

NOVEMBER 11, 1985

update

Wausau to get \$250 million, become Nationwide affiliate

COLUMBUS, Ohio—Financially troubled Wausau Insurance Cos. will receive a \$250 million capital infusion from Nationwide Insurance Group and will become a Nationwide affiliate before the end of this year, the companies announced last week.

Under a plan adopted by the directors of the two companies, Nationwide—a group of mutual companies writing primarily personal lines—will

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business insurance

Reporting weekly for corporate risk, employee benefit and financial executives/\$1.50 a copy; \$52 a year

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California may seize more Mission units

By STEVE TARAVELLA

LOS ANGELES—After seizing Mission Insurance Co. Oct. 31, the California Insurance Department says it also will seize MIC's five insurance subsidiaries if investor Carl H. Lindner does not come through with additional funds previously promised.

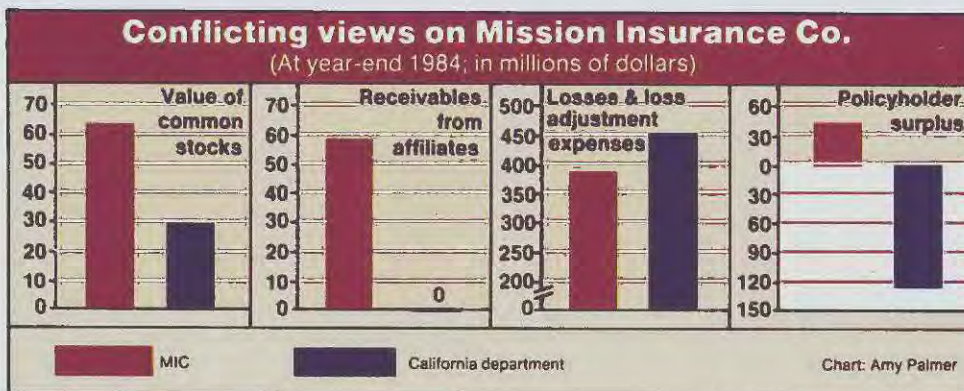
And, the department has not ruled out seizing Mission American Insurance Co., the immediate parent of MIC that was created several months ago by Mission Insurance Group to replace MIC in the marketplace.

MIC, the Mission Group's flagship underwriter, was placed in conservation Oct. 31 after the department found it was insolvent by \$169.5 million as of Aug. 31.

MIC's conservation, which is akin to rehabilitation in other states, is the largest conservation action ever taken in California, the department says.

MIC's insolvency is created principally by the department's determination that:

- Nearly \$59 million in receivables from Mission Group non-insurer affiliates will not



be recognized.

- A deficiency of \$54 million exists in loss and loss expense reserves, principally related to reinsurance underwriting.

- Common stocks held in MIC subsidiaries are worth \$29 million, less than half the \$63 million MIC claimed.

Adjustments to other assets and liabilities

—ranging from \$2.5 million for unauthorized reinsurance to \$10 million for liability for a repurchase agreement—contribute to the insolvency.

In taking control of MIC, the department said the insurer's financial position is so poor "that its further transaction of business will be hazardous to its policyholders, creditors,

and to the public."

As of June 30, MIC contended it had \$22.3 million in surplus while the department says that at Aug. 31 it had a surplus deficiency of \$169.5 million. And, MIC reported it had \$43.2 million in surplus at year-end, but the department found a \$124 million deficiency at year-end.

The MIC insurance subsidiaries most at risk of also being seized by the state are: Enterprise Insurance Co. and Mission National Insurance Co., both domiciled in California; Mission Insurance Co. of Texas Inc., domiciled in Texas; and Mission Reinsurance Corp. and Holland-America Insurance Co., both domiciled in Missouri.

Enterprise and Mission of Texas write primarily workers compensation. Mission National writes primarily liability and workers compensation. Holland-America writes mainly fire and liability insurance. Mission Re is running off its reinsurance business.

The MIG companies "are so intertwined that you've essentially got to take control of

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House panel approves major pension changes

By JERRY GEISEL

WASHINGTON—The House Ways and Means Committee, in its first major tax-reform decision affecting employee benefits, is recommending significant changes in pension and retirement programs.

Making cuts far larger than benefit lobbyists expected, the committee last week voted to:

- Lower the maximum annual benefit offered by a qualified defined benefit plan to \$77,000 from the current \$90,000 and reduce the maximum annual employer contribution to a defined contribution plan to \$25,000 from \$30,000.

The new defined benefit limit would be increased, starting in 1988, to match increases in the Consumer Price Index. However, the defined contribution limit would not be raised until the maximum defined benefit reaches \$100,000.

After that, the maximum defined contribution would be 25% of the maximum defined benefit.

- Cut the maximum amount of salary that workers can defer to 401(k) plans to \$7,000 from \$30,000.
 - Reduce maximum employee contributions to Individual Retirement Accounts by the amount deferred to a 401(k) plan.
 - Impose new taxes on employees who withdraw funds from a 401(k) plan before age 59½.
 - Establish a new, more restrictive non-discrimination test for
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Brokers' revenues, earnings explode during third quarter

By LINDA J. COLLINS

The publicly held insurance brokers, whose financial results began to rebound in the first quarter and surge ahead in the second, are now reporting explosive growth.

All of the brokers reporting third-quarter results posted strong revenue increases, led by The Crump Cos.' phenomenal 50% increase.

In addition, all of the reporting brokers—except Frank B. Hall & Co. Inc.—reported their net income increased in the third quarter by more than 33%. Hall's profits were wiped out by charges relating to its truck-leasing subsidiary and its discontinued underwriting operations.

The brokers primarily attribute their revenue gains to rate increases and a large influx of new business.

"Broker results came in stronger than most expectations. They reflect the powerful rate increases that are now getting into the broker stream," said Leonard M. Wilson, special limited partner with L.F. Rothschild, Unterberg & Towbin in New York.

At Corroon & Black Corp., where third-quarter revenues jumped 32.7%, "New business was at least as large a factor in our revenue growth as the increases in premium dollars at renewal," said Stephen Crane,

senior vp and chief financial officer.

"We expect continued improvement in our revenue base in 1986. . . Hard work on the part of our people and new business growth have helped us," Mr. Crane added.

The wide array of skills available to clients of large brokerage houses is one reason for the increase in new business, explains John E. Keefe, research analyst at Drexel Burnham Lambert Inc. in New York.

"Because the insurance environment is so tight, big-broker expertise is needed by clients. Little brokers and agents will lose business" to these larger brokers, Mr. Keefe said.

Growth "will continue to be very strong for brokers for the next several quarters," added Thomas G. Rosencrants, director of research and general partner with Conning & Co. in Hartford, Conn.

Mr. Wilson predicts that the brokers' revenue growth "will certainly continue through the middle of 1986, although the back-to-back rate increases may slow growth a bit in the second half of 1986."

Only one of the publicly held brokers has not reported results for the third quarter. Alexander & Alexander Services Inc. says it will not report its results until later in the month because of the accounting com-

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Surge continues in third quarter
(In thousands of dollars)

	Gross revenues	% change	Net income	% change
Crump Cos. Inc.	\$27,276	50.0%	\$2,743	97.5%
Emett & Chandler	12,103	40.3	1,273	3,082.5
Poe & Associates	8,486	36.7	1,071	389.0
Corroon & Black Corp.	70,927	32.7	9,804	379.6
Arthur J. Gallagher	23,120	30.2	3,913	50.4
Marsh & McLennan	350,900	27.7	42,300	34.7
Frank B. Hall	105,146	17.3	-94,479	N/M

N/M — Not meaningful because of extraordinary charge for discontinued operations

Chart: Amy Palmer

Three states OK claims-made form, but others may miss Jan. 1 deadline

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update

Wausau to join Nationwide

Continued from previous page
 buy a \$250 million note to be issued by Wausau. Premiums earned by Wausau after Dec. 31 will be ceded to Nationwide's intercompany reinsurance pool, through which Nationwide affiliates share premiums and losses on a pro-rata basis.

Wausau probably will assume a 10% to 15% share of the group's business, though a final decision on Wausau's participation has not been made, according to Leon J. Weinberger, vp of Nationwide's property/casualty subsidiaries.

Nationwide also announced changes in Wausau management. Along with his current responsibilities, Mr. Weinberger will take over as president and chief executive officer of Wausau, replacing Thomas Hancock, a Wausau director who came out of retirement last summer to become interim chief executive.

Mr. Hancock had replaced John A. Schoneman, who resigned last June over disagreements with Mr. Hancock about how to deal with a \$208.6 million operating loss reported in 1984 (*BI*, June 10).

Paul A. Donald, president and general manager of Nationwide, will become chairman of Wausau.

Together, Nationwide and Wausau would represent the fourth-largest U.S. property/casualty insurer based on combined 1984 premium volume of \$4.8 billion.

The capital infusion will help Wausau, which has seen its policyholders surplus dwindle because of recent operating losses. Wausau reported an operating loss of \$8.5 million for the first half of 1985 and net written premiums of \$669 million. Surplus amounted to \$256 million as of June 30.

Net premiums for all of 1985 will probably total \$1.3 billion, says a Wausau spokesman.

Wausau reported an operating loss of \$208.6 million and net premiums of \$1.16 billion in 1984. Policyholders surplus stood at \$302.6 million as of Dec. 31, compared with \$510.5 million at year-end 1983.

Earlier this year, broker Marsh & McLennan Inc. instructed its offices not to place new or renewal business with Wausau, citing the insurer's high net premium-to-surplus ratio (*BI*, June 17).

With the addition of the \$250 million from Nationwide, Wausau will probably finish 1985 at or below a 3-1 net premium-to-surplus ratio, said Lou Zellner, Wisconsin deputy insurance commissioner.

The Wisconsin Insurance Department has not yet formally approved the plan of affiliation, but is expected to do so.

The Ohio Insurance Department had already given its approval last week for Nationwide to invest \$250 million in the Wausau note, according to Wayne Jones, deputy insurance director.

Wausau expects that its rating by A.M. Best Co.—which dropped to a B-plus in 1984 and was deferred this year—will return to A or A-plus following the affiliation agreement.

Wausau will continue to operate from its headquarters in Wausau, Wis., and market its own insurance products and services.

Eagle-Picher acts on liabilities

CINCINNATI—Eagle-Picher Industries Inc., which estimates its future liability for asbestos claims at \$400 million, will take a \$140 million aftertax charge against fourth-quarter earnings to help fund that liability.

Eagle-Picher announced last week that it will purchase \$150 million in additional insurance coverage and establish a \$185 million reserve for asbestos claims. Added to \$65 million in liability insurance that will remain at the end of its current fiscal year Nov. 30, the new insurance and reserves should cover pending claims and future asbestos liabilities, a company spokesman said.

The \$140 million charge against earnings will cause approximately a \$115 million loss for the fiscal year, the company says.

The additional coverage is a scheduled financial insurance agreement with Aetna Life & Casualty Co. that will provide Eagle-Picher with a total of \$150 million in coverage from 1988 to 2000.

Eagle-Picher will pay a single premium of \$75 million to Aetna, which will invest the money and make payments to Eagle-Picher until the year 2000, the spokesman said. The premium is deductible, so Eagle-Picher's net cash outlay will be \$41 million, he said.

The spokesman said the Wellington agreement, which establishes an asbestos claims facility, and Manville Corp.'s proposed reorganization plan have helped Eagle-Picher estimate its future asbestos liabilities. Eagle-Picher has signed the Wellington agreement.

"There is finally sufficient information available to make a reasonable estimate of Eagle-Picher's ultimate asbestos liability," said Eagle-Picher President Thomas E. Petry. "We have, in our opinion, adopted a conservative posture toward estimating this liability and in choosing the proper accounting treatment."

By the end of fiscal 1985, Eagle-Picher expects to have paid a total of \$126.7 million in settlements and judgments for asbestos claims and defense costs, \$75 million of which has been covered by insurance.

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3 states OK claims-made form; some to delay action until 1986

By CAROL CAIN

The Insurance Services Office's revised commercial general liability claims-made form is now stamped "approved" in at least three states.

Regulators in Mississippi, Montana and Utah say they have sent letters to ISO indicating their approval of the form.

Another state, Alaska, was expected to send a similar confirmation letter this month, says Paul Troeh, deputy Alaska insurance director.

However, a number of states that recently have held hearings on the form do not expect to reach a decision by Jan. 1, the target date for use of the new form (*BI*, Oct. 21).

In addition, insurance regulators are scheduled to meet Wednesday in Chicago to discuss the latest revisions to the claims-made form, which were filed in all states on Oct. 29, and whether these changes answer concerns raised by regulators and buyers.

In Texas, the State Insurance Board, which held hearings on the form Oct. 30 and 31, has decided to leave the record open for 60 days—until Dec. 30—for additional testimony. The board will meet after that date to consider what action to take.

"We dug into it. We were very, very, very thorough. It was almost like the Grand Inquisition," said Lyndon Olson Jr., chairman of the Insurance Board.

The new claims-made policy is "such a radical and

fundamental departure in so many areas... that we will be cautious in what we do," he noted.

"I don't know whether we'll disapprove it in total, approve it in total or make amendments... But we're going to be absolute," he said.

Representatives of insurance buyers and agents questioned aspects of the form during the two days of hearings, Mr. Olson said.



"We hammered away at the policy term by term... We posed hypothetical situations and asked how it would work," he explained.

One of the areas of concern was how coverage would be triggered under the revised claims-made form. ISO recently changed the trigger of coverage to include claims made verbally to the policyholder or insurer rather than claims made only in writing.

Mr. Olson also objected at the hearing to ISO's proposal to file revisions to the form next year that would include defense costs within the policy's aggregate limits.

"I just told them it was not a very good idea," Mr. Olson said last week, though others attending the hearing said he told ISO: "Don't ever bring that into Texas."

Texas is one of the states in which prior approval

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Courts uphold N.J. regulations on cancellation

By MEG FLETCHER

TRENTON, N.J.—The New Jersey Insurance Department is prevailing in its efforts to restrict insurers' rights to cancel or not renew property/casualty insurance policies.

So far, two courts have denied insurers' requests for immediate relief from the emergency rules, implemented in September. And, Commissioner Hazel Frank Gluck says she will be ready with new regulations to control the availability of coverage when the emergency rules expire Nov. 16.

Although Ms. Gluck would not say what the new regulations would entail, she did say a market assistance program "with teeth" would be established.

"I'm sure by the 16th we will have a replacement regulation and an MAP," Ms. Gluck said. The MAP will have "teeth" in it so individual insurers will help the department place good risks, she added.

She would have preferred establishing a market assistance program earlier, but insurers had not demonstrated a willingness to cooperate until after the emergency regulations were filed, she said.

The emergency regulations apply to both admitted and surplus lines insurers and affect both commercial and personal lines cover-

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States use many tools to combat market woes

By CAROL CAIN and MEG FLETCHER

State governors, legislators and insurance regulators are continuing to take steps to make commercial property/casualty insurance more available and affordable.

In recent weeks:

• At least three more states—New Hampshire, Pennsylvania and Illinois—announced plans for voluntary market assistance programs to make coverage available.

• Ohio Gov. Richard F. Celeste signed an emergency regulation that prohibits insurers from canceling certain types of policies.

• Georgia Insurance Commissioner Warren Evans issued a directive requesting commercial lines insurers to give policyholders 60 days' notice of coverage non-renewals or renewals with premium increases.

• Illinois Gov. James Thompson signed legislation that prohibits arbitrary or unilateral cancellation of casualty insurance policies except in certain cases.

The Illinois governor also has scheduled a breakfast meeting with insurance company chief executives on Nov. 21 to discuss "all of the insurance problems facing the business community," an aide said. Gov. Thompson previously met with business leaders to discuss insurance issues.

Tort reform is expected to be one of the items on the agenda at next week's meeting, a source said.

Recent events in Illinois illustrate how states are taking action on several fronts to combat the problems caused by the tightening commercial insurance market.

For instance, the Illinois Insurance Department for weeks has been holding hearings throughout the state on commercial insurance availability. Several more hearings are scheduled this month in Illinois.

Also, last month, the Illinois Senate, in the first days of a special session to deal primarily with legislation vetoed by the governor,

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Legislators consider 3 PBGC bills

By JERRY GEISEL

WASHINGTON—Employers may need a scorecard to keep track of all the legislative proposals intended to shore up the Pension Benefit Guaranty Corp.

In a highly unusual move, the House of Representatives has passed two different bills that would boost the insurance premiums employers with defined benefit plans must pay to the PBGC.

The bills also make it more costly and difficult for companies to shift unfunded pension liabilities onto the agency.

The Senate also is considering a similar measure. The latest bill, H.R. 3128, passed by the House Oct. 31, represents the views of the House Ways and Means Committee, which drafted the proposal.

Another bill, H.R. 3500, passed by the House in early October, contains different PBGC insurance provisions that were drafted by the House Education and Labor Committee (*BI*, Oct. 14).

In addition, the Senate is considering a third PBGC proposal, S. 1730, that differs from the two House bills.

The Ways and Means Committee wanted the House to pass its PBGC bill to assure that committee members will be on the conference committee that will produce final legislation that is acceptable to the House and Senate.

The bill drafted by the Ways and Means Committee—H.R. 3128—is picking up employer support because it generally imposes the fewest financial penalties on companies terminating underfunded plans.

"Of the three proposals, H.R. 3128 is the least burdensome to an employer that terminates an underfunded pension plan," added Frank Cummings, a partner with the Washington law firm of Cummings & Kershaw.

Unions dislike H.R. 3128, because under the bill plan participants generally would receive smaller benefits when a company terminates an underfunded plan than they would receive under the other two proposals.

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Reinsurers attract new capital

By DOUGLAS McLEOD

Several U.S. reinsurers are adding to their policyholders surplus to take advantage of rising reinsurance rates and more restrictive policy conditions.

Some reinsurers—including General Re Corp., Kemper Reinsurance Co., NAC Re Corp. and Security Reinsurance Co.—have added to surplus by issuing stock or receiving the proceeds of parent company stock issues.

Others—including Clarendon National Insurance Co., The Home Reinsurance Co., Mercantile & General Reinsurance Co. of America and Folksamerica Reinsurance Co.—have simply received cash infusions from their parent companies.

In most cases, the additional capital will be used to write more new business and to support renewal business written at higher rates. However, one of the companies, Folksamerica, says it is adding capital primarily to enhance security and does not plan to expand premium volume significantly.

Most of these reinsurers also say that their underwriting postures will not change with the addition of new capital. They say they will continue to write basically the same types of business they have in the past and that the gross lines that they commit to individual contracts will not rise.

While some reinsurers bolster their surplus position, many other major U.S. reinsurers say they will not raise additional capital, noting their current capital and surplus is adequate to handle new and renewal business.

Reinsurers and brokers generally agree the flow of new capital into the reinsurance market this year probably won't make life much easier for ceding companies during the upcoming Jan. 1 reinsurance renewals, which are universally expected to be the toughest in the history of the business.

One reinsurance intermediary, who asked not to be named, said that it would probably take two or three new reinsurance companies with capital and surplus of \$200 million each to have a significant impact on reinsurance capacity next January.

"Jan. 1 is going to be horrible," especially for retrocessional covers, predicts David L. Cargile, president and chief executive officer of RFC Intermediaries Inc. in Los Angeles. "It's just really going to be a mess."

Gen Re, the largest of the reinsurers adding new capital, reported

in its third-quarter results net proceeds of \$278.7 million from the sale of 3.45 million shares of common stock. The stock issue, which was oversubscribed by the full 450,000 shares allowed under the registration, boosted Gen Re's policyholders surplus to just more than \$1 billion as of Sept. 30 (see chart).

"It was apparent to us that there would be great demand for reinsurance capacity and at elevated rate levels," and that simply renewing 1984 business "was going to require a lot of surplus support," said Edmond F. Rondepierre, Gen Re's vp, general counsel and secretary.

"There's no such thing as having too much surplus in a market like this," Mr. Rondepierre explained.

He added, however, that Gen Re will not use the new capital any differently than it has used its surplus in the past.

"It's on exactly the same standard we have always had," Mr. Rondepierre said, explaining that the company would not write larger lines on individual risks or shift its mix of treaty and facultative business.

Renewal business will be the first to benefit from the additional capital, he indicated. "In this business you service your longstanding clients first," he said.

NAC Re Corp., the recently formed holding company for North American Co. for Property & Casualty Insurance, received net proceeds of \$54.4 million

from an offering of 2.5 million common shares that was also oversubscribed by more than 300,000 shares, according to Ronald L. Bornhuetter, NAC Re's president and chief operating officer.

The stock issue boosted NAC Re's capital and surplus to \$87.5 million, and surplus will probably stand at about \$89 million by the end of this year, Mr. Bornhuetter said.

The company's capital base is not fully leveraged—it wrote net premiums of about \$13.9 million in the first nine months of 1985 and will probably write a total of \$20 million this year—and will remain under-leveraged throughout 1986 as the company builds its underwriting staff, Mr. Bornhuetter said.

"It will be another two to three years before we fully utilize our capital," he observed.

NAC Re was inactive between 1977 and 1981 and wrote relatively little business before it was acquired in 1984 by Kramer Capital Corp. It now writes a variety of property and casualty coverages on a treaty excess-of-loss basis.

The reinsurer has also formed a property facultative department

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Company	Contribution	Policyholders surplus
Gen Re	\$279 million	\$1,009 million ¹
NAC Re	54 million	89 million ²
Clarendon	50 million	57 million ²
Kemper Re	50 million	137 million ¹
M&G Re	25 million	45-50 million ²
Home Re	21 million	52 million ²
Security Re	7 million	15 million ²
Folksamerica	5 million	16 million ²

¹ As of Sept. 30. ² Year-end 1985 projection. ³ As of Aug. 31.

Some reinsurers no longer writing

Although new capital is helping some reinsurance companies increase their premium volume, a void has been created by other companies that have either stopped writing all or some classes of business or have been liquidated or placed in rehabilitation. See story, page 10.

Capacity scarce in London market

U.S. underwriters and intermediaries searching for reinsurance in London may be disappointed: Capacity has fallen or disappeared in many lines. London Editor Stacy Shapiro examines the problems and the future of the London reinsurance market on page 23.

Best's new policy irks U.S. insurers

A new policy by A.M. Best Co. to no longer recognize non-U.S. reinsurance guaranteed by letters of credit when rating insurers has left many U.S. property/casualty underwriters angry because they have lost their favorable Best's ratings. Associate Editor Steve Taravella examines the issue on page 36.

Higher prices are a bonanza for brokers

By KATHRYN J. McINTYRE

Reinsurance brokers are basking in a revenue bonanza.

Dramatically higher premiums—fueled by higher primary companies' rates under proportional contracts and by reinsurers hiking excess-of-loss rates—are boosting reinsurance brokers' commission income this year.

Rates for excess-of-loss casualty reinsurance, for example, range from 35% to 50% where there have been no losses to 500% or even more for loss-riddled programs.

But, the brokers maintain, they are earning every penny of their growing income because they are struggling to serve their insurance company clients in the most difficult reinsurance market in anyone's memory.

Executives of the largest U.S.-based reinsurance brokers agree the marketplace requires that they:

- Creatively redesign client companies' reinsurance programs to make them more attractive to underwriters.

"I'm dusting off creative things I did in 1976 that I couldn't sell in the soft market," says Joseph Zaffarese, president of Frank B. Hall Re of New York.

- Painstakingly prepare reinsurance program submissions to answer underwriters' every conceivable question, lest the submission be dismissed out of hand.

"We want the first submission to be the only one we have to make," says Thomas A. Greene, president of Thomas A. Greene & Co. Inc., an Alexander & Alexander Inc. subsidiary.

- Personally submit proposals to underwriters rather than sending them through the mails.

"A cow doesn't give milk when you send it a letter; you have to sit down with it," says Mr. Zaffarese.

- Scour the worldwide marketplace to find reinsurers to replace those who have reduced their underwriting or stopped entirely.

"There were 64 fewer facultative facilities in Septem-

ber than existed in January 1984," says David Cargile, president of RFC Intermediaries Inc. in Los Angeles.

While RFC counts 120 functional facultative markets today, Mr. Cargile says only about 50 of those are active on a regular basis and only 20 are "really active."

"And we think it will get much worse," he says, citing

the reduction of retrocessional markets willing to underwrite reinsurance for reinsurers.

"Creating capacity is the biggest problem," agrees Ward Gordon, chairman of treaty broker Intere Intermediaries Inc. in New York. He also blames a constrict-

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10 largest U.S. reinsurance brokers

Company (Parent)	Gross revenues (in millions)			Employees			Percent treaty	
	1984	1983	Change	1984	1983	Change	1984	1983
Guy Carpenter & Co. Inc. (Marsh & McLennan Cos. Inc.)	\$155 ^E	\$130 ^E	19%	1,200	1,200	—	85% ^E	85% ^E
John-F. Sullivan Co. (Fred S. James/Sedgwick)	33.3	26.0	28	338	283	19%	85	88
E.W. Blanch Co. (Independent)	29-30 ^E	23.2	25-30 ^E	232	223	4	98	99
Towers, Perrin, Forster & Crosby Inc. (Independent)	26-29 ^E	20-25 ^E	20-25 ^E	235	200	18	80	80
G.L. Hodson & Son Inc. (Corroon & Black Corp.)	25	22.0	14	193	192	—	90	90
Intere Intermediaries Inc. (Independent)	18-20 ^E	15-18 ^E	15-20 ^E	189	163	16	100	100
Willcox Inc. Reinsurance Intermediaries (Johnson & Higgins and Willis Faber)	18-20 ^E	15-18 ^E	15-20 ^E	190 ^E	175 ^E	10	100	96 ^E
RFC Intermediaries Inc. (The St. Paul Cos. Inc.)	15.9	11.2	42	219	209	5	54	59
Thomas A. Greene & Co. Inc. (Alexander & Alexander Services Inc.)	15-16 ^E	12-15 ^E	15-20 ^E	202	200	1	65	70
Frank B. Hall (Reinsurance) Holdings Inc.* (Frank B. Hall & Co. Inc.)	12.0 [*]	11.25	7	115	90	28	65	85

* U.S. business only; \$18 million and 325 employees worldwide.

^E Business Insurance estimate.

Charts and page design: Amy Palmer

Reinsurer surplus

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"which will not write much in 1986," but the company has no plans to start a casualty facultative facility, Mr. Bornhuetter said.

Kemper Corp. contributed \$50 million in capital to Kemper Re last April following a public offering of 2.6 million common shares. The reinsurance unit reported a surplus of \$137 million as of Sept. 30, a spokesman said.

"We saw an opportunity to reaffirm our position in the reinsurance market and needed more capital to sustain the kind of growth we see coming," said Kemper Re President David B. Mathis.

"It obviously gives us the ability to continue underwriting in a market environment where capacity is shrinking," Mr. Mathis said, adding that "the general overall capacity shrinkage in the marketplace will continue."

'We saw an opportunity to reaffirm our position in the reinsurance market and needed more capital to sustain the kind of growth we see coming,' says Kemper Re President David B. Mathis.

Gross premiums written so far this year are about 50% ahead of the comparable period last year, with the majority of the increase coming from higher rates on renewal business—especially treaty reinsurance—rather than new business, Mr. Mathis said.

Kemper Re is writing more facultative business, though, and this should account for about 10% of net premiums this year, compared with only 5% in 1984, according to Mr. Mathis.

New York-based Clarendon Insurance Group is planning to ex-

pand its reinsurance business with the acquisition of Cavalier Insurance Co. from Control Data Corp., which will assume all liabilities on Cavalier's previous book.

Cavalier will be renamed Clarendon National Insurance Co. as of next Jan. 1 and has received a \$50 million capital contribution from Clarendon's parent, CG America Corp.

The reinsurer's total capital and surplus now stands at \$55.2 million, according to Carl Hildner, the company's treasurer.

William Clark, executive vp and

chief operating officer of Clarendon National, said the capital infusion came from cash that was generated by parent-company investments and did not involve a stock issue.

Clarendon National will write only treaty reinsurance, about 80% of which will be casualty treaties and 20% of which will be property treaties, Mr. Clark explained.

Another Clarendon unit, Clarendon America Insurance Co., reported surplus of about \$107.3 million as of Sept. 30 and will concentrate on writing loss-portfolio transfer reinsurance, Mr. Clark said.

Clarendon America has not had a capital contribution since CG America contributed \$100 million in late 1984.

Home Re received a \$21 million addition to surplus last August from its parent, The Home Group Inc. The reinsurer's surplus amounted to \$51.9 million on Aug.

31 after the addition, according to Senior Vp Abe Altman.

A Home Re spokeswoman said that the capital infusion will be used to expand the reinsurer's non-proportional treaty and facultative business.

Home Re reported policyholders surplus of \$28.3 million at the end of 1984.

Policyholders surplus at Mercantile & General Re will more than double with the infusion of \$25 million in new capital from M&G Re's parent company, Mercantile & General Reinsurance Co. P.L.C. of London, which itself will receive an infusion of 25 million pounds (\$35 million) from its parent, Prudential Assurance Co. Ltd.

M&G Re ended 1984 with surplus of \$23.7 million and will probably finish 1985 with \$45 million to \$50 million with the infusion of capital expected before Dec. 31, according to Richard F. Gilmore, president and chief executive officer.

"Our parent believes very strongly that there is a great potential in the U.S. market," Mr. Gilmore said.

M&G Re writes only treaty business, about 80% of which are property risks, he said.

The reinsurer has no plans to enter the facultative market or to otherwise change the composition of its book of business or the size of the line it will write on individual risks, Mr. Gilmore said.

He added that although the capital infusion would allow M&G Re to write substantial amounts of new business during the Jan. 1 renewal season, the reinsurer will proceed slowly.

"We have no desire to grow simply to leverage that surplus—only if we make a buck on it," he said.

M&G Re has written about \$40 million in net premiums so far this year on surplus of slightly less than \$25 million, putting its net premium to surplus ratio at less than 2-1, Mr. Gilmore noted.

Security Re received a capital contribution of about \$7 million last July after a public offering of preferred stock and senior debentures by its parent company, Orion Capital Corp., according to William H. Crandall, president of Orion's reinsurance and special programs division.

Some of the capital will go toward loss reserves while some of it will be contributed to surplus, Mr. Crandall said.

An Orion spokeswoman said the reinsurance unit will finish 1985 with about \$15 million in policyholders surplus, compared with \$10.5 million at the end of 1984.

Mr. Crandall predicted "moderate growth" for the company this year, with gross premium volume at Security Re hitting about \$31 million, compared with about \$30 million last year.

The reinsurer's book will probably tip toward casualty business, he added, since casualty rates are rising fastest.

Folksamerica, a U.S. reinsurer controlled by Folksam International Insurance Co. Ltd. of Stockholm, Sweden, will receive a \$5 million contribution to surplus from its parent before Dec. 31, according to President Steven E. Fass.

However, he said the reinsurer will not use the new capital to increase its premium volume.

"This contribution is neither needed to support existing business nor intended to finance a major expansionary effort," Mr. Fass said, reading from a letter that Folksam sent to reinsurance intermediaries.

Instead, the contribution—which will boost the reinsurer's surplus to \$16 million—is intended to assure ceding companies of Folksam's security as a reinsurance market, he explained.

Many ceding companies equate size with security and set minimum

Continued on page 6

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THE MORE-THAN-ONE-COMPANY INSURANCE AGENT.

Reinsurer surplus

Continued from page 4
surplus requirements without considering the extent to which the surplus is leveraged, Mr. Fass observed.

"This is really our answer to companies that have not looked beyond the bottom-line surplus numbers," he said.

Folksamerica will write gross reinsurance premiums of about \$8 million this year and net premiums of about \$7 million, making for a net premium-to-surplus ratio of less than 0.5-to-1, Mr. Fass said.

Premium volume will increase in 1986, but not beyond a net premium-to-surplus ratio of 1-to-1, he added.

"At this point we are really not aggressively going out and writing business," Mr. Fass explained.

Folksamerica stopped writing facultative reinsurance at the end of 1983. About 80% of its treaty business is property and 20% is casualty, Mr. Fass said, adding this ratio will not change following the surplus contribution.

In addition to these companies, the New York Insurance Exchange has added four new syndicates since January, including Fairway Syndicate, capitalized with \$10 million by a Princeton University endowment fund; and Senate Syndicate Inc., First Riverside Syndicate Inc. and Meadows Syndicate Inc., capitalized with \$3.55 million each.

Other reinsurance companies are also expecting capital infusions by year-end.

American Re-Insurance Co., a unit of Aetna Casualty & Surety Co., has not yet received additional capital, but will get a cash infusion from Aetna by Dec. 31, according to American Re President Ronald E. Compton.

"Now is the time for professional people to invest money in the business. The opportunities are there, and if you have the resources to take advantage of them, now is the time to do it," Mr. Compton said.

Mr. Compton said he is not yet sure how much money will be contributed to American Re by Aetna. However, he said that all the money will go toward surplus to allow American Re to write more business and none will be added to reserves to cover prior years' losses.

"Aetna will not have to fund additional reserves for us," Mr. Compton said.

American Re will increase the amount of facultative reinsurance business it writes, since prices on facultative business are rising faster than they are on treaty business, he said.

The reinsurer will not increase its net-line capacity on individual risks, which is already "very large," reaching as much as \$10 million on casualty risks, Mr. Compton said.

So far this year, American Re's net written premiums are up 56% over the comparable period in 1984. "By far the biggest part of that is price increases" on renewal business, Mr. Compton said.

Meanwhile, another insurance holding company that recently made a public stock offering has not announced whether proceeds from the sale will be used to support reinsurance underwriting.

Fireman's Fund Corp. announced last week that it had netted \$195 million from the initial public offering of 35.2 million shares of its common stock (BI, Oct. 28).

The company says the proceeds of the sale will be used to support the growth of its property/casualty insurance operations. "However, a spokesman said the company has not yet decided how the proceeds will be distributed among its subsidiaries, or how much Fireman's Fund reinsurance units—including San Francisco Reinsurance Co.—may eventually receive.

'Now is the time for professional people to invest money in the business. The opportunities are there, and if you have the resources to take advantage of them, now is the time to do it,' American Re's Mr. Compton says.

While some reinsurers are boosting their policyholders surplus, several other large U.S. reinsurers that are not contributing capital say their current surplus positions are adequate to continue underwriting.

