

Business Insurance

Reporting Weekly For Corporate Risk, Employee Benefit and Financial Executives / \$4

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EEOC may appeal court's ruling of no ADA liability for managers

CHICAGO—The Equal Employment Opportunity Commission is considering whether to appeal a first-of-its-kind federal appeals court ruling that workplace supervisors cannot be held personally liable for punitive damages stemming from violations of the Americans with Disabilities Act.

The supervisor, who also owns the business, also may appeal because the court instructed a lower court to determine whether the business must cover her share of the punitive damages.

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Hospital suit claims Farmers misused pool funds

By JOANNE WOJCIK

SACRAMENTO, Calif.—A group of California hospitals has won court approval to pursue a federal class-action suit charging Farmers Group Inc. with violations of the Racketeer Influenced and Corrupt Organizations Act in its handling of a hospital malpractice self-insurance program.

In two separate May 15 decisions, U.S. District Court Judge William B. Shubb in Sacramento certified the hospitals' suit as a class action and denied a Farmers motion to dismiss the hospitals' RICO claims.

The 626 hospitals allege that Farmers units, which administered the pool from its inception in 1973 until its termination in 1985, misused, misappropriated and misallocated pool funds. They seek compensatory damages of more than \$50 million. Under the anti-racketeering law, they could seek triple damages.

The court's action allows the lawsuit to proceed to a decision on the merits.

The case will go to trial in 1 to 1½ years, estimated Darryl Cordero, an attorney with Weissburg & Aronson in Los Angeles, which represents the hospitals.

In allowing the group of hospitals to bring their claims in one suit, Judge Shubb concluded that all participating hospitals "share identical interests in establishing the defendants' pattern of misallocation and mismanagement," thus meeting the requirement to establish a class action.

The court also found that the potential interim relief, such as the appointment of a receiver or termination of Farmers' administration, dictated that all litigation

See Hospitals on page 50

Out with old, in with new

Lloyd's restructuring proposal seen as chance to clean slate and ensure market's survival

By STACY SHAPIRO

LONDON—Lloyd's of London's ambitious reconstruction package, if accepted by members, would offer the market a chance to break with the past and move forward with new capital.

The plan, unveiled last week, would segregate hundreds of open years of account into reinsurer Equitas Ltd., raise funds through a range of charges and other devices, and offer a package worth £2.8 billion (\$4.48 billion) to end members' litigation.

If accepted by a majority of members, the ambitious plan would be implemented next spring.

If the plan fails, the alternative is "stark," said Lloyd's Chairman David Rowland. Lloyd's Central Fund will be depleted by the spring of next year and members will owe about £5.9 billion (\$9.44 billion) to cover unpaid losses. "Like any other business, unless we can deal with those problems we haven't got a future."

If the plan is not accepted and Lloyd's goes out of business, "there's no possibility of members escaping their liabilities," Mr. Rowland added. British regulators would still see to it "that policyholders are paid" so members would continue to be liable for losses, he said.

If the plan is not implemented, "it would be the end of Lloyd's," agreed Michael Deeny, chairman of the Gooda Walker Action Group, who said he welcomed the principles of the plan.

Most immediate hurdles

There are a lot of hurdles to clear before a reconstruction plan can be implemented:

- Lloyd's would have to negotiate with members and others in the market to build a framework "that is fair" to carry out the

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Lloyd's officials expect the market's 1992 global loss will be its last for some time

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Members of Parliament fault Lloyd's oversight and call for external regulation

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Lloyd's to bolster trusts for U.S. policyholders

By MEG FLETCHER

NEW YORK—U.S. policyholders of Lloyd's of London are finding some comfort in Lloyd's plan to implement a major restructuring of its U.S. trust funds under an agreement with New York insurance regulators.

The agreement to bolster the funds and change how it reports its liabilities came shortly after Lloyd's plans for a new settlement and restructuring of the market were unveiled last week (see related story).

"I believe we have reached an agreement that allows Lloyd's to continue to write new business in compliance with New York regulations while remaining fully obligated to pay past U.S. liabilities," said New York Insurance Superintendent Edward Muhl.

That is a particular relief to many U.S. poli-

cyholders that say Lloyd's—despite its problems and increased competition from other markets—still is crucial to meeting their capacity needs.

The agreement addresses many of the concerns raised by the first-ever examination of Lloyd's U.S. trust funds by New York examiners, who issued their long-awaited report last week.

Lloyd's is licensed in Illinois, Kentucky and the U.S. Virgin Islands, operating on a non-admitted basis in other states.

The report, which does not analyze Lloyd's overall solvency, found that Lloyd's did not comply with New York regulations governing credit for reinsurance from unlicensed insurers and excess lines placements.

One of the largest problems was a failure of

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Coalition aims for quality, savings

By RODD ZOLKOS

The first national employer coalition to negotiate contracts with

health maintenance organizations should improve the quality of care and ultimately lower costs, say the benefit managers at participating companies.

With its increased buying power, the National HMO Purchasing Coalition might also have the immediate effect of reducing premiums, they say.

The nationwide effort is the latest development in the movement toward employer health coalitions, most of which have been set up on a local or regional level.

"I think the goals are pretty uniform for most of the members of the group," said LouAnn Cash,

National employers to boost buying power

vp of benefits planning for American Express Co. in New York, which is one of the coalition's founding members. "We find that we can increase value by joining a coalition like this and that is through improved clinical quality and driving down costs."

"Really what's driving us is the focus on quality," said Jon Brence, vp-corporate benefits at Merrill Lynch & Co. Inc. in New York, the other founding member. "By getting more national employers, what we're really hoping to do is find partners in the site

locations who really want to work with us in determining what HMOs look at when monitoring quality."

"Philosophically we believe that good quality clinical care will ultimately drive down costs," Mr. Brence said.

As a result of companies banding together to seek HMO services at the various sites, "there may be some downward movement in the premiums, the quotes we get this year, but that's not the primary driving force," said Mr. Brence.

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Updates

Manager not liable under ADA

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In a unanimous decision last week, overturning a lower court's ruling, a three-judge panel of the 7th U.S. Circuit Court of Appeals in Chicago noted that five other federal appeals courts indirectly have interpreted the ADA's definition of "employer," because it mirrors the definitions found in the Age Discrimination in Employment Act of 1967 and in Title VII of the Civil Rights Act. Four of those courts held supervisors were not liable. The 7th Circuit also noted that Congress provided remedies to plaintiffs under the ADA, ADEA and Title VII that only an employing entity, not an individual, could provide.

A jury in the case—the first job-discrimination lawsuit under the ADA—originally held that the supervisor, Ruth Vrdolyak, was liable for \$250,000 of punitive damages. The EEOC sued Ms. Vrdolyak in 1992 for firing Charles Wessel from his position as executive director of Ms. Vrdolyak's security firm soon after he was diagnosed with terminal cancer. The jury also ordered the firm, AIC Security Investigations Ltd., to pay Mr. Wessel \$250,000 of punitive damages. The trial court later reduced the awards against AIC and Ms. Vrdolyak to \$75,000 each.

The jury also awarded Mr. Wessel, who has since died, \$22,000 of back pay and \$50,000 for emotional distress.

Payne heads Liberty reinsurer

LONDON—James M. Payne, former vice chairman of Sedgwick Group P.L.C., has been named chief executive officer of a global reinsurance company that Liberty Mutual Insurance Co. plans to establish in the United Kingdom.

Boston-based Liberty Mutual said the investment in Liberty Reinsurance Co., which will be a subsidiary of Liberty Europe (Holdings) Ltd., will be "substantial and will represent one of the largest commitments of new capital to the London-based reinsurance sector for at least a decade." Mr. Payne would not say how much capital the new company will have. He said that in the next 12 months he will be looking for about 20 reinsurance experts to staff Liberty Re.

Independence for Bermuda?

TUCKERS TOWN, Bermuda—The Bermuda insurance industry will not be affected by the outcome of an Aug. 15 referendum on independence from Great Britain, says Bermuda's top elected official.

"Bermuda is a highly educated and sophisticated society," said Sir John Swan, premier of Bermuda, addressing the International Risk Management Group Ltd.'s 24th annual conference. Independence "would put behind us a form of dependence that is not appropriate in today's world."

Marking 375 years as a parliamentary democracy this year, Bermuda is the oldest self-ruling British colony.

The ruling United Bermuda Party says independence would bring little change in the way Bermuda is governed, its constitution or fundamental rights.

Not all Bermudians favor independence, however. Some, including the minister of tourism and a former deputy governor, question whether Bermuda can afford protection and to maintain representative offices in foreign countries.

A recent poll conducted by the Royal Gazette indicates that 64% of Bermudians who plan to vote in the referendum do not favor independence, up from 59% a year ago.

Bermuda will get a taste of independence when it takes over control of its airport from the U.S. Navy on July 1.

State's tobacco suit proceeds

MINNEAPOLIS—The State of Minnesota and Blue Cross & Blue Shield of Minnesota can proceed with their lawsuit against cigarette makers after a state court judge refused to dismiss the action seeking reimbursement for Medicaid bills for smoking-related illnesses.

Ramsey County District Judge Kenneth J. Fitzpatrick rejected tobacco companies' arguments that the state and the Blues had no standing to sue and bring other challenges.

Three other states—Florida, Mississippi and West Virginia—also are suing tobacco companies to recover smoking-related Medicaid costs (BI, Oct. 3, 1994).

Texas rollback bill advances

AUSTIN, Texas—Rate rollback legislation approved last week by the Texas Senate would require insurers in the state to reduce rates on a wide range of casualty coverages—including workers comp—to account for savings related to tort reforms passed earlier this year.

A slightly different version of the rollback bill was passed this month by the Texas House of Representatives, which now must sign off on the Senate version (BI, May 15).

The Senate version added workers compensation and homeowners

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Errors & omissions

- An article in the May 8 issue incorrectly identified Space Risks International's parent. The satellite insurance specialist is a jointly owned unit of Rollins Hudig Hall Group Inc. and Nicholson Leslie Group P.L.C.

- A listing in the April 24 directory of captive managers incorrectly indicated that Optimum Risk Research (International) Ltd. subcontracts for all captive management services. A full listing appears on page 32.

Reinsurers bounce back, but still room to improve

By DOUGLAS McLEOD

John Cameron Swayze would have liked the U.S. reinsurance industry: It takes a licking and goes on ticking.

After being pummeled by catastrophe losses in the first quarter of 1994, the industry looked much improved in the first three months of this year, posting a sharply lower combined ratio, increased net income and rising premium volume, according to a survey by the Reinsurance Assn. of America.

Much of the improvement is due



to the absence of major catastrophes, like the Northridge, Calif., earthquake that rocked reinsurers last year.

"There were no major cats, so that helped reinsurers that do property," observed Gary Ransom, senior vp with Conning & Co. in Hartford, Conn.

But, while the business ap-

peared to be back to normal this year, "normal" isn't necessarily all that good, some observers say.

"We're relatively disappointed. The results in general for a lot of companies are not as good as they should be," said Alan M. Levin, managing director of Standard & Poor's Insurance Rating Services in New York.

Premium volume, for example, may be up, but "most of this growth is not reflective of pricing improvement," said Paul J. Malvasio, senior vp and chief finan-

See Reinsurer on page 42

Dealing with aftershocks

Employer-provided trauma counseling can help workers cope

By RODD ZOLKOS

Recent disasters like the bombing in Oklahoma City and the Northridge, Calif., earthquake are reminding employers how seriously workers can be shaken by such traumas and how valuable counseling afterward can be.

Such traumatic events can, of course, affect workers in profound, though not always obvious, ways.

"This isn't terribly new information," said Dr. Alan Savitz, a

psychiatrist and president and chief executive officer of PacificCare Behavioral Health Care Inc. in Laguna Hills, Calif. "But it has rarely been used in the private sector."

Catastrophic events can produce post-traumatic stress disorder in many people, and their productivity can drop off markedly, said Dr. Savitz. "And it's not very apparent. People are sitting at their desks, thinking they're working."

This problem has employers

turning more frequently to post-trauma counseling, whether through an outside counseling firm or as part of an employee assistance program that is already in place.

Group settings let affected people discuss the event and the fears and other feelings it has caused, and that can prevent post-traumatic stress syndrome from becoming a chronic condition in individuals, or keep it from developing later. Individuals get a

See Trauma on page 35

Intellectual property disputes to increase: Lawyer

The cost of insuring ideas

By JOANNE WOJCIK

SACRAMENTO, Calif.—While disputes over "advertising injury" coverage are the only intellectual property coverage cases to have captured the headlines so far, the battle over intellectual property coverage has just begun, says a patent attorney.

"The phenomena of intellectual property claims is a manifestation of the intense global competition



Los Angeles.

These claims can concern anything from the use of Bette Midler's voice in a car commercial to a recent suit filed by former San Francisco 49ers quarterback Joe

Montana against the San Jose Mercury News for using his picture without his permission, he said.

"He lost the case, but that's an example of an intellectual property claim," Mr. Velladao said at the recent annual meeting of the Sacramento chapter of the Society of CPCU.

"Intellectual properties span the spectrum of ideas and thought

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EPA issues plan to streamline cleanups

WASHINGTON—The Environmental Protection Agency has unveiled a series of reform initiatives that it hopes will speed cleanup and cut costs at Superfund sites.

Chief among the initiatives announced last Thursday is a document spelling out a new way of dealing with prospective buyers of contaminated property. The EPA guidance, as the document is called, gives the agency more leeway to enter into agreements not

to sue purchasers of polluted property if the pollution occurred prior to the sale.

Such agreements are designed to resolve the extent of a buyer's liability, not necessarily to absolve the buyer completely. The guidance includes a model agreement.

The EPA also issued its "final policy toward owners of property containing contaminated aquifers." This new policy affects owners of property above aquifers

that have been polluted by a third party. In general, the EPA's new policy protects such owners from Superfund suits provided that they meet certain conditions.

Another guidance issued by the EPA indicates that it would allow less stringent cleanup standards for Superfund sites that will be used for industrial rather than residential purposes. The guidance sets out a number of factors for determining future land use.

—By Mark A. Hofmann

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- Uniform guidelines are needed to assess the quality of health care, this week's editorial says. **PAGE 8**
- The Fifth Annual World Captive Forum will explore the future of alternative risk financing. **PAGE 32**
- Large companies can assume risks more cost-efficiently than insurers, a risk manager says. **PAGE 43**
- Germany's captive brokers are renowned for their innovation. **PAGE 43**

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Developing new solutions

Distinctions blurring between insurance and capital markets

New risk transfer tools spring up alongside financial reinsurance

By DOUGLAS McLEOD

Financial reinsurance, conceived as an alternative to inadequate or expensive traditional reinsurance, may itself be overtaken by still newer methods of transferring catastrophe and other risks in the future.

As accounting rule changes have all but killed certain financial reinsurance products like funded catastrophe covers, insurers and brokers are looking for new ways of protecting ceding company balance sheets from huge losses.

That, in turn, means better financial security for the corporate buyer of insurance.

Many see the capital markets as the biggest potential source of this capacity: A number of market experts are exploring methods to tap the capital markets for the equivalent of reinsurance protection.

These methods could involve a ceding insurer issuing surplus notes or various forms of participating preferred stock or debt.

Nationwide Insurance Group became one of the first to complete such a deal earlier this year when it agreed to sell up to \$400 million in surplus notes to Morgan Guaranty Trust Co. over the next 10 years if money is needed to cover cat losses or fund business expansion.

The financing is intended to supplement Nationwide's existing reinsurance, according to Robert A. Oakley, a senior vp with Nationwide in Columbus, Ohio, who noted that reinsurance "is increasingly expensive and difficult to obtain."

"It's clear that ceding companies will look at many different alternatives in the future," observed Jay A. Novik, president of Atrium Corp., a New York-based intermediary owned by Swiss Reinsurance Co.

Swiss Re is one of several reinsurance, banking and securities firms now devoting resources to creating alternative financial products to handle insurance risk.

Whether any insurers will follow Nationwide's lead, though, is uncertain. In addition, many proposed capital market alternatives are in preliminary stages of development and could take months or years to become workable.

"There will come a time, I'm positive, when the capital markets will become very significant takers of insurance risk," said Scott Levine, managing director with J.P. Morgan & Co. in New York, Morgan Guaranty's parent.

"What I don't know is when," he said.

The financial reinsurance market, meanwhile, has become more stable and, by some accounts, less

active as the cloud of accounting questions hanging over it has lifted.

At the urging of the Securities and Exchange Commission, the Financial Accounting Standards Board in 1993 adopted a rule, known as EITF 93-6, that virtually eliminated the benefits of funded cat covers, then a popular financial reinsurance product.

Under the rule, obligations owed to reinsurers under multi-year contracts must be reported as liabilities by ceding insurers and assets by reinsurers.

Conversely, if a ceding insurer stands to make a profit under a multi-year contract because of good loss experience, that amount must be booked as an asset while the reinsurer is required to report

it as a liability.

By requiring ceding insurers to report amounts owed to reinsurers as liabilities, the rule effectively prevented funded cat covers from being used to "smooth out" balance sheet volatility over several years.

The year before, FASB had also adopted FAS 113, a rule govern-

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JOHN LABBE/THE IMAGE BANK

Captives' appeal to corporations remains strong

By MICHAEL SCHACHNER

Interest among groups, associations is low

Ongoing soft market conditions have not eliminated corporations' need to use captives, though formations among groups and associations are down.

In fact, more risk managers today are looking at alternative risk financing methods like captives and risk retention groups not as "alternatives" but as the norm.

Captive formations in domiciles around the world continue at a steady pace as corporations look for ways to fund deductibles and achieve tax advantages. And, in the United States, captives and risk retention groups designed to fund stop-loss coverage for health care entities are also becoming more widespread.

But, on the other hand, few groups and associations have formed captives recently, and the reason is the competitive commercial insurance marketplace, according to captive experts around the world.

After several years of competition in the market, the group captive market largely has stalled. With rates and prices quite palatable for risk managers, group cap-

tives, which require ample capitalization, shared control and getting multiple members to agree on strategy, just aren't very appetizing.

Only businesses in industries that are starving for coverage are forming group captives. Take, for example, members of the Caribbean Hotel Assn., which recently formed a captive because they couldn't find affordable property coverage. Most other companies in similar lines of business currently prefer to either buy commercial coverage or form a single-owner captive over which they have complete control.

Meanwhile, companies with existing pure captives are making more use of them. They are pouring more premiums into those facilities to expand the scope of what the captive covers, say captive experts.

In addition, U.S. companies are more seriously exploring the concept of generating at least 30% to 40% of their captives' overall premiums from unrelated, third-

party business to take advantage of court rulings that may allow captive owners to deduct the premiums they pay to their captives as long as the captive writes an acceptable percentage of third-party business (*BI*, April 26, 1992).

"Among large corporations there is definitely increased activity in writing controlled third-party risks for tax purposes. Risk managers are pretty smart these days. They also have financial advisers," said Tracey Carragher, chief executive officer of Aon Captive Management Inc. in Greenwich, Conn.

Another evolution taking place today in the captive industry is large, multinational companies using existing captives to fund retentions and deductible programs for various risks.

For example, retentions or deductibles below high-level excess insurance—sometimes as large as \$25 million—are being financed through captives, said D. Hugh Rosenbaum, a principal with Towers Perrin in London. "There are about 15 mem-

bers of what I call the '\$25 Million Club.' These high retentions are being taken by experienced, savvy risk managers, especially Europeans, that are working toward carrying no insurance at all."

Ms. Carragher agreed that the use of captives to fund deductibles has blossomed as risk managers attempt to bypass some high-priced elements of traditional coverage. "There are plenty of advantages to captives, not the least of which is avoiding some of the expenses of the primary market as well as directly accessing reinsurance. Some multinationals are larger than many insurers and the risk managers at these companies take issue with the term 'alternative market.' To them, it is *the* market."

While the bulk of the activity in the alternative marketplace involves companies with existing captives either expanding those facilities to take on more risk or actually starting additional captives for risks not covered by existing captives, a number of U.S. companies are forming novel types of captives and other alternative risk financing facilities.

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ing accounting for reinsurance transactions by publicly traded insurers using GAAP.

FAS 113 said a contract could be considered reinsurance only if it transferred "significant insurance risk" and that it was "reasonably possible" the reinsurer could suffer a "significant loss" under the contract.

The National Assn. of Insurance Commissioners has also set risk transfer requirements for reporting reinsurance contracts in statutory financial statements.

The debate over how certain financial reinsurance transactions should be reported caused "general paralysis" in the market in late 1992 and early 1993, noted David Wasserman, chairman and chief executive officer of Centre Reinsurance Co. of

New York, a leading writing of financial reinsurance products.

By the end of 1993, though, insurers, brokers and accountants were all more comfortable with the new requirements, he said, adding that financial reinsurance business picked up substantially last year.

"We see the market becoming a little bit more active," agreed Britt Newhouse, a managing director with reinsurance intermediary Guy Carpenter & Co. in New York. "In the last 18 months, and especially in the last six months, auditing firms are much more comfortable with evaluating the products."

"The stories of (the market's) demise were very premature," noted Paul Ingrey, president of F&G Re Inc., a Morristown, N.J.-based unit of USF&G Corp. that writes financial reinsurance.

The nature of much of the business has changed, though: In the

United States, funded cat covers and other retrospective programs have become far less useful, causing financial reinsurers to refocus on prospective single-year and multiyear contracts with more underwriting risk.

Mr. Ingrey said it's still possible to write the first layer or two of a catastrophe program on a funded basis and stay within the accounting guidelines by adjusting the term of the contract and repayment provisions to transfer more risk.

Funded covers and retrospective programs can also still be sold internationally or in cases where a buyer is willing to live with the accounting consequences.

Richmond Insurance Co. Ltd., a Bermuda-based insurer whose shareholders include Munich Reinsurance Co. and American International Group Inc., wrote two loss portfolio reinsurance deals last year for ceding insurers that had economic reasons

for going ahead with the deals despite the accounting consequences, according to Scott Bradley, a Richmond senior vp.

U.S. financial reinsurance business, though, has shifted mainly to various types of stop-loss programs.

These include aggregate excess loss ratio covers, which cover claims once the loss ratio exceeds a certain point, helping the cedant to stay on its budget.

Financial reinsurance deals cover a variety of casualty and property risks. But, with the casualty market still the softer of the two, some financial reinsurers say they're still focusing more on property.

"Even though there has been some softening property cat-wise, that is still the area where people are looking for some different ideas," said Wayne Paglieri, F&G Re senior vp.

One of Centre Re's fastest growing products, Mr. Wasserman said, is a

multiline, multiyear excess cover that provides a combined aggregate limit for property, casualty and clash exposures.

The program replaces separate excess covers for the three lines and includes a profit-sharing mechanism for ceding insurers, he said.

While business may have picked up since the dust settled from the U.S. accounting changes, several observers say financial reinsurance activity is slower than before the restrictions went into effect.

The market "is reasonably active but certainly not as active as it was pre-FAS 113," said Clement S. Dwyer Jr., executive vp with Guy Carpenter.

"There seem to be more people willing to write it than buy it," observed Willis T. King Jr., chairman and chief executive of Willcox Inc. Reinsurance Intermediaries in New York. "The supply and demand equation is again out of whack."

F&G Re's Mr. Ingrey agreed: "It's certainly more competitive than it used to be," he said, noting that the competition has held down increases in reinsurers' margins that would otherwise result from the risk being added to the contracts.

"We are not getting enough incremental margin to offset the incremental risk," he said.

Ajit Jain, president of the reinsurance division of Berkshire Hathaway Inc. in Stamford, Conn., said some reinsurers are being "naive" about the amount of risk they are assuming in financial contracts.

Financial underwriters that previously did not have to include any "risk charge" in pricing their product now are not charging enough for the added risk, he explained.

The result, Mr. Jain said, is that some ceding insurers are using financial stop-loss deals to lay off catastrophe risks that would be more expensive to reinsurance separately.

"There are some savvy buyers that are accessing financial reinsurance to buy some underpriced cat cover," Mr. Jain said.

Overall, the distinctions between traditional and financial reinsurance have blurred in the wake of the accounting changes, with some traditional risk covers being "financialized" and the financial covers adding more underwriting risk.

"There are a lot more deals around that would be called 'finite risk' if you knew what the details were," said Mr. Bradley of Richmond.

Some finite risk reinsurers are even writing traditional contracts: Stockton Reinsurance Ltd., a Bermuda finite risk reinsurer formed last year, recently assumed a quota share of a traditional crop/hail reinsurance treaty, said Michael Cascio, vp.

While the reinsurance isn't unusual, there is still a twist: Stockton, a unit of Cayman-domiciled investment management firm Commodities Corp., is hedging its exposure on the treaty with futures contracts.

The hedging strategy is "imperfect," but if it can be refined, Stockton may write more crop/hail reinsurance in the future, he said.

Meanwhile, insurers with huge cat exposures may eventually look beyond traditional and financial reinsurance markets and directly to Wall Street for capital to support their risks, market experts predict.

Nationwide was one of the first to do so when it announced its surplus note deal with Morgan Guaranty in February.

Under the terms of this deal, Nationwide has the option to sell up to \$400 million in surplus notes—promises by an insurer to pay out a certain portion of its excess surplus at a particular time—to Morgan at any time in the next 10 years. Mor-

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Financial

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gan, in turn, would sell the notes to a newly formed trust, Nationwide CSN Trust, which was capitalized with an offering of trust notes and certificates to institutional and other investors.

Proceeds of the trust offering were invested in \$400 million of U.S. Treasury securities. If Nationwide opts to sell its surplus notes, the notes will be exchanged with the trust for an equivalent amount of Treasury securities, which would then be contributed to Nationwide.

The deal would allow Nationwide to cover cat losses without cutting into its surplus or restricting its underwriting, the insurer says.

While surplus notes aren't new, the structure and size of the Nationwide deal is unique.

Several observers expressed doubts that many insurers could repeat Nationwide's success.

It would take a large, financially stable company to repeat such a deal, and it would most likely be a mutual insurer like Nationwide, since stock companies have other options for raising capital, market sources say.

And, surplus notes, effective for boosting capital and surplus after a catastrophe, would not bolster earnings the way reinsurance recoveries would. For this reason, surplus notes also would be less attractive to stock companies concerned with earnings.

Nevertheless, "I would be very surprised if we did not see more like Nationwide," one observer said.

Reinsurance and financial experts are also looking into other ways insurance risk could be supported by capital markets, an idea that otherwise has seen fruition only in the

Chicago Board of Trade's fledgling catastrophe futures market.

One such idea involves a ceding insurer issuing participating preferred stock with a dividend tied to underwriting results in a particular line of business, noted Aaron Stern, president of Normandy Reinsurance Co. Ltd., a Bermuda-based unit of Guy Carpenter.

Another idea—similar in some ways to the Nationwide deal—would involve the ceding company issuing a form of debt that would be convertible to stock or surplus notes. The debt could be held in a trust off the insurer's balance sheet until conversion, which would be triggered by cat losses, Mr. Stern explained.

Reversing the normal practice for convertible debt, investors could get a higher interest rate than for normal debt to compensate for the risk that the cat losses could drive the insurer's stock price down, he said.

Debt or equity issues supporting insurance risk could also be combined with reinsurance to remove risks investors don't want, suggested Prakash Shimpi, president of the newly created Swiss Re Financial Products in New York.

Proponents say the various capital markets ideas offer a purer way to invest in insurance risk than simply buying cyclical insurance company stock. The proposed products can also offer diversification, since the returns would not correlate with those of other stock or bond investments.

This is also a potential weakness, though, since—among other things—it would be tough to project the risks and explain them to investors, observers say.

The capital markets aren't ready yet for the very different kind of risk the insurance products would represent, observers say, noting that the

capital markets would have a hard time analyzing, controlling and predicting how the risks would behave.

