formation. Captive premium volume, \$250,000,000.

Compensation: annual fee.

1999 gross revenue: 90% from fees charged for captive management, 5% from commissions charged for brokering insurance and/or reinsurance, 5% from other services.

Officers: George Rusu, president; Michael J. Kilbane, executive vp/CFO; Jennifer Beard, executive vp-operations.

Contact: George Rusu; grusu@captive-resources.com.

Subcontracts for some captive management services with Kensington Management Group.

A geographical listing of captive managers can be found on page 79 and on *Business Insurance's* Web site, www.businessinsurance.com.

Cayside Insurance Management Ltd.

Bank of America Building, Fort St.,
P.O. Box 2322,
George Town, Grand Cayman,
Cayman Islands, B.W.I.;
345-949-8184; fax: 345-949-7228

Founded: 1984.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; managing underwriting facilities; association captive management; rent-a-captive management.

Subcontracted services: actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; tax advice; legal advice.

Staff: 3 total, 2 professionals.

Clients: 20 total captives; 20 active captives. Captive premium volume, \$70,000,000*. No minimum size client.

Compensation: annual fee, hourly.

1999 gross revenue: 100% from fees charged for captive management.

Contact: John E. Smith; cayside@candw.ky.

*Estimated

Chandler Insurance Management Ltd.

Anderson Square, Fifth Floor,
P.O. Box 1854,
Grand Cayman,
Cayman Islands, B.W.I.;
345-949-8177; fax: 345-949-8376
www.chandlerinsurance.com

Founded: 1990.

Parent: Chandler Insurance Co. Ltd.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; reinsurance brokered for captives; reinsurance brokered to captives; association captive management; rent-a-captive management.

Staff: 4 total, 2 professionals.

Clients: 10 total captives; 8 active captives, 2 inactive captives, 10 directly managed, 1 currently in formation. Captive premium volume, \$36,685,000. Capital and surplus managed, \$105,937,000. Minimum size client, \$500,000.

Officers: W. Brent Lagere, chairman/director; Steven R. Butler, director.

Contact: Steven R. Butler; s.butler@candw.ky.

Channel Island Insurance Consultants Ltd.

26 Cornet St.,
St. Peter Port, Guernsey GY1 1LF,
Channel Islands;
44-148-171-0336;
fax: 44-148-171-0696

Founded: 1982.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; actuarial studies; loss forecasting; rent-a-captive management; reinsurance brokered for captives; underwriting and ratemaking for captives; investment management; tax advice.

Staff: 6 total, 3 professionals.

Clients: 14 total captives; 13 active captives, 1 inactive captive, 14 directly managed.

Compensation: annual fee, hourly.

1999 gross revenue: 100% from fees charged for captive management.

Officers: Timothy A. Spafford, Michael J. Savage, Tracey N. Turberville.

Contact: Timothy A. Spafford; tspafford@ciic-guernsey.net.

Coleman Williams Risk Management Ltd.

ICB Building, Roebuck St.,
Bridgetown, Barbados;
246-427-3362; fax: 246-426-0426

Founded: 1999.

Direct services: captive formation; government reporting; accounting; computerized accounting; claims processing.

Staff: 1 total, 1 professional.

Clients: 4 total captives; 2 active captives, 2 inactive captives, 4 directly managed. No minimum size client.

Compensation: annual fee, hourly.

1999 gross revenue: 100% from fees charged for captive management.

Officers: Fiona Williams, general manager.

Commonwealth Risk Management Inc.

P.O. Box 834,
Montpelier, Vt. 05601;
802-229-5000; fax: 802-229-5000

Founded: 1987.

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Captive report

Continued from page 66

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss control services; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; tax advice; legal advice.

Staff: 5 total, 3 professionals.

Compensation: annual fee, commissions; hourly: professional, \$75 to \$135; clerical, \$40.

Officers: Peter D. Sanger, president; Judith A. Sanger, vp/secretary.

Contact: Peter D. Sanger; psangercmnwith@cs.com.

Crusader International Management (Cayman) Ltd.

Crusader House, 102 Mary St.,
George Town, Grand Cayman,
Cayman Islands, B.W.I.;
345-949-1599; fax: 345-949-0520

Founded: 1993.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; association captive management; rent-a-captive management.

Subcontracted services: online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives.

Staff: 10 total, 8 professionals.

Clients: 7 total captives: 7 active captives, 7 directly managed, 1 currently in formation. Captive premium volume, \$21,000,000. Capital and surplus managed, \$9,500,000. No minimum size client.

Compensation: annual fee, \$30,000 minimum; hourly: professional, \$250; clerical, \$125.

Officers: Ian Kilpatrick, president; Gavin Foggon, financial controller; Fiona Moseley, senior account administrator.

E

Eaglehurst Insurance Management Ltd.

20-26 Peel Road, P.O. Box 16,
Douglas, IM991AP Isle of Man;
44-162-467-3811;
fax: 44-162-462-9983

Founded: 1986.

Parent: Pannell Kerr Forster.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; investment management; tax advice; legal advice; association captive management; rent-a-captive management.

Staff: 3 total, 3 professionals.

Clients: 2 total captives: 2 active captives, 2 directly managed, 2 currently in formation. Captive premium volume, \$604,000. Capital and surplus managed, \$6,720,000. No minimum size client.

Compensation: hourly: professional, \$90 to \$360; clerical, \$52.

1999 gross revenue: \$75,000. 100% from fees charged for captive management.

Officers: Isobel M. Foster, John Scott, John H. Nugent.

Contact: Isobel M. Foster; isobel.foster@wk.pkf.com.

EURCO A.G.

Neugasse 6,
Zurich 8005, Switzerland;
41-1-277-7030; fax: 41-1-277-7035

Founded: 1995.

Parent: DVV verzekeringen N.V.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; online access to claims data; claims reserves analysis; loss control services; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; tax advice; legal advice.

Subcontracted services: claims processing.

Staff: 3 total, 3 professionals.

Clients: 2 total captives: 2 active captives, 2 directly managed. Captive premium volume, \$27,000,000. Capital and surplus managed, \$7,000,000. Minimum size client, \$500,000.

Compensation: annual fee, \$25,000 minimum; commissions; hourly: professional, \$150; clerical, \$60.

1999 gross revenue: \$236,000. 100% from fees charged for captive management.

Officers: Eddy Van Cutsem, managing director.

EURCO Ltd.

International House,
3 Harbourmaster Place,
Dublin 1, Ireland;
353-1-829-0444; fax: 353-1-829-0433

Founded: 1993.

Parent: DVV verzekeringen N.V.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; managing underwriting facilities; reinsurance brokered for captives; reinsurance brokered to captives; investment management; tax advice; legal advice; rent-a-captive management.

Staff: 8 total, 8 professionals.

Clients: 6 total captives: 6 active captives, 6 directly managed. Captive premium volume, \$79,433,527. Capital and surplus managed, \$476,343,888.

Compensation: annual fee, commissions; hourly.

1999 gross revenue: 79% from fees charged for captive management, 21% from other services.

Officers: Hugo Azijn, managing director;
Carmel O'Brien, financial controller.

F

FBD International Captive Management Ltd.

2/3 Exchange Place,
IFSC Dublin, Ireland;
353-1-670-1340;
fax: 353-1-670-1342

www.fbd.ie

Founded: 1991.

Parent: FBD Holdings, P.L.C.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; loss control services; investment management; association captive management; rent-a-captive management.

Subcontracted services: claims processing;

online access to claims data; managing underwriting facilities; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; tax advice; legal advice.

Staff: 4 total, 4 professionals.

Clients: 5 total captives: 4 active captives, 1 inactive captive, 5 directly managed, 1 currently in formation. Captive premium volume, \$253,414,631. Capital and surplus managed, \$46,896,200. No minimum size client.

Compensation: annual fee, \$30,000 minimum; hourly: professional, \$30 to \$200; clerical, \$30 to \$50.

1999 gross revenue: \$216,850. 100% from fees charged for captive management.

Officers: John H. Prosser, general manager; Catherine Kerny, client services manager; Michael Ryder, account executive.

Contact: John H. Prosser; john.prosser@fbd-ifs.ie.

The directory begins on page 63.

50th State Risk Management Services Inc.

6 Waterfront Plaza,
500 Ala Moana Blvd., Suite 405,
Honolulu, Hawaii 96813;
808-543-0439; fax: 808-523-9027

Founded: 1982.

Parent: American International Group Inc.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; managing underwriting facilities; actuarial studies; loss forecasting; association captive management; rent-a-captive management.

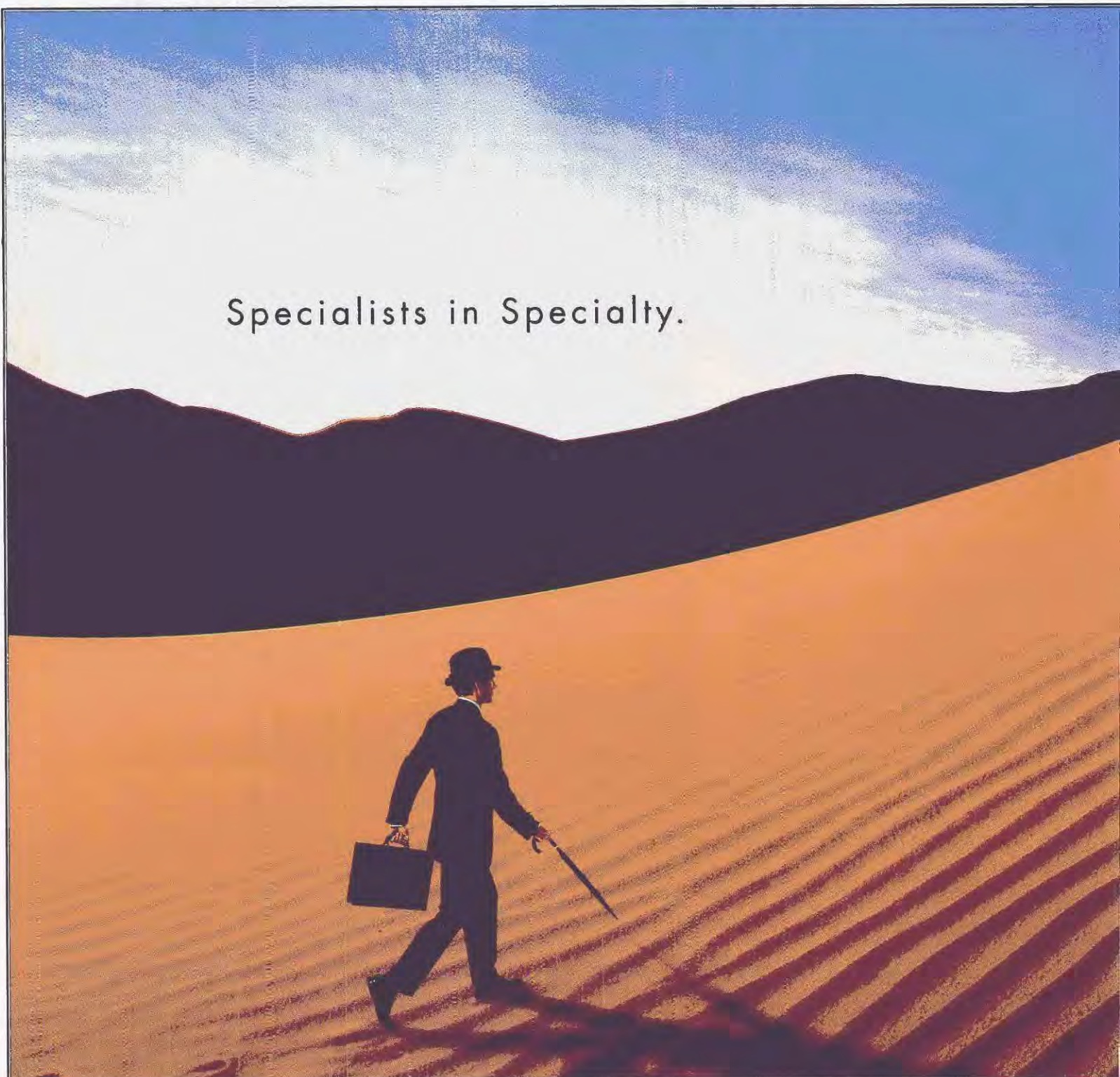
Subcontracted services: captive feasibility studies; claims reserves analysis; actuarial studies; loss forecasting.

Staff: 5 total, 4 professionals.

Clients: 6 total captives: 6 active captives, 6 directly managed, 2 currently in formation. Captive

Continued on next page

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Captive report

Continued from previous page

premium volume, \$5,000,000. No minimum size client.

Compensation: annual fee, hourly; professional, \$150; clerical, \$65.

1999 gross revenue: 100% from fees charged for captive management.

Officers: Paul Obolensky, president-AIG Insurance Management Services Inc.

Contact: Earl N. Hisatomi.

FINNCAP-Oy Finnish Captive & Risk Services Ltd.

Vattuniemenkuja 8A
Helsinki, Fin-00035, Finland;
358-10-514-5315;
fax: 358-10-514-5193

Founded: 1988.

Parent: International Risk Management Group/Industrial Insurance Co.

Direct services: captive feasibility studies; captive formation; government reporting; online access to claims data; claims reserves analysis;

loss control services; underwriting and ratemaking for captives.

Subcontracted services: loss control services. **Staff:** 2 total, 2 professionals.

Clients: 4 total captives: 3 active captives, 1 inactive captive. No minimum size client.

Compensation: annual fee, hourly.

Officers: J. Toivo a, chairman; R. Kamarainen, deputy chairman; Derek Douglas, director.

Contact: Lars Von Herten, managing director; lars.herten@sampo.com.



Arthur J. Gallagher Management Co. Ltd.

P.O. Box HM 2000,
Hamilton HM HX, Bermuda;
441-292-4654; fax: 441-296-6884
www.ajg.com

Founded: 1972.

Parent: Arthur J. Gallagher Co. Inc.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; managing underwriting facilities; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking for captives; investment management; association captive management; rent-a-captive management.

Subcontracted services: claims processing; online access to claims data; claims reserves analysis; loss control services; actuarial studies; tax advice; legal advice.

Staff: 7 total, 5 professionals.

Clients: 15 total captives: 14 active captives, 1 inactive captive, 15 directly managed, 1 currently in formation. Captive premium volume, \$50,000,000. No minimum size client.

Compensation: annual fee, \$25,000 minimum; commissions; hourly.

Officers: David J. McManus, Alan A. McKean, Karen I. Dickson.

Contact: Alan A. McKean; alan_mckean@ajg.com.

Green Mountain Captive Management Co.

83 Washington St., P.O. Box 628,
Barre, Vt. 05641;
802-479-1046; fax: 802-479-2761

Direct services: government reporting; accounting; claims processing.

Subcontracted services: captive feasibility studies; captive formation; computerized accounting; online access to claims data; claims reserves analysis; loss control services; managing underwriting facilities; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; tax advice; legal advice.

Staff: 3 total, 2 professionals.

Officers: Richard W. Huskes Jr.; James C. Milligan.

Contact: Richard W. Huskes Jr.

Guardrisk Insurance Co. Ltd.

P.O. Box 62018, Marshalltown 2107,
Johannesburg, South Africa;
27-11-484-4906; fax: 27-11-484-3010
www.guardrisk.co.za

Founded: 1992.

Parent: Alexander Forbes Ltd.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; managing underwriting facilities; 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; rent-a-captive management.

Subcontracted services: captive feasibility studies; claims processing; loss control services; actuarial studies; investment management; legal advice.

Staff: 60 total, 25 professionals.

Clients: 4 total captives: 4 active captives, 2 directly managed, 2 subcontracted. Captive premium volume, \$200,000,000. Capital and surplus managed, \$70,000,000. Minimum size client, \$500,000.

Compensation: annual fee.

1999 gross revenue: \$10,000,000. 100% from fees charged for captive management.

Officers: Volker Von Widdem, managing director; Herman Schoeman, business development director; David Fry, general manager-underwriting.

Subcontracts for some captive management services with Alexander Forbes Captive Management-South Africa.



HSBC Financial Services (Cayman) Ltd. dba HSBC Insurance Management*

P.O. Box 1109 G.T.,
Grand Cayman,
Cayman Islands, B.W.I.;
345-949-7755; fax: 345-949-7634
www.hsbc.ky

Founded: 1984.

Parent: HSBC Holdings P.L.C.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; association captive management; rent-a-captive management.

Staff: 21 total, 16 professionals.

Clients: 87 total captives: 80 active captives, 7 inactive captives, 87 directly managed. Captive premium volume, \$225,000,000. Capital and surplus managed, \$312,000,000.

Compensation: annual fee, \$10,000 minimum; hourly: professional, \$90 to \$265.

Officers: David A. Whitefield, director/chief executive; Tom Clark, director; Linda Haddleton, assistant director.

Contact: Linda Haddleton; 345-914-7500; lghaddleton@ky-hsbc.com.

Formerly Midland Bank Trust (Cayman) Ltd./HSBC Insurance Management

HSBC Insurance Management (Guernsey) Ltd.

HSBC House, Lefebvre St.,
P.O. Box 156, St. Peter Port,
Guernsey GY1 4EU, Channel Islands;
44 148-171-7878;
fax: 44-148-171-7941

Founded: 1997.

Parent: HSBC Holdings P.L.C.

Direct services: captive feasibility studies; captive formation; accounting; computerized accounting; claims processing; claims reserves analysis; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.

Staff: 4 total, 3 professionals.

Clients: 5 total captives: 5 active captives, 5 directly managed.

Officers: Gabrielle Allen, director/manager; Stewart McLaughlin, financial controller; Shaun Brook, account executive.

Contact: Gabrielle Allen.

Hawaii Captive Insurance Management Inc./USA Risk Group

1164 Bishop St., Suite 1411,
Honolulu, Hawaii 96813;
888-872-5084; fax: 808-538-7780
www.usarisk.com

Founded: 1988.

Direct services: captive formation; accounting; reinsurance brokered for captives; reinsur-

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Captive report

Continued from previous page

ance brokered to captives; association captive management

Staff: 3 total, 2 professionals.

Clients: 8 total captives: 8 active captives, 8 directly managed. Captive premium volume, \$16,800,000. Capital and surplus managed, \$11,112,000. No minimum size client.

Compensation: annual fee, commissions; hourly: professional, \$100 to \$250; clerical, \$50 to \$80.

1999 gross revenue: 100% from fees charged for captive management.

Officers: Sherman S. Hee, president; Gary R. Osborne, vp; B. Troy Winch, vp/treasurer.

Contact: B. Troy Winch.

I

IAS (Barbados) Ltd.

Mars House, 13 Pine Road, Belleville, St. Michael, Barbados; 246-436-8296; fax: 246-426-0433

Founded: 1987.

Parent: Mutual Risk Management Ltd.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; managing underwriting facilities; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; tax advice; association captive management.

Staff: 3 total, 1 professional.

Clients: 7 total captives: 5 active captives, 2 inactive captives, 7 subcontracted. Captive premium vol-

ume, \$160,000,000. No minimum size client.

Compensation: annual fee, \$10,000 minimum; commissions; hourly.

1999 gross revenue: 100% from fees charged for captive management.

Officers: David Ezekiel, president/managing director; Terence Power, William Tomlin, vps.

Subcontracts for some captive management services with International Insurance Managers (Barbados) Inc.

ING Risk Management (Bermuda) Ltd.*

Continental Building, Church St., P.O. Box HM 1978, Hamilton HM HX, Bermuda; 441-295-8270; fax: 441-292-8611

Founded: 1978.

Parent: International Nederlanden Group.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; underwriting and ratemaking for captives.

Subcontracted services: actuarial studies; tax advice; investment management; legal advice.

Staff: 6 total, 6 professionals.

Clients: 12 total captives: 9 active captives, 3 inactive captives, 12 directly managed.

Compensation: annual fee.

Officers: Nicholas E.J. Wheeler, president; Angus G. Hyslop, vp; Ronika Khana, account manager.

Contact: Nicholas E.J. Wheeler; Angus G. Hyslop.

**Formerly SLR Management (Bermuda) Ltd.*

IRMG/American Risk Management Corp.

5 Burlington Square, Fourth Floor, Burlington, Vt. 05401; 802-862-4400; fax: 802-862-7797

www.irmg.com

Founded: 1958.

Parent: International Risk Management Group Ltd.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; claims processing; claims reserves analysis; loss control services; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.

Subcontracted services: computerized accounting; online access to claims data.

Staff: 14 total, 12 professionals.

Clients: 51 total captives: 51 active captives, 51 directly managed. Captive premium volume, \$663,000,000. Capital and surplus managed, \$402,000,000. No minimum size client.

Compensation: annual fee, hourly.

1999 gross revenue: 100% from fees charged for captive management.

Officers: Peter A. Joy, president; Nancy L. Gray, Gary O'Hare, vps.

**Manages 44 captives in Vermont with a premium volume of \$589,057,802. Also operates captives in Delaware, Maine and Tennessee.*

IRMG Barbados

Thomas Daniel Building, Hincks St., Second Floor, P.O. Box 1264, Bridgetown, Barbados; 246-436-7541; fax: 246-436-8814

Founded: 1986.

Parent: International Risk Management Group Ltd.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss control services; managing underwriting facilities; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; association captive management; rent-a-captive management.

Subcontracted services: online access to claims data; actuarial studies; tax advice; legal advice.

Staff: 2 total, 1 professional.

Clients: 7 total captives: 7 active captives, 7 directly managed. No minimum size client.

Compensation: hourly.

1999 gross revenue: 95% from fees charged for captive management, 5% from other services.

Officers: Richard E. Ince, director/general manager; Anthony J. Sterling, director.

Independent Management Group Ltd.

P.O. Box HM 2070, 20 Reid St., Hamilton HM HX, Bermuda; 441-295-1646; fax: 441-292-8062

Founded: 1984.

Parent: International Risk Management Group Ltd.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; reinsurance brokered for captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.

Subcontracted services: loss control services; actuarial studies; loss forecasting; investment management; tax advice; legal advice.

Staff: 5 total, 4 professionals.

Clients: 21 total captives: 19 active captives, 2 inactive captives, 21 directly managed. Captive premium volume, \$64,319,673. Capital and surplus managed, \$226,000,000. No minimum size client.

Compensation: annual fee, commissions; hourly: professional, \$172.

Officers: Peter J.N. Strong, president; Cyril Whitter, executive vp.

Contact: Peter J.N. Strong, Cyril Whitter.

International Advisory Services Ltd.

Chevron House, 11 Church St., P.O. Box HM 1760, Hamilton HM HX, Bermuda; 441-295-3688; fax: 441-295-2584

Founded: 1981.

Parent: Mutual Risk Management Ltd.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss control services; managing underwriting facilities; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; tax advice; association captive management; rent-a-captive management.

Staff: 58 total, 26 professionals.

Clients: 109 total captives: 104 active captives,

5 inactive captives, 109 directly managed, 1 currently in formation. Captive premium volume, \$1,250,000,000. No minimum size client.

Compensation: annual fee, \$15,000 minimum; commissions; hourly.

1999 gross revenue: 95% from fees charged for captive management, 5% from other services.

Officers: David Ezekiel, president/managing director; Terence Power, David Pickering, executive officers.

International Insurance Management Ltd.

13C Pine Road, St. Michael, Barbados; 246-436-8296; fax: 246-426-0433

www.iiim-bds.com

Founded: 1986.

Direct services: captive formation; government reporting; accounting; computerized accounting; investment management.

Staff: 4 total, 3 professionals.

Clients: 24 total captives: 18 active captives, 6 inactive captives, 24 directly managed, 1 currently in formation. No minimum size client.

Compensation: annual fee, \$6,000 minimum; hourly: professional, \$75; clerical, \$35.

Officers: William Tomlin, director; Christine O'Connor, manager; Tony Greenidge, account executive.

Contact: Christine O'Connor; tinaocon@iiim-bds.com, iim@caribnet.net.

International Risk Management (Australia) Pty. Ltd./ International Risk Management (New Zealand) Ltd.

Level 5/ 347 Flinders Lane, Melbourne, Victoria 3000, Australia; 61-3-629-7655; fax: 613-629-6922

www.irmg.com

Founded: 1994.

Parent: International Risk Management Group Ltd.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; claims processing; online access to claims data; claims reserves analysis; loss forecasting; underwriting and ratemaking for captives; association captive management.

Subcontracted services: computerized accounting; loss control services; reinsurance brokered for captives; reinsurance brokered to captives; investment management; tax advice; legal advice.

Staff: 12 total, 10 professionals.

Clients: 7 total captives: 7 active captives, 7 directly managed, 2 currently in formation. Captive premium volume, \$60,000,000. Capital and surplus managed, \$75,000,000.

Compensation: hourly.

1999 gross revenue: 50% from fees charged for captive management, 50% from other services.

Officers: Tony Cope, managing director-Australia; Jason Disborough, general manager-Southern region; Nick Way, general manager-Northern region; Jim Routledge, general manager-Eastern region.

International Risk Management (Bermuda) Ltd.

Belvedere Building, P.O. Box HM 660, Hamilton HM CX, Bermuda; 441-295-0713; fax: 441-295-1712

www.irmg.com

Founded: 1963.

Parent: International Risk Management Group Ltd.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; managing underwriting facilities; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives.

Staff: 33 total, 16 professionals.

Clients: 71 total captives: 69 active captives, 2 inactive captives, 71 directly managed. Captive premium volume, \$1,000,000,000. Capital and surplus managed, \$1,500,000,000. No minimum size client.

Compensation: annual fee, \$15,000 minimum; hourly.

Officers: Paul Bailie, president; Brian Durrant, vp.

Contact: Brian Durrant.

International Risk Management (Cayman) Ltd.

Buckingham Square, George Town, Grand Cayman, Cayman Islands, B.W.I.; 345-949-0155; fax: 345-949-0002

Founded: 1975.

Parent: International Risk Management Group Ltd.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; managing underwriting facilities; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.

Subcontracted services: loss control services

Staff: 22 total, 9 professionals.

Clients: 29 total captives: 26 active captives, 3 inactive captives, 29 directly managed, 2 currently in formation. Captive premium volume, \$203,000,000. Capital and surplus managed, \$195,889,444. No minimum size client.

Compensation: annual fee, hourly.

Officers: Anthony Stelling, president; Michael Donnelly, Lawrence J. Walters, Kieran O'Mahony, vps.

International Risk Management (Dublin) Ltd.

Block 3, Harcourt Centre, Harcourt Road, Dublin 2, Ireland; 353-1-7902600; fax: 353-1-4750271

www.irmg.com

Founded: 1990.

Parent: International Risk Management Group Ltd.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives.

Staff: 6 total, 4 professionals.

Clients: 12 total captives: 12 active captives, 12 directly managed. Captive premium volume, \$74,085,341. Capital and surplus managed, \$56,104,313. No minimum size client.

Compensation: annual fee, hourly.

Officers: Garry Cullen, managing director; Ann O'Keefe, director.

International Risk Management (Guernsey) Ltd.

IRM House, Le Bordage, St. Peter Port, Guernsey GY1 1BR, Channel Islands; 44-1481-735500; fax: 44-1481-735555

www.irmg.com

Founded: 1988.

Parent: International Risk Management Group Ltd.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; managing underwriting facilities; loss forecasting; underwriting and ratemaking for captives; rent-a-captive management.

Staff: 25 total, 7 professionals.

Clients: 41 total captives: 40 active captives, 1 inactive captive, 41 directly managed, 2 currently in formation. Captive premium volume, \$298,000,000. Capital and surplus managed, \$611,000,000.

Compensation: annual fee, hourly.

1999 gross revenue: 71% from fees charged for captive management, 28% from commissions charged for brokering insurance and/or reinsurance, 1% from other services.

Officers: John Stuart, managing director; Ian McCathie, operations director; Don Lawson, director.

Contact: John Stuart; Ian McCathie; Paul Wakefield, manager-client development.

International Risk Management (Isle of Man) Ltd.

Peveril Buildings, Fourth Floor, Suite 3, Douglas IM1 2BS, Isle of Man; 44-162-462-9198; fax: 44-162-462-9199

www.irmg.com

Founded: 1985.

Parent: International Risk Management Group Ltd.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; claims processing; claims reserves analysis; reinsurance brokered for captives; underwriting and ratemaking for captives.

Subcontracted services: computerized accounting.

Staff: 6 total, 3 professionals.

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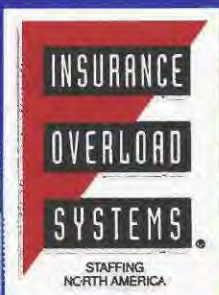
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Monday, October 16, 2000

- ▶ GOLF TOURNAMENT: MALIBU COUNTRY CLUB
- ▶ EARLY REGISTRATION
- ▶ EMPLOYER'S PRIVATE ROUNDTABLE: EXPERIENCES, VIEWS AND IDEAS
- ▶ PRE-CONFERENCE WELCOME RECEPTION

Tuesday, October 17, 2000

- ▶ REGISTRATION AND CONTINENTAL BREAKFAST

KEYNOTE PRESENTATION:

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- ▶ LUNCHEON*
- ▶ MANAGING LIABILITIES DUE TO CHANGING EMPLOYMENT RELATIONSHIPS
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- ▶ TABLETOP EXHIBITS & REFRESHMENTS
- ▶ ADDRESSING PRIVACY ISSUES AND LEGAL EXPOSURES FACING EMPLOYERS
- ▶ FIGHTING FRAUD IN AN INCREASINGLY CHALLENGING ENVIRONMENT
- ▶ COCKTAIL RECEPTION*

Wednesday, October 18, 2000

- ▶ CONTINENTAL BREAKFAST*
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Captive report

Continued from previous page

managing underwriting facilities; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives.

Subcontracted services: investment management; tax advice; legal advice.

Staff: 26 total, 9 professionals.

Clients: 61 total captives: 57 active captives, 4 inactive captives, 61 directly managed. Captive premium volume, \$381,000,000. Capital and surplus managed, \$913,000,000. No minimum size client.

Compensation: annual fee, hourly.

Officers: John Copeland, general manager; Granville De Cruz, Merise Wheatley, directors.

Contact: John Copeland; john_copeland@jh.com.

Marsh Management Services (Isle of Man) Ltd.

Atlantic House,
4-8 Circular Road, P.O. Box 305,
Douglas, IM99 2BB, Isle of Man;
44-162-462-5313;
fax: 44-162-462-4523

Parent: Marsh & McLennan Cos. Inc.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives.

Subcontracted services: actuarial studies.

Staff: 21 total.

Clients: 41 total captives. Captive premium volume, \$430,181,388. Capital and surplus managed, \$1,919,981,933.

Compensation: annual fee, hourly.

Officers: Graham King, head of operations; Stephen Winrow, deputy head of operations; Philip McDonald, senior insurance officer.

Marsh Management Services (Luxembourg) S.A.

65 Avenue de la Gare,
L16M Luxembourg;
352-496951; fax: 352-496936

Founded: 1987.

Parent: Marsh & McLennan Cos. Inc.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; claims processing; computerized accounting; claims reserves analysis.

Subcontracted services: online access to claims data; loss control services; managing underwriting facilities; 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; rent-a-captive management.

Staff: 16 total, 14 professionals.

Clients: 39 total captives: 36 active captives, 3 inactive captives, 39 directly managed, 4 currently in formation. Captive premium volume, \$229,000,000. Capital and surplus managed, \$111,000,000. No minimum size client.

Compensation: annual fee.

1999 gross revenue: 97.2% from fees charged for captive management, 2.8% from other services.

Officers: Claude Weber, senior vp; Stephane Menant, vp; Danilo Giuliani, senior account manager.

Contact: Claude Weber; claude.weber@marshmc.com.

Marsh Management Services (Singapore) Pte. Ltd.

51 Bras Basah Road,
08-03 Plaza by the Park,
189554 Singapore;
65-336-8383; fax: 65-336-2409

Parent: Marsh & McLennan Cos. Inc.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss control services; loss forecasting; underwriting and ratemaking for captives.

Subcontracted services: online access to claims data; managing underwriting facilities; actuarial studies; reinsurance brokered for captives; reinsurance brokered to captives; investment management; tax advice; legal advice; association captive management; rent-a-captive management.

Staff: 17 total, 14 professionals.

Clients: 29 total captives: 27 active captives, 2 inactive captives, 29 directly managed, 1 currently in formation. Captive premium volume, \$65,000,000. Capital and surplus managed, \$250,000,000. No minimum size client.

Compensation: annual fee, hourly.

Officers: George McGhie, senior vp; Bernard Sze, vp.

Contact: George McGhie; george.mcghie@marshmc.com.

Meadowbrook Risk Management Ltd.

I.C.B. Building, Roebuck St.,
Bridgetown, Barbados;
246-426-4684; fax: 246-426-4878
www.meadowbrook.com

Founded: 1992.

Parent: Meadowbrook Insurance Group Inc.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; association captive management.

Subcontracted services: tax advice; legal ad-

vice; investment management.

Staff: 3 total, 1 professional.

Clients: 13 total captives: 8 active captives, 5 inactive captives. 13 directly managed. No minimum size client.

Compensation: annual fee, \$25,000 minimum; hourly.

1999 gross revenue: 100% from fees charged for captive management.

Officers: Robert S. Cubbin, president; Diana Gooding, managing director; William J. Lohmeyer, CFO.

Contact: Diana Gooding.

Meadowbrook Risk Management Ltd.

P.O. Box HM 2340,
Hamilton HM JX, Bermuda;
441-292-7569; fax: 441-292-3299

Founded: 1979.

Parent: Meadowbrook Insurance Group Inc.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims pro-

cessing; claims reserves analysis; loss control services; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; association captive management; rent-a-captive management.

Staff: 4 total, 2 professionals.

Clients: 14 total captives: 11 active captives, 3 inactive captives, 14 directly managed. Captive premium volume, \$43,000,000. No minimum size client.

Compensation: annual fee, \$15,000 minimum.

1999 gross revenue: 100% from fees charged for captive management.

Officers: Merton J. Segal, president; Brian Stephenson, vp/managing director; Jim Kelly, vp.

Micoa Management Ltd.

Windsor Place, 18 Queen St.,
Third Floor, P.O. Box HM 2207,
Hamilton, Bermuda;
441-295-8495; fax: 441-292-1196

Founded: 1999.

Parent: Mutual Insurance Corp. of America.

Direct services: loss control services; actuarial studies; loss forecasting; captive feasibility studies.

Subcontracted services: computerized accounting; claims processing; claims reserves analysis; managing underwriting facilities; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; association captive management; rent-a-captive management; captive formation; government reporting; accounting.

Clients: 1 total captive: 1 active captive, 1 subcontracted. No minimum size client.

Compensation: annual fee, hourly.

1999 gross revenue: 100% from fees charged for captive management.

Contact: Andrew McComb, president; andym@powerscourt.bm.

Subcontracts for some captive management services with Powerscourt Management Ltd.

Continued on next page

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Captive report

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MIMS International (Barbados) Ltd.

Chelston Park, Building 2,
Collymore Rock,
St. Michael, Barbados;
246-426-6467; fax: 246-429-8517
www.sunbeach.net/mims

Founded: 1986.

Direct services: captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; reinsurance brokered for captives; underwriting and ratemaking for captives.

Staff: 5 total, 3 professionals.
Clients: 20 total captives: 20 active captives, 20 directly managed, 3 currently in formation. Captive premium volume, \$469,000,000. Capital and surplus managed, \$344,000,000. No minimum size client.

Contact: Martin R. Hole, president.

Directory listings are explained on page 62.

Monkton Insurance Services Ltd.

Grand Pavilion Commercial Centre,
P.O. Box MP 11383,
Grand Cayman,
Cayman Islands, B.W.I.;
345-945-9181; fax: 345-945-6985
www.monkton.com

Founded: 1997.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; loss forecasting; reinsurance brokered for captives; association captive management; rent-a-captive management.

Staff: 2 total, 1 professional.
Clients: 4 total captives: 4 active captives, 4 directly managed, 2 currently in formation. Captive premium volume, \$11,500,000. Capital and surplus managed, \$6,500,000. No minimum size client.

Compensation: annual fee, hourly.
Officers: David Self, president.
Contact: monkton@candw.ky.

Mutual Risk Captive Group Ltd.

44 Church St., P.O. Box HM 2064,
Hamilton HM HX, Bermuda;
441-295-5688; fax: 441-295-3038
www.mrm.bm

Founded: 1977.

Parent: Mutual Risk Management Ltd.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; managing underwriting facilities; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking for captives; investment management; association captive management; rent-a-captive management.

Staff: 17.5 total, 10 professionals.
Clients: 50 total captives: 39 active captives, 11 inactive captives, 50 directly managed, 1 currently in formation. Captive premium volume, \$230,000,000. Capital and surplus managed, \$360,000,000. No minimum size client.

Compensation: annual fee, hourly; professional, \$135 to \$255; clerical, \$75 to \$100.
1999 gross revenue: \$4,500,000. 100% from fees charged for captive management.

Officers: C. Simon Scupham, non-executive chairman; Robert A. Mulderig, president; Colin M. Alexander, senior vp.

Mutual Risk Management (Barbados) Ltd.

The Business Centre, Upton Road,
St. Michael, Barbados;
246-436-5887; fax: 246-427-5328

Founded: 1986.

Parent: Mutual Risk Management Ltd.
Direct services: captive formation; government reporting; accounting; computerized accounting.

Staff: 1 total, 1 professional.
Clients: 6 total captives: 6 active captives. Captive premium volume, \$54,000,000. Capital and surplus managed, \$86,000,000. No minimum size client.

Compensation: annual fee.

Officers: Robert Mulderig, president.
Contact: Caroline Kemp-Courtis, ccourtis@sunbeach.net.

Mutual Risk Management (Cayman) Ltd.

Genesis Building, Second Floor,
P.O. Box 1363,
Grand Cayman,
Cayman Islands, B.W.I.;
345-949-7966; fax: 345-949-8068
www.accessmrm.com

Founded: 1982.

Parent: Mutual Risk Management Ltd.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; reinsurance brokered for captives; association captive management; rent-a-captive management.

Subcontracted services: claims processing; loss control services; actuarial studies; investment management; tax advice; legal advice.
Staff: 10 total, 6 professionals.

Clients: 50 total captives: 38 active captives, 12 inactive captives, 50 directly managed, 8 currently in formation. Captive premium volume, \$92,000,000.

Compensation: annual fee.
Officers: Peter MacKay, chairman/CEO/director; John Peterson, president/COO; Robert Mulderig, director.
Contact: Peter MacKay, John Peterson.

Mutual Risk Management (Vermont) Ltd.

102 S. Winooski Ave., P.O. Box 730,
Burlington, Vt. 05602-0730;
802-860-1717; fax: 802-864-2533
www.accessmrm.com

Founded: 1994.

Parent: Mutual Risk Management Ltd.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; reinsurance brokered for captives; association captive management; rent-a-captive management.

Subcontracted services: claims processing; loss control services; actuarial studies; investment management; tax advice; legal advice.

Clients: 3 total captives: 3 active captives, 3 subcontracted. Captive premium volume, \$18,500,000.

Compensation: annual fee.
Officers: Robert Mulderig, director; Peter MacKay.
Contact: Peter MacKay; pmackay@candw.ky.
Subcontracts for some captive management services with SB&T Captive Management Co.

Richard Oliver International Pte. Ltd.

78 Shenton Way, Suite 23-01,
079120 Singapore;
65-221-8561; fax: 65-221-8569
www.richardoliver.com

Founded: 1989.

Parent: Willis Group Ltd.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking for captives; investment management.

Subcontracted services: government reporting; accounting; claims processing.
Staff: 7 total, 4 professionals.