Norman M. Wayne, president of INA Reinsurance Co., a CIGNA Corp. affiliate, said INA Re has not added capital and has no plans to do so.

"We still have a pretty strong capital position," Mr. Wayne said, noting that the reinsurer is operating below a 2-1 net premium-to-surplus ratio.

"We have sufficient capital and surplus to cope with the demand," said Nigel Harley, president of Continental Reinsurance Corp. "We feel well-positioned to take advantage of the upswing in the reinsurance market."

Continental Re is now writing at a 2-1 net premium-to-surplus ratio and has sufficient surplus to handle renewal business at higher rates, Mr. Harley said.

Employers Reinsurance Corp of Overland Park, Kan., a unit of General Electric Co., has also received no capital infusion to date.

However, the company is writing at a net premium-to-surplus ratio of about 1.1-to-1 and could more than double its premium volume without requiring additional capital, according to Michael Fitt, Employers Re's chairman and chief executive officer.

Similarly, Constitution Reinsurance Corp., a Crum & Forster subsidiary, has received no cash contributions from C&F parent Xerox Corp., but is writing on a capital base that is "presumably adequate for what we're doing now," said Bard E. Bunaes, chairman and president.

The reinsurance operations of Continental Casualty Co., a unit of Chicago-based CNA Insurance Cos., are also sufficiently capitalized for now, according to Senior Vp William J. Gilmartin.

"Continental Casualty has plenty of support to write as much reinsurance business as we want," Mr. Gilmartin said. "There is no neces-

sity to put additional capital in."

While the division wrote gross open-market reinsurance premiums of about \$55 million in 1984, that volume will jump to \$100 million to \$150 million this year depending on how many currently outstanding quotes are eventually bound, Mr. Gilmartin said.

About \$80 million of the company's 1985 reinsurance premium volume will be generated by renewal business, with the remaining \$20 million to \$70 million representing new business, he said.

Although some reinsurers are adding to policyholders surplus and others say they can continue underwriting without such additions, nearly all reinsurers and reinsurance brokers expect a severe capacity shortage during the January renewal season.

Most intermediaries—and some reinsurers—also agree that the companies that have increased

Continued on facing page



Continued from facing page
their surplus won't make much of a dent in the marketwide capacity crunch.

"There is still going to be a shortage of capacity," predicted Continental Re's Mr. Harley. "This new capacity is welcome, but it's not going to make up for the shortfall."

M&G Re's Mr. Gilmore agreed that too much capacity has left the reinsurance market for the additional capital to have much impact next January.

"If we had a continuing trend of more capital coming into the hands of neophytes, then I would be concerned," he said, adding that he does not see this happening yet.

James J. Meenaghan, president of reinsurance intermediary John F. Sullivan Co. in Seattle, observed that even those reinsurers with excess capacity are waiting until prices rise further before using that capacity.

"The willingness to commit that

'We have sufficient capital and surplus to cope with the demand. We feel well-positioned to take advantage of the upswing in the reinsurance market,' says Nigel Harley, president of Continental Reinsurance Corp.

money isn't there. They are still holding back," Mr. Meenaghan said, explaining that reinsurers may wait for the effects of recent rate increases to show up on their bottom lines before writing more business.

Another factor aggravating the capacity shortage is lowering of Best's ratings for many reinsurers that have suffered poor operating results, and the subsequent decision by many ceding companies to remove those reinsurers from their lists of companies considered to represent acceptable reinsurance

security, says Nick Steffey, vp and principal with reinsurance broker Towers, Perrin, Forster & Crosby in Philadelphia.

Mr. Steffey said that the flow of new capital into reinsurance companies will help during Jan. 1 reinsurance renewals, noting that Clarendon National and NAC Re are quoting programs he is handling.

"This may be a minority opinion, but I do think they will" make a difference, Mr. Steffey pointed out.

However, the new money is far from solving the market's prob-

lems, he adds.

"While the new people coming in may be a help, they will not make up for people who are not on our market security list this year that were on last year," Mr. Steffey observed.

As many as 27 reinsurers that were on TPF&C's security list last year have been dropped this year, he said. These reinsurers represented as much as 18% of the total capacity available from approved reinsurers in 1984, he explained.

On a reinsurance program for one property/casualty insurer, Mr. Steffey says, seven markets that were "significant players" in 1984 will not be used this year because their Best's ratings have been lowered. The program is reinsured with a total of about 80 companies and syndicates, he said.

"I think it's going to be the year that never ended," Mr. Steffey explained, referring to the 1986 renewals. He also predicted that

there will be more reinsurance business unplaced this year than during any previous renewal season.

"Creating capacity in casualty facultative is an uphill battle," he said, estimating that market capacity for casualty facultative risks has dropped 30% to 35% since last year, and may drop by as much as 50% for ceding companies that have a heavy exposure to long-latent disease claims.

Another area in which renewals will be especially tough, reinsurance brokers say, is retrocessional coverages for reinsurers.

"The retro marketplace has just dried up," commented RFC's Mr. Cargile.

One intermediary who asked not to be named said that half of the reinsurers he deals with may be forced to write on a net-line basis next year because the reinsurers cannot line up retrocessional support.

Three-quarters of the reinsurers will probably have to reduce the limits they can write because of shrinking retrocessional capacity, he said.

The intermediary added that where \$100 million in casualty facultative capacity could be easily lined up 18 months ago, a "perfect" risk now may be able to get only \$30 million.

About 64 facultative facilities representing a maximum of \$200 million in capacity have closed since January 1984, the intermediary said, though he explained that this total includes some "double counting" of managing general agents that represented the same reinsurance companies.

Capacity problems won't be limited to facultative risks, though the problem may be most acute there, market observers say.

"Treaty capacity for U.S. business—and particularly U.S. casualty business—is seriously short," American Re's Mr. Compton said, adding that this is the tightest reinsurance market he has ever seen.

"Certainly there is not going to be enough (capacity) to go around," Mr. Compton said.

"There are certain casualty lines that just are not going to get done," added Ward B. Gordon, chairman of Intere Intermediaries Inc. in New York.

Property reinsurance placements may be easier to complete, but at much higher rates, Mr. Gordon added.

"We think we're looking at the toughest market in the history of the business," commented Kenneth A. Hecken, chairman and chief executive officer of Willcox Inc. Reinsurance Intermediaries in New York.

"We have some clients that have a nice, quiet book of business, and they are going to fare pretty well," Mr. Hecken said.

However, programs for clients with tougher books will be far more difficult to fill out, he added.

"Throwing money at it is not going to help," Mr. Hecken said. "(Capacity) is just not going to be there."

One problem reinsurance intermediaries face is the difficulty of lining up following reinsurance markets, he noted.

A broker may find a lead reinsurer for a program, but will be unable to find following markets willing to accept the same terms. The following markets may then offer coverage on their own terms, forcing the broker to go back and renegotiate coverage with the lead, Mr. Hecken explained.

Various reinsurers may insist on using different claims-made liability forms on the same program, he added.

"It's going to be a mess. It's going to be an absolute mess," Mr. Hecken lamented. "It's going to shake down, but it's going to be a very ulcerating experience." ■

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opinions

Good reinsurance news. . .

IT'S QUITE A RELIEF to hear some U.S. reinsurers say that they will not uniformly demand that all commercial general liability insurance be written on a claims-made policy form beginning Jan. 1 (see story, page 12).

All the pronouncements that we have heard about reinsurers around the world pushing the panic button for primary companies to switch en masse to the claims-made form made us worry that reinsurers had lost sight of the real constraints on U.S. primary insurance companies.

First, licensed primary insurers can only use the new general liability claims-made form beginning Jan. 1 in those states where it is approved for use. And, it looks pretty doubtful that the form will be approved for use in all states by Jan. 1.

Second, even in those states where the form is approved for use, many primary insurers' systems and employees aren't ready to implement widescale use of the claims-made form.

And, constraints on insurers aside, the umbrella forms that will be used excess of the claims-made form have not been finalized. Brokers and agents also have not had time to properly inform their clients of the sweeping changes involved in switching to a claims-made policy form.

It's clear that many corporations with risks of long-latent injury claims will be forced to switch to a claims-made liability policy form beginning in January, if they are not already buying claims-made insurance. We fully expect that both the primary insurers and reinsurers will offer their capacity to these big risks only on a claims-made basis. That's a reality, and it will do no good to criticize.

But, many other corporations without long-latent injury risks do not have to be rushed into insuring under a claims-made form in order to protect the future sol-

veny of insurers or their reinsurers.

Commercial general liability insurance buyers should praise U.S. reinsurers that have recognized this and are not going to take a hard line by demanding use of the claims-made form for all liability risks.

These reinsurers will create the capacity needed for insurers to offer the occurrence form until regulators, buyers, brokers and insurance companies can reach a consensus on whether a claims-made form is needed at all for a broader range of policyholders.

. . .And some bad news

WHAT REINSURERS giveth, they also taketh away.

While some reinsurers will offer capacity for certain risks written on occurrence general liability forms, many reinsurers are not prepared to commit much capacity very soon to many types of risk.

Corporate insurance buyers should expect foot-dragging from their insurers on Jan. 1 renewals of all types of insurance because reinsurers are stringing out their commitments to their ceding companies.

Reinsurers will be slow to commit to January renewals because they have their own reinsurance problems and because they will want to see just how high rates will go.

It may be sometime in February before primary companies know how much reinsurance they have and how much capacity they can provide policyholders. By that time, the reinsurance brokers will have canvassed the marketplace at least once if not two or three times trying to complete reinsurance protections.

But in the meantime, primary and excess insurers awaiting word on their reinsurance have only two choices: don't commit limits now or commit limits in anticipation of reinsurance, realizing that if it is not secured they will have to cancel the promised coverage.

letters

Arguments for claims-made are 'hollow and weak'

To the editor: The casualty insurance industry, in general, presents itself as a traitor to commerce in a democratic country. The claims-made commercial general liability form is a manifestation of an obsolete industry that ceases to perform its function.

The arguments for claims-made are hollow and weak and are made, for the most part, by men and an industry that have lost their principles and any real view of their future.

It is said that claims-made is needed because the occurrence basis of coverage is uncertain. Insurance only exists in a free-market society to remove this uncertainty, to a degree, from businesses not well-gearred to assume fortuitous loss. If the casualty industry will not perform this function as society deems necessary, this sector of the industry should be shunned by society.

Supporters say claims-made is needed because the courts, judges and lawyers are unfair, unreasonable and unjust. This excuse rings of some truth, but this is nothing new. It also is a rationalization, not a reason. Reform and legislation, in some cases, is needed but this does not justify foolishness.

They say claims-made is needed because insurers require it. This again is a rationalization, and an attempt by some to avoid social responsibility.

Business Insurance welcomes letters from its readers. Please keep your comments as brief as possible. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters. Send your comments to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

The real reason that claims-made has become necessary is that those individuals who operate casualty insurance companies (including those who control from conglomerates), cut prices in order to obtain cash flow.

Now they want reform, not for themselves, but for those who require the services of the casualty insurance industry. They also want large increases in premium, some of which are justified and some of which are not.

If the casualty insurance industry will not see its social responsibility, the following efforts should be made:

- Support of legislation that provides tax deductibility for casualty claims reserves for self-insurers. If this were done, many corporations would self-insure or would self-assume more risk, thus freeing insurance capacity.

The casualty industry, of course, has lobbied against this type of law.

- It could be argued today that casualty carriers should be placed under the restraints of antitrust laws.

- The large influential insurance brokers in the United States should refuse to sell the claims-made forms.

Tennessee's approval of claims-made clarified

To the editor: In your Oct. 21 edition, an article on the new claims-made form listed Tennessee as one of the states having approved this form as previously filed.

While Tennessee is a use-and-file state we, like many other jurisdictions, have raised a number of concerns in regard to this particular filing and, in fact, scheduled a hearing for Nov. 8 where we hope to hear from all interested parties.

In addition, we have been one of the states actively attending the various commissioners' meetings where this policy

- State insurance commissioners should be informed that claims-made is a fraud on the public. If all or many of the states refused to approve the form, the battle would be won.

- Risk managers must refuse to accept coverage written on a claims-made basis.

- And finally, as much as it may be undesirable, the last possibility is federal legislation to control an industry that is, at this juncture, running amok.

I believe that it should be of great concern to all patriots to fight this terrible intrusion by casualty carriers on the integrity of American business. If use of the claims-made form becomes prevalent, many American businesses will not be able to properly function.

I have condemned a portion of an industry and people that I have worked with for a number of years, and I do this sadly and with some reluctance. However, their present and intended deeds require this statement of truth.

S.H. Staubitz
Director
Risk Management Division
State of Iowa
Des Moines

John C. Neff
Commissioner
Tennessee Department of
Commerce and Insurance
Nashville

■ *Editor's note: Commissioner Neff says he can disapprove a form at any time up to the effective date, which in this case is Jan. 1. And, once a form is in use in Tennessee, the commissioner can call a hearing at any time, after which he can disapprove it.*

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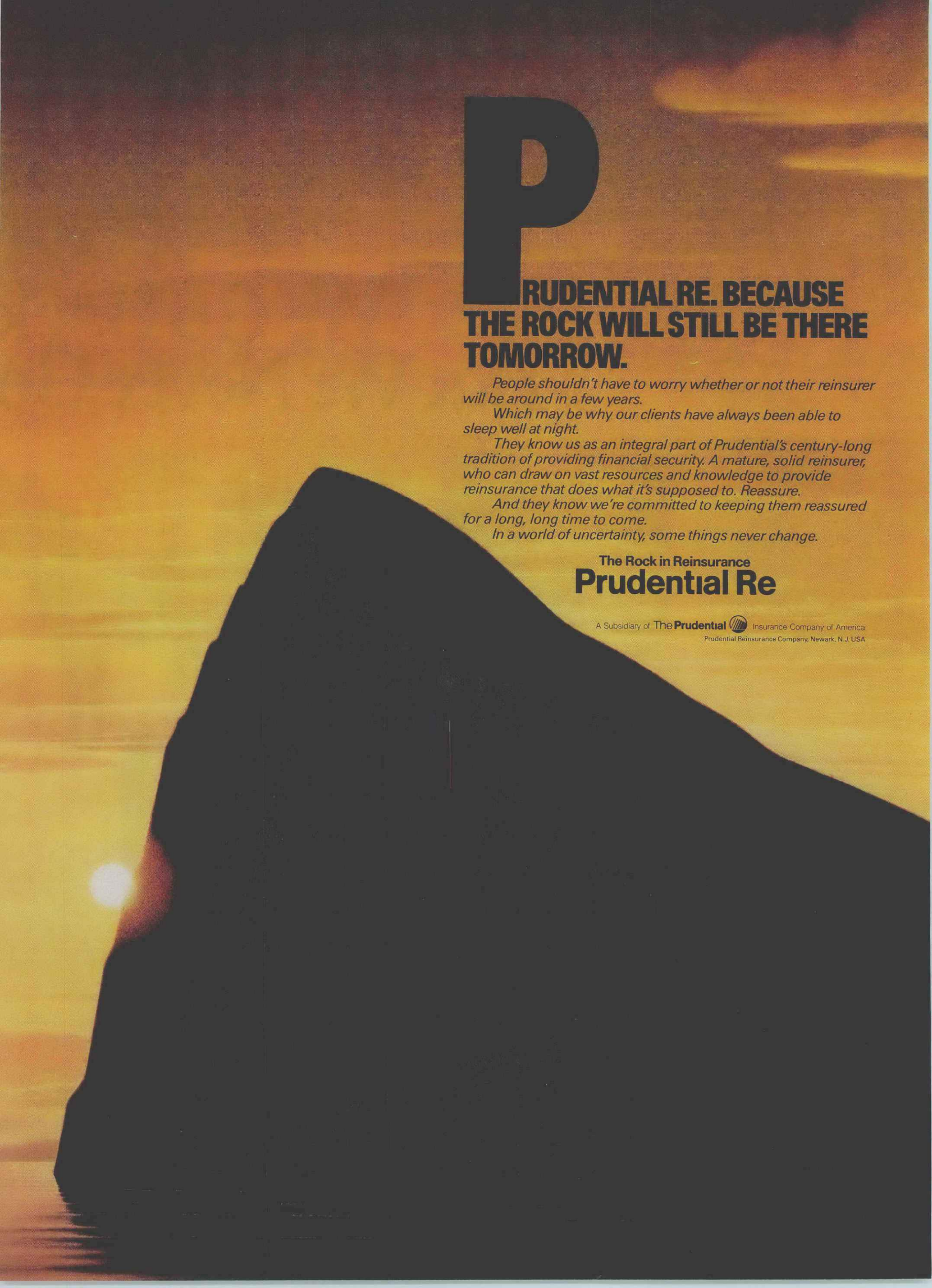
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Several reinsurers withdraw from market

By DOUGLAS MCLEOD

NEW YORK—Although some new capital is now flowing into the reinsurance business, reinsurance buyers and brokers are contending with the loss of a number of markets since the first of this year.

The already tight reinsurance market has been made tighter by the withdrawal of several reinsurers and the rehabilitation or liquidation of others by state regulators.

Among those that have—for various reasons—pulled out of reinsurance underwriting are GRE Re Corp., American Mutual Reinsurance Co., Ohio Reinsurance Corp., Mission Reinsurance Corp., National Excess Insurance Co. and syndicates on the New York Insurance Exchange.

Other reinsurers have stopped writing certain classes of reinsurance, including New England Reinsurance Corp. and Allstate Insurance Co., both of which closed their facultative operations earlier this year; and Munich Reinsurance Group, which has discontinued writing most retrocessional coverages (see story, page 28).

Meanwhile, Delta America Re-

based in Celina, Ohio, stopped writing new and renewal business earlier this year, according to Don W. Montgomery, Celina's chairman and president.

Ohio Re, which is licensed in 28 states, was recently sold to Kensu Holdings of Kansas City, Mo., after a new company, First National Indemnity Co., was formed to run off

the business of the former Ohio Re, Mr. Montgomery said.

"We just felt we were too small to continue in the reinsurance business and did not have the capital resources to underwrite new exposures," Mr. Montgomery said.

Kensu Holdings has renamed the company Ohio General Insurance Co. and capitalized it with about

\$4.1 million, according to James Wining, Kensu's president. Ohio General, which is scheduled to start writing new business after next Jan. 1, may write some reinsurance but will concentrate on direct insurance business, Mr. Wining explained.

Ohio Re wrote gross reinsurance premiums of \$15.3 million in 1984

and net premiums of \$9.4 million. Policyholders surplus totaled \$3.4 million at the end of last year.

As reported earlier this year, Mission Re, a unit of Mission Insurance Group, stopped writing new and renewal business Jan. 1, citing poor operating results (BI, Feb. 4.)

The California Insurance De-

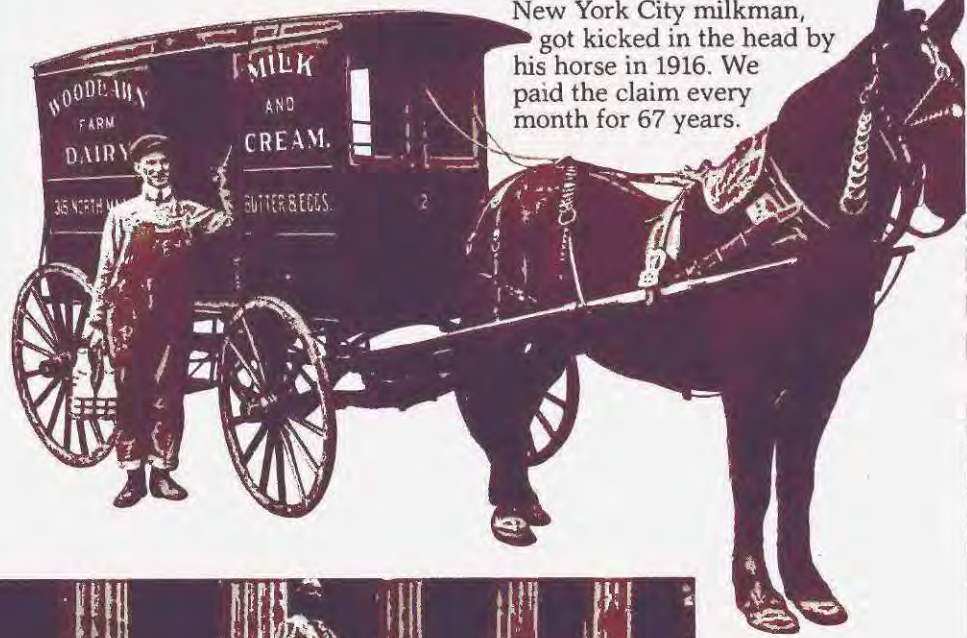
Continued on facing page

We Go Back But We Never Go

'We just felt we were too small to continue in the reinsurance business,' Mr. Montgomery says.



1910 Back in 1910 we wrote our first treaty with the Phoenix Assurance Company. North American Re has the longest continuous record of service to the industry of any U.S. reinsurer.



1916 Poor Harmon Gartner, a New York City milkman, got kicked in the head by his horse in 1916. We paid the claim every month for 67 years.

Insurance Co. was placed in rehabilitation by a Kentucky court last May, and two other underwriters—Ideal Mutual Insurance Co. and Union Indemnity Insurance Co. of New York—were ordered liquidated by New York courts.

GRE Re, an underwriting management unit of GRE of America Corp. Group, the U.S. operation of Guardian Royal Exchange Assurance P.L.C., phased out its reinsurance operations earlier this year, according to Bradford W. Rich, president and chief executive officer of Albany-Atlas Group.

GRE Re had been the reinsurance underwriting manager for Albany Insurance Co. and Atlas Assurance Co. of America, two other GRE of America units, he said.

"It represented a decision on the part of the parent company to have a very minimal participation in the assumed reinsurance business," Mr. Rich said. "This lets us focus our talents and resources on direct business."

GRE Re wrote gross reinsurance premiums of about \$20 million in 1984, most of which was treaty business with an emphasis on property, according to Mr. Rich.

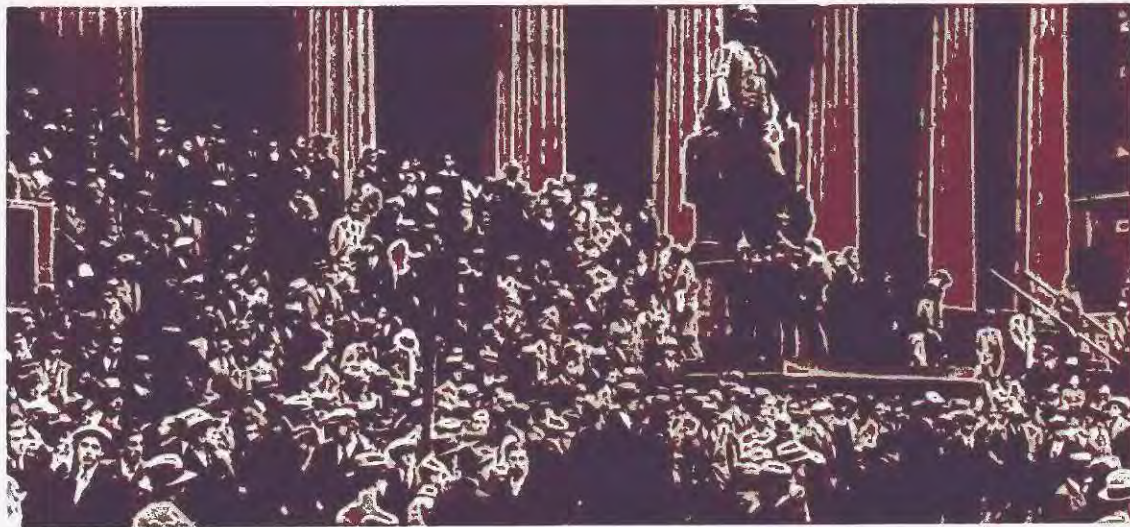
American Mutual, based in Lisle, Ill., stopped writing new and renewal reinsurance business last February, according to Gene Miceika, senior vp, treasurer and chief financial officer.

In addition to assuming open-market reinsurance business, American Mutual acted as a manager for reinsurance pools, including MAERP Reinsurance Assn., a liability reinsurance pool for atomic utilities, and the Pollution Liability Insurance Assn.

American Mutual wrote gross premiums of \$34.8 million in 1984 and net premiums of \$16.4 million. Policyholders surplus stood at \$5 million at the end of last year.

Mr. Miceika said the company would need a capital infusion to resume reinsurance underwriting, but it is not seeking additional capital now.

Ohio Re, a unit of Celina Group



1929 Black Tuesday at the Stock Exchange was the beginning of the Great Depression. We helped many insurers survive until the economy recovered.

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We did not enter the business in pursuit of cash flow

Continued from facing page
partment earlier this month took over Mission Insurance Co., an affiliate, but not Mission Re (see story, page 1).

Mission Re wrote gross reinsurance premiums of \$31.5 million in 1984 and net premiums of \$17.8 million. The company posted a combined ratio of 153% last year, and after recording a net operating loss of \$5.3 million, finished 1984 with a policyholders surplus of \$27.6 million.

National Excess, a unit of Cor-

roon & Black Corp., also stopped underwriting reinsurance at the end of 1984, though it continued to accept some direct insurance business until August, according to Stephen Crane, C&B's senior vp and chief financial officer.

When C&B closed underwriting manager Baccala & Shoop Insurance Services last February, Mr. Crane had said that C&B, like other brokers, planned to reduce its involvement in underwriting.

National Excess wrote only \$1.5 million in gross reinsurance premi-

ums last year, compared with \$6.7 million in gross direct insurance premiums.

Along with these companies, a number of syndicates on the New York Insurance Exchange have either stopped underwriting or announced formal plans to withdraw from the exchange.

Most recently, four syndicates managed by Pruco Managers Inc. discontinued underwriting new and renewal business, though Pruco officials would not comment on whether the syndicates would

formally withdraw.

The four syndicates—Pruco Syndicate Inc., Essex Syndicate Inc., John Street Syndicate Inc. and Republic Western Syndicate Inc.—wrote gross reinsurance premiums of \$26.3 million in 1984 (BI, Nov. 4).

Other syndicates that have announced plans to withdraw since January include First State Syndicate Inc., William Street Syndicate Inc., Chubb Syndicate Inc., North Star Syndicate Inc., Polaris Syndicate Inc. and Anex Syndicate Inc. Combined, these syndicates

wrote gross reinsurance premiums of \$45 million in 1984.

Meanwhile, Allstate Insurance Co. announced last July that its reinsurance division would discontinue facultative underwriting operations, which produced about 5%—or \$12.7 million—of the division's 1984 net reinsurance premium volume of \$254 million.

The company blamed continuing poor results on facultative contracts for the decision (BI, July 15).

New England Reinsurance Corp., a unit of Hartford Insurance Group, also announced last summer that it would shut down its facultative operations.

Facultative business—which New England Re had actually stopped accepting last Jan. 1—accounted for only about 3%—or \$800,000—of the annual reinsurance premium volume of its management company, Cameron & Colby Co. Inc.

Reinsurance capacity was further reduced this year by rehabilitations and liquidations, including:

- Delta America, a unit of Delta Holdings Inc., managed by the Reiss Organization's American Risk Management Inc., which was ordered into rehabilitation by a Kentucky state court after being found \$66.7 million insolvent at the end of 1984. Delta America wrote gross reinsurance premiums of \$60.7 million last year and net premiums of \$34.9 million.

- Ideal Mutual, which the New York Insurance Department found insolvent by \$155.3 million and which a New York judge ordered liquidated in February.

Reinsurance premium figures for 1984 are not available from the New York Insurance Department. In 1983, Ideal Mutual wrote gross reinsurance premiums of \$35.3 million.

- Union Indemnity, a unit of broker Frank B. Hall & Co. Inc., which the New York department found insolvent by \$138.5 million at the end of 1984 and which a New York judge ordered liquidated last July. Union Indemnity wrote gross reinsurance premiums of \$25.8 million in 1984.

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Reinsurers won't insist on claims-made

By DOUGLAS McLEOD

NEW YORK—Several major reinsurers say they will not insist on across-the-board use of claims-made liability forms for January reinsurance renewals.

While reinsurers say they will push for claims-made coverage of heavy casualty risks, most say that occurrence-based coverage will still be offered for many risks with relatively predictable liability exposures.

In an effort to limit their exposure on some long-tail risks, however, some London and U.S. reinsurers have developed an occurrence form with a "sunset clause," which is designed to gradually reduce the amount of occurrence coverage available to ceding com-

panies over a defined period.

For example, a reinsurer may agree to cover losses reported within five years of an occurrence-based reinsurance contract's inception date, along with additional adverse development of previously reported losses beyond the five-year period.

However, the sunset clause may then limit coverage to only a defined percentage of losses reported after five years, and that percentage may be reduced yearly.

The idea for the clause was first developed by Lloyd's of London underwriters including R.J. Kiln & Co. Ltd., and has since been modified by London and U.S. reinsurers. Ceding companies, reinsurance brokers and even some reinsurers strongly oppose the use of

the clause, though.

"Anybody who would buy a cover like that is nuts," said one reinsurance intermediary who asked not to be named, noting that the clause could threaten the solvency of smaller ceding companies with significant long-tail liability exposures.

Unforeseen long-tail losses could "destroy" smaller companies if occurrence-based reinsurance support is gradually phased out under a sunset clause, the intermediary explained.

"I think companies would be better off writing a net line" than relying on reinsurance contracts that include a sunset clause, he said.

"It's irresponsible of a buyer of reinsurance to accept a sunset clause," added William J. Gilmar-

tin, senior vp with CNA Insurance Cos. in Chicago.

"Some people may take that form of reinsurance because they can't get anything else," Mr. Gilmartin said, predicting that "if it flies, it will fly only as a way of meeting a short-term crisis."

Reinsurance buyers are also resisting the use of sunset clauses, according to one reinsurer who has included the clause in some programs and who asked to remain nameless.

"They don't want it. They're resisting the hell out of it," the reinsurer conceded.

Meanwhile, most major U.S. reinsurers say that during the upcoming round of renewals, they will encourage the use of claims-made forms for large, long-tail

risks such as chemical and pharmaceutical business, but will not insist on wholesale use of the claims-made form.

Constitution Reinsurance Corp. will reinsure both claims-made and occurrence forms, "but with a strong preference for claims-made" on heavy casualty risks, said Bard E. Bunaes, chairman and president.

"The only strict policy is to have heavy casualty on claims-made forms," Mr. Bunaes said.

"We think that in the real world, it is far from clear that business will be exclusively on a claims-made basis at year-end," said N. David Thompson, chairman of North American Reinsurance Co./Swiss Reinsurance Co.

While major casualty risks are more likely to be written on claims-made forms, "that's far from saying that only claims-made forms will be used," he said.

"We have a flexible attitude that will depend on the individual circumstances," according to Mr. Thompson.

"We have an open mind on the whole situation," said Robert Guyer, president and chief executive officer of the U.S. branch of Winterthur Swiss Insurance Co. in New York.

Mr. Guyer criticized an across-the-board approach to using the claims-made form, saying that it should be used for risks that include such hazardous exposures as Agent Orange or asbestosis, but "not for the corner pizza parlor."

Michael Fitt, chairman and chief executive officer of Employers Reinsurance Corp. of Overland Park, Kan., added that while some reinsurers have insisted on such an across-the-board approach, "our experience is that that is talk only."

"I think most people are accepting both" claims-made and occurrence forms, Mr. Fitt said, adding that Employers Re will continue to offer reinsurance of occurrence forms in some cases.

Prudential Reinsurance Co. is "looking at each treaty individually" to decide whether or not claims-made coverage should be provided and to see if ceding companies are using the claims-made form where appropriate as the form is approved by various state regulatory authorities, according to James E. Dwane, senior vp.

Some reinsurance intermediaries agree that during next January's renewals, reinsurers will probably be able to insist on claims-made coverage only for especially hazardous risks.

Others, however, say that the renewal process isn't far enough along yet to tell what reinsurers will be able to negotiate.

Ward Gordon, chairman of Intere Intermediaries Inc. in New York, said that an analysis of the situation will be easier in a few weeks, but that the "markets are a little chaotic" right now.

"It's still too early" to tell how many reinsurance contracts will be renewed on a claims-made basis on Jan. 1, said Nick Steffey, vp and principal with Towers, Perrin, Forster & Crosby in Philadelphia.

However, Mr. Steffey predicted that by the end of 1986—following reinsurance renewals in April and July—most reinsurance programs will be on a claims-made basis or on an occurrence basis with a sunset clause.

Growth in claims-made reinsurance coverage will come partly from global property/casualty reinsurance programs from which the casualty component will be removed and reinsured separately, he added.

"The global slip is dead," he observed.

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Top brokers

Continued from page 3
 ing retrocessional market for reducing capacity to net lines that reinsurers can retain for their own accounts.

When the retrocessions are available, the rate increases are two and three times expiring premium.

"The problem is how to organize the net lines—where do they want to play and how much do they want to take. And we won't know that until well into December," Mr. Gordon says.

How successful reinsurance brokers are in designing and marketing reinsurance programs in the

coming year will greatly influence the amount and price of insurance available to corporations, which already are suffering from big rate hikes and reductions in insurance limits.

Only about 25% of the nearly \$12 billion in net reinsurance premiums written in the U.S. by domestic and foreign reinsurers in 1984 was underwritten by direct writers—those reinsurers who deal directly with ceding companies without an intermediary. That leaves about \$9 billion in direct premium written placed by reinsurance brokers.

And, a large portion of that \$9 billion was placed by the 10 largest reinsurance brokers that dominate

the U.S. reinsurance brokerage business (see chart below).

Just how difficult the work of the reinsurance broker is today is obvious in recent management decisions at two of the leading reinsurance brokers.

Guy Carpenter & Co. Inc., the Marsh & McLennan Cos. Inc. subsidiary that dwarfs all other reinsurance brokers in staff and revenues, decided for the first time this year to formally register employees for the National Assn. of Independent Insurers annual meeting and to sponsor a hospitality suite.

The annual NAII meeting, which is being held in Chicago this week, attracts the largest gathering of

U.S. reinsurers, brokers, and their clients. They meet formally in hotel suites to discuss upcoming reinsurance renewals and informally in hotel lobbies to make new business contacts and to swap important market information.

In years past, some Carpenter brokers conveniently have been in the same city as the NAII, but they have only mingled discreetly with the registrants.