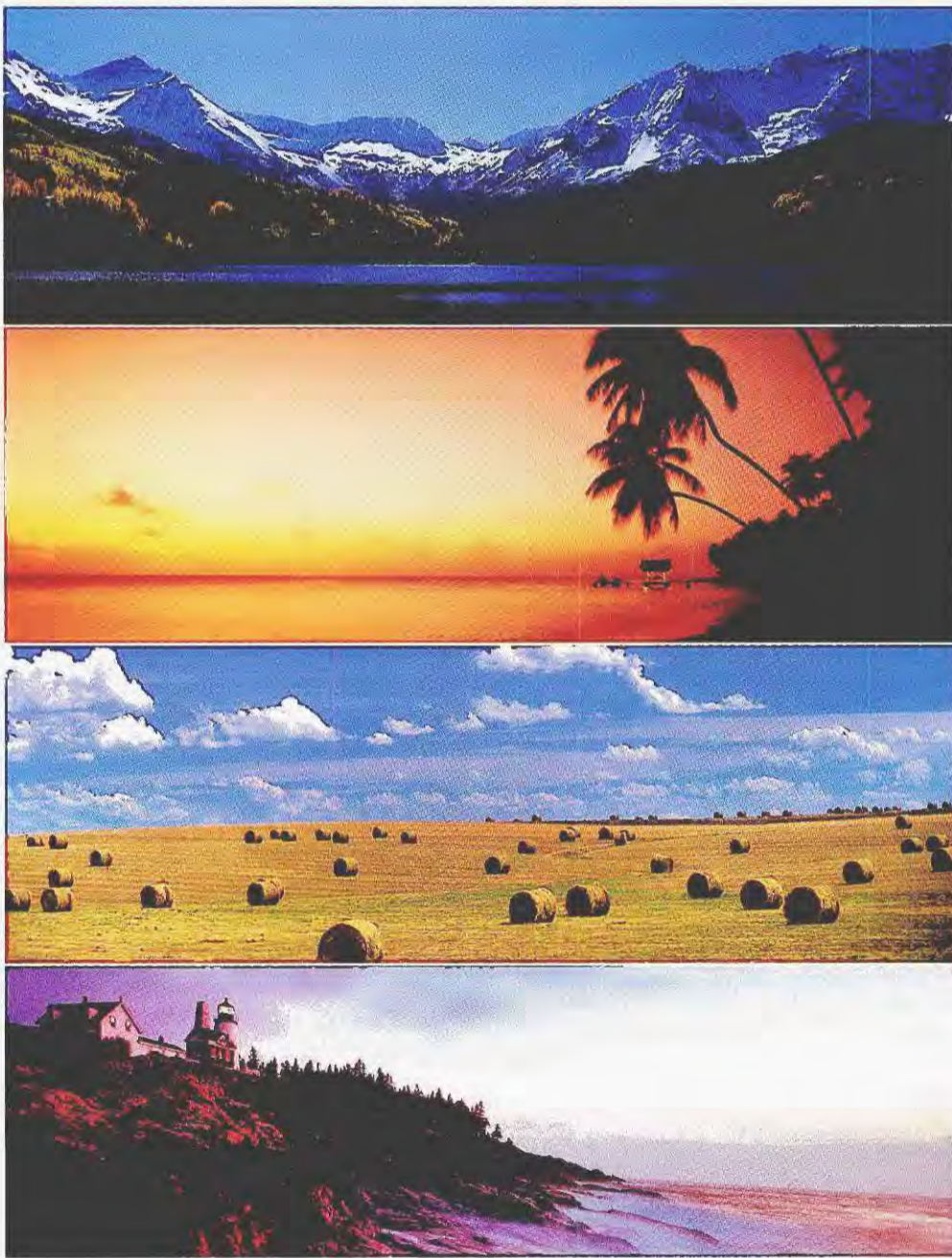
"The theory is great," said Berkshire Hathaway's Mr. Jain. "We would like to use it ourselves if it's a viable product."

But "practically, the market just ain't there," he said.

Still, J.P. Morgan's Mr. Levine and others expressed confidence that the markets will develop eventually and that insurers in the future will rely on investors as well as traditional and financial reinsurers to support the business they write.

"We have a way to go, but I think someday it's going to be there," Mr. Levine said. "I don't know if that's going to be two years from now, or five years or 10 years."

"It's a very slow process," Centre Re's Mr. Wasserman said. But "it's inevitable that the two sources of capital will be linked." ■



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Groups

Continued from page 3

For instance, about a half-dozen California independent practice associations, which are affiliations formed by doctors to contract with HMOs or health insurers, are close to unveiling a new Hawaii-based risk retention group that will write stop-loss coverage for participating IPAs that sign at-risk contracts with HMOs or insurers.

The risk retention group, called CapRisk Insurance Co. Inc. Risk Retention Group, should be up and running next month. Its initial capital will be about \$1 million and it will collect about \$1 million in premiums in the first year and more in future years, said Jeff Moffat, the attorney who helped set up the group.

IPAs are becoming very powerful in California, Florida and Texas, and most of them are entering into at-risk contracts with HMOs, whereby the IPA receives a capitated fee from the HMO and then agrees to fulfill the contract with physicians of its choice, said Mr. Moffat, who is with Bonne, Bridges, Mueller, O'Keefe & Nichols in Los Angeles.

St. Paul, Minn.-based Fortis Inc. will write the reinsurance for the risk retention group, which will start with six members and should grow to more than 12 within five years, he said. Each IPA will contribute about \$150,000 in initial capital and an equal amount in first-year premium.

The IPAs participating in the risk retention group previously financed stop-loss insurance through a captive in the Cayman Islands. "But they were paying 7% in California self-procurement and excise taxes and they wanted more members. You can't solicit business from offshore, and unfortunately, (the physicians had) some suspicion about Cayman."

Mr. Moffat insists the risk retention group is unique. There are no other stop-loss risk retention groups for IPAs anywhere, he said.

Another groundbreaking facility is being put together by Koll Management Services Inc., a large property management firm based in Newport Beach, Calif. Ron Jackson, senior vp and director of risk management, said he is exploring a captive to write pure premises liability coverage for tenants in the buildings Koll manages or co-owns.

Koll also could put some of its own property or liability coverage through the captive and then take a deduction for those premiums.

"Property managers have a responsibility to see that tenants have premises liability in some form. But it's tedious and burdensome just getting to the tenants to check on them, let alone to review all their in-

See Groups on page 12

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Opinions

Speak in one voice on quality

IT'S TRULY a buyer's market.

The strides employers are making in forcing the health care market to compete for their dollars are remarkable. It was only a few short years ago that the sellers were in the driver's seat and demanding stiff fares for the ride.

Purchasers and providers together refined the managed care model to the point where inefficiencies were reduced and health costs lowered.

As managed care enrollment continues to grow, employers and HMOs and PPOs will likely acquire even greater bargaining leverage with providers.

While the managed care model still has room to grow, employers are increasingly setting their sights on a new basis for competition: quality of care.

However, the current efforts to negotiate on the basis of quality are highly disorganized, with individual employers, purchasing groups and health plans all working on their own agendas, which may not jibe.

In some cases, a health plan may be negotiating with several different providers and agreeing to several different benchmarks of quality. It's inefficient.

We agree with Dr. Paul Ellwood, leader of the Jackson Hole Group, who contends that purchasers first must agree on a standard basis for measuring quality of medical care (BI, May 22).

"If employers keep creating their own quality guidelines, it'll be a disaster," Dr. Ellwood said.

The Jackson Hole Group has invited major employers, physicians, health care policymakers, and even representatives of Medicare and Medicaid to sit down and discuss a uniform set of quality assessment criteria. The group proposes collecting data that goes beyond measuring mere frequency of certain procedures to examine the well-being of patients after treatment, patient satisfaction and the severity of health risks within a given plan.

We are encouraged by this effort, particularly by the breadth of participants to be included in the discussion.

To agree on a standard model for quality of care, all players—public and private payers, health plans and physicians—in the health care arena will have to come to a consensus on the road map they will follow.

The drive for a uniform set of quality guidelines is made all the more important by the recent creation of



a national employer purchasing coalition (see story, page 1).

The National HMO Purchasing Coalition builds on the examples set by several employer coalitions at the local level, but will be fundamentally different from them by virtue of its much greater geographic reach. Not just providers in one health care market, but those in dozens will be competing for this national coalition's business.

If it is to achieve uniformly the levels of quality it is seeking, the national coalition will be using a standard model for assessing the quality of health plans in roughly 27 different markets across the country.

We think it is a natural that the two groups—the Jackson Hole Group and the National HMO Purchasing Coalition—should work together to satisfy both their goals.

The Jackson Hole Group could help the coalition develop a system of assessing and measuring quality of care, while the coalition could be the first vehicle to put these theories into practice.

Once a standard of quality is developed, employers can truly steer health care providers to compete on a more level playing field.

And that will mean lower costs and higher quality care for all.

Letters

Insurer's actions in risk manager suit disturbing

To the editor: Your reporter, Michael Bradford, is to be commended for his May 1 article, "Excess Insurer Suit Names Risk Manager." You, too, should take pride. The litany of charges made by National Union Fire Insurance Co. of Pittsburgh, Pa., against the risk manager of one of its policyholders is quite surprising.

In the court papers from National Union's lawsuit against the risk manager, Liberty Mutual Insurance Co. describes National Union as "sophisticated."

One could reasonably wonder why a

sophisticated insurance company would sell insurance to a policyholder with such a terrible risk manager.

On the other hand, one could speculate that this is simply another example of "post-loss underwriting" by an insurance giant.

The most troublesome aspect of this anti-risk manager, anti-policyholder case is, however, not in the allegations made against the risk manager, but in the private correspondence that National Union placed in the public court records.

For the court records, there is a letter from David Lasseter, risk manager of defendant company State Industries Inc., to Lyman Harris, an attorney with the firm Harris, Evans, Berg & Mcorris with respect to *Annie Harris vs. Sears/State Industries*.

This letter, which was filed in the U.S. District Court in Alabama by National Union, contains comments about an Alabama trial judge that I am confident will incline the trial judge against this risk manager and his company.

So much for "safe hands."

I doubt that very many risk management professionals appreciate how likely it is that their private communications will be spread upon the public record if an insurance coverage dispute arises.

Eugene R. Anderson
Partner
Anderson Kill Olick & Oshinsky P.C.
New York

■ *Editor's note: An excerpt from the Sept. 5, 1991, letter from David Lasseter to Lyman Harris, which was entered into the record by National Union on Dec. 27, 1994, reads:*

"...I did want to comment on the last page of your letter concerning the possibility of asking Judge Gamble to recuse himself.

From everything you... have told me, we are not going to get a very good shake from Judge Gamble anyway. For that reason, I am in favor of taking the chance of asking Judge Gamble to recuse himself. Let's discuss."

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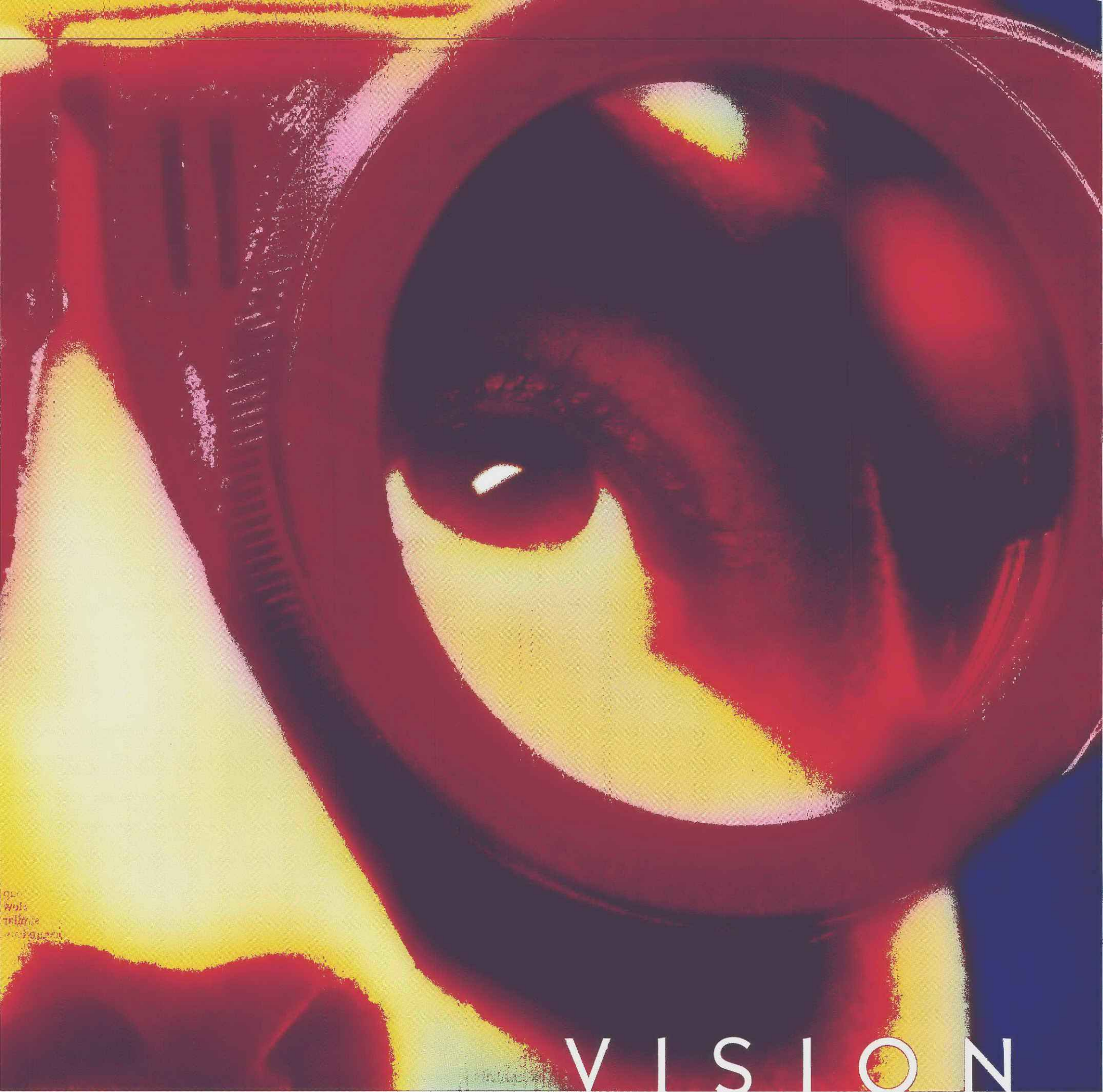


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Groups

Continued from page 6
 surance documents," Mr. Jackson said.

Thus, by issuing policies to tenants, in which Koll controls the policy form, the company can ensure that tenants have all the coverage the landlord requires. The program is necessary because tenants not obtaining insurance that protects building owners is a "problem that's pervasive throughout the real estate management field. So we'd like to set up a captive capitalized by us.

We'd then find a fronting carrier to issue the paper to tenants and we'd reinsure that coverage through the captive," said Mr. Jackson.

Koll would ideally like to have its captive operating by next year. "We've talked to the U.S. Virgin Islands and other domiciles. It would be proprietary at first but could be opened up later to other management companies in a similar situation," he said.

At this point, the captive stands a very good chance of getting off the ground.

He said the concept is brand new, and when he presented it to real es-

tate company risk managers at the Risk & Insurance Management Society Inc. conference last month in San Francisco, it was well received. "They were all very interested because management firms are really in a pickle if the owner comes to us saying the tenant is not insured."

In addition to companies getting into captives for the first time, Michael Maglaras, a principal with Michael Maglaras & Co., a consulting firm in Stamford, Conn., said companies that have had success with captives in the past are starting up new ones, sometimes in different domiciles, to write other coverages.

For example, "there are noticeable and not-so-noticeable differences between Bermuda and Cayman or Dublin and Vermont. You may want to put your property in Dublin, your benefits in the USVI and your professional liability in Bermuda."

But while this may increase efficiency in coverage, Mr. Maglaras acknowledged that it raises "significant issues, not the least of which is record keeping and management."

On another front, rent-a-captives seem to be gaining popularity.

"We'd like to think that that's because of the success Mutual Indemnity Ltd. has had," said Peter R.L.

MacKay, a director with Mutual Risk Management (Cayman) Ltd., referring to MRM's Bermuda-based rent-a-captive.

Mr. MacKay said rent-a-captives are a solid option for broker-driven programs.

"Back during the mid-1980s, the brokers ran their programs into their own captives. They did well for a while collecting all those commissions, but then the losses came in. What's difficult about rent-a-captives is you need a fronting insurer and stop-loss coverage."

Peter Strong, president of Independent Management Group Ltd. in Bermuda, said MRM has done well because it owns such an insurer, Legion Insurance Co. "Legion has been able to front workers comp and auto liability, which require admitted paper, and then move it on to the rent-a-captive. Other companies would probably like to do it as well."

Mr. Maglaras agreed that there may be more activity in rent-a-captives in the next few years. "There are companies out there with no sense of direction. They're years away from forming their own captive but still want to warehouse premiums and claims until that time. Rent-a-captives are the answer."

Within the alternative risk movement, group captives seem to be few and far between.

Towers Perrin's Mr. Rosenbaum, citing figures from his firm's "Captive Insurance Company Reports," said that of the 204 "true captives"—those formed primarily to insure a company's own risks—formed worldwide in 1994, 115 were created by U.S. companies. Of the 115 U.S. captives, only 21 were group captives.

In Vermont, only one of the 32 captives that formed in 1994 was a group captive, said Derick White, chief insurance examiner-captives with the Vermont Insurance Department.

"The soft market makes captives less necessary for groups and associations. It's hard to market a risk retention group in a soft market, and that's good. We don't really want risk retention groups selling themselves to get members."

An intrinsic problem with group captives is capital and strategy. How do unrelated companies in a similar industry get together to procure capital and forge an operating plan?

"I know of several groups that would like to form a captive. But where do they come up with credible loss estimates?" wondered Mr. Strong, the Bermuda captive manager. "An association looking to sponsor a workers comp captive can come up with their members and the potential size of the captive, but they don't know probable losses until they know who is going to buy in."

"Capital is real tough to come by with groups," added MRM's Mr. MacKay. "You're trying to get a bunch of different people to agree on one thing, which is almost impossible, even if you're talking about something simple like a feasibility study. You also need a sponsor for capital and motivation."

But need is the one thing that can drive a group captive. For example, the Caribbean Hotel Assn., whose members could not find affordable property insurance, started a group captive May 10. Capital came almost exclusively from outside investors looking for a return on their investment, said Aon's Ms. Carragher, who helped set up the captive.

"Associations like this see a hole in the traditional marketplace and they need help finding capital, underwriting and management. (In this case, the association) is setting up a captive with a chunk of outside capital knowing their affiliates can't find anything else comparable."



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GUIDE TO ALTERNATIVE RISK FINANCING FACILITIES

Business Insurance's ninth annual survey of alternative risk financing facilities--which service a wide range of corporations, public entities and professionals--lists 85 facilities that had more than 20,500 policyholders in 1994. For participants in both the 1994 and 1995 listings, membership steadily increased by 10.6% during 1994.

Forty-eight of the facilities report that they expect to write coverage for more policyholders in 1995 than in 1994, while 31 respondents expect no change in membership. According to the 82 facilities reporting estimated membership for 1995, enrollment will increase an average of 13.2% this year.

The facilities in this directory reported a combined premium volume of \$2.05 billion in 1994. Their policyholder capital and surplus totaled \$7.5 billion at year-end, while combined assets totaled \$13.19 billion. New to the guide this year are nine facilities, three having written their first policy in 1994 or 1995.

Coverage is written for a broad range of policyholders, including: commercial banks; chemical distributors and manufacturers; medical professionals and researchers; national fraternity organizations; public utilities; tank truck operators; petroleum companies; non-profit groups like social service, counseling and residential care organizations; railroads and mass transit systems; home builders and developers; plastics processors and manufacturers; managers of commercial, industrial or multiple-resi-

dent buildings; fast-food franchises; metalworking firms; and electrical companies.

Thirty, or one-third, of the facilities are domiciled in Bermuda; 20 in Vermont; 10 in Colorado; four in Barbados and Hawaii; two in the Cayman Islands, Florida, Illinois and Tennessee; and one in Arizona, California, Delaware, Georgia, Maryland, Minnesota and South Africa. Two facilities are domiciled in more than one location: Bermuda and Delaware and Bermuda and Vermont.

The facilities provide mainstream coverage to their owners and members, including primary and excess liability, directors and officers liability, property and workers compensation coverage. Some provide much more specialized lines--such as medical malpractice liability coverage, export credit insurance, coverage for claims alleging sexual harassment and cargo coverage--to meet the specialized risk financing needs of policyholders.

All of the facilities were capitalized by an initial group of policyholders with common insurance needs to obtain coverage they either could not find or could not afford to buy in the commercial insurance market and could not efficiently fund as individual self-insurers or captive insurance company owners.

Each individual listing provides information about: the facility's manager and the name, address and telephone number of the person to contact for additional information; the risks the facility underwrites; the limits it provides; the date the first policy

was written and the type of policy form used; how potential policyholders can gain access to the facility; premium volume in 1994 and estimated volume in 1995; assets as well as capital and surplus at year-end 1994; the number of policyholders in 1994 and an estimate for 1995; and a description of the facility's membership, including any association requirements.

In addition, for the first time, this year's listing also features a guide to rent-a-captives, listing 22 rent-a-captives beginning on page 30: The domiciles of these facilities include Barbados, Bermuda, Cayman Islands, Ireland, Isle of Man and Vermont. For those rent-a-captives reporting the number of policyholders, membership totaled 888 at year-end 1994 and was estimated to reach 964 in 1995. Premium volume totaled \$604.9 million in 1994 and was estimated to reach \$673.8 million in 1995.

The information on each facility was provided by the facility or its manager in response to a *Business Insurance* questionnaire. Although every effort has been made to report complete and accurate information, *BI* is unable to verify all the information provided.

Readers should contact the person listed for more information about each facility.

To be included in next year's guide, contact Rich Trout, Assistant Directory Editor, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611-2590; 312-649-5483; fax: 312-649-7801.

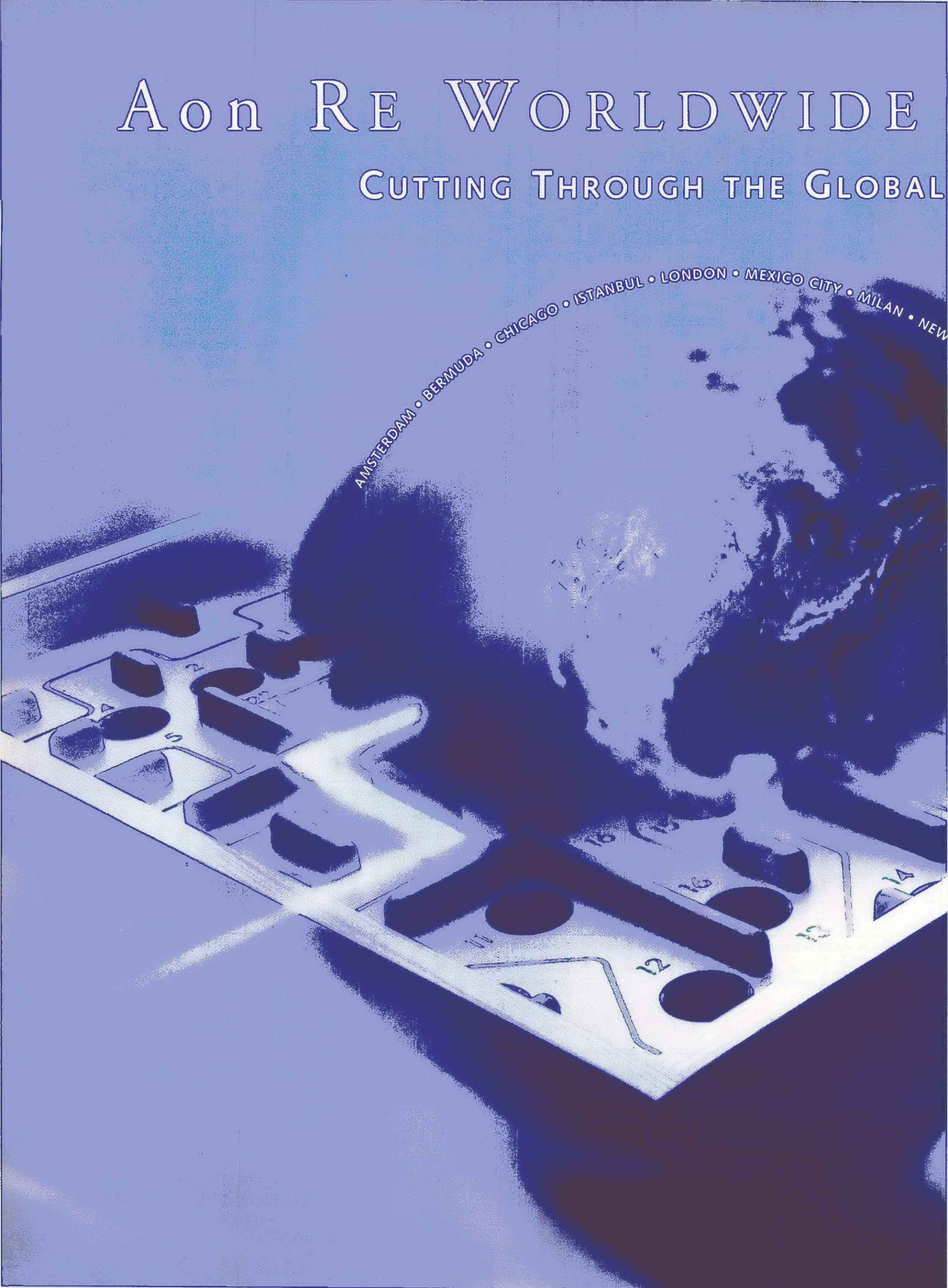
Facility Management company Contact name, address & phone	Risks	Limits	First policy Policy form	Access	Premium volume (in millions) 1994 1995 (est.)	1994 assets/ Capital & surplus (in millions)	Number of policy- holders 1994 1995 (est.)	Membership
AAOMS National Insurance Co., Risk Retention Group Self-managed Kenneth Ludwig, 9700 W. Bryn Mawr Ave., Suite 150 Rosemont, Ill. 60018; 708-928-0041 Domicile: Illinois	Professional liability	\$1 million per occurrence/\$3 million aggregate primary; \$4 million excess of \$1 million	June 1988 claims-made	Specific brokers and direct	\$23.2 \$24.5	\$54.3 \$8.0	2,211 2,350	Members of American Assn. of Oral & Maxillofacial Surgeons
Accountants Liability Assurance Co. Ltd. Minet Risk Services (Bermuda) Ltd. Colin R. Newell, P.O. Box HM462, Hamilton HM BX, Bermuda; 809-295-0073 Domicile: Bermuda	Accountants professional indemnity	\$5 million primary or \$5 million excess	June 1986 Claims-made	Specific broker	\$10.3 \$10.3	\$62.3 \$35.8	30 30	Public accounting firms
ACE Ltd./A.C.E. Insurance Co. Ltd. Self-managed William J. Loschert, P.O. Box HM 1015, Hamilton HM DX, Bermuda; 809-295-5200 Domicile: Bermuda	Excess liability, primary (through CODA) and excess D&O, satellite, aviation products	Excess liability: \$200 million excess of \$100 million (\$50 million for non-U.S. risks) D&O: \$50 million excess of \$25 million; Satellite: \$25 million primary; Aviation products: \$100 million primary Property: various	November 1985 Claims-made	Any non-U.S. broker	\$386.0 NA	\$2,600.0 \$1,100.0	615 NA	All classes of business
Adams County BOCES Self Insurance Pool Adams County BOCES James Stroup, 602 E. 64th Ave., Denver, Colo. 80229; 303-286-7294 Domicile: Colorado	Property, general liability, workers compensation	Property: \$60 million per occurrence excess of \$100,000; General liability: \$1 million per occurrence excess of \$150,000; Workers comp: statutory excess of \$300,000	1979 Occurrence	Direct	\$3.1 \$3.1	\$11.8 \$4.4	5 5	Public school districts
Affiliated Chemical Employers Reinsurance Ltd. CFM Insurance Managers Ltd. Simon Scupham, Victoria Hall, 11 Victoria St., Hamilton HM 11, Bermuda; 809-296-1051 Domicile: Bermuda	Workers compensation	Statutory; Maritime/employers liability: \$1 million excess of various deductibles	1995 Occurrence	Specific brokers	NA \$1.0	NA NA	NA 8	Chemical distributors and manufacturers
Affiliated Chemical Group Ltd. CFM Insurance Managers Ltd. Simon Scupham, Victoria Hall, 11 Victoria St., Hamilton HM 11, Bermuda; 809-296-1051 Domicile: Bermuda	Commercial general liability, including product and completed operations	\$1 million per occurrence/\$3 million aggregate or \$2 million per occurrence/\$5 million aggregate excess of various deductibles	1977 Claims-made	Specific brokers	\$5.0 \$5.0	\$17.0 \$5.0	35 35	Chemical distributors and manufacturers

Continued on page 18

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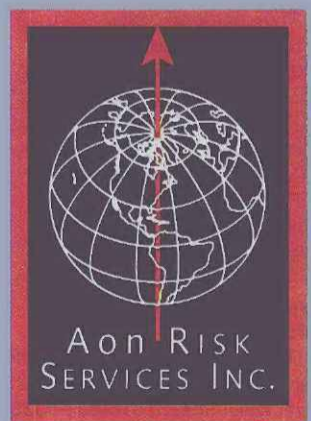
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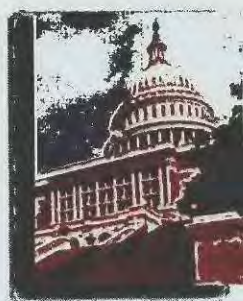
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Guide to alternative risk facilities (Continued from page 18)