Clients: 3 total captives: 2 active captives, 1 inactive captive, 2 directly managed, 1 subcontracted. Captive premium volume, \$4,000,000. Capital and surplus managed, \$22,000,000. Minimum size client, \$1,000,000.

Compensation: annual fee, \$25,000 minimum; hourly.
1999 gross revenue: 42% from fees charged for captive management, 58% from other services.
Officers: A. Pellen, CEO; G. Edwards, director-risk transfer; Ng Hwee Hong, divisional director-risk management services.
Subcontracts for some captive management services with Willis Management (Guernsey) Ltd.

Optimum Risk Research (International) Ltd.

Continental House 28 Cornet St.,
P.O. Box 627
St. Peter Port, Guernsey GY1 4PP,
Channel Islands;
44-148-172-4212; fax: 44-148-172-0400
www.optimumriskresearch.com

Founded: 1989.

Direct services: captive feasibility studies; captive formation; accounting; computerized accounting; claims processing; claims reserves analysis; loss forecasting; reinsurance brokered for captives; legal advice; rent-a-captive management.

Staff: 3 total, 3 professionals.
Clients: 1 total captive: 1 active captive, 1 directly managed, 1 currently in formation.

Compensation: annual fee, commissions; hourly.
Officers: Jean-Francois Gelot, Francoise Gelot, managing directors; Rosemary Le Messurier, manager/company secretary.

P

PXRE Managing Agency Ltd.

40 Lime St.
London, EC3M 7AW, England;
44-207-663-0800;
fax: 44-207-663-0811
www.pxregroup.com

Founded: 1996.

Parent: PXRE Group Ltd.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; managing underwriting facilities; underwriting and ratemaking for captives.

Subcontracted services: reinsurance brokered for captives; reinsurance brokered to captives; investment management.

Staff: 10 total, 8 professionals.
Clients: 1 total captive: 1 active captive, 1 directly managed. Captive premium volume, \$40,000,000. Minimum size client, \$5,000,000.

Compensation: annual fee, hourly.
Officers: Paul Archard, managing director; Alastair Rodger, business development manager; Mike Walton, services director; Mitch Dowden, operations manager.
Contact: Alastair Rodger, alastair_rodger@pxre.com.

Powerscourt Management Ltd.

Windsor Place, 18 Queen St.,
Hamilton HM 11, Bermuda;
441-295-8495; fax: 441-292-1196
www.powerscourt.bm

Founded: 1984.

Parent: The Powerscourt Group Ltd.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; managing underwriting facilities; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; association captive management; rent-a-captive management; investment management.

Subcontracted services: claims processing; underwriting and ratemaking for captives.

Staff: 12 total, 8 professionals.
Clients: 32 total captives: 28 active captives, 4 inactive captives, 32 directly managed, 2 currently in formation. Captive premium volume, \$112,915,000. Capital and surplus managed, \$133,585,000. No minimum size client.

Compensation: annual fee, hourly.
1999 gross revenue: 95% from fees charged for captive management, 5% from other services.

Officers: Andrew McComb, president/CEO; Steven Western, senior vp/COO.
Contact: Andrew McComb, andym@pcwercourt.bm; Steven Western, stevew@pcwercourt.bm.

R

RiskCap

1655 Lafayette St., Suite 200,
Denver, Colo. 80218;
303-388-5688; fax: 303-388-5585
www.riskcap.com

Founded: 1976.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; managing underwriting facilities; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.

Compensation: annual fee, hourly; professional, \$175 to \$200; clerical, \$35.
1999 gross revenue: 60% from fees charged

for captive management, 40% from other services.

Officers: Michael Murphy, principal consultant; Sherlyn Farrell, senior consultant; Richard Poling, consultant.

Contact: Michael Murphy; mmurphy@riskcap.com.

Risk Services (Bermuda) Ltd.

Armoury Building, 37 Reid St.,
Second Floor,
Hamilton HM BX, Bermuda;
441-295-8441; fax: 441-292-1210

Founded: 1997.

Direct services: captive formation; government reporting; accounting; computerized accounting; reinsurance brokered for captives; legal advice; association captive management; rent-a-captive management.

Subcontracted services: captive feasibility studies; actuarial studies; investment management; tax advice.

Staff: 3 total, 2 professionals.
Clients: 5 total captives: 5 active captives, 5 directly managed, 2 currently in formation. No minimum size client.

Compensation: annual fee, commissions.
1999 gross revenue: 90% from fees charged for captive management, 10% from commissions charged for brokering insurance and/or reinsurance.

Officers: G. Wayne Harris, chairman; Michael T. Rogers, president; Jon Harkavy, vp.
Contact: Michael T. Rogers, 802-223-2200.

Risk Services (Hawaii) Ltd.

900 Fort Street Mall, Suite 500,
Honolulu, Hawaii 96813;
808-540-3314; fax: 808-540-3334

Founded: 1998.

Direct services: captive formation; government reporting; accounting; computerized accounting; reinsurance brokered for captives; reinsurance brokered to captives; legal advice; association captive management.

Subcontracted services: captive feasibility studies; actuarial studies; investment management; tax advice.

Staff: 3 total, 2 professionals.
Clients: 1 total captive: 1 active captive, 1 directly managed, 1 currently in formation. Captive premium volume, \$1,932,303. Capital and surplus managed, \$1,898,096. No minimum size client.

Compensation: annual fee, commissions.
1999 gross revenue: 90% from fees charged for captive management, 10% from commissions charged for brokering insurance and/or reinsurance.

Officers: G. Wayne Harris, chairman; Michael T. Rogers, president; Joseph Hu, vp.
Contact: Michael T. Rogers, 802-223-2200.

Risk Services-Nevada Inc.

2200 S. Rancho Ave., Suite 220,
Las Vegas, Nev. 89102;
702-678-6868; fax: 702-678-6677

Founded: 1998.

Direct services: captive formation; government reporting; accounting; computerized accounting; reinsurance brokered for captives; reinsurance brokered to captives; legal advice.

Subcontracted services: captive feasibility studies; actuarial studies; investment management; tax advice.

Staff: 12 total, 4 professionals.
Clients: 1 total captive: 1 active captive, 1 directly managed, 1 currently in formation.

Compensation: annual fee, commissions.
1999 gross revenue: 90% from fees charged for captive management, 10% from commissions charged for brokering insurance and/or reinsurance.

Officers: G. Wayne Harris, chairman; Michael T. Rogers, president; Jon Harkavy, vp.
Contact: Michael T. Rogers, 802-223-2200.

S

SB&T Captive Management Co.

102 S. Winooski Ave., P.O. Box 730,
Burlington, Vt. 05402-0730;
802-863-5774; fax: 802-658-6191
www.sbtinsurance.com

Founded: 1982.

Parent: Smith, Bell & Thompson Inc.
Direct services: captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; reinsurance brokered for captives; underwriting and ratemaking for captives; tax advice; association captive management; loss control services.

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Captive report

Continued from previous page

Staff: 8 total, 7 professionals.
Clients: 15 total captives: 15 active captives, 15 directly managed. Captive premium volume, \$122,662,560. Capital and surplus managed, \$248,315,827.

Compensation: annual fee, hourly.
Officers: Roger D. Teese, president/CEO; Bradley D. Matulonis, vp/CFO; William D. Thompson, senior vp.

Sartor Resources Ltd.

St. Georges House, St. Georges Place, St. Peter Port, Guernsey GY1 2BH, Channel Islands;
44-148-171-4792; fax: 44-148-171-5071
www.sartor-guernsey.com

Founded: 1989.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; managing underwriting facilities; reinsurance brokered for captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.
Subcontracted services: claims processing; loss control services.

Staff: 5 total, 3 professionals.
Clients: 5 total captives: 4 active captives, 1 inactive captive, 5 directly managed, 2 currently in formation. No minimum size client.

Compensation: annual fee, commissions; hourly.
Officers: Roger Taylor, managing director; George Freeman.
Contact: Roger Taylor; roger@sartor-guernsey.com.

SINSER A.B.

Grev Turegatan 9, 2tr Stockholm, SE-114 46, Sweden;
46-8-614-17-00; fax: 46-8-678-18-00
www.sinser.com

Founded: 1983.
Parent: SINSER Holding A.B.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; actuarial studies; loss forecasting; association captive management.

Staff: 11 total, 9 professionals.
Clients: 18 total captives: 18 active captives, 18 directly managed. No minimum size client.
Compensation: annual fee, hourly.
Contact: Hanse Ringstrom; hanse.ringstrom@sinser.se.

SINSER (Asia) Pte. Ltd.

Suntec City Tower, Vesta Forsikring A/S, 8 Temasek Blvd., 038988 Singapore;
65-333-8511; fax: 65-333-8711
www.sinser.com

Founded: 1989.
Parent: SINSER Holding A.B.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; underwriting and ratemaking for captives; investment management.

Clients: 1 total captive: 1 active captive, 1 directly managed. No minimum size client.
Compensation: annual fee.
Officers: Gert Rosenberg; Tommy Rydberg.
Contact: SINSER Holding A.B.; phone: 46-8-614-17-00; fax: 46-8-678-18-00; Grev Turegatan 9 2tr, Stockholm SE-114 46, Sweden.

SINSER (Denmark)

Stamholmen 161, DK-2650, Hvidovre, Denmark;
45-3687-4693; fax: 45-3687-4694
www.sinser.com

Founded: 1992.
Parent: SINSER Holding A.B.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; actuarial studies; loss forecasting; investment management; tax advice; rent-a-captive management.

Staff: 3 total, 3 professionals.
Clients: 4 total captives: 4 active captives, 4 directly managed. Captive premium volume, \$57,000,000. Capital and surplus managed, \$13,000,000. No minimum size client.
Compensation: annual fee, commissions; hourly.
1999 gross revenue: \$320,000. 65% from fees charged for captive management, 35% from other services.

Contact: Nikolas Boysen, branch manager; nikolas.boysen@sinser.dk.

SINSER (Europe) S.A.

11 Rue Beaumont, LU-1219, Luxembourg;
352-223-422-310; fax: 352-470251
www.sinser.com

Founded: 1983.
Parent: SINSER Holding A.B.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; reinsurance brokered for captives; reinsurance and ratemaking for captives; tax advice; legal advice; association captive management; rent-a-captive management.

Subcontracted services: actuarial studies; investment management.
Staff: 7.5 total, 6 professionals.
Clients: 17 total captives: 16 active captives, 1 inactive captive, 17 directly managed.
Officers: Charles Besnehard, managing director; Maite Lambillon, manager.

SINSER (Guernsey) Ltd.

Dixcart House, Sir William Place, Third Floor, P.O. Box 14, St. Peter Port, Guernsey GY1 3AQ, Channel Islands;
44-1481-710-502; fax: 44-1481-710-524
www.sinser.com

Founded: 1992.
Parent: SINSER Holding A.B.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; underwriting and ratemaking for captives.

Subcontracted services: reinsurance brokered for captives; reinsurance brokered to captives; tax advice; legal advice.

Staff: 8 total, 8 professionals.
Clients: 23 total captives: 20 active captives, 3 inactive captives, 23 directly managed. No minimum size client.
Compensation: annual fee, hourly.
Officers: Callum Beaton, managing director; Steve Denning, financial controller.

Contact: Callum Beaton; SINSER Holding A.B.; phone: 46-8-614-17-00; fax: 46-8-678-18-00. Grev Turegatan 9 2tr, Stockholm SE-114 46, Sweden.

SINSER (Ireland) Ltd.

12/13 Exchange Place, Third Floor, IFSC, Dublin 1, Ireland;
353-1-612-6500; fax: 353-1-612-6599
www.sinser.com

Founded: 1989.
Parent: SINSER Holding A.B.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; tax advice; legal advice; association captive management.

Staff: 9 professionals.
Clients: 16 total captives: 16 active captives, 16 directly managed. No minimum size client.
Compensation: annual fee, \$32,000 minimum.
1999 gross revenue: \$890,000. 100% from fees

charged for captive management.
Officers: Michael Walsh, general manager; Aidan Pyke, business development.
Contact: Michael Walsh; michael.walsh@sinser.ie.

SINSER (Isle of Man) Ltd.

Highbury House, 3 Parliament Square, Castletown IM9 1LA, Isle of Man;
44-162-482-5399;
fax: 44-162-482-5309
www.sinser.com

Founded: 1995.
Parent: SINSER Holding A.B.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; actuarial studies; loss forecasting; investment management; tax advice; legal advice.
Clients: 2 total captives: 2 active captives. No minimum size client.
Compensation: annual fee, hourly.

Continued on next page



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The Spotlight Report on captive insurers begins on page 3.

Captive report

Continued from previous page

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; managing underwriting facilities; loss forecasting.

Staff: 3 total, 2 professionals.
Clients: 2 total captives; 2 active captives, 2 directly managed. Captive premium volume, \$4,300,000. Capital and surplus managed, \$6,000,000. No minimum size client.

Compensation: annual fee, hourly.
1999 gross revenue: \$125,000. 80% from fees charged for captive management, 20% from other services.

Officers: Christi Guardiola, president; Rod L. Millar, CFO.

Contact: Rod L. Millar.

TRISTAR Risk Management

6133 Bristol Parkway, Suite 300,
Culver City, Calif. 90230;
310-342-0500; fax: 310-342-0503
www.tristarisk.com

Founded: 1987.

Parent: Sierra Land Inc.

Direct services: captive feasibility studies; captive formation; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; managing underwriting facilities; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; association captive management; rent-a-captive management.

Staff: 15 total, 11 professionals.

Clients: 5 total captives; 3 active captives, 2 inactive captives, 5 directly managed. Captive premium volume, \$125,000,000. Capital and surplus managed, \$75,000,000. Minimum size client, \$1,000,000.

Compensation: annual fee, commissions; hourly; professional, \$65 to \$200; clerical, \$25 to \$50.

1999 gross revenue: \$10,000,000. 10% from fees charged for captive management, 35% from commissions charged for brokering insurance and/or reinsurance, 55% from other services.

Officers: Tom Veal, president; Kevin Burke, Russ O'Donnell, Denise Cotter, vps.

U

Uni-Ter International Management Ltd.

Windsor Place 18 Queen St.,
Hamilton HM 11, Bermuda;
441-295-8495; fax: 441-292-1196

Founded: 1997.

Parent: U.S. Re Holdings Ltd.

Direct services: captive feasibility studies; reinsurance brokered for captives; reinsurance brokered to captives.

Subcontracted services: captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; actuarial studies; loss forecasting; underwriting and ratemaking for captives; investment management; tax advice; legal advice; rent-a-captive management.

Clients: 1 total captive; 1 active captive, 1 subcontracted.

Compensation: annual fee, commissions; hourly.

Officers: Tal Piccione, chairman; Joseph Fedor, deputy chairman; Bala Nadarajah, secretary.

Subcontracts for some captive management services with Powerscourt Management Ltd.

USA Offshore Management Ltd.

The Phoenix Building, 2 Reid St.,
P.O. Box HM 1838
Hamilton HM HX, Bermuda;
441-295-3952; fax: 441-295-3982

Founded: 1997.

Direct services: captive formation.

Subcontracted services: accounting.

Clients: 3 total captives; 3 active captives, 3 directly managed. Captive premium volume, \$8,977,878. Capital and surplus managed, \$20,618,033. No minimum size client.

Compensation: annual fee.

1999 gross revenue: 100% from fees charged for captive management.

Officers: H. Lincoln Miller Jr., president; Gary Osborne, vp; Andrew Sargeant, treasurer.

Contact: Gary Osborne, gosborne@usarisk.com.

Subcontracts for some captive management services with Triangle Insurance Management Bermuda.

V

Vermont Insurance Management Inc./USA Risk Group

P.O. Box 306
Montpelier, Vt. 05601;
800-872-7475; fax: 802-229-6280
www.usarisk.com

Founded: 1980.

Direct services: captive formation; accounting; reinsurance brokered for captives; reinsurance brokered to captives; association captive management.

Staff: 13 total, 5 professionals.

Clients: 30 total captives; 30 active captives, 30 directly managed. Captive premium volume, \$189,905,625. Capital and surplus managed, \$436,805,665. No minimum size client.

Compensation: annual fee, commissions.

1999 gross revenue: 90% from fees charged for captive management, 10% from commissions charged for brokering insurance and/or reinsurance.

Officers: H. Lincoln Miller Jr., chairman; Andrew Sargeant, president.

Includes one captive domiciled in Tennessee and 29 in Vermont. The premium volume is \$22,530,987 in Tennessee and \$167,374,728 in Vermont.

Vermont Risk Services Inc.

P.O. Box 2100,
Montpelier, Vt. 05601;
802-223-2200; fax: 802-223-3911

Founded: 1997.

Direct services: captive formation; government reporting; accounting; computerized accounting; reinsurance brokered for captives; reinsurance brokered to captives; legal advice; association captive management.

Subcontracted services: captive feasibility studies; actuarial studies; investment management; tax advice.

Staff: 5 total, 4 professionals.

Clients: No minimum size client.

Compensation: annual fee, commissions.

1999 gross revenue: 90% from fees charged for captive management, 10% from commis-

sions charged for brokering insurance and/or reinsurance.

Officers: Daniel E. George, president/principal; Charles Halstead-Johnson, treasurer/principal; Pamela R. Roy, secretary/principal.

W

Welbeck Management Ltd.

504 International Centre,
Bermudiana Road, P.O. Box HM 2446,
Hamilton HM JX, Bermuda;
441-295-2240; fax: 441-295-2269

Founded: 1988.

Direct services: captive formation; government reporting; accounting; computerized accounting; claims processing; investment management.

Staff: 1 total, 1 professional.

Clients: 6 total captives; 1 active captive, 5 inactive captives, 6 directly managed. Capital and surplus managed, \$58,980,000. No minimum

size client.

Compensation: annual fee, hourly; professional, \$100 to \$150; clerical, \$25 to \$50.

1999 gross revenue: \$203,000. 100% from fees charged for captive management.

Contact: Jonathan C. Richmond, president/CEO; welbeck@northrock.bm.

Willis Management (Bermuda) Ltd.

F.B. Perry Building, 40 Church St.,
P.O. Box HM 1995
Hamilton HM HX, Bermuda;
441-295-1272; fax: 441-295-4143
www.willis.com

Founded: 1962.

Parent: Willis Group Ltd.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; associa-

Continued on next page

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Continued from previous page

tion captive management; rent-a-captive management.

Staff: 6 total, 4 professionals.

Clients: 27 total captives: 25 active captives, 2 inactive captives, 27 directly managed, 2 currently in formation. Captive premium volume \$125,000,000. Capital and surplus managed \$850,000,000. No minimum size client.

Compensation: annual fee.

Officers: Guy Ragosta, president; J. Oliver Heyliger, managing director; Paul M. Perreca, controller.

Willis Management (Cayman) Ltd.

Global House, N. Church St.,
 P.O. Box 30600 SMB
 George Town, Grand Cayman,
 Cayman Islands, B.W.I.;
 345-949-6039; fax: 345-949-6621
www.willis.com

Founded: 1993.

Parent: Willis Group Ltd.

Direct 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.

Staff: 5 total, 4 professionals.

Clients: 33 total captives: 30 active captives, 3 inactive captives, 33 directly managed, 3 currently in formation. Captive premium volume, \$375,030,000. Capital and surplus managed, \$180,000,000. No minimum size client.

Compensation: annual fee, \$20,000 minimum.

1999 gross revenue: 100% from fees charged for captive management.

Officers: Guy Ragosta, president; Stephen Gray, vp.

Contact: Stephen Gray; gray_st@willis.com.

Willis Management (Dublin) Ltd.

80 Harcourt St.
 Dublin 2, Ireland;
 353-1-4070500; fax: 353-1-4070501

Founded: 1989.

Parent: Willis Group Ltd.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; loss forecasting; underwriting and ratemaking for captives.

Subcontracted services: claims processing; loss control services; actuarial studies; reinsurance brokered for captives; reinsurance brokered to captives; investment management; tax advice; legal advice.

Staff: 10 total, 9 professionals.

Clients: 12 total captives: 12 active captives, 12 directly managed, 1 currently in formation. No minimum size client.

Compensation: annual fee, \$25,000 minimum.

Officers: Tim Byrne, managing director; Stephen Casey, director.

Contact: Tim Byrne.

Willis Management (Guernsey) Ltd.

The Albany, South Esplanade,
 P.O. Box 384
 St. Peter Port, Guernsey,
 Channel Islands;
 44-1481-720049; fax: 44-1481-710455

Founded: 1980.

Parent: Willis Group Ltd.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; managing underwriting facilities; loss forecasting; underwriting and ratemaking for captives; association captive management; rent-a-captive management.

Staff: 24 total, 20 professionals.

Clients: 40 total captives: Captive premium volume, \$500,000,000. Capital and surplus managed, \$300,000,000. No minimum size client.

Officers: M.J. Cutts-Watson, managing director; R.W. Falla, D. Wheatley, G.R. Tansell, directors.

Contact: M.J. Cutts-Watson.

Willis Management (Vermont) Ltd.

112 Lake St.
 Burlington, Vt. 05401;
 802-658-9466; fax: 802-658-5520
www.willis.com

Founded: 1992.

Parent: Willis Group Ltd.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; managing underwriting facilities; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; associa-

tion captive management; rent-a-captive management.

Subcontracted services: investment management; tax advice; legal advice.

Staff: 7 total, 5 professionals.

Compensation: annual fee, hourly.

1999 gross revenue: 100% from fees charged for captive management.

Officers: Guy F. Ragosta, managing director-North American captive management operations; James R. Girardin, vp.

Contact: Guy F. Ragosta; James R. Girardin
Subcontracts for some captive management services with Towner Management, Barbados. Willis Management (Vermont) Ltd. operates captives in Hawaii (3), New York (1), Tennessee (4) and Vermont (2). The premium volumes for these captives are \$4,500,000 for Hawaii, \$46,097,314 for New York, \$5,750,000 for Tennessee and \$176,140,186 for Vermont.

Y

Yankee Captive Management Inc.

140 Kennedy Drive, P.O. Box 2127
 South Burlington, Vt. 05407-2127;
 802-651-3304; fax: 802-658-9419
www.hvm.com/intro_yankee.htm

Founded: 1983.

Direct services: online access to claims data; loss control services; managing underwriting facilities; reinsurance brokered for captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management; captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing.

Subcontracted services: claims reserves analysis; loss control services; managing underwriting facilities; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; tax advice; legal advice; captive feasibility studies.

Staff: 6 total, 4 professionals.

Clients: 5 total captives: 5 active captives, 5 directly managed. Captive premium volume, \$374,418,729.

Compensation: annual fee, commissions; hourly.

1999 gross revenue: 85% from fees charged for captive management, 15% from other services.

Officers: Luther F. Hackett, president; Michael K. Smith, James F. McNally, executive vps.

Contact: Michael K. Smith; msmith@hvm.com.

Z

Zurich International (Bermuda) Ltd.

The Zurich Centre, 90 Pitt's Bay Road,
 P.O. Box HM 2268
 Hamilton HM JX, Bermuda;
 441-292-8155; fax: 441-292-7368

Founded: 1977.

Parent: Zurich Financial Services Group.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; investment, association captive and rent-a-captive management.

Staff: 18 total, 8 professionals.

Clients: 13 total captives: 13 active captives.

Compensation: annual fee.

1999 gross revenue: \$300,000. 100% from fees charged for captive management.

Officers: Gunther Gose, president; Giuseppe D'Imperio, CEO; Michael Deevy, vp/COO.

Zurich International Services (Ireland) Ltd.

IFSC House, Custom House Quay
 Dublin 1, Ireland;
 353-1-6700988; fax: 353-1-6701108

Founded: 1991.

Parent: Zurich Financial Services Group.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis.

Staff: 4 total, 2 professionals.

Clients: 4 total captives: 4 active captives, 4 directly managed. Captive premium volume, \$50,000,000. Capital and surplus managed, \$10,000,000. No minimum size client.

Compensation: annual fee.

1999 gross revenue: 100% from fees charged for captive management.

Officers: Lawrence Sherin, general manager; Frank Coyle, financial controller.

Contact: Lawrence Sherin.

BI

Captive report

BI's geographical index of captive insurer managers

Aland
SINSER (Aland) A.B.*

Australia
International Risk Management (Australia) Pty. Ltd./
International Risk Management (New Zealand)

Barbados
AIG Insurance Management Services (Barbados) Ltd.
Aon Insurance Managers (Barbados) Ltd.
BF&M (Barbados) Management Ltd.*
Bott & Associates (Barbados) Ltd.*
Chandler Insurance Management (Barbados) Ltd.*
Coleman Williams Risk Management Ltd.
IAS (Barbados) Ltd.
IRMG Barbados
International Insurance Management Ltd.
Marsh Management Services (Barbados) Ltd.
Meadowbrook Risk Management Ltd.
MIMS International (Barbados) Ltd.
Mutual Risk Management (Barbados) Ltd.
Towner Risk Management Ltd.
Willis Management (Barbados) Ltd.*

Bermuda
AIG Insurance Management Services (Bermuda) Ltd.
ARS Management*
Aon Insurance Managers (Bermuda) Ltd.
Atlantic Security Ltd.
BF&M Management Ltd.
Becher + Carlson Management Ltd.
Bott & Associates Ltd.
CNA Risk Services Ltd.
Arthur J. Gallagher Management Co. Ltd.
HSBC Insurance Services (Bermuda) Ltd.*
ING Risk Management (Bermuda) Ltd.
The IPC Co.*
Independent Management Group Ltd.
International Advisory Services Ltd.
International Risk Management (Bermuda) Ltd.
Kemper Management Co. Ltd.
Liberty International Management (Bermuda) Ltd.
Marsh Management Services (Bermuda) Ltd.
Meadowbrook Risk Management Ltd.
Micoa Management Ltd.
Mutual Risk Captive Group Ltd.
Powerscourt Management Ltd.
Risk Services (Bermuda) Ltd.
Skandia International Risk Management Ltd.
Sogecore Ltd.-Bermuda
Symphony Management Ltd.
W.A. Taft & Co. Ltd.
Tate & Lyle Management & Finance Ltd.
USA Offshore Management Ltd.
Uni-Ter International Management Ltd.
Welbeck Management Ltd.
Willis Management (Bermuda) Ltd.
Zurich International (Bermuda) Ltd.

British Columbia
Aon Insurance Managers (Vancouver)
Marsh Canada Ltd.
Cayman Islands
Aon Insurance Managers (Cayman) Ltd.
Britannia Insurance Management (Cayman) Ltd.
CCMSI Captive Services Ltd.
Captive Resources Inc.
Cayside Insurance Management Ltd.
Chandler Insurance Management Ltd.
Crusader International Management (Cayman) Ltd.
Gallagher Captive Services (Cayman) Ltd.*
HSBC Financial Services (Cayman) Ltd.
dba HSBC Insurance Management
International Risk Management (Cayman) Ltd.
Kensington Management Group Ltd.
Marsh Management Services (Cayman) Ltd.
Monkton Insurance Services Ltd.
Mutual Risk Management (Cayman) Ltd.
RiskCap Cayman Ltd.*
TRISTAR Risk Management
Willis Management (Cayman) Ltd.

Colorado
AIG Insurance Management Services (Colorado) Ltd.*
Alternative Insurance Management Services Inc.
Marsh Management Services (Colorado) Inc.
RiskCap

Cyprus
HSBC Insurance Management*

Delaware
IRMG/American Risk Management Corp.

Denmark
SINSER (Denmark)

Dublin
AIG Insurance Management Services (Ireland) Ltd.
AIM Associated Insurance Management (Ireland) Ltd.
Aon Insurance Managers (Dublin) Ltd.
EURCO Ltd.
FBD International Captive Management Ltd.
International Risk Management (Dublin) Ltd.
Marsh Management Services (Dublin) Ltd.
Mutual Risk Management (Ireland) Ltd.*
SINSER (Ireland) Ltd.
Sogecore Ireland Ltd.
Willis Management (Dublin) Ltd.
Zurich International Services (Ireland) Ltd.

Finland
FINNCAP-Oy Finnish Captive & Risk Services Ltd.

France
Sogecore France

Germany
AIG Insurance Management Services*

Gibraltar
AIG Insurance Management Services (Gibraltar) Ltd.
Aon Insurance Managers
SINSER (Gibraltar)*
Willis Management (Gibraltar) Ltd.*

Guernsey
AIG Insurance Management Services (Guernsey) Ltd.
Aon Insurance Managers (Guernsey) Ltd.
Channel Island Insurance Consultants Ltd.
HSBC Insurance Management (Guernsey) Ltd.
International Risk Management (Guernsey) Ltd.
Lambert Fenchurch Insurance Management (Guernsey) Ltd.
Marsh Management Services (Guernsey) Ltd.

Mutual Risk Management (Guernsey) Ltd.*
Optimum Risk Research (International) Ltd.
Santor Resources Ltd.
SINSER (Guernsey) Ltd.
Willis Management (Guernsey) Ltd.

Hawaii
AIG Insurance Management Services Inc.
Aon Insurance Managers (USA) Inc.
Becher + Carlson Risk Management Inc.
50th State Risk Management Services Inc.
Hawaii Captive Insurance Management Inc./USA Risk Group
IRMG/American Risk Management of Hawaii*
Marsh Management Services Inc.
Risk Services (Hawaii) Ltd.
Tresco Insurance Services
Willis Management (Vermont) Ltd.

Hong Kong
Aon Insurance Managers*
HSBC Insurance Brokers Ltd.*

Isle of Man
AIG Insurance Management Services (Isle of Man) Ltd.
Aon Insurance Managers (Isle of Man) Ltd.
Eaglehurst Insurance Management Ltd.
International Risk Management (Isle of Man) Ltd.

Marsh Management Services (Isle of Man) Ltd.
SINSER (Isle of Man) Ltd.
Willis Management (Isle of Man) Ltd.*

Jersey
Aor Insurance Managers (Jersey) Ltd.
Sogecore Management Ltd. Jersey
Willis Management (Jersey) Ltd.*

Liechtenstein
EJRCO A.G.

Lloyd's of London
PXRE Managing Agency Ltd.

Luxembourg
AIG Insurance Management Services (Luxembourg) S.A.
Aor Insurance Managers (Luxembourg) S.A.
EJRCO S.A. (Luxembourg)*
Marsh Management Services (Luxembourg) S.A.
SINSER (Europe) S.A.
SINSER (Luxembourg) S.A.R.L.
Sogecore
Willis Management (Luxembourg) Ltd.*
Zurich Compagnie D'Assurances*

Maine
IRMG/American Risk Management of Maine*

Malta
Willis Management (Malta) Ltd.*

Mauritius
Guardrisk Insurance Management

Netherlands Antilles
Aon Insurance Managers (Antilles) N.V.

Netherlands
Aon Insurance Managers (Nederland)

Nevada
Risk Services-Nevada Inc.

New York
Willis Management (Vermont) Ltd.

Norway
SINSER (Norway)

Panama
Aon Insurance Managers (Parama) S.A.
SINSER*

Singapore
AIG Insurance Management Services (Singapore) Ltd.*
Aon Insurance Managers (Singapore) Pte. Ltd.
HSBC Insurance Brokers Ltd.*
Marsh Management Services (Singapore) Pte. Ltd.
Richard Oliver International Pta. Ltd.
SINSER (Asia) Pte. Ltd.
Willis Management (Singapore) Ltd.*

South Africa
Alexander Forbes Captive Management Services*
Guardrisk Insurance Co. Ltd.

Sweden
SINSER A.B.

Switzerland
Aon Insurance Managers*
EURCO A.G.
Zurich International Insurance Co.

Tennessee
IRMG/American Risk Management Corp.
Vermont Insurance Management Inc./USA Risk Group
Willis Management (Vermont) Ltd.

Turks & Caicos Islands
Aberdeen Insurance Managers (Turks & Caicos) Ltd.

Vermont
AIG Insurance Management Services Inc.
ARS Management
Aon Insurance Managers (USA) Inc.
Becher + Carlson Cos.
Berkley Risk Services of Vermont Inc.
Commonwealth Risk Management Inc.
Green Mountain Captive Management Co.
IRMG/American Risk Management Corp.
Marsh Management Services Inc.
Mutual Risk Management (Vermont) Ltd.
SB&T Captive Management Co.
Skandia International Risk Management (Vermont) Inc.
Vermont Insurance Management Inc./USA Risk Group
Vermont Risk Services Inc.
Willis Management (Vermont) Ltd.
*Ankee Captive Management Inc.
*No directory listing provided.

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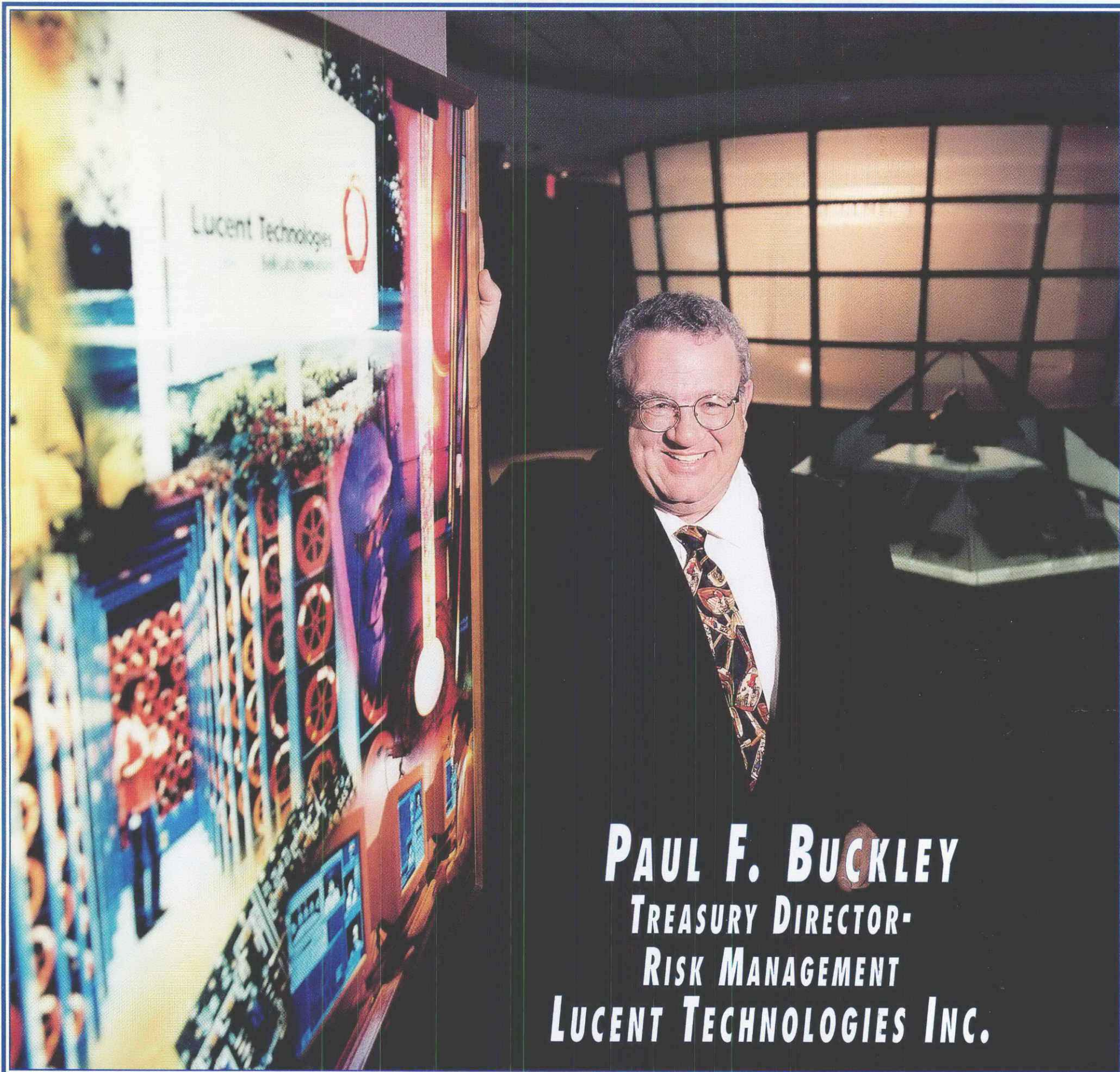
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Solving problems with enthusiasm, creativity

By **DAVE LENCKUS**

Even after working in the telecommunications industry for most of the past three decades, Paul F. Buckley still is drawn to the telephone history museum just inside the main entrance at Lucent Technologies Inc.'s headquarters.

"I love this stuff," said the gravel-voiced treasury director-risk management for Lucent, the 4-year-old communications networking spinoff from AT&T Corp.

Lucent management and insurance market executives say that Mr. Buckley brings that same emotion to his risk management duties.

You won't ever find him phoning it in, they say.

"I think what defines him in my mind is his burning desire to make a difference," said Bill Carapezzi, who, as Lucent's treasurer for most of 1999, was one of Mr. Buckley's supervisors.

"He's not here to punch a clock," said Mr. Carapezzi, now vp-taxes and tax counsel for Murray Hill, N.J.-based Lucent. "He has a vision and the ability to take that vision and bring others into it with his enthusiasm."

Mr. Buckley's enthusiasm for risk management is exemplified by the projects he creates for himself and his staff, according to William Viqueira, who last November succeeded Mr. Carapezzi as vp-treasurer.

Many of those projects go well beyond traditional risk management boundaries and involve core business activities, but Mr. Viqueira won't describe them for "propri-

etary reasons."

Then, there is the business-continuation project that Lucent management had to delay for a while to deal with more pressing spinoff issues. Mr. Buckley picked up that project on his own and is on pace to finish implementing it this year.

"I think Paul, if he had wanted to, could have taken a much more limited view of what his job should be, and most people wouldn't have noticed," Mr. Viqueira said.

But Mr. Buckley hasn't, and people have noticed, notably a panel of 10 independent judges that selected Mr. Buckley as the 2000 *Business Insurance* Risk Manager of the Year.

Mr. Buckley, the 23rd recipient of the annual award, received the honor last month at a luncheon in Morristown, N.J.

The driven but jocular Mr. Buckley is a creative problem-solver, agree Lucent management as well as the company's insurance brokers and insurers.

His creativity has seeped out of the risk management department into other areas of treasury, noted Assistant Treasurer Kevin G. DaSilva, Mr. Buckley's immediate supervisor. One example is Mr. Buckley's use of technology for data gathering and reporting purposes, Mr. DaSilva said.

Lucent management, brokers and insurers also agree that he brings the most out of his staff and vendors.

Sometimes he does it with a slap on the back.

Other times he may use a playful verbal slap, even if it is a self-deprecating quip.

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He also just may bark. But, Mr. Buckley said, his staff has learned: "I'm not yelling at you. I'm just yelling." After all, he said, the risk management department's credo is to: "fix the problem, not the blame."

"He keeps things very lively. He keeps things light," Mr. Viqueira said.

"I've seen him that way with external people as well as with Lucent's CFO. He's very consistent. He has a what-you-see-is-what-you-get personality."

Overall, Mr. Buckley's efforts have "brought added value to Lucent" by improving the company's bottom line as well as making a cultural impact on the company with his creative, problem-solving management style, Mr. DaSilva said.

In fiscal year 1999 alone, which ended last Sept. 30, risk management accounted for more than \$24.2 million in cost savings or other contributions to Lucent's bottom line.

Mr. Buckley's personal style with people, his intellectual approach to risk management issues and the results he has achieved have earned him "a great deal of trust inside the company and outside," Mr. Viqueira said.

Broker Thomas Drag concurs.

Indeed, the high esteem to which Mr. Buckley is held by Lucent's top brass is unique, he said.

"In 30 years, I can't remember seeing a risk management department so well respected by management as the risk management department at Lucent," said Mr. Drag, a senior vp and the Lucent account executive with Aon Risk Services Inc. of New York. Aon

places Lucent's global property and transit programs as well as an all-lines basket aggregate reinsurance program for Lucent's Vermont-based captive insurer, First Beacon Insurance Co.