Carpenter executives decided only late last month to break with tradition, principally so Carpenter brokers can meet with potential reinsurance markets, not necessarily to develop new clients.

Meanwhile, John F. Sullivan Co.,

the second-largest U.S.-based reinsurance broker based on 1984 revenues, is postponing an important merger with its new reinsurance partner in the United States until after the renewal season.

Sullivan, and its parent company, Fred S. James & Co. Inc., were acquired earlier this year by London-based Sedgwick Group P.L.C., whose reinsurance unit E.W. Payne operates offices in New York and Des Moines, Iowa.

The consolidation of the Sullivan and Payne New York offices was announced in September, but the implementation has been delayed so as not to distract from the already difficult task of renewing clients' reinsurance programs.

"We have to get through the renewal season," explains Sullivan President James J. Meenaghan.

And, anticipating that Jan. 1 renewals will not be completed by year-end, Mr. Meenaghan says the merger will not be completed before Feb. 1, and perhaps even later.

But, Mr. Meenaghan is among the brokerage executives who are optimistic they will complete reinsurance programs. "We started early and we've been with the markets," he says.

"I'm confident we'll be able to place all the business we're planning to place," notes Robert G. Hodson, chairman of G.L. Hodson & Son Inc., the Corroon & Black reinsurance brokerage subsidiary.

"The real shortage is at the top end of limits—and the more exotic classes—not in the working covers," observes E. W. Blanch, chairman of Minneapolis-based reinsurance brokerage E.W. Blanch Co.

"By and large we'll complete placements," says Mr. Greene. "It's not that we won't have difficulty," but a substantial portion of Greene's business involves property per-risk treaties, he explains. And, capacity problems are in the casualty and windstorm areas, which do not represent the bulk of Greene's business.

Among the 10 largest brokers all but two place most of their business in U.S. domestic markets. Only Carpenter and Willcox Inc. Reinsurance Intermediaries, a joint venture between Johnson & Higgins and London-based Willis Faber, place as much as half of their business in foreign markets. However, several brokers, including RFC Intermediaries and Greene, expect their use of foreign markets to grow.

RFC currently places less than 10% of its business in international markets while Greene places 20% of its business in the London market.

At the same time they are struggling with difficult placements, reinsurance brokers complain that problems collecting reinsurance claims payments are growing, and disputes between insurers and reinsurers are increasingly resulting in arbitration and litigation.

But, as difficult as the work is, the largest brokers can hardly contain their enthusiasm for their future prospects.

Everyone agrees that the older, more established and larger rein-

Continued on page 16

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Estimated premiums handled by largest reinsurance brokers

(In millions of dollars)

Carpenter	\$3,500-\$4,500
Sullivan	\$1,200
Blanch	\$1,700
TPF&C	\$1,200
Hodson	\$565
Intere	\$600
Willcox	\$600
RFC	\$255
Greene	\$300
Hall (U.S.)	\$350

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Top brokers

Continued from page 14
 surance brokers thrive in difficult markets when it takes more than price to compete.

And, many brokers expect Carpenter to benefit the most from the difficult market. “Anyone who is nervous will say, ‘Let’s get Carpenter, because if anyone can handle it, they can.’ The perception is that Carpenter has four-wheel drive while the others drive sports cars,” says an executive of a major competing broker.

Smaller brokers also say the tight market makes it more difficult for them to compete with larger brokers. And, the larger brokers’ growth is often at the expense of the small, entrepreneurial brokers. Indeed, the number of license reinsurance brokers in New York—the only state to license reinsurance intermediaries—is down to 302 this year compared with 326 at this time

last year.

“We’ve lost accounts when ceding company management says, ‘I like your plans but it goes to one of the larger brokers,’” says John Gilbert, whose New York firm employed 20 people at year-end 1984.

He cites two reasons for the flight to size: security concerns and self-protection. If in years hence, a reinsurer goes broke, the ceding company manager wants to be able to say, “Don’t blame me, I gave it to one of the biggest brokers,” Mr. Gilbert suggests.

While the major reinsurance brokers are predicting large revenue gains in 1985, the 10 largest U.S.-based reinsurance brokers also report increases in their 1984 gross revenues (commissions and fees, including investment income). Combined, their gross revenues for 1984 are conservatively estimated at \$348 million, up from \$290 million in 1983.

Most of the brokers say their 1984 growth came primarily from new clients and new business from existing clients because large rate increases did not appear until the fourth quarter of last year.

New clients, for the most part, were attracted from direct writers or small brokers or were seeking new reinsurance programs. The largest brokers rarely take business away from other large brokers.

Gains in gross revenues among the 10 largest reinsurance brokers in 1984 ranged from a low of 7% for the U.S. operations of Frank B. Hall (Reinsurance) Holdings Inc. to a high of 42% at RFC Intermediaries.

How the leading reinsurance brokers are coping with the current marketplace and their performance in 1984 follows:

Guy Carpenter & Co. Inc.

In actual dollars, Carpenter grew the most in 1984, with an estimated gain of \$25 million in gross revenues.

Commissions and fees on U.S. reinsurance business increased 19% in 1984 compared with just 7% growth in 1983, according to M&M.

M&M will not break out Carpenter’s revenues from its worldwide reinsurance commissions and fees of \$191 million and interest income on all fiduciary funds of \$85 million in 1984.

BI estimates Carpenter’s share of those revenues at \$155 million, which is more than the capital and surplus of many of the reinsurers with which Carpenter places business.

Premiums handled by Carpenter’s 1,200 employees are estimated at \$3.5 billion to \$4.5 billion, or about a third of the total net reinsurance premiums written in the United States.

Carpenter has grown so large that it is moving next year from its current offices at 10 William St. in New York to the World Trade Center.

As in years past, Carpenter executives refused to be interviewed for this report.

Carpenter President Richard H. Blum, however, is on record with predictions for the future of the reinsurance market in the most recent issue of M&M’s quarterly publication “Viewpoint.”

Mr. Blum wrote that he expects the reinsurance industry to “be back on track in 1987, with a combined ratio of about 108% to 110%” and the best results of the cycle to be recorded in 1988.

But, Mr. Blum does not expect a “return to cash-flow underwriting.” Instead, he predicts there will be a new appreciation among ceding companies for continuity and security after wrestling with uncollectible reinsurance or slow payments on reinsurance underwritten by the “naive capacity” from the late 1970s and early 1980s.

M&M’s 1984 annual report, too, offers some insights to Carpenter.

Continued on page 18

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Top brokers

Continued from page 16

The report boasts Senior Vp Clement S. Dwyer Jr. and a team of specialists "broke new ground when they introduced a uniquely American reinsurance concept to a major German insurer."

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The new program was placed with 20 markets in the United States, Europe and London.

Carpenter operates in nine U.S. cities and six foreign cities.

John F. Sullivan Co.

John F. Sullivan's revenues will grow 10% to 20% in 1985 thanks to the merger of the New York and Des Moines, Iowa, offices of E.W. Payne with Sullivan operations, says Sullivan President James J. Meenaghan.

This growth will be in addition to growth due to new business and rate increases, he adds.

The merger with Payne will change the complexion of Sullivan's business from strictly U.S. and Canadian to international since Payne's New York office places business generated from London.

Mr. Meenaghan, who joined Sullivan in 1984 after resigning as president of Fireman's Fund Insurance Cos., became chief executive officer on Jan. 1, succeeding W.E. Taylor, who continues as chairman.

Sullivan's 28% growth in gross revenues in 1984 to \$33.3 million from \$26 million in 1983 maintains the Seattle-based reinsurance broker as the second largest in the United States.

However, several of the other Top 10 brokers have their eyes on the No. 2 spot, too.

Sullivan has added new pro-

Commission based on type of contract

Reinsurance brokers' commissions depend upon the type of contract they are handling.

On excess-of-loss treaty contracts, the commission is 5% in the so-called working layers where losses are likely and the premium is high. In the non-working layers, where the premium is somewhat smaller, the commission increases to 10%.

For pro-rata or proportional treaties, which are very difficult to place today, brokers are now seeking a 1.5% commission, compared with 1% a year ago.

For facultative placements, brokers generally are paid a 5% commission on pro-rata or proportional contracts. For excess-of-loss facultative placements, brokers generally are paid 10% of net premium when it is a non-contributing program and there is no ceding commission and 5% on the gross premium when it is a contributing program.

Commissions compensate brokers not only for finding markets but also for the work that precedes a reinsurance placement and the services that are provided for years after a contract expires.

Before a placement, the brokers' expertise in contract wording, rating and program design is needed.

During the term of the contract and often for years afterward, the reinsurance broker must collect and remit premiums and handle claims.

However, in addition to commission income, reinsurance brokers earn investment income on the premiums they hold before remitting them to reinsurers. Reinsurance brokers earn anywhere from 10% to 30% annually on these funds, depending upon their investment success and how long they hold the premiums. ■

ducers in its New York and Philadelphia offices. It also has offices in Los Angeles, Dallas, Toronto, Ontario, Vancouver, British Columbia and Montreal.

Overall, Sullivan's staff grew 19% in 1984, to 338 at year-end 1984 from 283 at year-end 1983.

E.W. Blanch Co.

Privately held E.W. Blanch Co., estimated to be the third-largest reinsurance broker with 1984 gross revenues of \$29 million to \$30 million, converted to a partnership in September and moved its Stamford, Conn., branch office to New York in a major expansion effort.

The Minneapolis-based firm con-

verted to a partnership "to meet the challenges of the future—to grow, to expand and to provide for perpetuation of the firm," said Chairman E. W. Blanch Jr.

Mr. Blanch is one of the four general partners, along with Vice Chairman Frank Wilkinson, President Michael W. Cashman and Senior Vp Paul Mavros.

The conversion to a partnership followed the unsuccessful circulation of a proposal last year by Blanch in a private placement memorandum to enter a joint venture with another firm that would form a holding company to acquire Blanch and form a reinsurer.

The new Blanch New York of-

fice is staffed with 27 people, almost triple the staff of its former Stamford office.

"We felt that to continue to increase our size and our role in the industry, we clearly needed a major presence in the major reinsurance center in the United States," Mr. Blanch said.

Among those recruited for the office were Kenneth Sherman, formerly executive vp of Sullivan, and Robert S. Youpa, formerly president of Capital Assurance Co., a Ryder System Inc. subsidiary. Both are senior vps.

The firm's timing in opening its New York office couldn't be better, Mr. Blanch suggests, because the

difficult reinsurance marketplace "creates enormous opportunities."

Blanch did not release its 1984 revenues, but *BI* estimates Blanch grew 25% to 30% in 1984, producing gross revenues of \$29 million to \$30 million while adding only nine staffers for a total of 232.

In addition to New York, Blanch operates branch offices in Chicago, San Francisco and Copenhagen, Denmark, and a joint venture in London—Bradstock Blanch.

Towers, Perrin, Forster & Crosby Inc.

Privately held Towers, Perrin,
Continued on next page

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Continued from previous page
Forster & Crosby Inc. also refuses to disclose its gross revenues, but *BI* estimates that the 51-year-old company has 1984 revenues of \$26 million to \$29 million.

TPF&C added 35 staffers during 1984, bringing the total to 235.

And, in 1985, the company is recruiting more people, including senior management staff, which will increase its size to about 250 by year-end, according to Bernard D. Berry, vice chairman and chief executive of reinsurance.

Early this year, Stewart H. Steffy Jr. joined TPF&C as vp and senior administrative officer, coming from CIGNA Corp.

In April, Jacobus J. Van de Graaf rejoined the company as a vp and manager of its new treaty office in Stamford, Conn. Mr. Van de Graaf had left TPF&C in 1970 for General Reinsurance Corp. where he rose to the position of senior vp in charge of treaty marketing and president of Gen Re's reinsurance brokerage subsidiary, Herbert Clough Inc.

The Stamford office is already staffed with eight persons, and Mr. Berry anticipates rapid growth.

Most recently, TPF&C hired Keith D. Gillies, formerly chairman of London-based C.E. Heath & Co. (Reinsurance Broking) Ltd.

These recruits are aimed at

strengthening TPF&C's treaty business, which accounts for 80% of the company's business.

And, the new employees will fill gaps left when three TPF&C veterans retire early at the end of this year: David R. Doane, Karl E. Ringer and Thomas H. Roach.

While refusing to divulge TPF&C's results, Mr. Barry allowed that "growth in 1984 was very satisfactory and we're improving on it this year."

The international division under L. Kevin O'Connor is "really a great success," contributing about 8% of reinsurance revenues, up from 6% last year.

And, TPF&C's push into facultative

reinsurance under the direction of Robert F. Jones is also a "huge success," Mr. Berry says, contributing 20% of TPF&C's business.

In addition to Philadelphia and Stamford, TPF&C has reinsurance offices in Hartford, New York and San Francisco.

G.L. Hodson & Son Inc.

The Corroon & Black Corp. subsidiary G.L. Hodson & Son Inc. is "trying to hold our own right now" in a tough market, reports Chairman and Chief Executive Officer Robert G. Hodson.

"It's a little difficult right now, but I think we're in good shape for the future," he says.

Mr. Hodson points to new talent at Hodson, including G. William Davis, formerly president of Cologne Reinsurance Co. of America, who is a senior vp.

In addition, Stuart E. Hansling was hired from Allstate's reinsurance division to direct facultative operations, which generate 10% of Hodson's business.

While adding only one employee in 1984, Hodson increased its gross revenues 14% to \$25 million, Hodson reports.

Hodson, with its home office in New Hyde Park, N.Y., operates offices in Atlanta, Los Angeles, Minneapolis/St. Paul, and New York.

Intere Intermediaries Inc.

New York-based Intere Intermediaries Inc. is preparing clients and itself for the future.

A national resources group of senior executives at Intere Intermediaries Inc. is presenting half-day seminars for clients on reinsurance problems and is assisting Intere offices with difficult reinsurance problems, notes Chairman Ward Gordon.

In addition, Intere's John Gale will open a London office next month to serve as an international liaison office to improve the company's service. Mr. Gale was senior vp and treasurer of Intere.

About 20% of Intere's business is international, including its Bermuda office. Thomas F. McGrath, formerly in charge of marine and aviation, is managing international business, replacing John Follansbee, who left the company.

And, next year Intere will consolidate its three New York offices into one at 199 Water St., where its new computer system will be fully operational.

The system not only handles accounting needs but also statistics, contract maintenance and cover notes.

Intere increased its staff 16% in 1984, to 189 employees. Most of the additions were to support staff, says President Wallace E. Winter, who is based in Intere's suburban Chicago office in Itasca.

Intere also operates offices in Atlanta, Dallas and Walnut Creek, Calif. in the United States, and in Bermuda.

Subsidiary Intere Far East Ltd. is located in Taipei, Taiwan.

As a privately held company, Intere does not report its gross revenues. *BI* estimates Intere revenues at \$18 million to \$20 million in 1984, ranking it as the sixth- or seventh-largest broker.

Willcox Inc.

Reinsurance Intermediaries

As a joint venture between privately held Johnson & Higgins in the U.S. and publicly traded Willis Faber in London, Willcox Inc. Reinsurance Intermediaries also does not release its gross revenues. And, it is the only reinsurance intermediary to refuse to disclose its number of employees.

BI estimates the unit's 1984 revenues at \$18 million to \$20 million and its employees at 190, ranking Willcox and Intere very close for the sixth and seventh spots.

Competitors judge Willcox's revenues to be much less, but they may be overlooking the large amount of business Willis Faber directs to the U.S. affiliate.

"We're considerably bigger than we were three years ago when we had 375 people," says Chairman Kenneth Hecken.

"Competitors aren't running into us because we use different markets and different approaches to business," he adds.

Willcox also is a significant user of the London market, he says, where its wholly owned subsidiary Willis Faber & Willcox Ltd. handles the business.

Willcox places about half of its

Continued on next page

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Top brokers

Continued from previous page
business outside the United States, Mr. Hecken estimated.

Willcox made substantial management changes this year.

Willis T. King Jr., formerly vp in charge of casualty in J&H's Los Angeles office, was named president and chief executive officer in April.

In June, Robert F. O'Leary, formerly an executive vp of broker John P. Woods in New York, was named vice chairman. And, Larry Helmes, formerly with Intere, was hired as claims manager.

Willcox expects to have its new computer system operating by Jan. 1.

Willcox operates only out of its New York headquarters.

RFC Intermediaries Inc.

In one year, Los Angeles-based RFC Intermediaries Inc. more than

recaptured business lost in 1983 when the broker's future was uncertain.

The St. Paul Cos. Inc. subsidiary generated \$15.9 million in gross revenues in 1984, a 42% leap from 1983 revenues of \$11.2 million and 25% ahead of 1982 revenues of \$12.7 million.

"We have concentrated on what we consider to be intermediary business," said President and Chief Executive Officer David Cargile who assumed the position only a year ago.

And, after St. Paul Cos. clearly was committed to RFC after purchasing it from The Continental Corp. in September 1983, clients were assured of the broker's future.

"We got old clients back and new clients and new volume from existing clients," Mr. Cargile said of 1984 growth. RFC now serves about 175 clients regularly, 50 more than a year ago.

Increased rates in the last quarter of 1984 also buoyed growth, contributing perhaps as much as 10% of the growth.

As the only one of the 10 largest reinsurance brokers with almost half its business in facultative reinsurance, RFC's commissions were boosted more rapidly by last-quarter 1984 rate increases than commissions of the predominately treaty brokers.

And, RFC added only 10 people to its ranks in 1984 to handle the increased business, evidence of improved efficiency, Mr. Cargile says.

RFC's facultative reinsurance business grew as a percent of premiums in 1984 faster than treaty business, but Mr. Cargile says RFC is increasing its emphasis on treaty business. As a result, RFC is recruiting treaty reinsurance experts.

But while working to improve its treaty operations, RFC is not decreasing its emphasis on facultative reinsurance.

Ronald J. Smith, who had been branch manager in Hartford, was named executive vp of the facultative division in May.

A new subsidiary of RFC, Tailored Awards Inc., was opened in St. Paul on Oct. 1 to design and structure periodic payment awards. Mac Henderson, RFC's vice chairman, is president, and John Griffith is executive vp.

RFC has branch offices in Atlanta; Chicago; Columbus, Ohio; Dallas; Hartford, Conn.; New York; Philadelphia and San Francisco.

Thomas A. Greene & Co.

In its fifth year of operation, Thomas A. Greene & Co., a subsidiary of Alexander & Alexander Services Inc., "had a profitable year and its prospects in a changing market are excellent," according to A&A's 1984 report to shareholders.

It was Greene's first profitable year since it was founded in February 1980, confirms President Thomas A. Greene, who joined A&A in December 1979 to build the reinsurance brokerage subsidiary.

"I never really expected we'd break into the black until five years out," Mr. Greene says.

While "1984 was a very good year for us," Mr. Greene says, he expects 1985 to be even better, projecting that Greene's revenues will grow about 40% and its profits will grow by more than 100%.

A&A does not report Greene's revenues or profits separately; BI estimates Greene's 1984 gross revenues at \$15 million to \$16 million, ranking it ninth among the 10 largest U.S.-based reinsurance brokers.

Greene has offices in New York, Chicago and San Francisco.

Greene specializes in domestic treaty business, which accounted for about 65% of its business in 1984 and is growing to about 72% of its business in 1985.

Only about 8% of Greene's business involves non-U.S. clients, with A&A's London-based Alexander

Continued on page 22

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Top brokers

Continued from previous page
Howden Group P.L.C. handling international reinsurance placements.

Greene's business was developed initially in 1980 from A&A's existing reinsurance brokering facility, Bleichroeder, Bing & Co. Inc., which was merged into the new Greene.

Later in 1980, Button & Tiescher Inc. in San Francisco was acquired from wholesaler IWest Insurance Managers Inc. and its treaty and facultative operations merged with Greene. Leon E. Button and Edward W. Tiescher, who founded the firm two years earlier, joined Greene. Both, however, have since left Greene and are now senior vps at Cravens & Co. in San Francisco.

In 1981, First Manhattan Intermediaries Inc., a facultative reinsurance brokerage subsidiary of Duncanson & Holt Inc., was purchased and its 21 people in Chicago and New York were merged into Greene.

Craig J. Ott and John J. O'Connell, founders of First Manhattan in 1979, joined Greene as senior vps, as did Michael D. O'Halloran and Frank L. Kleiner. All continue with Greene.

With the First Manhattan merger in 1981, Greene employed more than 100 people and by year-end 1982.

Following A&A's acquisition of London-based Alexander Howden Group Ltd. in 1982, Reinsurance Services of America Inc., a unit of Alexander Howden Group U.S. Inc., was merged into Greene and employees swelled to 250. But, many of the employees of RSA left after the merger, and by year-end 1982, Greene's staff was 215.

In 1983, Greene trimmed staff back to 200, where it is holding steady with 202 employees at year-end 1984 and projections for about 210 by year-end.

Growth is possible now with the same size staff, Mr. Greene explains, because clients are remaining with Greene.

Mr. Greene disputes reports from competitors that there has been employee turnover at the company in the last year, saying turnover was confined to clerical people, except for Mr. Tiescher, who left in June.

Among new senior vps at Greene is Donald B. Peat, who joined Greene in midyear. Mr. Peat previously was president of Lincoln National Reinsurance Co., a subsidiary of Lincoln National Corp., whose administrative affairs have been under the management of National Reinsurance Corp. since March. Lincoln National purchased National Re from The Continental Insurance Co. in December 1984.

Also, John Marek was promoted to senior vp in the last year.

A&A's merger with Reed Stenhouse Cos. Ltd. this year was expected to boost Greene's employees and revenues, with the addition of Reed's U.S. reinsurance unit Sten-Re Cole Associates. However, President Richard E. Cole, who with his partners owned 50% of the brokerage, elected to sell to Rollins, Burdick Hunter Co., the retail brokerage subsidiary of Combined International Corp.

Upon merging with RBH's reinsurance broker subsidiary Booth, Potter Seal & Co. in July, the new company is known as Cole Booth Potter Inc. Its 1985 revenues are estimated at \$8 million.

A&A President John A. Bogardus had described the formation of Thomas A. Greene & Co. Inc. in February 1980 as "the initial thrust of our often-stated commitment toward making A&A as much a factor in the domestic and international reinsurance market as we already are in the primary property and casualty spheres of our business."

A&A was then and continues to be the second-largest retail broker.

Mr. Greene says that shooting for No.2 to Carpenter is possible. "Our landing in the No.2 spot in the future depends upon how our other competitors ahead of us do. There is no reason to doubt that we can move up in the rankings strongly in the next few years," Mr. Greene said.

Before joining the reinsurance brokerage business, Mr. Greene had been with General Reinsurance Corp. for 11 years, where his positions included vp of treaty production operations.

Immediately before joining A&A, he had been president of Ryan Insurance Group Inc.'s then reinsurance brokerage subsidiary, J. H. Lea & Co.

Frank B. Hall (Reinsurance) Holdings Inc.

The U.S. reinsurance brokering

operations of Frank B. Hall (Reinsurance) Holdings Inc. employed about one-third of the unit's 325 employees at year-end 1984 but generated about two-thirds of the unit's \$18 million in gross revenues, according to Joseph A. Zaffarese, president of Frank B. Hall Re of New York Inc.

Hall Re's U.S. operations employed 115 people and generated about \$12 million in gross revenues in 1984, Mr. Zaffarese said.

Hall's U.S. operations rank as the 10th largest among U.S.-based reinsurance brokers.

Revenues on U.S. reinsurance brokerage business grew only 7% in 1984, partly because many ceding companies decided to keep their working layers net rather than pay rate increases by year-end, Mr. Zaffarese explained.

Also, Frank B. Hall Re lost a major client when Universal Casualty Insurance Co. in Coral Gables, Fla., was ordered into liquidation

in September 1984.

Employees in the United States grew 28% to 115 at year-end 1984 from 90 at year-end 1983, with big growth in the Philadelphia and San Francisco offices.

The Philadelphia office specializes in placing reinsurance for group accident and health insurance and has grown substantially with the large increase in employers self-funding group health insurance. (Employers' protections against large self-funded losses are written as reinsurance of the group health insurers that employers engage to issue policies to employees.)

Growth of facultative business in the San Francisco office has pushed Hall Re's facultative business in the United States to 35% of its premiums compared with just 15% a year ago, Mr. Zaffarese said. About 80% of the San Francisco office's business is facultative property reinsurance.

And, just last month Hall Re

opened Frank B. Hall Re of Los Angeles after purchasing the Los Angeles branch office of O'Connor Associates Ltd. The new office will increase Hall's revenues by \$1 million, all related to casualty facultative reinsurance.

George McMahon, who had run the office for O'Connor, will continue to manage the office for Hall.

With the addition of the Los Angeles office, Frank B. Hall Re now employs 40 people on the West Coast and "the offices complement each other well," Mr. Zaffarese noted.

Frank B. Hall Re closed its Texas office, Texas InterOcean Inc. in Dallas, early this year when its manager left the company.

Hall Re also operates reinsurance brokering offices in Paris; Milan, Italy; Copenhagen, Denmark; Mexico City; Panama City, Panama; Caracas, Venezuela; Lima, Peru; Bogota, Colombia; Sydney, Australia; and Brussels, Belgium.



London reinsurance capacity shrinking

By STACY SHAPIRO

LONDON—U.S. underwriters and intermediaries, who are swarming the streets of London searching for reinsurance, won't find all the capacity they are seeking, market observers say.

According to London reinsurance underwriters and brokers:

- Reinsurance capacity is shrinking by up to 40% for aviation and casualty programs and 10% to 30% for property programs because of the difficulty London reinsurers are having finding retrocessional coverage.

- A maximum of only about \$25 million in capacity for casualty reinsurance exists in London, compared with about \$40 million last year, because underwriters have

cut back or stopped writing U.S. casualty business.

- London underwriters are very reluctant to write professional liability reinsurance programs.

- Many London underwriters that plan to write U.S. casualty reinsurance are stalling until they are certain that ceding companies will use claims-made general liability policies next year.

- Lloyd's of London underwriters are restricting the amount of property reinsurance they will write for major catastrophes like earthquakes and winter storms by introducing new catastrophe reinsurance wording (see story, page 26).

In short, this will be one of the most grueling reinsurance renewal seasons ever seen in London, mar-

ket observers agree.

"The market has never been in the position it is in before," pointed out Andrew Gordon, managing director of the non-marine division of reinsurance brokers Jardine Thompson Graham Ltd., a subsidiary of Jardine Insurance Brokers.

"Last year was peace and serenity in comparison to this year's renewal season," said J.M. Payne, chairman of Lloyd's of London reinsurance broker E.W. Payne Cos. Ltd., a subsidiary of Lloyd's broker Sedgwick Group P.L.C. "The brokerage and underwriting community will face extremely difficult negotiations this year."

"Come back in two months time and I will be a shadow of myself," said Philip L. Wroughton, chair-

man and chief executive of Lloyd's brokers C.T. Bowring Reinsurance Ltd.

Some underwriters believe it is too early to tell just how hard it will be to renew reinsurance contracts by the end of the year.

"The next few weeks" will foretell the shape of the market in the future, Richard Hazell, Lloyd's underwriter for F.R. White & Others and chairman of Lloyd's Non-Marine Underwriters' Assn., told a recent meeting of the Institute of London underwriters.

Even those underwriters who will profit from a hard market agree this year's renewals won't be easy.

"One of the worst (renewal seasons)? I think it's one of the best. Your view depends on whether

you are selling or you are buying," said Robin Jackson, director of Merrett Syndicates Ltd.

"But, it is certainly chaotic," Mr. Jackson adds.

Some of that chaos stems from a number of London underwriters that have stopped underwriting. Specifically, since Jan. 1, 1985 Lloyd's syndicates and 22 insurance companies have stopped writing new or renewal business, according to Lloyd's and the British Department of Trade and Industry. The insurers include Ancon Insurance Co (U.K.) Ltd and London Guarantee & Reinsurance Co. Ltd.

Underwriters in London also have taken steps to restrict the amount of coverage they will offer to U.S. ceding companies this renewal season.

For example, Munich Reinsurance Co. has reduced the amount of U.S. business it accepts in London, said Hans-Dieter Sellschopp, a member of the board of management of Munich Re in Munich, West Germany.

Also, Mr. Jackson, one of the leading U.S. liability reinsurance underwriters in London, says he plans to reduce his syndicate's treaty reinsurance capacity for U.S. risks, but not for facultative risks. Many underwriters are cutting back on capacity because of their inability to locate retrocessional coverage, which in turn limits the reinsurance capacity they can offer to direct insurers.

Not since Hurricane Betsy in 1965 has the London retrocessional market contracted so much, observers say, noting that many players—including markets in the United States, London and elsewhere in Europe—have stopped writing London retrocessions, also known as London market excess-of-loss business or LMX business.

Specifically, Munich Re and Sovereign Marine & General Insurance Co. Ltd. have stopped writing London retrocessions.

London underwriters, in particular, are stopping the practice of reinsuring each other so that the losses that come into the market are not passed from one London reinsurer to another, said Jardine's Mr. Gordon.

"Take the (Hurricane) Alicia loss," Mr. Gordon said. "That came to the market with a vengeance." With all the retrocessions, the loss claims from the storm were "like expanding polystyrene," he explained.

"There is a huge reduction in capacity in the retrocession end of the market," added Mr. Payne, whose firm, E.W. Payne, is one of the leading LMX brokers in London. "Various underwriters specializing in LMX in particular have thinned out. We have actually lost people in the market. This applies to both property and casualty."

"So there has to be a major appraiser of writings... This knocks onto the first-tier markets and you get a pronounced contraction for all classes of business as a result."

Mr. Payne predicts that capacity for aviation reinsurance and casualty reinsurance each may contract as much as 40% because of the tight retrocessional market, though he said the contraction in property insurance probably would not be as great.

At the moment, underwriters are debating how to correct the problems in the LMX market.

Some markets, for instance, will not write retrocessions unless the reinsurers retain 10% of each layer in a "co-reinsurance" arrangement, sources say.

"But, there are conflicting arguments," Mr. Payne said. "If you are

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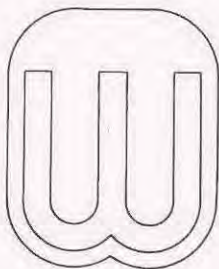
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London reinsurance market

Continued from previous page
increasing underwriters' retentions, you don't need co-reinsurance, some say."

"It is a question of whether or not there has to be a retrocession. It is a move toward net-line underwriting," Mr. Gordon says.

Some sources say that many London underwriters will not have their retrocessions in place until Jan. 1. And that, in turn, will delay the renewal of direct insurers' reinsurance.

"I don't have any casualty (retrocessions)," said Mr. Jackson on Oct. 31, the day before his retrocessions were scheduled to be renewed. Mr. Jackson, who begins to write year-end renewals on Nov. 15, said he plans to have his retrocessions lined up by then.

Another dilemma on London reinsurers' minds is the controversy over the Insurance Services Office's proposed commercial general liability claims-made form, which is supposed to be introduced on Jan. 1.

London reinsurers overwhelmingly want original business to be written on a claims-made form. They warn that if U.S. regulators fail to support the claims-made form and force insurers to write business on occurrence forms, the London reinsurance market will not support U.S. ceding companies' liability business.

For instance, Hady Wakefield, deputy chairman of C.T. Bowring Reinsurance Ltd., said he told Illinois insurance regulators "that I was fearful that the support from London would disappear unless they changed the form for risks to claims-made. The support now will depend on the insurance commissioners' attitude toward the ISO CGL form.

"London could play a bigger role in the U.S. casualty business if the U.S. would adhere to the stipulation the London underwriters require," he added.

If the ISO claims-made form is not in place by Jan. 1, London reinsurers will handle the situation in three ways, Mr. Jackson said:

- There will be "hawks," who will still demand that reinsurance be written on a claims-made form and write treaties only on a claims-made basis.
- Others will allow ceding companies six months to implement the claims-made form.
- Finally, there will be the "followers," who will go along with what the rest of the market decides.

Bowring's Mr. Wakefield, whose company places a greater volume of U.S. reinsurance with the London market than any other broker, believes some London underwriters will insist on a "sunset clause" in the

wording of treaties if claims-made forms are not implemented by U.S. liability insurers by Jan. 1.

A reinsurance treaty containing a sunset clause would pay claims from a given loss for a specified number of years. At the end of that period, the ceding company and the reinsurer could negotiate any additional coverage. But, essentially, the reinsurer's obligations would end at that time.

"So, there would not be an IBNR—included but not reported—left, but there will be IBNE—included but not enough," Mr. Wakefield said. "This (solution) obviates the sort of situation we are in today."

However, major U.S. casualty reinsurers in London believe that capacity for U.S. risks could be bolstered if the claims-made form is put into use on Jan. 1 and if London reinsurers can attract more capital.

The latter is already occurring. For example, Unionamerica Insurance Co. Ltd., which almost exclusively writes U.S. risks, intends to keep on writing this business during upcoming renewals armed with new capital.

The company, a subsidiary of Continental Corp. in New York, is joining forces with another Continental subsidiary, Continental Reinsurance Corp. (U.K.) Ltd.—which does not write U.S. risks—increasing the capital of Unionamerica in the process, says Andrew Banks, managing director of operations for Unionamerica.

Although Continental still is determining by how much the company's capital will be increased, Mr. Banks did say that in 1984, Unionamerica's capital and surplus was 22.3 million pounds (\$31.2 million).

Mr. Banks says, "further capital is being considered and promised. . . . In 1984, we had gross premiums of 65 million pounds (\$75 million), and this year, we are looking at \$80 million to \$90 million in gross premiums, principally from reinsurance."

Ian Sinclair, the insurer's managing director-underwriting, adds, "We don't see why we can't write (U.S. casualty business) as long as we get our act together."

Mr. Sinclair currently is writing some casualty renewals of long-established clients on manuscript treaties until the ISO claims-made form is approved. "The ceding companies I write must be openly, publicly committed to claims-made or I am not interested."

More people are also asking to join Lloyd's, which will further increase capacity. The market expects more than 3,000 people to join in 1986, bringing the total to more than 29,000, a Lloyd's spokesman said. In addition, 19 new Lloyd's syndicates will be formed, he said, though he did not know what kinds of risks will be written by the new syndicates. ■

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Lloyd's issues catastrophe treaty wording

By STACY SHAPIRO

LONDON—Lloyd's of London is for the first time issuing standard wordings for U.S. excess-of-loss property catastrophe reinsurance treaties.