Facility Management company Contact name, address & phone	Risks	Limits	First policy Policy form	Access	Premium volume (in millions) 1994 1995 (est.)	1994 assets/ Capital & surplus (in millions)	Number of policy- holders 1994 1995 (est.)	Membership
Clinic Mutual Insurance Co. Risk Retention Group Willis Corroon/ARMS Carolyn Greene, 26 Century Blvd., Nashville, Tenn. 37214; 615-872-3365 Domicile: Tennessee	Medical professional liability, general liability and non-owned and hired auto liability	\$1 million per occurrence/\$3 million aggregate; \$1 million excess of \$1 million	January 1988 Claims-made	All brokers	\$4.0 \$4.1	\$7.8 \$2.1	120 120	Primary health care centers
College Liability Insurance Co. Ltd., A Risk Retention Group Sedgwick Management Services (U.S.) Ltd. Gary Osborne, 841 Bishop St., Suite 2125, Honolulu, Hawaii 96813; 802-545-2420 Domicile: Hawaii	Commercial general liability, auto and educators legal liability	\$250,000 primary; \$9.75 million excess of \$250,000	May 1991 Claims-made and occurrence	Specific broker	\$1.0 \$0.7	\$5.1 \$2.5	8 8	West Coast College Consortium members
Consolidated Catholic Casualty Risk Retention Group Skandia International Risk Management (Vermont) Inc. Robert L. Sinclair, 110 21st Ave. S., Suite 801, Nashville, Tenn. 37203; 615-327-2274 Domicile: Vermont	Excess and D&O liability	\$2 million per occurrence/\$5 million aggregate	July 1987 Claims-made and occurrence	Direct	\$6.6 \$6.7	\$56.5 \$23.2	11 12	Catholic multi-institutional health care systems
Constance Insurance Co. RiskCap H. Edward Rohrer, 1571 Race St., Denver, Colo. 80206; 303-388-5688 Domicile: Colorado	Product and general liability, blanket crime bond, blanket property, business interruption	Proprietary	April 1978 Occurrence	Pure captive	\$2.4 \$2.4	\$16.6 \$10.1	1 1	Manufacturers of valves and fittings
Consumer Specialties Insurance Co. (Risk Retention Group) Vermont Insurance Management Inc. Michael T. Rogers, P.O. Box 306, Montpelier, Vt. 05601; 802-229-5042 Domicile: Vermont	Commercial general liability	\$5 million per occurrence/\$5 million aggregate excess of \$5,000 self-insured retention	1987 Claims-made	All brokers	\$2.1 \$2.1	\$5.8 \$3.0	92 100	Members of Chemical Specialties Manufacturers Assn.
ELSIP (Excess-of-Loss Self-Insurance Pool) RiskCap Michael Murphy, 1571 Race St., Denver, Colo. 80206; 303-388-5688 Domicile: Colorado	General liability	\$1 million per occurrence/\$2 million aggregate	July 1990 Occurrence	Restricted	\$0.2 \$0.2	\$0.3 \$0.3	3 5	Colorado school districts
Eastern Dentists Insurance Co. Vermont Insurance Management Inc. Michael T. Rogers, P.O. Box 306, Montpelier, Vt. 05601; 802-229-5042 Domicile: Vermont	Medical malpractice and general liability	\$250,000 per occurrence/\$750,000 aggregate; \$2 million per occurrence/\$6 million aggregate	September 1992 Claims-made and occurrence	All brokers and direct	\$3.9 \$5.3	\$12.2 \$2.5	2,067 2,150	Dental society of state in which insured is practicing
Energy Insurance Mutual Ltd. Self-managed David L. Hadler, 6200 Courtney Campbell Causeway Suite 550, Tampa, Fla. 33607; 813-287-2117 Domicile: Barbados	General and D&O liability	General liability: \$100 million excess of \$25 million; D&O: \$50 million excess of \$25 million	July 1986 Claims-made	All brokers and direct	\$51.7 \$57.0	\$409.8 \$185.4	137 144	Electric and gas utilities
Engineers Liability Insurance Co. Ltd. (ELIC) IAS (Barbados) Ltd. William Tomlin, CGM Building, Collymore Rock Bridgetown, Barbados, W.I.; 809-436-8296 Domicile: Barbados	Professional liability	\$100,000, \$250,000, \$500,000, \$1 million excess of minimum self-insured retention of \$10,000	December 1987 Claims-made	Direct	\$0.3 \$0.3	\$1.2 \$0.6	10 12	Engineers (civil, structural, mechanical, electrical) and architects
Englewood Reinsurance Co. Ltd. International Risk Management (Bermuda) Ltd. Graham D. Brice, Belvedere Building, P.O. Box HM 660, Hamilton HM CX, Bermuda; 809-295-0713 Domicile: Bermuda	Property and casualty reinsurance	Various	March 1989 Claims-made and occurrence	Captive insurance companies	\$28.0 \$30.0	\$167.0 \$22.0	10 10	All classes of business
Evergreen Indemnity Ltd. International Insurance Management Ltd. Tina O'Connor, C.G.M. Building, Collymore Rock, Bridgetown, Barbados, W.I.; 809-426-5235 Domicile: Barbados	Multi-peril property; general, excess and auto liability; inland marine	\$1 million primary; \$2 million excess of \$1 million	June 1986 Occurrence	Direct	\$3.5 \$3.7	\$11.7 \$5.5	653 700	Campgrounds, RV parks and canoe livery operations
Evergreen USA Risk Retention Group Inc. International Insurance Services Inc. Richard A. Hartford, P.O. Box 61, Lewiston, Maine 04243-0061; 207-784-4566 Domicile: Arizona	General and auto liability	\$1 million primary	November 1989 Occurrence	Direct	\$0.8 \$1.0	\$3.1 \$1.1	212 283	Campgrounds, RV parks and canoe livery operations
Exporters Insurance Co. Ltd. BF&M Management Ltd. Robert Svensk or Mark Reynolds, P.O. Box 1007, Hamilton HM DX, Bermuda; 809-296-1745 Domicile: Bermuda	Export credit and political risks	\$6.6 million primary	March 1990 Occurrence	All brokers	\$5.7 \$6.0	\$25.8 \$20.3	43 50	Major exporters and financial institutions
Financial Institutions Reserve Risk Retention Group Inc. Johnson & Higgins Services Inc. Richard Grayson, 191 Peachtree St. N.E., Suite 3400, Atlanta, Ga. 30303-1762; 404-586-8365 Domicile: Vermont	D&O liability	Various	June 1986 Claims-made	Direct	\$4.0 \$4.0	\$115.6 \$63.7	16 16	Bank holding companies

Continued on page 24



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- EMPLOYER'S PRIVATE ROUNDTABLE
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- ERGONOMICS IN THE WORKPLACE
- DEALING WITH A CHANGING WORKFORCE: TEMPORARY/AT HOME/ON THE ROAD
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- 24-HOUR PROGRAMS AND OTHER INSURANCE OPTIONS
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 - ▶ Battlefield experience in repetitive stress injuries
 - ▶ An effective cost allocation system to control losses
 - ▶ A return-to-work program that works
- RECEPTION

FRIDAY, OCTOBER 13, 1995

- BUILDING YOUR TEAM TO ACHIEVE SUCCESSFUL CLAIMS MANAGEMENT
- ADMINISTRATIVE AND LEGAL REMEDIES TO COMBAT FRAUD
- LUNCHEON: STRESS AS A WORKERS COMPENSATION INJURY: FACT OR FICTION?

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Guide to alternative risk facilities (Continued from page 20)

Facility Management company Contact name, address & phone	Risks	Limits	First policy Policy form	Access	Premium volume (in millions) 1994 1995 (est.)	1994 assets/ Capital & surplus (in millions)	Number of policy- holders 1994 1995 (est.)	Membership
Financial Services Mutual Insurance Co., Insurance Equities Corp. Bayard Bigelow VI, 540 Hopmeadow St., Simsbury, Conn. 06070; 203-651-6131 Domicile: Vermont	Professional liability	\$1 million primary	1988 Claims-made	All brokers and direct	\$1.2 \$1.5	\$2.1 \$0.8	500 700	Financial planners and registered investment advisors
Florida Hospital Trust Fund/Florida Hospital Excess Trust Fund Sedgwick James of Florida Inc. Peter J. Brennan, P.O. Box 945155 Maitland, Fla. 32794-5155; 407-875-5900 Domicile: Florida	Professional liability	\$250,000 per occurrence/ \$1 million aggregate; \$10 million excess	April 1975 Claims-made	Direct	\$11.0 \$11.0	\$100.0 \$40.0	21 21	Private, not-for-profit, general acute care hospitals
Forest Insurance Ltd. International Risk Management (Bermuda) Ltd. Robert W. Virtue, Belvedere Building, P.O. Box HM 660, Hamilton HM CX, Bermuda; 809-295-0713 Domicile: Bermuda	Excess umbrella liability	Maximum capacity: \$10 million per occurrence/\$10 million aggregate	January 1980 Claims-made and occurrence	Must be captive insurance company related business	\$2.2 \$2.5	\$7.3 \$3.5	8 8	Forest products industry
General Eastern Ski Insurance Risk Retention Group Vermont Insurance Management Inc. Michael T. Rogers, P.O. Box 306, Montpelier, Vt. 05601; 802-229-5042 Domicile: Vermont	General liability	\$10 million excess of various self-insured retentions	April 1988 Occurrence	All brokers and direct	\$1.4 \$1.4	\$8.3 \$5.2	6 6	Ski area operators
Guardrisk Insurance Co. Ltd. Integrated Risk Consultants and Guardian National R.W. Voysey, P.O. Box 61838, Marshalltown 2107, South Africa; 27-11-832-3541 Domicile: South Africa	Non-life	Various	August 1993 Claims-made and occurrence	All brokers and direct	\$20.0 \$45.0	\$20.0 \$7.0	15 25	All classes of business
Hopewell International Insurance Ltd. International Risk Management (Bermuda) Ltd. Graham D. Brice, Belvedere Building, P.O. Box HM 660, Hamilton HM CX, Bermuda; 809-295-0713 Domicile: Bermuda	Property and marine insurance and reinsurance	Unlimited excess of captive retentions	January 1972 Occurrence	Must be captive insurance company related business	\$139.0 \$140.0	\$88.0 \$6.5	56 58	Multinational companies, including metal-working, food manufacturing, banking and pharmaceutical businesses
Note: Hopewell International Insurance Ltd. will cease underwriting on June 30; clients may transfer to Harrington International Insurance Ltd., which will write property, business interruption and marine coverages.								
Housing Authority Risk Retention Group Inc. Yankee Captive Management Co. James McNally, 140 Kennedy Drive, South Burlington, Vt. 05407; 802-658-1100 Domicile: Vermont	General liability	\$3 million primary; \$4 million excess of \$1 million self-insured retention	June 1987 Claims-made and occurrence	Direct	\$22.8 \$23.5	\$98.6 \$30.6	350 375	Public housing authorities
IARW Insurance Co. Ltd. Atlantic Security Ltd. Richard Witkowski, P.O. Box HM 2078, Hamilton, Bermuda HM HX; 809-295-5425 Domicile: Bermuda	Legal liability	\$1 million primary; unlimited excess	1974 Occurrence	Direct	\$2.8 \$3.5	\$2.1 \$0.4	150 165	Members of the International Assn. of Refrigerated Warehouses
Independent Laboratories Assurance Co. Ltd. International Advisory Services Ltd. David Pickering, P.O. Box HM 2274, Hamilton HM JX, Bermuda; 809-295-3688 Domicile: Bermuda	Professional liability	\$1 million per occurrence/ \$2 million aggregate	1976 Claims-made	Direct	\$0.6 \$0.6	\$2.7 \$2.1	23 25	Independently owned testing laboratories
Ironworking Contractors Insurance Program Mutual Risk Management Ltd. Richard C. Holton, 7701 Forsyth Blvd., Suite 1025, St. Louis, Mo. 63105; 314-725-3966 Domicile: Bermuda	Workers compensation, general and auto liability	\$1 million primary	December 1988 Occurrence	Direct	\$7.0 \$7.0	\$11.2 \$0.7	18 20	Members of Union of Ironworking Contractors
Joint School Districts Workers' Compensation Self-Insurance Pool RiskCap Sherlyn W. Farrell, 1571 Race St., Denver, Colo. 80206; 303-388-5688 Domicile: Colorado	Workers compensation and employers liability	Statutory	July 1986 Occurrence	Restricted	\$4.3 \$4.3	\$12.7 \$2.0	4 4	Colorado school districts
MPC Insurance Ltd. Johnson & Higgins Services Inc. Julie S. Boucher, 7 Burlington Square, 6th Floor, P.O. Box 530, Burlington, Vt. 05402-0530; 802-864-5599 Domicile: Vermont	Professional liability	\$10 million primary	September 1987 Claims-made	Direct	\$10.4 \$11.7	\$76.2 \$20.6	14 15	Lawyers of participating member firms
MEDMARC Insurance Co. Inc. Hamilton Resources Corp. Thomas Konopka or Caroline Thompson, P.O. Box 1167, Fairfax, Va. 22030-1167; 703-273-1995 Domicile: Vermont	Product liability	\$5 million primary	January 1979 Claims-made	All brokers	\$32.8 \$33.0	\$154.0 \$51.6	537 550	Manufacturers and distributors of medical devices and clinical laboratory products

Continued on next page

Guide to alternative risk facilities (Continued from previous page)

Facility Management company Contact name, address & phone	Risks	Limits	First policy Policy form	Access	Premium volume (in millions) 1994 1995 (est.)	1994 assets/ Capital & surplus (in millions)	Number of policy- holders 1994 1995 (est.)	Membership
Mental Health Risk Retention Group Inc. J.J. Negley Associates Lori Ortiz, P.O. Box 206, Cedar Grove, N.J. 07009; 201-239-9107 Domicile: Vermont	General, professional and D&O liability	\$1 million primary	January 1988 Claims-made	All brokers	\$4.9 \$5.2	\$5.1 \$1.6	85 88	Members of Mental Health Corp. of America or National Community Mental Health- care Council
Midwestern Liability Insurance Risk Retention Group Inc. Johnson & Higgins Services Inc. Robert L. Lehr, 18181 W. 53rd St., Shawnee, Kan. 66217; 913-631-3300 Domicile: Colorado	General, auto and pollution liability; surety	\$850,000 aggregate excess of \$150,000 self-insured reten- tion; \$4.85 million aggregate excess of \$150,000 self- insured retention for four specific auto liabilities	May 1989 Claims-made and occurrence	Direct	\$0.8 \$0.8	\$2.5 \$1.4	7 8	Waste collection, transport and removal
Mount Mansfield Insurance Group Inc. AIG Captive Management Co. Ann Wick, 1233 Shelburne Road, Suite 200, South Burlington, Vt. 05403; 802-658-9405 Domicile: Vermont	Workers compensation	\$250,000 primary	July 1992 Occurrence	All brokers	\$11.5 \$10.0	\$12.8 \$1.1	22 22	Members of Drivers Employer Council of America (DECA)
National Guardian Risk Retention Group Willis Corroon Carolyn Greene, 26 Century Blvd., Nashville, Tenn. 37214; 615-872-3365 Domicile: Tennessee	Medical professional liability	\$1 million per occurrence/\$3 million aggregate per policyholder; \$10 million aggre- gate for the group	January 1989 Claims-made	Direct	\$3.8 \$3.8	\$7.4 \$1.5	1 1	National Guardian Membership Assn.
Nonprofits' Insurance Alliance of California Self-managed Pamela Davis, P.O. Box 4654, Carmel, Calif. 93921; 408-459-0980 Domicile: California	General liability, auto liability and physical damage, miscellaneous professional liability, improper sexual conduct	Various	November 1989 Claims-made and occurrence	All brokers	\$8.5 \$10.0	\$16.1 \$2.2	1,200 1,560	California non- profit organiza- tions tax-exempt under IRS code 501(c)(3) (not including churches)
Nonprofits' Insurance Assn., An Interinsurance Exchange Berkley Risk Services Inc. Vicki Fraher, 920 Second Ave. S., Suite 700, Minneapolis, Minn. 55402-4023; 612-376-4220 Domicile: Minnesota	Property; inland marine; general, professional, D&O and auto liability; auto physical damage and crime	Various	1989 Claims-made (D&O only) and occurrence	Specific agents	\$7.8 \$9.2	\$14.2 \$10.4	900 1,050	Organizations with IRS 501(c) designations in D.C., Fla., Ill., Ind., Md., Minn., Mo., N.C., N.D., S.C., S.D., Va., Wyo.
Nonprofits' Mutual Risk Retention Group Vermont Insurance Management Inc. Michael T. Rogers, P.O. Box 306, Montpelier, Vt. 05601; 802-229-5042 Domicile: Vermont	General, auto, professional, improper sexual contact, D&O, umbrella liability	\$1 million per occur- rence/\$2 million aggregate primary; \$10 million per occurrence/\$10 million aggregate excess of self- insured retention or underlying limits	November 1991 Claims-made and occurrence	Direct	\$6.2 \$8.0	\$10.9 \$1.4	1,500 2,000	501(c)(3) or (6) non-profit organ- izations providing health or human services
North American Builders Indemnity Co. RiskCap Sherlyn W. Farrell, 1571 Race St., Denver, Colo. 80206; 303-388-5688 Domicile: Colorado	Real estate E&O, comprehensive gen- eral liability, workers compensation, property, builders' risks, auto physical damage	Proprietary	May 1990 Claims-made and occurrence	Pure captive	\$3.8 \$3.3	\$11.9 \$4.4	1 1	National home builders and developers listed on the NYSE
Nuclear Electric Insurance Ltd. Delaware Risk Management Inc. Quentin Jackson, 1201 Market St., Suite 1200, Wilmington, Del. 19801; 302-888-3000 Domicile: Delaware	Excess property and business interruption coverage for nuclear utilities	Business interrup- tion/extra expense: \$3.5 million per week; Excess prop- erty: \$2.25 billion excess of \$500 million	September 1980 Occurrence	Direct	\$220.0 \$230.0	\$2,300.0 \$1,950.0	70 70	Utilities operating nuclear power stations
Nuclear Mutual Ltd. Delaware Risk Management Inc. Quentin Jackson, 1201 Market St., Suite 1200, Wilmington, Del. 19801; 302-888-3000 Domicile: Delaware	All-risks property for nuclear utilities	\$500 million primary	1973 Occurrence	Direct	\$65.0 \$80.0	\$845.0 \$657.0	30 40	Utilities operating nuclear power stations
Oil Casualty Insurance Ltd. Oil Management Services Ltd. K. Doyle Stephens, ACE Building, 30 Woodbourne Ave., Pembroke, Bermuda; 809-295-0905 Domicile: Bermuda	Umbrella general liability and D&O	\$100 million excess of \$20 million (non- U.S.) or \$50 million (U.S.); D&O: \$50 million excess of \$20 million	June 1986 Claims-made	Bermuda brokers and direct	\$35.5 \$40.0	\$328.4 \$250.1	52 54	Petroleum industry

Continued on next page

Guide to alternative risk facilities (Continued from previous page)

Facility Management company Contact name, address & phone	Risks	Limits	First policy Policy form	Access	Premium volume (in millions) 1994 1995 (est.)	1994 assets/ Capital & surplus (in millions)	Number of policy- holders 1994 1995 (est.)	Membership
Oil Insurance Ltd. Oil Management Services Ltd. K. Doyle Stephens, ACE Building, 30 Woodbourne Ave., Pembroke, Bermuda; 809-295-0905 Domicile: Bermuda	Property, well control, pollution liability and marine hulls	Up to \$200 million per occurrence; \$300 million annual aggregate excess of a minimum of \$5 million	January 1972 Occurrence	Bermuda brokers and direct	\$260.2 \$134.0	\$1,832.2 \$1,804.1	46 43	Petroleum industry
Ophthalmic Mutual Insurance Co., A Risk Retention Group Vermont Insurance Management Inc. Michael T. Rogers, P.O. Box 306, Montpelier, Vt. 05601; 802-229-5042 Domicile: Vermont	Medical malpractice, general liability	Minimum: \$100,000 per occurrence/ \$300,000 aggregate; maximum: \$1 million per occurrence/ \$3 million aggregate	October 1987 Claims-made	Direct	\$10.8 \$11.5	\$38.0 \$12.1	1,378 1,475	Members of the American Academy of Ophthalmology
PAR Ltd. Program Mutual Risk Management Ltd. Demi Hicks, Community Corp. Centre, 445 Hutchinson Ave., Columbus, Ohio 43235; 614-888-4869 Domicile: Bermuda	Professional liability	\$10 million primary	December 1986 Claims-made	Direct	\$6.2 \$7.0	\$39.6 \$18.7	110 110	Large, regional U.S. and Canadian insur- ance agencies and affiliates
Peer Insurance Risk Retention Group Corp. Hawaii Captive Insurance Management Inc. Sherman S. Hee, 1164 Bishop St., Suite 1415, Honolulu, Hawaii 96813; 808-523-6161 Domicile: Hawaii	Professional liability	\$1 million per occurrence/\$3 million aggregate	July 1994 Claims-made	All brokers and direct	\$1.0 \$1.0	\$3.8 \$2.9	63 70	Oral and maxillofacial physicians
Plastics Industry Risk Retention Group Vermont Insurance Management Inc. Michael T. Rogers, P.O. Box 306, Montpelier, Vt. 05601; 802-229-5042 Domicile: Vermont	General and product liability	\$1 million primary; \$10 million excess and umbrella	September 1990 Claims-made and occurrence	Direct	\$0.5 \$0.5	\$1.2 \$0.8	26 26	Companies associated with plastics manu- facturing and distribution
Polaris Asbestos Insurance Corp., A Risk Retention Group Johnson & Higgins Services Inc. Warren O. Hart, 2777 Summer St., Stamford, Conn. 06905; 800-292-7272 Domicile: Colorado	Premises asbestos liability	\$2 million per occurrence/\$6 million aggregate	October 1992 Modified claims-made	All brokers and direct	NA \$15.0	\$0.5 \$0.5	1 85	Owners of com- mercial, industrial, manufacturing or multi-unit resi- dential buildings
Primex Ltd. Johnson & Higgins (Barbados) Ltd. Kevin Walton, P.O. Box 1274, Whitepark House, White Park Road, Bridgetown, Barbados; 809-436-9929 Domicile: Barbados	Auto, environmental general and products liability	Motor: \$15 million excess of \$2 million; Other: \$15 million excess of \$1 million	July 1986 Claims-made	Any offshore broker	\$6.8 \$8.5	\$72.5 \$17.7	15 15	Chemical and chemical-related industries
Professional Business Owners Self Insurance Fund Self-managed Bud Swindell, 1800 Second St., Suite 909 Sarasota, Fla. 34236; 800-226-0793 Domicile: Florida	Workers compensation	Statutory	March 1990 Occurrence	All brokers	\$21.0 \$21.0	\$24.0 \$12.0	1,889 1,889	Members of Professional Business Owners Assn.
The Property Insurance Facility Ltd. (TPIF) International Risk Management (Bermuda) Ltd. Graham D. Brice, Belvedere Building, P.O. Box HM 660, Hamilton HM CX, Bermuda; 809-295-0713 Domicile: Bermuda	Property	Various	August 1993 Occurrence	All brokers	\$3.3 \$3.5	\$16.2 \$2.4	6 8	Various unrelated enterprises
Railroad Assn. Insurance Ltd. Aon Risk Services (Bermuda) Ltd. Tracy Keill or Alastair Nicoll, P.O. Box HM 2450, Hamilton HM JX, Bermuda; 809-295-2220 Domicile: Bermuda	Excess liability	\$50 million per occurrence excess of \$50 million per occurrence or underlying limit	May 1986 Notice of occurrence	Direct	\$9.5 \$9.0	\$170.8 \$159.9	15 15	Railroad companies and mass transit systems
The Risk Exchange Assn. International Risk Management (Bermuda) Ltd. Robert P. Klepper, Belvedere Building, P.O. Box HM 660, Hamilton HM CX, Bermuda; 809-295-0713 Domicile: Bermuda	Property, casualty, marine	Property: \$8 million primary; Casualty: \$10 million primary; Marine: \$7.5 million primary	February 1984 Claims-made and occurrence	All brokers and direct	\$0.8 \$1.2	\$9.0 NA	12 14	Captive insur- ance companies that reinsure each other's parental risk on a faculta- tive basis
S.E.C.U.R.E. Underwriters Risk Retention Group The Wyomissing Group Daniel J. Reardon, 2001 State Hill Road, Suite 204 Wyomissing, Pa. 19610; 610-376-7232 Domicile: Maryland	General liability, E&O, pollution	\$1 million primary	July 1987 Occurrence	Direct	\$2.9 \$3.0	\$3.7 \$1.2	700 840	Pest control operators
Salus Insurance Co. Skandia International Risk Management (Vermont) Inc. Robert L. Sinclair, 110 21st Ave. S., Suite 801 Nashville, Tenn. 37203; 615-327-2274 Domicile: Vermont	Managed care liability and capi- tated stop-loss	Various	February 1995 Claims-made and occurrence	Direct	NA \$1.5	NA NA	12 12	Catholic multi- institutional health care systems
Sargasso Mutual Insurance Co. Ltd. Johnson & Higgins (Bermuda) Ltd. Eugene Carmichael, P.O. Box HM 1826, Hamilton HM HX, Bermuda; 809-292-4402 Domicile: Bermuda	D&O liability	Primary or excess: \$5 million, \$10 mil- lion or \$15 million	1986 Claims-made	Direct	\$0.8 \$0.9	\$39.7 \$36.4	15 16	Mutual life insur- ance companies domiciled in the United States and Canada

Continued on next page

Guide to alternative risk facilities (Continued from previous page)

Facility Management company Contact name, address & phone	Risks	Limits	First policy Policy form	Access	Premium volume (in millions) 1994 1995 (est.)	1994 assets/ Capital & surplus (in millions)	Number of policy- holders 1994 1995 (est.)	Membership
Sporting Arms Insurance Ltd. (SAIL) International Advisory Services Ltd. David Pickering, P.O. Box HM 1760, Hamilton HM HX, Bermuda; 809-295-3688 Domicile: Bermuda	Product liability	\$1 million primary	June 1986 Claims-made	Direct	\$2.7 \$3.0	\$7.4 \$4.5	33 35	Sporting arms manufacturers and importers
States Self-Insurers Risk Retention Group Inc. Berkley Risk Services of Georgia Scott King, 1303 Hightower Trail, Suite 220, Atlanta, Ga. 30350; 404-594-7744 Domicile: Georgia	Public entity third-party liability	\$10 million maxi- mum excess of \$100,000 mini- mum self-insured retention	July 1988 Claims-made and occurrence	All brokers and direct	\$5.4 \$6.0	\$20.4 \$10.0	125 130	Public entities: cities, counties, public utilities, transportation districts and school districts
Structural Engineers Insurance Ltd. (SEIL) International Advisory Services Ltd. David Ezekiel or David Lampit, P.O. Box HM 1760, Chevron House, 11 Church St., Hamilton HM HX, Bermuda; 809-295-3688 Domicile: Bermuda	Professional liability	\$1 million primary	1986 Claims-made	Direct	\$1.7 \$1.8	\$7.0 \$2.5	14 15	Structural engi- neering firms with more than \$1 mil- lion in annual billings
SUBWAY Owners' Mutual Insurance Co. AIG Insurance Management Services-Vermont Tobias P. Burke, 1233 Shelburne Road, Suite 200, South Burlington, Vt. 05403; 802-658-9405 Domicile: Vermont	Workers compensation	\$250,000 per occurrence primary	1992 Occurrence	All brokers	\$3.0 \$5.0	\$4.5 \$1.4	600 800	Members of SUBWAY Sand- wich Shoppes Owners Assn.
Terra Insurance Co., A Risk Retention Group Vermont Insurance Management Inc. Michael T. Rogers, P.O. Box 306, Montpelier, Vt. 05601; 802-229-5042 Domicile: Vermont	Professional liability	\$1 million per occurrence/\$1 million aggregate (\$25,000 deduc- tible); \$1 million excess of \$1 million	April 1988 Claims-made	Direct	\$6.3 \$6.3	\$23.6 \$8.3	75 80	Members of Assn. of Soil and Foundation Engineers
TOPS Insurance Ltd. Oil Management Services Ltd. K. Doyle Stephens, ACE Building, 30 Woodbourne Ave., Pembroke, Bermuda; 809-295-0905 Domicile: Bermuda	Property	\$100 million primary	January 1993 Occurrence	Direct	\$33.4 \$14.7	\$85.5 \$84.6	16 16	Petroleum industry
Tortuga Casualty Co. International Risk Management (Cayman) Ltd. Peter Joy, British American Tower, P.O. Box 69, Grand Cayman, Cayman Islands, B.W.I.; 809-949-0155 Domicile: Grand Cayman	Excess liability	\$50 million excess of \$25 million	January 1986 Claims-made	All brokers and direct	\$5.2 \$6.5	\$111.0 \$12.0	17 18	Various
Transportation & Railroad Assurance Co. Ltd. Aon Risk Services (Bermuda) Ltd. Tracy Keill or Alastair Nicoll, P.O. Box HM 2450, Hamilton HM JX, Bermuda; 809-295-2220 Domicile: Bermuda	Excess liability	\$25 million per occurrence excess of \$25 million per occurrence or underlying limit	June 1987 Notice of occurrence	Direct	\$9.7 \$9.9	\$122.3 \$83.9	11 11	Railroad com- panies and mass transit systems
United Educators Insurance Risk Retention Group Inc. United Insurance Management Co. Arthur G. Broadhurst, 2 Wisconsin Circle, Suite 1040, Chevy Chase, Md. 20815; 800-346-7877 or 301-907-4908 Domicile: Vermont	Educational institu- tions' excess general liability; primary general liability, edu- cators' legal, profes- sional and ERISA/ employee benefits liability	General: \$1 million primary, \$25 million excess of \$1 million; Professional: \$1 mil- lion primary; Educa- tors liability: \$25 mil- lion primary; ERISA: \$10 million primary	March 1987 Claims-made and occurrence	All brokers	\$33.9 \$37.0	\$23.1 \$8.1	935 1,000	Educational institutions
United Insurance Co. International Risk Management (Cayman) Ltd. Peter Joy, British American Tower, P.O. Box 69, Grand Cayman, Cayman Islands, B.W.I.; 809-949-0155 Domicile: Grand Cayman	Property and casualty	\$1.5 million primary; \$5 million excess of various limits	January 1976 Claims-made and occurrence	All brokers and direct	\$50.0 \$60.0	\$153.0 \$14.0	75 75	Various
University of Colorado Insurance Pool Alternative Insurance Management Services Inc. Richard A. Johnson, 6021 S. Syracuse Way, Suite 205, Englewood, Colo. 80111; 303-694-9360 Domicile: Colorado	Workers compen- sation, property, auto and general liability	Various	June 1993 Occurrence	All brokers	\$8.0 \$9.0	\$21.0 \$4.1	6 6	Affiliates of the University of Colorado
Water, Wastewater and Process Equipment Manufacturers' Insurance Co. (WWPEM) AIG Captive Management Co. Ann Wick, 1233 Shelburne Road, Suite 200, South Burlington, Vt. 05403; 802-658-9405 Domicile: Hawaii	General and product liability	\$1 million primary; \$4 million excess of \$1 million	November 1989 Occurrence	All brokers	\$0.5 \$0.5	\$2.1 \$1.2	24 27	Members of Water, Waste- water Equipment Manufacturers Assn. (WWEMA)
Western Pacific Mutual Insurance Co., A Risk Retention Group RiskCap Sherlyn W. Farrell, 1571 Race St., Denver, Colo. 80206; 303-388-5688 Domicile: Colorado	New home warranty	Home value	July 1990 Occurrence	Warranty administrator	\$7.3 \$12.0	\$15.8 \$5.0	Proprietary	Home construc- tion and sales companies that use Residential Warranty Corp.