Making risk management a recognized key element of corporate finance has been Mr. Buckley's goal from the outset.

"I just believe that, because what we make are financial decisions, we really truly need to be part of the financial community," explained Mr. Buckley, who was promoted less than a month ago to treasury director-risk management from senior treasury manager-risk management.

And, Lucent management has tapped Mr. Buckley to develop a risk management program for the operation that Lucent plans to spin off on Sept. 30.

But Mr. Buckley is not promising to build a carbon copy of Lucent's program. After all, that is what he avoided doing when AT&T spun off Lucent and Mr. Buckley had eight months to build the foundation of Lucent's risk management program.

Duplicating AT&T's program "would have been the easy thing to do," Mr. Buckley said. But, he was aware that Lucent, as a communications systems builder, had a different business profile from AT&T's. He decided Lucent required a different risk management approach.

In addition, he finally had the opportunity to test some of his own risk management ideas.

So despite the time crunch and working with a new staff drawn from various disciplines within AT&T, "we were not going to do business like we had in the past" at AT&T, Mr. Buckley said.

In arranging Lucent's global property/casualty risk financing program, Mr. Buckley bore in mind that Lucent had more seasonal cash flow compared with AT&T. He also understood the importance of helping the new company's business units achieve budget stability.

He established a captive to finance many of Lucent's risks for dramatically lower costs. He did that by funding the captive only to cover losses with no factor for turning a profit and by combining coverages. Combining coverages sliced the number of policies that previously covered Lucent's operations to 29 from 31.

Mr. Buckley's energy and attention to detail during the hectic period "were just tremendous," noted broker Annemarie E. Tobin.

"He didn't put demands on the staff that he didn't put on himself," said Ms. Tobin, a senior vp and the Lucent account executive with Marsh USA Inc. of New York. Marsh places Lucent's global casualty and financial products coverages, and another Marsh unit manages Lucent's captive, First Beacon.

The captive also has allowed him to customize Lucent's policies to provide the company with much broader protection and competitive advantages in several areas. Examples include Lucent's contractors all-risk and trade credit receivable coverages, as well as the broad protection Lucent had against Year 2000 computer bug problems.

Mr. Buckley, who has nearly 20 years of experience in claims investigation and claims management, said he had the most fun developing what he calls the post-loss management system at Lucent.

He first managed to retain some corporate claims management expertise that would have been lost during the Lucent spinoff. He arranged for Lucent to outsource its claims handling to a group of former AT&T claims handlers who were hired by Marsh to service Lucent exclusively.

Mr. Buckley then developed a regional counsel system to more efficiently handle litigated general liability and auto liability claims.

The system has speeded up claim resolution, which has reduced claim costs. It has reduced the amount of time that Mr. Buckley needs to spend with lawyers. It also ensures that all of Lucent's attorneys know and follow Lucent's litigation strategy.

"He's one of finest claims professionals around," said Warren J. Mula, executive vp and a managing director with Aon Risk Services in New York.

Mr. Buckley, however, has a finger on anything that he sees as a risk management issue.

Mr. Buckley, who began his career as a lineman for New England Telephone Co., is a "grass-roots telecommunications person," Ms. Tobin noted.

"He's done it all, and he understands the industry," she said.

When he does not understand a concept, he is not afraid to admit it, she said. When that happens, though, "he learns very quickly."

He refuses to accept that solutions are unavailable for some problems, though. "I push and I push and I push, and I don't take no for an answer," Mr. Buckley said.

"Paul is a driver," Aon's Mr. Drag observed. "He's always pushing the envelope."

That is how he cajoled a Lloyd's of London syndicate to develop a new directors and officers liability runoff facility tailored for companies that acquire many small to mid-size companies as part of their strategic growth plan. The facility, another budget-stabilizing endeavor, provides a much longer and less costly tail of coverage than had been available previously.

The facility saved Lucent \$835,000 last year.

The Lloyd's syndicate that developed the coverage has made it available to other risk managers.

Mr. Buckley similarly pressed Lucent's highly protected risk property insurer to chuck a 163-year-old business practice and allow Lucent's risk management department to design the company's loss engineering plan and pay for loss control services on a fee-for-service basis. As a result, the insurer's loss control engineers and Lucent's loss control team are used more efficiently, which means loss control services are better focused.

Because Mr. Buckley works on the premise that there is always some way, regardless of whether it is traditional, to solve problems or make programs work better, he is "not easy to deal with," observed Thomas G. Leahy, a managing director of Marsh USA in New York.

But Mr. Leahy, other brokers and Lucent management concur that while Mr. Buckley presses for creative solutions, he is equally concerned that his staff, brokers, insurers, and business units understand that each is a key part of the process and the solution.

Similarly, Mr. Buckley supports the careers of his staff and the people who service the account, Mr. Mula noted.

"He wants to make sure they do well," Mr. Mula said. "His motivation is more instinctive; however, that style of management makes his people even more motivated."

Mr. Buckley summed up his approach to risk management as an effort to make his department an advocate for Lucent's business units.

"I didn't want to be an adversary," he said. "I didn't want to be Dr. No. I thought all that was needed was to make people aware of the value of risk management."

That is just one more goal he has attained, due to his partnering skills with Lucent's business units as well as his service providers and staff, Mr. Carapezzi said. "Paul has a unique ability to communicate the corporate value in risk management," he said. **BI**

PAUL F. BUCKLEY

Age: 48

Title: Treasury director-risk management for Lucent Technologies Inc.

Previous experience: Corporate claims manager for AT&T Corp., 1985-1996; corporate insurance and claim manager for AT&T Information Systems Inc., 1983-1985; installer/repairman, claims investigator and trial manager for serious claims for New England Telephone Co., 1978-1983; investigator in the Consumer Protection Department of the Massachusetts Attorney General's Office, 1975-1978; lineman, cable splicer, installer/repairman and foreman for New England Telephone Co., 1971-1975.

Professional honors: Runner-up in voting for Lucent CFO's Meg Walsh Leadership Award, 1998; Lucent CFO's Key Cup Award recognizing dedication, leadership and outstanding performance, 1997; AT&T Legal Excellence Award, 1995; AT&T Legal Excellence Award, 1994.

Education: Various continuing education courses in the School of Management's Leadership Institute Program at Boston University; currently enrolled in Associate of Risk Management 54 program; numerous Bell System schools.

Family: Wife, Lorraine, who works in customer relations for Lucent; daughters Kate, 27, and Anna, 23.

Hobbies: Golf, reading, pleasure cruises.



PHOTO: MICHAEL MARCOTTE

The Lucent risk management staff, seated, left to right: Arlene Polcari, claims manager; Thomas J. Edridge, senior treasury manager; Kat Chow, insurance specialist. Standing, left to right: Lori Jackson, secretarial support; Gail Anthony, administrative support; Dennis Gemignani, director of loss control; Trish Ravenburg, insurance specialist; Cindy Schluter, insurance specialist; Paul Buckley, treasury director-risk management; and Craig O'Connor, insurance specialist.

RISK MANAGER OF THE YEAR

Lucent traces its origins back to 19th century

By DAVE LENCKUS

Lucent Technologies Inc. refers to itself as a new company with an old history.

The communications networking giant—which designs, develops, manufactures and markets communications systems and technologies, from microchips to entire networks—was created in April 1996 when AT&T Corp. spun off its communications systems and technology operations.

Lucent, however, can trace its roots to the late 19th century. Among the AT&T operations that were combined and spun off to form Lucent was Western Electric Co. AT&T acquired Western Electric from Western Union Telegraph Co. in 1882. At that time, Western Electric was 13 years old

and already a leading electrical equipment manufacturer in the nation.

Since 1996, Lucent has acquired more than 30 companies, developed new technologies and garnered many awards, including Nobel prizes.

Lucent does business in 90 countries and currently has 150,000 employees worldwide. In its last fiscal year, which ended Sept. 30, 1999, Lucent reported \$38.3 billion of revenue, compared with nearly \$23.29 billion for the year ended Sept. 30, 1996.

One of Lucent's units is Bell Laboratories, a premier research and development facility where Bell scientists have won 11 Nobel prizes and nine National Medal of Science awards.

Bell Labs was created in 1925, when AT&T merged and centralized its engineer-

Historical highlights

The following are some milestones in Lucent's long history before the company's creation in 1996:

- 1869:** Enos Barton partners with fellow electrician and machinist George Shawk to form Shawk & Barton in Cleveland, which later would become Western Electric Co. By year's end, the shop is known as Gray & Barton after a few changes in partnership. Some historians later would credit one new partner, Elisha Gray, as the inventor of the telephone.
- 1872:** Gray & Barton is incorporated as Western Electric Manufacturing Co. and merges with an instrument shop owned by Western Union Telegraph Co.
- 1876:** Alexander Graham Bell unveils a working telephone in Boston.
- 1877:** Mr. Bell founds Bell Telephone Co. and begins licensing telephone exchanges to route calls throughout New England.
Mr. Bell's effort leads to a legal dispute with Western Union, which had purchased Mr. Gray's telephone patent. Mr. Gray had filed a caveat—a declaration the U.S. Patent Office once allowed inventors to file to note they were working on an as-yet-unperfected device—hours after Mr. Bell applied for his patent.
- 1879:** Western Union backs out of the telephone business. Bell Telephone agrees to pay royalties to Western Union and to abandon the telegraph business.
- 1881:** Bell Telephone acquires Western Electric from Western Union. Western Electric eventually would manufacture most of Bell Telephone's phone equipment.
- 1885:** Bell Telephone forms American Telephone & Telegraph Co. to finance, build and operate a long-distance phone system. Telegraphy originally meant any form of communication over a long distance.
- 1899:** AT&T becomes the parent company for the Bell System.
- 1909:** AT&T purchases Western Union, triggering complaints that AT&T is a monopoly.
- 1913:** The U.S. government forces AT&T to sell Western Union and give independent local telephone companies the right to connect to AT&T's long-distance lines. AT&T maintains Western Electric and a monopoly on long-distance services but accepts govern-

ernment regulation.

- 1925:** AT&T creates Bell Laboratories by combining its own R&D department with subsidiary Western Electric's.
- 1927:** The first long-distance television transmission is completed over telephone lines.
- 1948:** Bell Labs invents the transistor.
- 1956:** Bell Labs develops the trans-Atlantic telephone cable.
- 1960s:** The Internet begins developing when the U.S. military examines how it could maintain a communications network that would function even if part of it were damaged during nuclear war.
- 1962:** AT&T launches Telstar 1, the first commercial communications satellite.
- 1964:** Bell Labs develops the Touch-Tone push-button telephone.
- 1968:** The U.S. government takes away AT&T's telephone equipment monopoly.
- 1969:** The U.S. government gives microwave-based long-distance companies the right to access AT&T lines.
- 1974:** In another round of antitrust litigation, MCI Communications Corp. challenges AT&T's monopoly over long-distance lines, and the U.S. government seeks to dismantle AT&T.
- 1984:** Under the terms of its 1982 antitrust litigation settlement, AT&T divests itself of its 22 regional telephone systems. The systems are reorganized into seven regional holding companies, or Baby Bells. AT&T, however, wins the right to enter unregulated computer and information systems markets.
- 1995:** AT&T announces plans to spin off its communications equipment and its computing division into separate, independent companies.
- 1996:** In April, AT&T spins off 17% of its communication equipment division and Bell Labs in an initial public offering. The IPO for the new company, Lucent Technologies Inc., raises \$3 billion, making it the largest IPO in U.S. history at the time. Lucent becomes completely independent from AT&T on Sept. 30, 1996 when AT&T gives as dividends the remaining Lucent shares it holds to AT&T shareholders.



PHOTO: MICHAEL MARCOTTE

Mr. Buckley in Lucent's Silicon Fabricator Laboratory.

ing R&D department with Western Electric's. Since then, Bell Labs has received nearly 27,000 patents and now averages more than three patented inventions daily.

Among the important technologies that Bell Labs invented are the transistor, transoceanic communications, the automatic telephone switching system, the laser, the solar cell, the light-emitting diode, cellular radio and the UNIX operating system.

Other Lucent operations are the:

- Service Provider Networks unit, which provides switching and transmission systems for voice and data; data networking routing switches and servers; wireless network infrastructure; optical networking systems; communication software; and support services.
- NetCare Professional Services unit, which provides services for the life cycle of

a network.

• Microelectronics and Communications Technologies unit, which provides integrated circuits for wireless and wired communications, computer modems and networks; opto-electronic components for communications systems; power systems; optical fiber; cable; and connectivity solutions.

Lucent announced in early March that it plans to spin off a fourth unit—Enterprise Networks—later this year. The unit provides communications servers for voice and data; e-business solutions; messaging systems and applications; wireless and conferencing systems; Internet-provider-based and Local Area Network/Wide Area Network products; and network cabling for buildings. The unit will take 34,000 employees, which will drop Lucent's employee count to 116,000. **BI**

Lucent takes control of loss control services

By DAVE LENCKUS

Problems were brewing about two years ago for both Lucent Technologies Inc. and the property insurer that was handling loss control engineering services for the communications networking giant.

The highly protected risk insurer complained of engineering cost overruns even as Lucent's risk management department grew critical of a lack of value-added services.

Paul F. Buckley, treasury director-risk management for Lucent, concluded that the best way to solve the problems was to take an unprecedented approach: He wanted Lucent risk management to take control over how loss control engineering services were deployed.

He also insisted on paying for the services on a fee-for-service basis rather than bundling those costs into Lucent's property insurance premium to the insurer, Allendale Mutual Insurance Co. Allendale has since merged with two other insurers to form Factory Mutual Insurance Co., which retained the Lucent account after the merger.

In Lucent's effort to avoid taking a "cookie-cutter approach" to loss control engineering, the plan would make Allendale—a high-excess reinsurer for Lucent's Vermont captive insurer, First Beacon Insurance Co.—a consultant rather than an entity that issues requirements for protecting the company's property, said Dennis Gemignani, Lucent's loss control director.

Mr. Gemignani, who had been a field and

an account engineer with Allendale for 12 years, now is an Aon Risk Services Inc. engineer who is assigned solely to Lucent's risk management department.

Now, more than 18 months later, loss control engineering services are better focused at Lucent, the insurer's costs are under control, and neither side is looking to return to the traditional way of paying for and delivering the services.

Indeed, engineers for FM and a second insurer that also is delivering loss control engineering services in the same manner say the approach would make sense for a lot more companies with highly protected risks.

"Lucent got a level and quality of service when and where we needed it," Mr. Gemignani said.

John Kuechelmann, FM's Parsippany, N.J.-based account engineer for Lucent, said the arrangement helps FM as well as Lucent.

It has meant that FM engineers no longer have to conduct some routine inspections that ate up 500 to 600 hours annually and are ones that Lucent's safety staff can perform itself with backup audits by FM, he said. That is "a big time savings" for FM, he said.

"We're not using the resources that are not productive for anybody, but we're still meeting the underwriters' needs," Mr. Kuechelmann said.

While Lucent's loss control engineering approach is unique, "it's definitely something we should be doing more of," Mr. Kuechelmann said. "I think it makes sense from an engineering standpoint."

See Loss control on page 86

Congratulations to

Paul Buckley.



And some people think Risk Management isn't glamorous.

// Is it the thrill of implementing risk information systems? The excitement of working closely with insurance providers? Maybe it's the power that comes with overseeing the safety of thousands of co-workers. Whatever the reason, no one shines brighter in the Risk Management spotlight than Paul Buckley. Liberty Mutual Insurance is proud to work with Paul and his award-winning ways. It just goes to prove that you don't have to work in Hollywood to be a big star. //



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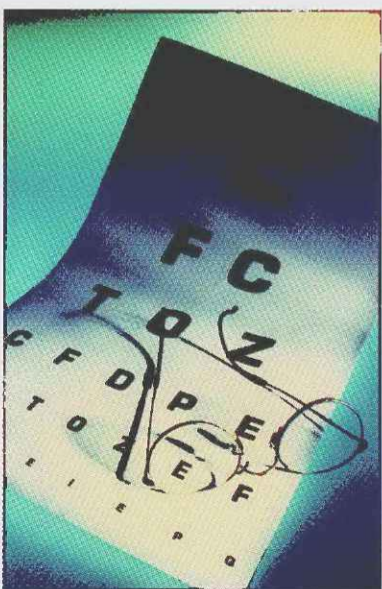
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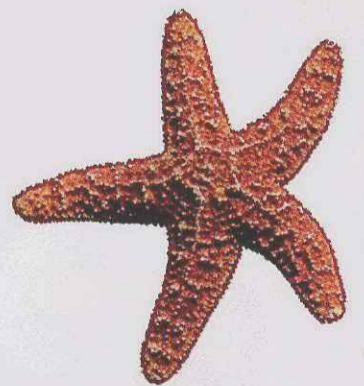
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RISK MANAGER OF THE YEAR

Loss control

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And, the merger that created FM has given the new company "flexibility to do things that our clients need while still meeting our needs," Mr. Kuechelmann said.

Since the program's inception, Lucent has worked out a similar agreement with an insurer that participates in the first excess layer of property reinsurance for its captive, First Beacon. While Liberty Mutual Group participates in the layer, its premium does not include the cost of engineering services that subsidiary LMG Property provides. A Wausau Insurance Cos. unit previously provided those engineering services before Liberty Insurance Co. acquired Wausau in October 1998.

In most cases, Lucent will deploy either FM or LMG Property engineers to conduct engineering services. Lucent usually calls on FM engineers for specialized engineering services, such as those needed at its microelectronics plants, worldwide and for office facilities overseas. Lucent engages the LMG Property engineers for domestic office and research and development facilities as well as some warehousing and manufacturing facilities domestically.

Lucent's new loss control engineering program took effect at its October 1998 property renewal.

After the Allendale merger in the fall of 1998, FM continued as Lucent's high excess-layer property insurer, providing blanket limits over a high attachment point. First Beacon writes the primary layer of property coverage. Several insurers participate on the first excess layer of coverage on a quota-share basis.

Before Mr. Buckley negotiated Allendale's exclusive handling of those services for Lucent globally.

Months before the renewal, loss control engineering problems were becoming evident.

"I'd discovered that the loss control engineer was doing a lot of things that I didn't feel were necessary," Mr. Buckley said.

Mr. Buckley recalled, for example, one case in which he could not understand why the engineer had performed an infrared test at a partic-

ular Lucent facility. "He tried to explain it to me, but I'm not an engineer and I didn't understand it," Mr. Buckley said.

Another developing problem was that engineers were performing "extraneous services" at several locations that had extremely good management, Mr. Gemignani said. "So no value-added services were being provided" at those locations, he said.

Meanwhile, "the insurers "were not doing a good job of managing the portfolio of what was Lucent's and what was AT&T's property" after Lucent's 1996 spinoff from AT&T, Mr. Gemignani said. The insurers occasionally would conduct boiler and fire inspections at AT&T properties with the mistaken belief that they were at Lucent sites, he said. Those mistakes drove up the insurers' costs, he said.

The insurers' inspectors also would drive up costs for Lucent by spending an inordinate amount of time inspecting new facilities and facility expansions, Mr. Gemignani said.

"We had to learn how to manage them," he said. "I wanted to take a different approach" to loss control engineering.

Mr. Buckley said Allendale initially balked at the proposal, but Lucent's risk manager is not known to quietly walk away from any idea that could work better than the status quo.

"It was like pulling teeth," Mr. Buckley said of the three-month negotiations to hammer out the agreement with Allendale.

"They didn't want to give up the dollars," he explained. "Nobody had asked them to do that before."

For Allendale, the proposal meant changing a 163-year-old practice, Mr. Gemignani observed.

"It was like trying to stop a locomotive," he said. "It takes the direction out of the hands of the underwriters. That's out of the box for this industry."

Mr. Gemignani said Allendale underwriters previously had resisted other risk managers' requests for similar latitude in directing loss control engineering. But Mr. Buckley pressed the insurer into agreeing to at least a one-year trial program.

The engineering costs that Mr. Buckley asked Allendale to unbundle from its premium reflected only the insurer's loss control engineering costs, not the engineering costs it incurred to un-

derwrite the account.

Mr. Buckley said he stressed to Allendale and its successor, FM, that the arrangement would not be driven by an effort by Lucent to trim loss control engineering costs. "They were looking for commitment to loss control, not just skipping with the money," Mr. Buckley explained.

He said he told the insurer: "We'll commit to spending the money you want to spend but as we see most appropriate."

To that end, Lucent's risk management and the insurer first agreed on how many hours of loss control engineering that Lucent's portfolio of properties need during the upcoming year.

Then, over the course of two to three months, Lucent risk management designed a plan that allocated those hours to specified services at particular sites.

After the plan was drawn out, Lucent and FM had to agree on the dollar value of those services.

During the first year, the number of engineering hours that Lucent actually used was short by only couple percentage points" from its budget. Such an insignificant difference was accounted for in the 1999/2000 budget.

The new engineering arrangement that Mr. Buckley negotiated focuses loss control engineering services far more sharply for Lucent and creates disincentives to minimize the problems that Lucent and FM had encountered before the arrangement was negotiated, agree representatives of Lucent risk management, FM and LMG Property.

Personnel at Lucent sites still may call on FM and LMG Property engineers for guidance. But because Lucent's risk management department now pays for loss control engineering, the engineers first must obtain the department's consent before servicing the site.

If the engineers fail to notify risk management and provide the services, "it's on their dime," Mr. Gemignani explained. The engineers cannot conduct "any inspections without clearing it with me," he said.

"What that has allowed us to do is get control over what's going on out there," Mr. Buckley said.

For example, if plant personnel have questions about fire-door installation specifications,

risk management likely would mix a visit from an FM engineer, Mr. Buckley explained. Instead, the plant's personnel would be directed to the risk management department's intranet site for those specs, he said.

In a situation in which a plant visit by an engineer is necessary, risk management may direct its plant to contact an FM engineer other than the local engineer. The engineer based in a distant location may have greater expertise with a certain problem than does the local engineer, which likely would lead to a quicker resolution. For Lucent, that would mean cost savings if solving the problem sooner meant avoiding or minimizing construction or production delays at a plant, Mr. Buckley said.

Mr. Buckley stressed, however that spending loss control engineering dollars more efficiently, not cutting costs, is the primary objective of Lucent's arrangement with FM and LMG Property.

The engineers now focus on areas that Lucent risk management deems important, Mr. Gemignani said.

For example, FM's Mr. Kuechelmann said, under the arrangement, FM "didn't need to be doing a lot of little things anymore, because we didn't have the insurance exposure, like visually inspecting that sprinkler valves are open," he said. Lucent's full-time safety team conducts those inspections now. FM audits their reports and conducts its own inspection only when Lucent's reports suggest some deficiencies, he said.

At the same time, the loss control engineering arrangement supports Lucent risk management's disaster recovery and business continuation planning, even though FM and LMG Property are not involved in those efforts.

In addition, Mr. Gemignani's hours go toward the total number of hours that Lucent has to commit to loss control engineering.

Mr. Gemignani said the loss control engineering arrangement that Mr. Buckley negotiated "certainly puts you out in the forefront of any loss control program."

After one year it was an apparent win/win situation.

FM and LMG Property now are consultants providing added value in support of Lucent's goals and objectives, and FM's expenses are under control. **BI**

Lucent sees gains from loss management

By DAVE LENCKUS

In a greasy spoon in Newark, N.J., 4 1/2 years ago, Paul Buckley and a longtime attorney friend pulled a small paper napkin from its table-top dispenser and began sketching determinedly on the makeshift canvas.

Mr. Buckley, then the claim manager for AT&T Corp., and attorney M. Richard Merklinger were not planning a sleek new sailboat or laying out the perfect golf course.

Instead, of clanking dinnerware in the background and nearby diners flagging down waitresses for another cup of coffee, the two men roughed out a blueprint of how Mr. Buckley thought that claims and any subsequent litigation could be managed more effectively at a large company.

Mr. Buckley envisioned a claims-management process—which he prefers calling post-loss management because that phrase reflects a more seamless process—that would be very different in some respects from any in which he had been involved.

As he had developed for AT&T, he envisioned a central claims-handling office that would quickly resolve high-frequency claims and, as a result, hold down claim costs.

But, unlike typical claims offices, the unit Mr. Buckley planned would funnel litigated claims to a select group of regional attorneys, who would manage the cases.

The attorneys, in assuming a responsibility normally left to third-party administrators, would serve as a single contact point for the risk

manager. By managing all of the litigated cases, the attorneys would know the company thoroughly. They would know how to get information and where to find the company employees they needed to see to prepare their cases. They would know the company's litigation strategy. They would have broad authority to settle cases so litigation could be resolved far more quickly.

The attorneys also would play a role in establishing case reserves in an effort to ensure that everyone involved in handling the claim agreed on its value and the company would not face last-minute surprises.

Mr. Buckley hoped he would be able to implement the plan sooner rather than later. He was vying for the risk manager position at the communications systems networking company that AT&T was planning to spin off the following year.

He got the nod and was appointed senior treasury manager-risk management for Lucent Technologies Inc. in January 1996. Shortly afterward, he eagerly implemented the post-loss management system.

"The real fun stuff we worked on was this post-loss containment system," said Mr. Buckley, who was promoted last month to treasury director-risk management.

According to those involved in the process, it indeed has led to better communication, which means litigation management is far more consistent and there are far fewer surprises.

As a result, litigated claims are resolved more quickly, which is driving

down the cost of litigated claims, according to figures compiled by Lucent Claims Manager Arlene Polcari.

General liability claim costs were 33.5% lower in fiscal 1999 compared with claim costs in 1996, and the associated legal costs had plummeted 79%. Legal costs fell because litigated claims were closed much more quickly. In 1998, 40% were closed within 12 months and 90% were closed within 24 months, compared with 5% and 74%, respectively, in 1995, before the system was implemented.

Auto liability claim costs also had fallen dramatically—54%—by 1999 compared with claim costs in 1996. And, legal costs shrank nearly 98% by 1999. In 1998, 35% of auto liability litigation claims were closed within 12 months and 92% were closed within 24 months, compared with 20% and 74%, respectively, in 1995.

At the same time, Lucent's claims-handling office has attacked non-litigated claims more fiercely, driving down the cost of those claims as well.

"We can see settlement costs coming down because we have control of it," Mr. Buckley said.

The regional counsel approach has fostered teamwork among Lucent's risk management and internal and external counsel by focusing them "on achieving what's best for Lucent," said Lucent Assistant Treasurer Kevin G. DaSilva, Mr. Buckley's immediate supervisor.

The approach "really helps us accomplish that," he said.

Mr. Buckley's post-loss management process has been the "deep

change" that he sought in claims management to stave off a "slow death" from high-frequency claims. For Lucent, those claims are general liability, including product liability, and auto liability claims.

Lucent funds the so-called working layer of those risks in its Vermont-based captive, First Beacon Insurance Co.

Approximately 1,200 such claims are reported annually. Claims are filed by phone, fax, mail or through Lucent's intranet.

Each claim is reported directly to Lucent's outsourced claims-management office in Denver. The Lucent-dedicated office is run by Marsh Risk Services, a unit of Marsh & McLennan Cos. Inc., but it is staffed with former AT&T claims-management

staff (see story, page 88).

A claims examiner forwards the claims to Lucent's third-party administrator, the national account unit of Liberty Mutual Group. Liberty Mutual is in the process of assuming the TPA services, which had been handled by Wausau Insurance Cos. until Liberty Mutual acquired Wausau last year.

A Liberty Mutual adjuster develops a reserve for each claim, and the Denver claims office provides the adjuster whatever information or Lucent employee contacts necessary to resolve the claims.

But in those instances when the first notice of a claim is a lawsuit or the claim eventually develops into litigation, Mr. Buckley's regional

Continued on next page



PHOTO: MICHAEL MARCOTTE

As Lucent's risk manager, Paul Buckley reports to Treasurer Bill Viqueira, left, and Assistant Treasurer Kevin G. DaSilva.

RISK MANAGER OF THE YEAR

Continued from previous page
counsel program takes control of the claim.

Whereas an insurer or TPA typically manages a litigated claim and hires local counsel to defend a policyholder, Mr. Buckley has hand-picked four attorneys who manage all litigated general liability and auto liability claims against Lucent in their respective regions.

The reason: The system shifts the control over litigation management to Lucent's risk management department from the insurer. As a result, risk management can ensure that all of the attorneys nationwide defending Lucent are taking a consistent approach.

Ensuring a consistent litigation approach is difficult at best for a company when various TPAs or insurers are managing cases while reporting to in-house attorneys for different Lucent business units and hiring numerous local attorneys, said Annemarie E. Tobin, a senior vp for Marsh USA Inc. of New York. Ms. Tobin is the Lucent account representative for Marsh.

Mr. Buckley also did not want to educate local attorneys nationwide about Lucent every time the company faced a claim. Instead, one of the four regional attorneys, all of whom know Lucent well, will manage every litigated general liability and auto liability claim by themselves.

"It's a huge change for TPAs to accept that attorneys are managing the process," said Mr. Merklinger, a partner with Hack, Piro, O'Day, Merklinger, Wallace & McKenna of Florham Park, N.J. As Lucent's Northeast regional counsel, he is responsible for 13 states.

Mr. Merklinger said much credit for how smoothly the process has worked is attributable to the meetings that Lucent's risk management department has held with the TPA to explain the process.

Lucent's regional attorneys noted that the process also has been a stretch for them.

"This was going to be lawyers managing lawyers," Mr. Merklinger observed.

"Paul selected us because of our trial lawyer experience," explained regional counsel Kenneth H. Lyman of Denver-based Hall & Evans L.L.C.

"He selected trial lawyers and pushed us into being managers. That's unique," said Mr. Lyman, who manages Lucent's litigation in 12 states, including Texas, in the Rocky Mountain region.

While Liberty Mutual still will establish a reserve for a litigated claim initially, the regional counsel managing the claim has to sign off on the figure. The attorney typically offers his reserving recommendation during a case strategy conference call with the TPA and the claims office within 30 days after Lucent is notified of a suit.

Most insurers and self-insurers typically do not invite attorneys to participate in setting claim reserves.

Mr. Lyman said he is not sure why that information is not shared but that insurers may fear attorneys will use the reserve as a starting point in settlement talks.

Attorneys do establish case values, but those estimates often are higher than those that insurers incorporate into their claim reserves, he said.

Sherry D. Baker, the claim manager for Marsh in the Lucent-dedicated claim unit, agreed. Mr. Buckley wants a realistic reserve up front and eschews the notion of propping up financials for the short term by lowballing case values, she said.

Some attorneys, however, also have been responsible for providing clients unrealistically low case values, Mr. Lyman said. He said that happens

when the attorneys are not focused on the case or when they "don't want to appear like wimps" to their clients early in the litigation by advising them to expect a large loss.

Mr. Lyman said attorneys are better than insurers at judging how a case may be affected by intangibles, such as non-economic damages, the judge, the plaintiff's attorney, and the venue.

Insurers, however, are better at assessing how hard data, such as economic losses, may affect a case, he said.

Mr. Buckley's post-loss management system "combines the two approaches," Mr. Lyman said.

"Paul's expectation is that a consensus on a reserve figure of some type is reached, and 99.9% of the time that happens," said Bruce A. Bay, who un-

til recently was the Lucent account executive with Wausau. Mr. Bay was an executive vp with Wausau unit Countrywide Service Corp. in St. Louis when he retired in April.

In the rare cases when a consensus is not reached, Mr. Buckley resolves the dispute.

Case values and, as a result, reserves, constantly are re-evaluated, however, Ms. Baker noted.

A major benefit of involving the attorneys in setting claim reserves is that the process helps minimize surprises for Lucent as the litigation progresses, Lucent, Marsh and Liberty Mutual representatives agree.

"There are no surprises," Ms. Polcari asserted.

That often is not the case for other risk managers, according to Thomas

N. Falzarano, a managing director and the Northeast Region claim manager for Marsh Risk Services in New York. Mr. Falzarano oversees the Lucent-dedicated claim unit.

Those risk managers have to address the appropriateness of reserves "down the road," he said.

By involving Lucent's regional attorneys in setting reserves, "no one is walking into the claim office a year later and finding that a \$10,000 claim is really \$100,000, and vice versa," Mr. Falzarano said.

"That's key about what Paul does. He keeps it under control."

Another benefit of the regional counsel system for Lucent, according to the regional counsels, is that it raised the attorneys' status in the eyes of plaintiffs' counsel. "When we say

we're regional counsel for Lucent, it brings an element of power and money to the table, especially when working with attorneys you've dealt with before," Mr. Merklinger said.

If an attorney handles just one or an occasional case for Lucent, "it doesn't carry as much weight," he said.

In some cases that cannot be settled early, the regional attorneys may determine that local attorneys should handle the litigation for Lucent.

Using local counsel especially for small cases is more cost-efficient than having a regional counsel travel to defend the case, Mr. Lyman explained. Local counsel presence also may be necessary because of jurisdictional reasons or to avoid prejudice by a local court and jury, he said.

See **Claims** on next page

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RISK MANAGER OF THE YEAR

Claims

Continued from previous page

The regional attorneys, however, continue managing those cases. So even when local attorneys are used, Lucent's litigation strategy remains consistent, the regional counsels noted.

In selecting local attorneys, Lucent's regional counsels can hold down litigation costs by better matching cases and attorneys, Mr. Lyman said.

He noted, for example, that in the early days of the program, Hall & Evans found that "some excellent regulatory attorneys" for Lucent in a large city in Texas also were handling some of Lucent's low-level tort cases, like slip-and-fall claims and small auto claims.

"What happened was—nothing," Mr. Lyman explained. The attorneys were pushing those small cases "way down on the food chain" and letting them languish while the attorneys concentrated on the regulatory litigation.

That drove up Lucent's claim costs, said Marsh's Mr. Falzarano. "It's a proven fact that the longer a claim stays open, the more it costs."

In addition, when the attorneys got around to those small tort claims, their customary fees were too high for such cases, Mr. Lyman said.

Perhaps more important, the regulatory attorneys did not have the "appropriate skills" to resolve tort cases for Lucent, Mr. Lyman said.

The regional counsels seek out local attorneys who have handled other Lucent cases. Those attorneys will have greater knowledge about the company and should have little trouble finding the necessary material and Lucent employees to defend a case, said Lucent regional counsel Arthur J. Laplante of Hinshaw & Culbertson in Fort Lauderdale, Fla. Mr. Laplante manages Lucent's litigation in 18 states in the Southeast.

While Lucent TPA Liberty Mutual has a much smaller role in handling litigated claims than TPAs typically have, it still can be a valuable resource for the regional counsels.

Occasionally, Liberty Mutual will have had a past relationship with the attorney representing a claimant against Lucent. The regional counsels said they will defer the lead settlement negotiation position to the TPA in those situations.

In other situations, Liberty Mutual can help select a local attorney to defend a claim, said Claire M. Birdsall, customer service manager in the national markets unit of Liberty Mutual.

Besides controlling litigation better, the post-loss management system enhances communication of valuable risk management information that regional counsels or the TPA have picked up during the course of claim, according to the post-

loss management team.

"Because Denver deals with a smaller group of outside counsel, the information sharing is better," said Mr. Lyman of Hall & Evans.

Ms. Polcari, Lucent's claim manager, cited as an example a situation in which a claim is filed against a Lucent business unit and one of its contractors. If the contractor refuses to accept responsibility for defending the claim, the Denver claim unit will report the contractor's position to risk management.

"And we'll use it as leverage to settle out of a case" by warning the contractor it will jeopardize potential future business with Lucent if it does not defend the case, Ms. Polcari said.

Lucent faced one stumbling block with its post-loss management system. The company would lose the confidentiality of any attorney work product funneled through the Denver claim unit, because the unit is not staffed by Lucent employees, noted Kevin T. O'Reilly, corporate counsel to risk management.

But with regional counsels rather than the TPA managing litigated claims, the Denver claim unit does not have to keep that kind of information on file for those claims.

"That's a lot different" from the way most other Marsh clients structure their claims management systems, Mr. Falzarano said.

The Denver claim unit handles non-litigated claims similarly to how the AT&T's corporate claim unit handled claims before 1996, Mr. Falzarano said.

The Denver unit and Liberty Mutual, though,

handle claims "a little more aggressively."

"There's still a lot of Paul's fingerprints all over this," Mr. Falzarano said. For example, "one thing they do really well that's really Paul's process, and they do it better than other companies, is following up on all losses."

The follow-up consists of a series of claim reviews every 30 days or so to ensure that claim resolution is proceeding on schedule.

"Most of the cases that are not litigated should move at a fairly quick pace," Mr. Falzarano said.

Four years into the post-loss management program, Lucent's regional counsels applaud Mr. Buckley for making what they say was a gutsy call to develop the program.

While all of the players knew Mr. Buckley, they did not know each other, Messrs. Merklinger and Lyman noted.

There could have been poor chemistry among group members, or someone could have sabotaged it for the sake of his or her personal agenda, Mr. Merklinger said.

"I give credit to Paul," Mr. Lyman said. "It was a big business risk to take."

Mr. Buckley also empowered the regional counsels to make the process their own.

The regional attorneys are not "yes people," Mr. Bay observed. "They challenged him. He wanted them to tear it apart and make it better. He didn't want it rubber-stamped. Today, he's still like that." "It's a strategic partnership," Mr. Laplante asserted. "It's really been a bold approach." **B**

Claims TPA has inside knowledge

Before building a post-loss management program for Lucent Technologies Inc., risk manager Paul F. Buckley had to shore up what could have deteriorated into a shaky foundation for the process.

Along with spinning off Lucent and another operation into separate, independent companies in 1996, AT&T Corp. decided to close its 12-person corporate claims-handling office in Denver.

While Lucent's separation agreement with AT&T prescribed which claim data would roll over to Lucent, Mr. Buckley recognized that his risk management department would lose valuable corporate knowledge when the claims staff was laid off.

The data still had to be coded and sorted correctly by the claims unit, noted Thomas N. Falzarano, a managing director and the Northeast Region claim manager with Marsh Risk Services, a unit of Marsh USA Inc. in New York. Marsh played a large role in preventing that memory loss.

"AT&T employees understood the two companies," he observed. "It would have been difficult for anyone who didn't know the companies" to perform that function.

Mr. Buckley recognized this as well as the high quality of the staff's work in handling AT&T claims over the past decade since he had set up the office for AT&T.

Despite not having a budget to keep the office intact at Lucent, Mr. Buckley was bent on not losing a known asset. In a request for proposal, Mr. Buckley searched for a claims-management facility that would serve as a fee-based claims-management office dedicated to Lucent. The winning vendor also would have to agree to hire former staff from AT&T's Denver claim office to handle Lucent's claims.

Marsh won the bid, and Mr. Falzarano hired five former AT&T claims staff to manage Lucent's claims from a Denver office.

—By Dave Lenckus



PHOTO: MICHAEL MARCOTTE

Lucent's post-loss management program relies on four regional counsel for all litigated claims against Lucent. The counsel and their regions, from left, are: Arthur J. Laplante, Southeast; M. Richard Merklinger, Northeast; Jack Skelton, West Coast; Paul Buckley; and Kenneth H. Lyman, Rocky Mountains.

D&O runoff liability facility fills void in market

By DAVE LENCKUS

The idea for an underwriting facility that allows risk managers to purchase directors and officers liability runoff insurance more cost-effectively and with greater comfort seems so "simple" to Paul Buckley.

Indeed, he said he has wondered why no one thought of it before he did. Perhaps it was too simple in this age of increasingly complex financial transactions, mused the treasury director-risk management for Lucent Technologies Inc.

Regardless, the facility has worked in a few important ways for Lucent. It has:

- Held down dramatically the company's cost of D&O runoff coverage.
- Ensured that this important coverage for Lucent is placed with a market that Mr. Buckley knows and trusts.
- Earned the risk management department a prominent role on Lucent's mergers and acquisitions due diligence team.