The new wordings, released in late September, clarify the definition of an occurrence in an attempt to limit reinsurers' exposure to losses from a single catastrophic event.

The wordings also make clear the circumstances under which coverage can be reinstated.

Although the new wordings do not now exclude coverage for pollution risks, underwriters say they intend to include pollution exclusions as an endorsement to the treaties.

The main purpose of the wordings is to codify what reinsurers at Lloyd's have considered standard practice for some time, according to Peter A. Dunn, assistant underwriter for syndicates managed by M.S. Freeman & Others.

"There is nothing in the wording which is absolutely new," said Mr. Dunn, who helped to write the treaties.

"The essential idea is to improve the efficiency of the Lloyd's market, so that when an underwriter is signing the slip he is also issuing the wording for the coverage he is signing.

"This way, everyone will be aware of the wording of the contract," he said.

Mr. Dunn added that it is only coincidental that the new wording is ready for use during this reinsurance renewal season, which is expected to be one of the most chaotic in history. Reinsurance capacity for U.S. property treaties is being cut by as much as 30% from last year because London reinsurers' retrocessional market is collapsing (see story, page 23).

The major change in the wordings that will affect ceding companies is in the definition of a "loss occurrence."

The wordings define "loss occurrence" as any one disaster, accident or loss—or series of disasters, accidents or losses—arising out of one event.

Under the wordings, a ceding company in most cases can only collect under the contract once for damages occurring within a 168-hour period stemming from the same event, or within a 72-hour period for some specified perils.

In the past, reinsurers note, ceding companies sometimes claimed more than once for the same event.

For example, a ceding company that faced \$300 million in claims from an earthquake may have claimed twice on a catastrophe treaty that had a limit of \$150 million per occurrence. The ceding company would claim \$150 million for damage that occurred during the first three days following the quake and another \$150 million for damage that occurred during the next three days from aftershocks and subsequent fires.

Under the new wordings, however, the limits of the treaty would be exhausted after the first \$150 million in damages are paid since the losses occurred within a 168-hour—or seven-day—period.

"Because an earthquake is so colossal, you can only collect once in the event," said Mr. Dunn.

The wordings also define the peril of flood as "all losses sustained by the company in a territory forming one and the same river basin."

A river basin is defined in the wordings as "the basin of a river, including the basins of all tributaries of such river which flows directly into an ocean, sound, bay

or gulf or into one of the Great Lakes of North America."

Lloyd's also specifies a winter storm peril as "losses arising out of the perils of collapse (caused by weight of snow and ice) and water damage caused by bursting frozen pipes and melting snow."

This means, for example, damage caused by a snowplow is not covered by the wording.

Because of this new definition of loss occurrence, Lloyd's underwriters felt that there was no

need for a specific clause on earthquake losses, which has been included in past policy wordings.

Lloyd's has drafted two versions of the wordings, though the versions are identical except for the section on reinstatements of coverage for specified perils.

One of the wordings allows no reinstatements to cover losses from the same event, no matter what peril caused the losses.

The other wording allows one reinstatement for losses related to

tornadoes, cyclones, hurricanes, windstorms and hail within a 72-hour period.

It also allows one reinstatement for losses from riots, riots attending a strike, civil commotion, vandalism and malicious mischief during a 72-hour period within the boundaries of a municipality.

However, the 72-hour limit defining this type of an occurrence may be extended by reinsurers for the continued occupation of a policyholder's premises by strikers, the

wording says.

The wording bars reinstatements for all other types of losses.

Mr. Dunn and his committee explain in notes to the new wordings that they may not cover every unforeseen event, but adds that the committee has tried to foresee most areas of dispute that could arise.

"It is impossible in a wording such as this to try to cover every contingency which could arise out of these clauses," the notes say.

Continued on next page



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Continued from previous page

"We acknowledge that in certain areas ambiguity is bound to remain; a watertight wording, even if possible, would run to many volumes.

"Consequently, we have only tried to make underwriters' intentions as clear as possible. The ambiguities, if any, which occur will have to be dealt with on any individual level by negotiation as and when they arise, always having regard to the contract's intent rather than a strict legal interpretation of the words," the notes say.

Mr. Dunn noted that Lloyd's underwriters have no obligation to follow the new wordings.

Both wordings exclude mention

of a pollution and seepage exclusion. According to the notes on the wordings, "a pollution and seepage exclusion has not been included since underwriters cannot at present decide how it should be worded. A specific exclusion should therefore appear on the slip where underwriters require it."

But Lloyd's underwriters say they intend to exclude pollution and seepage from most U.S. catastrophe reinsurance programs, says Mr. Dunn. "Seepage and pollution is a very serious problem."

The new wording, which was introduced only shortly before the beginning of year-end renewal season, will probably be used by most

Lloyd's property reinsurers this year, said Mr. Dunn.

But, he admitted that the underwriters have only just received the wordings and so they are still digesting them.

Work on the new wordings began 2½ years ago, when underwriters at Lloyd's decided they needed their own standard wordings. They previously used various reinsurance wordings issued by other companies.

The committee that developed the new wordings included Mr. Dunn; Andrew Stout, deputy underwriter at J.B. Hose & Others; and Bill Rendall, deputy underwriter at R.J. Kiln & Others. ■

Swiss Re gives cedants product liability advice

By STACY SHAPIRO

ZURICH—Swiss Reinsurance Co. is giving its non-U.S. ceding companies advice on how to control losses from U.S. product liability lawsuits.

In September, Swiss Re published recommendations for ceding companies whose clients are named in product liability suits filed in American courts, and whose prod-

ucts are either exported to the United States or are manufactured in the United States by a subsidiary covered under a parent company's insurance policy.

When notified of a product liability suit, the Swiss Re recommendations suggest that a non-U.S. insurer immediately contact an attorney with expertise in product liability and who is admitted to the bar in the state in which the suit is brought.

"It must be emphasized that only by calling in an attorney who is experienced in product liability, and who is admitted to the court where the suit was brought, can an adequate representation of interest and claim settlements be guaranteed," the pamphlet says.

In addition, Swiss Re also recommends that ceding companies contact the claims department of New York-based North American Reinsurance Corp., a Swiss Re subsidiary, for expertise when a policyholder is hit with a product liability claim.

North American Re's claims department "is comprised of specialists who are experienced in American product liability law," the pamphlet says.

Whenever a claim is submitted to North American Re, the company immediately calls in an attorney who determines whether the claim can be rejected, settled out of court or defended, the pamphlet says.

The recommendations also note that "the preservation of evidence is the most important and urgent step in the defense of product liability suits."

The ceding company, therefore, should make sure that its policyholder retains records regarding the product's planning, development, production, control and sales, the pamphlet says. It should also secure photographs and product examinations and tests by experts.

The minimum information that North American Re will request about a case is: a description of the facts; a copy of the summons and complaint; product-related information; copies of sales documents; advertising material; instructions for use; warning labels; photographs of the product; the name and address of the importer; the retailer and sales representative in the United States; and a copy of the insurance policy.

However, the recommendations Swiss Re is giving to its ceding companies focus only on how companies should respond to product liability suits, and "do not address the basic question of whether and how and at what price U.S. liability exposure can be covered," said Paul E. Christen, general manager of Swiss Reinsurance Co. in Zurich.

Swiss Re favors the use of a claims-made policy form for U.S. casualty risks, Mr. Christen notes.

However, "Whilst claims-made policies, combined with annual aggregate limits, the inclusion of defense costs, the exclusion of punitive and exemplary damages, etc. . . may be a step in the right direction, a certain 'unknown' factor remains: How are the U.S. courts going to interpret the new policy wordings?" Mr. Christen asked in a letter to *Business Insurance*.

Mr. Christen also recently said that Swiss Re may consider writing hard-to-place U.S. casualty business during this year's reinsurance renewal season. Late last year, Swiss Re said it would no longer write North American heavy liability risks under then-prevailing conditions, though it would continue to write liability coverages for light commercial risks (*BI*, Sept. 23; Jan. 21).



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Munich Re stops writing retrocessional business

By STACY SHAPIRO

MUNICH—Munich Reinsurance Co. is pulling out of the retrocessional market, a member of the company's management board confirms.

"We are basically not going to write reinsurance of reinsurance," said Hans-Dieter Sellschopp, the Munich Re official. "We are reinsurers of the original ceding companies."

Munich Re does not consider itself a major market for retrocessional coverage, he said, noting he could not estimate the company's retrocessional premium volume.

Although Munich Re says it will not longer write most forms of re-

trocessions, it will still write retrocessional coverage for captive reinsurance companies, he said.

While Munich Re's 1984/1985 annual report had not been released at press time, Mr. Sellschopp said the company wrote 11 billion deutschmarks (\$4.37 billion) in gross annual reinsurance premiums, up from 10 billion deutschmarks (\$3.6 billion) the previous year. The company wrote 8.8 billion deutschmarks (\$3.2 billion) in net premiums last year.

But, Mr. Sellschopp said, the company's overall financial results for 1984/1985 were slightly worse than the previous year, when it posted group profits of 44.3 million deutschmarks (\$15.9 million).

The company also will post an underwriting loss on liability accounts this year, according to Mr. Sellschopp.

The loss is almost "exclusively due to U.S. liability risks—either directly from the U.S. or indirectly" through foreign ceding companies, he said.

Munich Re Group, the reinsurer's U.S. branch, is the sixth-largest U.S. reinsurer, according to the Reinsurance Assn. of America's survey of 1985 first-half

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'We are basically not going to write reinsurance of reinsurance,' says Mr. Sellschopp.

results (*BI*, Sept. 23). In the first six months this year, the U.S. company wrote nearly \$178 million in net reinsurance premiums, according to the RAA.

Despite being clobbered by U.S. liability losses during 1984/1985, Munich Re will continue to support ceding companies writing U.S. and international liability insurance during 1986, Mr. Sellschopp said.

"Our basic philosophy is that we are professional reinsurers and will remain professional reinsurers," he said. "We are not, therefore, pulling out of any markets or classes of reinsurance altogether."

But, to "grant continuity to markets in the world," Munich Re will be more selective about the casualty risks it writes in 1986, Mr. Sellschopp said. For example, Munich Re will not write:

- Errors and omissions reinsurance for international brokers and reinsurance brokers, although it will consider writing the coverage for small brokers with only local accounts.

"If a broker is incompetent, should we hold him harmless by supporting him with insurance?" Mr. Sellschopp asked. "We bear the risk of his mistakes ourselves."

- Directors and officers liability reinsurance for certain industries, like financial institutions.

"We cannot relieve the bank of responsibility to invest money properly," he said.

- Reinsurance for U.S. municipal risks.
- Reinsurance for U.S. pollution risks.

In addition, Munich Re will attempt to segregate the risks of U.S. subsidiaries and U.S. exports from non-U.S. companies' liability insurance programs.

"U.S. subsidiaries should be insured in the U.S. market and not, say, in German (liability) policies," Mr. Sellschopp said. "The U.S. market professionals know more about their own country."

Continued on page 30

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Reinsurance rules pose a dilemma for state regulators

By CAROL CAIN

State insurance regulators are walking a tightrope, trying to balance their regulation of reinsurance.

On one hand, the growing number of insurer insolvencies is tempting state insurance commissioners and legislators to more closely regulate reinsurance transactions to protect policyholders and ceding insurers.

They want to guarantee that when claims roll in, the reinsurers

will be able to respond.

On the other hand, overregulation could scare some reinsurers away, making an already tight reinsurance marketplace even worse.

"In a lot of respects, regulators and legislators are overreaching... but you can't blame them. They have to protect buyers," said Robert Mangino, general counsel of North American Reinsurance Corp., which is part of Swiss Re Holding (NA) Inc. in New York.

"There's been a lot of churning and activity... But hopefully reinsurers will be able to point out to regulators and legislators that they have enough rules, regulations and statutes," said T. Darrington Semple, resident counsel and secretary of American Re-Insurance Co. in New York, an independent subsidiary of Aetna Life & Casualty Co.

"They already have the tools to regulate reinsurance," he added.

"During the last 50 years, the record of insurance commissioners in regulating reinsurance has been tremendous," concedes Donald J. Greene, an attorney with the New York law firm of LeBoeuf, Lamb, Leiby & MacRae, which represents Lloyd's of London in the United States.

However, he warns that the regulators are not equipped to expand their regulation of reinsurance, which would force them to deal with the "exotic detailed wording" of reinsurance contracts.

"The competence to do this is not in the insurance regulator's scheme. They're already overwhelmed at the primary level," he said.

"Whenever the marketplace is erratic, every 10 years or so, people say reinsurance is at fault and say there should be new regulations, or changes in regulations," he said.

About 10 years ago, the previous generation of insurance commissioners was involved in "great talk" about reinsurance regulation, said Edmond F. Rondepierre, general counsel for General Reinsurance Corp. in Greenwich, Conn.

From that talk came many of the interrogatories regarding reinsurance on the insurers' annual statement blanks in use today, he said.

Rather than come up with new reinsurance regulations now to monitor the market, Mr. Greene and others want to focus on the implementation of three model laws adopted by the National Assn. of Insurance Commissioners during the past three years:

- A 1983 model law that grants immunity from liability to state insurance departments investigating fraudulent insurance activities.

Texas and New York are the only two states that have strong immunity statutes. The Texas law is broader than the NAIC model law; New York's law was adopted before the NAIC model.

- A 1984 model law spelling out when a ceding company can take credit for reinsurance on its financial statement.

The model law sets minimum standards for granting credit for reinsurance placed with authorized and unauthorized reinsurers. According to the model, in order to receive credit for reinsurance purchased from unauthorized reinsurers those reinsurers must maintain trust accounts in the United States and submit their contracts to certain conditions.

The model was drafted to respond to a concern by regulators

Continued on page 34



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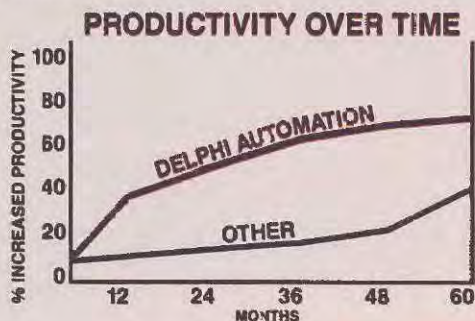
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ONCE AGAIN
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State regulators

Continued from page 32
that insurers have been given credit against their surplus for reinsurance that may not be collectible and, therefore, the insurer appears to be in a better financial position than it is.

Although the model stipulates a "minimum threshold" for credit for reinsurance, the drafters of the measure recommend "consideration of higher standards."

About a third of the states, including Texas, California, Illinois and New York, previously have adopted similar laws and regulations regarding credit for reinsurance.

And this year, Delaware, Nebraska, North Carolina and Tennessee adopted laws similar to the NAIC model law.

Utah, New Hampshire and Arizona are expected to look at similar legislation next year.

- A 1985 model law setting uniform guidelines to regulate managing general agents that cede reinsurance or assume it on the part of an insurer (*BI*, July 8, Jan. 5, 1985; Nov. 12, 1984).

This model is designed to establish minimum guidelines for regulating MGAs that have the authority to issue policies of direct insurance for an insurer and only in cases where the MGA's contract with the insurer does not contain a prohibition against ceding or assuming reinsurance.

The model regulation does not apply to an MGA that is under common ownership with the insurer or that is the MGA of the U.S. branch of an alien insurer.

Since the model was just adopted by the NAIC in June, no state has taken action on it. However, the model ultimately may be adopted by individual state legislatures, or the section of the model that sets minimum guidelines for a contract between an MGA and an insurer may be used as part of the Examiner's Handbook, which is used by state insurance examiners in their review of insurers' solvency.

New York, for instance, currently is considering a proposal to require MGAs to be licensed and require insurers to inform the New York Insurance Department when they delegate authority to an MGA. said Stewart Keir, chief of the New York Department's Insurance Exchange and Excess Lines Bureau.

Work on the proposed New York regulation should be completed soon and it could be in effect by the end of the year, Mr. Keir said.

The New York measure will not be as tough as the NAIC model law because New York statutes do not give the Insurance Department the authority to implement all of the provisions in the NAIC model, he said.

The Reinsurance Assn. of America in Washington and individual reinsurers plan to educate state legislators on the merits of the model laws in coming months to encourage more states to adopt

them.

"Now's the time to build with the bricks we made in the past three years," said Mr. Greene, who serves on the advisory committee for the NAIC Reinsurance and Anti-Fraud Task Force.

Lyndon Olson Jr., chairman of the Texas State Board of Insurance and chairman of the NAIC Reinsurance Task Force, believes interest in the model laws is growing.

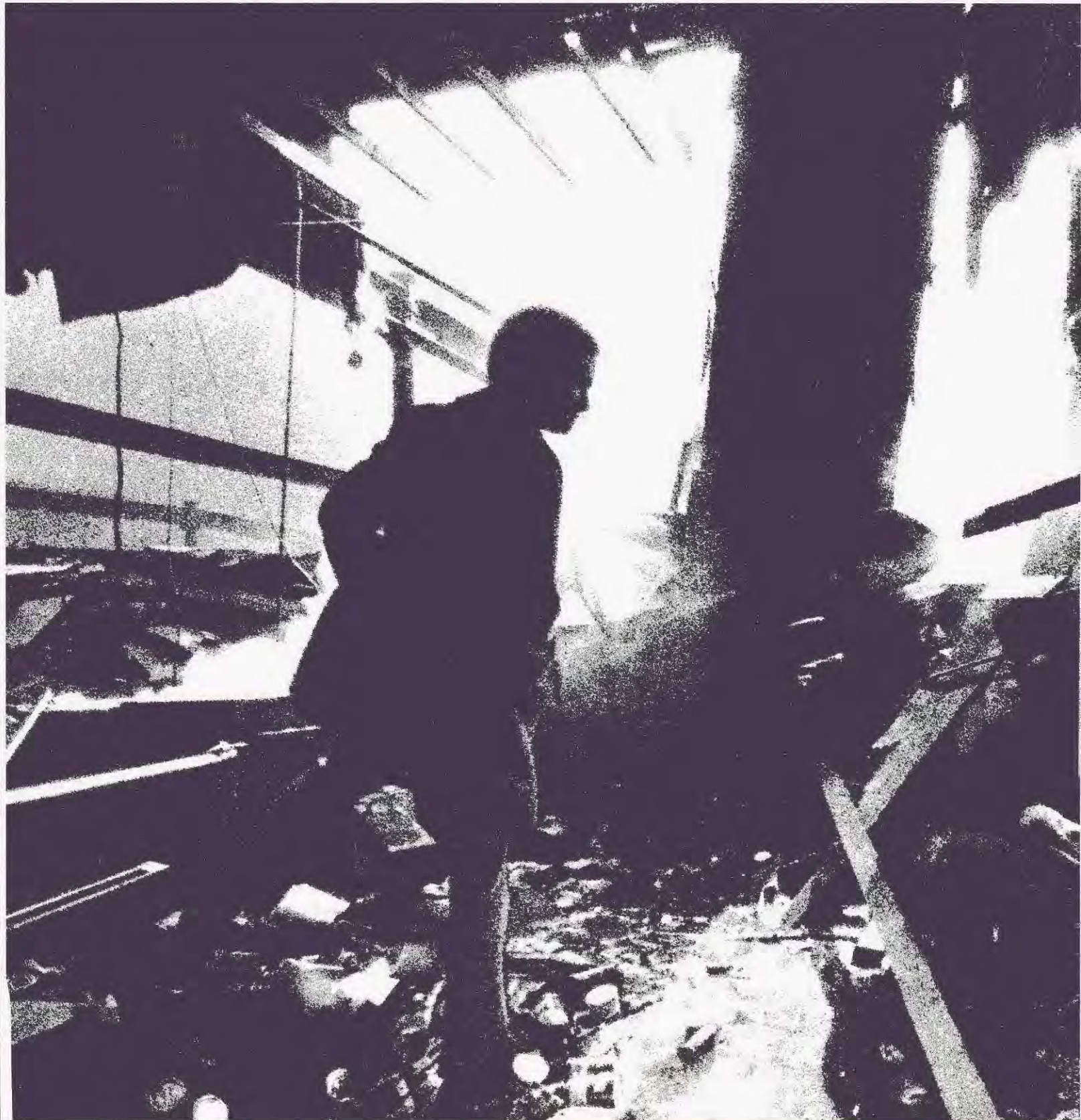
When the Reinsurance Task

Force meets next month in Reno, Nev., at the annual NAIC winter meeting, Mr. Olson plans to recommend the continuation of the task force, which, like all NAIC task forces, is scheduled to expire at the end of the year.

"Given the severe constriction in the commercial lines marketplace, I think there's a great deal of public talk about this creature called 'reinsurance' and I think we will need

Continued on next page

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Continued from previous page a forum to discuss it," he said. Others believe that as new alien reinsurers—those domiciled in foreign countries—begin to underwrite in the United States market, regulators will again feel the pull toward more regulation. "Alien insurers are becoming a real problem in terms of solvency," said California Insurance Commissioner Bruce Bunner. State insurance departments are

not convinced that new alien insurers will have the long-term commitment necessary in the reinsurance market, noted Jonathan F. Bank, an attorney with the Los Angeles firm of Buchalter, Nemer, Fields, Chrystie & Younger. He said that regulators also are becoming aware that foreign countries do not liquidate insolvent insurers in the same manner as in the United States. Already some states have taken

steps to require more information on insurers' reinsurance programs to be reported. For example, Florida adopted a law this year that requires reinsurance treaties to be filed with the state Insurance Department within 30 days of execution. The law took effect Oct. 1 (BI, Oct. 14). The measure applies only to ceding companies that are licensed in Florida and that are underwriting

Florida risks. In Maine, a new law that was effective Sept. 19 gives the Maine Bureau of Insurance the authority to require reinsurers to file reports about their reserves. Meanwhile, a working committee of the Accounting Practices and Procedures Task Force of the National Assn. of Insurance Commissioners is studying ways to increase the amount of information disclosed about reinsurance ar-

rangements in insurers' annual statement blanks. The committee's recommendations are expected to be before the NAIC's Blanks Task Force by spring, said Ken Smith, deputy director of property/casualty with the Illinois Department of Insurance. Mr. Smith also chairs the NAIC accounting practices committee. One proposal being discussed by the committee would change how insurers report the amount of reinsurance recoverable for incurred-but-not-reported loss reserves from authorized insurers. The committee is considering adding interrogatories to the annual statement blank, one of which may ask: Does the company have with any individual reinsurer, authorized or unauthorized, an unsecured aggregate recoverable from losses paid and unpaid including IBNR, loss adjustment expenses and unearned premium, that exceeds 3% of the company's policyholder surplus?

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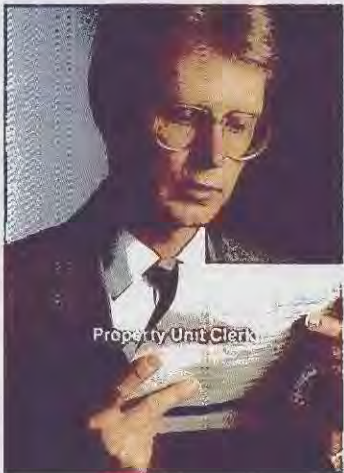
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THE TEAM WORKS.

If the answer to this question is "yes," then the amount of IBNR ceded would have to be listed in a footnote on the blank. The working committee also may draft guidelines for recognizing loss portfolio transfers as true reinsurance rather than just a financial arrangement so that the ceding company can receive credit for reinsurance ceded, Mr. Smith said. Meanwhile, the Illinois insurance department is studying adoption of a rule stipulating requirements for letters of credit posted by unauthorized reinsurers. The new rule, currently being considered by a Joint Committee on Administrative Rules, would require that LOCs be from federal reserve banks, be for a term of at least a year, canceled only with advanced notice and be unconditional and unrestricted. The rule was drafted by the Illinois Department because the terms of some letters of credit do not provide adequate safeguards to guarantee they will respond to claims, Mr. Smith said. Details of the rule still are being developed, but Mr. Smith said it is possible the rule could be adopted by the department by the end of the year. In the past year, legislation was introduced in both California and Pennsylvania that would have required a ceding company to retain at least 10% of a risk it transferred through reinsurance. However, the regulations, which would have interfered with many fronting arrangements established by corporations in which the primary insurer cedes all of a risk back to the corporation's captive insurer, are not expected to make it out of legislative committees in the next year. If risks are shifted to another insurer outside the regulatory scope, regulators don't have control of the primary insurer's solvency, said Jim Cathcart, a consultant to the California Senate Committee on Insurance, Claims and Corporations, about the proposed California legislation. But, California Commissioner Bunner is opposed to this type of regulation. "There are plenty of good examples where you want to reinsure 100%," he said. Mr. Bunner considers the legislation "the wrong way of attacking problems with reinsurance transactions." He would rather see more detailed accounting and reporting practices required of insurers. The Pennsylvania measure—H.B. 1449—was sponsored by Rep. Walter DeVerter, R-Lewistown. He is concerned that a fronting insurer can be driven into insolvency if the reinsurance behind the fronting arrangement falls through.

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Best's new position on foreign reinsurance irks ceding companies

By STEVE TARAVELLA

Many U.S. property/casualty insurers and reinsurers that previously received favorable ratings from A.M. Best Co. are irked that they are no longer rated because they buy substantial amounts of reinsurance from non-U.S. companies.

Beginning this year, the Oldwick, N.J.-based rating bureau no longer recognizes non-U.S. reinsurance guaranteed by letters of credit when assessing financial stability.

LOCs, which have been used by U.S. insurers and reinsurers since the early 1960s to guarantee reinsurance recoverable from non-U.S. reinsurers, had traditionally been recognized by Best.

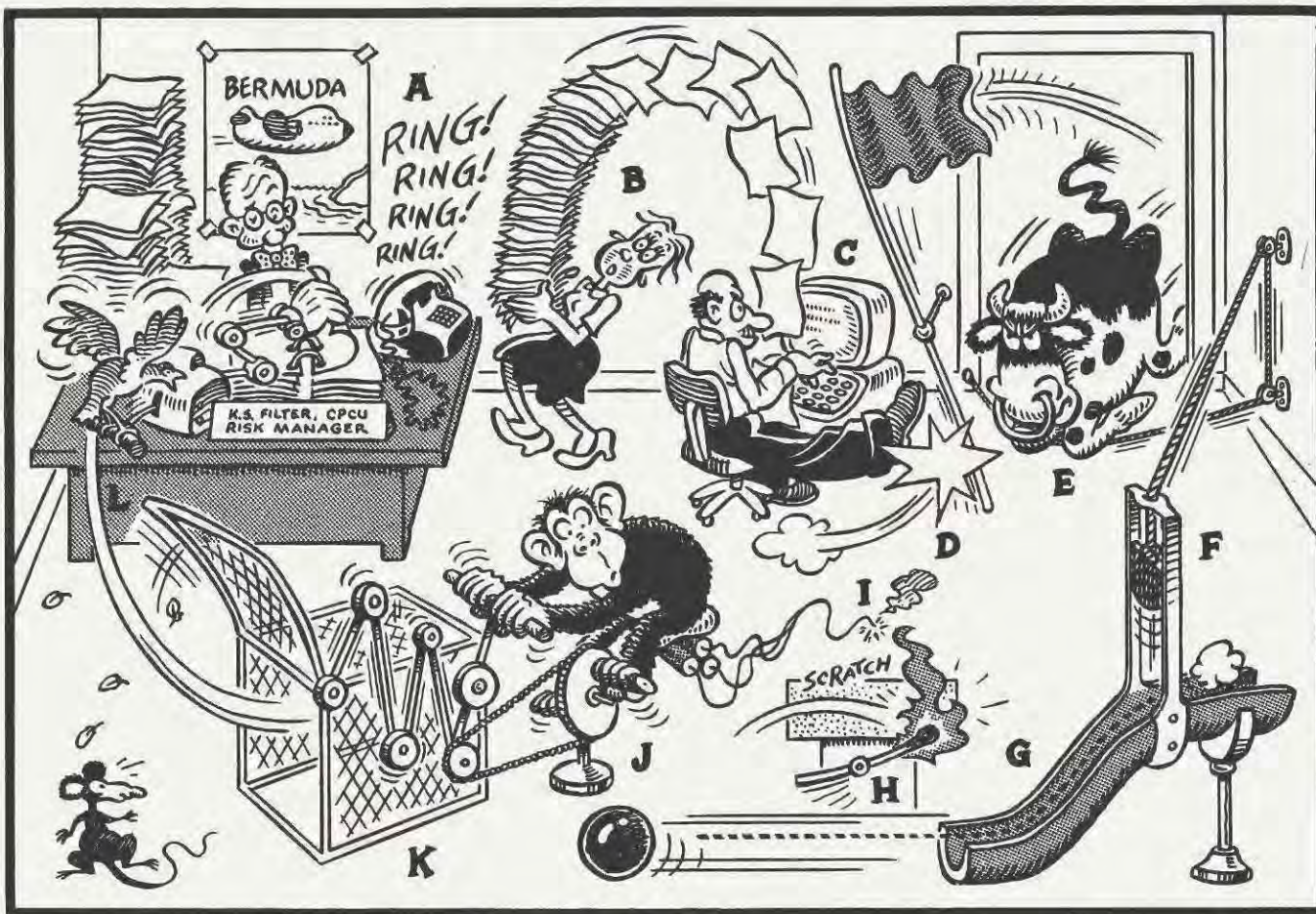
Insurers say they were caught off guard by the sudden change in procedure.

In addition, they say an unassigned rating (NASN) given to a company by Best because of a substantial amount of non-U.S. reinsurance backed by an LOC is not a fair assessment of their companies' true financial stability.

One executive of a company that is now not assigned a Best's rating said: "I think you'll find a lot of people dissatisfied or unhappy. The rating bureau is essentially controlling the reinsurance industry. Without a Best's rating, you're not really an acceptable reinsurer."

Underwriters also point out that, regardless of the quality of their

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'I think you'll find a lot of people dissatisfied or unhappy,' one executive says.

non-U.S. reinsurance, state insurance regulators accept LOCs issued by U.S. banks as sufficient security.

The companies whose ratings have been affected by the change in procedure say the absence of a Best's rating is not now costing them business, largely because of the lack of capacity in the current market.

However, some fear if the market again becomes competitive, they could lose business because of an NASN rating.

Under the new procedure, Best continues to give credit for non-U.S. reinsurance recoverable that is secured with funds deposited by the reinsurer in the United States. Such an approach is "good as gold," a Best spokesman says.

Best emphasizes that it is not questioning the validity of LOCs as security. Rather, the spokesman explains, Best changed the procedure to reflect its inability to assess the financial stability of foreign underwriters it does not rate and whose financial statements it may not have access to.

Best cannot evaluate these reinsurers' reserving practices or sometimes cannot determine whether the companies even exist, the spokesman says.

Among the insurers and reinsurers that did not receive a 1985 rating because of a significant amount of business reinsured with non-U.S. companies are:

- International Surplus Lines Insurance Co., a Chicago-based surplus lines subsidiary of Crum & Forster. ISLIC had an A-plus rating in 1984.
- Mead Reinsurance Corp. in Dayton, Ohio, which had an A rating last year.
- RLI Insurance Co., a Peoria, Ill., insurer that writes contact lens and directors and officers liability insurance. RLI was given an A rating in 1984.
- Integrity Insurance Co. in Paramus, N.J., which had an A rating in 1984.
- Constellation Reinsurance Co. in New York, which had a B-plus

Continued on page 40



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Best's ratings

Continued from page 36
rating last year. Constellation Re told brokers this summer that it decided to forgo any 1985 rating rather than accept a rating lower than the B-plus it received last year (BI, July 1).

• The Mutual Fire, Marine & Inland Insurance Co. in Philadelphia, which had a B-plus rating in 1984.

• Homeland Insurance Co., a San Jose, Calif., insurer that frequently fronts workers compensation policies for offshore captives. Homeland received an NASN rating this year, the first year it was eligible to be rated by Best.

In addition, some companies were assigned lower ratings by Best this year partly due to the change in rating procedures. They include:

• Occidental Fire & Casualty of North Carolina in Englewood, Colo., a commercial trucking spe-

'For the agents and MGAs, Best wears a crown. They believe in it,' says Mr. Crnkovich.

cially carrier, which received an Omitted rating this year, the lowest assigned by Best. The company received a C-plus rating in 1984.

• Gerling Global Reinsurance Corp., the U.S. arm of Gerling Group of West Germany, whose rating dropped to B-plus from A-plus.

Non-U.S. reinsurance backed by LOCs was only partly responsible for Gerling's lower rating; a \$12.5 million drop in policyholder surplus was the principal culprit, says Gerling Global's Bernd Vogelsang, senior vp and corporate secretary.

Underwriters say they would not resent the change in Best's procedures so much if the rating bureau had given the companies time to consider altering their reinsurance arrangements.

Insurers say they were first informed of Best's change in procedure in an industry bulletin published by Best in mid-1984, shortly before Best began formulating its 1985 ratings.

"Nobody had any idea there was going to be a problem and when there was, it was at the 11th hour," one observer says.

Richard M. Crnkovich, senior vp at Occidental Fire & Casualty, likens Best's approach to "closing the door after the cow ran out of the barn." A year's notice should have been the minimum warning for a change like this, he suggests.

"You can't just turn around on a dime," concurs William A. Enouen, president of Mead Re.

The Best spokesman says that underwriters with large reinsurance balances were informed "several months in advance" that Best was changing its approach toward non-U.S. reinsurance.

Insurers also maintain that the reinsurers affected by the new procedure are not shaky companies.

Gerling's LOCs, for example, were backing reinsurers of "first-class security," Mr. Vogelsang points out.

Among Gerling's reinsurers are Zurich Insurance Co., Frankona Reinsurance Co. and Universal Insurance Co. of Ireland, he said.

Mutual Fire, Marine's foreign reinsurers include such established companies as Nippon Fire & Marine Insurance Co. Ltd. and Tokio Reinsurance Co. Ltd., said Richard J. Guilfoyle, Mutual Fire, Marine's president and chief executive officer.



Mr. Guilfoyle

But even if a company's reinsurance is not of the best quality, one underwriter points out, "Where folks have LOCs that are evergreen and irrevocable, it's like the U.S. Treasury."