Long Tail Risk Has Proven Fatal To Many Reinsurers.

In reinsurance, old claims can catch the unwary.

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Guide to alternative risk facilities (Continued from page 27)

Facility Management company Contact name, address & phone	Risks	Limits	First policy Policy form	Access	Premium volume (in millions) 1994 1995 (est.)	1994 assets/ Capital & surplus (in millions)	Number of policy- holders 1994 1995 (est.)	Membership
Wrenford Insurance Co. Ltd. International Risk Management (Bermuda) Ltd. Anna W. Summers, Belvedere Building, P.O. Box HM 660, Hamilton HM CX, Bermuda; 809-295-0713 Domicile: Bermuda	Global all-risks property - primarily highly protected risks	Unlimited excess of \$25,000 deductible	June 1975 Occurrence	Must be captive insurance company related business	\$2.0 \$2.5	\$3.1 \$0.8	5 5	Metal-working, electrical companies

GUIDE TO RENT-A-CAPTIVES

Facility Management company Contact name, address & phone	Risks	Limits Minimum premium	Established Program type Policy form	Access Fronting insurers	Premium volume (in millions) 1994 1995 (est.)	1994 assets/ Capital & surplus (in millions)	Number of policy- holders 1994 1995 (est.)	Membership
American Indemnity Insurance Co. Ltd. Meadowbrook Insurance Group Richard P. Marshall, 26600 Telegraph Road, Southfield, Mich. 48034; 800-482-2726 Domicile: Bermuda	Workers compen- sation, general, product and professional liability	Various \$250,000 gross written premium	1984 Fully funded/ traditional Claims-made and occurrence	All brokers Star Insur- ance Co.	NA NA	\$1.1 \$0.7	5 8	Various
Atlantic & Caribbean Reinsurance Co. Johnson & Higgins (Cayman Islands) Ltd. Paul Macey or Wayne Cowan, P.O. Box 1051, George Town, Grand Cayman, Cayman Islands, B.W.I.; 809-949-7988 Domicile: Cayman Islands	Various	No limit NA	1994 Fully funded/ traditional Claims-made and occurrence	All brokers and direct None at this time	\$1.0 \$2.5	NA NA	3 8	Industrial manufacturing
British Indemnity Ltd. Independent Management Group Ltd. Peter Strong, P.O. Box HM 2070, 20 Reid St., Hamilton, Bermuda; 809-295-1646 Domicile: Bermuda	General and product liability, medical malpractice, E&C	Various NA	1987 Fully funded/ traditional Claims-made	Direct	\$0.8 \$0.8	\$1.5 \$0.4	8 10	Privately owned companies
FH Assurance Co. TRISTAR Risk Management Tom Veale, 6133 Bristol Parkway, Suite 300 Culver City, Calif. 90230; 310-342-0505 Domicile: Cayman Islands	Workers compen- sation, professional liability	No limit \$250,000	1995 Fully funded/ traditional Claims-made and occurrence	All brokers Transamerica, California Compensation	NA \$12.0	NA NA	NA 6	Multi-industry, health care specialty
Fortress Insurance Co. Ltd. BF&M Management Ltd. Brian S. Webb, 30 Woodbourne Ave., Hamilton HM 08, Bermuda; 809-292-6396 Domicile: Bermuda	All classes	Various NA	1977 Fully funded/ traditional Claims-made	All brokers and direct Various	NA NA	\$6.5 \$2.0	6 10	Various
General Professional Indemnity Ltd. Griffiths & Wanklyn Management Ltd. Julian Griffiths, Craig Appin House, 8 Wesley St. Hamilton, Bermuda; 809-295-1639 Domicile: Bermuda	All classes	No limit NA	1991 Fully funded/ traditional Claims-made and occurrence	All brokers Various	\$0.5 \$1.0	\$2.0 \$0.9	3 4	Logging, trans- portation, medical profession
Hanseatic Insurance Co. Ltd. Atlantic Security Ltd. Colin James or Richard Witkowski, P.O. Box HM 2078, Hamilton, Bermuda HM HX; 809-295-5425 Domicile: Bermuda	Various	Various NA	1970 Fully funded/ traditional Claims-made and occurrence	All brokers and direct NA	\$2.0 \$5.0	\$2.1 \$0.5	2 5	Various
Horizon Fire & Marine Insurance Co. Ltd. Triangle Insurance Management Ltd. Bruce Fenton or Janice Witkowski, The Phoenix Building, 2 Reid St., Hamilton, Bermuda; 809-295-3952 Domicile: Bermuda	Various	No limit Minimum fee	1994 Fully funded/ traditional Claims-made and occurrence	All brokers and direct Various	NA NA	NA NA	NA NA	Various
Hospital Assurance Co. Ltd. TRISTAR Risk Management Tom Veale, 6133 Bristol Parkway, Suite 300 Culver City, Calif. 90230; 310-342-0505 Domicile: Cayman Islands	Workers compen- sation, professional liability	No limit \$250,000	1993 Fully funded/ traditional Claims-made and occurrence	All brokers Transamerica, California Compensation	\$6.0 \$13.0	\$18.0 \$4.0	1 6	Multi-industry, health care specialty

Continued on next page

Guide to rent-a-captives (Continued from previous page)

Facility Management company Contact name, address & phone	Risks	Limits Minimum premium	Established Program type Policy form	Access Fronting insurers	Premium volume (in millions) 1994 1995 (est.)	1994 assets/ Capital & surplus (in millions)	Number of policy- holders 1994 1995 (est.)	Membership
Housing Authority Property Insurance Yankee Captive Management Co. James McNally, 140 Kennedy Drive, South Burlington, Vt. 05403-2127; 802-658-1100 Domicile: Vermont	Fire allied lines, inland marine, workers compensation	Blanket replace- ment cost; workers compensation: statutory NA	March 1987 Traditional Claims-made and occurrence	Direct Travelers, Star Insur- ance	\$12.6 \$13.5	\$16.1 \$7.8	360 325	Public housing authorities
Hudson Underwriting Ltd. Skandia International Risk Management Robert Eastham or Nicholas Dove, 16 Church St., P.O. Box HM 1514, Hamilton HM FX, Bermuda; 809-295-2185 Domicile: Bermuda	Various	Various NA	1989 Fully funded Claims-made and occurrence	All brokers and direct Various	\$0.4 \$6.0	\$5.0 \$4.0	3 6	Various
The I.P.C. Cos. Ltd. Mutual Risk Management Paul Watson, P.O. Box HM 2064, Hamilton HM HX, Bermuda; 809-295-5688 Domicile: Barbados, Bermuda, Dublin	Various, including workers compen- sation, auto and general liability	Workers compen- sation: \$250,000 per occurrence/ \$500,000 aggre- gate; Other lines: \$500,000 aggregate \$750,000 in most cases	1979 Fully funded/ traditional Claims-made and occurrence	All brokers, direct and Commonwealth Risk Services Legion Insur- ance Co.	\$167.0 \$200.0	\$400.0 \$60.0	359 400	Various, includ- ing manufacturing, health care, trucking, sports teams
Independent Insurance Services Ltd. Willis Corroon Management (Isle of Man) Ltd. David Campbell, 10 Finch Road, Douglas, Isle of Man, B.I., 44-1624-620274 Domicile: Isle of Man	All classes	No limit NA	1994 Fully funded/ traditional Claims-made and occurrence	via Willis Corroon Mgmt. (IOM) NA	NA NA	NA NA	2 4	Various
Isle of Man Assurance Ltd., Rent-a-Captive Facility Self-managed Christine Crowther, IOMA House, Prospect Hill, Douglas, Isle of Man, B.I. IM99 1PU; 44-1624-624141 Domicile: Isle of Man	All classes of general business	NA \$76,605* *exchange rate applied British pound=\$1.5321	1976 Fully funded Claims-made and occurrence	All brokers and direct NA	NA NA	NA NA	10 15	Various
Liberty Mutual (Bermuda) Ltd. Liberty Mutual Management (Bermuda) Ltd. Michael Hardy or Daniel Forsythe, Craig Appin House, Appin House, P.O. Box HM 1135, Hamilton HM EX, Bermuda; 809-296-2131 Domicile: Bermuda	Workers compen- sation, general and auto liability	Up to \$500,000 per occurrence NA	1981 Traditional Occurrence	All brokers and direct Liberty Mutual	NA NA	\$60.0 \$14.0	42 45	Multiple industry groups
Magna Carta Insurance Co. Ltd. Atlantic Security Ltd. Colin James or Richard Witkowski, P.O. Box HM 2078, Hamilton, Bermuda HM HX; 809-295-5425 Domicile: Bermuda	Various	Various NA	1978 Fully funded/ traditional Claims-made and occurrence	All brokers and direct NA	\$4.0 \$5.0	\$7.8 \$0.2	8 10	Various
Meridian Insurance Co. Ltd. TRISTAR Risk Management Tom Veale, 6133 Bristol Parkway, Suite 300 Culver City, Calif. 90230; 310-342-0505 Domicile: Cayman Islands	Workers compen- sation, professional liability	Various \$250,000	1981 Fully funded/ traditional Claims-made and occurrence	All brokers Transamerica, California Compensation	\$14.0 \$18.0	\$80.0 \$19.0	7 18	Multi-industry, health care specialty
Pennsylvania Manufacturers International Insurance Ltd. Independent Management Group Ltd. Peter Strong, P.O. Box HM 2070, 20 Reid St. Hamilton, Bermuda; 809-295-1646 Domicile: Bermuda	Workers compen- sation, auto liability	\$250,000 primary NA	1993 Traditional Occurrence	All brokers Pennsylvania Manufac- turers' Assn. Insurance Co.	NA NA	\$6.5 \$1.0	NA NA	Various
Phoenix Guaranty Insurance Ltd. Captech Management Services (Barbados) Ltd. William Tomlin, CGM Building, Collymore Rock, St. Michael, Barbados; 809-436-8296 Domicile: Barbados	Workers compen- sation, auto liability physical damage, general liability	\$200,000 to \$250,000 primary NA	1994 Fully funded/ traditional Occurrence	Independent insurance agents	\$1.6 \$9.0	\$1.6 \$1.1	1 8	Insurance agents, associations, large-deductible insureds
Richmond Insurance Co. Ltd. American International Manage- ment Co. (Barbados) Ltd. J. Scott Bradley, P.O. Box HM 152, Hamilton HM AX, Bermuda; 809-295-2121 Domicile: Bermuda, Barbados	All classes	No limits \$1 million premium per annum or equivalent in currency	1987 Fully funded/ traditional Claims-made and occurrence	All brokers and direct National Union Fire Insurance Co., AIG Europe	\$360.0 \$360.0	\$855.0 \$43.0	37 active 40 active	Professional, medical, financial, manufacturing

Continued on next page

Guide to rent-a-captives (Continued from previous page)

Facility Management company Contact name, address & phone	Risks	Limits Minimum premium	Established Program type Policy form	Access Fronting insurers	Premium volume (in millions) 1994 1995 (est.)	1994 assets/ Capital & surplus (in millions)	Number of policy- holders 1994 1995 (est.)	Membership
The Stuart Insurance Group Ltd. Liberty Mutual Management (Bermuda) Ltd. Michael Hardy or Daniel Forsythe Craig Appin House, P.O. Box HM 135, Hamilton HM EX, Bermuda; 809-295-2021 Domicile: Bermuda	Workers compen- sation, general and auto liability	Up to \$500,000 per occurrence NA	1991. Traditional Occurrence	All brokers and direct Liberty Mutual	\$25.0 \$20.0	\$53.0 \$13.0	23 26	Multiple industry groups
Universal International Reinsurance Co. Ltd. Atlantic Security Ltd. Colin James or Richard Witkowski, P.O. Box HM 2078, Hamilton, Bermuda HM HX; 809-295-5425 Domicile: Bermuda	Various	Various NA	1990 Fully funded/ traditional Claims-made and occurrence	All brokers and direct NA	\$8.0 \$10.0	\$1.6 \$0.2	8 10	Various

For information on being listed in next year's Guide to Alternative Risk Facilities and Rent-a-Captives, contact Rich Trout, Assistant Directory Editor, at 312-649-5483.

For a listing of captive managers, please refer to the directory in the April 24, 1995 issue.

World Captive Forum to highlight captive issues

The Fifth Annual World Captive Forum will let captive insurance company users and those interested in captives explore cutting-edge existing programs and look into alternative risk financing possibilities for the future.

The conference, scheduled for Oct. 29 to Nov. 1 at the Innisbrook Resort near Tarpon Springs, Fla., features formal presentations on captive use and open forums designed to encourage discussion of current and future captive arrangements.

The conference, which is co-sponsored by *Business Insurance*, Skandia International Risk Management Ltd./SINSER and Towers Perrin, is dedicated solely to captive insurance company issues. Topics to be discussed include the basics of captives, U.S. and international tax factors, Latin American captives, new risk financing techniques, fronting programs, health care issues, captive reinsurance and effective captive management.

"*Business Insurance* is very excited about this opportunity to co-sponsor a program that offers unique information to corporate executives who use captives to finance risk and to those who are considering it," said Kathryn J. McIntyre, publisher and editorial director.

To accommodate different levels of expertise, the conference begins Monday, Oct. 30, with two simultaneous workshops: D. Hugh Rosenbaum, a principal with Towers Perrin in London, and Nicho-

las Dove, president of Skandia International Risk Management in Bermuda, discussing the basics of captives, including finance, business plans, operations, taxes, regulatory issues, expenses and strategies at one workshop. This presentation will be accompanied by a Spanish translation.

The other workshop will be a roundtable breakfast for captive owners and sponsors where they

can discuss common interests and concerns.

can discuss common interests and concerns. A panel discussion on "Captive Issues and New Horizons" will bring all the delegates together to examine the challenges and opportunities presented by today's insurance, risk management and regulatory environments. Panelists will be: James Cameron, a partner with Baker & McKenzie in New York; Tracey Carragher, senior vp with Aon Risk Services in Greenwich, Conn.; William Drum, vp and director of risk management with Ralston Purina Co. in St. Louis; Mark Hinkley, executive vp at TIG Reinsurance Co. in Stamford, Conn.; and Philippe Charpentier, a director at Willis Cor-

room in Paris. On Monday afternoon, there will be three breakout sessions: U.S. and international tax laws and regulations; employee benefits in captives; and a Spanish language forum on Latin American captives.

The schedule on Oct. 31 calls for three sets of breakout sessions. The first one gives attendees a choice between strategic risk financing and making the most of

sessions, the conference features a golf tournament on Sunday, Oct. 29, a round-robin tennis tournament on the afternoon of Tuesday, Oct. 31, and a dinner on Tuesday. The conference closes at 11:15 a.m. Nov. 1.

An exhibit hall will be open on Monday and Tuesday.

The full registration fee for the conference is \$975, with a 10% discount applying to subsequent registrants from the same company. The exhibitor's fee is \$2,000. Individuals can attend just the Ba-

sics of Captives session Monday at 8 a.m. for \$150. The guest fee for the Tuesday evening reception is \$75.

Hotel room rates at the Innisbrook Resort are \$110 for club suites and \$140 for one-bedroom suites, excluding taxes and service charges.

For more information, contact Eileen Callahan Wroe, Conference Director, World Captive Forum, Towers Perrin, 100 Summit Lake Drive, Valhalla, N.Y., 10595; fax: 914-745-4620. **BI**

Topics to be discussed at the forum include the basics of captives, U.S. and international tax factors, Latin American captives, new risk financing techniques, fronting programs.

can discuss common interests and concerns.

A panel discussion on "Captive Issues and New Horizons" will bring all the delegates together to examine the challenges and opportunities presented by today's insurance, risk management and regulatory environments. Panelists will be: James Cameron, a partner with Baker & McKenzie in New York; Tracey Carragher, senior vp with Aon Risk Services in Greenwich, Conn.; William Drum, vp and director of risk management with Ralston Purina Co. in St. Louis; Mark Hinkley, executive vp at TIG Reinsurance Co. in Stamford, Conn.; and Philippe Charpentier, a director at Willis Cor-

fronting programs. Next, attendees select from health care issues or reinsurance issues. In the afternoon, session topics are selecting and evaluating captive management and investments and economics.

The conference closes Wednesday, Nov. 1, with captive case studies provided by: Weyerhaeuser Co.'s assistant treasurer and director of insurance, Cheri Hawkins; Hugh O'Neil, director of international risk management with DHL Worldwide Express in Brussels; and Per-Axel Nilsson, group risk manager with specialty chemical and materials company Perstorp A.B. of Perstorp, Sweden.

In addition to the educational brokered for captives, claims processing.

Staff: Three, all professionals.

Clients: Two active captives managed at year-end 1994.

Compensation: Annual fee, commission, hourly.

1994 gross revenues: 100% from fees charged for captive management.

Officers: Jean-Francois Gelot, managing director; Francoise Gelot, executive director; Rosemary Le Messurier, manager.

Contact: Jean-Francois Gelot. **BI**

Guernsey captive manager listing omitted

Due to incorrect information supplied by the company, Optimum Risk Research (International) Ltd.'s listing in the *Business Insurance* Directory of Captive Managers on April 24 indicated that the company subcontracts for captive management services. However, the company actually directly provides captive management services and subcontracts only some support services with approval of the client.

The listing should have appeared as follows:

Optimum Risk Research (Channel Islands) Ltd.

P.O. Box 627, 26 Comet St., St. Peter Port, Guernsey GY1 4PP; 44-1481-724212; fax: 44-1481-710696

Founded: 1994.

Parent: Optimum Risk Research (International) Ltd.

Frequent services: Feasibility studies, government reporting, underwriting and ratemaking.

Occasional services: Captive formation, accounting, reinsurance

Business Insurance®

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Coalition

Continued from page 1

"This isn't a situation where we expect a dramatic decrease, but the effect may be in containing future increases in premiums," he added.

The formation of the coalition comes closely after a group of health care purchasers announced plans to develop quality benchmarks for health plans (BI, May 22).

The new national coalition essentially is an expansion of a joint purchasing effort begun in 1993 by American Express, Merrill Lynch and R.H. Macy & Co. Inc.

Though Macy's pulled out, eight more companies joined the effort to secure HMO services for 240,000 employees and about 400,000 dependents in 27 areas across the country.

Joining the effort are: International Business Machines Corp., ITT

Corp., Marriott International Inc., Nabisco Brands Inc., Pfizer Inc., Sears, Roebuck & Co. and two others that do not want to be identified.

Proposals solicited from about 200 of the country's 550 or so HMOs were due last Wednesday. William Mercer Inc. in New York is helping to manage the bidding process and to provide information to coalition members from meetings between Mercer and HMO officials.

Much of the managed care expertise, though, will come from the employers, said Michael Sydlaske, a principal at Mercer in New York.

"We're going to provide them as much information as we can," Mr. Sydlaske said. "But this is really a pooling of the employer expertise as much as anything else. And they have a lot of collective knowledge on these HMOs."

Each participating employer has sent Mercer health plan data and its

assessments of the quality of care that major HMOs have provided.

After narrowing down the proposals from HMOs, Mercer consultants and coalition participants will sit down for several days in June to make final selections.

They plan to select two to four HMOs to offer employees at each of the 27 sites, though the number might be higher in certain areas like New York. Final selections are to be made later in June.

The coalition has set benchmarks for clinical quality, in areas ranging from wellness and health education to the management of diagnoses and treatments for patients.

Not all the participants have employees in each of the 27 sites, and they will not be limited to offering only the HMOs chosen by the coalition in any given area.

"This year being the first year, a lot of companies are tending to do a test pilot in certain locations," Mer-

rill Lynch's Mr. Brence said. While they might not be committing to the coalition's HMOs at each site, each company has made some sort of commitment, however.

For example, Mr. Brence said, a company committing to testing the program in Northern California would agree to work with the other coalition members to come to a consensus on which HMOs to offer there. It would then freeze participation in other HMOs it offer employees at that site that weren't selected by the coalition.

American Express's experience with the earlier, smaller coalition proved this sort of approach can have real results, Ms. Cash said.

"For example, last year American Express saw a 7% decrease in HMO premiums in places that were coalition sites," she said, noting that during the same period HMO premiums nationwide were down only 1%.

At American Express sites that were not covered by the coalition HMO premiums rose 7% in 1994.

According to Mr. Brence, the challenge faced by national employers in contracting with HMOs is that while they have large workforces nationwide, often the number of employees they have in a given state or location may be relatively small, limiting their bargaining power.

At the same time, the national employer often can't contract with a single HMO to cover all markets and expect the same quality of care across the board, he said. He said quality of care included customer service and wellness measures "as well as the clinical aspects of care."

Joining with other employers that have may have operations in the designated locations helps overcome that problem, however.

"Locally they become a much larger force," said Mercer's Mr. Sydlaske. "IBM, as big as it is, still is not big in a lot of places."

"The point is, you need some leverage," said a spokesman for Workforce Solutions, IBM's human resources division. "By banding to-

gether you're able to provide a larger customer population."

"We just think that we have more clout as a group than we do individually," American Express's Ms. Cash said.

"Obviously this is a departure from single-carrier, multi-site point-of-service products," Mr. Sydlaske said. "This is 180 degrees from that. They are able to negotiate for the best possible care in each of the individual locations."

The result may be the very best example of managed competition at work, the Mercer principal said.

While competing HMOs will be acutely aware of the coalition's focus on quality, they also will recognize that the few HMOs making the final cut at each site will all be perceived by employees as top notch.

That perception will make employees extremely sensitive to price differences between the HMOs in making their selections, forcing the HMOs to offer competitive pricing as well, Mr. Sydlaske predicted.

"This is part of the way employers are putting price pressure on HMOs," Mr. Sydlaske said.

But Dave Rahill, a principal with A. Foster Higgins & Co. Inc. in New York, said the coalition should be careful not to push HMOs too far on price. "You don't want to have a provider of health for your employees operating on such wafer thin margins that it starts to affect the quality of care," he said. "There's a balance to be achieved there."

Mr. Sydlaske said he doesn't believe the coalition will put smaller employers in coalition sites at a competitive disadvantage due to cost shifting from local HMOs.

In crafting the plan, he said, those involved did ask a related question, "Do we ever become so big in an area that we would really affect the market in that area? And we don't."

Nevertheless, other companies have already expressed interest in joining the coalition. More members and locations may be added in the future. **BI**

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Insurance Asset Management

Taxing benefits may lead to benefit cuts, employer survey finds

By CHRISTINE MANY

A majority of employers and workers oppose taxing group health care benefits, and some believe they might have to give up some benefits if Congress approves new benefit taxes, according to recent surveys.

Seventy-five percent of the 327 corporate executives surveyed said they generally oppose a tax on the health care benefits they provide to workers, even if the purpose were deficit reduction. Eighty-nine percent said such taxes are an example of "more unwarranted government interference," according to Chicago-based Delta Dental Plans Assn., which conducted the survey in a national telephone poll.

At the same time, most U.S. employees aren't happy with the idea of taxing their employers on health benefits, a separate survey conducted by Delta Dental found. Eighty-one percent of the 1,015 workers polled said that it is very likely or somewhat likely that their employers would pass

along some of the tax-related costs to them in the form of higher premiums or deductibles.

Seventy-one percent of employers agreed, saying they would be at least somewhat likely to pass along some of the costs, should an employer tax be enacted. While 52% of the workers surveyed feel that it would be fair for employers to make employees share the tax burden, 66% said such an action would be the same as a direct increase in their own taxes.

Both groups agreed that taxing either employers or workers on health care benefits would likely result in a loss of some benefits. More than half of the workers surveyed—52%—said they would drop some benefits if they were taxed directly. Sixty-seven percent believe it's somewhat or very likely that their employers would cut some benefits if an employer tax were enacted.

Benefits that employers say their companies would likely eliminate include:

- Vision care benefits, cited by 67%.
- Alcohol/drug dependence programs, 49%.

- Mental health care benefits, 46%.
- Dental care benefits, 43%.
- Wellness or preventative programs, 42%.

Employers said they would be least likely to drop the medical and hospitalization benefits.

Respondents in midsize companies—those with 250 to 499 employees—and non-service industries were more likely than others to say their companies are at least somewhat likely to drop some currently offered benefits in the event of a tax on employers.

Employers also cited other reasons for opposing benefit taxes. The employers said such taxes would: lower employee morale; lead to greater labor relations problems; be expensive and difficult to administer; raise health care costs in the long run; and hurt U.S. businesses' ability to compete in the global marketplace.

Copies of the survey results are available for \$5 each by contacting Matt Glover of Porter/Novelli at 312-856-8838.

Execs need retirement savings, too

Many Midwest Baby Boomer executives who oversee their companies' retirement savings plans face the same savings problems that haunt lower-paid plan participants, a new survey reports.

Forty percent of the 300 executives who responded to the survey of retirement plan administrators are unsure whether they will have adequate income in retirement, and 7% said they know they will be unable to meet their lifestyle objectives in retirement, according to the survey by CIGNA Retirement & Investment Services of Hartford, Conn.

By comparison, half of those executives said they see low levels of interest among their companies' lower-paid employees in saving enough to retire, according to the survey, conducted late last year by the plan asset management subsidiary of CIGNA Corp.

Forty-eight percent of the respondents to the survey were executives at manufacturing companies, while 21% represented service providers, 14% represented the retail/wholesale trade, 10% represented the finance, insurance and real estate industry and 7% represented the construction industry.

Focusing on executives at manufacturers, Thomas C. Carroll, Midwest regional vp of CIGNA Retirement said: "They aren't saving enough on their own as manufacturers move away from traditional pension plans. They face similar college tuition and elder care cost pressures. Their focus is on today's cost of living, instead of imagining tomorrow's lifestyle and how to pay for it."

Mr. Carroll urged management to help all employees understand the value of saving for retirement. If savings do not increase, executives will face an "untraditional retirement" that involves working part-time, he warned. And, companies could face higher payroll taxes because of workers retiring later in life and mandatory pensions "to help pay for a growing society of Americans with little saved."

Only 7% of Midwest plan sponsors have designed retirement programs that will replace 70% of plan participants' pre-retirement income, which is the amount the U.S. League of Savings Institutions says is necessary for retirees to live comfortably, according to the survey.

Despite their uncertainties about the adequacy of their retirement savings, the survey respondents believe in the value of their companies' 401(k) savings plans: 75% of the respondents contribute the maximum amount they can to their plans.