The idea: a facility that will provide predictably and reasonably priced D&O runoff coverage for the boards of companies that Lucent acquires. Runoff coverage responds to claims filed against an acquired company's board members because of their actions prior to the acquisition.

Such a facility was unavailable until a few years ago, when Mr. Buckley pressed his D&O underwriters to offer it.

Before then, companies like Lucent, for which mergers and acquisitions of small to midsize companies are central to strategic growth, faced

substantially higher D&O runoff premiums than they do now.

"I'm not the sharpest knife in the drawer, but I couldn't understand why that wasn't out there," Mr. Buckley said.

Since Lucent was spun off from AT&T Corp. four years ago, the communications networking giant has acquired more than 30 companies. Along with those companies' operations, Lucent acquired any liability that may arise because of the prior acts of those companies' boards.

If an acquired company's officers and directors remain with Lucent, then Lucent's D&O insurance automatically covers them for acts beginning after the acquisition is completed.

As is typical with D&O policies, however, Lucent's policy does not cover the prior acts of a newly acquired company's executives.

Counting on the acquired company's D&O coverage to respond often is not an attractive option, explained Mr. Buckley and broker Annemarie E. Tobin, a senior vp in New York with Marsh USA Inc., a unit of Marsh & McLennan Cos. Inc.

Because Lucent typically acquires relatively young small to mid-sized companies, the premium for invoking the runoff provision of their D&O policies typically would be much higher than it would be for a more established and larger company.

In addition, occasionally an acquisition does not carry D&O insurance.

To protect the acquiring company and the acquisition's board from any liability arising from such prior acts, an acquisition can invoke a provision in its D&O policy and purchase runoff li-

ability insurance.

The cost of runoff coverage, though, has been extremely high, which Mr. Buckley discovered in the fall of 1997.

In September that year, Lucent acquired Octel Communications Corp., a provider of voice, fax and electronic messaging technologies.

To protect its board against any future D&O liability claims over the board's prior acts, Octel purchased a D&O runoff policy through a boutique broker. The broker tapped a D&O insurance market with which Lucent did not have a relationship, which resulted in a very high premium for Lucent and an unanticipated budget concern for Mr. Buckley.

By the time the deal came across Mr. Buckley's desk, he could not stop it. "I was not a happy guy," he recalled.

While handcuffed in that situation because he was not part of Lucent's due diligence team, Mr. Buckley set out to prevent any similar future deals.

He first approached a couple of representatives from Marsh about finding a facility that offers cost-efficient D&O runoff insurance that would cover an acquired company's board for several years.

Mr. Buckley said he was astonished when the brokers told him that no D&O runoff facility existed and that he should not expect underwriters to embrace the idea.

Mr. Buckley said he thought his idea was too good to let it die there. When he met his London D&O underwriters a few weeks later to discuss Lucent's D&O renewal, he pressed them to develop a D&O runoff facility.

The idea sparked some cautious interest among Lloyd's underwriters David Foster and Giles Stockton at Janson Green Syndicate 79, now a subsidiary of Limit P.L.C. of London. Syndicate 79 is Lucent's lead D&O underwriter.

Mr. Foster has since retired, but Mr. Stockton, a director at Janson Green, recalled that underwriters did not jump at the opportunity because they had not seen "anything like it before."

"However, Paul, as usual, can be a quite persuasive character," Mr. Stockton said. "Within a few days, 'we could understand the sense of it,'" Mr. Stockton said.

"Putting the meat on the bones" of the policy wording, however, took a few months, he said.

Now, Lucent can purchase D&O runoff insurance for acquisitions with the same core business as Lucent's for "a fraction" of the premium that an acquired company would pay, according to Mr. Buckley. "It's priced in such a way that you can't beat it on the street," he said.

For coverage for each acquisition, Lucent pays the lower of a certain fixed premium or 75% of the acquired company's expiring premium.

The facility provides a combined single limit of \$20 million, regardless of how many companies Lucent acquires, and six-year tail coverage for each acquisition.

A single underwriter, typically Syndicate 79, provides the coverage.

The facility was great for recent Lucent acquisition Ascend Communications, said Laura Larsen, Ascend's former cash and risk manager. Lucent acquired the developer, manufacturer and seller of wide-area networking systems in

See D&O on next page

Moving toward flat-fee legal billing system

By DAVE LENCKUS

Every litigated general liability and auto liability claim may be unique, but that doesn't mean every defense attorney's bill should be, according to Paul Buckley.

Mr. Buckley, treasury director-risk management for Lucent Technologies Inc., hopes to adopt the average-cost billing concept that health plans devised for reimbursing hospitals and apply it to a subset of Lucent's legal defense bills.

Lucent's risk management department currently is collecting data on the legal billing by a group

of four attorneys responsible for defending all of Lucent's general liability and auto liability claims. If the data show that those costs can be averaged out, Mr. Buckley hopes to develop a system under which risk management would pay the attorneys a flat fee for defending such cases.

If he succeeds in developing the system and persuading Lucent's attorneys to adopt it, both sides should come out ahead, he reasons.

For Lucent, flat-fee billing would mean that risk management's staff no longer would have to pore over legal bills to ensure their accuracy.

The data analysis also may reveal some billing fat that Lucent could trim later under a flat-fee billing system.

"If defense costs average \$2,600 for a certain type of claim, maybe we'll pay \$2,500," said Kevin T. O'Reilly, corporate counsel to Lucent's risk management department. "You can't tell me there isn't \$100 of fat in those bills," he said.

Mr. O'Reilly said he is not suggesting that law firms consciously are overbilling, "but an associate may be padding his hours to make himself look better," he said.

Mr. Buckley said the flat-fee sys-

tem also should trim the law firms' expenses by tremendously simplifying their expense-accounting and billing procedures.

"We want to get enough of their own data about the time that goes into an auto case, etc., so we can eliminate unnecessary billing and say, 'Here's what we'll pay you for the entire case; look at all of the accounting we've avoided,'" Mr. Buckley said.

Eliminating the need to keep track of fractions of an hour of work on a case for billing purposes is something "all of us would welcome," said Lucent regional coun-

sel Kenneth H. Lyman, a partner with Denver-based Hall & Evans L.L.C.

Mr. Lyman said he welcomes Mr. Buckley's efforts to streamline legal billing, which very few risk managers have attempted and even fewer have implemented.

He noted that another client, a product manufacturer, has taken a slightly different approach that has worked well for both the manufacturer and Mr. Lyman's firm. The company pays the law firm a quarterly fee to handle all of the company's expected product liability

See Legal on next page

D&O

Continued from previous page
June 1999.

The D&O runoff coverage that the facility provided to Ascend's board was equal to or broader than other coverage Ascend had priced, Ms. Larsen said. It also was much less expensive, said Ms. Larsen, now the benefits manager, with added responsibilities for risk management, cash management and the human resource information system at Zhong Technologies Inc. of Oakland, Calif.

The only "issue" that Ms. Larsen said she had with the facility was its capacity. But Mr. Buckley disposed of that concern quickly, said Ms. Larsen, who called Mr. Buckley and his staff "creative problem-solvers."

"What Paul and his group did when we said we didn't want to share limits, they said fine. We'll allocate them all to Ascend and establish a new facility" to cover the D&O runoff risks for Lucent's other acquisitions.

Mr. Buckley said risk management would accommodate other acquisitions similarly, if necessary.

The D&O runoff facility "was a product I was extremely proud of," because it fixed a problem that Lucent risk management and the company had, Mr. Buckley said.

The facilities saved Lucent \$835,000 last year, according to Mr. Buckley.

The D&O runoff facilities also should help ease claims handling for Lucent, because claims handling is kept among underwriters that Mr. Buckley knows, Mr. Stockton said.

In addition, "now we're an integral part of the M&A team," Mr. Buckley said. With that credibility, risk management persuaded Lucent management to dictate in all purchase agreements that Lucent risk management will procure D&O runoff coverage.

"It's one less thing that companies we acquire really need to be concerned with," observed Kevin G. DaSilva, assistant treasurer with Lucent and Mr. Buckley's immediate supervisor.

Mr. Buckley said what he liked most about the D&O runoff facility "is that no one had done it before," and now it is a product available to risk managers. "Now, when do you get an opportunity to do that in your lifetime?"

Mr. Buckley suggested, however, that such innovations could happen more often.

"The reason no one has done this before is because people have remained traditional," he said. "I don't have any insurance company baggage," which prompted Mr. Buckley to keep pushing for untraditional help from insurers.

BI

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RISK MANAGER OF THE YEAR

Legal

Continued from previous page

cases, and each side is protected from aberrations in the number of litigated cases.

The billing program results in budget stability for the company and a more uniform cash flow for the law firm, according to Mr. Lyman.

Lucent risk management is collecting billing data from the four attorneys whom Mr. Buckley has appointed as regional counsels in charge of managing all lawsuits stemming from general liability and auto liability claims filed against Lucent.

Mr. Buckley wants five years of billing data from the firms before risk management attempts to develop a fee schedule. Lucent risk management, however, will exclude data on unusually complex cases so that their high legal defense costs do not skew the average costs.

If the data ultimately show that a fee schedule is possible, risk management likely would have to develop separate schedules for each firm to account for jurisdictional differences, Mr. O'Reilly said. For

example, he said, some jurisdictions allow more discovery than do others, and that can drive up legal costs.

Even though data collection began in 1996, Lucent risk management has assembled only two years' worth of viable data to date, according to Arlene Polcari, the claim manager in Lucent's risk management department. Risk management had to discard the billing data from cases that had not been managed from start to finish under the regional counsel system that Mr. Buckley established. The cost of those cases ran higher than those managed by the regional counsels, she explained.

Lucent risk management has hired bill review vendor Examen Inc. of Sacramento, Calif., to analyze the data.

Lucent's regional counsels initially resisted Mr. Buckley's efforts to collect and analyze their billing. Bill review "seemed to hit a sore spot with the attorneys," Ms. Polcari said.

That was because of their past experience with bill review vendors, explained Mr. Lyman, who manages Lucent's litigation in 12 states, including Texas, in the Rocky Mountain region.

Mr. Lyman said insurers typically retain bill reviewers to cut costs and the reviewers accomplish that by enforcing "artificial" billing guidelines and "arbitrarily" rejecting some of the attorneys' legitimate expenses.

For example, he said, the services often refuse to cover the cost of clerical tasks, as well as any hours that an attorney works on a case beyond an eight-hour workday or on a weekend.

"It's a colossal source of friction between attorneys and clients," Mr. Lyman observed.

Mr. Buckley defused the conflict by explaining his plans to the attorneys and by assuring them that he would use and compensate the bill review service only to gather data and not to reduce or manage their fees.

Indeed, Mr. Buckley set up the data-gathering process as a collaboration between the bill reviewer and the attorneys, with an ultimate goal of establishing a database that would benefit both Lucent and the attorneys.

As a result of Mr. Buckley's efforts, Mr. Lyman said, "this has gone very smoothly." **BI**

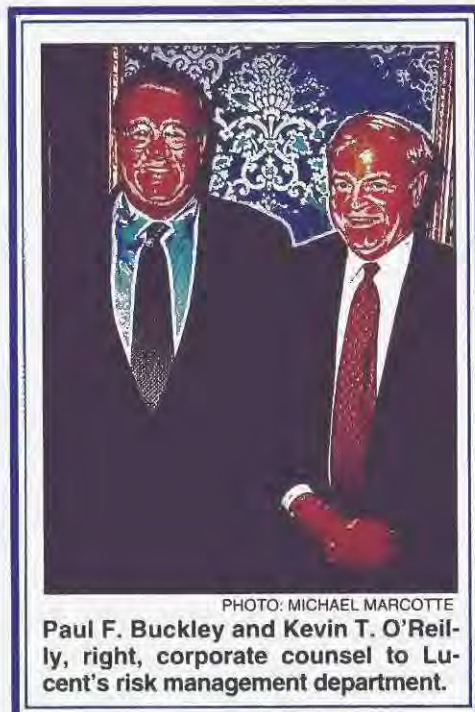


PHOTO: MICHAEL MARCOTTE
Paul F. Buckley and Kevin T. O'Reilly, right, corporate counsel to Lucent's risk management department.

Vermont-based captive provides flexibility

By DAVE LENCKUS

Cheap commercial property/casualty insurance was not attractive enough to lure Paul F. Buckley to the soft marketplace in 1996 to finance Lucent Technologies Inc.'s portfolio of risks.

Mr. Buckley, Lucent's risk manager, wanted more for the brand new communications networking spinoff of AT&T Corp.

He wanted budget stability for Lucent's business units, and he wanted Lucent risk management to control policy wording.

He also wanted risk management administrative efficiencies.

With Vermont-based captive insurer First Beacon Insurance Co., Mr. Buckley has met his goals.

Mr. Buckley, though, did not decide in a vacuum to finance Lucent's risks through a captive.

The process began early in the nine months before Lucent was completely spun off in October 1996. During that period, Mr. Buckley and his staff had to line up coverage for the portfolio of risks that the new communications networking company would face.

The easy way would have been to mirror the risk-financing approach that AT&T had taken.

But that approach would not have taken into account that manufacturing represented a much larger source of income at Lucent than it did at AT&T, which meant that cash flow at Lucent would be more seasonal and less predictable than it was at AT&T. Budget stability as well as reduced costs and streamlined administration would be critical for the operation managers of Lucent's business units as the company jettisoned away from AT&T.

Mr. Buckley, who was recently promoted at Lucent to treasury director-risk management, said all of those factors suggested strongly how best to structure Lucent's risk-financing program but that he wanted confirmation.

To that end, the risk management department used sophisticated loss analysis tools to quantify and stratify Lucent's risks to assess the risk-financing options available.

Mr. Buckley also conducted a strategic risk assessment survey among Lucent's top management.

He surveyed them on what they considered Lucent's major risks, regardless of whether they were insurable, and how much risk they judged the company should retain.

The findings supported Mr. Buckley's conviction that a captive would be the most advantageous risk-financing vehicle for Lucent, largely because of the budget stability it promised for Lucent's business units.

As for the uninsurable risks that management identified, Mr. Buckley summarized those in a report for the survey group to ensure that they at least were aware of the concerns

that management in various areas had about the company.

Marsh Management Services Inc. of Burlington, Vt., manages First Beacon, handling accounting, regulatory and tax matters. In addition, data from First Beacon is reviewed and analyzed by Morristown, N.J.-based FMAC Insurance Services, which is a unit of Bay View Capital Corp.

First Beacon covers numerous risks for Lucent: property; general liability, including product liability and some professional liability; auto liability; transit; marine cargo; risks covered as part of Lucent's owner-controlled insurance programs for construction projects; Lucent units' contractors all risk coverage; and some credit and environmental risks.

While Mr. Buckley is president of the captive, he appointed a board consisting of representatives from Lucent's tax and legal departments. The board's makeup, according to Lucent's insurance brokers, has assured that underwriting decisions reflect Lucent's legal and tax interests.

It also has led to high-level risk management advocates at Lucent, they said.

The results have been what Mr. Buckley had sought.

First Beacon operates at a 97% combined ratio, compared with the 86% average combined ratio reported by other Vermont captives. That near-100% combined ratio means that the premiums paid by Lucent's business units only cover predictable losses and the cost of Lucent's outsourced claims-handling operation. No part of the written premium represents a profit component for the captive, Mr. Buckley stressed.

"Our objective is to pay out 100 cents for every dollar we take in and grow our net income only through the investment process," Mr. Buckley said.

Indeed, he said, when calculating premiums First Beacon even considers a portion of anticipated investment income.

Mr. Buckley also cut the number of policies the operations had while still part of AT&T but still lined up comparable protection by combining some policies.

And, Lucent has adopted tough loss control standards.

As a result of all of those factors, Lucent's business units pay about half what they would have to pay for coverage from commercial insurers, Mr. Buckley said.

"At the end of the day, they can't do it any cheaper," Mr. Buckley observed.

The captive, however, does not yet assess premiums based on each business unit's individual experience.

"Lucent is too young to do that now," Mr. Buckley explained. The AT&T operations that were combined and then spun off to form Lucent brought their claims history with them to the new company. The structure of the operations, however, has changed drastically, and

Lucent has acquired more than 30 companies since spinning off from AT&T 4 1/2 years ago, Mr. Buckley explained.

The time to individually rate Lucent's business units is approaching, however. Mr. Buckley said he hopes to begin individual rating after analyzing five years of experience data.

Lucent's business units are not subject to any deductibles or self-insured retentions for their casualty risks. That gives them the budget stability Mr. Buckley had sought.

"If you have a deductible and there is a long-tail loss, two to three years down the road it wreaks havoc with the business units' budget," Mr. Buckley explained. "If there is unfavorable loss history, we have reinsurance."

Business units are subject to deductibles for property losses, however.

Lucent risk management, though, is working on eliminating the property deductible and improving business units' budget stability further. Risk management has been unable to eliminate the deductible so far because of a lack of pre-1996 data on property losses that fell below deductibles. After risk management collects a sufficient number of years' worth of property loss data, it will be able to structure property premiums so it can eliminate deductibles, Mr. Buckley explained.

First Beacon retains a "significant" amount of risk and cedes the remainder to about two dozen global reinsurers, according to Mr. Buckley.

First Beacon's three-year property reinsurance is written on a quota-share basis.

In 1996, Mr. Buckley negotiated a one-year policy because the market was very soft and was expected to soften further. He said he also felt he had to get his "arms around" some loss control issues.

The following year, he negotiated the three-year policy. But, more comfortable with Lucent's loss control and concerned about missing out on further market softening, Mr. Buckley arranged a 15% rate cut in the policy's final year if losses were low during the first two years of coverage.

They were. As a result, even though Lucent's property values grew to \$33 billion from \$29 billion during the policy period, First Beacon paid nearly \$1 million less in premium for the third year of coverage than it would have if Mr. Buckley had not negotiated the rate cut.

Aon Risk Services Inc. places the property reinsurance.

First Beacon's casualty reinsurance also is a three-year policy. It is written on a layered basis. Marsh USA Inc. places the coverage.

Reinsurance attachment points and limits vary by risk.

In Lucent's first four years, the captive's loss experience has been good, according to Mr. Buckley. "We've never gotten close" to reaching any aggregate policy limits.

Still, with an all-lines basket aggregate rein-

urance policy, Mr. Buckley has ensured that the captive's equity is protected if Lucent were to suffer a catastrophic year of losses that blew through the captive's aggregate retentions.

The basket aggregate reinsurance attaches at an amount that equals the captive's annual premium volume plus expected investment earnings. The limit of the basket aggregate covers the captive for losses from that attachment point to its ultimate exposure under its various reinsurance treaties.

The Hartford Insurance Group writes the basket aggregate reinsurance. Aon Risk Services places it.

"If I ever go into the basket aggregate (coverage), we've had a terrible year," Mr. Buckley said. "It is pure catastrophic protection of the captive. I never expect to breach that."

Indeed, because of Lucent's good experience, First Beacon's property reinsurers dropped the captive's aggregate loss retention by \$500,000 last fall and reduced their premiums about 15%, Mr. Buckley said.

Besides the relatively inexpensive coverage and the budget stability that First Beacon provides Lucent, the captive also gives Mr. Buckley and his staff great flexibility in manuscripting coverage terms and conditions.

"I don't think I have an ISO policy," Mr. Buckley said, referring to the standard forms issued by the Insurance Services Office Inc.

Among the coverages Mr. Buckley developed that demonstrate this flexibility is the trade credit policy. That policy also gives Lucent's business units an edge against competitors (see story, page 91).

First Beacon's manuscripted coverage also assured that Lucent was covered and the captive was reinsured for Year 2000 computer bug-related losses regardless of whether Lucent sustained any physical damage to its computer equipment.

The captive's reinsurance protection, however, did not come without some hard-nosed negotiating by Mr. Buckley beginning in February 1998. At that time, Mr. Buckley told his property reinsurers that they had until June that year to remove provisions included in First Beacon's coverage terms that would allow the reinsurers to back out of the coverage they wrote if they lost their retrocessional protection. This provision applied to all retrocessional coverage, although the real issue was Y2K claims.

Mr. Buckley warned reinsurers that if they did not remove this provision that he would replace them on the risk. "If I had to take Y2K wording, I wouldn't take it from any of them."

The reason: "After reviewing all of our policies, we concluded that the policies spoke for themselves," Mr. Buckley said. First Beacon's manuscripted policies covered data losses due to Y2K computer bug problems even if the losses did not result from damaged equipment.

Mr. Buckley also would not accept any

See Captive on next page

RISK MANAGER OF THE YEAR

Captive's advantages building for Lucent

By DAVE LENCKUS

A captive insurer can be more than a cost-efficient, alternative risk-financing vehicle, Paul F. Buckley has found.

It also can give its parent company competitive advantages.

For Lucent Technologies Inc., one advantage is the low cost for contractors all-risk insurance that the communications networking giant can include in its bids for building networking systems for clients.

The CAR coverage costs Lucent's business units 60% less than similar commercially available coverage, according to Mr. Buckley, treasury director-risk management.

Another advantage is the trade receivable program the captive allowed Mr. Buckley to develop for Lucent. The program provides Latin American customers more attractive credit terms than they could arrange if they purchased supplies from Lucent's competitors. It also provides credit protection for Lucent.

The CAR program is available

for domestic as well as overseas construction projects, but it is used more on overseas projections.

Unlike owners of major construction projects domestically, owners of projects overseas often do not arrange wrap-up insurance programs to cover themselves and their contractors, explained Mr. Buckley.

Turnkey project owners typically require builders to arrange all-risk insurance that covers both the builders and the owners until the builders turn over the completed system to the owners.

Before 1997, some Lucent units did not realize that Lucent's Vermont-based First Beacon Insurance Co. covered them for their obligations as contractors.

Mr. Buckley made this clear after a February 1997 loss at a construction project in Thailand highlighted the need for risk management to take a more high-profile role in Lucent's construction projects.

Lucent's global property/casualty program covers the company for its own as well as third-party losses that occur during the course of construction projects.

But some business units did not inform risk management about those projects, which meant the captive did not underwrite those projects.

In addition, unknown to Lucent project managers purchased separate coverage for the projects locally. The manager of the Thailand project was among those.

After some new cable was damaged at the Thailand project site, both Lucent and the local insurer on the risk sent loss adjusters to the scene.

See Credit on next page

Captive

Continued from previous page

"clarifying" policy language. Underwriters "were trying to put language in that I thought was confusing" and may have created coverage questions where none existed before, Mr. Buckley explained. For example, one "clarification" would have noted that direct physical damage to a computer was a covered peril.

"I don't need my policies clarified. I had coverage," Mr. Buckley asserted.

"One of the problems we ran into was that companies didn't have positions yet" in 1998 on how they were going to handle the Y2K bug risk, Mr. Buckley said. But, that was not Lucent's problem, he added.

The other option Mr. Buckley offered "in fairness" to the captive's reinsurers was that they could provide First Beacon their net line of coverage if covering the Y2K bug risk created problems with their retrocessionaires.

To ease the markets' concerns, though, Mr. Buckley met with each one to explain how Lucent was trying to avoid any millennium bug losses.

One blanket property reinsurance underwriter insisted in March on excluding coverage for the Y2K risk.

"That annoyed me," Mr. Buckley said. "They were cookie-cutting me, not underwriting me. It really bothered me."

Mr. Buckley immediately fired the reinsurer, which had participated in Lucent's and AT&T's programs for nearly eight decades. The long-term reinsurer months later wanted a second crack at staying on the program. But Mr. Buckley did not give it the opportunity, out of fairness to those who lined up to fill out his program.

"Paul kept his word," noted Craig O'Connor, who now is an insurance specialist on Mr. Buckley's staff but at that time was a broker with Aon. "As a broker, that was huge."

Many of First Beacon's other reinsurers "stepped up right away and did what they weren't doing for others," which was providing coverage with no Y2K computer bug exclusions, Mr. O'Connor said.

Overall, Mr. Buckley had to replace a fraction of First Beacon's reinsurance program, which four reinsurers had underwritten.

In the end, the slight change in reinsurance saved the captive \$90,000, he said. That happened because two large international property reinsurers that joined the program wanted to participate on the lower layer of coverage for First Beacon. To accommodate them, Mr. Buckley expanded the layer by \$100 million of limits.

That change pushed up the attachment point for the blanket property reinsurers, which cut First Beacon's net property reinsurance costs by \$90,000. **BI**

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RISK MANAGER OF THE YEAR

Credit

Continued from previous page

When the local insurer learned that Lucent had sent an adjuster because the loss was covered by a global program, the local insurer refused to respond to the loss, Mr. Buckley said. The local insurer argued that Lucent's coverage was primary because of the "other insured" provision it contained.

Lucent argued that the local insurer's policy also contained an "other insured" provision and should be the primary coverage.

The coverage dispute lasted nearly one year, Mr. Buckley noted. "In the interim, we had a customer whose claims weren't being paid."

Ultimately, Lucent agreed to cover about 70%, or \$1 million, of the loss.

The loss annoyed Mr. Buckley. "Our project manager paid a premium to the local insurer" for coverage that did not fully respond, he said.

The loss, however, led to some important risk management improvements at Lucent, as well as a competitive advantage for the company.

First, risk management no longer has to worry about other units or

project managers purchasing redundant coverage. Shortly after the Thailand incident, Donald K. Peterson, who has been an executive vp and the chief financial officer for Lucent, issued a policy letter in which he gave the risk management department sole authority in the company to arrange risk financing. Mr. Peterson is leaving Lucent to become president and chief executive officer of the enterprise networks operation that Lucent plans to spin off.

Second, Lucent risk management now underwrites the CAR coverage through First Beacon. The captive charges business units premiums and structures terms and conditions for the coverage.

For each project, risk management begins with restrictive policy wording, but then it broadens coverage by endorsement to meet contractual terms and conditions. It does that so that project owners named as additional insureds on Lucent's property coverage do not try to take advantage of coverage that Lucent has—such as hurricane coverage—but that Lucent is not obliged to provide as part of the CAR coverage, Mr. Buckley explained.

When local regulations bar the

captive from writing the coverage directly, a fronting insurer writes the coverage, and First Beacon reinsures the front as much as possible under local law.

Third, with First Beacon writing the CAR coverage, Lucent can meet its construction contractual terms and conditions quickly.

Fourth, because Lucent funds only to cover losses and has implemented strong loss control measures, the rates that its business

Because the trade credit program allows Lucent to offer longer-term financing to meet customer needs, "this gives us a competitive advantage."

— Paul F. Buckley

units pay average 60% less than the rates commercial insurers charge for the coverage, Mr. Buckley said. That gives the business units a competitive advantage when bidding for projects.

Mr. Buckley said that pulling together the trade credit program be-

came a "real treasury effort" after he approached treasury officials with some ideas for moving balance sheet items into the captive.

The program, which has been available about eight months, is designed for suppliers that purchase their products from Lucent and need longer credit terms than Lucent typically provides because their inventory turnaround time is longer.

The problem these customers face in trying to arrange bank credit for these purchases, typically valued at a couple of hundred thousand dollars, is that many banks are looking for much bigger deals, Mr. Buckley explained.

Now, Lucent clients involved in relatively small projects have an easier time lining up credit.

Normally, Lucent offers 30-day payment terms to clients.

But, for example, a cable wholesaler in Venezuela may want extended terms because it needs additional time to sell the cable to an end user.

Rather than making the client arrange financing locally at the prevailing interest rate, the credit program allows Lucent to offer financing terms at a lower interest rate. Lucent finances the deal at the

sovereign interest rate, or the lower rate that a country's banks offer only to their government.

"This gives us a competitive advantage," because Lucent can offer the longer-term financing that meets customers' needs, Mr. Buckley said.

To maintain a consistent revenue stream, Lucent arranges financing of the receivable through Bank One. The receivable amounts to the sale price, including the interest Lucent is scheduled to collect from the client.

Bank One remits to Lucent the sale price and charges Lucent interest on the total receivable.

First Beacon then charges Bank One a premium based on the total receivable. The premium is calculated using a formula that incorporates two interest rates: the sovereign rate in the country of Lucent's client and a discounted rate.

Under this program, the credit arrangement is enhanced by a comprehensive all-risk credit policy issued by First Beacon, rather than a credit guarantee issued by Lucent.

While the program currently is available only to Latin American clients, Lucent is exploring offering it in Europe and possibly in the United States. **BI**

High-tech efforts increase department efficiency

By DAVE LENCKUS

From property insurance submissions to litigation management, high technology drives data through the risk management department at Lucent Technologies Inc.

Technology also is a leading driver of departmental efficiency and is helping make risk management even more effective, according to Paul F. Buckley, treasury director-risk management.

Among Mr. Buckley's several high-tech efforts is the property insurance submission in a CD-ROM format that his department is preparing with broker Aon Risk Services Inc. Mr. Buckley said he intends eventually to make all of Lucent's insurance submissions on CD-ROM.

Mr. Buckley predicts that the submission, which likely will go to market in May for Lucent's October renewal, will benefit underwriters.

Perhaps the most obvious advantage is that the single CD will be far less cumbersome than the reams of paper in a traditional coverage submission.

More significantly, though, the CD format will provide underwriters with far more information without making the submission unwieldy.

For example, the submission will include loss reports broken down by country, pictures of Lucent properties and all loss reports for each Lucent site, instead of just the latest report.

And after they download the submission onto their computers, underwriters will be able to sort the data in any way they choose.

Mr. Buckley said that expected cost savings alone have not driven his effort. The CD submission reflects Lucent's status as a leading-edge, high-tech company, and it demonstrates the professionalism of the risk management department, he said.

Mr. Buckley acknowledged that he cannot prove how the submission will be of benefit to Lucent in the market. "But if you submit a good professional submission to the marketplace, I believe it will be reflected in your pricing."

The cost of developing the CD submission was between \$15,000 and \$20,000, compared with the \$10,000 that a traditional submission costs to prepare.

The next property submission in the CD-ROM format, however, should cost Lucent only \$5,000, Mr. Buckley said. And, with one CD submission already completed, risk

management will not incur startup costs when it prepares submissions for other lines of coverage on CD-ROM, Mr. Buckley said.

Another high-tech effort is a 10-month-old Web-based litigation case file system, which Mr. Buckley calls a "critical component" of Lucent's litigation management process.

The custom-built system, which has drawn rave reviews from Lucent's regional counsels for litigated general liability and auto liability claims, does not contain every scrap of information on a case. But it places at the attorneys' and Mr. Buckley's fingertips volumes of critical claim and litigation information that otherwise would be far more inconveniently filed away.

The system also allows the attorneys and Mr. Buckley to communicate better.

Some of the more-basic claim information that the system provides includes the details of a claim and names all the parties, including the claimant, attorneys and adjusters.

But the biggest advantage of the system is that it helps the risk management department evaluate claims by providing far more information and in a more convenient and consistent format than the department had before, according to Mr. Buckley.

For example, prior to Lucent's attorney attending a settlement conference in a bodily injury case, Mr. Buckley can use the system to review videotaped depositions and examine the medical records that the plaintiff has entered into evidence. Mr. Buckley has better and more information about the case, so his attorneys do not have to spend as much time writing long evaluation reports and reviewing the case with him.

The system also automatically reminds users of important dates. For example, the system reminds Lucent's attorney, claims adjuster, third-party administrator and risk management about the initial case conference that Mr. Buckley wants held within 30 days after a lawsuit is filed. The system also will alert risk management about the deadlines for filing litigation notices with insurers.

Besides litigation management, the system also is a risk management tool, Mr. Buckley noted. For example, he can pull up a report on slip-and-fall cases that will allow him to identify whether an unusually large proportion of those cases are attributable to a certain type of surface or occur around the same time of day.

Another important advantage of the system is that it is Web-based, which means it

is available to Mr. Buckley and his attorneys any time and anywhere they have Internet access.

Eventually, Mr. Buckley wants all of the pleadings for all cases put online. He also would like to see Lucent's national contracts online so they would be readily available when Lucent faces litigation involving contracts.

The system, which insurance and risk management solutions provider Mitratch Corp. of Los Angeles is developing, eventually will feed into the risk management data warehouse that is currently under development. The data warehouse will be one central location where the risk management department and Lucent executives can access virtually any type of risk management data, including policies, claim information, billing and automobile fleet records.

Another high-tech tool that the risk management department depends upon heavily is its intranet system. Mr. Buckley said that a dozen risk managers have visited Lucent to take the system for a test drive.

With a staff of only six professionals, Mr. Buckley said, "you've got to think of different ways to do things" to help them avoid

some time-consuming tasks that could delay the completion of larger projects.

The intranet system helps the department run efficiently, in large part because the information source minimizes the number of phone calls from Lucent business units.

Users of the intranet can find Lucent's risk management manual, description of the company's various insurance programs, claim filing procedures and online claim forms.

With insurance policies and claim forms available online, the department is pushing much less paper. "You don't want to mail out 900 copies of a change in an endorsement" to an insurance policy, Mr. Buckley said.

The loss control page is a tremendously efficient tool, according to Dennis Gemignani, an Aon Risk Services Inc. engineer who is assigned as Lucent's full-time director of loss control.

Among other things that business units can find on the Web page are site inspection schedules, Lucent's fire protection standards and links to loss control service providers and to various property protection associations. **BI**



PHOTO: MICHAEL MARCOTTE

Paul F. Buckley, center, with representatives of Aon Risk Services of New York, left to right: James C. Ash, managing director-strategic account management; Warren Mula, executive vp and managing director; Tom Drag, senior vp; and Joseph R. Cirone, an account executive for Aon Consulting in Parsippany, N.J.

RISK MANAGER OF THE YEAR

Lucent spinoff to put new spin on workers comp

By DAVE LENCKUS

Four years after building a risk management program for a multibillion-dollar telecommunications spin-off company, Paul F. Buckley is at it again.

Mr. Buckley, treasury director-risk management for Lucent Technologies Inc., has been charged with constructing a program for Lucent's enterprise networks division, which Lucent plans to set up as a separate company on July 1. Lucent, itself a 4-year-old spinoff from AT&T Corp., plans to completely spin off the new, yet-unnamed company on Sept. 30.

The new company will not have its own risk management department immediately.

The new spinoff will have an impact on Lucent's risk management department. 'The risk manager likely will come from the existing staff I have.'

— Paul F. Buckley

The division reported \$8 billion of revenue in 1999 from the production and sale of voice-mail and telephone systems for business. It has 34,000 employees.

In building a new risk management program, Mr. Buckley faces a variety of challenges that he cannot overcome simply by copying the award-winning program he has built for Lucent.

Perhaps most notably, unlike at Lucent, the new company's risk management department will be responsible for workers compensation.

Some similarities between the two overall risk management programs are expected. For example, Mr. Buckley plans on financing many of the new company's property/casualty risks through a new Vermont-based captive. As is Lucent's Vermont captive insurer, the new company's captive will be managed by Marsh Management Services Inc.

Mr. Buckley has enlisted Bruce A. Bay, who retired in April as Lucent's third-party administrator account executive, to aid him with policy management and placement issues. Mr. Bay now is president of risk management consultant Bruce A. Bay & Associates Inc. of Eureka, Mo.

But just as Mr. Buckley did not merely replicate AT&T's risk management program when he was building Lucent's, he plans on giving the new company's program its own signature.

"It will not be a copy of ours," Mr. Buckley asserted.

Perhaps the biggest challenge will be in bringing the workers comp function under risk management at the new company.

At Lucent, as at a few other companies that once were all part of the Bell telephone system, human resources is responsible for workers comp.

One of the difficulties in moving workers comp into risk management at the new company will be capturing all of that operation's

workers comp data, Messrs. Buckley and Bay agree.

Mr. Buckley explained that workers comp has been covered a variety of ways—including through traditional insurance, self-insurance and retrospectively rated programs—over the years at Lucent and before 1996 at AT&T. As a result, capturing all workers comp data will be difficult because the data is not centrally maintained, he said.

"So it creates a challenge—not a problem," Mr. Buckley observed.

Currently, about 60% of Lucent's workers comp risk is self-

insured and self-administered.

The remainder is covered through a large-deductible program. That is how Mr. Buckley plans to cover the risk at the new company, because the company will be too young to qualify as a self-insurer.

The historical information is critical for a couple of reasons, Mr. Bay noted.

Underwriters need it to get a sense of the new company's exposures and its loss picture.

In addition, because the new company will take responsibility for existing claims filed by work-

ers in the enterprise division, Lucent needs accurate reserving data for self-insured losses. Without that, Lucent risks losing capital to the new company by allowing it to overreserve. Conversely, without accurate data, the new company could wind up underreserved for losses.

A potential issue that Messrs. Buckley and Bay plan to address up front is the culture shock employees may feel when they move into a more traditionally insured program with features like case management and return to work.

A different challenge that the

new company likely will create for Mr. Buckley is its impact on his staff.

When the company establishes its own risk management department, it likely will draw some professionals from his own staff, he said.

Indeed, "the risk manager likely will come from the existing staff I have," Mr. Buckley said.

"From a personal side, it creates another challenge" in Lucent's risk management department, he said. "But I would never hold back one of my people for my own ease of life."

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RISK MANAGER OF THE YEAR

Buckley started at the top—of a telephone pole

By DAVE LENCKUS

Paul F. Buckley took the first step in his risk management career shortly after high school, though somewhat grudgingly and with little idea where his new job would lead him.

At that time, in the early 1970s, Mr. Buckley was just appeasing his father by giving up the high hourly wages but unsteady work as a laborer. The younger Mr. Buckley found steadier work climbing telephone poles in the boondocks, splicing cable and installing and repairing equipment for what was then New England Telephone Co.

But sometime over the following quarter century, during which he also learned to manage claims, something changed Mr. Buckley's mind.

He became "passionate" about both his work and the telephone/communications industry.

Four years ago, eager to test the risk management ideas he had formulated for years as AT&T Corp.'s claims manager, he sought and won the position as risk manager for AT&T spinoff Lucent Technologies Inc.

This year, a panel of 10 independent judges determined that his ideas and their execution had earned Mr. Buckley the 2000 *Business Insurance* Risk Manager of the Year Award.

Looking back now, Mr. Buckley, treasury director-risk management for Lucent, says he sees how he has had to draw on all of his life's experiences to build and run Lucent's risk department. "Every skill I have—from being a politician's son, to a lineman to a claim manager—every skill I've needed on this job."

The politician was his mother. She was elected to the Democratic State Committee in Massachusetts in 1960, to the Brockton, Mass., city council in 1970 and to the Massachusetts Senate in 1972. Ms. Buckley, who retired from the Senate in 1988, was among the first women elected to that legislative chamber.

Ms. Buckley also was a member of the Electoral College in 1976. Mr. Buckley proudly points out that she is one of the few people

who directly have cast a vote for a U.S. presidential candidate during a general election.

Mr. Buckley did not turn to the telephone company for steady work on a lark. His father was a second-generation telephone company worker, who later retired as an installer/repairman for New England Telephone. The elder Mr. Buckley's mother had been a chief operator for the company, now a part of NYNEX.

Mr. Buckley, his two older brothers and two younger sisters were reared in Brockton, a working-class community nicknamed Shoe City. Brockton also is the hometown of boxing greats Rocky Marciano and Marvin Hagler.

In 1971, Mr. Buckley's father pressed him to take the telephone job, maintaining that the steady work hours would make up for the lower pay.

"I didn't believe him, but I took the job anyway," recalled Mr. Buckley, now 48. He found he did like the steady hours.

As his father had done, Mr. Buckley started as a lineman. Over the next four years, he moved up to positions as a cable splicer, an installer/repairman and a foreman.

In 1975, though, the company was downsizing. That prompted Mr. Buckley to leave, but his departure and subsequent new job would blaze a path for him back to the telephone industry and into risk management.