Underwriters explain that their concern over Best's rating process is spawned by the attention brokers and buyers place on Best's ratings.

Over the years, Best's ratings have become a respected standard of stability, and in today's market, an indicator of financial strength carries extra weight.

"For the agents and MGAs, Best wears a crown. They believe in it," proclaims Occidental's Mr. Crnkovich.

Some companies, like Occidental, place such a high value on attaining a positive Best's rating that they have made a conscious decision to

Continued on page 42



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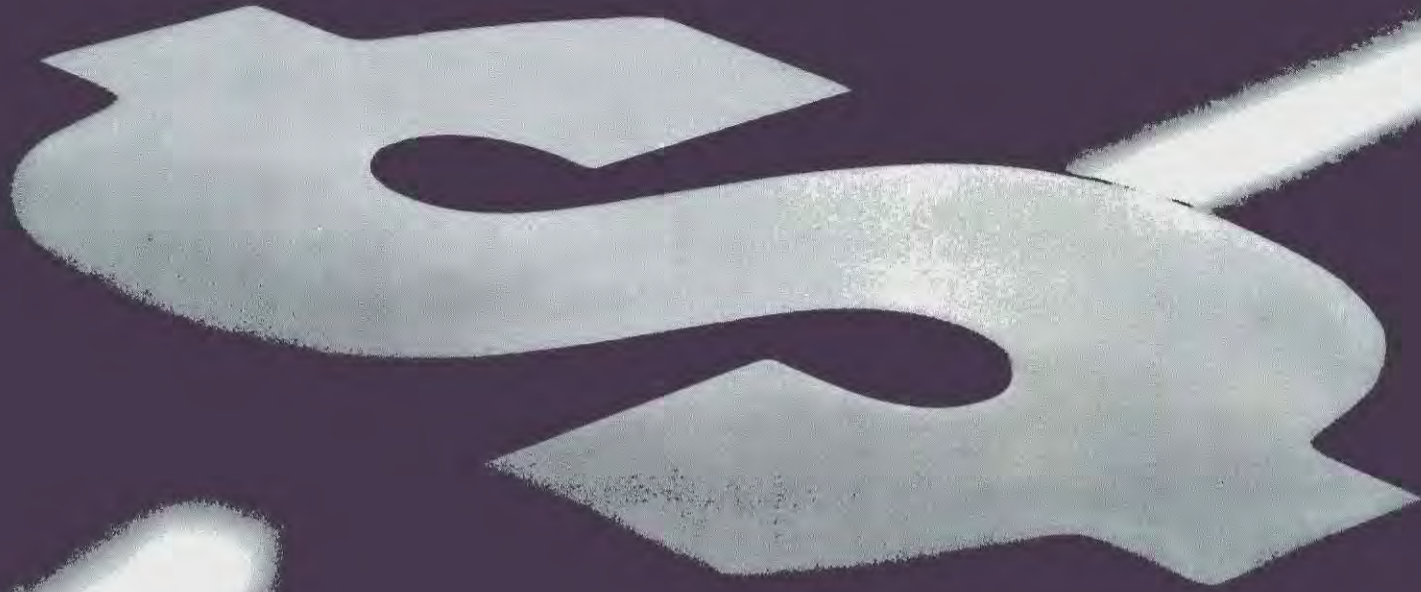
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Best's rating

Continued from page 40
alter their reinsurance arrangements in order to satisfy the rating bureau.

Integrity, for example, is already replacing some expiring non-U.S. treaties with treaties written by domestic reinsurers to regain its Best's rating, reports Senior Vp Eugene M. McGee.

Likewise, Homeland is also working to attract its first Best's rating soon.

The company is gradually shifting its business mix by reducing its fronting business for captives and increasing its traditional business, explains John B. Woodall, executive vp.

Approximately one-half of Homeland's business last year was generated by fronting workers compensation policies for offshore captives.

On its other business, it retains

the first \$100,000 of each risk and cedes 100% of the rest to Employers Reinsurance Corp. for workers compensation risks, to Munich Reinsurance Co. for commercial multiperil risks and to North American Reinsurance Corp. for commercial auto risks.

Homeland expects to write about \$26 million in direct premiums this year, only about \$9 million of which will be reinsured by offshore captives, according to Mr. Woodall's estimates.

The captives are managed by an affiliate, Homeland Industrial Co.

However, for other insurers, changing reinsurance arrangements isn't that easy.

"In all fairness, we need the European market; the American market has dried up," Gerling's Mr. Vogelsang explains.

Insurers note they can receive credit for their foreign reinsurance by requiring reinsurers to deposit funds in U.S. banks instead of using

'Right now, people are just looking at policies, but if the market softens people will start looking at ratings. It's bound to have an effect over the long pull,' says Warren Cooper, vp and consulting actuary with Huggins Financial Services.

LOCs as a guarantee.

However, Mr. Vogelsang explains that managing a portfolio of LOCs is much easier than managing a trust fund for reinsurer cash deposits.

Several insurers explain that they are taking extra steps to reassure hesitant brokers and policyholders of their financial strength despite a reduced or NASN rating from Best, noting that some people are intimidated by an unassigned rating.

RLI, for instance, has prepared a packet of information for brokers

that are concerned about placing business with the company because of the NASN rating.

Included in the information packet are annual reports, statutory filings, Securities and Exchange Commission documents and an RLI promotional brochure, according to Jonathan E. Michael, who is vp-finance at RLI.

But, despite their worries, insurers say they aren't losing business because of the rating controversy. In today's capacity-short market, an NASN rating isn't the sign of doom it might have been a year or

two ago, the insurers maintain.

"In today's environment, it's had less of an impact than it would have had in 1983, for example," according to Mr. Enouen of Mead Re.

Although Homeland's Mr. Woodall maintains that he has observed agents placing business with insurers of questionable worth, "they say those are the only markets open to them."

Mr. Woodall said he does not think the absence of a Best's rating has hurt his company, noting that Homeland has attracted business for several years while the company was not eligible for a Best's rating.

Some suggest, however, that cursory attention by brokers and buyers to an NASN designation may only be temporary.

"Right now, people are just looking at policies, but if the market softens people will start looking at ratings. It's bound to have an effect over the long pull," says Warren Cooper, vp and consulting actuary with Huggins Financial Services in Philadelphia.

While underwriters are not happy with their NASN rating, few argue with Best's intentions. They say the rating company is trying to improve the ability of policyholders to assess insurers by giving the ratings more clout.

"Too much was bunched into the high letters. They're trying to make the ratings more sane in their distribution," observes Huggins' Mr. Cooper.

Occidental's Mr. Crnkovich says he "tips his hat" to Best analysts for trying to rid the market of unsound reinsurance.

However, some underwriters suggest that Best's change in procedure could be motivated by self-interest.

They cite as evidence the coincidence between Best's inability to give credit for reinsurance issued by non-U.S. companies and Best's attempt to compile an international edition of "Best's Insurance Reports."

One underwriter, who asked not to be named, says Best suggested it would give credit for reinsurance with non-U.S. companies that agree to submit financial information for the new publication, but not for reinsurance with companies that do not.

The Best spokesman denies that its new rating procedure was motivated by the publication of its international directory.

Besides Best's inability to assess the stability of both an alien reinsurer and the bank issuing an LOC, Best says it is also not in a position to determine the validity of each LOC, underwriters say.

Insurers say Best apparently fears an insurer might claim to have an LOC it does not have, as was reportedly discovered in at least one recent insurer rehabilitation.

However, the rating agency was resistant to suggestions to remedy that pitfall, says Mr. Guilfoyle of Mutual Fire, Marine.

He adds that Best would not agree to a proposal he made to enable the Philadelphia insurer to keep its B-plus rating.

Best did not recognize Mutual Fire, Marine's foreign reinsurance, despite an audit all of its LOCs by accountant Peat, Marwick, Mitchell & Co.—a step that Mr. Guilfoyle thought merited an exception to Best's new rule.

Mr. Guilfoyle then suggested that Best recognize a financial guarantee product, that would be issued by a U.S. reinsurer, that would guarantee an insurer's entire reinsurance program, including reinsurance for incurred-but-not-reported losses.

Mr. Guilfoyle says that he believes that several U.S. companies would be interested in writing such a product, but Best turned down the proposal. ■

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Major Chicago bank offering new LOC service to insurers

CHICAGO—One of the nation's largest banks is introducing a financial service for insurance companies concerned about the validity of letters of credit that guarantee payment by reinsurers.

First National Bank of Chicago is marketing its Standby Letter of Credit Management Service to cash in on insurers' increasing awareness of the importance of LOCs.

"Making sure you have valid collateral is a growing concern in the insurance market," explains Kenneth G. Wilkes, the bank's assistant vp-new business development. "The time is right to make sure you have the right controls in place."

Key elements of the administrative service include:

- A review of all LOCs issued on behalf of a ceding company's reinsurers to ensure they meet state regulatory guidelines.

The New York and California insurance departments, for example, have strict guidelines about the wording and format of LOCs. An invalid LOC could impair an underwriter's statutory surplus unnecessarily.

The review is conducted against criteria agreed upon by the insurer and First Chicago.

- An examination of the issuing bank's financial posture to make sure its LOC exposure is safe relative to its assets.

- Safekeeping of the LOCs at the bank's Chicago headquarters.

- Actual presentation of draw-down documents to the issuing bank, and a follow-up to see that funds are released in a timely manner.

When dealing with large amounts, an insurer can lose thousands of dollars in interest income if an LOC payment is delayed by several days, Mr. Wilkes explains.

Mr. Wilkes estimates one First Chicago client, which draws down on about \$30 million in various LOCs annually, could have saved about \$50,000 using this service.

The service can collect the proceeds of an LOC in an average of three to four days, he predicts.

- Monitoring the portfolio to make sure the LOCs are kept up-to-date and have not expired.

First Chicago says it recently completed three-week test review with a large Midwestern insurance company, which Mr. Wilkes declined to identify.

He says 70% of the LOCs reviewed during the test did not meet standards established by the New York Insurance Department, though he is uncertain whether the department has examined this insurer's portfolio.

Insurers do not have to be current clients of the bank, nor must they be located in the Chicago area to use the service, Mr. Wilkes says. Clients in any city can access their LOC records via a time-sharing arrangement on a personal computer.

This data base would let an insurer track data like its LOC exposure by insurer branch, by U.S.-issuing bank and by expiration date. It would also provide a history of each LOC.

The bank is compensated for the service on a fee-per-transaction basis. Mr. Wilkes projects that an insurer's costs will be comparable to what it would spend to manage the portfolio in-house, with the added advantage of the bank's expertise in dealing with LOCs.

First Chicago has not signed up any insurer clients yet, but says several have expressed interest. Three major insurers are expected to make a decision on the service within 30 or 60 days, he says.

Crum & Forster Corp., for example, took note of the service after it

began to review its letters of credit to "get a grasp" on its own portfolio, explains Dennis Hammer, C&F's vp & treasurer in Morristown, N.J. C&F may better be able to monitor the legal and statutory condition of its LOCs by using this service, he suggests.

C&F will decide sometime early next year whether it will subscribe, Mr. Hammer says.

First Chicago developed the program at the suggestion of an insurer that approached the bank more than a year ago. However, by the time First Chicago developed its service, the insurer had settled on a combination of in-house resources and the management services of a small regional bank.

—By Steve Taravella

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Reinsurer can cut payment to insolvent insurer

By STEPHEN TARNOFF

CHICAGO—A reinsurer can reduce payments to an insolvent insurer by amounting the insurer owes it without filing a claim in state liquidation court, a federal court has ruled.

The landmark ruling clears the way for reinsurers to recover 100% of debts owed by an insolvent insurer, but in doing so reduces the amount of assets available to a liquidator to pay claims of policyholders of an insolvent insurer.

Setting aside prior case law, U.S. District Court Judge Paul E. Plunkett ruled Oct. 21 in litigation between the Illinois Insurance Department and 26 reinsurers of Reserve Insurance Co. of Chicago that:

The landmark ruling clears the way for reinsurers to recover 100% of debts owed by an insolvent insurer, but in doing so reduces the amount of assets available to a liquidator to pay claims of policyholders of an insolvent insurer.

- Reinsurers seeking to offset payment of reinsurance proceeds to Reserve are not required to bring their claims as part of the state insurance department liquidation proceedings, despite injunctions to do so by the liquidation court.

- Reinsurance proceeds are "pre-liquidation" claims, which under state law can be offset against other pre-liquidation debts

of the estate outside of liquidation court.

On a separate issue, Judge Plunkett also ruled that the cancellation of numerous Reserve policies by the manager of a reinsurance pool before Reserve's insolvency did not constitute a voidable preference that benefitted one group of policyholders over another.

In light of increasing insurance

company insolvencies and the lack of legal precedent on these issues, Judge Plunkett's decision probably will have a significant impact on other courts, attorneys say.

As of last week, the Illinois Insurance Department had not decided if it would appeal Judge Plunkett's decision.

"We are giving strong consideration to an appeal, as is the liquidator's staff," said John Gavin, an attorney for Reserve's liquidator with the Chicago firm of Hopkins & Sutter. "It is too soon to say."

The 1981 lawsuit was brought by Phillip O'Connor, former Illinois director of insurance, serving as liquidator of Reserve.

Reserve was declared insolvent and ordered liquidated on May 29, 1979.

Defendants include 26 reinsurers of Reserve and American Reserve Insurance Brokers International Inc., manager of the reinsurance contracts and a Reserve affiliate.

Also named are Montgomery and Collins Inc. of Texas, which purchased ARIB's rights as manager of the contracts after entry of Reserve's order of liquidation, and Petroleum Insurance Inc., an affiliate of Montgomery.

The litigation stems from Reserve's reinsurance program for a book of petroleum and petrochemical property insurance underwritten in the 1970s.

The Insurance Department sought approximately \$2.8 million from the reinsurers related to contracts canceled before Reserve was ordered into liquidation and reinsurance recoverable.

The reinsurance contracts involved included a 1975 quota share reinsurance treaty; a 1976 first surplus, or excess of loss, reinsurance agreement; and a 1979 reinsurance pool which replaced the prior two contracts and in which Reserve participated, bringing risks to the pool and reinsuring risks brought to the pool by other insurers.

Under the pool arrangements, American Reserve Insurance Brokers, the manager of the reinsurance contracts, collected the insurance premium from the policyholder and then used approximately 30% to pay commissions to the producing agent or broker and ceding company.

It retained the remaining 70%, which was credited to the ceding company and the reinsurers in proportion to their assumption of the risk. As losses were incurred, ARIB paid the loss payments to claimants out of the retained funds.

Each quarter, ARIB provided the reinsurers with an accounting of net written premiums, losses, loss adjustment expenses, salvage recoveries, and other information.

If net written premiums plus salvage exceeded losses and expenses, ARIB paid out the net amount to the pool participants.

However, if losses and expenses exceeded net written premiums and salvage recoveries, the participants paid the difference to ARIB.

From Jan. 1, 1979, until Reserve's insolvency on May 29, 1979, losses exceeded the net premiums in the pool, but Reserve failed to make the necessary payments during that period.

Also, sometime after Jan. 1, 1979, ARIB ceased issuing Reserve primary policies.

Furthermore, in April and May 1979, ARIB canceled a large number of Reserve's policies because ARIB was concerned about Reserve's failing financial condition. It subsequently issued new policies to the affected policyholders, which were underwritten by Insurance Co. of North America, a member of the reinsurance pool.

Based on these facts, Mr. O'Connor as liquidator for Reserve, filed suit against the reinsurers in U.S. District Court in Chicago seeking to recover:

- Reinsurance proceeds for losses incurred by Reserve's policyholders prior to liquidation but not paid as of the date of the liquidation order.

- Certain money that the reinsurers and ARIB owe Reserve for claims of policyholders that ARIB paid with Reserve's funds prior to liquidation.

- Reserve's proportionate share of premiums written (less losses and other expenses), which Reserve earned under the 1979 reinsurance pooling agreement.

- The unearned premiums which the manager or the rein-

Continued on page 46

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METROPOLITAN REINSURANCE COMPANY

Reserve case

Continued from page 44
surers are holding which relate to Reserve policies canceled on May 30, 1979, as a result of Reserve's insolvency.

- Premiums that would have been earned on Reserve policies had the pool manager not canceled the policies during the months prior to the liquidation order.

- Ceding commissions due Reserve on policies canceled by the liquidation order and those canceled by ARIB prior to the liquidation order.

In motions for partial summary judgment, the reinsurers sought a

'All defendants attempt to do in this action is to show that the liquidator has no claim or a lesser claim against them. The plain language of the statute gives defendants that right,' according to the court decision.

declaration from the court that any amounts the liquidator may ultimately be entitled to receive from the reinsurers first be reduced by Reserve's debts to the reinsurers.

After offsetting amounts owed them by Reserve, the reinsurers would owe the liquidator signifi-

cantly less than the \$2.8 million now sought, according to one attorney in the liquidation.

The liquidator, in turn, sought a partial summary judgment, contending the amounts owed by the reinsurers could not be reduced by Reserve's debts and that the can-

cellation of Reserve policies by the pool manager prior to Reserve's liquidation was unauthorized and wrongful and resulted in a "voidable preference".

The court, however, agreed with the reinsurers' arguments.

Judge Plunkett first ruled that the reinsurers were not required to bring their setoff claims in the state court liquidation proceedings where the Reserve case was pending, despite injunctions by the liquidation court that claims against Reserve be brought there.

Quoting state law governing liquidations, Judge Plunkett noted that where there are mutual debts or credits between companies, they

are to be set off or counterclaimed with only the balance allowed or paid.

Moreover, despite the injunctions contained in the liquidation order barring reinsurers' claims against Reserve except in the liquidation proceedings, setoffs were not encompassed by the term "claim," the court said.

"Such an interpretation of the liquidation court's order would mean that the setoff provision under Illinois law had been effectively overridden by the liquidation order," according to the court decision.

The court did note that the reinsurers would have to appeal to the liquidation court if they believed they were still owed additional funds by Reserve after the offsetting process.

"Defendants concede that they must file with the liquidation court their affirmative claims for amounts exceeding that which the Liquidator seeks in this action," the court said.

But, "all defendants attempt to do in this action is to show that the liquidator has no claim or a lesser claim against them. The plain language of the statute gives defendants that right."

Judge Plunkett's decision acknowledges a 1960 decision by the 7th U.S. Circuit Court of Appeals in *Thatcher vs. H.C. Baldwin Agency Inc.*, but does not apply it to this case.

In that 1960 decision, cited by the liquidator, the 7th Circuit Court said that setoffs may be asserted only in the liquidation proceeding, and it refused to permit the defendant to assert setoffs and counterclaims against the liquidator of an insolvent New York insurance company.

Judge Plunkett, however, distinguished that case from the Reserve case and also said it was irreconcilable with a subsequent New York court decision.

On a second issue, Judge Plunkett also ruled that the reinsurance proceeds and unearned premiums owed to Reserve and the amounts the liquidator owed the reinsurers were both "pre-liquidation" claims and, therefore, could be offset.

At issue was the concept of "mutuality," which says claims owed by or to the bankrupt entity before bankruptcy cannot be set off against claims owed by or to the bankrupt entity's estate that arise after bankruptcy.

The liquidator contended that the debts owed by reinsurers to Reserve were "post-liquidation" debts while the debts owed by Reserve to the reinsurers were "pre-liquidation" debts.

Because reinsurance proceeds were not due until the policyholders' loss claims are allowed or liquidated by the liquidation court, they are post-liquidation claims, the liquidator argued.

The same applies to unearned premiums since they do not become due until cancellation of the policies, he added.

The reinsurers contended, however, that the debts arose because of provisions in the reinsurance contracts. Since these contracts were executed prior to Reserve's insolvency, they were all pre-liquidation debts and thus mutuality exists.

The court agreed.

"Even if the liquidator is correct in his assertion that the debts for reinsurance proceeds and unearned premiums were not due at the time of liquidation, that fact has no bearing on whether defendants may use these debts for set-off purposes," the court said.

"Defendants and Reserve entered into a reinsurance contract which defined all of the parties' rights and obligations. Any liability defendants may incur to pay reinsurance proceeds or return un-

Continued on page 48

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Reserve case

Continued from page 46
 earned premiums or ceding commissions arises as a result of provisions in the previously executed reinsurance agreement that require them to make these payments.

"We find that defendants' debts are pre-liquidation debts; therefore, mutuality of obligation exists and a setoff is permitted," the court added.

In its ruling, the court declined to follow the Alabama Supreme Court in *Melco System vs. Receivers of Trans-America Ins. Co.*, a 1958 decision that addressed the same issue and held that the reinsurer incurred no debt to the reinsured until the reinsured had actually paid the losses.

Finally, Judge Plunkett ruled that cancellation of a large number of Reserve's policies by the manager of the reinsurance pool prior to Reserve's liquidation did not re-

'There simply aren't any decisions at all in this area. I would not be surprised if this opinion is widely cited as more insurance companies become insolvent and these issues arise,' says Mr. Wolke of CIGNA Corp.

sult in a voidable preference that favored one group of policyholders over another.

The liquidator argued that cancellation of Reserve's policies prior to liquidation allowed certain policyholders to obtain a full refund of their unearned premium, while policyholders whose policies were canceled by the liquidation order have to file for their premium refunds as general creditors in a liquidation proceeding.

Often in bankruptcy proceedings, creditors do not receive payment of the full debt owed by the

insolvent company because there are not enough assets to pay all creditors on a 100% basis.

Allowing some policyholders to obtain a 100% refund of unearned premiums because their policies were canceled before Reserve was placed in liquidation constitutes a "voidable preference," the liquidator argued.

However, Judge Plunkett noted that a section of the Illinois insurance code dealing with voidable preference "clearly implies that a past debt must exist, which is reduced when the unearned pre-

mium is transferred to the policyholder.

"We simply do not see how this transaction can be construed as payment of a past debt owed to the policyholder."

The state liquidator also had argued that the reinsurers were liable for the unearned premiums Reserve never received because in many cases Reserve policies canceled by the pool manager were reinsured by another member of the reinsurance pool—INA. Therefore, the premiums never left the pool and the other reinsurers benefited from the Reserve cancellation, he added.

"Although Defendants clearly took advantage of their opportunity to protect themselves in the face of Reserve's insolvency, this transfer simply does not come within the statutory preference section, and is not voidable by the liquidator," the court said.

Attorneys for both the liquidator

and the reinsurers agree that the Reserve decision could have significant impact nationwide.

"This opinion establishes brand new laws of state insolvency regulation that have been very controversial in the past," said David M. Spector, who represents more than 15 of the reinsurers in the litigation.

"One would expect the ruling would be applicable to state insolvencies everywhere," said Mr. Spector, with the Chicago law firm of Isham, Lincoln & Beale.

"I feel it will be a very significant decision," added Milton S. Wolke Jr., senior counsel for CIGNA Corp. "It's a landmark decision."

"There simply aren't any decisions at all in this area. I would not be surprised if this opinion is widely cited as more insurance companies become insolvent and these issues arise," he said.

"Given the large number of insolvencies and the lack of much precedent, it could have a lot of influence," added Mr. Gavin, an attorney for the liquidator.

The decision is a boon to reinsurers because they could be considered general creditors in bankruptcy.

If the reinsurers in the Reserve case had been forced to pay the money owed the liquidator without a setoff of the amounts owed them by Reserve, they would have been forced to go to liquidation court to recover the money they say Reserve owed them.

There, they would not only have to wait with other creditors until the insurer's assets were distributed, but also they probably would not have recovered the full amount Reserve owed them. Often distributions in bankruptcy cases are significantly less than 100 cents on the dollar.

In the Reserve case, Mr. Spector said creditors' claims may be worth only about 15 cents on the dollar, although a state official said it has not been determined how much policyholders will get.

And, offsetting reinsurance recoverable and other monies owed Reserve by Reserve's debts reduces the money available to Reserve policyholders.

"The purpose of the suit was to collect funds to go into the general pot to distribute to policyholders," said Jack Traylor, chief operating officer of the state Office of Special Deputy for Rehabilitation and Liquidation.

"We will have less funds to distribute to policyholders. Yes, it will be detrimental."

"The policyholders are the ones who suffer," agreed attorney Mr. Gavin.

"If an insurance company is insolvent, efforts by the liquidator to recover assets or recover money from reinsurers effectively are hampered by this decision and policyholders will get that much less money," he added.

Reinsurers named in the Reserve lawsuit include: Bind Inc., Dominion Insurance Co. of America, Employers Reinsurance Corp., Excess & Casualty Reinsurance Assn., Gerling Global Reinsurance Corp. (U.S. branch), Hamburg International Reinsurance Co., Insurance Co. of North America, INA Underwriters Insurance Co., Lumbermen's Mutual Insurance Co., Monarch Insurance Co. of Ohio, Montgomery and Collins Inc. of Texas, Petroleum Insurance Inc., Puritan Insurance Co., Rochdale Insurance Co., Scor Reinsurance Co., Societe Commerciale de Reassurance, General Reinsurance Corp., North American Reinsurance Corp., American Reserve Insurance Brokers/International Inc., New England Reinsurance Corp., Prudential Reinsurance Co., Munich American Reinsurance Co., Munich Reinsurance Co. (U.S. branch), Central National Insurance Co. of Omaha.

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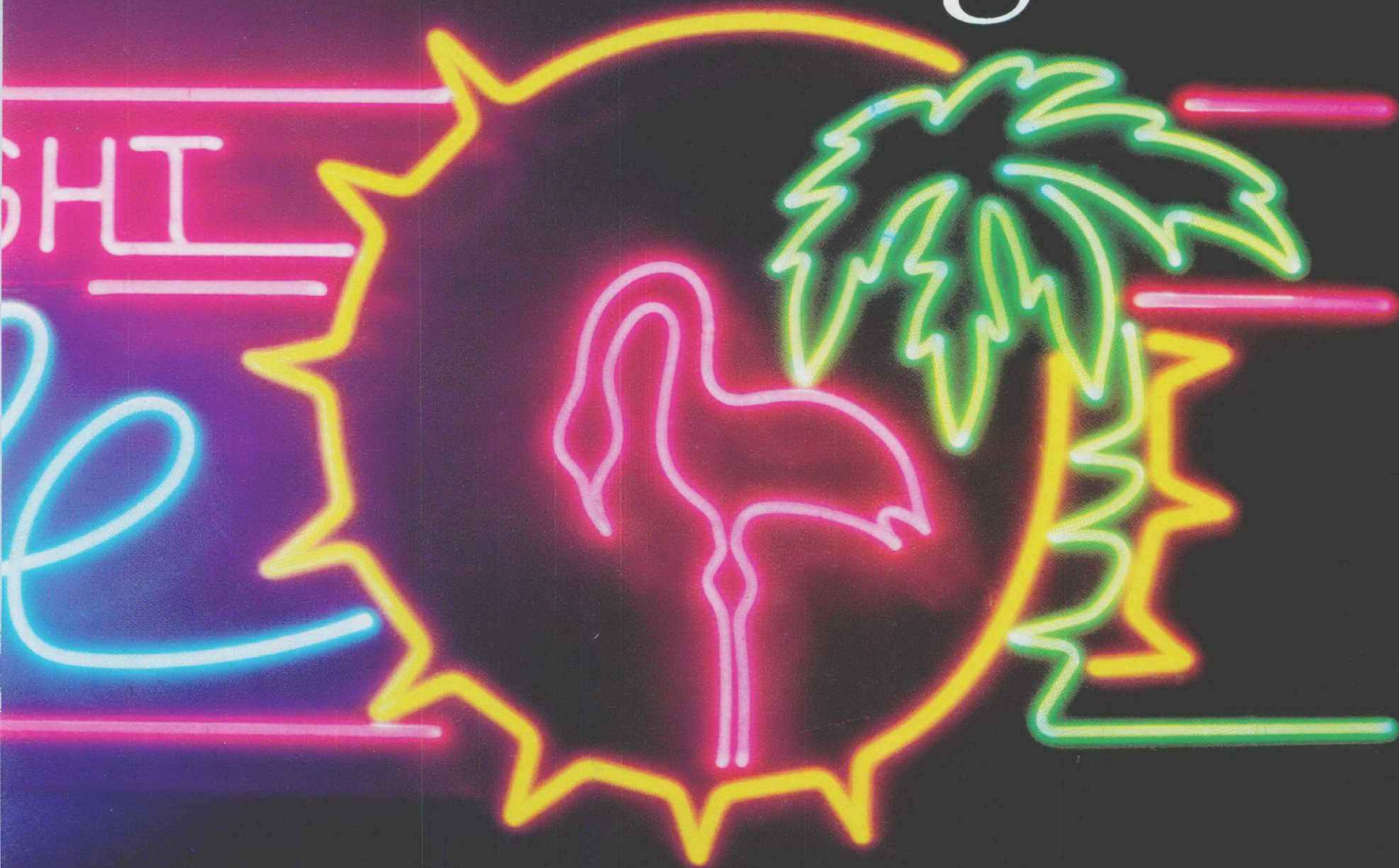
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BACK TO BASICS

Return to professionalism is needed to cure reinsurance ills

By Philip W. Mitchell

THINGS COULD BE WORSE, perhaps, in the reinsurance industry. But, short of an outright disaster, they could not be much worse.

In 1984, reinsurers experienced a combined ratio significantly worse than the primary markets as a whole. By midyear 1985, that gap had widened.

The capacity shortage is real, if difficult to calculate with any precision. And, with scores of reinsurers having closed their doors, security continues to be a legitimate concern.

But, the overriding question of today is not how bad conditions are or might become, but what is to be done—and by whom.

Most, if not all, of the fundamental difficulties facing the reinsurance industry can be traced to a lack of professionalism.

The entrance of inexperienced people and companies into the market in the late 1970s and the subsequent loss of underwriting discipline and reduction of prices pretty much guaranteed that the industry would be in a first-class muddle at some point.

The immediate reaction to unrealistically low pricing is to charge higher prices. And, this has been done throughout the industry.

But, raising prices can be seen merely as a market correcting itself, seeking stability. In fact, the problems are deeper and more pervasive, and they cannot be cured simply by raising prices.

What is needed is a return to responsible pricing and dealings between sophisticated buyers and sellers of coverage, based on real-world prices.

The existence of reinsurers—the insurers of insurance companies—and retrocessionaires—the insurers of reinsurance companies—allows large losses to be absorbed without disrupting the financial integrity of the insured, insurer or, indeed, reinsurer.

We must recognize that for this reinsurance network

Philip W. Mitchell is vp and manager of the central treaty department for Towers, Perrin, Forster & Crosby in New York.

to function, it must be funded adequately. It clearly has not been.

Just as reinsurers have a responsibility to the ultimate insured, so should the insured have a strong interest in the growth of their reinsurers' strength.

Large businesses, particularly our largest corporations, will continue to be the targets of major lawsuits. If they do not want to have their earnings stream affected by large losses, they should be willing to support the insurance mechanism that provides the financial continuity they require.

In essence, risk managers may be doing themselves and their companies no favor if by seeking the lowest possible price they drive prices below a level at which the industry can sustain itself.

If higher prices are needed to maintain the mechanism, then those prices must be borne—first, by the consumer of insurance protection and, ultimately, by society at large. The fact is that a society that wishes to compensate victims on a heroic scale must make correspondingly high contributions to such payments.

Today, even with surplus eroded, the reinsurance industry as a whole probably could sustain a \$5 billion catastrophe. A \$10 billion aggregate loss today might be an altogether different matter.

If Gloria, the hurricane that wasn't, had turned into a hurricane that was, it could have generated losses in the \$10 billion range. It also could have proved to be a test the reinsurance industry might not have passed.

Does today's risk manager have a responsibility to help maintain the health of insurers and reinsurers? We believe so.

While the risk manager has a strong obligation to engage in sophisticated and astute purchasing to keep the cost of asset protection at the lowest possible level, it is neither the only nor the overriding obligation.

The overriding obligation is, of course, to secure stable protection to assure the corporation's financial continuity. To the extent that depressed prices undermine the strength of primary and reinsurance markets, they undermine the primary goal of the risk manager as well.

We do not believe for a moment that in a market of

sophisticated buyers and sellers, price adequacy is a function of the buyer. Quite the opposite. If prices are too low, it is the seller who has called the tune.

And, if the piper has underpriced his music, it is tempting to say, "Too bad for him." Tempting, but potentially expensive for all concerned.

Risk managers and insurers, as well as their brokers, have a responsibility to eschew low-price offers when they come from inappropriate and unsophisticated sources.

Movement from one market to another for the sake of temporary cost advantage also may prove to be false economy. To the extent such movement sets up a discounting mentality, it can be destructive—first to the discounter, but ultimately to the market in general and to the insured.

The reinsurance mechanism thrives on continuity, and continuity should play a role in the buyer's considerations. To be around to do what they are supposed to do—absorb the occasional devastating loss and smooth out annual results for primary insurers—reinsurers must have periods of reasonable profitability and relationships that last long enough to yield a positive return on capital employed.

Today, of course, capacity and price increases—not discounting—are hot topics. These issues will be with us for several years simply because, however painful they may be, higher prices are good for the industry. Higher prices eventually will create profit that flows to surplus, easing the capacity crunch.

Prices aside, there are other heartening signs of our industry's revitalization. Professionalism has regained its importance.

Not unexpectedly, the depths of the cycle removed many of the marginal players who were ill-equipped to be in the field. Additional capital, now beginning to flow into the reinsurance marketplace, is finding its way to the hands of more-experienced professionals. And, we are all better off for it.

Such rededication to principle may not stand up well in some soft market yet to come, but it has a far better chance now that we all have become cognizant of the consequences of inadequate underwriting and pricing.

Gazing into the future of reinsurance

By David C.W. Rich

THROUGH THE CENTURIES, many have claimed to have supernatural powers that enabled them to predict the future. Medieval witches, fortune-tellers and astronomers all have had their moments of glory—and, alas, some also have had their trial by fire.

I would like to join those ranks with some predictions about the future of reinsurance. It seems the safest way to make a prediction is to cover all the alternatives. Therefore, I am going to resort to the actuarial technique of offering three alternatives: a worst-case scenario, a best-case scenario and an average scenario.

But first, it is necessary to take a look at where we are.

It is very apparent that the market has turned. The disastrous competitive cycle bottomed out in late 1984, and now in 1985 reports abound with the news of substantial pricing increases in all areas. Obviously, considerable pricing increases are necessary to offset the severely depressed prices of the early 1980s.