These executives also diversify their personal 401(k) savings among low- and high-risk investments better than lower-paid employees, the survey found.

For example, 17% of the executives' investment portfolios is committed to low-risk guaranteed investment funds, while 42% of their lower-paid employees' investment portfolios is committed to guaranteed investment funds.

For aggressive growth and international equity funds, which are higher-risk investments, executives allocate 16% and 13% of their portfolios, respectively, while lower-paid employees commit 3% and 7% of their portfolios, respectively.

Copies of the survey are available for free from CIGNA Retirement & Investment Services by calling 312-648-2310.

—By Dave Lenckus

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Trauma

Continued from page 2

chance to see that their fears are not unusual, even though those fears may be irrational.

Litton Industries Inc. is one company that has taken considerable advantage of the post-trauma counseling services offered by its mental health services company.

"We have a division in Northern California, so we used it after the Loma Prieta earthquake, and we called them in after Northridge," said Andrea McKee, manager of group insurance for the Beverly Hills, Calif.-based manufacturing concern. "Any kind of disastrous event, we've called."

"It gives the people in the divisions resources and somebody to go to," Ms. McKee said. "Human resources people are not trained in this sort of thing, so they call in somebody who is."

At oil and gas company Kerr-McGee Corp., which is based in Oklahoma City, post-trauma counseling isn't part of the employee assistance plan. But the company did call in an outside firm to provide the services after the April 19 bombing of the Alfred P. Murrah Federal Building that killed more than 150 people.

Kerr-McGee contracted with an Atlanta firm, Crisis Management International Inc., which sent 15 to 20 counselors to Oklahoma City. The counselors spent three days talking to employees about stresses and fears.

In the past, Kerr-McGee has brought in counselors to work with employees at its various field locations following incidents likely to produce prolonged stress.

"Different people react in different ways, but it's something that we can do for everyone. There seem to be different gains for different people," said R. Keith Mills, director of benefits and compensation. "But we think it's very worthwhile."

One problem that companies have in responding to post-traumatic stress is that the individuals most likely to suffer from it often are unaware of the need for help or are unwilling to seek it.

PacifiCare found an example in its own employees following the Oklahoma City blast, when the company contacted its Oklahoma City staff to find out if they were interested in critical incident debriefing, or a discussion of the event with a professional counselor and the feelings or fears that it may have caused.

"They tended to have difficulty accepting it," Dr. Savitz said, though they are now involved in critical incident debriefing.

"This is not a weakness in people, this is people being people," he said. "We have an image as Americans of Gary Cooper, in which we assume people don't react."

Ironically, often those closest to the traumatic event are least likely to recognize the need for help. Frequently an EAP firm has to call the employer to suggest providing the service. "Often (the employers) aren't thinking about it either because they were involved in the incident," Dr. Savitz said.

Case in point: A Los Angeles company that was concerned about its Oklahoma City employees called PacifiCare the day after the bombing, but no calls came from PacifiCare's own offices there.

What's more, even if employers do seek critical incident debriefing for employees, executives and managers often overlook the impact the catastrophic event might

have on them.

"I think we tend to feel that because you're a manager as well as an employee that you aren't subjected to it and your needs aren't as great as your staff's," Dr. Savitz said.

Many EAPs are able to provide critical incident debriefing, sometimes at an additional cost, though often as part of the program's basic cost, Dr. Savitz said. "I would say about a third of them have the resources to do this," he said. "I would say all of the good ones do."

Over the past five years, businesses have become increasingly aware of the value of offering em-

ployees critical incident debriefing, Dr. Savitz said, particularly banks, which are routinely offering it to employees following robberies.

PacifiCare was involved with many Los Angeles-area companies following the Northridge earthquake and is now providing the service to many clients in Oklahoma and elsewhere following the federal building blast, Dr. Savitz said. **BI**

Counseling can help employees cope with fears from traumatic events like the bombing in Oklahoma City.



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Insider Trading

Aetna Life & Casualty Co.: John F. Donahue, director, indirectly disposed of by gift 470 common shares at an unreported price on March 9. He now directly holds 208,467 common shares.

Aetna stock closed at \$59.13 a share on May 19.

American International Group Inc.: Nicholas A. Okulich, vp, indirectly bought 100 common shares at \$103 each on April 12. He now indirectly holds 524 common shares.

Douglas A. Paul, vp, sold 200 common shares at \$106.50 each on April 7. He now directly holds 7,063 common shares.

Frank Petralito, vp, exercised an option for 1,265 common shares at \$22.63 each on March

28. He now directly holds 7,269 common shares.

Stephen Y.N. Tse, vp, exercised an option for 11,250 common shares between \$22.63 and \$29.53 each from April 3 to April 10. He now directly and indirectly holds 249,095 common shares.

AIG stock closed at \$111.63 a share on May 19.

Aon Corp.: Daniel T. Cox, vp, sold 3,000 common shares at \$34.63 each on March 2 and now directly and indirectly holds 84,337 common shares.

Aon stock closed at \$36.25 a share on May 19.

Continental Corp.: Steven J. Smith, vp, sold 4,529 common shares at \$19.38 each on March 7. He now directly and indirectly holds 1,042 common shares.

Continental stock closed at \$19.88 a share on May 19.

Fremont General Corp.: James A. McIntyre, chairman, indirectly sold 4,544 common shares at an unreported price on March 10. He now indirectly holds 1,990,857 common shares.

Dickinson C. Ross, director, bought 1,000 common shares at \$19.63 each on March 28 and now directly holds 3,850 common shares.

Fremont General stock closed at \$25.50 a share on May 19.

Fund American Enterprises Holding: Allan L. Waters, vp, exercised an option for 2,271 common shares at \$24.32 each on March 27 and sold them at an unreported price on March 27. Mr. Waters now directly and indirectly holds 5,900 common shares.

Fund American stock closed at \$69.75 a share on May 18.

Arthur J. Gallagher & Co.:

Walter F. McClure, officer and director, exercised an option for 7,000 shares of common stock at \$19.13 each on April 21 and sold them between \$35 and \$35.25 each on that same day. Mr. McClure now directly holds 17,906 common shares.

Gallagher stock closed at \$35 a share on May 19.

Hartford Steam Boiler Inspection & Insurance Co.: Wilson Wilde, director, sold 11,018 common shares between \$44 and \$44.25 each from April 21 to April 27. He now directly and indirectly holds 28,208 common shares.

Hartford Steam stock closed at \$43.75 a share on May 19.

Humana Inc.: David A. Jones, chairman, disposed of by gift 100 common shares at an unreported price on March 28. He bought 200,000 common shares and dis-

posed of by gift 902,800 common shares between and unreported price and \$19.50 each from April 11 to April 28. Mr. Jones indirectly acquired by gift 1,402,500 and disposed of by gift 500,000 common shares at an unreported price on April 25. He now directly and indirectly holds 8,447,302 common shares.

Humana stock closed at \$20.63 a share on May 19.

Lincoln National Corp.: John P. Barrett, director, bought 1,000 common shares at \$40.50 each on April 27. He now directly holds 3,379 common shares.

Peter K. Dunsire, retired, exercised an option for 3,602 common shares at \$27.75 each on April 11. To cover transaction costs, he turned in 2,437 of the shares for \$41 each on April 11. Mr. Dunsire now directly and indirectly holds 56,500 common shares.

Jack D. Hunter, vp, sold 3,624 common shares at \$40.88 each from April 11 to April 24. He now directly and indirectly holds 53,323 common shares.

Lincoln National stock closed at \$42.88 a share on May 19.

Marsh & McLennan Cos. Inc.: Frank J. Borelli, vp, exercised an option for 6,615 common shares at \$33.19 each on March 29. He indirectly exercised an option for 4,385 common shares at \$33.19 that same day. To cover transaction costs, he turned in 4,385 for \$83.25 each on that same day and now directly and indirectly holds 60,703 common shares.

Douglas C. Davis, vp, exercised an option for 1,000 common shares at \$67.25 each and sold them at \$83 each on March 16. He now directly and indirectly holds 5,339 common shares.

Frank J. Tasco, director, sold 7,000 common shares between \$81.88 and \$82 each on March 23. He now directly and indirectly holds 112,811 common shares.

M&M stock closed at \$77 a share on May 19.

NAC Re Corp.: Martha G. Bannerman, vp, exercised an option for 4,000 common shares at \$15.55 each on March 21. She now directly and indirectly holds 16,757 common shares.

Ronald L. Bornhuetter, chairman, bought 1,000 common shares at \$30.25 each on April 4. He indirectly bought 500 shares at \$30.25 each on that same day and now directly and indirectly holds 119,074 common shares.

NAC Re stock closed at \$30.50 a share on May 19.

Poe & Brown Inc.: Bruce G. Geer, vp, exercised an option for 18,575 common shares at \$7.60 each on March 20. He now directly and indirectly holds 101,559 common shares.

V.C. Jordan, director, exercised an option for 6,052 common shares at \$7.60 each on Feb. 27 and now directly and indirectly holds 133,799 common shares.

William F. Poe, director, indirectly sold 70,000 common shares at \$21.75 each on March 23. He now directly and indirectly holds 1,004,288 common shares.

Poe & Brown stock closed at \$23.50 a share on May 19.

RLI Corp.: James E. Zogby, retired, sold 18,900 common shares between \$23 and \$23.88 each from March 13 to March 30. He sold 20,370 common shares at \$23.50 each on April 4. He now directly holds 6,351 common shares.

RLI stock closed at \$25 a share on May 19.

Continued on next page



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Continued from previous page

Transamerica Corp.: Kent Colwell, vp, exercised an option for 7,308 common shares at \$32.99 each on April 28. To cover transaction costs, Mr. Colwell turned in 5,756 of the shares for \$56.63 each on April 28. He now directly and indirectly holds 19,488 common shares.

James R. Harvey, chairman, indirectly disposed of by gift 1,875 common shares at an unreported price on Jan. 6. Mr. Harvey exercised an option for 31,000 common shares between \$39.75 and \$48.25 each from March 9 to March 10.

To cover transaction costs, he turned in 26,907 of the shares for \$54.38 each and sold 4,093 shares in the open market at \$54.13 each during that same period. Mr. Harvey now directly and indirectly holds 76,922 common shares.

Frank C. Herringer, president, exercised an option for 8,122 common shares at \$32.99 each on March 13. To cover transaction costs, he turned in 6,028 of the shares for \$54.94 each on that same day. Mr. Herringer now directly and indirectly holds 46,641 common shares.

Condoleezza Rice, director, exercised an option for 1,000 common shares at \$41.63 each on March 9. To cover transaction costs, Ms. Rice turned in 765 of the shares for \$54.38 each on March 9. She now directly holds 550 common shares.

Transamerica stock closed at \$57.13 a share on May 18.

Trenwick Group Inc.: Stephen H. Binet, officer of subsidiary, exercised an option for 4,500 shares of common stock at \$9.65 each from Feb. 9 to Feb. 21 and sold 1,163 shares at \$43.50 each during that same period. Mr. Binet now directly holds 17,531 common shares.

Paul Feldsher, officer of subsidiary, exercised an option for 15,000 common shares at \$9.65 each on Feb. 10 and sold 7,500 shares at \$43.25 each on Feb. 10. He now directly holds 18,406 common shares.

Stephen R. Wilcox, director, sold 1,300 common shares at \$43.50 each on Feb. 9. Mr. Wilcox sold 1,000 common shares at \$43.50 each on April 26 and no longer holds shares in the company.

Trenwick Group stock closed at \$43.38 a share on May 19.

UNUM Corp.: William Francis Brennan, vp, disposed of by gift 450 shares of common stock at an unreported price on Dec. 27, 1994. He sold 5,000 common shares between \$44.25 and \$43.63 each from March 15 to March 24. Mr. Brennan now directly holds 16,874 common shares.

Robert W. Crispin, vp, bought 10,000 common shares at \$42 each on May 4. He now directly holds 25,200 common shares.

Ronald E. Goldsberry, director, bought 600 shares of common stock at \$38.50 each on Dec. 8, 1994, and now directly holds 900 common shares.

Cynthia A. Montgomery, director, bought 800 common shares at \$36.63 each on Dec. 1, 1994. She now directly holds 1,000 common shares.

UNUM stock closed at \$40.25 a share on May 19.

USF&G Corp.: Robert J. Hurst, director, indirectly bought 1,000 shares of common stock at \$12.75 each on Dec. 9, 1994, and sold 1,000 shares at \$12.63 each on that same day. He indirectly

bought 4,500 common shares at \$13.88 each from March 20 to March 22 and sold 4,500 shares at \$14 each during that same period. Mr. Hurst now directly and indirectly holds 6,000 common shares.

USF&G stock closed at \$16.13 a share on May 19.

U.S. Healthcare Inc.: Michael Cardillo, officer, sold 9,000 common shares at \$45 each on March 24. He now directly holds 44,000 common shares.

U.S. Healthcare stock closed at \$30.13 a share on May 19.

Insider Trading, compiled by Invest/Net Trading Group Inc. of Fort Lauderdale, Fla., from reports filed with the Securities and Exchange Commission, tracks stock sales and purchases by insurance industry directors and officers. The column is distributed by Tribune Media Services Inc.

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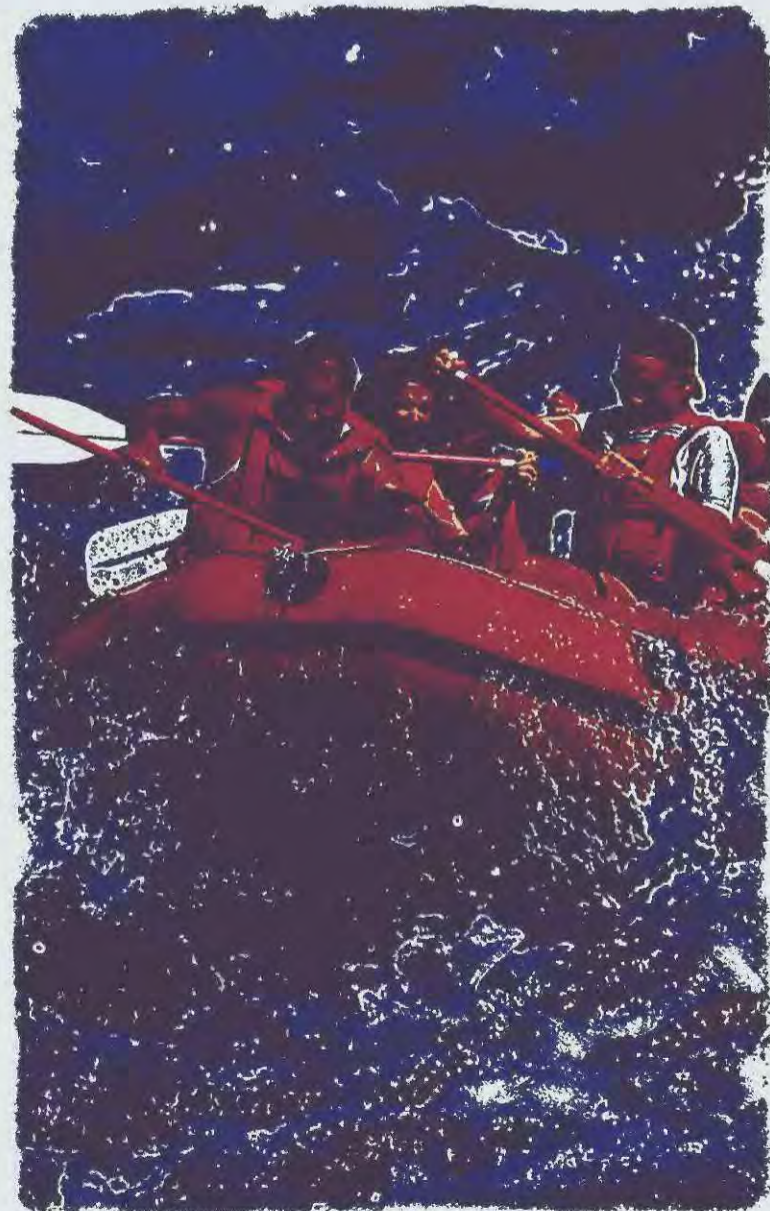
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Datebook

JUNE

JUNE 1-2. Managing Prescription Drug Benefits conference in Chicago, sponsored by Prescription Price Watch and Global Business Research Ltd.; \$995 for benefits managers at non-health care companies, \$1,195 for all others. Conference Administrator, Global Business Research Ltd., 151 W. 19th St., 8th Floor, New York, N.Y. 10011; 212-645-4226.

JUNE 2. Banks and Insurance program in Lansing, Mich., sponsored by Olivet College and the Alpha Alpha Chapter of Gamma Iota Sigma; \$45. Mike Hubbel, Director of the Insurance Program, Olivet College, Olivet, Mich. 49076; 616-749-7626.

JUNE 4. Special PRIMA Preconference Sessions in Seattle, sponsored by the Public Risk Management Assn.; \$125 for PRIMA members, \$175 for non-members. PRIMA Conference, 1815 Fort Myer Drive, Suite 1020, Arlington, Va. 22209; 703-528-7701.

JUNE 4-7. PRIMA's 16th Annual Conference for Public Agencies in Seattle, sponsored by the Public Risk Management Assn.; \$480 for PRIMA members, \$605 for government non-members, \$725 for private non-members. PRIMA Conference, 1815 Fort Myer Drive, Suite 1020, Arlington, Va. 22209; 703-528-7701.

JUNE 4-9. Executive Forum for Strategic Benefits Management in Philadelphia, co-sponsored by the International Society of Certified Employee Benefit Specialists and the Wharton School of the University of Pennsylvania; \$3,925 for ISCEBS members, \$4,350 for non-members. International Society of Certified Employee Benefit Specialists, P.O. Box 209, Brookfield, Wis. 53008-0069; 1-800-645-6702.

JUNE 5-6. Employment Discrimination Litigation course in New York, sponsored by the Practising Law Institute; \$595. Also June 12-13 in Los Angeles. Practising Law Institute, 810 Seventh Ave., New York, N.Y. 10019; 800-260-4754.

JUNE 5-7. Risk Financing: Techniques and Applications in Atlanta, sponsored by the Risk & Insurance Management Society Inc.; \$700 for RIMS members, \$800 for non-members. Also Nov. 13-15 in Albuquerque, N.M. Risk & Insurance Management Society, Education Department, 655 Third Ave., New York, N.Y. 10017; 212-286-9292.

JUNE 5-16. International Reinsurance in London, sponsored by the Chartered Insurance Institute College of Insurance; \$3,022. The CII College of Insurance, London Training Centre, 19-21 Billiter St., London EC3M 2RY, England; 0171-702-9997.

JUNE 6. Get the Lead Out!: An Extensive Review of the Lead Poisoning Crisis course in Baltimore, sponsored by the Excess/Surplus/Specialty Lines Section of the CPCU Society; \$98 for CPCU Section members, \$123 for non-section CPCU members, \$148 for non-members. Brenda Longacre, CPCU Society, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 610-251-2774.

JUNE 6-7. Issues for Integrated Delivery Systems in Nashville, Tenn., sponsored by Willis Corroon Health Care Concepts; no charge. Attn: Leslei Moncrief, Willis Corroon, Conference Center, 26 Century Blvd., Nashville, Tenn. 37214; 615-872-3291.

JUNE 7. New Directions in Healthcare: Navigating the Evolving Healthcare Marketplace spring conference and trade show in Boston, sponsored by the New England Employee Benefits Council; \$150 for NEEBC members, \$225 for non-members. New England Employee Benefits Council, 62 Walnut St., Wellesley, Mass. 02181; 617-239-1767.

JUNE 7. Insurance Coverage for Employment Related Liability Claims seminar in San Francisco, sponsored by the Practising Law Institute; \$495. Christine Garcia, Practising Law Institute, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

JUNE 7-8. Reinsurance: Poised for

Change seminar in Philadelphia, sponsored by the Reinsurance Section of the CPCU Society; \$298 for CPCU Society Section members, \$323 for Society non-Section members, \$348 for non-members. Brenda Longacre, CPCU Society, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 610-251-2774.

JUNE 8. Environmental Insurance Coverage Claims and Litigation 1995 seminar in San Francisco, sponsored by the Practising Law Institute; \$495. Christine Garcia, Practising Law Institute, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

JUNE 8. Certificates of Insurance & Binders course in Bethesda, Md., sponsored by the Metropolitan Washington Assn. of Independent Insurance Agents and the District of Columbia Chapter of the CPCU Society; \$85 for CPCU Society members and MWAAA members, \$95 for non-members. Brenda Longacre, CPCU Society, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 610-251-2774.

JUNE 8-9. MSIA 1995 Spring Conference in Traverse City, Mich., sponsored by the Michigan Self-Insurers' Assn.; \$165 for MSIA members; \$215 for non-members. Michigan Self-Insurers' Assn., c/o Shella Mahan, City of Grand Rapids Risk Management Office, 300 Monroe N.W., Grand Rapids, Mich. 49503.

JUNE 8-10. The Behavioral Healthcare Outcomes, Guidelines & Report Card Summit in Minneapolis, sponsored by the Institute for Behavioral Healthcare and CentraLink; \$895. CentraLink-Q, 4370 Alpine Road, Suite 108, Portola Valley, Calif. 94028; 415-851-8411.

JUNE 9. Solving the Additional Insured Issues workshop in Wyomissing, Pa., sponsored by the Reading Chapter of the CPCU Society; \$80 for CPCU Society members, \$90 for non-members. Brenda Longacre, CPCU Society, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 610-251-2774.

JUNE 12-13. Employment Discrimination Litigation seminar in Los Angeles, sponsored by the Practising Law Institute; \$595. Christine Garcia, Practising Law Institute, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

JUNE 15. Second Annual Conference on Natural Disaster Loss Reduction in Atlanta, sponsored by the Insurance Institute for Property Loss Reduction; \$100 for Institute members and associate members, \$110 for academic institutions and government agencies, \$150 for all others. Insurance Institute for Property Loss Reduction, Attn: Congress Registration, 73 Tremont St., Suite 510, Boston, Mass. 02108-3910; 617-722-0200.

JUNE 15-16. Hands-On Medical Claims Workshop in Chicago, sponsored by Schwabacher Health Insurance Consulting Inc.; \$495. Schwabacher Health Insurance Consulting Inc., 695 Vernon Lane, Buffalo Grove, Ill. 60089; 708-808-9210.

JUNE 15-16. 25th Watson Wyatt Symposium on Directors & Officers Liability in Chicago, sponsored by Watson Wyatt Worldwide; \$795. Mary Maze, The Wyatt Co., 303 W. Madison, Suite 2400, Chicago, Ill. 60606; 312-704-2483.

JUNE 16. ARIAS U.S. Insurance & Reinsurance Arbitration workshop in Chicago, sponsored by the AIDA Reinsurance & Arbitration Society, c/o Chase Communications, P.O. Box 9001, Mount Vernon, N.Y. 10552; 800-951-2020.

JUNE 18-21. Forty-fifth Annual Group Health Institute conference in San Diego, sponsored by the Group Health Assn. of America; \$1,050 for GHAA members, \$1,175 for non-members. GHAA, 1129 20th St. N.W., Suite 600, Washington, D.C. 20036; 202-778-3225.

JUNE 19-21. Investments Institute in Williamsburg, Va., sponsored by the International Foundation of Employee Benefit Plans; \$685 for IFEBP members, \$775 for non-members. Registrations Department, International Foundation of Employee Benefit
Continued on next page

Continued from previous page

Plans, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-8710, ext. 257.

JUNE 19-23. Fundamentals of Industrial Hygiene course in Williamsburg, Va., sponsored by the American Industrial Hygiene Assn.; \$995 for AIHA members, \$1,095 for non-members. Hollee Stubblebine, Continuing Education Department, 2700 Prosperity Ave., Suite 250, Fairfax, Va. 22031; 703-849-8888.

JUNE 19-23. Injury Management Training Program workers compensation program in Glastonbury, Conn., sponsored by Aon Management Institute; \$3,900. Also **July 31-Aug. 4.** Aon Management Institute, 628 Hebron Ave., Corporate Center II, Glastonbury, Conn. 06033; 203-659-6780.

JUNE 19-23. Planning for Nuclear Emergencies seminar in Boston, sponsored by the Harvard School for Public Health; \$1,145. Harvard School of Public Health, Office of Continuing Education, 677 Huntington Ave., LL-23, Dept. B, Boston, Mass. 02115-6023; 617-432-1171.

JUNE 20. D&O, Fiduciary Liability, and Employment Practices Liability workshop in Clarks Summit, Pa., sponsored by the Northeastern Pennsylvania Chapter of the CPCU Society; \$85 for CPCU Society members, \$95 for non-members. Brenda Longacre, CPCU Society, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 610-251-2774.

JUNE 20-21. Disaster Planning & Preparedness seminar in Calgary, Alberta, Canada, sponsored by Factory Mutual Engineering & Research; \$495. Seminar open to policyholders of Allendale Insurance, Arkwright and Protection Mutual Insurance only. Also **June 22-23** in Seattle; **July 27-28** in Halifax, Nova Scotia, Canada; **Aug. 29-30** in Norwood, Mass.; **Sept. 21-22** in Greenwich, Conn. FME&R's Insured Education, 1151 Boston-Providence Turnpike, P.O. Box 9102, Norwood, Mass. 02062; 617-255-4606.

JUNE 21. Sexual Harassment Litigation course in New York, sponsored by the Practising Law Institute; \$495. Practising Law Institute, 810 Seventh Ave., New York, N.Y. 10019; 800-260-4754.

JUNE 21. Best Practices in Tomorrow's Group Health Market breakfast meeting in Wheeling, Ill., sponsored by the Chicago and Northeastern Illinois Assn. of Health Underwriters; no charge for members, \$15 for non-members. Karen May or Richard Sackley, 708-564-9922.

JUNE 21-24. Ergonomic Concepts and Applied Problem-Solving Methods workshop in Orlando, Fla., sponsored by Managed Health Resource Inc.; \$745. Also **July 16-19** in Las Vegas. Managed Health Resource Inc., 3417 Timberline, Eugene, Ore. 97405-1274; 503-484-5853.

JUNE 22. Solving the Additional Insured Issues workshop in Cromwell, Conn., sponsored by the Connecticut Chapter of the CPCU Society; \$85 for CPCU Society members, \$95 for non-members. Brenda Longacre, CPCU Society, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 610-251-2774.

JUNE 22-23. The Sixth Annual Pensions & Investments Management Conference in Washington, sponsored by the International Business Forum and Pensions & Investments; \$595 for pension plan sponsors, \$1,495 for others. International Business Forum, 7 Penn Plaza, Suite 901, New York, N.Y. 10001; 212-279-2575.

JUNE 22-23. Insurance Coverage and Practice seminar in San Francisco, sponsored by the Defense Research Institute Inc.; \$445 for DRI members, \$495 for non-members. Defense Research Institute Inc., Insurance Coverage and Practice Seminar, 750 N. Lake Shore Drive, Suite 500, Chicago, Ill. 60611; 312-944-0575.

JUNE 23. Ethics & the Insurance Professional workshop in Nashville, Tenn., sponsored by the Claims Section of the CPCU Society; \$57 for CPCU Society members, \$67 for non-members. For more information, contact Brenda Longacre, CPCU Society, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355; 610-251-2774.

JUNE 25-28. Benefit Plan Professionals Institute in Stateline, Nev., sponsored by the International Foundation of Employee Benefit Plans; \$685 for IFEBP members, \$775 for non-members. International Foundation of Employee Benefit Plans, Registrations Department, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710 ext. 257.

JUNE 25-28. Creating a World of Difference annual conference and exposition in Orlando, Fla., sponsored by the Society for Human Resource Management; \$650 for SHRM members, \$850 for non-members. SHRM 95, P.O. Box 79482, Baltimore, Md. 21279-0482; 800-283-7476.

JUNE 26-27. Annual Benefits Symposium 1995 in New York, sponsored by the International Business Forum; \$695 for plan sponsors and employee benefit or risk managers, \$1,095 for others. International Business Forum, 7 Penn Plaza, Suite 901, New York, N.Y. 10001; 212-279-2575.

JUNE 26-27. Minimizing & Managing Credit Risk for OTC Derivatives con-

ference in New York, sponsored by the Institute for International Research; \$1,295. For more information, contact Conference Coordinator, Institute for International Research, 708 Third Ave., 4th Floor, New York, N.Y. 10017-4103; 800-345-8016.

JUNE 26-27. Developing Outcomes Measures and Return-to-Work Guidelines in New Orleans, sponsored by International Business Communications; \$1,195. For more information, contact IBC USA Conferences Inc., 225 Turnpike Road, Southborough, Mass. 01772-1749; 508-481-6400.

JUNE 26-28. Analysis and Implementation of Ergonomic Solutions in Simulated Work Situations workshop in Orlando, Fla., sponsored by Managed Health Resource Inc.; \$465. Also **July 20-22** in Las Vegas. Managed Health Resource Inc., 3417 Timberline, Eugene, Ore. 97405-1274; 503-484-5853.