Because the Massachusetts attorney general was a friend of the Buckley family, Mr. Buckley landed a position in the attorney general's consumer protection division.

"I went to work for some great guys who really taught me how to investigate," Mr. Buckley said.

Three years later, though, Mr. Buckley wanted to return to private industry. He managed to hook up again with New England Telephone as a repairman.

Mr. Buckley thought he would be able to use his investigations background to move into the company's security department.

New England Telephone, though, wanted help to ensure that it was fairly settling third-party claims against it so it would not run afoul of the state's 3-year-

old consumer protection law, which carried stiff penalties for violators. The familiarity with the law that Mr. Buckley gained during his tenure with the attorney general's office helped him land a position in the self-insured company's legal department investigating and managing claims.

Mr. Buckley also found that his experience during his early years at the phone company also was a big advantage in managing claims, because many claims involved how the company set poles or buried cables.

He eventually became responsible for working with defense attorneys on the most serious and complex claims filed against the company.

Five years later, New England Telephone was headed toward another shakeup, as was the telephone industry. The U.S. Justice Department in 1982 had ordered AT&T to divest itself of 22 local telephone systems, which had to be reorganized by 1984 into seven regional holding companies, or "Baby Bells."

In 1983, AT&T subsidiary AT&T Information Systems Inc. of Warren, N.J., chose Mr. Buckley as its corporate insurance and claims manager for the claim department the company was creating. AT&T Information Systems was a deregulated equipment sales subsidiary of AT&T, which still was a regulated monopoly at that time.

The claim-management model that Mr. Buckley designed so impressed AT&T officials that AT&T adopted it companywide. AT&T centralized claims management for all of its units under Mr. Buckley two years later.

"I was pretty pleased where I was then at that point in my career," Mr. Buckley said.

Though Mr. Buckley remained AT&T's corporate insurance and claims manager until 1996, several more changes lay ahead for him, beginning in the late 1980s.

In 1988, he moved to Denver to consolidate three Western region AT&T claims offices. He initially agreed to only a two-year relocation, but he "fell in love with Denver" and remained there until April 1996.

Two years after moving to Denver, other changes at AT&T would



PHOTO MICHAEL MARCOTTE

Paul F. Buckley with his family, from left: daughter Anna Buckley, wife Lorraine and daughter Kate Buckley.

help prepare Mr. Buckley for the global risks he oversees now at Lucent.

AT&T moved its claims-handling function to risk management from security. In addition, the Denver claims office assumed sole responsibility of all U.S. claims-handling operations for AT&T's captive insurer.

The claims department's move to risk management gave Mr. Buckley the opportunity to learn about risk financing from then-AT&T risk manager Barbara Babiak.

"She taught me a lot about risk-financing strategy," he said.

As he learned, Mr. Buckley grew eager to test his own ideas. The problem was that he was not in a position to do so.

That changed in September 1995, when AT&T executives announced they were spinning off the company's communications systems and technology operation.

As a result of the breakup, the three new companies could sell their products and services to customers other than AT&T.

When Mr. Buckley saw which AT&T executives would be running the company that eventually would become Lucent, he began lobbying for the risk manager's position. "I knew it was going to be a great company," because the management team consisted of what Mr. Buckley described as "risk takers."

He said he felt that a management team like that would give him the opportunity to design a

risk management program that incorporated his ideas.

In December 1995, Mr. Buckley was appointed risk manager of the company.

"Everybody said I took a huge gamble," Mr. Buckley recalled. He was moving to a new company and tripling his mortgage by moving back to New Jersey.

"But I never saw it as a gamble. I saw it as an opportunity," he said. "I had the opportunity to see if my ideas at AT&T would work," he explained. "I'd die to be on a learning curve at the end of my career."

Mr. Buckley was assigned his staff in January 1996. Over the next nine months, the team focused on evaluating the company's risks and designing and implementing a risk-financing program to protect the company when AT&T fully divested it on Oct. 1, 1996.

The effort led to a reduction in policies, broader coverage and significantly lower costs than brokers had estimated for Lucent. In recognition of the team's accomplishment, Lucent presented it the company's CFO Recognition Award in 1997.

Mr. Buckley's hobbies include golf, Caribbean cruises and reading, especially biographies of figures of historical significance.

He and his wife of 29 years, Lorraine—a former schoolteacher who also works at Lucent in customer relations—live in Mount Olive, N.J. They have two daughters: Kate, 27, and Anna, 23. **BI**

Buckley honored by friends, family, colleagues

By DAVE LENCKUS

The playful verbal sparring that Paul F. Buckley typically likes to provoke with his management, staff, vendors and friends gave way to kudos and touching sentiments at the luncheon honoring Mr. Buckley as the 2000 *Business Insurance* Risk Manager of the Year.

Mr. Buckley, treasury director-risk management for Lucent Technologies Inc., was selected for the 23rd annual award in voting by 10 independent judges. *Business Insurance* Publisher/Editorial Director Kathryn J. McIntyre, Editor Paul D. Winston and

Senior Editor Dave Lenckus presented Mr. Buckley the award, signified by a crystal obelisk, in Morristown, N.J., on April 7.

'I promise I'll be the best ambassador for risk management. I look forward to that.'

— Paul F. Buckley

Opening his acceptance speech, Mr. Buckley said he felt "honored and humbled."

"And that's unusual for me," he jested.

"I promise I'll be the best ambassador for risk management," he told the gathering of nearly five dozen. "I look forward to that."

Mr. Buckley began thanking an extended list of management, staff, associates and loved ones by noting that, as a native of Massachusetts, he subscribes to "the John Kennedy theory: If you're not the brightest star in the sky, surround yourself with them."

He began by thanking Meg Walsh, Mr. Buckley's original immediate supervisor at Lucent and someone Mr. Buckley often reminisces about fondly.

Ms. Walsh, who was a vp and treasurer, died several years ago



PHOTO MICHAEL MARCOTTE

Paul F. Buckley (center) holds the Risk Manager of the Year Award presented by (from left) Editor of *Business Insurance* Paul D. Winston, Senior Editor Dave Lenckus, Publisher/Editorial Director Kathryn J. McIntyre and Associate Publisher/Advertising Director Martin J. Ross III.

Continued on next page

RISK MANAGER OF THE YEAR

Continued from previous page while giving birth.

She gave Mr. Buckley the wide latitude necessary to try some creative approaches to risk management.

"Meg said to me, 'You have a free hand' " in building Lucent's risk management department. "Do what you can do to make it the best in the industry," he recounted for the audience.

Mr. Buckley's current immediate supervisor, Assistant Treasurer Kevin G. DaSilva, "was a blessing to us with his strong, quiet leadership," Mr. Buckley said. "He pushed us in the direction we needed to go by asking the right questions."

Also on Mr. Buckley's list of ap-

preciation were:

- His risk management staff.

He cited in particular Kevin T. O'Reilly, corporate counsel to risk management, for his willingness to make decisions; Claims Manager Arlene Polcari, whom Mr. Buckley "would recommend for any claim job out there," and Senior Treasury Manager Thomas J. Edridge, whom he called "one of the best underwriting guys" he has met.

- The staff in Lucent's finance department.

Mr. Buckley said the finance personnel and management have helped him to understand the financial side of Lucent's business.

- Several former and current insurance brokers.

Mr. Buckley thanked the brokers who supported his plans to take risk management in a new direction at Lucent, helped him understand insurance policy construction and were not afraid to be honest with him.

- His insurance markets.

Mr. Buckley said his insurers have been "great partners."

"Without them, we probably would not have gotten where we needed to be," Mr. Buckley said.

- The four attorneys responsible for handling all litigated general liability and auto liability claims against Lucent.

Mr. Buckley also paid tribute to several members of his family in attendance at the award lun-

cheon, including his mother, brother, sister and godson.

Mr. Buckley became a little emotional when he saluted his wife of 29 years, Lorraine, and his two daughters, Katie and Anna.

Mr. Buckley closed as he had opened his remarks by honoring someone close to him who has passed away.

He said he was sure that his father, whose gift to him was a "great sense of humor," was looking down on him that day.

Among those in attendance at the luncheon who congratulated the Risk Manager of the Year was Mr. DaSilva.

He credited Mr. Buckley with being a "very patient" teacher of risk management.

"My questions may not have been on the mark as much as he implied," Mr. DaSilva added.

Broker Annemarie E. Tobin, the Lucent account executive with Marsh USA Inc. in New York, called Mr. Buckley "a great guy to work for."

Ms. Tobin, a senior vp with Marsh, explained: "It doesn't matter who you work for—you work for Buckley."

Broker Thomas Drag, a senior vp and the Lucent account executive with Aon Risk Services Inc. in New York, described Mr. Buckley as "demanding but fair" and a "unique person."

"Some relationships transcend business," Mr. Drag said. "When it happens, it's wonderful." **BI**

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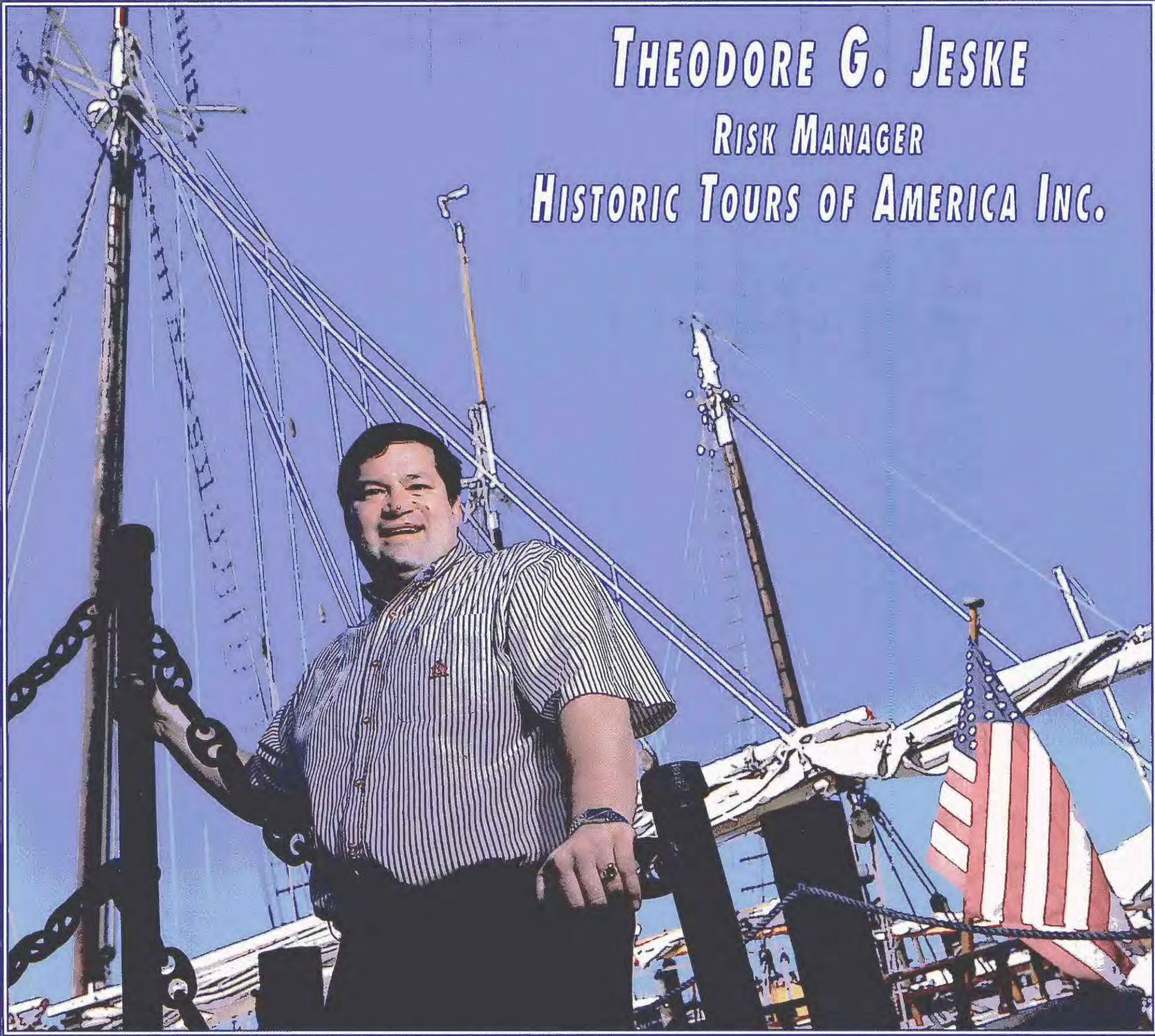


PHOTO: MICHAEL MARCOTTE

Ted Jeske keeps the show on the road

By MARK A. HOFMANN

One can begin to understand Theodore G. Jeske's approach to risk management by considering the words that guide two organizations that he has served.

The motto of Historic Tours of America Inc. holds: "Safety first and courtesy a close second."

The U.S. Air Force Intelligence Agency, in which Mr. Jeske once served, admonishes its members to be "ever vigilant."

Putting those mottoes into practice has helped earn Mr. Jeske, HTA's risk manager since 1997, a place on the 2000 *Business Insurance* Risk Management Honor Roll, representing small companies.

Key West, Fla.-based HTA is a "transportation" company that combines entertainment and transportation services to provide historically oriented vacation activities in several locations around the

country. Spreading beyond Key West, the company today also has operations in Boston; San Diego; Savannah, Ga.; and Washington.

As HTA's risk manager, Mr. Jeske is responsible for risk management, safety and fleet management for the company.

Among his accomplishments at HTA, Mr. Jeske:

- Implemented a number of safety programs for unique exposures designed to protect both employees and customers (see story, page 97).

- Created a highly successful temporary modified duty program that keeps injured employees involved with the company as they recover, which speeds their return to work and lowers costs (see story, page 98).

- Put together a comprehensive property/casualty insurance program to deal with the unique risks facing HTA (see story, page 100).

Also notable is that the 37-year-old Mr.

Jeske managed these achievements as a one-man office without even an administrative assistant.

His HTA supervisor and a former insurance broker for the company both credit the risk manager's success to being vigilant with regard to potential problems.

"First and foremost, Ted is a safety guy. We have painted on the walls of all our trolley barns our HTA motto—'Safety first and courtesy a close second.' That's more than a slogan for Ted; it's a way of life. He instills that safety motto in everyone he works around," says Edwin A. Scales III, HTA's general counsel and vp-legal affairs and government relations.

"When there is a safety problem, everybody knows about it, and they know it needs to be corrected. He's brought safety to the forefront, and our record reflects that," says Mr. Scales, to whom Mr. Jeske reports.

Mr. Jeske is "forever vigilant—no detail

is too small. If you can avoid routine losses, chances are you're going to avoid the severe unexpected event," said W. Eric Meyer, who served as HTA's insurance broker from 1992 to 1999 while with Sedgwick Corp. and, subsequently, Marsh Inc.

"Ted was deeply influenced by his military training and the positive lessons he learned in the Air Force," said Mr. Meyer, who is now a vp with Morgan & Cheves Insurance in Alexandria, Va.

"The most amazing thing that you get with Ted is he is a master at taking very limited resources and totally being able to achieve the unexpected—and, sometimes, even the impossible," said Mr. Meyer.

Mr. Jeske himself stresses the importance of watchfulness in avoiding losses.

"I don't believe in accidents. I don't believe there has ever been a true accident," says Mr. Jeske. "It may not have been purposely done, but I don't believe in

See Jeske on next page

RISK MANAGEMENT HONOR ROLL

Jeske

Continued from previous page

accidents. Somebody somewhere did something they shouldn't have done, or forgot to do something they should have done. Whether it was intentional or unintentional really doesn't come into it.

"One of the mottoes we had in my military days was the price of peace is eternal vigilance, and I believe that in order to be safe you have to be ever vigilant, to really and truly have a good safety program."

Mr. Jeske joined HTA in 1996 as claims manager after having served for 10 years in the U.S. Air Force Intelligence Agency. In May 1997, he became the company's risk manager.

"The biggest challenge was getting people to take this office seriously. I felt that when I first started with the company—and I started as claims manager—that we were just a pain in the neck to everybody. A lot of the way the department was run was through memos and things like that, but there was no actual getting out there, seeing what was going on, doing preventive things in loss control instead of just waiting for something to happen and cleaning up the mess," he said.

Mr. Jeske also found that he had to put the company's claims and loss information into a central and readily usable format for himself and the company, a task he performed on a laptop computer.

"I currently have 20 years' worth of loss runs in my database, but prior to me joining the company, that database had been started but was incomplete," with information in varying formats and spread among various documents, Mr. Jeske said.

Mr. Jeske used Filemaker Pro, a database

management application, rather than a customized risk management information system product, to develop the database.

"To give the information that the safety officers and the general managers needed to continually enforce the safety policies we have established, you need that data all in one place," he said.

That central data resource is critical to HTA's safety management, Mr. Jeske said.

"For example, I can now research a driver specifically and let a general manager know if they've had any accidents, where the accidents occurred—was it the right front corner of the trolley, was it the rear corner, what time of day it was—whatever trends we show in a driver," he said.

Mr. Jeske said the information contained in the system helps the company's general managers—who oversee operations at each of its five locations—make the proper training adjustments. Drivers then can be retrained or, in some cases, offered a different position, he said.

"They now have that information at their fingertips, instead of just going out there and saying 'OK guys, we need to be safe, we're having too many accidents,' which is what I felt we were doing when I joined the company."

The process doesn't stop with the managers, either. The chief operating officer and president of HTA also receive copies of the information.

"It's what we, in my military career, termed 'information warfare.' We're out there to prevent the accidents, to prevent the lawsuit when something does happen, and we can only do that when we have the proper information."

Mr. Jeske considers getting the information in a usable format—"rather than having it sit

around in binders or books"—one of his most important achievements.

He also spreads the safety message by writing a column on safety issues in the company newsletter, which goes out to employees, vendors, underwriters and the company's broker. As he prepares each monthly column, Mr. Jeske tries to pick an issue that's relevant. For example, he might write on slip and fall prevention if there have been recent slip and fall incidents, or on heat exhaustion, heat stroke and the like during the summer months.

The latter is particularly relevant to the Florida operations. "It can get unbearably hot in Key West or Savannah," he noted.

While centralizing HTA's safety and loss data has proved critical to the success of HTA's risk management efforts, other areas demand a more customized approach.

Mr. Jeske is responsible for a risk management program that covers operations in all five of the company's locations.

"The challenges are that you usually do everything five times," he said. Even seemingly simple matters, such as issuing insurance cards to employees, must be done five different ways, he noted. "Each city we operate in has its own set of laws. We have to make ourselves aware of them and make sure that we are following whatever laws apply," Mr. Jeske said.

He also has to tailor HTA's defensive-driving course to each city, because each city has unique driving patterns or situations.

For example, in Key West, "we don't have to deal with a whole lot of roads where you go more than 35 miles an hour," said Mr. Jeske. In fact, HTA's fabled "Conch Train" often goes no more than about 15 mph and is incapable of exceeding 25 mph. But its drivers may have to watch out for bicycles, mopeds and pedestrians more than do those in other locations, he said.

In Boston, "the traffic is just crazy because of the Big Dig and everything else," said Mr. Jeske, referring to a massive, long-running public works project to create a new downtown highway and a tunnel under Boston Harbor.

Mr. Jeske stresses that the achievement at



PHOTO: MICHAEL MARCOTTE

Theodore G. Jeske with his supervisor, Edwin A. Scales III, general counsel and vp-legal affairs and government relations for Historic Tours of America Inc.

HTA is not his alone.

"I can't emphasize enough how much cooperation I get from the company owners on down. The company was started by four men as partners. Three of those men are still alive. They get me all the support I need. If I have questions, or there are things I would like to see us doing, they take all of that seriously," he said.

"It was a good program. I didn't ride into HTA as a white knight and make HTA great. They had a lot of good programs when I came here. I think what I brought to the table to help make the program better was my attention to detail and my willingness to provide the information to the CEO unsugarcoated."

"They have shown me the respect and the cooperation; it's a fun place to work. I can see where risk management can be a pain, but it's actually a fun place to work." **BI**

Past experience key to success for Jeske

No matter how you measure it, it's a long way from Milwaukee to Key West.

Yet lessons Theodore G. Jeske learned as a part-time municipal worker in that Midwestern city pay off as he tackles the challenges of being risk manager for a "transportation" company with headquarters in the southernmost city in the continental United States.

"When I graduated college, I was looking at what I wanted to do with the rest of my life," said the 37-year-old Mr. Jeske. He had worked for the city of Milwaukee in the sanitation department during summer vacations while he was at the University of Wisconsin-Stevens Point.

Although he had taken driver's education in high school, "my real first training as a professional driver came with the city, being trained as a snow-removal person," he said.

The job required attention to detail and safety, two qualities that remained a part of his work after Mr. Jeske joined the U.S. Air Force, armed with a bachelor of science degree in political science.

"All through the military, they emphasize safety. If you don't do something right, you could end up killing yourself or a whole bunch of other people," he said.

"The military made me more detail oriented than I had been. Details are what made or broke something."

Mr. Jeske spent 10 years in the U.S. Air Force Intelligence Agency.

"There are people who depend on you for the information, and it has to be accurate, so you have to pay attention to the details. That's one thing about safety: You have to pay attention to the details.

The littlest detail can tip you off to somebody who has a driving problem or maybe has a personal issue that they need to work through before they're driving," he said.

It was paying attention to driving that helped bring Mr. Jeske to Historic Tours of America Inc. While stationed in Key West, he noticed that most military people regarded the HTA trolleys as an annoyance that slowed their progress getting to and from work. But Mr. Jeske also noticed something else: The trolleys weren't involved in many accidents.

Still, Mr. Jeske's road didn't lead directly to HTA—or risk management—after he left the Air Force. His first job after leaving the service was as a pharmacy technician. But the HTA's treasurer, who attended the same church as Mr. Jeske, suggested that he apply to HTA. He was hired quickly and served as claims manager for less than a year before being "told to apply for the job" of risk manager.

"I said 'I really don't have any experience as risk manager, I don't know if they'd take my application.' I was told, 'No, I've heard that you should apply for the job.'"

Mr. Jeske belongs to both the National Fire Protection Assn. and the American Society of Safety Engineers.

Mr. Jeske and his wife, Dierdre, have two sons—Andrew, 3, and Nathan, 1—and live in Big Coppitt Key.

An active member of Revelation House, a non-denominational church, Mr. Jeske says that his favorite book is the Bible. He's also an enthusiastic woodworker who counts the programs of Bob Vila and other television home-improvement experts as his favorite viewing.

—By Mark A. Hofmann

Beating the heat among the challenges

By MARK A. HOFMANN

If you can't stand the heat, get out of the kitchen, the adage holds.

When the heat's being generated by the summer sun beating down on the cab of Key West's fabled Conch Train, however, the solution was to get the heat out of the train engine.

That's just one of the safety challenges that Theodore G. Jeske has surmounted as risk manager of Historic Tours of America Inc., a tour operator based in Key West, Fla.

Transportation-related safety exposures are the most prevalent risk facing HTA, but they are by no means the only ones. Mr. Jeske also has tackled such unusual hazards as maintaining the historic integrity of an old ice house turned shell shop while minimizing the company's slip and fall risk, and preparing contingency plans for disaster in five separate locations (see story, page 98).

The risk manager, of course, also addresses more routine exposures.

"For the most part, I think most of our injuries come from lifting something, whether it's a CASTmember in one of our retail stores or a conductor who's helping someone getting on and off the trolley or they're lifting something onto a trolley," said Mr. Jeske.

"I think most of our injuries are back strains, and we have done a lot to try to prevent these strains as far as proper lifting techniques."

It's the nature of HTA's "transportation" business, however, that presents some of the more unique challenges Mr. Jeske has solved.

A critical safety issue presented by the overheated cabs on HTA's Conch Train, for example, was driver fatigue.

The train, which has been a fixture of Key West for decades, is powered by what is basically a late 1970s or early 1980s model AMC Jeep converted to look like a train engine, complete with black paint.

But "when you're driving around in Key West on a hot summer day, the temperature in there is well over 100 degrees," said Mr. Jeske. One of the drivers, who also serves as an HTA safety officer, told Mr. Jeske that he was having problems remaining alert with the extreme heat as he drove tourists around the island.

Mr. Jeske joined the driver in a tour and learned firsthand of his misery.

"I only went half a day. I was sweating, it was a miserable experience," he recalled.

Mr. Jeske began looking for a solution. At a National Safety Council congress, he found a product called the CoolSeat, made by Exothermal Technology Corp. of Palm Bay, Fla., that is designed to pull excess heat from a driver's body and lower the temperature of the cab by as much as 20%.

In addition, Mr. Jeske had the exterior of the Conch Train cab painted in a reflective paint to help deflect the sun's rays.

Transportation risks also pose the greatest risk to customer safety.

"Our greatest exposure comes from the transportation side because you have a person who's driving and giving a tour and there's up to 42 passengers on that trolley," Mr. Jeske explained. The Conch Train that the company operates in Key West carries up to 64 passengers, he added.

See Safety on next page

RISK MANAGEMENT HONOR ROLL

Safety

Continued from previous page

In San Diego, for example, drivers cross the Coronado Bay Bridge that spans the San Diego Bay at a height of about 200 feet. "Going over that bridge in a trolley going 45 mph—if we ever had a problem, that would be a very serious issue," he said.

Drivers have a regular safety talk they give when passengers board the vehicle. This includes standard warnings concerning smoking and the need to keep limbs inside the vehicle. Drivers are supposed to give it at every stop of the tour, but sometimes they get tired, Mr. Jeske noted.

In an effort to promote observance of such safety rules, Mr. Jeske has given loss control personnel from Royal & SunAlliance Insurance Co.—which writes HTA's automobile, workers comp and liability insurance—"VIP" passes that enable them to ride unobserved on the company's trolleys and other vehicles. This allows them to note safety problems and report back to Mr. Jeske.

Another driver safety issue arises because "we have more turnover than I think we would like," said Mr. Jeske. "From a cost standpoint, it's not cost-effective to continually train drivers," he said.

"We get a lot of college students who drive for the summer vacation in our northern cities, which is when we need them," he explained. From a business viewpoint, though, such turnover isn't a bad thing "because when winter comes, we don't necessarily need all those employees," he said.

HTA has its own defensive driving course, which was created with material provided by its former workers comp insurer, Travelers Property Casualty Corp., and the National Safety Council.

The program is tailored to fit the particular situations of each city.

For example, HTA safety officers and operations managers took video of different corners where they thought somebody might try a "squeeze play," meaning a motorist might try to make a right turn between the trolley and the curb. They also shot videos to show how to pull out of trolley barns, because each

trolley barn is different, he noted.

Mr. Jeske is now exploring ways to create a safety retraining and refresher course for HTA's drivers.

"After you've been driving for a while, even our veterans need to be refreshed on some things," he said.

The risk manager is working with Royal & SunAlliance to develop a computer-based training course, under which a driver will be put in different simulated situations and receive a printout evaluating his or her performance in the simulation.

This process will allow HTA to identify areas for improvement for specific drivers, he said. This could include not looking far enough ahead or not allowing enough room for the trolley.

He could then tell the driver: "You haven't had any accidents, but you've still had a problem in this area. We'd like to work on it with you to make you a better driver."

The emphasis on loss control for HTA stems in large part from the nature of its business, he said.

"The minute you have an auto accident, even if it's a small one, the people who are your guests are inconvenienced," he said.

Keeping employees and guests safe when they've disembarked from HTA's vehicles and entered one of the company's numerous retail establishments or other attractions also falls under Mr. Jeske's purview.

The Shell Warehouse in Key West presented particular challenges.

The gift shop is located in what had been an ice house owned by one of the founders of the city.

"It looks like they'd built the floor out of railroad ties. There's a gap, sometimes 2 inches, between them" so melting ice could drip out, said Mr. Jeske. "That doesn't make for a very good gift shop floor."

The company had tried several ways to patch the gaps, so that people wouldn't trip or wheelchairs wouldn't tip over. But "you have to walk a fine line between preserving the historic aspect of the building and making it safe," he said.

Mr. Jeske discussed this several times with others at the company. HTA's CEO, Christopher Belland, also happens to be a master



PHOTO: MICHAEL MARCOTTE

Theodore G. Jeske, left, with Historic Tours of America Inc. Chief Executive Officer Chris Belland, center, and Ed Swift, president of the company.

craftsman and came up with an idea to show maintenance people how to make wooden wedges to put in between the floor boards. As a result, the Shell Warehouse retained its flooring without the potential problems created by the original gaps.

"The best tool I have in my job, besides my computer, is the fact I have people who are really committed to safety," said Mr. Jeske.

The commitment to safety begins at the top and permeates the company, he said.

"They all support safety 100%. I have general managers I've worked well with that when I come up with safety initiatives, they don't fight me. They're willing to do what we can to implement it if it's possible," said Mr. Jeske.

He also praised HTA's "incredible safety officers," who are employees in all HTA locations with the responsibility of reporting all

accidents and safety issues to the risk manager. Although the safety officers report to the general manager at each of their locations, they have a "dotted line" reporting relationship with Mr. Jeske, who is in constant contact with them.

Their commitment to the task is evident, he said, in that even when giving their own tours, they will follow behind another trolley, particularly if its driver is a new trainee, to see how well they're doing and how well they're following their training, Mr. Jeske said.

"That makes my job 1,000% easier," he said. Mr. Belland, the CEO, coined a company motto: "Safety first, and courtesy a close second."

"The two biggest things that will get you terminated from this company is if you do something unsafe or if you're rude to a guest," said Mr. Jeske. **BI**

Protecting property in risk manager's plan

Keeping not only people but also the company protected from harm is a key part of the risk manager's job.

For Theodore G. Jeske, risk manager of Historic Tours of America Inc., this means looking at the unique exposures of each city in which HTA does business. In addition to Key West, Fla., where HTA is based, the company also has operations in Boston; San Diego; Savannah, Ga.; and Washington.

In Key West, HTA's biggest exposure is the hurricane risk; in San Diego, a key concern might be earthquakes, Mr. Jeske said.

Plans currently call for the company's Washington operations to act as the headquarters should a natural disaster strike Key West.

Each operation in a windstorm-exposed area has a list of actions that need to be taken before a storm hits, as well as procedures for what should be done during and after a storm, said Mr. Jeske. "Once the storm is past, we get ourselves up as quickly as we can," he said, noting that "we're really kind of at the mercy of the federal emergency management folks," who decide when tourists can re-enter an area hit by a storm.

HTA also has earthquake disaster response plans, should a temblor strike its San Diego operation, he said.

The Key West plan was tested during

1998's Hurricane Georges and passed with flying colors, he said. "We were up within a day after Hurricane Georges."

Mr. Jeske currently working is with his broker, Willis North America Inc., to ensure that his plans are up to date.

And he is working with one of HTA's insurers to update a business continuation plan.

"I'm in the process with Royal of developing a new business continuation plan for HTA headquarters, and then we're going to take that same plan and go to each city and work with the general managers on how do we customize it for their city," Mr. Jeske said. Royal & SunAlliance Insurance Co. writes HTA's auto, workers comp and liability insurance.

"I used Royal because they've been so helpful. It was a natural thing to go to their loss control experts," he said.

"I don't want a big thick book that nobody's going to read," he said of a disaster response plan. It would be preferable, he said, to have a thin guide that would provide answers to such questions as: "We had a serious accident, I've got the press calling me. What do I do?"

"Probably one of the biggest challenges is to make sure that I treat each city individually. They're all part of a big corporation, but I want to treat each city individually, because they all have unique exposures," he said.

—By Mark A. Hofmann

Jeske acts to modify workers comp costs

By MARK A. HOFMANN

The numbers told a story that the managers of the company that calls itself "the Nation's Storyteller" did not want to hear.

Yet there it was in black and white—for the 1995-1996 policy year, Historic Tours of America Inc. "had half a million dollars in work comp losses," said Theodore G. Jeske, risk manager of the Key West, Fla.-based company.

"That was unacceptable," he said.

Christopher C. Belland, HTA's chief executive officer, gave Mr. Jeske his assignment—put together a program that would cut both the company's workers comp losses and its rising premiums.

Mr. Jeske worked with the company's then-workers comp insurer, Travelers Insurance Co., to create a temporary modified light-duty program for employees who had been injured.

And this story has a happy ending. For the policy year that ended March 31, HTA registered only \$43,358 in workers compensation losses for about 1,000 employees.

Mr. Jeske said that, since 1998, when the program was first put in place, "we have seen steadily declining numbers in the cost of our work comp."

According to Mr. Jeske, the program reduces HTA's workers comp costs in a several ways.

First, it shows employees that the company cares about their well-being and doesn't regard them merely as numbers. That tends to make injured employees less likely to sue, he said.

Second, the program encourages injured employees to get back to their usual jobs more quickly, he said.

Third, Mr. Jeske said, during the modified duty period, "they're actually here performing a service that we've already trained them to perform—so we don't have to pay the wage replacement costs."

HTA's modified duty program begins with a one-page reporting form called the "CART form," or CASTMember Accident and Reporting Treatment form. "CASTMember" is the term HTA uses to describe its employees.

The form "covers everything the doctor's going to need and everything the insurance company's going to need to hit the ground running with a claim," Mr. Jeske explained.

The first part of the form consists of basic information about the employee, he said. It gives a brief description of the injury, as well. Then comes an information release—to be signed by the employee—that allows treating physicians to release medical information to HTA and its workers comp insurer. That speeds the claim handling process, said Mr. Jeske.

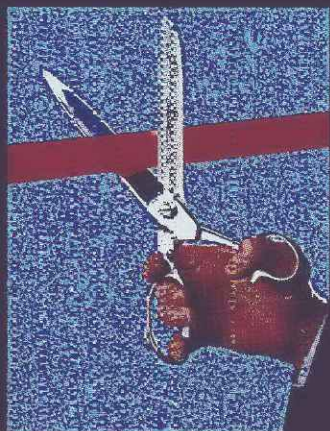
A subsequent section of the form provides a checklist for a treating physician to indicate permitted work activities, such as weight limits on what an employee can lift.

The form also contains an accident investigation report section to be filled out by a safety officer for the city in which the accident occurred, to see if there is anything that could be done differently in the future to prevent such mishaps, Mr. Jeske said.

See Comp on page 100

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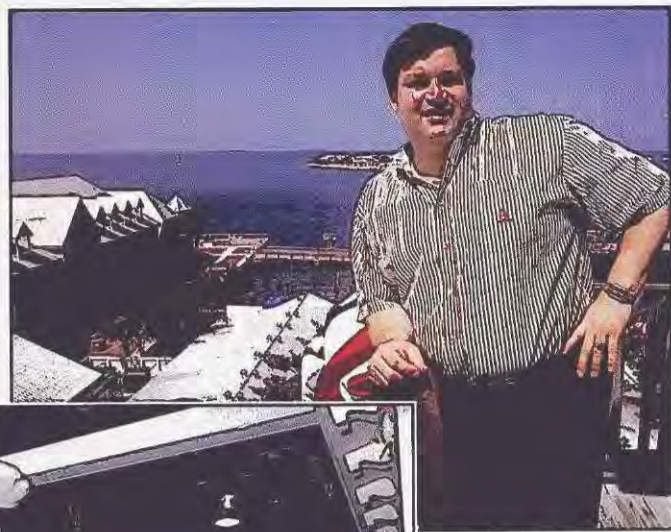
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PHOTOS: MICHAEL MARCOTTE

Theodore G. Jeske at the Sand Key Lighthouse (above) and with Bob Cerkleski, curator of the Key West Aquarium, which is operated by Historic Tours of America Inc.



Comp

Continued from page 98

Another portion of the form deals with the use of safety devices at the time of the accident, he said.

Mr. Jeske noted that, "a lot of times, work comp problems begin because the individual does not feel they're getting treated properly," which often is due to paperwork delays. By compiling so much information on the CART form, the paperwork problem is largely eliminated, allowing the focus to shift to the worker's treatment and recovery, he said.

Under HTA's temporary modified light-duty program, the company's general managers and Mr. Jeske work with HTA's human resources director and the company's chief operating officer to review what the doctor says an injured worker can and can't do.

"We go over it with the general manager, and if there's a position available that they can do in light duty, we put the CASTmember back to work," Mr. Jeske said.

"It gives the CASTmembers ownership over the work comp situation. And when a CASTmember is injured, the general manager and the office manager have a

say in what happens," he said.

The program allows injured workers to remain part of the company during the recovery period.

"It makes the CASTmember feel like they're cared about," while giving managers a hands-on role in the recovery process, he said.

Before the modified duty program was implemented, HTA's previous policy had been "come back to work when you're 100% recovered," he said.

Now, "they don't feel like 'I'm injured, sitting on the sideline, you don't need me.' They're not home collecting a paycheck for sitting at home."

Mr. Belland, the company CEO, writes a personal letter to each injured worker, asking if there's anything the company can do and whether the claim is being handled properly. In addition, Mr. Jeske sends an "accident alert" to each safety officer, describing the incident and urging them to be attentive to the risk of additional problems.

"I think the temporary modified duty program has helped the people come back to work," he said.

For example, he said, a conductor with a strained back can come back as a dispatcher. Another possibility is to help modify the

scripts that conductors use on the tours, he said.

"Not only do they drive but they give a tour. It's not transportation; it's 'transportainment.' They're giving the tour, they're talking about the tour while they're driving, so that script gets constantly revised and reviewed," he explained.

The company's compensation structure provides another incentive for workers to return to work. In many cases, salary is not the only compensation CASTmembers earn. Conductors receive tips and ticket sellers receive commissions, he noted.

"If they're staying at home, they're not getting that. So, it's a benefit to the CASTmembers to bring them back as soon as we're able," he said. "It's just a win/win situation for everyone. It has worked very well. Our cast in each of the cities has taken ownership of it."

Mr. Jeske said credit for the program goes beyond him. "It's not just me. I have the backing from the president of the company on down, to what it takes to ensure that our CASTmembers get the best care, that they get treated and healed as quickly as possible and that we can keep them on the job if we can." **BI**

If it drives, but floats like a duck, it's hard to insure

By MARK A. HOFMANN

Not all ducks fly—some roll through the streets of Washington, laden with tourists, before entering the waters of the Potomac River.

Making sure those ducks—the nickname given these rebuilt and retooled World War II-era amphibious landing craft—do so safely and are protected by adequate insurance coverage is part of Theodore G. Jeske's job as risk manager for Historic Tours of America Inc.

The company currently has four operational ducks—with as many as three more likely to be added this season—in its Washington-based fleet. The ducks take visitors by land and by sea from Union Station, near the U.S. Capitol, to a variety of Washington attractions.

Mr. Jeske stresses that these are no ordinary vehicles—either in terms of operation or in the way they're insured.

First off, all of the ducks begin as antiques; they're not something found in any car or boat dealer's new showroom.

"Basically, when we buy one, we buy a rusted hull from somebody, and we start from the ground up and refurbish it," said Mr. Jeske. The process can be pretty expensive, too: HTA spent \$80,000 to restore one duck, he said.

"The ducks are unique in the fact that they're both a land and a water craft. Nobody wants to take the ducks' insurance solely, so we had to devise a policy where on the road, they're covered by our auto carrier, Royal & SunAlliance. The minute the wheels touch the water, they're covered by CNA/MOAC, our marine insurance company," he said (see story, page 100).

Mr. Jeske noted that even before a fatal accident last year in Hot

Springs, Ark., involving another tour company's duck (*BI*, May 10, 1999), insurers had little appetite for underwriting the odd vehicles.

"The cost when I first joined the company was prohibitive. We were paying \$12,000 a duck just for the water insurance. I worked with our broker at the time, which was Sedgwick, and I worked diligently with them trying to place insurance. We were able to go with Lloyd's of London at the time. Now we have a bigger 'fleet,' and we were able to get better rates in the American market with

'The ducks are unique in the fact that they're both a land and a water craft. Nobody wants to take the ducks' insurance solely.'