Unfortunately, price increases have not been sufficient to maintain an adequate market. Company withdrawals from errors and omissions, pollution and

other difficult liability lines have depressed capacity, thereby reducing limits and, in some cases, forcing self-insurance—truly an unsatisfactory position from both the insureds' and the insurance industry's standpoints.

That is where we are now. There are several possibilities for where we may be going.

Worst-case scenario

Consider this scenario for the years 1990 and beyond:

Reinsurance will become a thing of the past, because there will be no reinsurers left to reinsure.

The domino effect of reinsurer insolvencies will leave the few remaining insurers struggling with insolvency assessments. These remaining companies will be so afraid of joining their fallen brethren that they will restrict their writings to only the above-average risk—if risk is indeed the proper term. They will eliminate any hint of coverages such as product liability, errors and omissions, workers compensation, automobile, earthquake, windstorm and flood.

speaking out

As a result, the federal government will step in in response to public pressure and create the Bureau of Mandatory Insurance.

The BMI will be empowered to fix rates to avoid any appearance of discrimination. The result will be a "uni-rate" concept that applies to every building, regardless of its construction or location. Liability coverages will be rated on a flat per-million basis, irrespective of exposure.

Workers compensation rating also will be on a flat per-employee basis, regardless of the occupation.

And, to offset the bureau's operating deficit, a general tax assessment will be imposed.

The problem of escalating legal costs will be solved by the BMI, because it will have total power in assessing first-party or third-party awards.

All disputes will be settled by a special inter-bureau panel consisting of representatives from the BMI, the Department of Transportation and the Environmental Protection Agency. The decisions will be final, subject only to Supreme Court intervention or

presidential decree.

Obviously, reinsurance will not be required for policies issued by the BMI, since there will be no requirements for adequate policyholder surplus. In fact, government economists will label the National Assn. of Insurance Commissioners' test ratios as frivolous and counterproductive to maintaining a healthy national debt.

At one time, sponsors of the BMI will have introduced a bill that would have created a reinsurance division. But, the measure will have failed because members of Congress could not understand what reinsurance is.

Unfortunately, the creation of the BMI will impose additional burdens of litigation on the few remaining public or private insurers.

Looking even further into the future, the demise of insurers will lead to a monopoly on insurance by BMI. Public outcry against that monopoly, led by the newly formed Assn. of Unemployed Lawyers, will force the politicians to form smaller units of the BMI and sell those units to private investors.

These units will become known as "independent companies" and will have the power to set rates according to

Continued on next page

Predicting the future of reinsurance

Continued from previous page
actuarial concepts and prevailing market forces, with the judicial system interpreting and determining judgments.

And then, the whole cycle begins again. . . .

Best-case scenario

Consider this scenario for the industry into the 1990s and beyond:

Within the gloom, there often will appear a rainbow of hope. Having stood for so long on the edge of the precipice and watched others tumble to the rocks below, management will have learned its lessons well and recognized the folly of underpricing and reliance on cash-flow underwriting and large investment returns to offset underwriting losses. A dedication to basics and a commitment to provide stockholders with a good return on equity will prevail.

The year 1986 will see a brief period during which prices will level and fall. This is a reaction to several factors, including:

- An increased interest in the North American market by foreign-based reinsurers due to a return to near-adequate rates and continuing high yields and interest rates.
- Public outcry, led by consumer groups.
- A desire by insurers to maintain their market-share niche.
- Several quarters of profit.
- A temporary increase in capacity due to the easing of underwriting restrictions.
- The confidence of the insurance industry in the long-term effects of the new Insurance Services Office forms on litigation and cost containment.

Results for 1986 will be the subject of much scrutiny by the insurance industry. Many insurers and reinsurers will show greatly improved operating results. Expense-containment activities, management changes and pricing increases will be reflected in the balance sheets. Sighs of relief will be heard at stockholders meetings and in board

'It is very apparent that the market has turned. The disastrous competitive cycle bottomed out in late 1984, and now in 1985 reports abound with the news of substantial pricing increases in all areas. Unfortunately, price increases have not been sufficient to maintain an adequate market.'

rooms.

It will be recognized by management that, if the root causes—unpredictable court decisions, huge legal costs and large awards—are not attacked, the probability of very large losses stemming from current business once again will overwhelm the industry, unless prices are maintained.

Even though claims-made forms are prevalent, incurred-but-not-reported losses could soar beyond future claims-made policy limits and well into the heights of the new umbrella coverages.

As a result of lessons well-learned and careful, sane analysis, the industry will be able to halt the rate slide and convince the public, through a multimedia campaign, that rates must be maintained and in some cases increased. It will be interesting to see the insurance industry ads breaking out of the trade press and making their way into television, radio and general circulation magazines.

What is really revolutionary is that the message from individual companies will de-emphasize the "compare our rate" approach and focus on their product lines and efficiency, with additional reference to the stability of markets and how prices reflect loss costs.

In addition, the newly formed Insurance Awareness Council founded by the insurance industry will produce public-service messages that will attempt to educate the public about insurance.

As a consequence of this multimedia effort—combined with basic underwriting, good policy construction and adequate premiums—the pricing curve dip occurring in late 1986 will level

off again in 1987 and maintain a slight upward course, recognizing inflation, underwriting, economic, social and litigation changes. This will continue through the 1990s, with insurers and reinsurers enjoying a return on equity in the range of 10% to 25%.

All in all, sanity once again will abound and the cycle will have been abolished forever.

Average-case scenario

Consider this scenario for the years to 1990 and beyond:

In an effort to stem the tide of withdrawals and to "sweeten the pot," the primary market will continue to raise prices in the hope that reinsurers will recognize that for every risk there is a price and that reinsurers once again will enter the more-esoteric markets, creating increased capacity.

Prices will level rapidly in the short-tail market, and property rates will peak during early 1986.

Attachment points for umbrella coverages over claims-made primary coverages will seek their own level in 1987 and beyond, after the initial flurry in mid-1986 to raise attachment points to high levels, recognizing the effects of aggregate limits, claims-made accumulation and legal expense caps.

A new and difficult "gap layer" market will be created, with only the brave participating.

Balance sheets definitely will improve for the direct insurers by early 1986, with reinsurers feeling the benefits by middle to late 1986. Return on equity will reach the rate of 20% to 25%—and in some cases higher—by the end of the year.

This will attract new blood into the insurance industry, as investors once again see the benefits of the insurance money machine. Foreign and domestic companies will be back in force once again by 1988, vying for the premium dollar.

In the interim, the U.S. economy will not see the full recovery expected. More and more consumer products will be supplied by foreign markets capable of producing goods at a lower cost. A clamor for protectionism will be heard, with only token attention being paid by the administration.

This will not reduce domestic consumer demand, but it will reduce U.S. manufacturing protection.

Continuing high interest rates—due mainly to uncontrolled deficits—will continue to attract foreign insurance interest. Inflation rates will accelerate to the 8% to 12% level before 1990, primarily because of increasing world oil prices and the shortage of vital metals from South Africa.

Pressure will be brought to bear by owners, directors and management on insurers and reinsurers to maintain their earnings and market share. The premium exposure base—sales, inventories, payroll etc.—will not increase enough to satisfy increased insurance and reinsurance capacity because of the lack of real expansion of the economy.

Unfortunately, the free-market forces of supply and demand once again will force price shaving, followed by the inevitable price wars.

And, everyone will share the blame. Agents will shop risks so as not to lose their commission dollar. Insurers will provide competitive prices to maintain their market share. Reinsurers will add fuel to the fire with bargain-basement deals.

And so the cycle continues. . . .

David C.W. Rich is assistant vp-corporate reinsurance for Fireman's Fund Insurance Cos. in Novato, Calif.

Refusing surgery shouldn't cut comp benefits

A claimant's refusal to undergo a laminectomy, an operation involving the vertebra, was not unreasonable and, thus, her workers compensation award should not have been reduced, the Court of Appeals of Oregon ruled.

Zoi Sarantis injured her lower back while working as a maid for a hotel. Until her injury, she never had been hospitalized or seen a doctor. She had performed physical labor since childhood.

After the injury, Ms. Sarantis was treated in a hospital emergency room and referred to an orthopedist. She cooperated with her physician's recommended treatment. Orthopedic consultants and a neurologist concurred in her orthopedist's conservative treatment.

Later she was sent to another orthopedist who recommended a laminectomy on the right side, stating it would provide a 75% chance of improvement.

Ms. Sarantis refused because of her fear of the risks involved. Therefore, her permanent partial disability status was reduced by the Workers Compensation Board.

The appellate court noted that until surgery was recommended, Ms. Sarantis had cooperated and

legal briefs

complied with all treatments and recommendations of her physician. The court pointed out that the physician recommending surgery had not stated what the actual risks were.

Therefore, the court observed that, although there was a good possibility the surgery would improve her condition, there also was a possibility it would make her worse.

"A 75% chance of improvement has the necessary corollary of a 25% chance of no improvement or of worsening," the court emphasized.

The court said it could not say that her decision was outside the range of decisions reasonable people might make.

In addition, the court concluded that Ms. Sarantis was entitled to an award of permanent total disability. *Sarantis vs. Sheraton Corp.*, Court of Appeals of Oregon, Sept. 5, 1984 (BI/03/S.-\$5).

System malfunction not excluded

An insured's loss of product caused by a malfunction of reaction procedures was not excluded from the definition of an "accident" in an insurance policy, according to a Georgia appellate court.

The F.R.P. Co. was a manufacturing company that

had an insurance policy with Commercial Union Insurance Co. covering its machinery, refrigeration and electrical systems. During the manufacture of a polymer product, an automatic system failed and a safety valve "blew." The contents of the reactor tank were directed into a spillway and lost.

F.R.P. presented a claim to Commercial Union that included a claim for the lost product. The insurance policy excluded coverage for the functioning of any safety device or protective device. Commercial Union denied the claim, alleging that the product was lost as a result of the functioning of the safety device.

F.R.P. sued and won in the trial court.

On appeal, Commercial Union argued that there was no evidence of a "sudden accidental breakdown of the object . . . which manifests itself at the time of its occurrence by physical damage to the object" as required for coverage.

But, the court said that there was a runaway exothermic reaction and the fact that chemicals were vented to the outside of the tank through a safety device prevented a greater loss that would have resulted from an explosion.

Thus, according to the court, the product loss was caused by an occurrence precipitated by the failure of the three-way valve and was covered under the policy. *Commercial Union Insurance Co. vs. F.R.P. Co.*, Court of Appeals of Georgia, Sept. 25, 1984 (BI/05/S.-\$5).

These abstracts were prepared by Cases Unlimited Inc. A copy of an entire decision may be obtained by sending a check for \$5 made out to Cases Unlimited to Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. List the number for each opinion.

LET'S BE REALISTIC

Claims-made policy is a viable solution to industry's real crisis

By James E. Gustafson
and Dorothy Zelenko

IF COMMERCIAL insurance buyers could have everything they wanted in a liability insurance policy, what would it look like?

Certainly it would provide very broad coverage. Every imaginable contingency that could produce losses, either sudden or gradual, would be specifically covered, and broad language would extend protection to the still unimaginable contingencies.

This ideal policy would be written without any limits or with extremely high limits, and it would be guaranteed renewable.

The price would be low, relative to the insured's other operating expenses, and remain stable from year to year.

It would be available from a variety of high-quality markets that are dependable and pleasant to deal with.

And, the hardest part of the insurance buyer's job might be deciding which policy to take.

It is safe to say there won't be any policies like that available this year, and the liability insurance buyer's job will be difficult at best. Prices are up, capacity is down, and terms are tougher.

Additionally, beginning in 1986 with the introduction of the Insurance Services Office's new commercial general liability program, many insurance buyers for the first time will have to consider a claims-made policy.

ISO has spent years developing this new claims-made policy and the attendant rating procedures.

However, many insureds and producers are decidedly unhappy with the policy form.

Why is the commercial liability insurance that is available now so different from the ideal?

Overcapacity and the out-of-touch-with-reality pricing during the soft market of the recent past are partly responsible.

It seems a long time since either buyers or sellers have looked clearly at the nature of the insurance transaction. Now that the party seems to be over, it might be helpful to think again about basics. What can insurance buyers reasonably expect? And, what can insurance sellers sensibly offer?

Liability insurance has gotten so complicated that it is easier to begin a discussion of how insurance is supposed to work with a simpler example. Consider individual term life insurance coverage.

Life or death, while individually unpredictable as to time, is highly predictable by age for large groups. It is this fact that explains how the risk of the

early death of a family provider and the resulting financial hardship for the surviving spouse and children can be reduced by purchasing life insurance coverage.

Individuals pay premiums that in total will pay the predictable number of claims (which will replace in full or part the earning power of those who die) plus earn a profit for the insurer.

There are several essential things to notice about this simple example.

First, the risks that are transferred from individual families to the insurer are not accumulated just in the insurance company. Because of the predictability of mortality for large groups, the risk is reduced by pooling.

Second, both parties to the transaction benefit. The insured family has more security than before, and the insurer has a reasonable expectation of profit.

Third, only some clearly defined risks are covered. Emotional and social losses

that might result from a death in the family aren't covered, and no one expects them to be.

Insurance works when losses are individually unpredictable, reasonably predictable in groups and independent or not highly linked with one another. But, most property/casualty risks do not meet these criteria as well as life insurance risks. The incidence of auto accidents or fires is not as predictable from year to year as is mortality by age group.

Many property and liability losses are linked rather than independent, as when a windstorm damages a wide area or a defective product batch turns up in numerous places.

Still, with sufficient surplus and volume to absorb the sometimes sizable variations from the expected, a company can insure these less-than-ideal risks. And, through reinsurance, this capability can be extended further.

Further, but not indefinitely.

Some exclusions still are necessary. The nuclear incident exclusion is a well-known example that is found on virtually all property/casualty insurance policies.

When the first nuclear reactors were built, there was no experience from which to predict losses. Additionally, it was thought that any loss probably would be of tremendous magnitude.

Individual private insurers recognized that they could not provide coverage by themselves against the damage the risks might cause.

Giant pools, plus the government, still provide what insurance these plants have today.

Unlike nuclear reactors, commercial premises, construction sites and manufacturing plants have been around for a long time. But in recent years, the

liability risks they present have come close to being uninsurable for the same reasons as nuclear incidents: Losses are completely unpredictable and potentially of tremendous magnitude.

Liability insurance was developed at a time when liability losses were based on well-understood and time-tested concepts and arose out of easily identifiable accidents.

In other words, courts behaved predictably in most cases. Traditional insurance made sense.

Everyone—especially corporate risk managers—knows that liability has changed. The number of claims has mushroomed. Court calendars are clogged, and claims can take years to settle.

Statutes of limitation have been liberalized or even eliminated, and claims now can be made many years after an alleged injury occurred. There are new kinds of suits being brought and

claims-made coverage is not to make coverage better, simpler or more up-to-date.

The purpose is to try to make liability insurable again.

A claims-made policy covers only those claims that actually are made during the policy period.

For the primary insurance company, it thus cuts off the long tail of late reported claims. When the claims-made policy period ends, the insurance company will know about all the claims it will have.

It will not know at that point what each of them will cost, since with our court system the settlement may be years away.

But, the insurer certainly will have a better idea than it would have had if it had provided coverage under the occurrence form and if many claims had still not been made by the end of the policy period.

The insurer can use this information in setting its price for the next year's claims-made coverage. This coverage shortens the period between pricing coverage and paying claims.

Even if things change, they should change less, so liability losses under a claims-made policy should be more predictable.

Claims-made coverage also enables insurers to control and price the magnitude of their exposure. Both the occurrence and the claims-made versions of the new CGL forms have aggregate policy limits for all coverages, so insurers can know their maximum loss for any policy.

But with the occurrence form, where claims may not be reported for a very long time, an insurer could issue policies for many years before becoming aware of a kind of claim that eventually will produce policy-limit losses on all of them—adding up to a total loss far beyond what the insurer priced and could reasonably absorb.

For reinsurers, the problem is compounded, since the larger the loss, ordinarily the larger the reinsurer's share.

Additionally, while the primary insurer might have a certain type of these serious multiyear losses on just a few of its policyholder accounts, the reinsurer could easily find that it has accumulated them from the majority of its ceding company clients.

With claims-made coverage, the insurer knows about any new kind of claim before each policy year ends and can consider whether and how it can provide continuing coverage and additional limits for that exposure.

Claims-made coverage does not

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'Much has been said about claims-made coverage, a lot of it in less than plain language. Let us be clear. The purpose of claims-made coverage is not to make coverage better, simpler or more up-to-date. The purpose is to try to make liability insurable again.'

won.

There are dramatically bigger awards being made. Fault is sometimes a minor factor, and traditional defenses have been badly eroded.

Between the long, long tail on claims reporting and the totally erratic development of claims resulting from all the social, economic and legal changes, liability losses have become almost unpredictable.

Historical data provides no help in foreseeing these things, and current data probably tell equally little about the future.

Adding to the problem of unpredictability is the fact that many of these developments produce liability losses that are strongly linked. One large award in a certain kind of case sets a precedent for many more. One successful claimant under a new theory of liability means a rush of similar suits will be brought.

Perhaps the ultimate in linked losses, though, comes about through gradual occurrence. A serious disease that develops over a period of 20 years, for example, or a toxic chemical that seeps into the ground during the same time period each potentially produce not one but 20 policy-limit losses, according to our courts.

ISO's new CGL program has a number of objectives. The policies are written in "plain language," classifications have been modernized and rating has been simplified.

But for many insurers, reinsurers and insureds the most important part of the revision is the introduction of claims-made coverage.

Much has been said about claims-made coverage, a lot of it in less than plain language. Let us be clear. The purpose of



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Claims-made policy is a realistic approach

Continued from previous page

eliminate the erosion of tort concepts or the linking of claims that undermine the assumptions on which insurance is based, but it limits the time dimension of the problem, usually to a single year.

Take the example of gradual pollution. Liability insurers never intended to cover the results of dumping, which was a standard operating procedure for years. And, there probably was no way insurers could have anticipated the coverage for the huge sums in property damage liability that courts have recently "found" in old policy wordings.

Even if insurers had been writing on claims-made forms, pollution claims still could have been made against them, and courts still could have held that coverage existed where none was intended. One or more successful suits still could have led to a whole array of similar claims and large unexpected losses.

But the difference would have been that within a year—or however long it would have taken to recognize that a major change had occurred in property damage liability—new policies could have taken this into account.

Perhaps a way could have been found to price and cover the exposure, or the existing wording could have been clarified. In any event, the large unanticipated losses would have been confined, hopefully to a single year.

So, claims-made coverage both improves the predictability of losses and limits the exposure or magnitude of what can go wrong for the insurance or reinsurance company.

But doesn't it make things worse for the insurance buyer? Yes it does, to a point.

However, we probably have passed that point already. As long as the buyer could get unlimited coverage of the unknown from a solvent company without paying for it, he was better off than he is now.

But, today that kind of "dream" policy does not exist.

The major benefit of the claims-made policy for certain insurance buyers is that they can obtain insurance at all. In today's liability environment, without a claims-made policy, certain risks are probably uninsurable, at least at "affordable" terms.

Despite all the difficulties with insuring new kinds of gradual and other losses, many businesses still need and want coverage for the traditional kinds of liability losses. Those losses will be covered under a claims-made program, just as they were before.

The only difference is the policy year under which the loss falls. Under claims-made coverage, the policy is in effect when the claim is made instead of when the bodily injury or property damage occurred.

There is an actual advantage to the insured in this, after he has been on claims-made coverage for a number of years: His current up-to-date limits will apply to claims instead of the limits he carried perhaps years earlier when the injury occurred.

There are other advantages to the

insured. The price he pays should be fair and more stable than before.

Because liability losses under occurrence policies have been so unpredictable, insurers have done a lot of guessing. Many buyers think insurers are guessing far too high, illogically projecting the awful trends of the recent past endlessly into the future.

If this is the case, under claims-made coverage, the truth soon will be known and prices will be changed accordingly. Since information about each year's experience will be available to set the price of the policy for the next year, adjustments will be regular and should be smaller.

Because prices are fair—that is, accurately reflecting the cost of liability claims—doesn't mean buyers will like them. Buyers may think that the liability situation in the United States has gotten completely out of hand, that court awards are unreasonably high, that legal costs are excessive and that there ought to be a stronger relationship between fault and liability or else some sort of no-fault system.

Few insurers disagree, and most have been saying so for a long time. But in the end, insurers are really only the scorekeepers; they don't make the rules in the liability game.

Claims-made insurance will pass the cost of our liability system along to the insured, and they in turn will include it in the cost of their products.

Everyone, not just insurers, should be involved in deciding if our system is at all worth the price we are paying or if it ought to be changed.

There is another seldom-mentioned advantage to buyers of claims-made coverage: They pay for coverage later in time.

'Everyone, not just insurers, should be involved in deciding if our system is at all worth the price we are paying or if it ought to be changed.'

There has been a lot of talk for years about the long period of time between when liability premiums are collected and when claims finally are paid,

and about all the investment income insurers earn on the premiums and the loss reserves they hold in the meantime. Claims-made insurance decidedly shortens the time between collecting premiums and paying claims.

Admittedly, most insurance companies are gladly trading collecting premiums sooner for the better shot at collecting the right premium, which claims-made insurance offers. But, paying later still is better for buyers than paying sooner.

What about the disadvantages of claims-made insurance? There are some disadvantages, to be sure, but some of them may turn out to be less important than they now seem.

Insureds are concerned about switching insurers, thinking that once they are on a claims-made program they may be permanently stuck with one company.

This has not been the case with directors and officers liability insurance or the numerous areas of professional liability lines for which the claims-made form has been used for some time; insurer changes have been common.

There is no theoretical reason why an

insured who can provide good information about his past losses and operation would not be as attractive a risk on a mature claims-made basis to a new insurer as to his old insurer.

The situation that is really worrisome, though, is when facts become known that cause an insured to plainly be an unattractive continuing risk to his current insurer or to any other insurer. Perhaps it becomes clear that his past operations will give rise to lots of future claims.

This is not too different from the concern about the possibility of a major accident involving many potential claimants

occurring near the end of a policy period and casting a dark shadow of virtually certain claims over the next year's claims-made renewal coverage.

The insured is protected in both of those situations by the extended reporting period provisions of the CGL policy, which require the insurer to provide tail coverage upon request if either party cancels.

This, in effect, converts the previous year's claims-made policy to an occurrence cover going back to its retroactive date.

With respect to losses that already have occurred, the insured then is covered whenever claims might be made, up to the limit of his latest policy. He can negotiate a renewal covering only future losses exactly as he would now.

Too much has been made of the proposed maximum tail coverage rate—200% of the last annual premium—that the new CGL allows the insurer to charge.

It is certainly large enough to serve as a disincentive from buying the tail when it is not needed. Obviously, claims-made insurance won't accomplish what it is supposed to if insureds routinely purchase the tail and turn their policies into occurrence forms.

But a good part of that 200% price is not a penalty but simply the cost of buying all-at-once coverage for future claims that under the claims-made policy would be paid for later and a year at a time.

The rest of that amount, although it might seem like a lot to the insured, is a very small sum when compared with the cost of the losses the insurer will pay in one of these practically certain loss situations.

In fact, the loss-to-premium relationship looks so unfavorable that not all reinsurers are willing to fully cover their insurance company clients for any extended reporting period endorsements they might have to issue.

Many insureds worry about abusive practices, like retroactive date manipulation, arbitrary cancellations to obtain tail premiums or unreasonable charges for normal going-out-of-business coverage.

But buyers have several protections against those practices.

The first is self-education about how claims-made coverage works, including retroactive dates, extended reporting periods and all the new claims-made related endorsements, so that gaps in

coverage aren't accepted because of misunderstandings.

The second is knowing the insurer's reputation. If an insurer is known for sharp dealing, don't do business with it in the first place. Then you won't have to worry about how you will fare in a difficult situation.

Finally, what about coverage limitations? What about the pollution exclusion and aggregate limits and defense cost limits? What about the

situation where a product widely in use for a long time and presumed innocuous is discovered years later to gradually cause its users serious harm?

'Limitless coverage of the unknown is a fraud. No matter what your contract says, no insurer can make that promise over the long term. . . .'

Don't the new forms provide less coverage than the old ones?

In plain language, yes.

The limitless cover of pollution and gradual disease under the old forms was unanticipated and unintended but nevertheless held by the courts to be there. The potential magnitude of unlimited defense costs was badly underestimated.

Hopefully, the new forms have changed those things, because risks of totally unpredictable size and unlimited magnitude cannot really be insured in the sense that an insurer knows it will be able to pay those losses in full if they occur.

Limitless coverage of the unknown is a fraud. No matter what your contract says, no insurer can make that promise over the long term, because its resources are limited.

Don't confuse the empty promises of the naive or the dishonest with risk transfer. You still have the risk if, when the "covered" losses occur, your insurance company can't possibly pay.

So the new ISO claims-made policy is not a dream come true. Instead, it is a real-world solution to some real-world problems.

Liability insurance cannot work for either the buyer or the seller if losses are extremely difficult or impossible to predict. Either insurance will become unavailable or its price will be unaffordable.

Such is nearly the case with occurrence coverage under our current liability system.

Tort reform is surely needed, but America's businesses cannot wait. They need insurance now against unexpected financial losses so their own resources can be fully used for their ongoing operations.

The claims-made policy will provide business with protection against unexpected loss, which is the real purpose of insurance. It also will help make losses more predictable, which is a necessary condition for any viable insurance product.

It is true buyers will not have unlimited protection against every possible contingency, and insurers still will have to deal with considerable unpredictability.

On the whole, though, we think the claims-made policy is a good, workable solution for both buyers and sellers.

Directory of reinsurance intermediaries

2

AM-RE Brokers

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	1984	1983
Premium volume...	NA	NA
% Treaty.....	75%	NA
% Facultative...	25%	NA
Gross revenues...	NA	NA
Total employees...	25	NA
Treaty.....	19	NA
Facultative...	6	NA

Parent company: American Re-Insurance Co.
Year founded: 1978; activated in 1984.

Branch offices: Chicago.
Principal officers: Ronald E. Comp-ton, chairman/president; Edward B. Jobe, executive vp; S. Lennart Bar-kinge and Donald F. Merkel Jr., senior vps; T. Darrington Semple Jr., resident counsel/secretary; James Anastasio, vp/treasurer; Patricia A. Furst, vp; Robert F. MacSwan, assistant vp; Mary M. Cakuls, director; Evelyn B. Durkin, assistant treasurer.

Licensed in: New York.

Agnew International Inc.

127 John St., New York, N.Y. 10038;
212-558-6630

	1984	1983
Premium volume...	\$20,000,000	\$20,000,000
% Treaty.....	15%	15%
% Facultative...	85%	85%
Gross revenues...	\$1,000,000	\$1,000,000
Total employees...	23	23
Treaty.....	4	4
Facultative...	19	19

Year founded: 1976.

Principal officers: Patrick J.L. Agnew, president; Richard DiClemente and Mona Chrysanthov, vps; W. James Cook and Joan Anne Certo, assistant vps; Jerome Migliacci, treasurer.

Specialties: Major property faculta-

How to use directory

Information for the third annual directory of reinsurance intermediaries was gathered from responses to questionnaires sent to the companies by *Business Insurance*.

The listing is printed as an editorial service; there is no charge for intermediaries to be included.

Companies were asked to provide information for 1984 and 1983, including premium volume related to reinsurance, percent of treaty and facultative business (based on reinsurance premium volume), gross revenues related to reinsurance, total employees and number of employees assigned to treaty and facultative reinsurance.

Also requested was information on ownership, year founded, branch offices and subsidiaries brokering reinsurance, specialties, acquisitions, principal officers and licensing.

When a company was not in business during the time, or refused to provide financial information, it is noted in the listings as NA (not available).

If you wish to locate an intermediary by city or state, you may refer to the geographic listing following the directory. Home offices as well as branch offices and subsidiaries brokering reinsurance are included.

We have made every effort to obtain complete and accurate information; however, *Business Insurance* is unable to verify all information because public documents are seldom available.

tive, domestic and foreign.
Licensed in: New York.

Amberco

101 Pearl St., Suite 600, Hartford,
Conn. 06103; 203-727-1196

	1984	1983
Premium volume...	NA	NA
% Treaty.....	90%	90%
% Facultative...	10%	10%
Gross revenues...	NA	NA
Total employees...	NA	NA

Year founded: 1977; company currently under reorganization.

Branch offices: New York; Hamilton, Bermuda; Miami.

Principal officers: John K. McGarity, president; Robert T. Sargent and Julian M. Griffiths, vps.

Specialties: Medical malpractice, financial guarantees, captives.

Licensed in: New York and Bermuda.

American Intermediaries Inc.

1800 Century Park E., Suite 450,
Los Angeles, Calif. 90067;
213-201-6500

	1984	1983
Premium volume...	NA	NA
% Treaty.....	100%	NA
Gross revenues...	\$100,000	NA
Total employees...	6	NA
Treaty.....	6	NA

Parent company: Iona Inc.

Year founded: 1984.

Principal officers: Henry Krueger, chairman; Wolfgang J. Buettner, president; Nora B. Smith, senior vp.

Licensed in: New York.

Andrew Edwards & Co. Inc.

111 John St., New York, N.Y. 10038;
212-227-1300

	1984	1983
Premium volume...	\$107,646,000	\$82,747,000
% Treaty.....	100%	98.7%
% Facultative...	0%	1.3%

	NA	NA
Gross revenues...	17	18
Total employees...	17	18

Year founded: 1977.

Branch offices: Hamilton, Bermuda.
Principal officers: Andrew Barile, chairman; Edward Mallozzi, president; Phil Russo, vp-marketing; Jeff Passis, vp-finance; Carol Koenigsberg, vp-electronic data processing; Mark Gardner, attorney; Joseph Pepitone, accounting.

Specialties: Agency captive underwriting programs, retrocessions, managing general agent excess programs, casualty, property, aviation, ocean marine.

Licensed in: New York.

Associated Intermediaries Inc.

2 Piedmont Center, Suite 700,
Atlanta, Ga. 30305; 404-237-1170

	1984	1983
Premium volume...	\$90,000,000	\$50,000,000
% Treaty.....	80%	87.5%
% Facultative...	20%	12.5%

	NA	NA
Gross revenues...	25	25
Total employees...	11	7
Treaty.....	14	8
Facultative...		

Parent company: Provident Life & Accident Insurance Co.

Year founded: 1982.

Subsidiaries: Associated Intermediaries Inc.-S.C., Columbia, S.C.

Principal officers: Associated Intermediaries Inc.: Alph H. Browne, president; William Allen and Robert Sanders, senior vps; Stephen C. Rece, controller/treasurer; Samuel S. Miller, secretary; William Wolf, assistant vp. Associated Intermediaries Inc.-S.C.: Alph H. Browne, chairman; Robert Sanders, president; Jeffery Parrish, vp; Karen Basso, assistant vp.

Specialties: Property, casualty, marine, aviation, accident and health.

Licensed in: New York.

Continued on next page

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Dallas, Tx. 75247
(214) 688-1051

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New York, N.Y. 10038
(212) 964-2929

The Creative Link Between Insurers and Brokers

Continued from preceding page

b

B.R.I. International Agency Inc.

156 William St., New York, N.Y. 10038; 212-233-7171

	1984	1983
Premium volume...	\$3,938,000	\$2,400,000
% Treaty.....	75%	70%
% Facultative...	25%	30%
Gross revenues...	NA	NA
Total employees...	9	9
Treaty.....	6	6
Facultative...	3	3

Parent company: BRI Holding Corp.
Year founded: 1981.

Principal officers: Donald P. Ferrarini, president; Joseph Zweig, senior vp/general manager; Fred Ghawi, vp-ocean marine; Howard Miller and Bruno Rumignani, vps; Burt Matfus, secretary/treasurer.

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Bailey Townsend Inc.

111 John St., New York, N.Y. 10038; 212-233-9076

	1984	1983
Premium volume...	NA	NA
% Treaty.....	75%	75%
% Facultative...	25%	25%
Gross revenues...	NA	NA
Total employees...	6	5
Treaty.....	6	5
Facultative...	8	5

Parent company: John Townsend & Co. (Holdings) Ltd.

Year founded: 1979.

Principal officers: John R.C. Townsend, chairman; Robert W. Bailey, president.

Specialties: Ocean marine, international reinsurance, professional liability.

Licensed in: New York.

Bates Turner Inc.

4500 College Blvd., Suite 200, Overland Park, Kan. 66211; 913-491-4339

	1984	1983
Premium volume...	\$58,000,000	\$30,000,000
% Treaty.....	100%	100%

	NA	NA
Gross revenues...	12	12
Total employees...	12	12
Treaty.....	12	12

Parent company: Employers Reinsurance Corp.

Year founded: 1982.

Branch offices: Morristown, N.J.

Principal officers: Prewitt B. Turner Jr., chairman; Michael G. Fitt, president; Michael E. Fisher, executive vp/ chief operating officer; Charles S. Marisca, Robert Thiemer and James C. Blanton III, assistant vps.

Licensed in: New York.

E.W. Blanch Co.

3500 W. 80th St., Minneapolis, Minn. 55431; 612-835-3310

	1984	1983
Premium volume...	**	**
% Treaty.....	98%	99%
% Facultative...	2%	1%
Gross revenues...	**	**
Total employees...	232	223
Treaty.....	210	201
Facultative...	22	22

**See pages 3 and 4 for estimates.

Year founded: 1957.

Branch offices: New York; Chicago; San Francisco; Copenhagen, Denmark.

Subsidiaries: Bradstock Blanch, London.

Principal officers: E.W. Blanch Jr., chairman; Frank S. Wilkinson Jr., vice chairman; Michael W. Cashman Sr., president; John B. Collins, John H.S. Jamieson, Paul S. Mavros, Casandra M. Mihalchick, Paul M. Egeland, Russel L. Funk, John E. Gallego, John C. Graham, Jerome R. Hanson, Leo T. Heifetz, Charles C. Hewitt III, Arthur M. Horwitz, Peter M. Mahon Jr., Andrew M. O'Brien, Albert Rusnak Jr., Kenneth J. Sherman, Richard E. Swager, William P. Windhorst and Robert S. Youpa, senior vps.