JULY

JULY 10-11. Compensation & Financial Incentives for Providers in Managed Care conference in Boston, spon-

sored by the Institute for International Research; \$1,295. Conference Coordinator, Institute for International Research, 708 Third Ave., 4th Floor, New York, N.Y. 10017-4103; 800-345-8016.

JULY 10-11. 12th Annual Illinois Conference Personnel Law Update 1995 conference in Chicago, sponsored by Council on Education in Management; \$495. Council on Education in Management, 325 Lennon Lane, Walnut Creek, Calif. 94598-2418; 510-934-8333.

JULY 10-11. Risk Management in Managed Care conference in Las Vegas, sponsored by the American Society for Healthcare Risk Management of the American Hospital Assn.; \$365 for ASHRM and host chapter members, \$365 for AHA institutional members, \$485 for all others. American Hospital Assn., P.O. Box 92247, Chicago, Ill. 60675-2247; 312-622-5648.

JULY 11-12. Achieving Better Medication Compliance: Everyone Benefits seminar in Kansas City, Mo, spon-

sored by the Ellis Management Marketing Group's Managed Care Training Institute; \$895. Also **Nov. 7-8** in Kansas City. Ellis Management Marketing Group, 4520 Madison, Suite 303, Kansas City, Mo. 64111; 1-800-835-7860 or 816-931-6469.

JULY 12-13. Business Interruption Insurance course in Sevenoaks, England, sponsored by the Chartered Insurance Institute College of Insurance; \$644. The Course Advisor, The CII College of Insurance, Churchill Court, 90 Kippington Road, Sevenoaks, Kent, TN13 2LL, England; 01732-450888.

The Datebook is compiled from notices sent to Business Insurance. Notices should be sent at least eight weeks in advance to Datebook, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590. Please include the cost, if any, to attend the meeting and information on registration for interested readers. Business Insurance reserves the right to select meetings of most interest to its readers and cannot guarantee that notices will be printed.

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Catastrophe data helping insurers

By JOANNE WOJCIK

SACRAMENTO—Data from the recent spate of natural disasters will help develop more precise predictions of insurers' property exposures in future disasters, a catastrophe modeling expert says.



"We learned a lot, not only from Northridge, but from Kobe as well," said Earl Aurelius, vp of EQE International Inc., a catastrophe modeling firm based in Irvine, Calif. He is also director of marketing for EQECAT, a joint venture of EQE and reinsurance intermediary Guy Carpenter & Co. Inc. of New York.

EQECAT prescribes a three-phase catastrophe management program for its insurer clients, Mr. Aurelius said at the recent annual meeting of the Sacramento chapter of the Society of CPCU.

"The first step is to get a better 'feeling' for what the exposure really is by taking a look at the information that's available and trying to make sense out of it," he said.

Unfortunately, "this is the Achilles

heel of the industry at the moment," he said, because "the data just isn't there or it's buried somewhere."

The second step in the catastrophe management program is to test various "what if" scenarios of probable maximum loss, or PML, using the best estimate available of an insurer's exposures, he added.

The final step is to implement an underwriting policy that limits the company's exposure to catastrophic losses.

To measure an insurer's exposure to earthquake losses, "you have to be able to identify where the faults are," Mr. Aurelius explained.

Underwriters also need information such as construction specifications and soil type to assess possible damages to property, he said.

Another piece of necessary information is the amount of ground motion likely to occur at a given site to determine "how strong a shock wave will be by the time it reaches that property" being underwritten, he said.

"The really critical thing is, once we know what the shock wave is, the soil is, how strong it's going to be, etc., how is the building going to respond?"

"This is why EQE spends so much time after earthquakes trying to find out what works and what doesn't work," he said, "so we'll be able to make the best estimate of what the damage might be."

Because the fault on which the January 1994 Northridge earthquake occurred was undiscovered until it gave way, the early estimates by EQE and other catastrophe modeling firms were low, Mr. Aurelius acknowledged.

"There are a lot of lessons that came out of Northridge which have had a major impact on modeling because there's lots of criticism of us and everybody else as to why the numbers were off and what could be done to make them better," he said.

"Also, some regulatory agencies in California, Florida and elsewhere are now calling into question models generally," Mr. Aurelius said.

Regulators are especially critical of insurers' overreliance on computer modeling to predict catastrophe exposures, he explained.

Regardless of the use of computer modeling, "there's lots of uncertainty in disasters," he said.

For example, in the Northridge quake the ground motion was

greater than any ever recorded, Mr. Aurelius pointed out.

Earthquake and engineering experts also were unaware that thrust faults, which triggers vertical ground movement, existed.

Also surprising was the extent of damage to steel moment-frame buildings. Steel moment-frames consist of cross-beams and vertical columns joined together by a combination of welding and bolting and designed with elasticity to absorb movement.

"This was a total surprise to the structural engineering community," he said. "They thought this was the one safe structure. Now that's been shattered."

As a result, a three-year research program is being conducted to determine ways to reinforce these structures and develop new and better construction techniques, according to Mr. Aurelius. The research program is being conducted by a joint venture among the structural Engineers Assn. of California; the Applied Technology Council, a non-profit engineering research organization; and CUREe, a consortium of major California universities.

"In the meantime, we have different PML estimates for these types of structures since all of the ones that are built in California are suspect," he said.

Ongoing study of property damage from the Northridge quake also has revealed the instability of tilt-up, or precast, concrete structures as well as homes with tile roofs, he added.

"The many tile roofs that people put on for fire protection in Southern California made them more (earthquake damage) prone," he explained.

Drawing from these and other lessons from the Northridge quake, EQE has revised its catastrophe modeling software.

"Hindsight is always wonderful," he said. "But we were able to make changes not only knowing where specifically the earthquake was, where was the epicenter...and it changed our vulnerability functions."

And so far, the new damage predictions are closer to the mark, according to Mr. Aurelius.

"However, in order to do the job in the future and to do something that's going to stand up to regulator scrutiny, as well as do the best job for clients, we've established working groups to look at what's possible, what the next generation software will look like." EJ

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Intellectual

Continued from page 2

and involve many things that people wouldn't think are capable of protection," he said.

For example, athletic shoe company L.A. Gear Inc. of Santa Monica, Calif., could sue to protect its claim to the trademark "LA" even though the combination of letters "LA" can stand for many other things, such as the city of Los Angeles, Mr. Velladao explained.

Intellectual property law is an offshoot of patent and trademark law. Because intellectual property claims are so expensive to defend, policyholders have been very aggressive in seeking coverage from their insurers, he said.

Coverage for intellectual property claims is usually found in the standard Insurance Services Office Inc. commercial general liability form.

While insurers attempted to limit this coverage in the mid-1980s by adding the advertising injury exclusion to the CGL policy, "in some ways the 1985-86 ISO form is broader and in some ways it's narrower than the 1973 form," Mr. Velladao said.

"The courts are struggling with these coverages," he explained, "with respect to certain types of intellectual property claims."

"On the other hand, those same courts are finding with respect to other types of intellectual property claims that the coverage is narrower."

Because "the courts are struggling with these terms," they "have resorted to breaking down each little term in the offense and defining them separately," Mr. Velladao said.

And since most of the major decisions involving intellectual property insurance have only been issued since the beginning of this decade, "the battle for the '90s in intellectual property (coverage) is just getting started," he said.

"The courts are just now giving decisions that give some guidance to all of us as to what is covered and what is not covered," he said.

A policyholder may seek intellectual property coverage if the claim alleges one or more of five offenses defined under the personal injury portion of the CGL policy:

- Malicious prosecution.
- False arrest.

- Invasion of privacy.
- Oral or written publication of material that slanders an individual, an organization, or its products, goods or services.

- Oral or written publication of material that violates an individual's right to privacy.

In addition, the offense must have taken place during the policy period and arising out of the policyholder's business activities, he explained.

However, there is no coverage under the personal injury portion of the CGL policy if the claim involves advertising, broadcasting, publishing or telecasting, he said.

The most common intellectual property allegation is libel and slander, said Mr. Velladao.

While personal injury coverage may be available, the most heavily publicized lawsuits seeking coverage of intellectual property disputes have arisen over the advertising injury portion of the CGL policy "because that is the portion of the policy that provides the broadest coverage," he said.

Though the claims analysis is similar to that applied for determining coverage under the personal injury definition, "you have to determine whether this alleged harm claimed by the competitor arose in connection with the advertising activity of the policyholder," Mr. Velladao said, pointing out that "this is probably the toughest part."

Advertising injury coverage applies to four specific offenses:

- Oral or written publication of material that libels or slanders a person or organization or its goods, products or services.

- Oral or written publication of material that violates an individual's right to privacy. Case in point: Mr. Montana's suit allegations against the San Jose newspaper. "An individual has the right to control the use of his or her photos, likeness or voice," Mr. Velladao explained.

- Misappropriation of advertising ideas or style of doing business. This offense applies to the use of similar product packaging or perhaps even copying the interior design of a restaurant.

- Infringement of copyright, title or slogan.

In addition, there must be a causal link between the libel or slander and the policyholder's advertising activity, Mr. Velladao explained. EJ

New financial tools seen as next source of industry capital

By ROBERTO CENICEROS

VANCOUVER, British Columbia—Innovative financial instruments will help ease the capacity crunch plaguing the catastrophe insurance market in the United States.

New capital could come in the form of "Act of God" bonds and catastrophe futures, says Neil A. Doherty, a professor in the risk management and insurance department at the University of Pennsylvania's Wharton School.

Investors already are shedding their skepticism of those funding methods, Mr. Doherty said during a workshop during the Alliance of American Insurers' annual meeting last week.

"Capital markets are going to come into this market," Mr. Doherty said. "There is going to

new capital in combination with new risk financing products, Mr. Shah told his audience. Insurance regulators are open to new ideas because they are pressed for ways to solve the capacity crunch, he added.

"They are looking for new products and new ideas because we are in trouble," he said.

"In California today we really are at a crossroads. We really are looking for new ideas and new ways to take care of the earthquake problem. So if you as an industry come up with new products, we feel today the time is right." **BI**

Catastrophe risk and finance are at a crossroads, says Haresh Shah of Risk Management Services.

be a lot of competition. We are going to see new products. The explosion of interest in these generic types of products... is going to be applied (to catastrophe insurance) over the next decade. I'm sure of it. It is going to make capacity available."

Catastrophe options and futures contracts are already traded on the Chicago Board of Trade.

So-called Act of God bonds are debt instruments issued by insurers that, in the event of catastrophic losses allow the issuer to forego all or part of the debt repayment, depending on its losses, Mr. Doherty explained.

Catastrophe risk and finance are at a crossroads, said another panelist, Haresh Shah, director of Risk Management Services in Menlo Park, Calif., and chairman of the Stanford University civil engineering department. RMS is a catastrophe modeling company that licenses modeling software and advises several insurance companies about their risk concentrations.

The gap between insurance capacity and catastrophic exposure continues to widen, Mr. Shah said. While insurer surplus has grown by 90% since 1985, catastrophic exposure has grown by more than 250%, he said.

Much of that increased exposure is related to the continued population shift to coastal states, which are catastrophe-prone.

"What is dangerous is not just that the exposure is going that way and the surplus is going another way, but the quality of exposure every day is going south," Mr. Shah said. "We're running out of good places to build, so anything you are adding to your portfolio is not as good as it was yesterday. The size of the exposure is increasing."

Banking and financial institutions have begun seeking more advice about financing catastrophe risks, Mr. Shah said. He noted they are motivated by an interest in the type of financial tools described by Mr. Doherty.

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Largest U.S. reinsurers' first-quarter 1995 results

Ranked by net reinsurance premiums written. All amounts in thousands of dollars.

Reinsurers	Net reinsurance premiums written 1995	Net reinsurance premiums written 1994	Policyholders surplus (reinsurers only)	Net income 1995	Losses & loss adjustment expenses	Loss ratio	Underwriting expenses	Expense ratio	Combined ratio 1995	Combined ratio 1994
1. General Re	685,718	597,868	3,963,434	163,275	456,706	68.5	213,185	31.1	99.6	113.9
2. Employers Re	529,808	479,962	2,681,178	79,840	396,330	77.6	124,947	23.6	101.2	103.6
3. Berkshire Hathaway	483,589	442,723	N/A	N/A	153,000	88.4	31,573	18.2	106.6	160.8
4. American Re	431,266	354,178	1,124,423	57,333	269,391	69.4	126,532	29.3	98.7	109.1
5. Transatlantic/Putnam	226,285	173,504	631,336	27,575	176,638	78.4	56,642	25.0	103.4	113.5
6. North American/Swiss Re	209,310	197,889	603,144	(5,517)	152,452	72.9	82,992	39.7	112.5	112.5
7. Prudential Re	179,503	159,344	617,059	15,116	136,656	77.6	60,318	33.6	111.2	148.3
8. Munich Re	173,117	163,127	749,611	20,137	119,836	71.2	55,151	31.9	103.1	119.5
9. The St. Paul Cos.	156,128	81,186	N/A	N/A	113,323	75.4	45,458	29.1	104.5	134.3
10. Hartford Re Mgmt. Co.	134,205	149,407	N/A	N/A	98,564	83.6	32,186	24.0	107.5	111.9
11. F&G Re	127,419	82,847	N/A	N/A	73,153	76.4	27,960	21.9	98.3	81.0
12. TIG Re Co.	124,220	104,104	382,635	11,043	89,236	75.0	36,595	29.5	104.4	104.0
13. Zurich Re Centre	115,623	57,644	600,810	(11,026)	67,673	75.9	36,135	31.3	107.2	138.1
14. Constitution Re	112,422	128,534	315,597	12,005	76,698	68.7	34,050	30.3	99.0	107.6
15. Kemper Re	104,043	88,730	427,052	3,025	68,975	79.4	26,817	25.8	105.2	111.8
16. NAC Re	99,049	88,146	420,565	11,887	65,330	67.3	37,421	37.8	105.1	107.1
17. National Re	87,572	86,655	368,150	10,347	56,963	73.8	21,692	24.8	98.6	98.4
18. SCOR U.S. Group	73,740	74,473	244,458	2,971	47,409	67.1	27,160	36.8	103.9	144.1
19. Underwriters Re	68,808	54,056	392,861	2,590	51,018	77.8	18,266	26.5	104.4	111.1
20. Signet Star Re	51,348	50,086	222,994	1,646	36,379	75.8	14,227	27.7	103.5	127.6
Totals for Top 20	4,173,173	3,614,463	13,745,307	402,247	2,705,730	74.2	1,109,307	26.6	100.8	119.2
Total for all companies	4,491,579	3,998,948	18,266,564	491,447	3,063,134	73.1	1,319,618	29.4	102.5	113.6

Source: Reinsurance Assn. of America and Business Insurance

Reinsurer

Continued from page 2
 chief officer with NAC Re Corp. in Greenwich, Conn.

"At this point, we see no evidence from the Jan. 1 renewals of any change in the cycle. We are still in a competitive market," he said.

"I don't know what to say about the market. It's more of the same," said Stephen Tirney, executive vp with PMA Reinsurance Co. in Philadelphia.

Net written premium volume for the 57 reinsurers and reinsurance departments of primary

companies surveyed by RAA rose 12.3% to \$4.5 billion in the first quarter of this year from \$4 billion in the same period in 1994.

The 50 professional reinsurers in this group saw volume rise 10.8% to \$4 billion from \$3.7 billion last year, while the seven reinsurance departments registered a 28.1% jump in volume to \$447 million in this year's first quarter from \$349 million last year.

The 20 largest did better than the industry overall, reporting net premiums of \$4.2 billion, up 15.5% from \$3.6 billion in the first quarter of 1994. The top 20 includes the reinsurance division of Berkshire Hathaway Inc., which is

not included in the RAA totals.

"Revenue growth for reinsurers continues to outpace the growth of primary insurers," Mr. Malvasio noted.

This stems from a greater demand for property reinsurance in the wake of huge catastrophe losses in recent years and from a movement of casualty business to domestic reinsurers and away from Lloyd's of London, he said.

Mr. Ransom also noted that smaller specialty and regional insurers are gaining market share and that these companies rely more heavily on reinsurance than larger insurers do.

"The market share at the pri-

mary level is shifting to companies that buy more reinsurance," he said.

Meanwhile, observers continue to see business moving to the largest and most financially secure reinsurers.

Premium volume "really grew dramatically" for the 15 largest reinsurers based on policyholder surplus, said Mr. Malvasio.

"When you get beyond that (top tier of companies), you see really nominal or no growth," he said.

companies if they're taking over the business anyway.

"No one's going to pay a lot for business they can steal otherwise," he said.

As volume for U.S. reinsurers expanded in the first quarter, underwriting results improved.

The combined ratio for the companies surveyed by the RAA fell to 102.5% this year from 113.6% posted in the first quarter of 1994 by a similar group of reinsurers.

The top 20 companies did

A combined ratio of '102.5% in a soft market is an outstanding result,' which could indicate 'optimistic' casualty reserving practices, says Stephen Tirney.

In some cases, the consolidation of the business is happening through mergers and acquisitions: Earlier this year, for example, New York-based Zurich Reinsurance Centre Holdings Inc. completed a \$206 million acquisition of Re Capital Corp. of Stamford, Conn., while Baltimore-based USF&G Corp. agreed to take over Discover Re Managers Inc. of Farmington, Conn. (BI, Jan. 16)

CIGNA Corp. last year announced the sale of most of its international reinsurance business to St. Paul Insurance Cos. and Employers Reinsurance Corp. and the discontinuation of its domestic property/casualty reinsurance underwriting (BI, Nov. 7, 1994).

On the international side, Employers Reinsurance Corp. of Overland Park, Kan., recently reached agreements to take over Aachener Ruckversicherungs A.G. and Frankona Ruckversicherung A.G. of Germany (BI, Feb. 13), while Stamford-based General Re Corp. last year acquired control of Cologne Reinsurance Co. (BI, Oct. 31, 1994).

In another form of consolidation, though, business is simply moving from smaller reinsurers to larger ones.

"Consolidation is happening even if you don't have mergers and acquisitions," said Mr. Ransom, adding that it probably doesn't make sense for many large reinsurers to take over smaller

slightly better, with a 100.8% first-quarter combined ratio.

Net income for the 50 professional reinsurers, meanwhile, jumped 167.8% to \$491.4 million this year from \$183.5 million for a similar group in the first three months of last year.

While the absence of cat losses explains much of the improvement, there could be other reasons for the results, including lower levels of reserving by reinsurers writing casualty business.

A combined ratio for the industry of "102.5% in a soft market is an outstanding result," noted PMA Re's Mr. Tirney, who said it could indicate "optimistic" casualty reserving practices.

Despite the improved results, other analysts questioned the industry's longer-term prospects. The stock market reacts in large part to revenue growth, observed William Yankus, vp with Fox-Pitt Kelton in New York.

However, there are no signs that growth will be accomplished through rising rates. At the same time, the industry is moving toward the end of its consolidation phase and the larger reinsurers won't be able to rely on this much longer for revenue expansion, Mr. Yankus said.

"We are heading into a stage that raises the question, 'What's going to happen next with the reinsurance group'" to make it attractive to investors, he said. **BI**

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Pollution claims predicted to grow

By KATE TILLEY

MELBOURNE, Australia—The worst is yet to come for international insurers and reinsurers paying environmental liability claims, a risk management consultant predicts.

And, Australia will soon face an onslaught of environmental claims, he warned.

Exposures continue to increase as technology identifies a greater array of hazards, Nick Chipman, managing director of risk consulting at London-based broker Sedgwick Group P.L.C., said at the annual conference of the Australian Insurance Law Assn. in Melbourne last month.

Electromagnetic fields, for example, pose new exposures as well as a real question for lawyers: Are they pollution, product or general liability? Mr. Chipman asked.

Insurers' liabilities in many cases have gone beyond coverage provided in environmental and some general liability policies, extending to corporate and directors' responsibilities, workers compensation and consequential loss through market share. Executives in particular are "in the firing line," he said.

Exxon Corp. and its executives, for instance, survived the devastating 1989 Valdez oil spill in Alaska only because of the sheer size of the company, Mr. Chipman said.

Australia has yet to face the environmental litigation explosion that the United States is experiencing.

He noted that since the U.S. insurance industry added an absolute pollution exclusion in general liability policies, there has been a surge of environmental liability impairment policies. About 24 EIL policies, ranging from coverage of on-site cleanup to lead paint and contractors liability, are now available.

"The market is booming, and very competitive, because someone finally understands what pollution risk is and how it can be underwritten," Mr. Chipman said.

U.S. insurers have awakened to the potential in general liability policies, hence the absolute exclusion for pollution. Until then, U.S. insurers excluded coverage only for pollution that was not "sudden and accidental."

Insurers in other countries still do not exclude pollution coverage absolutely.

Mr. Chipman said the Assn. of British Insurers argues that its wording in general liability policies is "tight and rigorous, but I suggest it's not as tight as they think it is."

Coverage litigation on general liability policies continues
See **Pollution** on next page

Re-engineering German market

By DON LEWIS KIRK

A major shift in Germany's commercial insurance market usually means captive brokers are at work exploring alternatives to the status quo.

Captive brokers are used in several countries, but nowhere are they as prominent as in Germany, where their numbers grew in the late 1960s as a means of saving the added expense of brokerage commissions during a hard market.

While they continue to serve as in-house brokers, many have expanded to also provide risk management services within their organizations and, increasingly, to third parties.

"In Germany, the role of the

Captive brokers leading the way in insurance alternatives

captive broker and risk manager are merged. Large companies command a force of insurance experts," said Hauptrecht Freiherr Schenk zu Schweinsberg, risk

Captive brokers are widely used because companies feel they have more knowledge of their risks.

manager of Krupp Group A.G. in Essen and director of Westdeutsches Azzekuranz Kontor GmbH,

Krupp's captive brokerage subsidiary.

Captive brokers are still widely used because companies feel they have more knowledge of the company's risks than an outside broker and because they have proved to be market innovators.

About 200 companies, across a wide range of industries, have captive brokers in Germany today.

Major German companies like Krupp, Siemens A.G., BMW A.G., Daimler-Benz A.G., Bayer A.G. and Mannesmann A.G. place millions of dollars of premiums through their captive brokers each year.

The list of insurance market

changes wrought by captive brokers is long.

Bavaria Wirtschaftsagentur GmbH, a captive brokerage subsidiary of Munich-based BMW, developed one of Germany's first captive insurers in 1989.

"Corporations with large premium volume are compelled to be innovative," said Eberhard Knebel, a director of Bavaria.

Siemens' captive broker subsidiary, Verischerungsvermittlungs und Verkehrskontor GmbH, rocked the commercial insurance market in Germany last year by arranging for a portion of the Munich-based company's property insurance to be written by Ark-

See **Brokers** on page 46

Self-insuring risks seen as best route for giant company

By SARA MARLEY

TUCKERS TOWN, Bermuda—Many companies can handle their risks much more cost-efficiently

IRMG conference
can, according to a petroleum company executive.

"Our risks are left with our shareholders," said Judith C. Hanratty, corporate secretary of The British Petroleum Co. P.L.C. "They are better able to deal with it than any insurance company."

For several years, BP only has purchased coverage required by law in various jurisdictions.

BP found that the insurance industry does not offer what the company needed most: catastrophic coverage for casualty risks.

"Insurers got weary beyond \$750 million," Ms. Hanratty said during International Risk Management Group Ltd.'s 24th annual conference, held in Bermuda last week.

BP, a London-based oil and gas company, is 98% owned by widely held, diversified institutional funds providing the spread of risk the insurance industry aims to create, Ms. Hanratty noted.

"Diversification is much more efficient at the shareholder level than at the insurance level," she said.

"BP has a value of \$45 billion, many times the value of many players in the insurance industry," Ms. Hanratty said.

BP thinks of itself as a reinsurer making decisions on retrocession when it does transfer risk, she said.

For insurers to meet the needs of corporations, they must price economically, offer "real" capacity—not "recycled"—offer a quality product, get their transaction costs down, and simplify the trigger mechanism and claims-payment system.

Business is moving too fast to wait for replacements, making restitution for losses "an inappro-

See **Hanratty** on next page



AP/WIDE WORLD

Fugitive real estate mogul caught

MIAMI—Juergen Schneider, who fled Germany shortly after his real estate empire collapsed a year ago, was tracked down by German and U.S. federal authorities in Miami last week and may be extradited to face criminal fraud charges.

Mr. Schneider's multibillion-dollar property empire collapsed April 15, 1994, when Juergen Schneider A.G. filed for bankruptcy protection from creditors (BI, April 25, 1994).

That bankruptcy filing sparked massive claims on credit insurers from companies that were owed money by the commercial property development company. At the time of the filing, the company owed more than 40 banks more than 5 billion deutsche marks (\$3.47 billion).

And, other creditors—mainly tradespeople and small businesses—faced hundreds of millions of deutsche marks in losses and several were forced into bankruptcy by the Schneider failure.

Soon after the company's collapse, Mr. Schneider disappeared. A 13-month manhunt ended last week when he and his wife, Claudia, were arrested in Miami.

—By Gavin Souter

Buyer needs catastrophic cover: Head

By SARA MARLEY

TUCKERS TOWN, Bermuda—The insurance industry must reallocate its assets over the next 10

IRMG conference
years to offer products that buyers really need, a leading investment

banker says.

"The industry is selling the wrong product," argues John C. Head III, owner and founder of John Head & Partners L.P. in New York. "The buyer doesn't want dollar swapping, the buyer wants true catastrophic coverage."

Many Bermuda facilities now offer catastrophic coverage for property risks, but similar limits are needed on the liability side, he said during a conference last week in Bermuda sponsored by International Risk Management Ltd.

Dow Corning Inc.'s recent bankruptcy filing (BI, May 22)

shows that some policyholders require billions, not millions, in casualty limits.

"They needed true catastrophic liability," Mr. Head said. "They didn't buy the product they really needed."

By 2005, companies will "only buy insurance for events that materially affect their financial stability," he predicted.

To accomplish that, however, "the insurance industry needs a lot more capital," Mr. Head said. "The business is materially undercapitalized, not overcapitalized."

The Bermuda property catastrophe market has about \$5 billion in capital, but that is not sufficient to cover major storms that could total \$30 billion in Florida or \$100 billion in Japan, Mr. Head contended.

Insurers need \$10 billion to \$20 billion of protection to be "world-class," he said.

"It's an interesting concept that

insureds lay off their risk to insurance and reinsurance companies that have less capital than they do," Mr. Head said. "Fortune 500 companies buy insurance from companies one-hundredth of their size. Insurance companies need to have more capital than their clients, and reinsurance companies need to have more capital than insurers."

That will change in 10 years, when "the guy who takes the risk will be bigger, smarter, richer, more global and luckier than the guy he took the risk from," Mr. Head predicted.

That's why the insurance industry needs to hire more risk-takers and fewer administrators.

"The industry has the wrong type of people," Mr. Head said. "The big losers will be senior middle managers at every insurance company. They do not have the skill set and they will have a difficult time over the next five years.

They may not make it to the year 2005."

However, those managers can be retrained, particularly in computer skills, to keep up with the paperless office of the future.

Another way to transform insurance company employees into risk-takers is to require them to risk some of their personal assets.

"Make them personally fiscally responsible," Mr. Head said. "Have them put their bonus or stock options on the table and see what it's like to make it or break it."

The salary of the chief executive officer should be tied to an industry-specific measure, such as number of policies written, he suggested.

Mr. Head also sees more outsourcing ahead as insurance industry workers become more specialized.

"No company will have the
See **Head** on page 46

INTERNATIONAL

Pollution

Continued from previous page
in North America, where courts in different states take different views of exactly what "sudden and accidental" means.

Some courts have held that "sudden" means brief or lasting only a short period of time and thus the policy excludes coverage for all gradual pollution. Others have held that the term "sudden and accidental" was simply a restating of the occurrence definition in the policies and thus they merely exclude coverage for damage what was expected and intended by the policyholder.

Many analysts are concerned about the environmental liability crisis, says Sedgwick's Nick Chipman.

General liability policies also sparked disputes on coverage triggers, cleanup costs and insurers' duty to defend.

Is a letter from a statutory authority sufficient to trigger a policy? Mr. Chipman asked.

In one major ruling last year, the Washington Supreme Court ruled that cleanup obligations that a policyholder assumed voluntarily, after being notified of potential liability by a state agency, were covered by standard CGL policies (BI, May 30, 1994).

Another tenuous area of coverage litigation, said Mr. Chipman, is suits over the standard form policy exclusions for damage to property "owned or occupied" by policyholders or under their "care, custody or control."

He said Superfund liabilities, as currently calculated, represent less than 1% of contaminated sites in the United States. In 1994, A.M. Best Co. estimated that the U.S. property/casualty industry would need to add at least \$132 billion to reserves over the next 25 years to meet environmental and asbestos liabilities (BI, April 4, 1994).

"A lot of the bill will lie with the insurance sector, because it has the perceived capacity to pay and there are contracts which insurers may be obligated to fulfill," he said.

While it is difficult to project the future cost, if the total Superfund bill is due next year, "we have no insurance industry," said Mr. Chipman. "I hope it will be spread out over time."