— Theodore G. Jeske

CNA/MOAC," Mr. Jeske said.

"It's not like a trolley, where it's automatically covered when I get a new trolley," he said. In fact, the drivers of the ducks aren't like the trolley conductors, either, as they all are captains licensed by the U.S. Coast Guard.

Each duck also requires a Coast Guard certificate of inspection, he said. "You have to have a current marine survey so you know what value to insure it at."

"These are all things you have to have in place before they will insure a duck," Mr. Jeske said of the insurance market. "It keeps me on my toes to make sure I have all the paperwork in place."

HTA is currently working with the National Transportation Safety Board to overcome potential technical problems with the vehicles. HTA's head mechanic, Gary

Cox, worked with the NTSB during the agency's investigation of the Arkansas accident and also has testified before Congress on safety issues involving the vehicles, said Mr. Jeske.

The main technical issue is making sure that "they don't sink like a stone when they go in the water," said Mr. Jeske.

The NTSB has been focusing on a boot that covers the ducks' axles, he said. "The problem in Arkansas was the boot was not attached properly," he said. And the NTSB is trying to figure out a way to compartmentalize the boot to better prevent such accidents, he said. Mr. Jeske said that he is not certain that the technology required to achieve the NTSB's goal currently exists.

Mr. Jeske is applying some of the lessons he's learned from insuring the amphibious vehicles to another HTA water craft, the schooner Western Union, which docks at Key West.

The schooner is an actual sailing vessel. The 1939-vintage ship is an all-wooden hull construction and was the last of its kind to be built in Key West. It sails on day trips and sunset cruises 11 months out of the year.

Every September, HTA sends the ship up the Gulf Coast to Tarpon Springs, Fla., for preventive maintenance.

His experience with insuring the ducks came in handy when HTA bought the Western Union in 1997, said Mr. Jeske.

"It made me more familiar with how marine insurance is acquired and what they look for," he said. "It made it easier for me to go out and get the insurance. And when I looked at the policy that the current owners of the Western Union had, I was able to look at it and say: 'I think we can get a better price.'" **BI**

HTA explores cash flow policy

By MARK A. HOFMANN

Historic Tours of America Inc. is always looking for ways to improve its property/casualty insurance program.

In addition to a full complement of insurance programs to transfer the company's property/casualty risks, the seasonal nature of much of the "transportainment" company's business has Risk Manager Theodore G. Jeske considering a cash-flow stabilization program.

Such a financial/insurance program would be modeled on that used by some hospitals, Mr. Jeske explained. These programs guarantee that there is cash available to pay expenses during the period between when hospitals provide medical services and when they ultimately receive insurance payments for those services, he said.

HTA is considering creating such a program "because the nature of our business is tourism. We have months of the year where the cash is just coming in because our cities in the North are making money. But during the winter months, Key West is really our only city that's making money. As long as we have a good season down here we have no problem with our cash flow. Just at times it may get tight, so we're looking at a cash-flow stabilization policy," he explained.

HTA does not have an underwriter lined up to insure this exposure, but is working with its broker, Willis North America Inc., to explore the possibility further, said Mr.

Jeske. Details such as exactly how premiums would be determined still must be worked out, he said. Nevertheless, Mr. Jeske hopes to have a program in place later this year.

HTA pays a total premium of about \$1.3 million for all lines of property/casualty insurance it purchases, said Mr. Jeske. Corporate policy forbids revealing details such as limits, he said. The only exposure HTA self-insures is the risk of collision damage on its vehicles, he added.

"Even under the best of circumstances, risk transfer is a difficult process for an intermediate-sized company that's got transportation" exposures, noted W. Eric Meyer, a former broker with Sedgwick Corp.—and later Marsh Inc.—who worked on the HTA account between 1992 and 1999.

Mr. Jeske moved HTA out of a retrospectively rated program and into a guaranteed cost program, said Mr. Meyer, who is now a vp with Morgan & Cheves Insurance in Alexandria, Va. Mr. Meyer nominated Mr. Jeske for the award but no longer serves as HTA's broker.

"HTA can't build back in costs from prior years to future years. They can't come back three years from now and say, 'Oops, we had a major liability claim, we need to raise ticket prices to cover that,'" said Mr. Meyer, who added that it would be "very difficult" for HTA to self-insure.

Mr. Jeske agreed, explaining that the only way HTA could bring in more revenue to pay for losses incurred under a

See Cash on page 102

Agent/Broker Topics

A monthly editorial section sent exclusively to agents, brokers and consultants



Agents tapping into Internet business

By SALLY ROBERTS

As the online insurance world continues to evolve, one thing remains certain: Independent agents are going to be players in the game.

It wasn't very long ago that insurance intermediaries were being inundated with propaganda maintaining that the Internet was going to eliminate them from the insurance buying process.

What has happened is quite the opposite.

Over the last few months, several online marketplaces have emerged with plans to enable agents to generate leads and obtain quotes from participating insurers—in effect making the traditional buying process more efficient.

Other dot-com strategies include “virtual wholesalers.” These sites not only let agents and brokers generate new leads, but also allow them to quote, bind and issue policies via their own Web sites.

“A lot of agents understand that the Internet is here and is not going away, and they are trying to have a presence,” noted Mark Trencher, vp-research for Conning & Co. in Hartford, Conn.

Instead of disintermediation, the Meta Group's Jim Kroviak says what is going on in the marketplace is what he terms “reintermediation.”

Agents and brokers have not gone away; “they've come back in a different form,” said Mr. Kroviak, who is a vp in the marketing research and consulting firm's insurance information strategies group in San Diego.

Agents are “over the initial shock” of the view that they were going to be put out of

business because of the Internet, Mr. Kroviak said. “They are now trying to figure out this new reality and where they can play.”

“There are a lot of different ways this is being dealt with,” he noted.

Although still nascent, most of the Web sites today are online marketplaces or business-to-business exchanges where agents, insurers and, in some cases, buyers all come together to make insurance purchasing more efficient, technology experts say.

For example, agents using WorkComp.Com will be able to obtain qualified workers compensation sales leads from employers and will be able to find new markets and submit applications online, explained Robert J. Gore, chief executive officer of the San Jose, Calif.-based dot-com company, which plans a limited launch in June.

WorkComp.Com is a business-to-business exchange platform for employers, insurers, agents and workers comp service providers. Supported with services and information, the exchange facilitates transactions among the involved parties, “but we don't sell the product,” Mr. Gore explained.

“The Web exchange model is working very well, and it's exactly that—we bring partners to the table,” he said. It may be possible at some time to buy online some workers comp coverage, such as pre-qualified group programs, “but I doubt it will go beyond that,” he said.

The Independent Insurance Agents of America Inc. is establishing an online exchange, Big “I” Markets, for its members and participating insurers. The IIAA plans to launch the exchange this month in New Jersey, said Paul Buse, senior vp of IIAA Membership Services Inc., the for-profit operation of the Alexandria,

Va.-based IIAA.

Through the association's Web site, independentagent.com, members will be able to gain access to a variety of specialty products, from specialty niches to affinity group products, all endorsed by the IIAA. Chubb Corp., The St. Paul Cos. Inc., and The Hartford Financial Services Group Inc. each have five insurance products that will initially be featured on the Big “I” Markets site.

After obtaining the needed approvals from their state associations, IIAA members will be able to access the site, identify the product they are interested in, submit the information for the application and request a binder if they choose, Mr. Buse said.

This approach will make independent agents more effective and powerful in their communities, Mr. Buse said. “We feel it's absolutely critical to do this as we go forward within the Internet age.”

The IIAA's online exchange is similar to the Internet Wholesale Insurance Exchange, or iwix.net, which launched last month. Iwix.net allows small and midsize agents to place specialty property/casualty coverages with surplus lines insurers online. Through the site, agents can submit specialty risks, obtain quotes from participating insurers and submit requests to bind coverage (*A/BT*, April 3).

Although the new online exchanges do not allow customers to “click and bind,” several “virtual wholesalers” have emerged, connecting agents to products and providing access to buyers.

For example, Insurehelp.com, which plans its full launch later this month, will allow a participating agent to establish a connection to Insurehelp.com's products on the agency's Web site. Customers visiting the agency's site

can then click and gather information about several specialty coverages, from exhibitor insurance to dental programs to fine-wine collection insurance, explained Keith Savino, founder and CEO of Insurehelp.com L.L.C., a Warwick, N.Y.-based virtual wholesaler.

A buyer can submit an application, receive a quote and bind a policy all from the agent's Web site, he said, noting that Insurehelp remains invisible to the customer. The agent will receive a commission, which is shared with Insurehelp.com; there is no cost to set up the initial link. Each program sold via Insurehelp has the appropriate binding authority, Mr. Savino said.

In the online insurance world, “it's even more important to keep agents involved,” Mr. Savino said. Just because companies are selling online, that “doesn't mean that a consumer doesn't want a local presence if they need it. Who better knows their community? Who is better able to locally serve that community? Independent agents already know how to do this; everyone else is reinventing the wheel,” Mr. Savino said.

In addition to agency Web sites, Insurehelp.com distributes its products on co-branded sites, such as an association's Web site, and on corporate intranets. Regardless of the site used, upon completion of an online application or payment, buyers are given a list of local agencies to which they can turn for additional help and services, Mr. Savino explained.

Initial Insurehelp.com test agencies have successfully sold exhibitor and dental insurance programs online, Mr. Savino said, declining to provide specific numbers until they are released later this month in conjunction with the ACORD conference.

See **Online** on next page

Online

Continued from previous page

Insurehelp currently has 200 pre-registered agents and has signed up 11 insurers.

In addition, agents can quote and bind auto insurance policies through YouZoom.com, which went live last December.

"We didn't agree with the 'agent is dead' rhetoric" when developing YouZoom Inc., said Kieran Sweeney, chief executive officer of the San Diego-based online wholesaler and an affiliate of Arrowhead General Insurance Agency. "We do see the value of the independent insurance agent in the transaction. The chal-

lenge was to equip the agent to do business more efficiently, to enhance their role," he said.

For an annual subscription fee, each participating YouZoom agent will own its own Web site, equipped with comparative rating and customer service applications. Each site is designed, hosted and maintained by YouZoom, Mr. Sweeney said.

The site currently offers auto insurance to consumers in California through Arrowhead General, a managing general agency. It will begin offering homeowners insurance in May and life insurance in June, Mr. Sweeney said. YouZoom will expand into Arizona within the next two months, with plans to move into Texas, Oregon, Washing-

ton and Florida later this year.

The company's plan is to build a nationwide network that will offer multiple property/casualty and life products, Mr. Sweeney said.

"Consumers want choices," Mr. Sweeney said. While they currently can call or visit the agent's office, "we're now giving those customers a third way to do business," he said.

YouZoom currently has 117 agents with Web sites selling auto insurance in California.

"It's funny to watch the demise of the disintermediation rhetoric," Mr. Sweeney added. "In my opinion, the most-successful Web sites will be the independent agents' sites, because they will offer a selection of insurance products." **BI**

Uniform laws sought on electronic signatures

By LEE FLETCHER

As more insurance business is transacted over the Internet, agents, brokers and insurers are pushing for uniform legislation regarding electronic signatures.

Although legislation on the subject exists on both the federal and state levels, many insurance professionals are supporting whichever

can be enacted in the fastest manner.

According to Patrick Watts, assistant vp with the Alliance of American Insurers in Downers Grove, Ill., "There are a lot of things in the insurance business that require a signature by somebody, typically by the applicant or the insured, and if you can't do that electronically, then you can't do business electronically," Mr. Watts said.

Joel Wood, senior vp of government affairs with the Council of Insurance Agents & Brokers in Washington, agrees that quite a bit of material, such as insurance policies and claims information, can be handled electronically.

"Sometimes, even the most complicated policies can still be streamlined. The digital signature is a very important part of it," he said.

Robyn Rowen, Washington-based senior counsel for the National Assn. of Independent Insurers, said that Internet transactions will benefit industry professionals as well as consumers by allowing business to occur anytime and anywhere. "With the Internet, you can cost-compare," she said.

One piece of state legislation circulating is the Uniform Electronic Transactions Act, which states, essentially, that a Web signature is as legally binding as a paper signature and an electronic record has the same status as a paper record, according to Ms. Rowen. The National Assn. of Insurance Commissioners' Electronic Commerce and Regulation Working Group has endorsed the UETA.

According to Mr. Watts, the idea behind the UETA is to provide some uniformity among state laws. It is a serious matter, he said, to have an electronic signature or record that might be valid in one state but invalid in another. All Internet business runs across state lines.

"We've been supporting UETA, in essence, because it lends validity to both electronic records and signatures. Most states have some form of electronic signature law, but most of them vary considerably in how they define an electronic signature and the terms under which the terms are regarded as valid," Mr. Watts said.

"This (legislation) is crucial, because you just need that kind of certainty. Because, in this litigious society, you need to know that if you complete a contract online, that that contract is valid. It should not be invalid simply because it's electronic. That's what UETA is doing," Ms. Rowen said.

At least 14 states have already enacted the UETA. But concern exists that even though states may pass the UETA, many put their own limits on which types of business the legislation applies to, often prohibiting insurance transactions.

In California and some other states that have passed electronic-
See Signatures on page 100D

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Signatures

Continued from page 100B

signature legislation, certain transactions are not allowed, according to Ms. Rowen.

"UETA says that both parties have to consent. The people doing business electronically are the ones that want to, so it doesn't make sense to exempt certain transactions from being done electronically if the person who is doing it is perfectly comfortable and wants to handle it that way," she said.

Essentially what you have in California, according to Ms. Rowen, is sort of a dual system.

"You're going to have people say-

ing they want to conduct business electronically, and the insurance company may let them do that for customer relations, but then they're going to have to send a paper back-up for certain things. That, obviously, defeats a lot of the purpose and a lot of the cost savings," Ms. Rowen said.

The CIAB's Mr. Wood said that the insurance industry has been woefully behind other segments of the financial services industry in moving online.

"Agents and brokers recognize that the survivors in the kind of hypercompetitive commercial marketplace today have to ratchet out costs in every stage along the way. Risk managers demand it. If there's any

industry that has been burdened by duplicative mounds of paperwork, it is the insurance industry," Mr. Wood said.

Two pieces of federal legislation are circulating in Washington, according to Mr. Wood.

"The Senate's bill (S. 761) is the Millennium Digital Commerce Act. The House of Representative's bill (H.R. 1714) is the Electronic Signatures and Global and National Commerce Act. The House's bill is better with respect to electronic records issues," Mr. Wood said.

According to Mr. Wood, some consumer groups oppose the bills, complaining that the measures "exacerbate the digital divide," excluding those without access to Internet

technology.

"What is behind their opposition is just some fear that this is going to force people into a computer world and that it's not going to be as effective or efficient for financial services firms or any firms to transact business the old-fashioned way," he said. "There's nothing in this bill that forces anybody to do anything; it just gives legitimacy to the electronic signatures," he said.

According to Ms. Rowen, the federal legislation has passed in both the House and the Senate and is now in conference committee, but questions of privacy, among others, are hindering its progress.

Privacy has always been a concern of insurance companies, she said.

"Because of the nature of the information, insurance companies have always had to be cognizant of privacy issues. Doing business online is not that different. It's not like, all of a sudden now, they have to start worrying about privacy," Ms. Rowen said.

Mr. Wood said that "there are multiple protections in this legislation to assure that electronic manipulation does not occur and that this

doesn't give any kind of undue power to the insurer or to the broker. I think that's why risk managers have been helpful with this."

"I think the privacy issues have been thoroughly addressed in this because it is strictly transactions that are voluntarily entered into between sellers and buyers," Mr. Wood said.

A state-by-state legislative process such as the UETA is difficult and takes time, Ms. Rowen said. "A lot of people feel that a federal solution makes more sense," she said.

Ms. Rowen said that federal legislation may not pass this spring, but she expects that it will soon, likely in the fall of 2000.

Mr. Wood said that "there is a strong sentiment on both sides of the aisle. When it happens, it will happen fast." He predicted that federal legislation will pass before the July recess.

"A bill needs to come out. Anything is better than nothing. Because insurance is the only financial services industry that does not have national regulation, this expressly applies to our industry," Mr. Wood said. **EB**

Coregis using Web for service initiative

By RODD ZOLKOS

A number of Web site enhancements and monthly disclosure of company performance in key customer service areas are part of Coregis Insurance Co.'s plan to better serve customers and the producers selling the company's products.

The customer service disclosure initiative, known as "Coregis Service Metrics," involves the company using the Internet as a platform for tracking and communicating the insurer's performance in six areas.

The monthly overview, posted on the public entity insurer's Web site, www.coregis.com, includes statistics on three underwriting service measurements:

- Average time from application submission until Coregis contacts an agent or broker regarding quoting.
- Average time between telling an agent or broker Coregis will quote business and the insurer actually providing a quote.
- Average time between when an agent and broker is notified a customer has been underwritten by Coregis and when the customer receives the policy.

It also includes service performance data on three claims areas:

- Average time between a claim report and Coregis' acknowledgment of the claim.
- Average time between when a check is warranted and when it is sent to the claimant.
- Average time between the ordering and sending of a loss history.

The insurer expects to add addi-

tional performance measures to the list in the near future.

According to Sally Hawk, chief operating officer and quality director at Coregis, the Service Metrics program is an offshoot of a focus on quality at General Electric Co., which is the ultimate parent of the Chicago-based insurer.

One of the first things GE did after acquiring Coregis was seek baseline information on the company's performance, Ms. Hawk said.

What the company learned was "we weren't performing very well" in terms of providing service, she said, but also that "nobody else was performing very well, either."

Company officials determined they wanted customer service to be a selling point, and to that end developed its detailed metrics.

To make the process worthwhile, it was important to understand what customers want. That required "outside-in" thinking—examining the business relationship from the customer's perspective—which has become part of the company's culture, Ms. Hawk said.

And that transformation to focusing on the end user will become even more important as the company and the industry move more toward an Internet sales environment, she noted.

The performance metrics Coregis is tracking are geared to both the producer and the end customer, while also providing the insurer a way to evaluate itself and determine where it needs to improve.

"We don't just publish charts to have nice charts," Ms. Hawk said. "We actually sit down to look at points in those charts."

See **Coregis** on page 100F

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Coregis

Continued from page 100D

In addition to the Service Metrics, a relaunch of Coregis' Web site in March included adding 24-hour claim status tracking, posting a series of detailed loss prevention guides online and an online public entity risk management newsletter titled RiskTrends@coregis.com.

The site's claim status feature builds upon an existing online claims reporting capacity. It gives customers the ability to track claims 24 hours a day, and allows them to get more detailed information by submitting e-mail queries directly to the claims adjuster.

The loss prevention guide feature enhances the company's Coregis Loss Prevention System by providing customers online access to Coregis' Core Policy Guides.

Six of the online guides will be featured each month, offering step-by-step information on reducing exposures in such areas as emergency preparedness, sexual harassment, storage and control of flammable materials, substance abuse and vehicle use, among others.

The online risk trends newsletter will be published monthly, and will include articles on subjects relevant to public entity risk management.

"Our goal is to make Coregis more of a 'go-to' site," said Thomas R. Eisenhart, director of marketing

communications and e-business at Coregis.

"It's just a whole way of saying we're going to be an information services company that competes in the insurance industry," said Chan Galbato, president and chief executive officer of Coregis.

With its online enhancements, Coregis hopes that for agents and brokers the Web site will ultimately function as an online work station, while for the end customer it can be an educational tool.

In addition, providing customers such online tools as the ability to prepare their own loss runs—typically a producer activity—will free up agents' and brokers' time, time they put to use producing business. **BI**

Using technology correctly can help business grow

By Peter van Aartrijk Jr.

Independent agents and brokers are making some obvious, pressing decisions about where to invest their technology buck. A key point, however, is often missed in all the hype surrounding technology: The

A/BT Perspective

important decisions have more to do with familiar areas of business strategy—how you'd like to grow your business, for example—than with the confusing and complex world of technology.

After all, e-commerce will be plain old commerce before we know it. For now, here are five considerations to keep in mind:

Business planning still is king

If your workflows are inefficient, technology will only help you be more efficiently inefficient. Ignore the hype. Technology isn't an end; it's a means to the end. And your end is net policy-count growth and retention plus excellent customer service. That takes a plan.

This is the strategic piece, and it's also the hard part. Ask your customers and your employees how you can get better. What are your strengths? What can you leverage there? What are your weaknesses? How can you eliminate them? Where do you see the strongest growth coming from? How can you plug in the marketing and technology to help you get at that growth? How can you take your brand—the sum of numerous intangibles such as customer loyalty, corporate personality, ethics, the emotions you build into every sale, what people say about your firm, etc.—to the Web?

As a general rule, spend at least 5% of revenues on technology each year. Determine whether a particular piece of technology fits into your business plan for increased sales or better customer service. If it doesn't fit, don't buy it.

Staff wired and ready

Make e-mail and Web access a fundamental part of your company's infrastructure, including having a full-time e-mail and Internet connection at every desktop. "Virtually every technology will be connected to the Internet in some way," said Franklin, Tenn.-based technology consultant Steve Anderson. "Without access, agents will be on the outside of the fence looking in."

"You must migrate your employees from lowly task work to knowledge work, and (Internet and e-mail) are the emerging tools of the knowledge worker," agreed Kevin Kelly, worldwide insurance industry manager at Microsoft Corp.

"More and more of our
See **Planning** on page 100H



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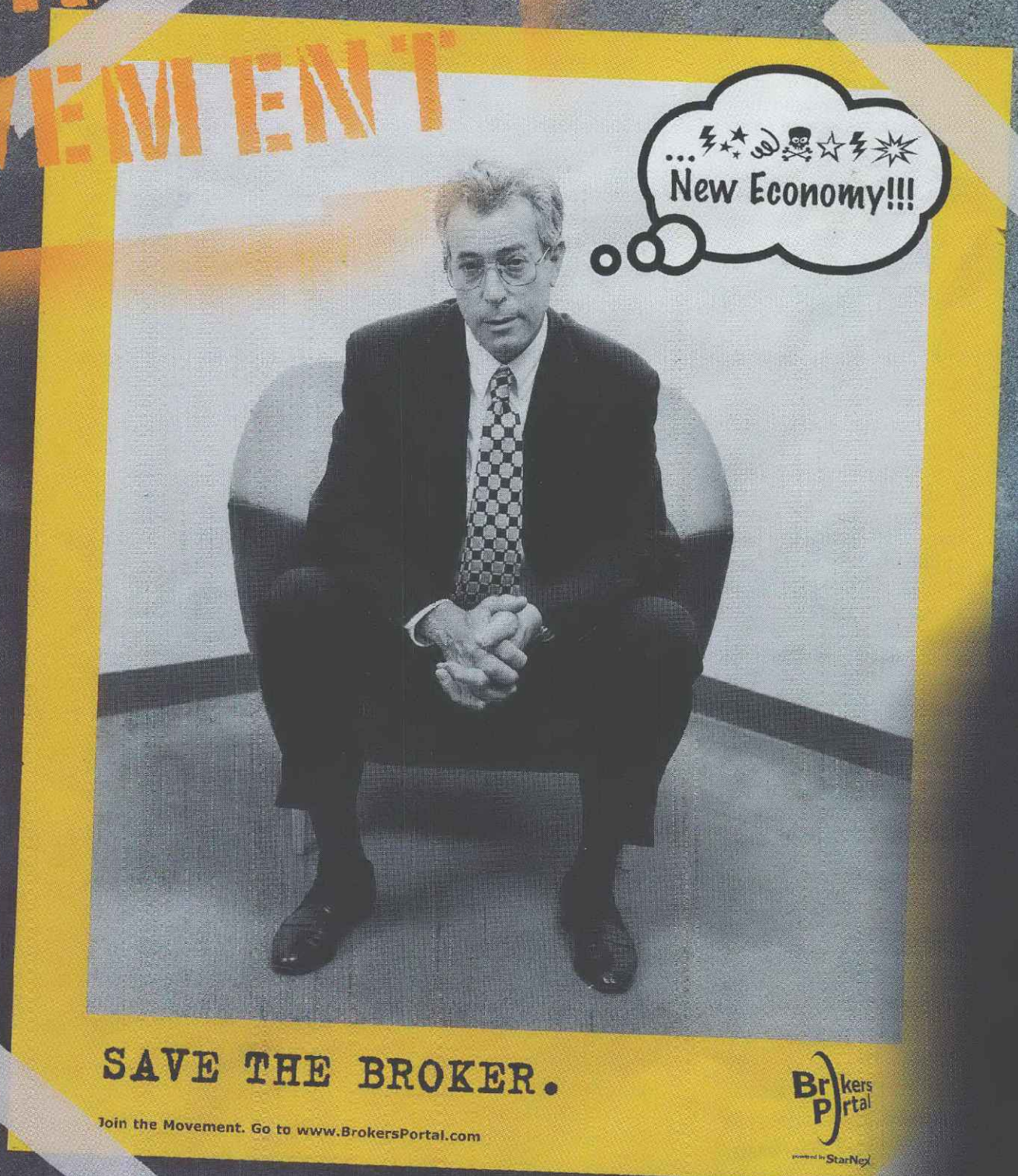
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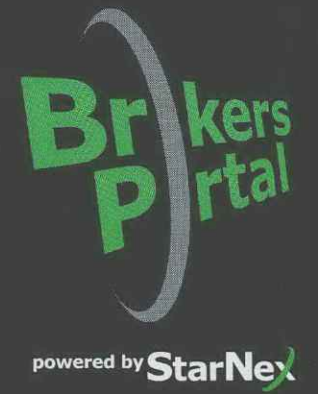
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Planning

Continued from page 100F
industry's useful information and applications will be coming to you via these pathways."

Invest in additional training. Every position in an agency requires at least basic computer skills, including a thorough understanding of the Windows operating system. At the customer service representative level, employees need at least an intermediate understanding of Microsoft's Word and Excel applications.

The only time your staff likely was trained on the agency management system was when the system was installed. "Put a training program in place and certify your staff on the use of each computer application they use," advises Tim Higham, president of iNEX Inc., an e-commerce consulting firm in Tampa, Fla. "You will see an increase in efficiency of 20% to 30% almost overnight."

In addition, you should bookmark insurance Web resources on your browser and review them in the agency.

Use technology to market your products and services. You might complement face-to-face client meetings with "virtual

meetings" to increase the frequency of high-touch customer contact. Bear in mind that the customer data on the network isn't worth much until you figure out ways to mine that data, such as through cross-selling.

Pay attention to the customer

Your online presence is every bit as important as the entrance to your physical agency. Provide your customer with a means to do business with you. Offer online quoting—or at least a speedy e-mail response to a quote request.

Any firm with a Web site can offer customer service options 24 hours a day, seven days a week. A simple form can be posted to allow customers to send a structured e-mail with the information on what they want to change. Use e-mail with every customer you can. Prepare simple e-mail proposals that allow a quick response to prospects. Or subscribe to a service such as i-csr.com, which provides sophisticated service options for clients. "Customer service is the 'killer app' for agents," Mr. Anderson said. "Start learning how to do it."

Look for bottlenecks that frustrate customer service

representatives every day. Find ways to move that information onto the Internet, allowing clients to retrieve it online. Examples of those pieces include certificates of insurance, binder requests, first notice of loss, ID cards for vehicle fleets, motor vehicle reports, billing information and invoice or claims status.

Agents and brokers also might explore technology developed around a new buzzword in one-to-one marketing—customer relationship management, or CRM. CRM databases identify individuals by the value they offer the agency and by the customization they require. Agencies should be using their Web sites to build "learning relationships" with their customers, where the customers tell the agent who they are and what they need, said Rick Morgan, an agency technology consultant and author in Boulder, Colo. "The agent listens and learns—then is responsible for delivering unique and individualized products and services that meet the customer's needs."

Consider outsourcing

Evaluate application service providers, or ASPs. Such third parties handle not only installation, operation and maintenance of the basic information technology infrastructure, but also the insurance-specific software applications that are essential to running your business. That's important, because every firm deals with the cost of upgrading hardware and software—many spending \$150,000 every three years. Shirley Lukens, an agency

management consultant with Reagan & Associates in Atlanta, said that with an ASP, "you don't need that software and all that expensive equipment in your office. You just need a terminal and Internet access. I don't know how real that is, but if I'm a broker, I need to keep my eyes on it, because it's way to save money in the future."

An ASP might "rent out" an agency management system and other applications to run the firm, service clients, and communicate efficiently with companies, clients and vendors. But, in practice, insurance professionals don't have many options for outsourcing their IT infrastructure right now, because agency management systems are so proprietary—and old. These products weren't originally engineered to be used in an ASP environment, so performance and security may not be adequate. That will change, as the vendors are well aware of the challenge from service centers—and even brokers—to compete in the ASP or data center environment.

Web development should be outsourced, says Frank Sentner, director of strategic technology for the Council of Insurance Agents & Brokers in Washington. "You need to use the right technology, the right tools and the right equipment. You can't do that until you've done all the traditional things you have to do—strategic planning, workflow analysis, analysis of customer needs. Spec out your business requirement in pretty good detail before you bring in a Web developer, because if you don't, you'll spend a fortune. And they'll probably get it wrong the first couple of times anyway,"

Mr. Sentner said.

Seek distribution partners

Don't go it alone when developing an e-business strategy for distribution, advises Nancy Carini, a vp at Hartford, Conn.-based industry analyst Conning & Co. "It's too costly, and the market is moving very fast. Rather, hook up with a few insurers that have a strategy in place to penetrate the e-commerce marketplace and become a partner." As an alternative, she said, a producer could network with other agencies that have the same sense of urgency to move into e-commerce. Share resources and strategies. In fact, an agency might want to adopt both approaches, partnering with insurers and other producers.

Consider strategic alliances with other Internet sites. There are many options for possible partners, including your own customers, insurance companies, managing general agencies, local business partners, car dealerships, online shopping sites, contractors unions, online bankers, realtors, town halls, chambers of commerce, state motor vehicle departments, glass-replacement companies, and so on.

Lastly, fire any insurer that doesn't believe in using technology to make your job easier. And that means responding swiftly to basic e-mail.

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Mr. van Aartrijk

Peter van Aartrijk Jr. is managing director of The van Aartrijk Group L.L.C., an Alexandria, Va.-based communications firm specializing in the independent agent and broker distribution channel. He formerly was vp of communications for the Independent Insurance Agents of America Inc.

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RISK MANAGEMENT HONOR ROLL

Cash

Continued from page 100

self-insurance program would be through raising ticket prices, which is not feasible, or by expanding into additional cities. "It makes more sense to transfer and manage the risks," he said.

Royal & Sun Alliance Insurance Co. is HTA's chief underwriter, issuing the company's automobile, workers compensation and general liability policies.

American International Group Inc. writes HTA's property insurance. HTA has about \$53 million in insured property values.

HTA's property policy is written on a manuscript basis, said Mr. Jeske.

"It's unique in the sense that we have quite a bit of property that we own here in Key West and the fact that we store our trolleys here at night," he said. "The Boston Tea Party ship is actually part of our property program because it doesn't go anywhere—it does not sail. If it has to be taken out from the place where it's berthed, it's towed out by a barge. It does not sail under its own power, so that is also covered under our property program," he explained.

The Marine Office of America Corp., a marine underwriter owned by CNA Financial Corp., writes HTA's marine insurance cover-

age for the schooner Western Union; the schooner America, which summers in Boston and winters in Key West; and the fleet of amphibious vehicles the company operates in Washington. CNA also underwrites HTA's real estate errors and omissions coverage, which covers an affiliated company's apartment and condominium development activities in Key West and Boston.

Chubb Corp. underwrites crime and umbrella liability insurance coverages.

Hartford Steam Boiler Inspection & Insurance Co. underwrites HTA's boiler and machinery insurance coverage, as well as its electronic data processing program. The EDP exposures include online ticket sales

and maintenance of the company's intranet site.

HTA is "in the process of purchasing" directors and officers liability insurance, he said. The company, which is not publicly traded, had seen no need for such coverage until it recently issued some stock to managers. Mr. Jeske said that D&O coverage would provide an extra margin of protection for the new stockholders.

The company's property/casualty insurance program, which renews March 31, is currently brokered by Willis North America Inc. Mr. Jeske declined to comment on the switch in brokers beyond describing it as "just a good business decision for HTA." **BI**

'Nation's Storyteller'

Historic Tours of America gives customers a little history on the go

Sometimes it's as if Key West, Fla.-based Historic Tours of America Inc. speaks a language all its own.

The company's business is "transportainment." Its employees, regardless of what their jobs entail, are known as "CASTmembers." HTA calls itself "The Nation's Storyteller."

HTA was founded by Key West businessmen in the early 1980s to provide historic tours of the island. The company has since branched out into four additional cities: Boston; San Diego; Savannah, Ga.; and Washington.

In each of those cities, HTA's orange and green "Old Town Trolley Tours" have become as much a part of the tourism landscape as older attractions.

In each city, HTA's trolley drivers—called conductors—provide a narrative that combines historical references, anecdotes and current event information as they drive through the streets, picking up

and discharging passengers at predetermined locations.

The company operates the historic "Conch Train" in Key West, a mock train that's been providing tours for decades, as well as a fleet of amphibious vehicles—nicknamed ducks—in Washington. The company also has sailing vessels and a stationary "tea party ship" in Boston.

Not all of HTA's operations though, involve transportation. The trolleys are tied to other HTA-operated attractions, such as the Key West Aquarium and the Key West Shipwreck "Historeum." The company also operates the "Little White House"—the Key West residence of President Harry Truman, as a museum and attraction. The state of Florida owns the historic site.

HTA also operates retail shops and its own trolley manufacturing facility for its own vehicles.

—By Mark A. Hofmann



PHOTOS: MICHAEL MARCOTTE



Theodore G. Jeske and Bert Whitt, curator of the Truman Little White House Museum, look over the poker table at the museum (top). Mr. Jeske listens to Bob Fain, safety officer of Old Town Trolley Tours in Key West, Fla.

Ten judges pick Risk Manager of the Year

The 2000 Risk Manager of the Year is the 23rd individual to receive the award. The first competition was held in 1977 to commemorate the 10th anniversary of the magazine, and the first winner was named in 1978.

The Risk Management Honor Roll was added in 1981 to acknowledge the accomplishments of risk managers representing various segments of the field.

Ten independent professionals judged this year's entries. Honorees were selected based on the judges' opinions of each nominee's program as it was detailed in the entry. The judging panel

was made up of the 1999 Risk Manager of the Year, the three 1999 Risk Management Honor Roll members, two insurance company executives, two insurance brokerage executives, a risk management consultant, and an insurance educator.

The judges for the 2000 awards were:

- John E. Cay III, chairman and chief executive officer of Palmer & Cay Inc. in Savannah, Ga. Mr. Cay represented insurance brokers on the panel for the second consecutive year.

- Helen I. Doeringhaus, associate professor of insurance at the Daila Moore School of Business at the University of South Carolina in

Columbia. Ms. Doeringhaus also served on the panel last year, representing insurance educators.

- Merritt W. Fabel, director of corporate risk and insurance for American International Group Inc. in New York. Mr. Fabel was the 1999 Risk Manager of the Year.

- David A. Holcombe, risk manager of International Speedway Corp. and the National Assn. for Stock Car Auto Racing Inc. in Daytona Beach, Fla. Mr. Holcombe was a member of the 1999 Risk Management Honor Roll.

- Douglas Leatherdale, chairman and CEO of The St. Paul Cos. Inc. Mr. Leatherdale served on

the panel for the first time, representing insurers.

- Lewis Leigh, executive director of Renton, Wash.-based Washington Cities Insurance Authority, a self-insurance pool. Mr. Leigh was a member of the 1999 Risk Management Honor Roll.

- Sheryl A. Pixler, risk manager for Storage Technology Corp. in Louisville, Colo. Ms. Pixler was a member of the 1999 Risk Management Honor Roll.

- John T. Sinnott, chairman and CEO of Marsh Inc. and a director of Marsh & McLennan Cos. Inc. Mr. Sinnott served on the judges' panel for the first time, representing insurance brokers.

- Shivan S. Subramaniam, president and CEO of Factory Mutual Insurance Co. Mr. Subramaniam represented mutual insurance companies on the panel for a second consecutive year.

- Arvid R. Tillmar, chairman and CEO of T.E. Brennan & Co. in Milwaukee. Mr. Tillmar served on the panel for a second consecutive year, representing risk management consultants.

Judges evaluated each nominee based on 10 criteria (see story, page 104). The nominee who scored the highest was named Risk Manager of the Year, and the remaining nominees were placed into one of these categories:

- Corporations with sales exceeding \$300 million.

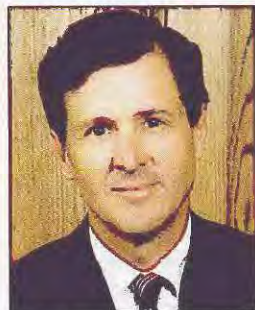
- Corporations with sales of less than \$300 million.

- Government entities.

- Tax-exempt or non-profit entities.

The highest-scoring candidate in each of the categories not represented by the Risk Manager of the Year was eligible to be named to the Risk Management Honor Roll, subject to the judges' discretion.

A nominee need not handle risk management responsibilities full time, but he or she must be a full-time employee of the organization whose program he or she directs. **BI**



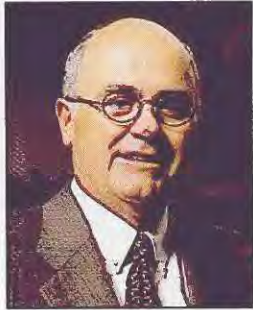
Mr. Cay



Ms. Doeringhaus



Mr. Fabel



Mr. Holcombe



Mr. Leatherdale



Mr. Leigh



Ms. Pixler



Mr. Sinnott



Mr. Subramaniam



Mr. Tillmar

Risk Managers of the Year

1999

Merritt W. Fabel
Director of Corporate
Risk and Insurance
American International
Group Inc.

1998

Phillip J. Grewar
Director, Risk
Management Branch
Government of
British Columbia

1997

Judy Lindenmayer
Vp of Fidelity Insurance
and Risk Management
FMR Corp.

1996

Brian D. Casey
Director of Risk Management
and Loss Prevention
Corning Inc.

1995

Scott K. Lange
Director of Risk Management
Microsoft Corp.

1994

Lucille A. Gallagher
Vp of Risk Management
ConAgra Red Meat Cos.
Monfort Inc.

1993

Richard C. Heydinger
Director of Risk Management
Hallmark Cards Inc.

1992

Millicent W. Workman
Director of Corporate
Risk Management
Beiz Enterprises

1991

Arnold L. Davenport
Vp-Risk Management
Marriott Corp.

1990

Stephen M. Wilder
Director of Corporate
Risk Management
The Walt Disney Co.

1989

Jeffrey W. Pettegrew
Risk Manager and
Chief Administrative Officer
Contra Costa County

Municipal Risk Management
Insurance Authority

1988

William L. Mather
Administrator of Risk
Management
The Gillette Co.

1987

Edith F. Lichota
Senior Vp
Irving Trust Co.

1986

Donald Nelson
Director of Risk Management
ARA Services Inc.

1985

Harold C. Lang
Director of Insurance
and Risk Management
Leaseway Transportation
Corp.

1984

Richard M. Inserra
Director of Insurance
and Risk Management
American Can Co.

1983

John A. O'Connell
Executive Director
and Risk Manager
Holy Cross Shared
Services Inc.

1982

Eckart Russell
Risk and Insurance Manager
Alcan Aluminium Ltd.

1981

Duane E. Allen
Assistant Treasurer
Hanna Mining Co.

1980

Thomas V. Hallett
Risk Manager
General Motors Corp.