Specialties: General property/casualty treaty; crop hail; professional liability; life, accident and health; financial guarantee; facultative.

Licensed in: New York.

Bryant Treaty Brokers Inc.

600 Holiday Plaza, Suite 340, International Office Center, Matteson, Ill. 60443; 312-748-9550

	1984	1983
Premium volume...	NA	NA
% Treaty.....	NA	NA
% Facultative...	NA	NA
Gross revenues...	NA	NA
Total employees...	NA	NA

Parent company: Derek Bryant Insurance Brokers Ltd., London.

Year founded: 1985.

Principal officers: Derek Bryant, chairman; Edward N. Murray, president/treasurer; Francis P. Murray, secretary.

c

Guy Carpenter & Co. Inc.

110 William St., New York, N.Y. 10038; 212-791-8600*

	1984	1983
Premium volume...	**	**
% Treaty.....	**	**
% Facultative...	**	**
Gross revenues...	**	**
Total employees...	1,260	1,230

*As of May 1, 1986, new address will be 2 World Trade Center, New York, N.Y. 10048.

**See pages 3 and 4 for estimates.

Parent company: Marsh & McLennan Cos. Inc.

Year founded: 1923.

Branch offices: San Francisco; Los Angeles; Chicago; Hartford, Conn.; Coral Gables, Fla.; Atlanta; Dallas.

Subsidiaries: Guy Carpenter & Co. Inc. of Minnesota, Minneapolis; Balis & Co. Inc., Philadelphia; Guy Carpenter & Co. (Canada) Ltd., Toronto; Guy Carpenter Italia S.R.L., Trieste, Italy; Guy Carpenter & Co. (Asia) Ltd., Hong Kong; Guy Carpenter & Co. ApS, Copenhagen, Denmark; Guy Carpenter & Co. (Stockholm) A.B., Stockholm, Sweden; Guy Carpenter & Co. S.A., Brussels, Belgium.

Principal officers: Richard H. Blum, president/ chief executive officer/director; Michael J. Cody, Robert S. Constable, Michael S. Cooper, John Kean Jr., Edward G. Maher, Gabriele J. Troiano and James D. Weaver, directors.

Licensed in: New York.

Herbert Clough Inc.

Financial Center, P.O. Box 10216, Stamford, Conn. 06904; 203-357-8883

	1984	1983
Premium volume...	NA	NA
% Treaty.....	95%	95%
% Facultative...	5%	5%
Gross revenues...	NA	NA
Total employees...	22	17
Treaty.....	NA	NA
Facultative...	NA	NA

Parent company: General Reinsurance Corp.

Year founded: 1926.

Principal officers: Stephen Lunsford, president; George T. Derfus, senior vp.

Licensed in: New York.

Cole, Booth, Potter Inc.

499 Thornall St., C.N. 3129, Edison, N.J. 08818; 201-549-6300

	1984	1983
Premium volume...	\$140,000,000	\$125,000,000
% Treaty.....	80%	75%
% Facultative...	20%	25%
Gross revenues...	NA	NA
Total employees...	72	63
Treaty.....	54	52
Facultative...	18	15

Parent company: Combined International Corp.

Year founded: Predecessor companies: Booth Potter Seal, 1939; Sten-Re, Cole, 1979.

Mergers: Effective July 1985, the principals of Sten-Re, Cole bought out Reed Stenhouse's 50% share and then sold the entire firm to Combined International Corp., which owned Booth Potter Seal. Both reinsurance intermediaries were merged to operate under the new name of Cole, Booth, Potter Inc.

Principal officers: Richard E. Cole, president/ chief executive officer; Thomas M. Simone, Demarest S. Newman, Bart L. Frazzitta, Albert F. Davis and John Van Fossen, senior vps-treaty; Anthony P. Carro, vp-facultative.

Specialties: Domestic treaty reinsurance, property and casualty; domestic and international facultative reinsurance.

Licensed in: New York.

Cravens & Co., Special Insurance Services

555 California St., Suite 2920, San Francisco, Calif. 94104; 415-622-7530

	1984	1983
Premium volume...	NA	NA
% Treaty.....	100%	100%
Gross revenues...	NA	NA
Total employees...	20	17
Treaty.....	20	17

Year founded: 1978.

Branch offices: Seattle.

Affiliated companies: Cravens Re Treaty Facilities Inc.; Cravens Re Facultative Facilities Inc.; Cravens, Dargan Enterprises.

Principal officers: Malcolm Cravens, chairman; Hartley D. Cravens, vice chairman; E.L. Stutsman, president; Robert J. Reynolds, executive vp; Leon Button and Edward W. Tuescher Jr., senior vps; Jim M. Rusk, vp/assistant secretary; Jim McLean, vp; Mark Cravens and Sheila Moore, assistant vps.

Cypress Creek Intermediaries Inc.

110 Brookside Drive, P.O. Box 1640, Daytona Beach, Fla. 32014; 904-756-2309

	1984	1983
Premium volume...	\$25,000,000	NA
% Treaty.....	100%	NA
Gross revenues...	\$250,000	NA
Total employees...	3	NA
Treaty.....	1	NA
Facultative...	1	NA

Year founded: 1984.

Principal officers: Michael T. Pyle, president; Peggy B. Pyle, secretary; Laurie P. Langston, treasurer.

Specialties: Property/casualty pro-rata and excess-of-loss programs, including catastrophe and stop-loss coverages; crop hail; bloodstock; livestock.

Licensed in: New York, Florida.

d

Delaney Intermediaries Inc.

55 John St., 17th Floor, New York, N.Y. 10038; 212-267-9339

	1984	1983
Premium volume...	\$70,000,000	\$150,000,000
% Treaty.....	80%	90%
% Facultative...	20%	10%
Gross revenues...	\$1,800,000	\$3,120,000
Total employees...	50	53
Treaty.....	42	45
Facultative...	8	8

Year founded: 1954; company reorganized in 1984.

Subsidiaries: Delaney Intermediaries Inc. (Bermuda), Hamilton, Bermuda.

Principal officers: Timothy D. Delaney, president; John M. Kwaak, executive vp; Gail W. Reilly, treasurer; Daniel F. Maher Jr., secretary.

Specialties: Captives, self-insureds, lower-layer casualty accounts.

Licensed in: New York.

Delaney Offices Inc.

55 John St., 12th Floor, New York, N.Y. 10038; 212-267-9339

	1984	1983
Premium volume...	\$20,000,000	NA
% Treaty.....	100%	NA
Gross revenues...	\$500,000	NA
Total employees...	5	NA
Treaty.....	5	NA

Continued on facing page

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Total Capital and Surplus exceeds US \$42,500,000

Continued from facing page

Year founded: 1954; company reorganized in 1984.

Principal officers: William F. De-laney Jr., president.

Specialties: Fire, ocean marine, aviation, casualty, captives.

Licensed in: New York.

e

E & S Intermediaries Inc.

111 John St., New York, N.Y. 10038; 212-732-9855

	1984	1983
Premium volume...	\$17,000,000	\$13,564,000
% Facultative...	100%	100%
Gross revenues...	\$1,338,200	\$907,400
Total employees...	18	13
Facultative...	18	13

Parent companies: H.S. Weavers (Holdings) Ltd., Transit Casualty Co., National Underwriting Agency.

Year founded: 1980.

Principal officers: Stephen L. Gandley, president; Robert L. Osborne Jr., executive vp; Randall S. Jensen and Randolph Roppelt, vps.

Specialties: Excess and surplus lines casualty business.

Licensed in: New York.

H.A. Enan & Co. Ltd.

950 Elm St., San Bruno, Calif. 94066; 415-873-3626

	1984	1983
Premium volume...	\$15,000,000	\$30,000,000
% Treaty.....	100%	100%
Gross revenues...	\$965,000	\$1,034,000
Total employees...	10	7
Treaty.....	10	7

Year founded: 1979.

Principal officers: Hussein A. Enan, chief executive officer; Garrett Redmond, chief operating officer; Peter J. Murphy, executive vp/chief financial officer; Dale N. Hoemke and Glenn H. Reid, executive vps; Jeffrey J. Hanson and Lynn D. O'Brien Jr., vps.

Licensed in: New York.

f

Fairway Intermediaries Ltd.

73 Front St., P.O. Box HM2261, Hamilton 5, Bermuda; 809-295-8473

	1984	1983
Premium volume...	\$16,000,000	\$12,000,000
% Treaty.....	85%	90%
% Facultative...	15%	10%
Gross revenues...	\$325,000	\$225,000
Total employees...	8	8
Treaty.....	8	8
Facultative...	8	8

Parent company: Dana Corp.

Year founded: 1982.

Branch offices: Fairfield, Conn.

Principal officers: Colin J. Davidson, executive vp; Wolcott H. Outerbridge, vp; Roderick S. Gilbert, general manager.

Specialties: Captive programs.

Falcon Intermediaries Ltd.

736 Springdale Drive, Exton, Pa. 19341; 215-363-5540

	1984	1983
Premium volume...	\$16,000,000	\$10,000,000
% Treaty.....	100%	100%
Gross revenues...	NA	NA
Total employees...	4	4
Treaty.....	3	3

Parent company: Roehrs & Co. Inc.

Year founded: 1983.

Principal officers: Walter E. Roehrs Jr., chairman; Geoffrey C. Roehrs, vice chairman.

Specialties: Associations, captive insurance companies, industry groups, self-insurance programs.

Freisenbruch-Meyer Insurance Services Ltd.

P.O. Box 1125, 1 Parliament St., Hamilton 5, Bermuda; 809-295-9208

	1984	1983
Premium volume...	NA	NA
% Treaty.....	95%	93%
% Facultative...	5%	5%
Gross revenues...	NA	NA
Total employees...	9	7

Year founded: 1980.

Associated companies: Freisenbruch-Darrow Management Ltd., Atlas Management Ltd., Hamilton, Bermuda.

Principal officers: Michael D. Freisenbruch, president; Alasdair G. Barclay, secretary; Michael G. Warren, Terence G. Orchard and Simon Tem-

pleman, managers.

Licensed in: Bermuda.

g

Arthur J. Gallagher & Co. (Bermuda) Ltd.

P.O. Box 2000, Perry Building, Church Street, Hamilton 5, Bermuda; 809-292-4654

	1984	1983
Premium volume...	NA	NA
% Treaty.....	90%	80%
% Facultative...	10%	40%
Gross revenues...	NA	NA
Total employees...	5	5
reaty.....	3	3
Facultative...	2	2

Parent company: Arthur J. Gallagher & Co.

Year founded: 1972.

Subsidiaries: Arthur J. Gallagher & Co. (Cayman) Ltd.

Principal officers: J.P. Gallagher, president; R.E. Gallagher, vp; J.F. Gelot, managing director/chief execu-

Continued on next page

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Continued from preceding page

Specialties: Financially oriented reinsurance, political risk, captives. Licensed in: Bermuda.

John Gilbert Intermediary Group

123 William St., New York, N.Y. 10038; 212-732-7410

Table with 3 columns: Metric, 1984, 1983. Rows include Premium volume, % Treaty, % Facultative, Gross revenues, Total employees, Treaty, Facultative.

Parent company: CIGNA Corp. and Clarkson Puckle Group. Year founded: 1976.

Principal officers: Ronald C. Ade, senior vp; Wilbur A. Clarke, controller/secretary/treasurer; Thomas G. Reid and Linda B. Young, vps.

Specialties: International covers, standard and special risk U.S. covers. Licensed in: New York.

Gill & Roeser Inc.

535 Fifth Ave., 34th Floor, New York, N.Y. 10017; 212-972-4880

Table with 3 columns: Metric, 1984, 1983. Rows include Premium volume, % Treaty, Gross revenues, Total employees, Treaty.

Year founded: 1982. Subsidiaries: G&R Cos. Inc.; G&R Intermediaries Inc.

Principal officers: Ardian Gill, chairman; Kirk Roeser, president; James Snedeker, senior vp; Kin Gee and Michael Shumrak, vps.

Specialties: Domestic property/casualty treaty; property/casualty surplus relief and loss portfolios; life surplus relief.

Thomas A. Greene & Co. Inc.

1270 Ave. of the Americas, New York, N.Y.; 212-664-0200

Table with 3 columns: Metric, 1984, 1983. Rows include Premium volume, % Treaty, % Facultative, Gross revenues, Total employees.

**See pages 3 and 4 for estimates.

Parent company: Alexander & Alexander Services Inc. Year founded: 1979.

Branch offices: Chicago, San Francisco.

Principal officers: Thomas A. Greene, president/chief executive officer; Peter F. Malloy, executive vp/chief operating officer; A. Roy Thomson, William R. Coleman, John M. Marek, Robert H. Brandon, Craig J. Ott, Donald B. Peat, John L. Busi, John J. O'Connell and Michael D. O'Halloran, senior vps.

Specialties: Domestic treaty reinsurance. Licensed in: New York, Illinois, California.

Group Resources Inc.

P.O. Box 1318, Kailua, Hawaii 96734-1318; 808-262-4556

Table with 3 columns: Metric, 1984, 1983. Rows include Premium volume, % Treaty, Gross revenues, Total employees, Treaty.

Year founded: 1980. Branch offices: San Francisco. Subsidiaries: Professional Reinsurance Organization.

Principal officers: Donald K. Anderson, president; Dean C. Anderson, vp.

Specialties: Group accident, health, disability income, individual life insurance, financial reinsurance (surplus relief).



Frank B. Hall (Reinsurance) Holdings Inc.

261 Madison Ave., New York, N.Y. 10016; 212-867-4380

Table with 3 columns: Metric, 1984, 1983. Rows include Premium volume, % Treaty, % Facultative.

Table with 3 columns: Metric, 1984, 1983. Rows include Gross revenues, Total employees.

Parent company: Frank B. Hall & Co. Inc. Year founded: 1862.

Branch offices: Philadelphia; San Francisco; Milan, Italy; Copenhagen, Denmark.

Subsidiaries: Frank B. Hall Re of New York, Frank B. Hall Re International Inc., New York; Texas InterOcean Inc., Dallas; Frank B. Hall of Mexico S.A., Mexico City, Mexico; Frank B. Hall Re, Panama City, Panama; Frank B. Hall Re, Caracas, Venezuela; Frank B. Hall Re, Lima, Peru; Frank B. Hall Re, Bogota, Colombia; Frank B. Hall Re Australia, Sydney, Australia; Frank B. Hall Re (Afro-Asia), Brussels, Belgium; Frank B. Hall Re France, Paris, France; Euro-American Re Management Co., Milan, Italy.

Principal officers: Paul F. Butler, chairman/president; David W.H. Smith, president-Frank B. Hall Re International Inc.; Joseph A. Zaffarese, president-Frank B. Hall Re of New York Inc.; Gustavo Cisneros, president-Latin America; Jacques de Cazotte, president-Europe.

Specialties: Casualty, petroleum, marine, highly protected risks, property, international risks. Licensed in: New York.

Harnett & Richardson Ltd.

P.O. Box 836, Hamilton 5, Bermuda; 809-292-7500

Table with 3 columns: Metric, 1984, 1983. Rows include Premium volume, % Treaty, % Facultative, Gross revenues, Total employees, Treaty, Facultative.

Year founded: 1900. Principal officers: Paul Scope, insurance manager/director; Barbara Bogg, director/assistant manager.

Licensed in: Bermuda.

Harrison & Co.

1067 Industrial Road, San Carlos, Calif. 94070; 415-595-1200

Table with 3 columns: Metric, 1984, 1983. Rows include Premium volume, % Treaty, Gross revenues, Total employees, Treaty.

Year founded: 1977. Principal officers: John P. Harrison, president; Ann P. Harrison, secretary.

Licensed in: New York.

W.O. Hart & Co. Inc.

2777 Summer St., Stamford, Conn. 06905; 203-357-1714

Table with 3 columns: Metric, 1984, 1983. Rows include Premium volume, % Treaty, % Facultative, Gross revenues, Total employees, Treaty, Facultative.

Year founded: 1977. Subsidiaries: W.O. Hart & Co. Inc. of New York, New York.

Principal officers: Warren O. Hart, president; Donald J. Salierno, vp; Sharon Niederschmidt, treasurer; Thomas J. McQuaid, assistant vp; Meredith O. Dell'Agosto, assistant secretary.

Specialties: Property, professional liability, marine and trucking. Licensed in: New York.

Heddington Brokers Ltd.

F.B. Perry Building, P.O. Box 1187, Hamilton 5, Bermuda; 809-295-3063

Table with 3 columns: Metric, 1984, 1983. Rows include Premium volume, % Treaty, % Facultative, Gross revenues, Total employees, Treaty, Facultative.

Parent companies: Heddington Insurance Ltd./Texaco Inc.; Willis Faber P.L.C.

Year founded: 1981. Subsidiaries: Willis Faber Heddington, London.

Principal officers: R.O. Anderson, president; M. Dobbie, senior vp.

Specialties: Oil-related risks.

Continued on facing page

Continued from facing page

G.L. Hodson & Son Inc.
 3333 New Hyde Park Road, New Hyde Park, N.Y. 11042; 516-365-9000

	1984	1983
Premium volume	\$565,000,000	\$475,000,000
% Treaty	90%	90%
% Facultative	10%	10%
Gross revenues	\$28,000,000	\$22,000,000
Total employees	193	192
Treaty	153	148
Facultative	40	44

Parent company: Corroon & Black Corp.
 Year founded: 1924.
 Branch offices: Atlanta; Los Angeles; St. Paul, Minn.; New York.
 Subsidiaries: G.L. Hodson & Son Inc. (Minnesota), G.L. Hodson & Son Inc. (Georgia).
 Principal officers: Robert G. Hodson, chairman/chief executive officer; Thomas M. Hearn, president; Duane E. Hitz, executive vp; Michael E. Rothpletz, Thomas J. Kennedy, G. William Davis and Paul B. Nedza, senior vps.
 Licensed in: New York.

Holborn Agency Corp.
 90 John St., New York, N.Y. 10038; 212-267-0224

	1984	1983
Premium volume	NA	NA
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	27	27
Treaty	27	27

Year founded: 1920.
 Principal officers: John N. Gilbert Jr., president/treasurer; James A. Cathcart III, executive vp; Joseph N. Gaffney, senior vp.
 Licensed in: New York.

Hosken Intermediaries Inc.
 130 William St., New York, N.Y. 10038; 212-608-3030

	1984	1983
Premium volume	\$2,500,000	\$1,971,000
% Treaty	15%	15%
% Facultative	85%	85%
Gross revenues	\$305,987	\$181,945
Total employees	7	7
Treaty	1	1
Facultative	2	2

Parent company: Viga Holdings.
 Year founded: 1982.
 Principal officers: K. Ralphs, secretary/treasurer; P. Farina, vp.
 Specialties: Construction all-risk, power stations, utilities, financial, domestic property and casualty, international facultative and treaty accounts.
 Licensed in: New York.

INRE International (New York) Ltd.

3600 Wilshire Blvd., Suite 318, Los Angeles, Calif. 90010; 213-389-1579

	1984	1983
Premium volume	\$1,000,000	NA
% Facultative	100%	NA
Gross revenues	\$100,000	NA
Total employees	3	NA
Facultative	3	NA

Year founded: 1983.
 Branch offices: New York.
 Subsidiaries: INRE International Ltd., London.
 Principal officers: Edmund C. Garcia, vp/manager.
 Specialties: International risks.
 Licensed in: New York, California.

IOC Reinsurance Brokers Ltd.

	1984	1983
Premium volume	NA	NA
% Treaty	90%	85%
% Facultative	10%	15%
Gross revenues	NA	NA
Total employees	14	11
Treaty	13	9
Facultative	1	2

Parent companies: Pencar Holdings Ltd.; Morgan Reed & Coleman Ltd.
 Year founded: 1980.
 Principal officers: Joseph O'Connell, vp.

Independence Intermediaries Inc.
 1 Hollow Lane, Lake Success, N.Y. 11042; 516-627-4390 or 718-347-6601

	1984	1983
Premium volume	\$35,248,000	\$27,890,000
% Treaty	10%	10%
% Facultative	90%	90%
Gross revenues	\$3,176,000	\$2,353,000
Total employees	27	33
Treaty	2	2
Facultative	25	31

Parent company: The Charter Group.
 Year founded: 1973.
 Branch offices: Hartford, Conn.
 Principal officers: Edmund J. Hanley, president; Sam Hartman, senior vp; Anthony Maltese, vp/comptroller; Carl Bach, Cathy Fabiitti and Phil Lombardo, vps.
 Licensed in: New York.

Independent Brokers Ltd.

P.O. Box 2070, Hamilton 5, Bermuda; 809-295-1646

	1984*	1983
Premium volume	\$1,500,000	NA
% Treaty	95%	NA
% Facultative	5%	NA

Gross revenues	\$150,000	NA
Total employees	7	NA
Treaty	2	NA
Facultative	2	NA

*Figures for eight months of 1984.
 Year founded: 1984.
 Principal officers: Peter J. N. Strong, president; John G. Neal, vp.
 Specialties: Medical benefit programs for associations, workers compensation excess coverage.

Insurance Risks International Inc.

2621 E. Camelback Road, Suite 150A, Phoenix, Ariz. 85016; 602-957-6494

	1984	1983
Premium volume	\$10,750,000	\$11,900,000
% Treaty	25%	30%
% Facultative	75%	70%
Gross revenues	\$650,000	\$713,463
Total employees	9	14
Treaty	3	4
Facultative	6	10

Year founded: 1983.
 Branch offices: Beverly Hills, Calif.
 Principal officers: William H. MacFarland, president; Edward Snyder, vp/chief underwriter; David D. Aleck-

sen, vp-Beverly Hills office.
 Specialties: Individual and group life, accident and health stop-loss, excess-of-loss and quota-share, multiemployer trusts, professional sports, personal accident, health maintenance organizations, independent practice associations, preferred provider organizations, special risk and accident reinsurance, long-term disability, self-funded workers compensation, casualty insurance.

Intere Intermediaries Inc.

130 John St., New York, N.Y. 10038; 212-344-1100

	1984	1983
Premium volume	**	**
% Treaty	100%	100%
Gross revenues	**	**
Total employees	189	163
Treaty	189	163

**See pages 3 and 4 for estimates.
 Year founded: 1919.
 Branch offices: Atlanta; Itasca, Ill.; Dallas; Walnut Creek, Calif.
 Subsidiaries: Intere (Bermuda) Ltd., Hamilton, Bermuda; Intere Far East Ltd., Taipei, Taiwan.

Principal officers: Ward B. Gordon, chairman/chief executive officer; Wallace E. Winter, president; Roland G. Roth, vice chairman; Clifford English Jr., executive vp; George A. Edwards, senior vp/treasurer; Michael G. Woll, Kenneth R. Fewell, Brian S. Keegan, Daniel R. Colello, Ronald C. Anderson, Thomas McGrath, John R. Gale, senior vps; Ronald C. Fazio, vp/secretary.
 Specialties: Domestic and international property/casualty, marine and aviation.
 Licensed in: New York.

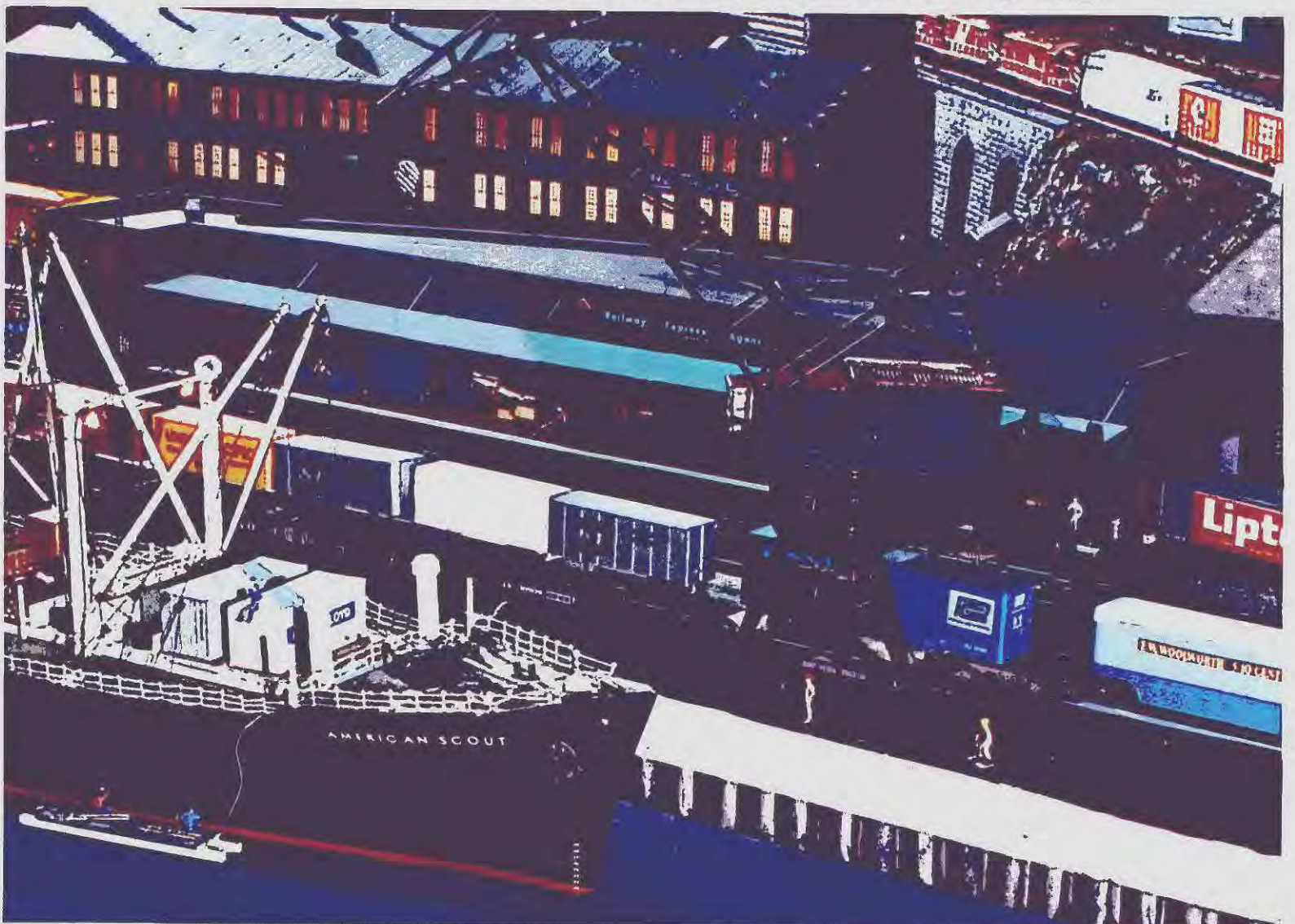
International Intermediaries Inc.

131 E. Main St., Elmsford, N.Y. 10523; 914-592-2070

	1984	1983
Premium volume	\$395,000	\$450,000
% Treaty	90%	95%
% Facultative	10%	5%
Gross revenues	\$30,000	\$30,000
Total employees	2	2

Year founded: 1981.
 Continued on next page

The current market is not a model environment.



A model environment can be controlled. A model environment can be contained. A model environment is stable, with no surprises. Simply flick the switch, watch it run.
 But you can't flick a switch any longer and nothing is automatic. Today's market is chaotic. Costs have risen dramatically while coverages and capacities are severely diminished.
We've been through this kind of market before.
 We've responded to this kind of market before, and we'll respond again... always in the best interests of our clients.
 We can't promise to reduce costs. Nobody in this market can. But we have the vision and experience to contain a client's costs and cost containment is most essential in this market. We have the foresight and knowledge to place clients with carriers who will be around for the long haul... carriers who will be there to

settle claims, not just sell policies.
 We offer innovative solutions to problems and innovative programs to clients. We offer direct access to our key personnel, the people who design your programs and handle your problems. We offer our own stability to help stabilize your insurance program.
 Perhaps these offers aren't unique. After all, there are plenty of brokerage firms for you to speak with, some larger, most smaller, and perhaps you've heard these offers before. Speak with us anyway. We'll listen. We'll advise. We'll put all our resources at your disposal. Because what we're really offering is service. And that's unique.

BRI COVERAGE CORP.
 We'll help you run in the current market.
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WE'RE SERIOUS ABOUT YOUR BUSINESS.

Continued from preceding page
Branch offices: Greenwich, Conn.
Subsidiaries: International Intermediaries (Connecticut) Inc.
Principal officers: Buddy Richman, president; Marlin Henning, senior vp; John Calabiano, treasurer; James Wolofoff, chairman.
Specialties: Casualty, credit life, accident and health, surety bonds.
Licensed in: New York, Connecticut.

International Reinsurance Services Inc.

200 W. Monroe St., Chicago, Ill. 60606; 312-782-9547

	1984	1983
Premium volume	\$3,565,000	\$7,800,000
% Facultative	100%	100%
Gross revenues	\$780,000	\$700,000
Total employees	9	9
Facultative	9	9

Parent company: Cameron General Corp.
Year founded: 1978.
Branch offices: Scottsdale, Ariz.
Principal officers: William Braet, vp.
Specialties: Large commercial accounts.
Licensed in: Illinois, New York, Arizona.



J & H Intermediaries Ltd.

Victoria Hall, Victoria Street, Hamilton 5, Bermuda; 809-292-1552

	1984	1983
Premium volume	NA	NA
% Treaty	10%	0%
% Facultative	90%	100%
Gross revenues	NA	NA
Total employees	7	12
Treaty	1	0
Facultative	6	12

Parent company: Johnson & Higgins.
Year founded: 1978.
Principal officers: Brian Hall, president; Peter McKenzie, Roger Gillett, A. Convey and Catherine Lord, vps.
Specialties: Captive programs, financially oriented programs.

Jauch & Hubener Reinsurance Intermediaries

56 Beaver St., Suite 5B, New York, N.Y. 10004; 212-483-9111

	1984*	1983
Premium volume	\$7,623,700	NA
% Treaty	100%	NA
Gross revenues	\$207,800	NA
Total employees	2	NA
Treaty	2	NA

*1985 estimates.
Parent company: Jauch & Hubener Vermittlungs-GmbH.
Year founded: 1985.
Principal officers: Kurt E. Achenbach, managing director; Jurgen Grupe, partner.
Licensed in: New York.

J.B. Johnson Intermediary Inc.

1717 Woodstead Court, P.O. Box 7508, The Woodlands, Texas 77387; 713-292-4023

	1984	1983
Premium volume	\$3,500,000	\$3,000,000
% Treaty	95%	95%
% Facultative	5%	5%
Gross revenues	\$200,000	\$175,000
Total employees	3	3
Treaty	3	3
Facultative	3	3

Year founded: 1979.
Principal officers: Joel B. Johnson II, president; Molly K. Johnson, secretary/treasurer.
Specialties: High-limit workers compensation, property, casualty, major medical-insurance companies, multi-employer trusts, health maintenance organizations.
Licensed in: New York.



J.L. Kelley Inc.

784 Franklin Ave., Franklin Lakes, N.J. 07417; 201-891-7920

	1984	1983
Premium volume	\$110,000,000	\$98,000,000
% Treaty	79%	79%
% Facultative	21%	21%

	1984	1983
Gross revenues	\$3,200,000	\$2,795,000
Total employees	35	30
Treaty	26	6
Facultative	24	6

Year founded: 1975.
Branch offices: Dallas, New York, Chicago.
Subsidiaries: J.L. Kelley West Inc., Los Angeles.
Principal officers: Joseph L. Kelley, president; David Gilligan and Gary Kriitner, senior vps; Carl Armitage, president-J.L. Kelley West Inc.
Licensed in: New York



Lincoln National Intermediaries Inc.

130 S. Clinton St., Fcrt Wayne, Ind. 46601; 219-427-2000

	1984	1983
Premium volume	\$32,000	NA
% Treaty	100%	NA
Gross revenues	NA	NA
Total employees	NA	NA

Parent company: Lincoln National Corp.

Corp.
Year founded: 1982.
Principal officers: Thomas M. West, chairman/president; William K. Tyler, senior vp; James R. Horein, vp; Marilyn A. Vachon, secretary/assistant treasurer.
Licensed in: New York.

Lodderhose Inc.

150 S. Wacker Drive, Suite 325, Chicago, Ill. 60606; 312-332-3965

	1984	1983
Premium volume	\$25,000,000	\$11,500,000
% Treaty	15%	5%
% Facultative	85%	95%
Gross revenues	\$1,000,000	\$189,255
Total employees	17	10
Treaty	2	2
Facultative	15	8

Year founded: 1983.
Branch offices: Lodderhose New York Inc., New York; Lodderhose Miami Inc., Miami; Lodderhose (Bermuda) Ltd. Hamilton, Bermuda.
Principal officers: Daniel J. Lodderhose, president/chief executive officer; William C. Snyder, executive vp; C. John Geisbush, senior vp.
Specialties: Heavy commercial property/casualty performance, efficacy, force major.

Licensed in: New York.

Luvang Insurance Underwriters Inc.

5805 N.W. 11th St., Suite 230, Miami, Fla. 33126; 305-264-7614

	1984	1983
Premium volume	\$3,500,000	\$2,500,000
% Treaty	10%	10%
% Facultative	90%	90%
Gross revenues	\$282,500	\$107,500
Total employees	4	2
Facultative	4	2

Year founded: 1982.
Principal officers: Juan F. Roman, president; Harold Stewart, vp.
Licensed in: Florida.



MacDuff America Inc.

#201 245 S.E. 1st, Miami, Fla. 33131; 305-381-9827

	1984	1983
Premium volume	\$15,000,000	NA
% Treaty	50%	65%
% Facultative	50%	35%

	NA	NA
Gross revenues	4	3
Total employees	2	2
Treaty	2	1
Facultative	2	1

Parent companies: Brown & Brown; MacDuff Underwriters.
Year founded: 1982.
Principal officers: Robert Thomas III, president; Michael Bainbridge, vp.
Licensed in: New York.

McCorkle Glenn & McCorkle

21st Floor, Gulf Tower, Jacksonville, Fla. 32207; 904-396-2020

	1984	1983
Premium volume	\$5,800,900	\$4,300,000
% Treaty	96%	90%
% Facultative	16%	10%
Gross revenues	\$313,000	\$243,000
Total employees	4	4
Treaty	3	3
Facultative	1	1

Year founded: 1982.
Subsidiaries: MacDuff & McCorkle.
Principal officers: Thomas J. McCorkle and Allan J. McCorkle.
Continued on facing page

Ask our 12 ex-competitors about stability.