In the United Kingdom, which does not have U.S.-style independent state court systems, insurers' pollution liabilities are more predictable than they are in the United States. But even in the United Kingdom, potential political changes and a new rule requiring House of Lords judges to retire at age 70, could mean the situation will change, Mr. Chipman said.

He said many analysts are concerned about the environmental liability crisis, but some are saying it will not happen in the United Kingdom and multiline insurers are outperforming the market. "But why then did Royal put £300 million-odd into reserves for environmental pollution liabilities if everything is under control?"

Lloyd's will have trouble passing its solvency test this year, and pollution is "right up there" as a key cause, Mr. Chipman said. From an economic standpoint, the bill is too big for insurers, and governments are the ultimate reinsurer, he noted.

He said the "nightmare" is far from over. "That's a fair bit of bad news. But insureds have potential rights of recovery, so that's a lot of work for lawyers." ■

Hanratty

Continued from previous page
appropriate trigger," Ms. Hanratty said.

Instead, insurers should offer companies like BP protection against "asset loss tied to loss of crude oil production or refined products volume. We need to have a clear understanding that the industry can pay claims quickly, almost instantaneously."

For example, if a North Sea platform were damaged, BP would replace it with a floating vessel it put into use in the past four years.

And any company with large manufacturing or production facilities probably would not rebuild them the same way or in the same location, she said.

By not buying insurance, BP avoids exorbitant transaction costs, with at least 35% and sometimes more than 80% of primary insurance premiums going to distribution and internal costs.

"Brokers are costly and that cost has got to be cleared away," Ms. Hanratty said. "To satisfy the needs of major corporations, the financial and insurance market must reduce the transactional costs. It's an absurd waste and unproductive process."

The terms and conditions of insurance need to be "commoditized" in order to bring transaction costs down, Ms. Hanratty said.

Another burden BP could not escape entirely was regulation.

U.S. regulation is "quite horrendous," Ms. Hanratty said. "It's manifestly absurd to go through extra hoops to create fictitious insurance certificates to meet regulatory requirements and to keep people employed moving paper around," referring to fronting arrangements.

"Regulation doesn't work well in a trading environment," Ms. Hanratty said. "The current regulatory

environment is quite inappropriate. We can't sustain an industry that requires that much documentation."

BP favors centralized financing but decentralized loss control.

"Manage risk at the point closest to which an event can be prevented," Ms. Hanratty advised. "Manage the crisis at that point."

However, "We believe it is quite inappropriate to leave decisions about insurance and financial outcome to business units," she said. Those asset managers would have incentive to transfer more risk to boost their own financial results.

BP continually evaluates its pro-

gram to look for problems for which risk transfer might be more appropriate than retention.

'The financial and insurance market must reduce the transactional costs. It's an absurd waste and unproductive process,' says Judith Hanratty.

gram to look for problems for which risk transfer might be more appropriate than retention.

"We do still have a captive and we use it for mandatory coverages above \$10 million," Ms. Hanratty said.

"A business has to pay very particular attention to costs," Ms. Hanratty said. "We don't take the business units risks in the captive because we do not gain by moving money around within the business."

BP's 75-year-old captive has capital over \$1.5 billion, she said.

"I think that's a reasonable amount of capacity if we ever wanted to use it," Ms. Hanratty said.

Just as BP is willing to change, the insurance industry "has got to change," Ms. Hanratty said. "It absolutely must, and it's going to

have to change very fast."

The changes have already begun with a "revolution" in Lloyd's and the use of derivatives.

"Hopefully Equitas will get started and Lloyd's will emerge as a stronger, smaller group of people but with a bigger capacity," Ms. Hanratty said.

She also praised the catastrophe futures market at the Chicago Board of Trade.

"There are interesting new, innovative instruments in the debt markets and a willingness on the part of banks and reinsurers to talk directly to buyers," Ms. Hanratty said.

Banks in insurance "is at a very early stage, but when it takes off it could well blow insurance apart," Ms. Hanratty said. Banks have a better shot at improving efficiencies through their "ability to swap and trade risks for corporations and insurance companies against the whole equity market."

One reason banks are at an advantage is that insurers shy away from "true hedging," she said. "Insurers are reluctant to make full use of the financial instruments available."

The insurance industry needs to ask itself the question: How can a large, diversified company with a sophisticated financial capacity and AA credit rating effectively purchase risk transfer?

"If you can answer, you can have us back in your market," Ms. Hanratty said. ■

Learning to spot signs of violent workers before harm occurs

By SARA MARLEY

TUCKERS TOWN, Bermuda—To prevent workplace violence, employers must learn to spot the signs, both verbal and non-verbal, that tip off which employees may become violent.

"Most people don't just snap overnight," said Bruce Blythe, president and chief executive officer of Crisis Management International Inc. in Atlanta. "It comes out verbally before."

Although the probability of being directly affected by workplace violence is low, "every organization is one bullet away from being in the headlines and being scrutinized through litigation," Mr. Blythe said.

In addition to the claims and care of any employees actually injured on the job, incidents of workplace violence destroy morale and escalate health care costs.

And, employees are more outraged by human-caused disasters, such as shootings or bombings, than by natural disasters, he said. They will hold it against an employer for failing to prevent the violence, leading to claims and possibly lawsuits.

Mr. Blythe showed a videotape

to attendees of International Risk Management Group Ltd.'s annual conference that demonstrated many of the things an employer can do wrong that breed and perhaps escalate workplace violence:

In the opening scene of the video, a worker sees his foreman and a human resource representative talking about him on the floor.

A few minutes after his shift ends, the worker is summoned to the human resources office over the worksite's public address system. Both of those actions remove an employee's dignity and standing among his or her peers, Mr. Blythe said.

In the video, co-workers knew the employee owned guns and kept alcohol in his locker.

The worker made statements that he was going to "kill some paper targets," and, when asked to clean out his locker, he issues the vague threat, "You haven't seen the last of me."

The company official who fires him interrupts the employee and dismisses his claims of stress at home.

The worker seems surprised that he is being fired, and the official does not provide any documentation to explain the action. The official, a woman, stands in

Continued on next page

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INTERNATIONAL

Violence

Continued from previous page
front of him in a threatening manner. In the video, the worker complains that she has "always had it in" for him.

"This person was predisposed toward violence," Mr. Blythe said. "They knew he had a gun and he was angry."

The employer's mistakes continue after the termination. Had the company followed up, it would have discovered that the employee could not find another job and that his wife had left him, escalating his stress.

The company also did not properly monitor its own premises to discover that he was stalking the manager who fired him. Finally, he was allowed back into the building, where he shoots the manager.

"The company provoked him and didn't pay attention to the signs," Mr. Blythe said.

First, employers should implement a zero-tolerance policy toward violence, including threats, fights, weapons, harassment and intimidation. Such a policy should spell out that the consequences of violating the policy are increasingly severe and include termination.

Guns should obviously be banned, but other areas may not be as clear-cut, he said. For example, people sometimes carry pocket knives, Mace or pepper spray.

The company's parking lot should be included in the anti-violence policy.

Penalties for violating the policy should be tied to the severity of the

violation. If a person's first offense is firing a gun into the air, a supervisor shouldn't be tied to giving him a slap on the wrist.

"You should be able to take appropriate action, not just a verbal warning if it's a serious offense," Mr. Blythe said.

He recommends placing such policies under the company's safety guidelines, to encourage employees to act as one another's eyes and ears.

While confidentiality is desirable, it cannot always be guaranteed. For example, if a woman reports that her ex-husband is stalking her, she is probably the only person who would have such information. Her identity may have to be revealed to company officials to ensure her protection.

However, employees should be able to make anonymous reports, preferably after hours. Many employees feel more comfortable reporting a fellow employee from home.

In addition to written policies, employers should train their supervisors and other employees in provocation avoidance, or "putting out a fire before it starts," Mr. Blythe said.

"Usually, workplace violence is an outgrowth of poor conflict resolution skills," he noted.

Also known as aggression management, provocation avoidance has both verbal and physical sides.

Managers can try verbal persuasion on employees who have threatened violence. They can remind the employees what they will lose if they carry out their threats and focus on things that are important to the employee: money, fam-

ily, a job, freedom and respect.

"These people have a sense of integrity and they will keep their word," so employers want to avoid backing them into a corner, Mr. Blythe said.

Vague threats that an employee is going to "get" someone can be taken slightly less seriously than an employee who has a weapon and a specific plan.

Managers can defuse those situations verbally by saying, "We all say things we don't mean when

Employers should implement a zero-tolerance policy toward violence, says Bruce Blythe.

we're upset. I know I do."

That statement directly addresses the low self-esteem and inferiority many violent employees have. This puts the manager on the same level as the employee and normalizes and validates the worker's emotions.

It also puts the manager in a position to make a prediction like, "You'll feel different about it later."

"When they make threats, they open up the opportunity to make a commitment," Mr. Blythe said. "It's OK to ask, 'Are you serious?' If they're going to talk, find out what they have to say," because they may spell out a specific plan for injuring a co-worker or supervisor.

A technique called scanning can be "more accurate than a polygraph," Mr. Blythe said. It involves looking for subtle signs of deception in a person's speech patterns, such as answering questions with questions or changing tense to present from past when discussing a threat of violence.

Physically, supervisors can help prevent violence by not invading the employee's personal space, which normally extends only a few feet around a person. But, when an employee is provoked, that space can expand to six feet.

Mr. Blythe also advises employers to train employees to avoid tunnel vision in violent situations, to enable them to spot exits or to place a desk or other obstacle between the employee and the aggressor.

In training bank tellers and other workers who are likely to experience violence on the job, Mr. Blythe teaches them to keep their hands up and open. It's not only a sign of submission but also puts the employee in a good situation to defend themselves physically if they must.

Preventing workplace violence may mean giving special treatment to employees who have made threats or are considered high-risk for other reasons.

"If it means giving them more severance pay or outside training to help them get another job, it could defuse a situation," Mr. Blythe said.

Documentation "is a tough decision. It could make you look inept, or it could make you look like you handled it well."

Employee files should be very

straightforward, containing the facts with dates that established when certain things became known to the employer; what decisions were made and what action was taken and why, Mr. Blythe said.

It's best to create records on white paper, in blue ink and in handwriting. Under those conditions, the record can be dated and the employer can avoid allegations that they altered records at a later date.

After an employee makes a threat, the employer should conduct background checks into police and military records and personnel files and talk to supervisors, former supervisors, former employers or contact the employee's references again.

Another communication issue is when to tell other employees that threats have been made, including informing the employees who may be intended targets.

"Co-workers can tell you a lot of information, but you have to weigh the risk of inflaming the situation through leaks or rumors," Mr. Blythe said.

Once threats of violence are known, employers must make the decision whether to terminate or rehabilitate.

Either way, the employer should have a well-thought-out plan in place and maintain control of the situation.

For example, Mr. Blythe told of a client that chose to rehabilitate a person in need of psychiatric care. Because the company had a therapist onsite and a bed reserved at an inpatient facility beforehand, confronting the employee went smoothly. ■

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INTERNATIONAL

Brokers

Continued from page 43

wright Mutual Insurance Co., rather than fully underwritten by the German market (BI, Oct. 3, 1994).

Stuttgart-based Daimler-Benz's captive brokerage unit, debis A.G., has opened its doors to providing brokerage and risk management services to third parties. It also launched debis Re, a Luxembourg-domiciled reinsurance captive, early this year (BI, Sept. 19, 1994).

The captive brokers of German chemical manufacturers Bayer, Hoechst and BASF negotiated the formation of a joint reinsurance captive in Luxembourg last year (BI, April 18, 1994).

"Conflict often brings out the best in captive brokers," commented Krupp's Mr. von Schenk.

"The global focus of captive brokers and the ability to provide international coverage and risk management demonstrate a high degree of professionalism," he explained. "It's a quality that is needed when markets become difficult."

Of the roughly 200 captive brokers in Germany, at least 20 major German corporations have cap-

tive brokers that handle premium volume of more than 80 million DM (\$55.2 million).

Industrieschutz Assekuranz-Vermittlung GmbH, a captive broker subsidiary of Dusseldorf-based manufacturer Mannesmann A.G., handles an estimated annual premium volume of 150 million DM (\$103.5 million).

While German captive brokers do work with independent brokerages in other markets, many pride themselves on developing solutions on their own.

"We're saving money and putting profits back into the company," said Hans Schermin, director of Industrieschutz.

"And we have the insider knowledge that makes us more effective than any outside broker," Mr. Schermin said.

While German captive brokers do work with independent brokerages in other markets, many like Mannesmann pride themselves on developing solutions themselves.

"From our standpoint, it's bet-

ter to deal directly with insurers in a foreign country than let ourselves be represented by a local broker, who says we represent this German guy," said Mr. Schermin.

In the case of some larger companies, it is not unusual for their captive brokers to maintain contacts with 50 or more insurance

companies.

When cooperation with outside brokers is needed, it is usually for specialty work.

For example, "Krupp commands one of the largest ocean fleets in the world," according to Mr. von Schenk. "You just can't manage insurance like this without specialized marine brokers in England, Hamburg, Italy or wherever."

Placing international risks also is sometimes possible only with assistance from independent bro-

kers in foreign locations. "We can't be everywhere," said Mr. von Schenk.

"Sometimes it requires local coverage with special knowledge of the conditions," he said.

Current market conditions again are prompting more German companies to explore alternatives.

When German insurers began increasing rates three years ago, captive brokers became active and formed seven captives.

"When markets get hard...we look at issues like self-insurance or risk retention or loss control. It's often a matter of determining, how risk retention is honored in the market and finding another solution, if need be," said Mr. von Schenk.

Mr. Schermin, the director of Mannesmann's captive broker, said he believes smaller companies in Germany should pay attention to what captive brokers are doing.

"As business becomes more international it's essential that smaller companies look at what other companies are doing," he says.

"They will soon need the know-how to make similar decision or find themselves losing to the competition." **BI**

Head

Continued from page 43

economy of scale, so they're going to have to change the traditional way of doing things."

While policyholders want to buy different coverage and at different levels from the insurance industry, they also want to pay less for it.

"It costs too much," Mr. Head said.

The industry has high transaction and overhead costs, including paying 10% to 15% commissions to brokers, their distribution system.

At the same time, the insurance industry is over-regulated, said Mr. Head. The international insurance industry should develop its own internal regulation system, like the banking industry has, he said.

Mr. Head selected the year 2005 as a target for some of his predicted changes.

"Most industries plan three to five years ahead, but in the insurance industry nothing happens that fast, so we have to look 10 years ahead," Mr. Head said. "Change takes time, and the insurance industry is in a very big state of change. But it will happen longer, slower, more painfully, burdensome and expensive than we ever thought." **BI**

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NOTICE TO CREDITORS OF FIRST MEETING

(Under the Order for Winding-Up the above named Company dated the 16th day of December, 1994 and the Orders of the Supreme Court of Bermuda dated the 2nd day of February, 1995 and the 18th day of May, 1995)

NOTICE IS HEREBY GIVEN that the First Meeting of Creditors in the above matter will be held at The Hamilton Princess Hotel, Pembroke Parish, Bermuda on the 27th day of June, 1995 at 10:30 a.m.

Proxies to be used at the meeting must be lodged with the Joint Provisional Liquidators at the offices of Ernst & Young, P.O. Box HM 463, Hamilton HM BX, Bermuda not later than 5:00 p.m. on the 20th day of June, 1995

To entitle you to vote threart your Claims Tables for Voting Purposes must be lodged with the Joint Provisional Liquidators at the same time and place.

Dated this 22nd day of May, 1995

Gareth H. Hughes/L. Anthony Joaquin
Joint Provisional Liquidators

NOTES

At the First Meeting of Creditors, they may amongst other things:

1. By resolution determine whether or not an application is made to the Supreme Court of Bermuda to appoint a Permanent Liquidator, and in the event that this is passed, who is to be the Liquidator(s).

2. By resolution determine whether or not an application is made to the Supreme Court of Bermuda to appoint a Committee of Inspection to act with the Liquidator, and in the event that this is passed, who are to be the members of the Committee.

NOTE: If a Liquidator is not appointed by the Court the Official Receiver will be the Liquidator. The requirement for a Statement of Affairs has been dispensed with by Order of the Supreme Court of Bermuda dated the 23rd day of March, 1995

LEGAL NOTICE

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Gareth H. Hughes/L. Anthony Joaquin
Joint Provisional Liquidators

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1. By resolution determine whether or not an application is made to the Supreme Court of Bermuda to appoint a Permanent Liquidator, and in the event that this is passed, who is to be the Liquidator(s).

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BUSINESS INSURANCE CLASSIFIEDS ASSURE TOP QUALITY RESULTS

Getting Back on Track

Agreement

Continued from page 1

Lloyd's as an unlicensed reinsurer to provide security in the United States equal to its gross liabilities.

Lloyd's contends that until 1993, it complied with regulations by reporting net liabilities. When the regulators specified in 1994 that gross liabilities were to be reported, Lloyd's agreed to comply by Jan. 1, 1996. New York regulators say that Lloyd's should have been reporting gross liabilities all along.

The most controversial finding in the examiners' 28-page report is that U.S. trust funds had net deficiencies of \$7.75 billion, or more than \$18 billion before reinsurance recoveries, at the end of 1993.

On that issue, Lloyd's Chief Executive Officer Peter Middleton said, "The report paints a misleading picture, since the assets are understated in relation to the liabilities as not calculated. The liabilities are stated at the maximum and the assets at a minimum. . . . New York's unwillingness to recognize Lloyd's outward reinsurance does not mean that this reinsurance is uncollectable."

"New York concedes that most of the reinsurance is collectible, but even if it were all collectible there is still a \$7 billion net deficiency" in the U.S. trust funds, responded Vincent Laurenzano, chief of the New York Department's Financial Condition Property/Casualty Bureau. Regulators add, however, that they believe Lloyd's would have adequate assets to cover that deficiency.

The Lloyd's American Trust Fund dates to 1939. It is composed of all U.S. dollar-denominated premiums covering both "U.S. domestic risks" and foreign risks denominated in U.S. dollars. Claims and other expenses related to those policies are paid from this fund (BI, March 21, 1994).

Held at Citibank in New York, the LATF is not a guaranty fund, but rather is essentially a bookkeeping account set up on behalf of individual Lloyd's members that is used to pay claims and expenses in dollars. However, a U.S. policyholder with a valid claim could obtain a judgment against Lloyd's and seek payment from the trust in a U.S. court.

In recent years, Lloyd's also established other U.S. trusts to meet new regulatory requirements. Combined, those funds totaled \$12.1 billion at the end of 1994.

Under the agreement, New York regulators said Lloyd's will:

- Immediately transfer an additional \$500 million into the Central Fund United States Trust from the Central Fund in London, which was established in 1992 for the benefit of U.S. domestic risks.

"Even though the \$500 million is a small amount of money compared to the \$7 billion net deficit or \$18 billion gross deficit, it is a demonstration that they will be able to pay claims in the future when they become due," said a spokesman for the New York department.

It also recognizes other facts, including Lloyd's track record in paying all claims to date, its new pledge to pay all U.S. claims regardless of when they occurred, and the recognition that there is \$12 billion in the trust fund now, he added.

Also, overseers of Lloyd's at the U.K. Department of Trade and Industry said recently that Lloyd's will meet its solvency test in August, the spokesman noted.

- By Aug. 1, create two new trust funds in New York, one for U.S. domestic surplus lines business and one for reinsurance.

In addition, all future Lloyd's liabilities for U.S. domestic risks will be fully funded gross of reinsurance by assets on a dollar-for-dollar basis as required by New York regulations.

Individual names' assets and liabilities will be reported for the first time as part of the agreement.

- Continue to maintain \$100 million in each of two joint and several liability funds to help secure U.S. obligations for surplus lines business and for reinsurance, respectively.

Also, Lloyd's proposed expansion of Equitas Ltd. will "result in the establishment of a joint fund in New York to cover U.S. liabilities for 1992 and prior years. The fund's assets will include those currently held in the LATF."

The discussion between Lloyd's and New York regulators did not address one of the report's findings that questions the "prudence" of allowing the Lloyd's trustee to use one name's assets to pay another name's liabilities, though the funds are not held jointly and severally.

Lloyd's said it was its U.S. counsel's opinion that such drawdowns were permissible if done prudently.

In addition, Lloyd's views as "unreasonable" the report's assumption that all risks covered by the LATF should be treated as U.S. domestic

risks, though it accepts the fact that it does not distinguish between them, Mr. Middleton said.

"We are confident that the agreement reached with the New York Insurance Department provides a sound basis for ongoing trading in the United States," Lloyd's said.

"Lloyd's has been meeting its obligations for over 300 years and remains a vital market for excess lines and reinsurance business both in New York and throughout the United States," said Mr. Muhl.

Other regulators and risk managers generally concur that Lloyd's plan and its agreement with New York regulators were responsible, constructive actions.

"I think it is a positive development for U.S. policyholders," said Robert Bailey, deputy superintendent with the Michigan Insurance Department. It will provide more money, replenish the Central Fund for U.S. business and separate new U.S. domestic business from other dollar-denominated risks, he said.

"As a result of this, we are certainly more positive than we were a few weeks ago," said Richard Ryan, vp and manager of corporate insurance for BankAmerica Corp. in San Francisco. "For large financial institutions, London and Lloyd's are a major market. We need them as

much as they need us."

"Lloyd's is an important market and the way the new trust funds are established, Lloyd's can go forward in complying with New York regulations and provide capacity in the marketplace," said Richard Bouhan, executive director of the National Assn. of Professional Surplus Lines Offices in Kansas City, Mo.

The impact of the agreement is less than it may have been several years earlier, when Lloyd's had fewer competitors.

These developments come "at the same time that Lloyd's role is not what it once was, though it still has a role," said Bill Kelly, president of the Risk & Insurance Management Society Inc. and senior vp of J.P. Morgan in New York City.

Greg Sosbee, general manager of risk management for Caltex Petroleum Corp. in Dallas, said he will continue to deal with Lloyd's to obtain about \$1 billion in aviation coverage as well as \$140 million in other third-party liability coverages. Given the limits his company needs, "we don't have a choice. If we did, we might balance it by buying coverage from other insurers and spreading it around."

He is wary, though. Lloyd's is "basically living off current cash flow and as long as it can do that it

is all right," he said.

Despite the new plan and agreement, several questions remain among U.S. observers.

"The question at this point is the adequacy of reserves for the old business that will be assumed by Equitas," said Michigan's Mr. Bailey.

Lloyd's still doesn't comply with requirements that it formally report its loss reserves and reinsurance arrangements as other insurers do. As a consequence, Michigan continues to require a handful of its financially insecure ceding insurers to demonstrate concrete security for reinsurance recoverables from Lloyd's (BI, March 21, 1994).

"The New York Insurance Department is trying to bring the U.S. trust fund up to the level required for other unlicensed reinsurers. However, the dollar amount is only one deficiency," said reinsurance attorney Robert Hall with Rudnick & Wolfe in Washington. "It remains to be seen what other changes the New York department will require."

Other regulators, like those in Illinois, may want to review the agreement, though other regulators are expected to follow New York's lead, said Alan Levin, managing director of Standard & Poor's Insurance Rating Services in New York. **BI**

Insurance Services Guide

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Administrative Personnel	5,645

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Risk/Employee Benefits:

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Sub-total

Associations	343
Government, Unions and Educational Institutions	950

Commercial Consumers

Sub-total	31,294
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Getting Back on Track

Lloyd's forecasts return to profitability

1993 account expected to end a string of huge losses

BY STACY SHAPIRO

LONDON—Lloyd's of London is already looking beyond the 1992 global loss it reported last week, projecting the 1993 account will return a profit for the first time in years.

But while improved results are likely, the market's security remains in doubt. Although the institution is expected to satisfy British regulators' annual solvency tests in August, Lloyd's may not be able to clear those hurdles in 1996 if it fails to put its reconstruction proposal in place (see story, page 1).

And in the United States, insurance regulators in New York are casting a shadow over Lloyd's solvency by claiming that the Lloyd's American Trust Fund is deficient by billions of dollars (see story, page 1).

Lloyd's posted a 1992 global loss of £1.19 billion (\$1.87 billion) for the three years ended Dec. 31, 1994.

That loss is Lloyd's fifth straight global loss, though it is a considerable improvement from the £2.05 billion (\$3.03 billion) loss reported for 1991 and is better than the £1.5 billion pound (\$2.36 billion) loss observers had been predicting.

Altogether, Lloyd's has lost nearly £8 billion (\$12.56 billion) between 1988 and 1992, largely

dictates try to cover those losses by making claims against personal stop-loss policies and agents errors and omissions policies written by other syndicates.

Lloyd's would have announced a pure underwriting profit of £86 million (\$135 million) in 1992, if not for members expenses and big additions to reserves.

"Although it doesn't mean very much, many syndicates in 1992 made a profit," said Lloyd's Chief Executive Peter Middleton. Out of 279 active syndicates in 1992, 124 made a profit after members expenses.

Of these profitable syndicates, 108 of them are still actively underwriting in 1995 and account for 73% of the market's current capacity of £10.2 billion (\$16.01 billion).

Once again, however, reserve strengthening—to the tune of £836 million (\$1.31 billion) in 1992, compared with £961 million (\$1.42 billion) in 1991—sent overall results far into the red.

The increased reserves are for long-tail liability losses as well as for increased losses on members' personal stop-loss and estate protection plan policies.

However, Lloyd's reported, "The impact of the London market excess-of-loss syndicates has significantly diminished."

Two-thirds of the reserve deterioration was concentrated in

million (\$695.5 million) in 1992 from £472 million (\$698.6 million) in 1991. Members expenses include annual subscriptions and levies, agency fees and profit commissions. About half of the expenses are from a 5% levy on the membership spread over the 1991, 1992 and 1993 accounts to boost the Central Fund.

Gross capacity in the market totaled £9.8 billion (\$15.39 billion) in 1992, which was up 12% from £8.78 billion (\$12.99 billion) in 1991. Gross premiums written in 1992 totaled £9.13 billion (\$14.33 billion), down about 6% from £9.68 billion (\$14.33 billion) in 1991. But net premiums rose 4% to £6.31 billion (\$9.91 billion) from £6.04 billion (\$8.94 billion) in 1991.

To put a better light on its future and show where some of the money might come for the market's reconstruction, Lloyd's for the first time gave projections for the upcoming account. The 1993 account won't close until the end of this year under the market's three-year accounting system.

The global 1993 profit is expected to be £1.05 billion (\$1.65 billion), before double-counted losses and after members expenses.

But that forecast does not take into account additional reserve strengthening, which has dented so many global results in recent years. However, if Lloyd's reconstruction deal goes through, much of those future profits and many of the additions to reserves will be poured into the market's proposed runoff reinsurance company, Equitas Ltd.

The 1992 results varied by segment of the market:

- Lloyd's marine market posted a pure year profit of £148.5 million (\$233.1 million) on net premiums of £1.38 billion (\$2.17 billion), a major improvement from its 1991 loss of £452 million (\$669 million) on net premiums of £1.44 billion (\$2.13 billion).

In 1993 and 1994, marine underwriters "continue to obtain significant increases in both rates and deductibles and the 1993 results will reflect that trend," according to Lloyd's.

There has been some evidence more recently, though, of softening in the marine market.

Putting the past behind it?

Lloyd's predicts 1992 will be its last in a string of underwriting losses



Source: Lloyd's of London

GRAPHIC BY JOHN HALL

- The non-marine market suffered a pure year loss of £201.1 million (\$315.7 million) on net premiums of £3.51 billion (\$5.51 billion), more than 300% worse than the £62.3 million (\$92.2 million) loss in 1991 on net premiums of £3.42 billion (\$5.06 billion). The 1992 loss reflects "the particularly high incidence of catastrophes" in 1992, including Hurricane Andrew.

Rates were higher in many sectors of the non-marine market, such as U.K. property and U.S. property catastrophe business, in 1993 and continuing into the first part of 1994, Lloyd's says. As a result of that and fewer catastrophes, the outlook for 1993 is "a robust return to substantial profit," Lloyd's said.

- The aviation market had a pure year profit in 1992 of £14 million (\$22 million) on net premiums of £446.1 million (\$700.4 million), a substantial improvement from the £106.6 million (\$157.8 million) loss in 1991 on net premiums of £434.9 million (\$643.7 million).

Rates increased in this sector in 1993 and 1994, particularly for airlines with poor loss records.

Although this firming trend seemed to let up at the end of 1994, there are signs that rates may continue to rise for airlines again this year, Lloyd's stated. Substantial airline and satellite losses in 1994 will affect both 1993 and 1994 aviation results.

Despite the string of global losses, Chairman David Rowland and Chief Executive Peter Middleton say the market will meet its two solvency tests in August, which are overseen by the British Department of Trade and Industry.