1979

Edward L. Erickson
Director of Insurance
American Broadcasting
Cos. Inc.

1978

Howard T. Weber
Director of Insurance
Minnesota Mining &
Manufacturing Co.

Risk Management Honor Roll members

1999

David A. Holcombe
Risk Manager
International
Speedway Corp.
& NASCAR
Small corporation

Lewis Leigh
Executive Director
Washington Cities
Insurance Authority
Government entity

Sheryl A. Pixler
Risk Manager
Storage Technology
Corp.
Large corporation

1998

James E. Green
Justin Industries
Small corporation

Mark L. Hubbard
Loma Linda University
Adventist Health
Science Center
Non-profit institution

Edward Molloy
Aetna Inc.
Large corporation

1997

John J. Carney
National Freight
Industries Inc.
Small corporation

Betsy Kutska
Park District Risk
Management Agency
Self-insurance pool

William R. Powell
Salt River Project
Government entity

Russell Opferkuch
Bankers Trust Co.
Financial institution

Jeannie Sedwick
AHA-Insurance
Resource Inc.
Non-profit institution

1996

Craig S. Macdonald
Bi-State
Development Agency
Government entity

Michael Tawney
Loomis Armored Inc.
Small corporation

1995

Lee D. Holland
Tennessee Municipal
League Risk

Management Pool
Self-insurance pool

K.C. Kidder
Norwest Corp.
Financial institution

Judith Payne
South Dakota
Government entity

Bruce Zaccanti
Jupiter Mechanical
Industries Inc.
Small corporation

1994

Sal M. Bianchi
Intergovernmental
Risk Management
Agency
Self-insurance pool

**Judith Moses
McDonald**
Comerica Inc.
Financial institution

Ronald J. Guilfoile
City of St. Paul, Minn.
Government entity

Thomas J. Hickey
Malcolm Pirnie Inc.
Small corporation

1993

David G. Adler
The Portman Cos.
Small corporation

Thomas E. Bell Sr.
Middle Cities Risk
Management Trust
Self-insurance pool

June Dickinson
SunTrust Banks Inc.
Financial institution

C. David White
State of Oregon
Government entity

1992

Marc Darby
Bombardier Inc.
Large corporation

Jerry Newsom
State of Georgia
Government entity

Judith Tornese
Transamerica Corp.
Financial institution

1991

Donald D. Batchelor
Union Planters Corp.
Financial institution

Mary L. DeCampi-Stewart
Metropolitan
Washington

Airports Authority
Government entity

Rod Umscheid
University of
California
Non-profit institution

1990

**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
Non-profit institution

1989

John A. Lindquist
Browning-Ferris
Industries Inc.
Large corporation

J. Douglas Higley
State of Louisiana
Government entity

1988

Gregory L. Daniels
American National
Red Cross
Non-profit institution

**Timothy G.
Galarnyk**
Lunda Construction
Co./Phoenix Steel Inc.
Small corporation

Stephen A. Finley
City of
Lakewood, Colo.
Government entity

Edward G. Weiss
First of America
Bank Corp.
Financial institution

1987

Susan M. Werner
Hardee's Food
Systems Inc.
Large corporation

Mark F. Wilson
First Mississippi
Corp.
Small corporation

1986

Delmer Ison

Washington
Metropolitan
Area Transit Authority
Government entity

William E. Rogers
Conemaugh Valley
Memorial Hospital
Non-profit institution

1985

Susan N. Weiner
Dade County
Public Schools
Government entity

Eva F. Goodrich
Cincinnati
Electronics Corp.
Small corporation

1984

Sidney D. Blatt
Holloway Cos.
Small corporation

Gene Snyder
State of Oregon
Government entity

1983

**Jerri Nelson
MacMillian**
Aetna Life & Casualty
Cos.' Real Estate
Investment
Department
Large corporation

Robert Sinclair
Metropolitan
Government
of Nashville and
Davidson County
Government entity

1982

Spencer J. Traver
BF Goodrich Co.
Runner-up

Paul B. Harvey
Ponderosa Homes
Small corporation

Gene M. Marsh
General Conference
of Seventh-Day
Adventists
Non-profit institution

George N. Pierce
Orange County, Fla.
Government entity

1981

Robert Bieber
Westchester
County, N.Y.
Government entity

William Ryan
University of
Michigan
Non-profit institution

Business Insurance, May 1, 2000 / 103

Judges use 10 criteria in scoring candidates

Ten criteria are used to score the nominations submitted for the annual *Business Insurance* Risk Manager of the Year Award and Risk Management Honor Roll.

The panel of 10 independent judges scored each nominated candidate on a scale of one to 10, according to how well he or she:

- Established and implemented an effective risk management program

within the organization.

- Tackled and 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 (specifically addressing the types of policies pur-

chased and manuscripted policies, if any).

- 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 (how the risk manager secures information from other departments and the use of risk management information systems are addressed in this criterion).

- Skillfully performs the functions of management in the overall organization and within the risk management/insurance department. The functions include planning, organizing, directing and controlling.

- 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 lead-

ing to a better managerial grasp of the operational aspects of the job.

- Exhibits an attitude and performs activities fostering the advancement of the risk management profession (such as professional activities, speaking engagements, teaching and related activities).

- Develops in his or her career (as exhibited by job history, including current job description, education, honors and memberships). **BI**

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Global Briefs

Lloyd's of London underwriting agencies LIMIT P.L.C. and Wellington Underwriting P.L.C. unveiled the proposed terms of a merger between the two to create **Ensign Underwriting P.L.C.** The merged entity would be the largest insurance business within Lloyd's, with underwriting capacity of £1.2 billion (\$1.9 billion) for the 2000 year of account. Under the proposed deal, Wellington shareholders would receive 91 new Ensign shares for every 100 Wellington shares held. Those terms have been approved by the Wellington board, and a merger proposal will now be put to LIMIT shareholders at an extraordinary general meeting. Jonathan Agnew, chairman of LIMIT, would be executive chairman of Ensign, and Ian Agnew, chairman of Wellington, would serve as deputy chairman. . . **Euclidian Group P.L.C.** plans to split into two units the marine and non-marine business of Lloyd's syndicate 1243. Euclidian's senior marine underwriter, Dermot Dick, said the move should strengthen the group's position in the market. . . A joint forum between the International Underwriting Assn. and Lloyd's of London plans to issue details of a proposal to streamline insurance and reinsurance transactions in the London insurance market later this month. The proposal outlines several recommendations for improving market processing, including a proposed merger of the market's two back office bureaus—the London Processing Centre and the Lloyd's Policy Signing Office (*BI*, April 17). . . U.K.-based rail operator **Railtrack P.L.C.** has filed a £20 million (\$31.6 million) claim against Thames Trains for allegedly causing a collision last October, in which 31 people were killed and 227 were injured (*BI*, Oct. 11, 1999). Railtrack's claim alleges that the driver of the Thames Train, which collided with a Great Western Trains train near London's Paddington station, was to blame for the accident, according to Thames Trains' insurer, St. Paul International Insurance Ltd. Great Western Trains is also insured by St. Paul. An official inquiry into the crash will begin this month. St. Paul has not released any further details of the claim. . . Edinburgh, Scotland-based insurer **Standard Life Assurance Co.**, one of Europe's largest mutual insurers, has agreed to hold a vote on demutualization, though its management remains opposed to such a move. The company said it would fight vigorously to maintain its mutual status. Standard Life has been under pressure from a group of its policyholders, the Standard Life Members' Action Group, that is pushing for demutualization. . . The European Union will resume talks with the People's Republic of China this month to try to reach a deal to help **China's bid to join the World Trade Organization.** E.U. Trade Commissioner Pascal Lamy will fly to Beijing for talks in the week of May 15. Talks in March failed when the two sides did not agree on several issues, including foreign access to the Chinese insurance market. . . AXA S.A. has failed to reach an agreement with its U.K. subsidiary, **Sun Life & Provincial Holdings P.L.C.**, on an offer by the French insurer to acquire the 43.7% of Sun Life & Provincial that it does not already own. AXA said it would put a new proposal to the non-executive directors of Sun Life & Provincial. . . U.K. insurer Royal & SunAlliance Group P.L.C. has linked up with Chennai, India-based Sundaram Finance to form a **non-life insurance venture in India.** The two companies have signed a letter of intent and will now apply to the Insurance Regulatory and Development Authority of India for a license.

INTERNATIONAL

U.K. legal reform may boost litigation

By CAROLYN ALDRED

LONDON—U.K. risk managers face a potentially more litigious environment, but the jury still is out as to what it will cost their companies.

Government-funded legal aid for personal injury claims was abolished last month and will be replaced with "no win, no fee" legal compensation system, similar to the contingency-fee basis common in the United States. The aim of the move, one of a sweeping set of changes to the legal system and court procedures in England and Wales, is to create greater access to the courts and to reduce the increasing costs to the state for legal aid.

In a no-win, no-fee arrangement—or a conditional-fee arrangement, as it is known in the United Kingdom—a lawyer agrees that he or she will not receive a fee if the case is lost. In exchange for assuming this risk, the lawyer is entitled to a bonus on top of standard fees if the case is won. The size of the bonus to be paid by the client is negotiated at the start of the case.

Many law firms and several insurers have been preparing for the change, believing that the new system will open up the U.K. courtrooms to tens of thousands more claims.

Under the old system, legal aid was available only to those with few assets and little or no income. For most of the British population, the expense of litigation was too costly to un-

dertake.

Although conditional-fee arrangements have been accepted in Scottish courts for many years, the approach was not allowed in English and Welsh courts until 1995. But, in part because of the huge costs that can be incurred in litigation—in the United Kingdom a losing litigant must pay the court costs and legal costs of the winning party—initial acceptance of conditional-fee litigation was slow.

That now is changing quickly, helped by the swelling ranks of lawyers and the introduction of several specialty insurance products. More insurers are bringing out coverage to help fund personal injury litigation. In addition, the population of lawyers is burgeoning, and many now advertise widely on the radio and in hospital waiting rooms.

Phil Jepson, a partner in the Manchester office of London-based law firm Davies Arnold Cooper, said that the change will mean an increase in the number of "straightforward" personal injury cases, where injury and liability can be easily proved. This could cause an increase in premiums for public liability and employers liability coverage.

However, funding "more complex cases will be more problematical. Lawyers won't be so willing to bring complex claims, such as industrial disease, RSI and stress claims, which are much more difficult to prove," said Mr. Jepson.

See Courts on next page



More losses for Lloyd's?

Moody's sets '99 forecast

LONDON—Lloyd's of London will likely lose £775 million (\$1.23 billion) in 1999, according to estimates from Moody's Investors Service Ltd.

That will mark the low point in a four-year streak of losses running from 1997 to 2000, the rating agency says.

This year, the loss will likely be reduced to £496 million (\$784 million), according to Moody's estimates issued last week.

LLOYD'S

For 1998, Moody's expects Lloyd's to post a loss of £771 million (\$1.22 billion), which would be higher than Lloyd's own loss estimate of £725 million (\$1.15 billion) for that year.

In 1997, according to results just released by Lloyd's, the market lost £176 million (\$284 million). Lloyd's reports its results three years in arrears to allow for loss developments to be reported.

The losses are a reflection of the business written by Lloyd's syndicates, the Moody's report says.

"Lloyd's syndicates write potentially volatile classes of business into relatively small stamp capacities. It is, therefore, not surprising that losses in the downturn can be marked and that there can be difficulties in forecasting eventual returns," the report says.

And the market loss figures mask the widely varying results of individual syndicates, the report says.

—By Gavin Souter

Major pension changes likely in Japan

Proposal to allow defined contribution pensions might spark cultural shift

By MICHAEL BRADFORD

TOKYO—Japanese employers and their workers are facing a momentous change in the way private pension plans are structured.

Under proposals expected to become law, employers for the first time will be able to offer workers a form of defined contribution pension plan. Until now, Japanese law allowed only defined benefit plans.

The change carries implications of both economic and societal change in a country where workers have little investment knowledge and employers have taken care of pension funding decisions.

The new legislation, expected to take effect in January 2001, could jump start the nation's sluggish stock market and fuel the growth of mutual funds, experts say. Japan could see the same type of economic activity that occurred in the United States about a decade ago, when U.S. workers were handed the ability to make investments in 401(k) retirement plans.

"It has the potential to be huge," said Linda Chase-Jenkins, managing consultant with Tillinghast-Towers Perrin in New York. "DC in the U.S. was the catalyst that created interest in individual investing."

As Japanese employees become skilled in investing their own pension assets, they likely will begin putting some of their personal savings into the stock market and into a growing stable of mutual funds available in Japan, she said. Such moves could add significant capi-

talization and stability to a Japanese equities market that generally has provided lackluster returns, Ms. Chase-Jenkins noted.

Consultants warn, however, that there are shortcomings to the pension legislation, such as limits on amounts that employers and workers can invest in defined contribution plans and uncertainty on the part of employees, many of whom know little about investing.

Most "Japanese employees are not very comfortable investing assets on their own," said Matt Siegel, a principal at PricewaterhouseCoopers in Teaneck, N.J. Making investment decisions, particularly if stock market volatility continues, would be daunting for many workers, he suggested.

Employees and their employers are going to need plenty of information about the transition if it occurs, Mr. Siegel said. "I don't believe most (human resources) professionals truly understand the impact of moving from a defined benefit to a defined contribution plan," he noted.

Japanese employers are interested in shifting the investment-decision burden to workers because, in recent years, significant shortfalls have been uncovered in many corporate pension plans. Under a defined contribution plan, the risk is shifted to employees, who make the investment choices that determine how their assets perform.

"From a corporate perspective, it's good news," said Jesper Koll, chief economist with Merrill Lynch Japan Inc. in Tokyo. "De-



The arrival of defined contribution pension plans in Japan could spark economic changes as employees begin managing their own investments.

defined benefit plans are a liability. Companies in Japan and elsewhere are always in favor of shifting" the investment burden, he said.

Ms. Chase-Jenkins explained that low returns on pension plan investments have led many Japanese companies to liquidate their pension plans, leaving workers covered under a national retirement scheme. Many other corporations have only a year or so left before they are faced with the same alternative, she said.

Employers are hesitant to discuss the challenges of shifting to defined contribution plans.

A spokeswoman for Toyota Motor Sales U.S.A. Inc. would say only that its Japan-based parent is "studying the various issues" and is prepared to provide employee

education "to cope with whatever pension reform occurs."

A Nissan Motor Corp. spokeswoman took several questions on the proposed changes but did not respond with answers.

Sources say some employers are eager to implement the changes, while others are disappointed with the shortcomings in the proposed legislation.

"They're very enthusiastic," Ms. Chase-Jenkins said of employers, who realize that defined contribution plans can become a competitive tool. Some have the plans ready to launch next year, she pointed out.

"People are excited about defined contribution plans," Mr. Siegel agreed. However, he

See Japan on page 107

Courts

Continued from previous page

But, he warned risk managers, "when you look at the whole picture you are not going to see a reduction in claims."

Insurers agree.

"We would be surprised if personal injury litigation did not increase. We are expecting it to increase, and the insurance products are there to help fund it," said a spokeswoman from the Assn. of British Insurers.

Legal expenses insurance, which covers costs relating to any legal action the policyholder may become involved with, including the other side's costs should the policyholder lose, has existed for many years. Although most policies must be bought before any lawsuit has started, "after the event" policies are becoming increasingly available. These "after the event" policies often are sold in conjunction with a conditional-fee agreement between

the policyholder and lawyer. Such policies will cover court costs and the legal expenses of a winning defendant.

Under the Access to Justice Bill, which went into effect last month,

Among the specialty insurers likely to benefit from the new system are Litigation Protection Ltd. in Arundel, West Sussex, which established its first litigation insurance product in 1993. This was fol-

litigation system.

The company, which advertises extensively on radio, television, buses and other media, provides a free help line where accident victims can contact them. The callers are then referred to one of its panel of up to 300 law firms. Three lawyers in turn evaluate the claim, and if it is viewed as one likely to succeed, it is accepted and covered by a Claims Direct insurance policy.

Although the changes will mean "potential growth of personal injury litigation in the U.K.," it does not mean that "frivolous cases" will not get to court, asserted a Claims Direct spokesman.

"Only genuine injury cases likely to succeed will be taken on," he said, pointing out that workplace injuries account for about 30% of the cases accepted.

Law firms, too, are awakening to the potential market.

One such firm is London-based Kingsford Stacey Blackwell, which in the past year has expanded its

personal injury staff about tenfold. Until recently, personal injury business accounted for less than 2% of the law firm's revenues. That figure likely will reach 30% within a year, predicted Daniel Morris, assistant head of the firm's personal injury department.

The law firm moved that department into new offices last year. It now has a staff of about 58 people, divided into six separate teams, dealing exclusively with personal injury claims. Each team is headed by a supervisor, but most of the staff are not practicing lawyers, which keeps costs down. The aim of the department is to deal with claims as efficiently and cost-effectively as possible, said Mr. Morris.

Nearly all the cases the firm takes on are covered by policies with insurance companies such as Litigation Protection and Claims Direct, he said, asserting that the insurers "have adapted very quickly to provide a better product than legal aid." **BI**

Although the changes will mean 'potential growth of personal injury litigation in the U.K.,' it does not mean that 'frivolous cases' will get to court, a Claims Direct spokesman says.

the insurance policies of losing litigants will also be able to cover the insurance premiums paid by the winning litigant and pay that winner's legal fee. The changes in legislation will encourage the insurance industry to further expand its products and drive forward litigation, observers point out.

lowed by a conditional-fee protection plan in 1995, which was extended to cover all classes of action in 1998.

The insurer believes that the removal of legal aid will open a huge potential market.

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In Proceedings Under
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Case Nos. 97-B-41556(PCB)

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PLEASE TAKE NOTICE that by Permanent Injunction Order dated April 12, 2000, the Scheme of Arrangement with respect to Anglo American Insurance Company Limited which was sanctioned by Order of the High Court of Justice of England and Wales (the "Scheme") has been given full force and effect in the United States and is binding on and enforceable in accordance with its terms against all Scheme Creditors (as defined in the Scheme) and all persons and entities are permanently enjoined and restrained from, *inter alia*, taking any action that is inconsistent with the Scheme.

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April 12, 2000

CADWALADER, WICKERSHAM & TAFT
Attorneys for the Scheme Administrators
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INTERNATIONAL

Japan

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noted, not all employers are expected to abandon defined benefit schemes.

Some corporations are not eager to spend money to implement the new plans, Mr. Siegel suggested. "They have to figure out a way to lower pension costs. I think a lot of folks are waiting to see how things unfold."

"I think probably it is something most people will switch to," predicted Charles Ruffle, CEO of Plansponsor.com and Japanpensions.com, Internet information services for pension plan sponsors. "From an employer's standpoint, it makes sense, moving away from the liabilities" of underfunded plans, he noted.

"There is, however, a lot of uncertainty as to how Japanese employees will react," Mr. Ruffle said. "Not everyone is confident that the Japanese worker in the street is sufficiently educated to make investment decisions."

But, he added, with that concern also comes the realization that the same type of attitude existed in the United States before 401(k) plans were introduced and eventually became a hit with employees.

Mr. Koll of Merrill Lynch said it will take some time for employees to become comfortable with investing, but once they do, they could be hard to stop. "It would be like a sumo wrestler who is starting to break into a jog. He

would start slowly and carefully, but once he got going, there would be an awful lot of momentum behind him."

Robert Gump, a Washington-based international consultant with Watson Wyatt Worldwide, said shortcomings in the proposals have left "an overall sense of disappointment" among employers and others.

He pointed to restrictions that limit company contributions to employee accounts to 216,000 yen per year (\$2,032.7) if the employer also offers a defined benefit plan, or, up to 432,000 yen (\$4,065.5) if only a defined contribution account is offered.

And details on early withdrawals and loan provisions have not been finalized, sources say.

Sources agree that changes in Japanese society make it the right

time for changes to the pension system.

Not only is the timing right because Japanese employers are

'There is, however, a lot of uncertainty as to how Japanese employees will react,' says Charles Ruffle.

looking for ways to shore up shaky pension funds, but a societal shift in recent years also helps create an opportune time for an upheaval in investment culture.

Japanese workers likely will have the ability to take their pension plans with them when they

change jobs—a situation virtually unheard of until recent years.

"People are moving job to job, which has never happened before," said Ms. Chase-Jenkins. "On the employee side, there is a need for portability" of pension plans, she remarked. "They need something more sure and secure."

Mr. Siegel agreed that corporate Japan is not the "cradle-to-grave" employment environment that it used to be. Employees are more likely to switch careers or be laid off than in previous times when most workers stuck with a single employer that practically guaranteed a job for life.

For those reasons, Mr. Siegel said, defined contribution plans with a portability feature are more sensible than defined benefit arrangements.

"It's definitely a long overdue

step in the direction of the democratization of finance," said Mr. Koll, "where individuals can themselves take control of their future financial worth."

"We've been talking about a switch from defined benefit plans to defined contribution plans for the past eight years here in Japan," he said. "All the lawmakers are committed to this change. Before the end of May, they should have all the bills passed."

One political snag could slow the introduction of the plans. Mr. Gump pointed out that there is the possibility that the Diet may face re-elections before the proposals pass.

If that happens and the parliament is replaced, he said, the proposals and introduction of defined contribution plans could be held back. **BI**

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• EVENTS •

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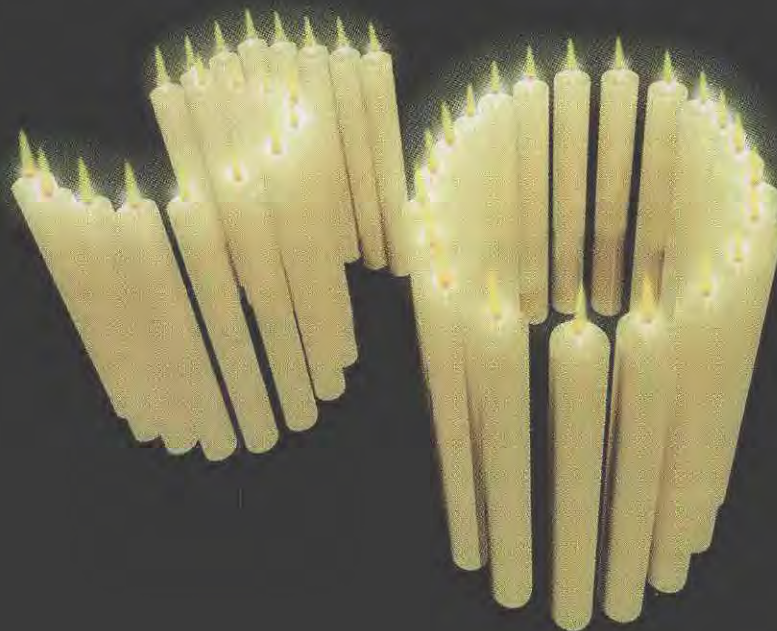
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Buyers

Continued from page 2

Seventy-three percent of respondents cited price of coverage as the primary reason for changing insurers, the IRC survey found.

Although the survey looked at midsize companies, only slightly more than one-fourth of those surveyed employed professional risk managers. Most—87%—reported relying on an agent or broker to evaluate the coverage their companies need.

Risk managers representing larger organizations pointed out that, to sophisticated buyers, quality of coverage is more important than price.

"Only when all other things are equal does a good risk manager look at price," said David Mair, risk manager of the U.S. Olympic Committee in Colorado Springs, Colo., and incoming first vp of the Risk & Insurance Management Society Inc.

Last year, RIMS and the now-defunct Quality Insurance Congress conducted the second Quality Scorecard, which explored risk managers' satisfaction with the property/casualty insurance industry (BI, June 21). The scorecard, which didn't distinguish companies by size, will be conducted again next year by RIMS.

Risk managers in the RIMS/QIC scorecard gave their insurers and reinsurers a satisfaction rating of

66 out of 100. The IRC survey, however, found that its respondents were more satisfied overall.

According to the IRC, 74% of respondents' companies reported being somewhat to very satisfied with the overall insurance industry.

In addition, the IRC found that 76% of respondents were somewhat to very satisfied with the turn-around rate of their insurance claims. But risk manager respondents to the Quality Scorecard gave their insurers and reinsurers a rating of 67 on timely processing and settling of claims.

Lance Ewing, director-insurance and loss prevention for GES Exposition Services in Las Vegas and a chairman of RIMS' external affairs team, said the IRC study "was a good thumbnail sketch of smaller to medium-sized companies' level of satisfaction." At the same time, "from a risk manager's point of view, it really emphasized the need to educate companies about deregulation." Due to their lack of knowledge on the subject, "about a quarter of those who responded didn't even know if deregulation would raise or lower their insurance premiums," Mr. Ewing said.

Darla L. Lyon, chairperson of the National Assn. of Insurance Commissioners' Property/Casualty Commercial Insurance Committee, pointed out that 48% of the respondents acknowledged that they are not at all familiar with issues surrounding deregulation, yet

72% went as far as saying that all businesses should be allowed to participate in a deregulated commercial lines market. Only 10% of respondents said that participation should be limited to companies that meet certain conditions, the survey found.

Twenty-six percent of the respondents to the IRC survey utilize risk managers either on a full-time or consulting basis. Thirty-two percent of the respondents admitted to having no knowledge of what a risk manager does.

Both Mr. Mair and Ms. Lyon agreed that regulation protects consumers large and small. Therefore, they said, even though many of the respondents to the IRC poll favored deregulation, in the long run it may not be in every insurance buyer's best interest.

Ms. Lyon raised concerns about the potential for insolvencies if the insurance market were completely deregulated.

According to a National Assn. of Independent Insurers' statement, the association "supports use-and-file for rates and file-and-use for forms," which the NAII believes fosters increased competition. "The NAIC model also leaves it up to the commissioners to determine the definition of Exempt Commercial Policyholder in their states," according to the NAII.

An exempt commercial policyholder, as defined by the NAIC, must meet at least two of six thresholds, such as net revenue, number of employees and annual

premiums paid.

According to the NAIC's "White Paper on Regulatory Re-engineering of Commercial Lines Insurance," the thresholds recommended in 1998 for ECP status include:

- Net worth of more than \$50 million.
- Net revenues or sales of more than \$100 million.
- At least 500 employees or, if part of a holding party, more than 1,000 employees in the aggregate.
- Use of a risk manager, either on a full-time or consulting basis.
- Aggregate annual insurance premiums that exceed \$500,000.
- For non-profit or public entities, an annual budget of at least \$45 million or a municipality with a population of at least 50,000.

While few of the companies in the IRC survey would meet any of those criteria, 46% were confident that they "probably" could negotiate a premium lower than state-regulated rates if the industry were deregulated, and 15% thought they definitely would have the know-how to negotiate lower rates, the study found.

As of the release of this survey, 17 states were considering commercial lines deregulation, and 13 states had already enacted some form of deregulation.

Overall, while 70% of IRC respondents were moderately to very satisfied with what they pay for coverage, many of them either changed insurers in the past five years or plan to switch in the next two years, mainly to obtain better rates.

Mr. Ewing stated that RIMS supports a state-by-state basis for deregulation in the insurance industry. And while price was the No. 1 factor in determining how satisfied IRC respondents were with their current insurer, Mr. Ewing said "service, in terms of resourcefulness, and how seamlessly the company handles a claim are major factors as well."

Copies of the report are available for \$25 in the United States and \$35 elsewhere from the Insurance Research Council, 718 Providence Road, Malvern, Pa. 19355-0725.

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Wellness concept expands

Employers offering a far broader array of programs

By KRISTIN PALM
Crain News Service

DETROIT—If the idea of corporate wellness programs brings to mind a lunch-hour walk in white Reeboks or trading heart-smart recipes, think again.

While aerobic exercise and nutrition advice are mainstays of such programs, companies are integrating more non-traditional activities—yoga, meditation, tai chi, even onsite massage—into their wellness programs.

"I think the wellness programs are expanding," said Robert Carroll, vp and employee benefit manager in the Detroit office of Marsh Inc. "It used to be just HMO-type programs, but they're starting to get into perks—massages, stress relief, that kind of stuff."

General Motors Corp. in Detroit, for instance, offers both yoga and tai chi—a martial art known for its stress-reduction capabilities—at its headquarters. The company plans to introduce lunchtime meditation classes as well.

GM plans to expand its offerings when it establishes a fitness center near its offices, said Tim McDonald, corporate health promotion manager in GM's Health Care Initiatives Group.

Such innovations allow GM to extend its wellness program to more employees, said Mr. McDonald.

"Some people like to jog or walk, and other people can meditate or through yoga or tai chi try to find a way of changing gears to get out of the stress thing and try to find a way to relax a little bit," he said.

Mr. McDonald said an all-encompassing wellness program

keeps employees around—in more ways than one. "There's health benefits, and there's issues of recruitment and retention of employees," he said.

"These things are going to become a lot more acceptable quickly," Mr. McDonald added. "Some of the old attitudes don't have a place anymore."

The competition for talent and people with certain skill sets is just too great. You can't lose people because you have an old mindset."

While it does not offer such a range of on-site options, the Gale Group of Farmington Hills, Mich., reimburses employees up to \$250 for a wide array of fitness and wellness activities, from golf leagues to acupuncture.

The reimbursement is intended to reduce health care costs, but the policy is also used as a selling point to recruit new employees, said Senior Benefits Administrator Sherry Youngblood.

"It raises eyebrows. People get excited, especially when we say how liberal it really is," she said.

At least a fourth of Gale's employees take advantage of the reimbursement, Ms. Youngblood said, though she does not have figures on how many used the money for non-traditional activities and treatments. Employees will soon be able to use their reimbursement to visit an onsite massage therapist, as they do in the Gale Group's Foster City, Calif., office, Ms. Youngblood said.

Few Southeast Michigan companies currently provide for non-traditional health care treatments through their bene-

fits programs. But a recent partnership between Blue Cross & Blue Shield of Michigan in Detroit and Landmark Healthcare Inc. in Sacramento, Calif., will make discounted non-traditional health care options available to Blues subscribers.

As of June 1, subscribers to the Blues' point-of-service and preferred provider organization plans will have access to a discounted network of acupuncturists, massage therapists and nutrition counselors through its partnership with Landmark. The Naturally Blue network also will offer subscribers discounts on vitamins, herbs, minerals and nutritional supplements.

Mr. McDonald said GM is taking a wait-and-see approach toward including non-traditional practitioners in its benefits packages.

"Massage, acupuncture, we're probably going to follow the pack on that stuff," he said. "There's been a lot of proven success with smoking cessation and acupuncture, but at this time, we don't have the wherewithal to have that covered. But we're watching that to see what will happen."

Marsh's Mr. Carroll, who advises predominantly mid-sized companies, believes inclusion of some non-traditional remedies in benefits packages is in the pipeline for his clients.

"They're all starting to ask questions about it," he said. "It's not something they're implementing at this point, but it's coming."

Kristin Palm is a correspondent of Crain's Detroit Business, a sister publication of Business Insurance.

Commentary

Ready or not, let RIMS begin

As I write this, I am mentally preparing myself for the Risk & Insurance Management Society's annual conference, which is easily the largest of any of the conferences attended and covered by *Business Insurance*.

It's also easily the longest of any of the conferences we attend. It requires the most advance preparation. It commands our most expansive editorial presence. It requires my largest luggage. I pack the most business cards, clean socks, neckties and so on.

It is a conference that demands superlatives.

Without adequate preparation, the conference can become an endurance test. The streets of the host city, hotel lobbies and exhibit hall corridors will be littered with people who are rubbing sore feet, trying to boost their caffeine intake or have just plain given up.

So I prepare. As part of this process, I recall past RIMS conferences and consider what this week might hold.

For starters, I will need to summon all my baggage handling prowess. My briefcase is bursting with contents that range from the high tech (a laptop computer, Palm Pilot and cell phone) to the low tech (pads of paper, pencils and pens, assorted clippings of articles from past issues and printouts of seemingly important e-mails) to the exotic (a 5-year-old stick of Trident gum, lint balls from around the world, a letter to Santa Claus from my daughter and about a dozen matchbooks). I also make room for an expanded pharmaceutical department, namely Excedrin, Alleve, contact lens solution, allergy tablets and Visine.

In my suitcase, I always pack more clothes than I need, with the expectation that I will be thrust into a variety of situations requiring a change in wardrobe, a scenario that never seems to occur. Casual clothes, business attire, golf clothes, footwear for all terrain, clothing in case it's cold, garments for hot weather. And all those socks and neckties.

I calculate in my mind how much extra cash to have on hand to tip the airport luggage handler to assure he doesn't neglect to place my bags on the plane in disgust over how much they weigh.

There are many other items I will need to bring to survive and fully enjoy the week, including:

- Voice- and e-mail juggling capabilities.

Some people are excellent at keeping connected while on the road, returning calls and messages as if they never left their desks. I can call in and listen to the phone messages just fine; it's returning them that seems to elude me.

E-mail, on the other hand, I check religiously. I must fear the consequences of failing to forward the latest electronic chain letter.

- Expense record management skills.

I scribble notes on a variety of media, from scraps of paper, to business cards, to my hand-held computer. I stuff receipts in my pocket, wallet, jacket, briefcase, notebook or rental car glove box.

Nevertheless, at the end of every RIMS week, I must hold a seance to try and raise from dead memory cells who paid for cabs, picked up meals, bought the round at the bar and otherwise emptied my wallet.

- Schmoozing ability.

From the exhibit hall, to convention center hallways, hospitality suites, breakfasts, lunches and dinners, there is a seemingly endless parade of people to meet and greet, names to learn, stories to hear and tips to pick up.

If you see me standing on the edge of a crowd looking lost, or struggling to match a face with a name, you'll know I mistakenly left this item at home, or the airline misplaced it.

- Trinket collection savoir-faire.

Having kids who can't read yet means never having to say you didn't bring them anything. So what if that squishy ball has the name of a claims adjuster plastered all over it, or the candy bar is stamped with the name of an HPR insurer, or the puzzle cube has slogans from an insurance software vendor?

The promotional mementos are not just for the kids, however. I still use a Travelers bottle opener, various tote bags and a kitchen drawer is brimming with cheap Mont Blanc knockoffs.

- Hotel supply gathering.

OK, I'm not as bad with the free hotel stuff as the exhibit hall geegaws, but I do admit to a penchant for collecting bars of soap and hotel mouthwash. Those little shoe shine cloths aren't bad either. And the stationery is nice. Pens work fine. Those mini room service bottles of ketchup are kind of cool. But darn those tiny little hangers!

Ready or not, let the conference begin.

Editor Paul D. Winston's commentary appears fortnightly and on www.businessinsurance.com. He can be reached at pwinston@crain.com.

Bankrupt

Continued from page 1

among the four seized Superior National units was at one of the acquired BIG subsidiaries.

The FHS announcement came at about the same time Superior National filed for bankruptcy protection, and it is unclear what effect, if any, the bankruptcy will have on the threatened lawsuit.

Superior National officials could not be reached for comment.

California regulators seized Superior National's four California-based underwriting units in March after finding them "severely under-reserved" and insolvent by a total of \$247.1 million (*BI*, March 6).

Placed in conservation were California Compensation Insurance Co., alleged to be insolvent by \$145.8 million as of last Dec. 31; Combined Benefits Insurance Co., insolvent by \$2.5 million; Superior National Insurance Co., insolvent by \$40.3 million; and Superior Pacific Casualty Co., insolvent by \$58.5 million.

California Compensation and Combined Benefits were among the BIG units Superior National acquired.

Regulators acted after receiving a letter from Mr. Seaman reporting that the Superior National companies were impaired under statutory accounting rules.

After the seizure, California Insurance Commissioner Chuck Quackenbush initially reached an agreement with Centre Insurance Co. to support Superior National's ongoing business. Its affiliate, Centre Solutions (Bermuda) Ltd., is among Superior National's largest shareholders.

By early April, though, regulators announced they had replaced the Centre Insurance arrangement

with a new deal in which Kemper would provide "cut-through" reinsurance coverage for policies issued on or after April 5. The cut-through provision allows policyholders to submit claims directly to Kemper if the Superior National units are unable to pay.

Superior National's management—which had already been removed from operations of the four seized insurance units—then

'Superior National believes it had no alternative but to file for' bankruptcy protection, says J. Chris Seaman.

countered with what they contended was a better plan for rehabilitating the insurers.

In a court hearing last month, lawyers for Superior National said the company had negotiated its own reinsurance deal with Employers Re of Overland Park, Kan. The Employers Re offer was superior, they argued, because under certain conditions it provided higher ceding commissions to the four insurers and would potentially cover a larger number of underlying policies.

Lawyers for the Insurance Department, though, challenged both these contentions and objected to the rival plan's inclusion of Superior National officers in running the four insurers.

Following the April 20 hearing, Los Angeles Superior Court Judge Frances Rothschild ruled for the Insurance Department plan.

"In light of the (department's) recent actions, Superior National believes it had no alternative but to file for protection under the

bankruptcy code in order to best protect its interests and assets, and its creditors' interests," Mr. Seaman said in announcing the Chapter 11 filing last week.

The filing covers Superior National and subsidiaries Business Insurance Group Inc., an intermediate holding company; SN Insurance Services Inc.; and SN Insurance Administrators Inc.

Shortly before the bankruptcy announcement, FHS disclosed that it had received written notice from Superior National of its intention to sue FHS over the 1998 BIG sale.

The ill-fated sale has already prompted litigation: Superior National last year sued American Re-Insurance Co. over the failure of an American Re affiliate to pay a massive claim under a reinsurance contract covering reserve shortfalls at BIG.

As a condition of the BIG sale, FHS had placed the reinsurance, which provided \$175 million in coverage for adverse loss development in excess of BIG's year-end 1997 reserves of \$522 million. Soon after the sale, Superior National concluded that BIG reserves were deficient and demanded payment under the reinsurance contract. The parties settled the dispute earlier this year (*BI*, Jan. 10).

In its disclosure, FHS said any lawsuit by Superior National would be "without merit." Superior National conducted extensive due diligence before acquiring BIG, including reserve analysis, FHS argued, suggesting the real cause of Superior National's troubles has been the deterioration of the California workers comp market since 1998.

"FHS believes that any attempt to shift losses from this market deterioration... onto (FHS) through a lawsuit has no basis," the company said. **BI**

Public

Continued from page 1

it seems like the premiums have dropped significantly."

Governments' property risk costs were fairly stable from the 1996 survey to the current one, Mr. Pouzar said, while those for workers compensation and many liability insurance lines are down considerably, he said.

While property costs as a percentage of the total cost of risk have remained constant at 13%, the survey showed a trend toward governmental units buying more insurance at lower premium levels.

In the current survey, premiums represented 55% of the average property cost of risk and retained losses 45%, while in the 1996 survey premiums made up 61% of the average cost of risk and retained losses 39%.

The 1998 survey showed 65% of all entities purchased flood insurance and 58% bought earthquake coverage, up from 40% in each category in 1996. In addition, 94% of all respondents purchase "all risks" property insurance today, up from 82% in the 1996 survey.

"Otherwise, property was pretty stable," Mr. Pouzar said. "Even the retention level stayed approximately the same."

Liability costs as a percentage of the total cost of risk increased slightly in 1998, to 35% from 31% in 1996.

Liability insurance premiums, which represented 67% of respondents' total liability costs, fell, however, as a percentage of respondents' operating budgets to 0.41% in 1998, down from 0.97% in 1996. Average retentions were low-

ered over the period, as well.

"On liability, because of the soft market, they're taking advantage of that to purchase more limits," Mr. Pouzar said.

While liability premiums decreased across the board, the most noticeable decreases were for such specialty coverages as police professional, public officials and school board liability. "The cost of some of these specialty coverages I thought was amazing, the drop in premiums," Mr. Pouzar said.

Workers compensation de-

'All of this tort reform, I think it's had an impact. It's lowered the cost of workers compensation,' says Edward Pouzar.

creased as a percentage of the overall cost of risk in 1998, to 52% from 56% in 1996. Premiums represented 31% of the workers compensation cost of risk in 1998, down from 36% in 1996, with retained losses increasing to 58% from 49% in the 1996 survey.

Safety and loss control programs represented 11% of the 1998 workers compensation risk cost, down from 15% in 1996. The majority of respondents in the 1998 survey reported having formal safety programs, as well as using managed care in workers compensation.

"For workers comp, you see an increase in using managed care networks in the public sector," Mr. Pouzar said. And, he noted, "All of this tort reform, I think it's had an impact. It's lowered the cost of

workers compensation."

In general, Mr. Pouzar said, the latest survey shows an increase in the sophistication of public sector risk management. Public risk managers have demonstrated their ability to take advantage of opportunities provided by a soft insurance market, and to take advantage of opportunities to generate savings by consolidating their business, he said.

"I was impressed with the use of technology," Mr. Pouzar added, noting that government risk managers are using information technology not only for such purposes as claims tracking, but also for actuarial purposes and to monitor costs and calculate charge-backs of risk financing costs to individual departments.

"That's pretty impressive. They're using it like the private sector would," he said. "Of course the respondents tend to be on the larger side, so they have the opportunity to do things like charge-backs."

The 1998 public cost of risk survey drew 359 responses, an 18% increase over the 1996 survey. Of the respondents, 21 were states, 92 counties, 143 municipalities, 44 schools or universities and 59 others, such as public utilities, pools or special districts.

The respondents are located in 48 states and Canada, and 57% have operating budgets greater than \$99 million, while only 16% had operating budgets below \$25 million.

To purchase copies of the *Cost of Risk Evaluation in State and Local Government*, contact PRIMA at 703-528-7701 or Daniel Stone at Deloitte & Touche at 212-436-3467.

Awards

Continued from page 1

tion on the awards, 1998 is the most recent year for which full statistics are available for analysis. Statistics for past years sometimes change, however, as JVR updates its database after surveys have already been completed.

According to last year's report, sexual harassment and discrimination awards in 1997 were sharply higher, and the median amount of compensatory damages in all personal injury cases was up 15% from the previous year (BI, March 6, 1999). Employment practices liability cases are not included in the figures and will be detailed in a separate study being prepared by JVR.

Tort reform proponents say increases in jury awards were expected.

The trend in recent years has been for awards to rise as big-dollar verdicts grab the headlines, said Sherman Joyce, president of the American Tort Reform Assn. in Washington.

Big awards in "megalawsuits" help "set the market for verdicts," Mr. Joyce said.

And, he added, the trend did not stop in 1998, as last year was "an extraordinary year" for large verdicts.

A spokesman for the Assn. of Trial Lawyers of America in Washington said he doesn't think juries are influenced by headlines. Each jury "decides on the merits before it," he noted. "We have great experience with juries that take their roles very seriously and want to do the right thing. If they think a wrong is proved, they want to right it."

The spokesman pointed out that the median compensatory award has not varied much since JVR began tracking it in 1992. "Things have remained very constant, and that belies the myths and propaganda of those who want to limit people's legal rights."

The JVR survey shows that the most striking increase in 1998 awards was seen in product liability

cases.

In such cases, the report shows, the median compensatory award rose to \$1.3 million in 1998, up 137% from \$556,690 the year before. The huge jump comes after the median award fell from \$750,000 in 1996.

The median punitive award in product liability cases fell in 1998 to \$200,000 from \$388,000 in 1997, the second consecutive decline. The 1997 figure was far lower than the \$2.3 million median in 1996.

The survey shows that punitive

The trend in recent years has been for awards to rise as big-dollar verdicts grab the headlines, says Sherman Joyce.

damages were awarded in 10% of the product liability cases in 1998.

The median compensatory award in 1998 medical malpractice awards rose to \$755,530, an increase of 46% over 1997. There were no punitive awards in 1998 medical malpractice cases in the JVR study. In 1997, the median punitive award was at \$290,000.

Jumps in the median compensatory awards for product liability and medical malpractice cases likely occurred because "large verdicts in cases of willful misconduct are going to skew the results," the ATLA spokesman suggested.

He said juries "are going to send a message to business and industry" when they find that injuries occurred because of a problem that was known by the company responsible.

Median compensatory awards rose sharply for other cases as well.

The median award in premises liability cases reached \$120,000 in 1998, a 23% rise from the year before. The median in business negligence cases was up 21% to \$237,557.

Data on punitive damages awards

was not available for premises liability and business negligence cases.

Over the seven years since 1992—the period tracked in this year's survey—New York has recorded the highest median compensatory award of \$273,185. Only 2% of awards in New York personal injury cases included punitive damages.

Minnesota had the second-highest compensatory median award—\$128,759—over the seven-year period. Two percent of the awards included punitive damages.

Alabama jurors awarded punitive damages in 26% of the personal injury cases from 1992 through 1998, the highest percentage of any state. Alaska, which was the second highest, awarded punitive damages in 16% of cases during that same period.

New York plaintiffs collected the most million-dollar verdicts, with 24% of the awards totaling at least \$1 million in compensatory and punitive damages over the seven-year period. New York also led states with 23% of its awards reaching at least \$1 million in compensatory damages over the period.

Mr. Joyce of the ATRA said that Alabama has become a "case study" illustrating the unreasonableness of punitive damage awards in recent years, with jurors handing out hundreds of millions of dollars to plaintiffs. Modifications to state law last year placed limits on punitive damages that can be awarded in the state (BI, June 21, 1999).

He said that in many states, awards are rising as tort reforms are reversed. "One of the things that clearly is happening is that state supreme courts are nullifying tort reform" and are "substituting their judgment for the judgment of the legislatures."

Copies of "Current Award Trends in Personal Injury-1999 Edition," are available for \$39.95 plus \$4.50 shipping from Jury Verdict Research, 747 Dresher Road, P.O. Box 980, Horsham, Pa. 19044-0980; 800-341-7874, ext. 307; or via e-mail at custserve@lrp.com.

laws and regulations to create a single, national standard for handling health information. This position was made by all of the health plans, health care clearinghouses and employers whose comments we reviewed," said Dr. Heinrich in her written testimony.

"Full pre-emption of state laws is essential for employers who often have a nationwide web of locations and workers. If a federal, uniform confidentiality standard is not enacted, the functioning and administration of employer health-relat-

Inconsistency among state privacy laws could 'adversely affect' medical care, says Charles N. Kahn.

ed programs could be placed in serious jeopardy," said Kathy Farmer, manager-U.S. compensation and benefits for Palo Alto, Calif.-based Hewlett-Packard Co., as she testified on behalf of the employer-supported Washington Business Group on Health.

Her sentiments were echoed by several other witnesses. The Washington-based Biotechnology Industry Organization "supports enactment of a national law," said Dr. Joanna Horobin, executive v-commerce development for Rockville, Md.-based biotechnolo-

gy Entremed Inc., as she presented BIO's testimony. Medical clinical trials are multistate ventures, Dr. Horobin said. A multiplicity of state laws governing the sharing of medical information would slow research efforts, she added.

Charles N. Kahn, president of the Washington-based Health Insurance Assn. of America, also called for congressional action. "It will take a new federal law" to assure uniformity, he said. Inconsistency among state privacy laws could "adversely affect" medical care, he said.

Sen. Jack Reed, D-R.I., warned, however, that to pre-empt state law, a federal statute would have to be considerably more than a lowest common denominator. In fact, he said, a federal privacy law would have to be very tough to win broad support.

One witness held that her fellow witnesses who called for federal pre-emption were guilty of overreaction.

Instead, "any floor that Congress sets" would actually be "cost effective and create substantial uniformity" by eliminating weak state laws, said Janlori Goldman, director of the Health Privacy Project at Georgetown University's Institute for Health Care Research and Policy in Washington. Ms. Goldman said that the HHS proposal should be expanded even further to create a federal private right of legal action for those whose privacy has been breached. HIPAA does not permit such legal actions. **BI**

Updates

Vermont enacts partner law

Continued from page 2

There remain questions of whether employers outside of Vermont will have to recognize the civil unions.

Thirty states have passed laws denying recognition to same-sex marriages since 1993, when the Hawaii Supreme Court raised the possibility of same-sex marriages. In those 30 states, employers do not have to recognize the civil unions, consultants and attorneys say.

In other states, however, the decision will likely end up in court, noted Sharon Cohen, an attorney in Watson Wyatt Worldwide's research and information center in Bethesda, Md.

Consultants and attorneys point out that the biggest question raised by the new law will be whether other states will follow Vermont's lead.

Given the competitive job market, "more employers are covering domestic partners of both same-sex and opposite sex, and that's probably the most important movement," said Helen Darling, a senior consultant with Watson Wyatt Worldwide in Stamford, Conn.

Eileen Settineri, a consultant with Watson Wyatt in New York, said "I think we will see more activity in other states as a result" of Vermont's move.

Berkshire to buy P/C insurer

WAYNE, Pa.—U.S. Investment Corp. has agreed to merge with Berkshire Hathaway Inc.

The Pennsylvania-based insurance holding company announced Friday that it and its three operating companies—United States Liability Insurance Co., Mount Vernon Fire Insurance Co. and U.S. Underwriters Insurance Co.—will become wholly owned subsidiaries of Berkshire once all approvals are obtained. The merger, terms of which were not released, is expected to be completed in the third-quarter.

Wayne, Pa.-based U.S. Investment Corp., which is closely held by a family, said it has been seeking a buyer for about a year.

Thomas P. Nerney, chief executive officer and president of United States Liability Insurance Group, stated that Berkshire has been the company's "first choice from the outset."

United States Liability Insurance Group, based in King of Prussia, Pa., is a specialty commercial and personal lines insurer. The group had \$96.3 million in gross written premiums in 1998, the most recent year for which data was available.

Water heater makers settle suit

KANSAS CITY, Mo.—Six water heater manufacturers have settled a nationwide class-action lawsuit over a defective plastic tube found in more than 14 million water heaters.

Judge Howard F. Sachs of the U.S. District Court for the Western District of Missouri in Kansas City approved the settlement late last month.

Madison, Ohio-based Perfection Corp., which manufactured the defective dip tubes, did not participate in the settlement because of disputes with its insurers.

The settlement is open-ended, which means class members have until year end to file claims for repairs and expenses incurred due to the defective tubes. Class members also are seeking up to \$5.65 million in attorneys fees and court costs.

The judge has not yet approved that amount, which is separate from the relief in the settlement, said Kerry Miller of Frilot, Partridge, Kohnke & Clements L.C. in New Orleans, which represented the tank manufacturers.

Mr. Miller said the tank manufacturers—Rheem Manufacturing Co., American Water Heater Co., Bradford White Corp., A.O. Smith Corp., Lochinvar Corp. and State Industries Inc.—have insurance to cover the costs of the settlement agreement.

The tank manufacturers, however, have filed a separate suit against Perfection and its insurers, including American Alternative Insurance Co. They are seeking to recover damages arising from Perfection selling them the defective tubes, as well as the costs associated with paying claimants' damages.

Insurer sues over acquisition

HAMILTON, Bermuda—American Safety Insurance Group Ltd., has filed suit to rescind its January acquisition of a syndicate on the former Illinois Insurance Exchange and three related companies, charging it was misled about the companies' loss record.

In January, American Safety, a Bermuda-based specialty insurance holding company, acquired L&W Holdings Inc. and subsidiary RCA Syndicate #1 Ltd., an underwriter on INEX, formerly known as the Illinois Insurance Exchange. Also included in the deal were Principal Management Inc., an Okemos, Mich.-based insurance program manager; and Pegasus Insurance Ltd., a Cayman Islands-based insurer.

American Safety paid \$3.5 million in cash and 200,000 of its own shares for the companies, with up to 254,000 additional shares payable depending on the companies' earnings over a five-year period, according to Securities and Exchange Commission filings.

Last week, though, the insurer announced it had filed suit to rescind the acquisitions after completing an investigation triggered by worse-than-expected 1999 results at RCA Syndicate. American Safety's suit charges that L&W officials misled American Safety about the claims experience of the acquired companies and that the losses are "significantly in excess" of what the companies' records and earlier financial statements showed.

Privacy

Continued from page 2

tions were immediately raised about such matters as the cost of meeting the regulations, their flexibility and their impact on workers compensation (BI, Nov. 8, 1999; Nov. 1, 1999).

Under HIPAA, HHS is supposed to promulgate its final rule by the end of this year, with the regulation taking effect in 2002. Congress, however, can still approve privacy legislation before then and render the HHS regulations moot.

The desire of many interested parties to have Congress act, and act soon, on the issue of pre-emption of state medical privacy regulations was quite evident in last week's hearing.

In fact, Dr. Janet Heinrich, associate director-health financing and public health issues for the General Accounting Office, released at the hearing a GAO report of comments on the HHS privacy proposal. The survey of comments made by 40 organizations representing a variety of viewpoints on the subject showed that the pre-emption issue was, along with three other issues, addressed by 34 of the organizations in their comments. Those 34 ranked pre-emption at the top of their list of concerns.

"The overriding comment, made by more than half of those remarking on this section, was that the federal rule should pre-empt state

FTR FOR THE RECORD

Excerpts from BI's Daily Online Updates, April 24-28, 2000

REIDER STEPS DOWN George M. Reider Jr. has resigned as Connecticut Insurance Commissioner, effective May 5. Mr. Reider is leaving his post, which he has held since 1995, to pursue personal interests, a department spokeswoman said. No immediate successor has yet been named, nor has Mr. Reider accepted another job, the spokeswoman said. "I look forward to enjoying my first summer vacation," wrote the 59-year-old Mr. Reider in a memo notifying his staff of his resignation. During his tenure as commissioner, Mr. Reider played a prominent role in the National Assn. of Insurance Commissioners. He was the organization's president in 1999 and served on an NAIC task force looking into Holocaust-era insurance claims.

AETNA EARNINGS RISE Aetna U.S. Healthcare reported \$131.8 million in operating earnings for the first quarter, a 24% increase over earnings reported for the same quarter a year ago. Earnings rose primarily because of the inclusion of the results of Prudential HealthCare, which was acquired last year, according to the company. Aetna U.S. Healthcare's

total health maintenance organization membership declined 1.6% to 9.7 million as of March 31, 2000, compared with year-end 1999, while its total health membership decreased 4.6% from year end to 19.5 million. The company attributed the decreases to attrition of Prudential HealthCare membership because of premium and rate increases designed to help return the business to planned profitability.

RETIREMENT PROGRAM SWITCH The U.S. Chamber of Commerce announced last week that it has made SunAmerica Inc. the new exclusive provider of defined contribution services to member employers. The program will allow small businesses to offer their employees several variable annuity products, which may help the participating small companies compete with large employers for workers. Currently, only 20% of employers with fewer than 100 employees offer retirement plans, while about 75% of large employers offer such plans, SunAmerica said. SunAmerica replaces Fidelity Investments,

part of FMR Corp., as the Chamber's exclusive provider of retirement plans.

AIG POSTS GAINS American International Group Inc.'s profits rose to \$1.35 billion in the first quarter of 2000, a 12.3% increase over the same period in 1999. Revenues rose 10.8% to \$10.89 billion. "Overall, it was a good quarter for AIG. Each of our principal business groups produced solid results," Maurice R. Greenberg, chairman and chief executive officer, said in a statement. Worldwide property/casualty premiums increased 4.3%, and that business posted an underwriting profit of \$211.5 million. Commercial property/casualty business in the United States saw continued hardening in the first quarter, Mr. Greenberg said.



UFG LIQUIDATION Creditors of bankrupt broker Underwriters Financial Group Inc. are considering a plan to liquidate the defunct company's few remaining assets. U.S. Bankruptcy Judge Jeffrey Gallet last month ordered a vote of creditors on a liquidation plan presented by the bankruptcy trustees for UFG and its brokerage subsidiary, UFG International Inc. Under the plan, unsecured creditors, including several insurers that were owed premiums on business written through UFGI, will receive shares in a liquidating trust that will hold the bankrupt companies' remaining assets after payment of priority administration and tax claims. Court filings show that the two companies' estates have about \$1.9 million in assets, an estimated \$706,638 of which will be available to cover unsecured claims after administrative expenses and tax claims. UFG and UFGI unsecured creditor claims, meanwhile, total about \$16.5 million, court records show. Judge Gallet gave creditors until May 16 to vote on the plan. A court hearing on confirmation of the plan is scheduled for May 23.

EVEREST RE (BERMUDA) Everest Re Group Ltd.'s Bermuda operation will start business in early May, the reinsurer says in its quarter-

ly results statement. Everest Reinsurance (Bermuda) Ltd., which has been capitalized at \$250 million, will be headed by Peter J. Bennett, who was formerly group chief executive at The Citadel Group, a finite risk reinsurer. Everest's plan to establish a new operating unit in Bermuda has been part of a controversy that prompted the introduction of a bill, H.R. 4192, in the U.S. House of Representatives that would impose additional taxes on U.S. companies that cede reinsurance to Bermuda affiliates. Meanwhile, Everest's profits increased to \$48.6 million in the first quarter of 2000, which is a 29.3% increase over the same period in 1999. Gross premiums increased 19.8% to \$304.3 million.

MARSH INCOME, REVENUES UP Marsh Inc.'s operating profits grew to \$324 million in the first quarter of this year, a 10.2% increase from the same period in 1999, mainly due to consolidation savings and new business. Gross revenues at Marsh, the insurance brokerage unit of Marsh & McLennan Cos. Inc., increased 3%, to \$1.29 billion. Growth in new business boosted the operating profits at Mercer Consulting Group, the consulting unit of M&M, by 31%, to \$63 million, and revenues increased 11.6%, to \$520 million. Overall, M&M's operating income, which includes contributions from Putnam Investments, increased 17.9%, to \$612 million. Net income rose 20.8%, to \$337 million; and revenues grew 13.4%, to \$2.66 billion.

TORNADOES HIT Property owners are facing millions of dollars in damage from tornadoes that swept through three states last weekend. Shreveport, La., took the heaviest hit from the storms that first swept through Oklahoma and east Texas. Some homes and small businesses in Marshall, Texas, also sustained damage. Information on insured losses was not yet available. The Louisiana parishes of Caddo and Bossier had total damages of \$7.7 million to \$9.7 million, according to the Caddo-Bossier Office of Emergency Preparedness. Eight injuries, two of them serious, were reported. Shreveport's Sportran bus terminal sustained heavy damage to its tent-like covering, which is constructed from a Teflon fabric. Other down-

town buildings suffered roof damage and blown-out windows.

DRUG CLASS ACTION A federal class-action lawsuit has been filed in Philadelphia seeking to force Warner-Lambert Co. and its subsidiary, Parke-Davis, to pay for medical monitoring for users of the diabetes drug Rezulin. The suit, filed by the Lancaster, Pa., law firm of Roda & Nast P.C. on behalf of a Lancaster County Rezulin user, seeks certification of a class of more than 1 million Rezulin users throughout the United States. The suit alleges that Warner-Lambert failed to warn users of serious health dangers, which the company knew or should have known would result from using Rezulin. On March 21, Rezulin was pulled from the market after the drug was linked to more than 60 deaths, seven liver transplants and more than 500 reports of hepatotoxicity. Warner-Lambert would not comment specifically on the litigation or on its insurance coverage. In a statement, the Morris Plains, N.J.-based company asserted that its conduct with respect to the development and marketing of Rezulin "has been guided by strict adherence to FDA regulations and a commitment to patient health and safety as our highest priority."



BRIEFLY NOTED Towers Perrin has named Mark V. Mactas as president of the New York-based consulting firm. In addition, Mr. Mactas on Jan. 1, 2001, will succeed John T. Lynch as Towers Perrin's chairman and chief executive officer. Mr. Mactas has been managing director of the firm's global health and welfare business since 1997. . . U.S. Re Cos. Inc. and Jardine Sayer & Co./JTL Risk Solutions Inc. have joined the Washington-based Reinsurance Assn. of America. RAA last year opened its membership to qualified brokers. . . ProNational Insurance Co., an Okemos, Mich.-based medical malpractice specialist, has formed a segregated-cell rent-a-captive in Bermuda for health care professional liability risks.

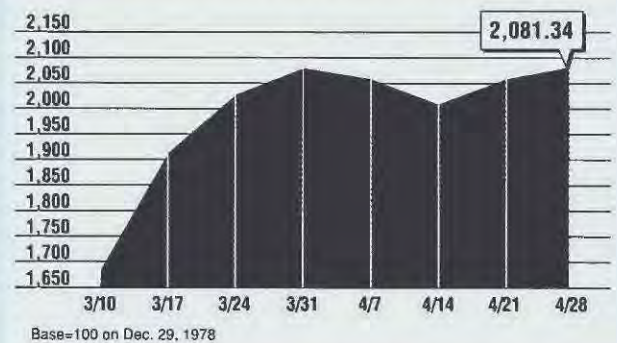
BI

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BI Industry Stock Report APRIL 24, 2000, THROUGH APRIL 28, 2000

BROKERS				INSURERS/REINSURERS				HEALTH MAINTENANCE ORGANIZATIONS															
Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Year to date Vol.(000)	Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Year to date Vol.(000)	Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Year to date Vol.(000)						
Aon Corp.	NYS	27.06	3.59	-32.34	46.66	20.69	5455	Harleysville Group	NDQ	16.06	2.80	12.72	20.88	11.63	72	Unilin	NDQ	33.75	3.05	-10.30	42.38	30.50	386
Clark Barden Holdings	NDQ	14.13	2.26	-1.74	21.00	11.63	14	HSB Group Inc.	NYS	29.00	5.45	-14.23	42.25	21.50	567	UNUM Corp.	NYS	17.00	7.09	-46.98	56.88	11.94	4950
E.W. Blanch Holdings Inc.	NYS	22.25	25.35	-63.67	71.75	16.56	1667	HCC Insurance Holdings	NYS	11.75	5.62	-10.90	25.13	8.00	565	Vesta Insurance Co.	NYS	5.50	11.39	-41.94	7.88	3.44	217
Gallagher Arthur J. & Co.	NYS	37.25	13.09	15.06	37.25	23.00	804	ING Groep N.V.	NYS	54.94	-1.68	-9.94	63.94	46.81	389	XL Capital Ltd.	NYS	47.63	3.81	-8.19	67.19	39.00	2204
Hibb, Rogal & Hamilton	NYS	28.31	0.22	0.22	29.13	17.00	33	IPC Holdings Ltd.	NDQ	12.75	8.51	-14.29	22.50	9.75	389	Zenith National Ins.	NYS	24.50	1.55	-18.79	26.69	18.75	29
Kaye Group Inc.	NDQ	6.50	4.00	-22.39	11.88	5.00	5	Hartford Financial Services	NYS	52.08	9.75	9.89	66.44	29.38	5380	INSURERS/REINSURERS	AVERAGE		2.84	-3.99			
Marsh & McLennan	NYS	98.56	1.94	3.00	110.69	61.75	3026	John Hancock Financial Service	NYS	18.25	5.42	7.35	20.13	13.44	8375								
Brown & Brown	NYS	40.13	3.72	4.73	41.94	30.38	90	LaSalle Re Holdings Ltd.	NYS	13.13	4.48	-20.45	18.63	10.88	107								
AVERAGE			8.05	-10.51				Lincoln National	NYS	34.81	4.70	-12.97	57.50	22.63	4782								
								MAIC Holdings Inc.	NYS	13.25	-32.91	-37.46	29.05	13.25	515								
								Market Corp.	NYS	145.00	3.39	-6.45	193.00	111.50	81								
								MBIA Insurance Group	NYS	49.44	-0.38	-6.39	71.88	36.31	1698								
								Meadowbrook Insur. Group	NYS	5.38	2.38	-18.10	15.31	4.75	19								
								MetLife	NYS	16.56	7.29	16.23	17.25	14.25	25127								
								MMI Cos. Inc.	NYS	9.94	0.03	15.25	17.44	3.31	0								
								Mutual Risk Mgmt. Ltd.	NYS	15.69	-7.72	-6.69	40.81	9.81	917								
								Navigators Group	NDQ	9.75	-2.50	0.00	16.00	8.75	41								
								NYMagic Inc.	NYS	14.56	3.10	10.43	19.50	12.00	44								
								Ohio Casualty Corp.	NDQ	16.63	4.72	3.50	20.25	10.75	883								
								Old Republic Int'l	NYS	14.25	14.00	4.59	20.69	10.63	1913								
								Partner Re Ltd.	NYS	36.75	3.16	13.29	41.69	29.38	321								
								Penn-America Group Inc.	NYS	8.94	11.72	15.32	11.06	6.63	61								
								PMA Capital Corporation	NDQ	18.25	9.77	-8.18	21.13	15.50	94								
								Philadelphia Cons. Holding	NDQ	15.38	3.36	6.03	25.50	10.81	269								
								PXRE Corp.	NYS	14.88	-1.65	14.42	21.25	9.94	30								
								Reliance Group Holdings	NYS	2.75	4.76	-58.49	10.88	2.31	1164								
								ReliaStar Financial Corp.	NYS	43.00	49.57	9.73	49.81	23.75	3840								
								RenaissanceRe Holdings Ltd.	NYS	36.75	-3.92	-10.09	43.19	30.00	171								
								Risk Capital Holdngs	NDQ	15.38	0.00	21.78	17.38	11.00	476								
								RLI Corp.	NYS	32.13	0.78	-5.51	38.81	26.25	56								
								St. Paul Cos.	NYS	35.63	16.09	5.75	37.06	21.31	6974								
								SCOR	NYS	42.63	-4.08	-3.67	56.75	40.00	14								
								SAFECO Corp.	NDQ	22.13	6.63	-11.06	46.75	18.00	3632								
								SCOPIE Holdings Inc.	NYS	29.56	-0.63	-7.98	36.94	23.69	NA								
								Seibels Bruce Group	NDQ	1.75	16.67	0.00	6.25	1.51	57								
								Selective Ins. Group	NDQ	18.94	0.33	10.18	22.50	14.63	137								
								Tokio Marine & Fire	NDQ	48.25	-5.85	-18.39	67.00	45.00	81								
								Torchmark Corp.	NYS	25.06	10.77	-13.76	38.00	18.75	3355								
								Transatlantic Holdings	NYS	82.94	1.69	6.24	87.00	68.75	53								
								Travelers Property Casualty	NYS	42.00	0.00	22.63	42.00	27.69	0								
								Trenwick Group Inc.	NYS	14.13	8.13	-16.61	32.00	12.00	85								
								Unico American Corp.	NDQ	6.00	2.13	-14.29	10.75	4.50	31								
								United Fire & Casualty	NDQ	17.50	-1.41	-22.65	27.25	17.25	19								

BI Insurance Index



Top advancing issues: ReliaStar Financial Corp., Oxford Health Plans, E.W. Blanch Holdings Inc. Leading decliners: MAIC Holdings Inc., Sierra Health Services, Frontier Insurance Group. Most active issue: Citigroup. The BI Index rose 1.1%; the Dow Jones 30 Industrials went down 1.0%; the S&P 500 went up 1.3%, and the NYSE Composite rose 0.74%. Average P/E: Brokers, 18.4; Insurers/reinsurers, 18.6; HMOs, 11.8

Source: CNET Investor (investor.cnet.com) Boulder, Colo.

Appeals

Continued from page 1

1995 after 40 years of service.

Mr. Reeves filed suit against Sanderson under the Age Discrimination in Employment Act. A jury ruled in his favor, and the federal court for the Northern District of Mississippi awarded him a little more than \$100,000 in compensatory and other damages (*BI*, March 21; Nov. 15, 1999).

Sanderson Plumbing appealed, and a panel of the 5th U.S. Circuit Court of Appeals ruled last April that Mr. Reeves had not presented enough evidence for a jury to rule his firing was based on age.

One of the issues in the case is the amount of proof needed to show age discrimination. In a split among federal appellate courts, some have held to the "pretext only" standard, which says an employee has to produce no more than prima facie proof of discrimination and evidence that casts doubt on his or her employer's explanation for termination.

Other federal appeals courts, including the 5th Circuit, have set a higher standard for plaintiffs, and hold that the employer's explanation is false but also that the real motive was discriminatory.

Based on this issue alone, *Reeves vs. Sanderson* is a significant case, say many attorneys.

"The outcome of this case is going to be important to employers because it will dictate the ease with which plaintiffs can prevail in discrimination cases against employers," said Sussan Mahallati Kysela, labor and employment counsel for the National Chamber Litigation Center in Washington.

If the Supreme Court decides to deal with the broader issue of the appropriateness of the appellate court's review of the jury's verdict, the case may well have even wider implications beyond employment litigation, say some attorneys.

At issue, attorneys say, is the U.S. Constitution's Seventh Amendment, which establishes the right to trial by jury, and says jury verdicts cannot be re-examined by other courts other than according to the rules of common law.

Plaintiffs attorneys say appellate courts sym-

pathetic to defendants have too freely reversed jury verdicts, and that appellate judges have, in effect, been acting as "super jurors," assuming the role of fact finders, rather than filling their proper role as the law's interpreters.

These attorneys argue that because of jurors' greater immersion in the "real world," as well as their actual presence at the trial, jurors are better equipped to reach decisions than the more "ivory tower" judges.

Defense attorneys argue, however, that appellate judges have acted appropriately in considering the evidence and applying the law.

'The Supreme Court, in particular, struggles to avoid constitutional questions whenever it can,' says Neal Mollen.

The issue of juries being overruled by appellate courts has received little Supreme Court attention of late. Although the Supreme Court until the late 1960s frequently dealt with the issue, it has not accepted such a case in the past 25 years or so, say attorneys.

The particular Seventh Amendment issue involved in the *Reeves* case is whether an appellate court can look at all the evidence presented at the trial, which the 5th Circuit did, or whether it should consider just the evidence presented by the winning side in addition to uncontested evidence that is offered by disinterested witnesses. If a more limited appellate review is called for, a favorable plaintiff verdict could be overturned only if that side's evidence is judged too weak, attorneys say.

Also in dispute is application of Rule 50 of the federal rules of civil procedure, which enables trial as well as appellate courts to overturn clearly irrational or prejudicial jury verdicts.

Rule 50 provides that a case may be dismissed if, even after all the evidence is construed in the plaintiff's favor, it is still insufficient to demonstrate the defendant's liability.

"What this decision may either foster or suppress is the trend of employers to challenge jury verdicts routinely with a Rule 50 motion, and then to take appeals when they lose, because right now it's not clear who's really the final arbiter of these cases," said Paul Mollica, a Chicago-based attorney with Meites, Mulder, Burger & Mollica, who filed a brief in the case on behalf of the San Francisco-based National Employment Lawyers Assn., a plaintiffs group.

"Is it the jury, who heard the record, or is it the appellate panel, who may be looking at a cold record? There's been deep suspicion among plaintiffs' attorneys that appellate panels are abusing the jury system by second-guessing these verdicts," said Mr. Mollica.

A decision in the plaintiff's favor, "may finally put everyone on notice that merely frivolous Rule 50 motions are not to be tolerated," he said.

But if the Supreme Court were to rule the 5th Circuit was correct in reviewing all evidence, "it would really mean juries would cease to become the final arbiters of these cases, and what you'd really have is a constant stream of appeals every time a defendant loses, because why not? You may get a clean shot," Mr. Mollica said.

"It is our hope that the Supreme Court is going to come up with guidance to the courts of appeal that will help them restrain the impulse to reverse jury verdicts," said Richard T. Seymour, an attorney with the Washington-based Lawyers' Committee for Civil Rights Under Law, which had submitted a brief in the case on Mr. Reeves' behalf.

Charles Rothfeld, special counsel to Mayer, Brown & Platt in Washington, said if the court does decide to "artificially restrict" what appellate courts can look at, though, it may leave judges powerless to change verdicts that are irrational or unsupported by the evidence.

If an appellate court is free to look at all the evidence, it might be obvious "the jury's conclusion is completely ridiculous" and the verdict then could be reversed, said Mr. Rothfeld, who added that while this case hinges on a technical question, it has "very important consequences."

Mr. Rothfeld's firm presented an amicus brief on the issue on behalf of the Reston, Va.-based Product Liability Advisory Council Inc., whose members are 124 manufacturers and sellers.

The council's brief says restricting courts in this way "would impose substantial burdens and expense on manufacturers, sellers and consumers." The Seventh Amendment principle "surely is not violated if judges... look at all the evidence actually considered by the jury rather than an arbitrary subset of that evidence," according to the brief.

Nobody is sure, however, on which aspect of the case the court will decide to rule, nor what its position may be, though observers have noted that during oral arguments held in March the judges did seem to be particularly interested in the constitutional issue.

Peter J. Petesch, an attorney with Ford & Harrison L.L.P. in Washington, who presented an amicus brief in the case on behalf of the Society of Human Resource Management in Alexandria, Va., said "It's very difficult to predict how the Supreme Court is going to come out on this case and whether it's going to come out with a broad ruling that affects motions for judgment generally, or whether it's going to look at the specifics of this case."

"My concern is that they'll decide the case on the first issue" of evidence needed for discrimination claims, rather than on the Seventh Amendment, said Mr. Reeves' attorney, Jim Waide, of Tupelo, Miss.-based Waide, Chandler & Fleitas, who had argued the case before the court.

He noted that at one point during the oral argument, Justice Ruth Bader Ginsburg asked him whether there was any need to raise the Seventh Amendment issue if the court decided on the first issue.

"I'm not sure there's likely to be any new law likely to be made on the Seventh Amendment," said Neal Mollen, a defense attorney with Paul, Hastings Janofsky & Walker in Washington.

"The Supreme Court, in particular, struggles to avoid constitutional questions whenever it can. The court would just as soon not opine on a constitutional question if it can decide each case before it," he said. "That's probably where the thing's going to go."

"My feeling is the Supreme Court is more interested in the employment discrimination" issue, said Mr. Mollica, also. "But who knows? They could surprise everybody." **BI**

Exposure

Continued from page 2

nuclear test sites or plants during the past several decades in at least 10 states, including California, Colorado, Kentucky, New Mexico, Ohio, South Carolina, Tennessee, Texas and Washington.

'The government should take care of its own. . . independent of state workers comp programs,' says Billie Fae Fuschi.

"We think former workers are not getting adequate compensation" through existing compensation programs operated by state and federal authorities, a senior Energy Department official said in an interview. A federal survey showed many nuclear workers do not apply for benefits because they cannot meet requirements concerning burdens of proofs or statutes of limitations.

The Department of Energy estimates that the proposal will cost \$120 million a year for three years and then decline gradually to \$80 million a year. Most of the costs would be funded out of general tax revenues, the senior official said.

Legislation to enact the proposal is expected to be introduced by September, according to the official. It will expand on a compensation provision contained in H.R. 3418, a bill introduced last November by Rep. Paul E. Kanjorski, D-Pa., which garnered bipartisan support.

Although sympathetic to the plight of the ailing workers and their families, employers should have several concerns about the federal compensa-

sation proposal, said Eric Oxfeld, president of UWC Inc., a Washington-based trade group that lobbies on workers compensation and unemployment issues.

One concern is "the piecemeal federalization of workers compensation by superimposing a federal compensation remedy over state workers compensation benefits," he said. Mr. Oxfeld said he fears it could be the start of a new black lung-type program, referring to a federal compensation program developed for miners.

Under the Department of Energy's program, which was designed decades ago, "workers compensation benefits for an injury or illness that a DOE contractor worker sustains on the job are paid through the state workers compensation program in that state where the particular DOE facility is located," according to a federal interagency working group that analyzed the compensation issue.

Relatively few of the ailing workers or their survivors have obtained workers comp benefits through individual state programs, however, for a variety of reasons, including eligibility criteria problems. For example, a three- or five-year statute of limitations on reporting claims is too restrictive for many occupational diseases that may take decades before becoming apparent, the federal working group reported. In addition, the federal authorities noted that even if a worker could obtain benefits, they would differ among the various states.

In addition, for a "relatively small" number of Energy Department employees, benefits could be available under the Federal Employees' Compensation Act, a compensation program managed by the U.S. Department of Labor, "regardless of location of the facility where the injury or illness occurs."

The FECA program offers a "non-

adversarial system" for resolving disputes over claims, and generally higher wage-loss compensation than traditional state workers comp benefits, the federal working group reported. It too, though, had a three-year statute of limitations on claims reporting.

The working group's highlighting of FECA's advantages concerned UWC's Mr. Oxfeld. "By making FECA the standard of what workers should expect to receive when injured on the job, the proposal invites broader and more intrusive federal intervention, as well as intensified attempts to vastly increase state benefits at a time when workers compensation seems headed for a new round of financial problems," he said.

"We are especially concerned to see the documentation accompanying the radiation proposal, which concludes that existing workers compensation laws are flawed because benefits vary by state and are less generous (and require greater proof of work-related disability) than FECA," Mr. Oxfeld said.

Under the Clinton administration's proposal:

- Workers with pulmonary illnesses related to beryllium—a strong lightweight metal that produces toxic dust and vapors during manufacturing—would be eligible for FECA-level benefits, including all medical costs, lost wages and job retraining. Any worker diagnosed with such an ailment before the legislation passes also would have the option of choosing a \$100,000 lump sum benefit.

- Workers with radiation-related cancers could receive similar benefits, including the lump sum option. If adequate information about radiation level exposures is not available, the Energy Department would assume that they were exposed to the highest level associated with the tasks they performed.

- Other groups of workers with

cancers and certain other ailments, especially those who were employed at three former gaseous diffusion plants, may be eligible for the lump sum benefit or benefits like those granted to radiation-related illnesses.

- Workers with other types of occupational illnesses could explain their concerns to a new workers advocacy office, which will open May 1. Authorities there will work to help them obtain state workers comp benefits.

Other employer representatives have mixed reactions to the federal proposal.

"The government should take care of its own through a government-run program independent of state workers comp programs," said Billie Fae Fuschi, director of workers comp for Methodist Healthcare in Memphis, Tenn., and vice chair of the Fisk & Insurance Management Assn.'s External Affairs Team.

Employer concerns about the program leading to federalization of workers comp are 'callous as hell,' says Jim Ellenberger.

However, "a \$100,000 lump sum is a lot of money," and may raise some issues about equity in terms of the benefits available to workers under other compensation programs, she said.

Cleveland-based Brush Wellman Inc., a Cold War defense contractor and beryllium producer that has been criticized for its workers' exposure to toxic elements in the workplace, supports the federal program as a way to help past and present workers obtain adequate compensation for job-related ailments. The need for additional

compensation exists, despite the self-insured company spending millions to provide extra compensation to workers as well as install protective equipment to prevent future illnesses, said Hugh Hanes, vp of governmental affairs.

Organized labor representatives generally support the concept of a federal compensation effort.

"These workers were Cold War heroes," said Jim Ellenberger, assistant director for the AFL-CIO's department of occupational safety and health.

Given the nature of their ailments, employer concerns about such a specific program leading to federalization of workers comp are "as callous as hell," he said.

However, the proposed federal compensation plan needs some major modifications, said Richard Miller, policy analyst for the Paper, Allied-Industrial, Chemical & Energy Workers International Union, based in Nashville, Tenn. PACE is taking the lead among 15 unions representing workers at such sites, Mr. Ellenberger said.

Among the changes sought, Mr. Miller said, the federal Department of Labor should replace the Energy Department as overseer of the program, especially since the Energy Department has a long history of opposing workers' claims.

In addition, there should be a federally administered—not state run—remedy that provides all workers affected by the proposal the same benefits as federal workers, said PACE President Boyd Young in a recent letter.

Also, "the burden of proof must rest with the government with respect to proof of harm," especially since the government placed workers in harm's way—often without their knowledge and consent—and failed to monitor or provide adequate protections, Mr. Young said. **BI**



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