The solvency margin for the entire market, in fact, has improved, according to Mr. Rowland. Lloyd's net resources totaled £27.67 billion (\$43.44 billion) at the end of 1994, compared with liabilities of £21.08 billion (\$33.1 billion), leaving a surplus of £6.59 billion (\$10.35 billion). This is nearly four times greater than the DTTI's requirement, whereas the 1993 margin was only three times greater than the DTTI levels, said Mr. Rowland.

The 15.8% improvement in sur-

plus—from £5.69 billion (\$8.42 billion)—isn't surprising because new corporate capital has come into the market, he said.

The security that underlies Lloyd's policies means that "Lloyd's is not going to disappear overnight as some people forecast and have been forecasting every day now for the past two years," said Mr. Middleton.

However, within the chain of security "there are some problem areas," Mr. Middleton acknowledged last week.

Lloyd's resources include net assets in the Central Fund of £738 million (\$1.16 billion) at the end of 1994, down 18% from £904 million (\$1.34 billion) in 1993. The market estimates that drawdowns this year to pay for losses that members can't meet will reduce the fund to only £300 million (\$471 million) by year end.

Unless decisive action is taken "the resources of the Central Fund may be exhausted before the end of 1996," Lloyd's warns in its reconstruction plan.

Other resources include £20.06 billion (\$31.49 billion) in members' trust funds, including £12.31 billion (\$19.33 billion) in its U.K. sterling trust funds and £6.99 billion (\$10.9 billion) in the Lloyd's American Trust Fund.

However, within the trust funds "there's a substantial amount now of uncollected debt from members—who cannot pay, aren't willing to pay and have been litigating," said Mr. Rowland.

On balance sheet terms, this uncollected debt can be counted as a "good asset," said the chairman. "In real terms, like any other business, we have to look at the quality of that asset and come to a conclusion about its collectibility."

Lloyd's total net resources at the end of 1994 included £3.6 billion (\$5.65 billion) due from members that has not yet been "called," or demanded by the market.

Of that amount, £2.2 billion (\$3.45 billion) is from deferred cash calls on the closed 1991 and previous years of account, including accounts in runoff.

The reconstruction package, if approved, would redress this situation.

'Lloyd's is not going to disappear overnight as some people forecast and have been forecasting every day now for the past two years,' says Peter Middleton.

the result of property catastrophe losses and long-tail liabilities from North American asbestos, pollution and health-related liabilities. At least some of these losses were caused by negligent underwriting, British courts have ruled.

For the second year running, Lloyd's has adjusted its results for the effect of "double counting." Double-counting occurs when members who have incurred underwriting losses on certain syn-

only 29 of the 478 open years of account that were being run off at the end of 1994.

"A hard core of syndicates gave rise to serious problems," said Mr. Middleton.

At the moment, Lloyd's has 584 open years of accounts in run-off, including 106 years of account that were left open at the beginning of 1995.

Members personal expenses also held down earnings, though these expenses dropped 6.1% to £443

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Getting Back on Track

Overhaul

Continued from page 1

plan, said Mr. Rowland.

Members may indicate their feelings about the plan at the market's annual general meeting on Tuesday.

• Members would have to approve the principles of the plan with a vote in October. "It's up to each member to accept or reject these proposals that are being put forward," said Mr. Rowland.

The percentage of members required to approve the reconstruction plan has not been determined.

• Equitas would have to be authorized by the British Department of Trade and Industry no later than the spring of 1996. The reinsurer company will have £15.9 billion (\$25.44 billion) in assets to pay losses, against liabilities of \$15.6 billion (\$29.96 billion), giving it a £300 million (\$480 million) surplus.

David Newbigging, former chairman CEO of Hong Kong-based Jardine Matheson Holdings Ltd., last week was named chairman-designate of Equitas.

• Members would have to accept individual settlement offers next spring to close 1992 and prior years of account into Equitas.

This is designed to give members "finality" from any more levies for old-year losses, though they will still be on the hook to pay claims if Equitas should run out of money and close.

Lloyd's Chief Executive Peter Middleton said the reinsurer's projected assets and surplus should allow it to meet all future liabilities.

• New capital has to be raised. Lloyd's estimates the new market will have about £8 billion (\$12.8 billion) in capital, but the plan hopes to attract additional capital by easing restrictions on the entry of corporate capital to Lloyd's.

"Let's be clear, there's pain and gain from this," Mr. Rowland said last week. "What we're seeking to do is bring about as fairly as we can a resolution of our past history. We have to draw up funds. Some people will benefit. Others will suffer. But each section of our community has something to go for. There are no glamorous assumptions of salvation. It's up to Lloyd's to solve its problems."

Closing down the old Lloyd's by using the runoff reinsurer Equitas and starting anew has been touted for some time in the market.

Indeed, David Springbett, former executive of Lloyd's broker PWS Holdings P.L.C., was one of the first to suggest a similar idea in 1993 (*BI*, Aug. 30, 1993).

Originally, the Equitas project was set up to run-off members pre-1986 liabilities. Then Project Director Heidi Hutter set up a committee to look at closing all 1992 and prior years of account into the reinsurer (*BI*, Aug. 29, 1994).

The move to expand Equitas followed the rejection by members early last year of the market's £900 million (\$1.44 billion) settlement offer. Members complained the amount was too low and also that the offer didn't provide a cap against future liabilities.

Lloyd's reconstruction plan offers the 17,000 litigating members £2.8 billion (\$4.48 billion) and a form of cap on future liabilities.

But the offer provides even more to all 34,000 members of Lloyd's, said Mr. Rowland. "We're seeking to bring about finality in the affairs of all members of the society in the years 1992 and earlier," he said. Not just litigating members but every member on open syndicates "wants to know where he or she stands."

Lloyd's projects that at the end of 1995, members will owe the market £5.9 billion (\$9.44 billion), said Mr. Rowland. That includes £1.1 billion (\$1.76 billion) that members owe the Central Fund for unpaid losses up to year-end 1994; £900 million (\$1.44 billion) of unpaid cash calls; £2 billion (\$3.2 billion) in losses that have been declared but members have not yet been called to pay; and £1.9 billion (\$3.04 billion) for Equitas reserves to give it "good security for

the future and enable the DTI to look favorably upon it."

Where the money comes from

In order to finance this deficit and cap liabilities into Equitas, Lloyd's proposes to:

• Make settlement offers to litigating members. Some £2 billion (\$3.2 billion) of unpaid losses will be written off as a debt credit. Another £800 million (\$1.8 billion) will be raised, from agents errors & omissions underwriters and other parties involved in litigation, to make cash settlement offers.

To finance the £2 billion debt credit, Lloyd's will write off the £1.1 billion (\$1.76 billion) that members owe the Central Fund.

Of the remainder: £450 million (\$720 million) will come from a levy to be voted on by

which £100 million (\$160 million) will be paid-up assets and another £200 million (\$320 million) will be callable from members' funds when necessary without a member vote.

The market also will need more capital, since many members are likely to resign once they pay their reinsurance premiums to Equitas. Although £8 billion (\$12.8 billion) of capital likely will remain—the market's capital in 1995 stands at £10.2 billion (\$16.12 billion)—Lloyd's hopes to boost that amount by easing current restrictions on corporate capital.

This includes allowing corporate members—including insurance companies—to own managing agents and allowing corporate syndicates to be created. In effect, this could transform Lloyd's into a market of small insurance companies.



'We're telling members that if they come to an agreement about settlement in litigation, you are free of debt, free to resign from Lloyd's and we undertake never to chase you again for debt or consequences of membership.'
David Rowland

members in 1993, 1994, and 1995 that would be offset by future payments to the Central Fund; £200 million (\$320 million) from underwriting agents' profit commissions in 1993 to 1995, which are expected to total £600 million (\$960 million); and a £200 million to £250 million (\$320 million to \$400 million) loan made against the Corporation of Lloyd's assets, such as its building and Lloyd's of London Press Ltd.

"We're telling members that if they come to an agreement about settlement in litigation, you are free of debt, free to resign from Lloyd's and we undertake never to chase you again for debt or consequences of membership," said Mr. Rowland. This means that "no levies will be made against the membership in the future for the past."

But, members should be aware that what Lloyd's is offering is "reinsurance of their liabilities, not absolution" from the policies they underwrote, he cautioned.

• Release an estimated £2 billion (\$3.2 billion) in expected profits from the 1993, 1994 and 1995 years of accounts.

Members have already borrowed on the 1993 and 1994 profits to cover debt, so this is expected to generate finances of £800 million (\$1.28 billion).

The release could occur if the market moves to one-year accounting from three-year accounting, which is proposed for the new Lloyd's.

• Anticipate that £600 million (\$960 million) will come from members who voluntarily pay their claims.

• Draw down £1.5 billion (\$2.4 billion) of the £5.2 billion (\$8.32 billion) in members' deposits held at Lloyd's.

Subtracted from the total package is £200 million (\$320 million) that some members will receive and be able to put in their own bank rather than in Equitas. That leaves £400 million (\$640 million) that members will still owe Equitas, but it will be canceled out as a credit and debit on the reinsurer's balance sheet.

Lloyd's reconstruction plan also outlines changes in the market's U.S. security arrangements (see story, page 1).

All this reinforces the "firebreak" between Lloyd's past liabilities and its future, said Mr. Rowland.

Going forward, Lloyd's will need a new Central Fund to underpin the security of the new Lloyd's policy, he said. The new fund will total £300 million (\$480 million), of

"We will have a much cleaned and simpler society going forward," said Mr. Rowland.

Market reaction to plan

Most people involved in the market last week welcomed Lloyd's plan, but others were cautious about its implementation.

And some loss-ridden members are already saying they will not support the proposal.

"Basically, we welcome the proposals," said Mr. Deeny of the Gooda Walker Action Group and also chairman of the Litigating Names' Committee representing 25 action groups. "We regard it as a victory for the names and an essential development in securing a solvent future for Lloyd's. It was important that they came up with a plan to address the terrible losses that we have suffered through appalling negligence and gross regulatory failure."

But, Mr. Deeny added, the 48-page document is just a plan and months of negotiations are still ahead. "It is not a settlement offer. And until we get a legally binding, concrete offer, action group by action group, then litigation will continue for the time being."

There is a question, too, about how any damage judgments would be treated under the Lloyd's settlement and whether members who are rewarded sums in court before next spring must give them up under the plan. Gooda Walker members in particular already have won a £210 million (\$336 million) interim award, though payment was frozen, which is being appealed.

Though the members are pleased by the size of the £2.8 billion settlement offer and the proposed cap on their liabilities, some are not happy about the size of the £200 million contribution from agents.

The agents' contribution is "inadequate," said Christopher Messer, chairman of the Janson Green Action Group and the Longtail Chairmen's Group.

Considering the billions of pounds agents have made in the past, "they should contribute more," agreed Mr. Deeny.

Other members also would like to see compensation from syndicate auditors and brokers or be allowed to sue these entities separately.

However, "we welcome the proposal," said Alan Porter, chairman of the Cuthbert Heath Names Assn. and the Devonshire

Names Action Group. "It is worthy of serious consideration."

The board of one of the market's largest corporate members, London Insurance Market Investment Trust P.L.C., also "welcomes the initiative being taken by the Council of Lloyd's to resolve the problems of the past and to maintain confidence in the Lloyd's market."

LIMIT regrets that corporate members will be required to make a contribution "to pay for Lloyd's past," which would reduce investors' profits by at least £1 million (\$1.6 million). However, the investment trust recognizes that "it is in the interests of shareholders that Lloyd's should have a profitable and securely based future."

The plan "sounds like a good response given where we are," said Peter S. Christie, chairman and chief executive officer of broker Minet Group P.L.C. "We have to get a solution pretty quick because the buyer is not going to maintain confidence" if the problems persist.

"There is no doubt that the current events have made clients ask more questions about Lloyd's than they did in the past five years," he said. "We've not seen any wholesale departure of business from the Lloyd's market. We see more concern about the (strength) of each Lloyd's syndicate and whether it will be there tomorrow."

"Policyholders should feel more comfortable" following the publication of Lloyd's plan, said Ken Carter, chairman of Lloyd's brokerage Lloyd Thompson Ltd. The package shows "that there is a way for an old Lloyd's and a new Lloyd's to be created."

Many American policyholders will be concerned that their past liabilities are paid. But Equitas—which will pay those losses—will be a "mammoth company" and its accounts will be more transparent to policyholders because it will follow DTI rules for all insurance companies, said Mr. Carter.

"No one underestimates that it's only a plan at the moment and lot more has to be done before (members) vote next spring," added Mr. Carter. "But most clients are positive."

"We accept that Lloyd's is facing serious solvency problems next year," added Andrew Campbell-Hart, managing director of Standard & Poor's Insurance Rating Services in London. "The option of not making this change is untenable."

S&P will be examining the plan carefully and publishing an opinion on it this week, Mr. Campbell-Hart added. But until the details are worked out, it is "very difficult to answer" whether policyholders will continue to place business at Lloyd's, he noted.

Some remain opposed

A few members, however, warn that not everyone will support Lloyd's proposals.

Reading the plan "made me feel sick," one complained. "It won't be good for anybody."

Members would still be still liable to pay hefty sums into Equitas and, if the reinsurer fails, they are still on the hook for the losses, the member said.

Of the £2.8 billion offer, £2 billion is a debt credit and "members are never going to see a penny of that," argued Christopher Stockwell, chairman of the Lloyd's Names Assns. Working Party.

And all the money has to go back into Equitas anyway, which under the weight of claims could collapse in five years leaving members to pay all the debts, said Mr. Stockwell. "Nothing (in the proposals) reduces uncertainty and if anything accentuates it."

Members will be asked to pay £1.5 billion (\$2.4 billion) in cash calls in July, but there will be no incentive to pay since Lloyd's will be writing off bad debt, said Mr. Stockwell. That means the market could face a cash flow crisis this summer, he said.

Former Lloyd's underwriting agency executive John Donner took out a full page ad in *The Times* of London last week urging members not to accept the offer.

"Do not let Lloyd's get away without paying names a just and fair compensation. Help ensure that Lloyd's is properly reformed and regulated," the ad read. **BI**

Getting Back on Track

Parliamentary committee backs external regulation of Lloyd's

By STACY SHAPIRO

LONDON—External regulation of Lloyd's of London—as called for last week by a committee of Parliament—would strengthen the market's latest reform package by restoring members' confidence, say committee members.

Lloyd's executives respond that adjusting to a new regulatory regime would distract them from their efforts to restore the market to profitability.

And, some members warn that the criticisms of the market's regulation in the report could reduce support for the market's new settlement and restructuring.

A House of Commons Treasury and Civil Service Committee report issued last week strongly criticized Lloyd's system of self-regulation. The 39-page report, which is part of the committee's investigation of financial services regulation in the United Kingdom, follows hearings held earlier this year (*BI*, Feb. 13).

"There is validity in the claims of names that Lloyd's has failed in its regulatory obligations toward the members of the society in the past," the report concludes.

In particular, the Council of Lloyd's in the mid-1980s failed to provide potential members with information on long-tail asbestos liability losses, which could have persuaded some not to join, the committee report says. Lloyd's should have ensured that whatever information was available on those risks was disclosed to members.

"There is considerable evidence to suggest that there was knowledge within the market that the long-tail losses existed, and that names joining the market from the mid-1980s onward were not given full information on the nature of the risks they were underwriting," the report says.

The committee also criticizes Lloyd's current head of regulation, Sir Alan Hardcastle, for not investigating members' allegations of "concealment" of losses and charges the regulator with "drawing a veil" over the members' allegations.

Lloyd's last week said that Sir Alan has told Freshfields, the law firm that advises Lloyd's, "to carry out a careful and thorough investigation of the position to see whether there should be an inquiry."

The House committee also criticized Lloyd's for a lapse in regulation when the London market excess-of-loss spiral developed, causing huge losses and ultimate ruin for many members.

"It appears that Lloyd's either had no sense of the aberrant market that was developing under its roof, or simply failed to do anything about it," the report says. At the time, the committee concluded, a lack of professionalism amongst agents and underwriters contributed directly to LMX losses. "More rigorous regulation might have prevented the abuses of the LMX spiral developing in the extreme way that they did."

The report also indicated that the committee, made up of 11 Members of Parliament, has little confidence in the market's current system of self-regulation.

Much has improved since 1993, when Lloyd's developed separate Market and Regulatory Boards answering to the Council to keep management of the market separate from regulation, the committee notes.

Still, the committee said, "the Regulatory Board is somewhat hamstrung in the exercise of its powers."

Lloyd's is trying "to get it right, but it has a long way to go," said MP Mike O'Brien, a committee member. He said he is not satisfied that Lloyd's current regulation is adequate to restore confidence among investors.

A separation between Lloyd's Market Board, headed by Chairman David Rowland, and its Regulatory Board, headed by Sir Alan, is not evident, particularly when Mr. Rowland seemed to answer on behalf of Sir Alan during committee hearings, noted Mr. O'Brien.

The committee also criticized Lloyd's members, noting that they had "double standards" by criticizing Lloyd's regulation when times were bad, but not when times were good and the members made profits.

Lloyd's members were "seduced by snobbery and greed" to join the market, said MP Dianne Abbott, another member of the committee.

"If a higher degree of interest had been demonstrated by names at the point of membership, some of the personal tragedies might well have been avoided," the report says.

The House of Commons committee is unanimous that Lloyd's must be subject to external regulation.

"Until independent and external regulation is put in place, the confidence of the members of Lloyd's—and to a lesser extent the policyholders—in the regulatory regime will not be achieved; this is an important argument in favor of external regulation," the report states.

The report calls for legislation to be introduced as soon as possible in order that it may become law within the next two years, though Lloyd's executives and the British Department of Trade and Industry—which regulates the market—had testified that this would be an inappropriate time frame in which to overhaul Lloyd's regulations.

"In an institution such as Lloyd's, there is never a 'right time' to propose changes to its structures as there are always other preoccupations, most recently the very survival of the market itself," the report says.

The committee members, particularly Chairman Sir Thomas Arnold and Giles Radice, also say that external regulation is an "essential component to reform Lloyd's" and will complement the implementation of Lloyd's rescue package.

However, the committee members are divided on how external regulation should be structured.

Four MPs—all members of the majority Conservative Party—recommend legislation that would create a separate Self-Regulating Office that would report to the U.K. Securities and Investment Board. SROs already exist for other financial services industries, such as banking and life insurance.

But the majority of the committee's 11 members favors changes to Lloyd's Act that would permit the market to be overseen by an independent regulator answerable to the Treasury Department.

The committee also recommends an independent inquiry into Lloyd's massive losses, and mandatory professional liability insurance for agents, preferably written outside the market.

Christopher Stockwell, chairman of the Lloyd's Names Assn. Working Party, welcomed the calls for an external regulator and an external inquiry.

The House committee "is clearly confirming that there was inadequate dissemination of information in the early '80s and they're accepting many of the accusations by names that there was gross misrepresentation over the quality of regulation, degree of protection, extent of reserving and the nature of liability," said Mr. Stockwell, who gave testimony to the committee.

The report could spur those who are already considering rejecting Lloyd's rescue package to do so, according to Mr. Stockwell. "The report will confirm for a great many names that they are the victims of a regulatory failure."

As for whether members were partially responsible for their downfall, he said: "They may have been seduced by snobbery and greed, but they were (ruined) by incompetence and mismanagement and misrepresentation." ■

Hospitals

Continued from page 1
over the program take place in a single lawsuit.

Farmers had argued that it could not be subject to RICO because the anti-racketeering law could be applied only to an "enterprise" and the hospital pool was only an "inanimate object."

Judge Shubb rejected that argument, finding that the program exhibited "sufficient vitality as evidenced by its complex and dynamic interrelationships, to constitute an enterprise."

The hospitals' 1994 lawsuit seeks to recover more than \$50 million from Los Angeles-based Farmers for alleged misappropriation and mismanagement of an \$800 million trust account. Farmers had administered the hospitals' self-insurance fund since the 1970s, when the hospital industry started the malpractice pooling arrangement.

In their complaint, the hospitals charge that Farmers misused, mislocated and misappropriated money from the self-insurance trust's pre-

mium fund. "In their management of the \$800 million self-insurance program, defendants have expropriated hospital assets, have maintained wildly inflated loss reserves and have mismanaged hospital assets through a pattern of self-dealing transactions," the suit asserts.

And "defendants have actively concealed their abuses through a decade-long practice of submitting false accountings to the hospitals," the suit adds.

Beginning in 1973, the program provided participating hospitals with up to \$100,000 in primary occurrence-based liability protection.

Premiums were calculated retroactively based on the combined loss experience of all participants.

Under its contract, Farmers agreed to administer claims against the hospitals, advise the hospitals on risk prevention, account for hospital assets placed in the trust and return to participants advances not reasonably expended in the operation of the program, according to court papers.

Due to the often lengthy "tail" between covered occurrences and paid losses, Farmers held several hundred million dollars of hospital assets in

Updates

Texas rollback bill advances

Continued from page 2

insurance to a list of casualty coverages with forced rate cuts and changed the deadline for action by the state's insurance commissioner to Oct. 1 from Nov. 1. The House is expected to approve the Senate changes and Gov. George W. Bush is expected to sign the bill.

The bill also calls for rate reductions in medical malpractice, product liability, pollution liability, commercial and personal lines auto liability, personal advertising injury and owners and contractors liability.

Rep. Mark Stiles, D-Beaumont, the measure's original sponsor, has said he hopes the bill saves Texas buyers \$1 billion next year.

The legislation would require rate hearings and would give Insurance Commissioner Elton Bomer the authority to determine specific rate reductions. Under the legislation, if the commissioner doesn't take action, the law would force cuts ranging from 5% to 30% on coverage written after Jan. 1.

Insurers would have the right to contest the reductions, but cuts would remain in effect during the appeal.

The legislation grew from debate that insurers took too long to lower rates after the overhaul of the state's workers comp system. But insurers say it will take time for savings from tort reforms to appear.

"When frequency and cost of losses go down, insurers respond by lowering rates," said Rick Gentry, regional vp in the Insurance Information Institute's Austin, Texas, office. He pointed out that workers comp rates in Texas have fallen as a result of reforms.

Briefly noted

U.S. Bankruptcy Judge Arthur J. Spector in Bay City, Mich., last week refused a request by **Dow Corning Corp.** to freeze lawsuits against its parent companies, allowing plaintiffs in the massive silicone breast implant litigation to pierce the corporate veil. Plaintiffs attorneys began amending their lawsuits to name Dow Chemical Co. and Corning Inc. after Dow Corning filed for protection earlier this month (*BI*, May 22). . . General Mills Inc. will not say whether its insurance will apply to a \$10 million settlement, to be paid in breakfast cereal coupons, of a lawsuit over the alleged **contamination of boxes of Cheerios**. General Mills does have product tampering coverage to cover some of its costs (*BI*, July 11, 1994). . . The U.S. Supreme Court has agreed to decide whether state tort law or admiralty law should apply to certain suits over **recreational boat accidents**. *Yamaha Motor Corp. vs. Calhoun* stems from a wrongful death suit unit by the parents of a child killed when the Yamaha craft she was using collided with an anchored vessel. . . The budget resolution the Senate passed last week would result in \$256 billion in **Medicare** savings by the year 2002, \$32 billion less than the Medicare savings projected in a House budget bill (*BI*, May 15). Differences will have to be resolved in conference, which is expected early next month. . . Vermont legislators will try again in January to move a bill that would give the state **oversight of the National Assn. of Insurance Commissioners** out of conference committee. Though the bill has the support of both legislative houses and Gov. Howard Dean, the 1995 session ended without a joint bill being sent back to the floor. . . The former president of Action Staffing Inc., an employee leasing firm that sponsored a now-defunct **multiple employer welfare arrangement**, has been barred for life from serving any employee benefit plan governed by federal law. Lawrence Jones agreed to the order without admitting or denying U.S. Labor Department charges related to the Tampa, Fla.-based MEWA, which left \$3.5 million in unpaid claims (*BI*, April 13, 1992). . . **American International Group Inc.** has elected three new executive vps: Evan G. Greenberg, president of American International Underwriters and son of Chairman Maurice R. Greenberg; Robert M. Sandler, senior casualty actuary and senior claims officer; and Howard I. Smith, comptroller. . . Michael E. Gallagher has been named chairman, president and chief executive officer of **Health Net**, the largest unit of Health Systems International.

trust, with fiduciary obligations to adjust claims properly and efficiently and to charge only legitimate expenses to the hospitals.

In the fall of 1984, the California Hospital Assn. notified Farmers that it was terminating the program.

Because CHA's action ended program liability coverages effective Dec. 31, 1984, more than 300 program hospitals purchased a standard insurance policy from Farmers to provide primary liability coverage effective Jan. 1, 1985.

But in calculating the premiums for the new policies, Farmers charged to the hospitals' fund losses that were expressly assumed by the insurer under the new policies, the lawsuit charges.

In addition, the hospitals' suit alleges that Farmers charged excessive expenses to the program, wasting program assets and "otherwise breaching their fiduciary and contractual obligations to the hospitals."

The alleged mismanagement and overcharges cost the hospitals at least \$50 million in unreturned premiums, the suit estimates.

The hospitals' request for class action status and for authority to pur-

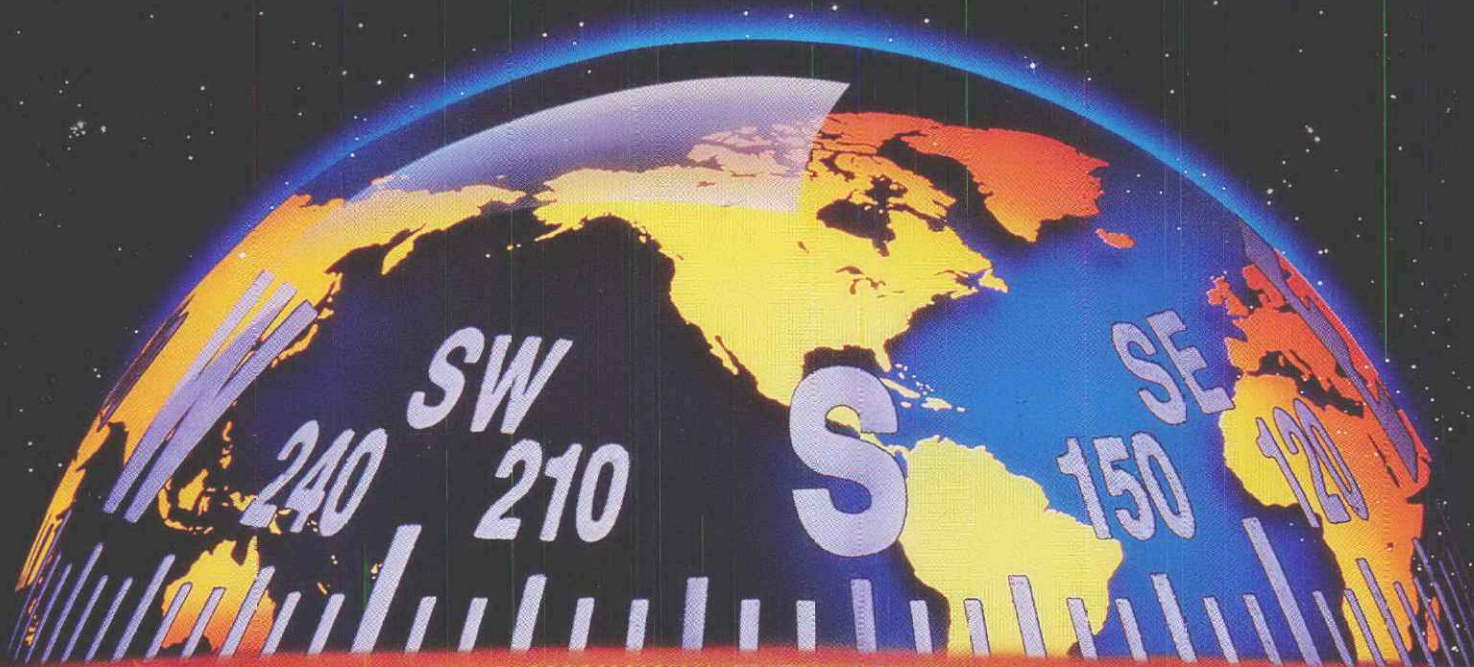
sue the RICO claims had been pending for about a year. The court had delayed its ruling until a 9th U.S. Circuit Court of Appeals ruling earlier this year. In that case, *Merchants Home Delivery Service Inc. vs. Reliance Group Holdings Inc.*, the court held that McCarran-Ferguson Act does not automatically exempt insurance companies from lawsuits under federal statutes such as RICO (*BI*, April 10).

In a statement, Farmers downplayed the significance of the May 15 rulings but would not comment on them further. "Judge Shubb has issued two basic procedural rulings," the company said. "Neither of these rulings deals with the merits of the case. Farmers is anxious for the opportunity to prove that the plaintiffs' allegations are without merit. We are confident that Farmers will defeat this action and will maintain its excellent reputation of service to California health care providers."

Loma Linda University Medical Center Inc. et al., vs. Farmers Group Inc., No. CIV-S-94-0681-WBS/JFM, U.S. District Court for the Eastern District of California, May 15, 1995.

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