Continued from facing page

Montgomery & Collins International Ltd.

Victoria Hall, Victoria Street, Hamilton 5, Bermuda; 809-295-0169

	1984	1983
Premium volume...	\$24,000,000	\$20,000,000
% Treaty.....	20%	50%
% Facultative...	80%	50%
Gross revenues...	\$1,600,000	\$900,000
Total employees...	8	8
Treaty.....	4	4
Facultative...	4	4

Parent company: CIGNA Corp.
Year founded: 1982.
Principal officers: B.J. Cutts, vp; J.A. Houghton, assistant vp.
Specialties: International facultative reinsurance.
Licensed in: Bermuda.

D.G. Morris Inc.

Wall Street Plaza, New York, N.Y. 10005; 212-509-0808

	1984	1983
Premium volume...	\$2,800,000	\$2,800,800
% Facultative...	100%	100%
Gross revenues...	\$300,000	\$300,000
Total employees...	3	3
Facultative...	3	3

Parent company: Corroon & Black Corp.
Year founded: 1981.
Principal officers: Douglas G. Morris, president.
Specialties: Financial guarantee insurance and reinsurance; risk design, structure and placement.
Licensed in: New York.

Munich American Intermediaries Corp.

560 Lexington Ave., New York, N.Y. 10022; 212-310-1600

	1984	1983
Premium volume...	\$190,000	\$132,236
% Treaty.....	50%	50%
% Facultative...	50%	50%
Gross revenues...	\$33,000	\$30,303
Total employees...	5	5
Treaty.....	2 1/2	2 1/2
Facultative...	2 1/2	2 1/2

Parent company: Munich American Consulting Corp./Munich Re Group.
Year founded: 1983.
Principal officers: John N. Lombardo, president; William J. Albinger Jr., general counsel; James Macdonald

and Reinhard Obermueller, assistant vps; Daniel J. Kiely, secretary/treasurer.
Licensed in: New York.

N

NSEW International Inc.

111 John St., New York, N.Y. 10038; 212-732-0342

	1984	1983
Premium volume...	\$2,000,000	NA
% Treaty.....	80%	70%
% Facultative...	20%	30%
Gross revenues...	\$24,000	NA
Total employees...	5	4
Treaty.....	3	1
Facultative...	2	1

Year founded: 1983.
Branch offices: Athens, Greece.
Principal officers: Paul J. Apostolos, president; James R. Berry, executive vp; Roger Testa, vp; Damian Testa, secretary/treasurer.
Licensed in: New York.

O

O'Connor Associates Ltd.

85 John St., New York, N.Y. 10038; 212-349-3400

	1984	1983
Premium volume...	\$60,000,000	\$57,000,000
% Treaty.....	45%	50%
% Facultative...	55%	50%
Gross revenues...	\$5,800,000	\$5,300,000
Total employees...	87	97
Treaty.....	11	15
Facultative...	76	82

Year founded: 1975.
Branch offices: Hartford, Conn.
Principal officers: Joseph A. O'Connor, chairman/president; Michael J. Nasert, executive vp.
Licensed in: New York.

P

Pearson & Georgi International Inc.

117 Washington St., Hoboken, N.J. 07030; 201-656-0800

	1984	1983
Premium volume...	\$40,000,000	\$40,000,000
% Treaty.....	80%	80%
% Facultative...	20%	20%

	1984	1983
Gross revenues...	\$1,200,000	\$1,100,000
Total employees...	27	27
Treaty.....	14	14
Facultative...	13	13

Year founded: 1978.
Subsidiaries: P.G.A. Ltd., Athens, Greece.
Principal officers: F.H. Pearson, chairman; E.G. Georgi, president; C.C. Molano and R.A. Agatep, senior vps; S.M. Menzies, vp; Philip Doronila and Mahmoud Abdel-Halim, assistant vps; Stanley R. Kelsall, managing director-P.G.A. Ltd.
Licensed in: New York.

Pearson Webb Springbett (USA) Inc.

90 John St., New York, N.Y. 10038; 212-791-9350

	1984	1983
Premium volume...	\$16,000,000	\$17,500,000
% Treaty.....	15%	15%
% Facultative...	85%	85%
Gross revenues...	\$1,530,000	\$1,523,000
Total employees...	12	20
Treaty.....	2	2
Facultative...	6	12

Parent company: Pearson Webb Springbett International P.L.C.
Year founded: 1974.
Principal officers: Gregory V. Gilpatrick, vp/director; Robert Mikaloukas, assistant vp; William T. Slatery, controller.
Licensed in: New York.

Professional Reinsurance Office Inc.

Park Central VIII, 12770 Merit Drive, Suite 500, Dallas, Texas 75251; 214-385-1122

	1984	1983
Premium volume...	\$50,000,000	\$41,000,000
% Treaty.....	48%	42%
% Facultative...	52%	58%
Gross revenues...	\$4,700,000	\$4,000,000
Total employees...	44	31
Treaty.....	7	3
Facultative...	37	28

Parent company: The Crump Cos. Inc.
Year founded: 1978.
Branch offices: Pro Re Inc. of Atlanta, Marietta, Ga.; Pro Re Inc. of Dallas, Dallas; Pro Re Inc. of New York, Hoboken, N.J.; Professional Reinsurance Office Inc.-Hartford Branch, Hartford, Conn.; Pro Re Treaty of American Inc., New York.
Principal officers: Alan G. Hardin Jr., president/chief executive officer; Frank C. Buccafusco, senior vp/chief operating officer; William Courtier, senior vp; L. Douglas Williams, vp.
Specialties: Buffer layers.
Licensed in: New York.

R

RBI Brokerage Inc.

908-A2 Pompton Ave., P.O. Box 308, Cedar Grove, N.J. 07709; 201-239-7500

	1984	1983
Premium volume...	NA	NA
% Treaty.....	70%	70%
% Facultative...	30%	30%
Gross revenues...	NA	NA
Total employees...	4	4
Treaty.....	3	3
Facultative...	1	1

Year founded: 1978.
Associated company: RBI Brokerage of Florida Inc., Miami.
Principal officers: Paul A. Wolf, president.
Specialties: Stop-loss and other products for health maintenance organizations, surplus relief and reinsurance for life companies.
Licensed in: New York, New Jersey.

RFC Intermediaries Inc.

2029 Century Park East, Suite 1610, Los Angeles, Calif. 90067; 213-277-3753

	1984	1983
Premium volume...	\$255,122,239	\$222,828,305
% Treaty.....	53.86%	59.03%
% Facultative...	46.14%	40.97%
Gross revenues...	\$15,916,068	\$11,179,110
Total employees...	219	209
Treaty.....	41	35
Facultative...	122	113

Parent company: The St. Paul Cos. Inc.
Year founded: 1972.
Branch offices: Atlanta; Chicago; Columbus, Ohio; Dallas; Hartford, Conn.; New York; Philadelphia; San Francisco.
Continued on next page

Stability counts.



American Re-Insurance Company

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**CLAIM
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SPECIALISTS, INC.**

525 W. Monroe Street Chicago, IL 60306 (312) 207-1239

Continued from preceding page
Francisco treaty office.

Specialties: All lines of domestic and international facultative and treaty.
Licensed in: Pennsylvania, New York.

W

Richard Whiley Inc.

110 William St., New York, N.Y. 10038; 212-732-1360

	1984	1983
Premium volume	NA	NA
% Treaty	80%	80%
% Facultative	20%	20%
Gross revenues	NA	NA
Total employees	31	26
Treaty	25	21
Facultative	6	5

Parent company: Xerox Corp.

Year founded: 1979.

Principal officers: D. Jay Caroine, chairman/president/chief executive officer; Richard A. Kafaf, senior vp; Drew Beauchamp, senior vp-treaty; William P. Cullen, vp-facultative.

Licensed in: New York.

Willcox Inc.

130 John St., New York, N.Y. 10038; 212-952-0650

	1984	1983
Premium volume	**	**
% Treaty	**	**
% Facultative	**	**
Gross revenues	**	**
Total employees	**	**

**See pages 3 and 4 for estimates.

Parent company: Johnson & Higgins and Willis Faber P.L.C.

Year founded: 1894.

Subsidiaries: Willis Faber & Willcox Ltd.

Principal officers: K.A. Hecken, chairman; W.T. King Jr., president/chief executive officer; J.H. Cassidy, vice chairman/chief operating officer; R.F. O'Leary, vice chairman; T.E. Hancock and J.F. Langen, senior vps; A.W. Brocks, M.J. Brownsell, W.E. Burkett, F.J. Discenza, C.P. Griffin, L.R. Helmes, A.D. Klepper, G.T. McCann, J.P. McGowan, J.T. Moore,

J.N. Reinman and T.C. Rivers.

Specialties: Property/casualty and marine treaty.

Licensed in: New York.

Z

Zeman Krings Inc.

111 John St., New York, N.Y. 10038; 212-608-7755

	1984	1983
Premium volume	\$7,600,000	\$1,200,000
% Treaty	95%	95%
% Facultative	5%	5%
Gross revenues	NA	NA
Total employees	3	3
Treaty	3	2

Year founded: 1983.

Affiliated companies: Herbert Watson Insurance Services, Rancho Mirage, Calif; Herbert Watson Insurance Brokers Ltd., London.

Principal officers: Kenneth C. Krings, president; Roy G. Krings and George Krings, vps; Meenu Bhatia, assistant vp.

Specialties: Ocean marine, casualty/professional liability, credit life and disability.

Licensed in: New York.

Zimmerman, Green Inc.

1 Speedwell Ave., Headquarters
Paza II West, Morristown, N.J.
07960; 201-267-8033

	1984	1983
Premium volume	\$43,000,000	\$36,000,000
% Treaty	98%	95%
% Facultative	2%	5%
Gross revenues	\$1,700,000	\$1,500,000
Total employees	10	10
Treaty	10	10

Year founded: 1983.

Branch offices: Ontario, Calif.

Subsidiaries: U.S. Cap Insurance Co. Ltd., Tortola, British Virgin Islands.

Principal officers: George G. Zimmerman, president; John R.D. Green, chairman; Edward A. Dipple, secretary; Eugene J. Schiller and Charles J. Sharkey, vps; Barbara A. Bertolini, assistant vp.

Specialties: Life accident and health special risks.

Licensed in: New York.

Reinsurance brokers listed geographically

Arizona

Phoenix
Insurance Risks International Inc.
Scottsdale
International Reinsurance Services Inc.

California

Beverly Hills
Insurance Risks International Inc.
Los Angeles
American Intermediaries Inc.
Guy Carpenter & Co. Inc.
G.L. Hodson & Son Inc.
INRE International (New York) Ltd.
RFC Intermediaries Inc.
G.J. Sullivan Co.
John F. Sullivan Co.
Ontario
Zimmerman, Green Inc.
Rancho Mirage
Herbert Watson Insurance Services (Zeman Krings Inc.)
San Bruno
H.A. Enan & Co. Ltd.
San Carlos
Harrison & Co.
San Francisco
E.W. Blanch Co.
Guy Carpenter & Co. Inc.
Cravens & Co., Special Insurance Services
Thomas A. Greene & Co. Inc.
Group Resources Inc.
Frank B. Hall (Reinsurance) Holdings Inc.
RFC Intermediaries
Towers, Perrin, Forster & Crosby Inc.
Walnut Creek
Intere Intermediaries Inc.

Connecticut

Fairfield
Fairway Intermediaries Ltd.
Greenwich
International Intermediaries Inc.
Hartford
Amberco
Guy Carpenter & Co. Inc.
Independence Intermediaries Inc.
O'Connor Associates Ltd.
Professional Reinsurance Office Inc.
RFC Intermediaries Inc.
Towers, Perrin, Forster & Crosby Inc.
Stamford
Herbert Clough Inc.
W.O. Hart & Co. Inc.
Towers, Perrin, Forster & Crosby Inc.

Florida

Coral Gables
Guy Carpenter & Co. Inc.
Daytona Beach
Cypress Creek Intermediaries Inc.
Jacksonville
McCorkle Glenn & McCorkle
Miami
Amberco
Lodderhose Miami Inc.
Luvang Insurance Underwriters Inc.
MacDuff America Inc.
RBI Brokerage of Florida Inc.

Georgia

Atlanta
Associated Intermediaries Inc.
Guy Carpenter & Co. Inc.
G.L. Hodson & Son Inc.
Intere Intermediaries Inc.
RFC Intermediaries Inc.
Marietta
Pro Re Inc. of Atlanta

Hawaii

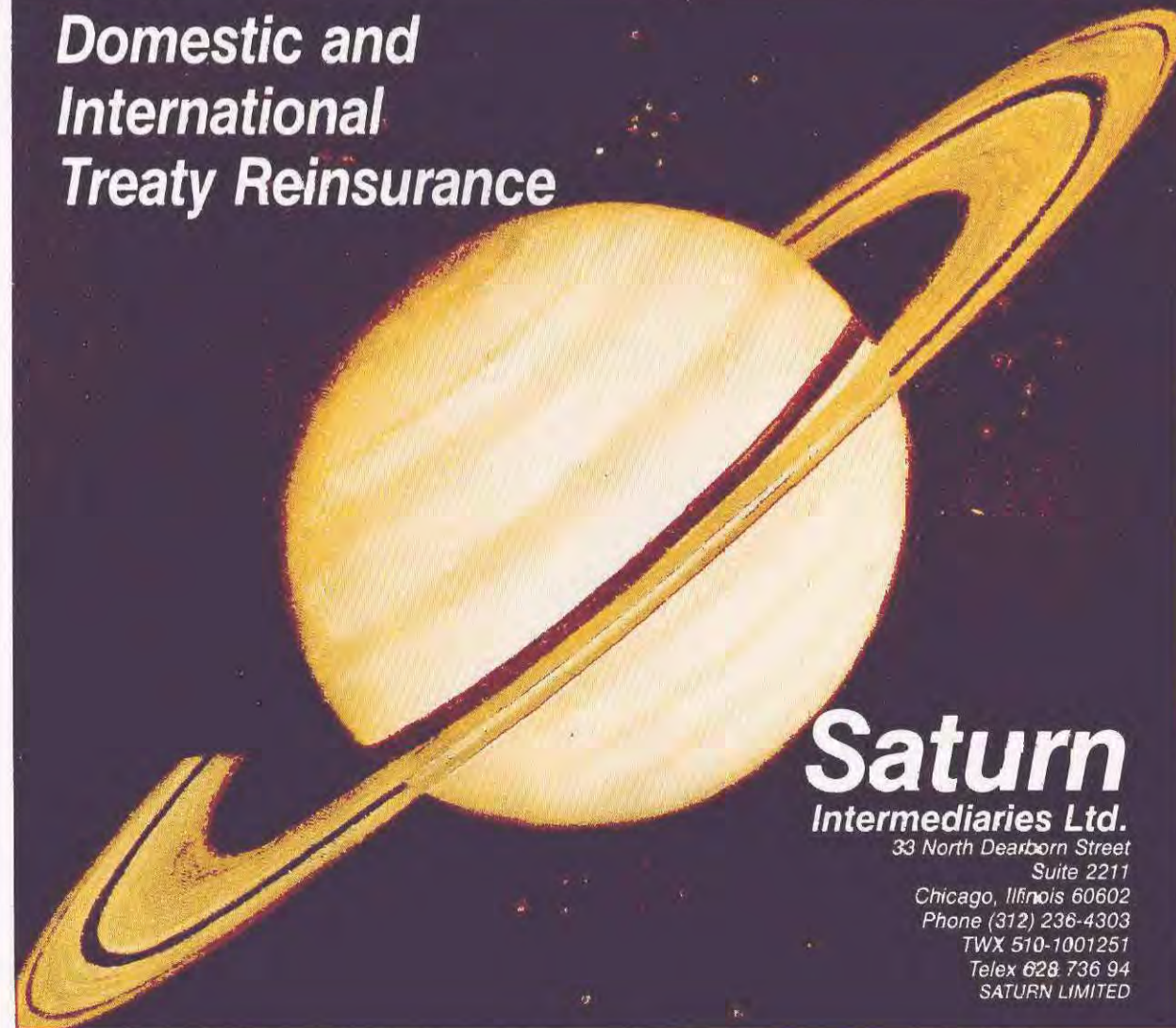
Kailua
Group Resources Inc.

Illinois

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New workshops highlight RIMS conference

NEW YORK—"Reach for the Top" is the theme of the Risk & Insurance Management Society's 24th annual conference, to be held April 13-18 in Toronto.

A new feature at the 1986 conference will be "special interest groups," which are small group workshops on various risk management topics. These groups will be limited to 30 participants, using a roundtable format with a minimum of formal presentation.

The special interest groups will be offered as either half- or full-day sessions.

Topics to be covered by the groups include: advanced captives; aviation exposures; broker/risk manager liaison; employee benefits administration; advanced international risk management; joint-owned/rental captives; lawyers in risk management; marine exposures; new risk managers; proactive risk management; minority risk managers; and women in risk management.

Other highlights of the conference include three track programs that concentrate on specific risk management topics, including:

- Risk management informa-

tion systems. Sessions in this track program will focus on designing an RIMS; safety and claims management; deciding between a mainframe and personal computer; employee benefits and the personal computer; spreadsheets and management reports; and designing a system utilizing a data base.

- Introduction to risk management. Sessions will focus on the basics of loss control; pollution essentials for beginners; an introduction to captives; casualty insurance basics; property coverage basics; and an introduction to employee benefits.

- General management. Courses focus on increasing a risk manager's visibility in a company; stress management; how to maximize one's time; presentation pointers in speeches and body language; and managing organizational change.

More than 40 industry sessions are scheduled, which will feature discussions by risk managers of problems and solutions specific to their industries.

Also, the conference will present a full schedule of individual seminars—either workshops or panel

discussions—in the following areas:

- Employee benefits. Sessions will focus on flexible benefit plans; employee assistance plans; effective cost containment; pre-certification of benefits; key executive insurance benefits; and managed care programs.

- General risk management. Sessions will deal with professionalism; changes in insurance distribution methods; selecting and evaluating a broker; competitive bidding; global risks; and communication tools.

- Risk finance. Sessions will focus on the use of risk management tools to expand primary and excess coverage limits; cost allocation; evaluating insurance plan options; transferring and financing environmental impairment liability exposures; making retrospectively rated plans conform with Internal Revenue Service regulations; and captives.

- Insurance. Sessions will discuss the new Insurance Services Office commercial general liability forms and their implications; the current insurance capacity crisis; how to assess insurer security; analysis of products developed between 1979 and 1983; and manuscript forms in a seller's market.

- Legal/legislative. Sessions will deal with intentional tort/employers' liability; impact of income tax legislation on risk management; legal defenses; and product liability lawsuit defense.

- Workers compensation. Sessions will deal with reducing claims through active case management; social, legal and moral issues surrounding work comp; and a wage-loss approach to work comp.

- Claims. Sessions will focus on

designing and negotiating structured settlements; the independent self-insurance claims audit; the duty to defend; and property claims negotiation—physical damage and business interruption.

- Exposures. Sessions will focus on Canada's pollution liability dilemma; reducing police and security personnel exposures; workers' right to know; political risks; identifying pollution exposures; and asbestos exposures and controls.

The topic of the conference's general session, to be held April 16, is "The North American Civil Justice System—Neither Civil nor Just?" The session will focus on needed changes in the system and the role of risk managers in implementing reforms.

Another conference attraction will be a computer seminar at which risk managers will receive hands-on instruction from risk management information system vendors.

In addition, a display of exhibitors will be located on the second floor of the Metro Toronto Convention Centre, where most of the conference sessions will be held.

The registration fee for the weeklong conference is \$545 for members and \$645 for non-members before Feb. 14; and \$595 for RIMS members and \$695 for non-members after Feb. 14.

Registration also is available at a reduced fee for those who only want to attend part of the conference. In addition, air fares and accommodations at reduced rates are available.

For information, contact the RIMS Conference Department, 205 E. 42nd St., New York, N.Y. 10017; or call 212-286-9292.



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NOV. 19. Introduction to Business Insurance: Law and Litigation satellite program in New York, sponsored by the Practising Law Institute. Broadcast to 36 cities; \$125. For locations and to register, contact the PLI, Department 105-DD, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700, Ext. 286.

NOV. 19. Utilization/Data Management conference in Chicago, sponsored by the Illinois State Chamber of Commerce; \$90 for members; \$135 for non-members. Registrar, ISCC, Center for Business Management, 20 N. Wacker Drive, Chicago, Ill. 60606; 312-372-7373.

NOV. 20. "Risk Management of PCBs in Electrical Systems" course in Denver, sponsored by Electro-Test Inc.; \$95. Also **Nov. 22** in Albuquerque, N.M.; **Dec. 4** in San Diego; **Dec. 5** in Newport Beach, Calif.; **Dec. 6** in Los Angeles; **Dec. 10** in Phoenix, Ariz. Electro-Test Learning Center, P.O. Box 159, 3470 Fostoria Way, San Ramon, Calif. 94583; 415-866-8566.

NOV. 20-21. Principles of Petroleum Insurance workshop in Fort Worth, Texas, sponsored by the Professional Development Institute and Self-Insurance Resource Inc.; \$450. Jonathan Jeffrey, Professional Development Institute, P.O. Box 13288, NTSU, Denton, Texas 76203-3288; 817-565-2483.

NOV. 21-22. "Tax Planning Under Subpart F" seminar in Chicago, sponsored by The World Trade Institute; \$610; \$575 for each additional registrant from same organization. Make checks payable to The Port Authority of New York and New Jersey. Registrar, The World Trade Institute, One World Trade Center, 55W, New York, N.Y. 10048; 212-466-4044.

NOV. 22. Experience Rating and Open Competition seminar in New York, sponsored by the National Council on Compensation Insurance; \$60 for members; \$85 for non-members. Michelle Lajzer, NCCI Public Affairs Department, One Penn Plaza, New York, N.Y. 10119; 212-560-1026.

DEC. 24. Basic Safety Management seminar in Houston, sponsored by the International Safety Academy; \$445; \$415 for three or more registrants from the same organization. International Safety Academy, P.O. Box 8527, 1600 Arch St., 12 Tower, Philadelphia, Pa. 19101; 800-231-3147, 215-241-5800 in Pennsylvania.

DEC. 24. Loss Control Management course in Atlanta, sponsored by the International Loss Control Institute; \$695. International Loss Control Institute, P.O. Box 345, Loganville, Ga. 30249; 800-554-6001; 404-466-2208 in Georgia.

DEC. 3. AIDS and the Employer seminar in New York, sponsored by The New York Business Group on Health Inc.; \$75 for members; \$150 for non-members. The New York Business Group on Health Inc., 622 Third Ave., 34th Floor, New York, N.Y. 10017; 212-808-0550.

DEC. 3. Tax Effective Total Compensation: Using 401(k) and 125 Plans seminar in New York, sponsored by the Practising Law Institute; \$215. PLI, Department 105-CF, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700, Ext. 286.

DEC. 4. Health Claims Management System seminar in Indianapolis, sponsored by Resource Information Management Systems Inc.; free. Also **Dec. 5** in Columbia, Md. Ellen Lockwald, Resource Information Management Systems Inc., 2015 Spring Road, Suite 220, Oak Brook, Ill. 60521; 312-789-0230.

DEC. 4-6. Techniques of Risk Management course in New York, sponsored by the Risk & Insurance Management Society Continuing Education Program; \$445 for members; \$545 for non-members. Fran Jordan, Administrator-Continuing Education Program, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

DEC. 4-6. Fundamentals of Insurance course in Atlanta, sponsored by the Risk & Insurance Management Society Continuing Education Program; \$445 for members; \$545 for non-members. Fran Jordan, Administrator-Continuing Education Program, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

DEC. 4-6. Health Agenda 1986 conference in Washington, sponsored by the Washington Business Group on Health and the National Assn. of Manufacturers; \$400 for members; \$500 for non-members. Washington Business Group on Health, 229 1/2 Pennsylvania Ave. S.E., Washington, D.C. 20003; 202-547-6644.

DEC. 5. Employee Illnesses conference in Chicago, sponsored by the Illinois State Chamber of Commerce; \$90 for members; \$135 for non-members. Carol Jensen, Illinois State Chamber of Commerce, 20 N. Wacker Drive, Chicago, Ill. 60606; 312-372-7373.

DEC. 5. Fundamentals of Environmental Health seminar in Houston, sponsored by the International Safety Academy; \$185. International Safety Academy, P.O. Box 8527, 1600 Arch St., 12 Tower, Philadelphia, Pa. 19101; 800-231-3147, 215-241-5800 in Pennsylvania.

DEC. 5-6. Health Care: Legal Responses to New Economic Forces seminar in New York, sponsored by the Practising Law Institute; \$390. PLI, Department 105-DK, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700, Ext. 286.

DEC. 5-6. National Product Safety Symposium in Chicago, sponsored by the National Safety Council; \$180 for members and U.S. Government employees; \$225 for non-members. Russ Marhefka, National Safety Council, 444 N. Michigan Ave., Chicago, Ill. 60611; 312-527-4800.

DEC. 5-6. Audio-Visual Media for Safety & Health: Developing and Producing Inexpen-

sive Programs course in Los Angeles, sponsored by the University of Southern California Institute of Safety and Systems Management; \$400. Registrar, University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90089-0021; 213-743-6523; 213-743-6524.

DEC. 6. Product Liability Avoidance for the Boat Manufacturing Industry seminar in Orlando, Fla., sponsored by Corroon & Black Corp.; free registration limited to members of boat manufacturing industry. Mary Jo Butts, Seminar Coordinator, Corroon & Black Corp., P.O. Box 1020, Nashville, Tenn. 37202; 615-367-9702.

DEC. 6-7. Fifth Annual Occupational Health Nursing Principles and Certification Review course in San Rafael, Calif., sponsored by the Occupational Health Consulting division of Fireman's Fund Risk Management Services Inc.; \$225. Also **Jan. 10-11** in Newark, N.J.; **Jan. 24-25** in Cincinnati; **Feb. 7-8** in Dallas; **Feb. 21-22** in Schaumburg, Ill.; **Feb. 23-March 1** in Torrance, Calif.; and **March 14-15** in Arlington, Va. Annette B. Haag, Director, Occupational Health Consulting, Fireman's Fund Risk Management Services Inc., P.O. Box 3890, San Rafael, Calif. 94912; 415-492-7753.

DEC. 9-10. Banks and Insurance Joint Venture Marketing Strategies conference in West Palm

Beach, Fla., sponsored by The Banking Law Institute; \$750; \$650 for each additional registrant from the same organization. Make checks payable to Executive Enterprises Inc., #5CINS22/E5349, 33 W. 60th St., New York, N.Y. 10023-7988; 212-489-2680.

DEC. 9-13. Managing Program Implementation course in Sacramento, Calif., sponsored by the International Loss Control Institute; \$695. International Loss Control Institute, P.O. Box 345, Loganville, Ga. 30249; 800-554-6001; 404-466-2208 in Georgia.

DEC. 11. Health Improvement/Prevention Workshop in Chicago, sponsored by the Health Research Institute; \$195. Workshop Coordinator, Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

DEC. 11. Advanced "Post-Graduate" Cost Containment workshop in Chicago, sponsored by the Health Research Institute; \$195. Workshop Coordinator, Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

DEC. 11. Medical Directors workshop in Chicago, sponsored by the Health Research Institute; \$195. Workshop Coordinator, Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

DEC. 11-13. Legal Operational Issues in HMOs, PPOs and CMPs program in Chicago, sponsored by the National Health Lawyers Assn.; \$350 for

members; \$400 for non-members. Program Division, National Health Lawyers Assn. 522 21st St., N.W., Suite 120, Washington, D.C. 20006; 202-833-1100.

DEC. 11-13. Ocean Cargo Claims Handling seminar in New York, sponsored by The World Trade Institute; \$775; \$730 for each additional registrant from same organization. Registrar, The World Trade Institute, One World Trade Center, 55W, New York, N.Y. 10048; 212-466-4044.

DEC. 12-13. Labor/Management workshop in Chicago, sponsored by the Health Research Institute; \$195. Workshop Coordinator, Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

DEC. 12-13. New Issues in Accounting, Legal and Reporting Aspects of Loss Reserves seminar in New York, sponsored by Executive Enterprises Inc.; \$750; \$650 for each additional registrant from same organization. Executive Enterprises Inc., Reference E5381, Session #5CINS23, 33 W. 60th St., New York, N.Y. 10023-7988; 800-223-0787; in New York, 212-489-2680.

JAN. 13-17. Modern Safety Management in Atlanta, sponsored by the International Loss Control Institute; \$695. International Loss Control Institute, P.O. Box 345, Loganville, Ga. 30249; 800-554-6001; 404-466-2208 in Georgia.

JAN. 20-21. Developing and Managing an Employee Medical Monitoring Program course in Los Angeles, sponsored by the University of

Southern California Institute of Safety and Systems Management; \$350. University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, University Park, Los Angeles, Calif. 90089-0021; 213-743-6523/6524.

MARCH 23-28. 13th Workers Compensation College at Duke University, Durham, N.C., sponsored by the International Assn. of Industrial Accident Boards & Commissions; \$300 for members; \$400 for non-members. IAIABC College, P.O. Box 79109, Jackson, Miss. 39236; 601-355-4582.

MARCH 24-28. The 50th Loss Managers Conference in Orlando, Fla., sponsored by the Property Loss Research Bureau; \$70 for members; \$190 for non-members. Property Loss Research Bureau, 1501 Woodfield Road, Suite 400 West, Schaumburg, Ill. 60195-4978; 312-490-8650.

MARCH 24-28. Fundamentals of Industrial Hygiene Monitoring course in Long Grove, Ill., sponsored by National Loss Control Service Corp.; \$500; \$450 for two or more registering at the same time. Also, **May 5-9**; **Sept. 8-12**; **Nov. 10-14**. National Loss Control Service Corp., K-3, John N. Garis, Long Grove, Ill. 60049; 312-540-2026.

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. 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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Government will not intervene in satellite insurance market

By JERRY GEISEL

WASHINGTON—Despite rising rates and shrinking capacity, the U.S. Department of Transportation says this isn't the time for the federal government to intervene in the space insurance market.

While sufficient insurance coverage for space ventures is crucial to their commercial success, "I believe that any such government action would be premature and unwise," says Jennifer Dorn, director of the department's Office of Commercial Transportation.

Speaking before the House Science and Technology Committee, Ms. Dorn said the appropriate role of the federal government should be to monitor the satellite insurance market rather than to attempt to direct market forces in particular ways.

The Department of Transportation has established an internal insurance task force that is tracking satellite and other transportation insurance problems, she explained.

Ms. Dorn said that anyone interested in the future of the commercialization of space cannot help but be concerned about the severity of losses incurred by insurers writing coverage for communications satellites.

Of the \$850 million in claims reported by satellite insurers since 1977, some \$600 million involves losses that occurred during the last 20 months, she said.

Tax-free benefits

The tax-favored status of three employer-provided benefits will expire in two months if Congress does not take action.

Sections of the Internal Revenue Code that allow employers to provide educational assistance benefits, group legal and van pooling

programs to employees on a tax-free basis will expire on Dec. 31.

So far, Congress has not passed proposals to continue the tax-favored status of these programs.

As part of its tax reform package, the Reagan administration has recommended that the tax-favored status of educational assistance and group legal plans continue, but wants van pooling to become a taxable benefit to employees (BI, June 3).

Employers are anxious for Congress to decide the future tax status of these programs soon so companies know whether they will have to begin withholding taxes next year for employees who receive these benefits.

Educational assistance benefits are covered under Section 127 of the tax code, while group legal plans fall under Section 120 and van pooling programs are covered under Section 124.

Railroad retirement

Payroll taxes for railroads that contribute to the Railroad Retirement System are increasing.

On Jan. 3, the payroll taxes for both portions of the Railroad Retirement System, known as Tier I and Tier II, will increase.

For Tier I, whose benefits correspond to those provided by the Social Security program, the payroll tax for railroads will increase to 7.15% of an employee's first \$42,000 of wages. The Tier I tax currently is 7.05% of the first \$39,600 of salary.

As a result, the maximum Tier I tax a railroad will pay next year will rise to \$3,003 per worker, up from \$2,791.80, a \$211.20 increase.

Railroad employees will be hit

with the same Tier I tax increases as their employers.

Under the Tier II program, which corresponds to the private pension benefits that many employers offer their employees, the railroads' payroll tax will rise to 14.75% of an employee's first \$31,500 of wages. The current Tier II tax is 13.75% of the first \$29,700 of salary.

Thus, the maximum Tier II tax paid by a railroad next year will rise to \$4,646.25 per worker, up from \$4,083.75, a \$562.50 increase.

The Tier II tax paid by employees will climb to 4.25% on the first \$31,500 of wages, up from the first \$29,700 of wages. The maximum Tier II tax paid by a worker will climb to \$1,338.75, up from \$1,039.50, a \$299.25 increase.

In addition, a cost-of-living adjustment will boost retirement benefits payable under Tier I by 3.1% next year, while Tier II benefits will increase 1%. As a result, the average monthly annuity payable to railroad retirees collecting Tier I and Tier II benefits will climb to \$713 from \$696.

About 1,000 railroads contribute to the Railroad Retirement System, which covers about 400,000 active employees. Last year, the program paid about \$6.1 billion in benefits to retirees and survivors.

Market hearings

The Senate Commerce Committee may hold hearings early next year to probe the scarcity and higher costs of liability insurance.

At a hearing late last month on trucking deregulation, Commerce Committee Chairman John Danforth, R-Mo., said one of the most valuable actions the committee could take would be to focus on insurance costs.

Meanwhile, the Commerce Committee's staff this month is expected to unveil yet another draft proposal to create a uniform federal product liability law.

The proposal would include a no-fault section, also known as an alternative compensation provision, which would establish an automatic compensation system for certain accident victims who waive their right to sue product manufacturers and distributors.

Committee staff members began to draft a new proposal after the committee earlier this year declined to report to the Senate floor a product liability bill, S. 100, introduced by Sen. Robert Kasten, R-Wis. That proposal lacked a no-fault provision (BI, May 27).

PBGC insurance

The Pension Benefit Guaranty Corp. is reminding sponsors of defined benefit pension plans that next year termination insurance premiums for companies with at least 500 plan participants will be due two months after the end of the employer's plan year.

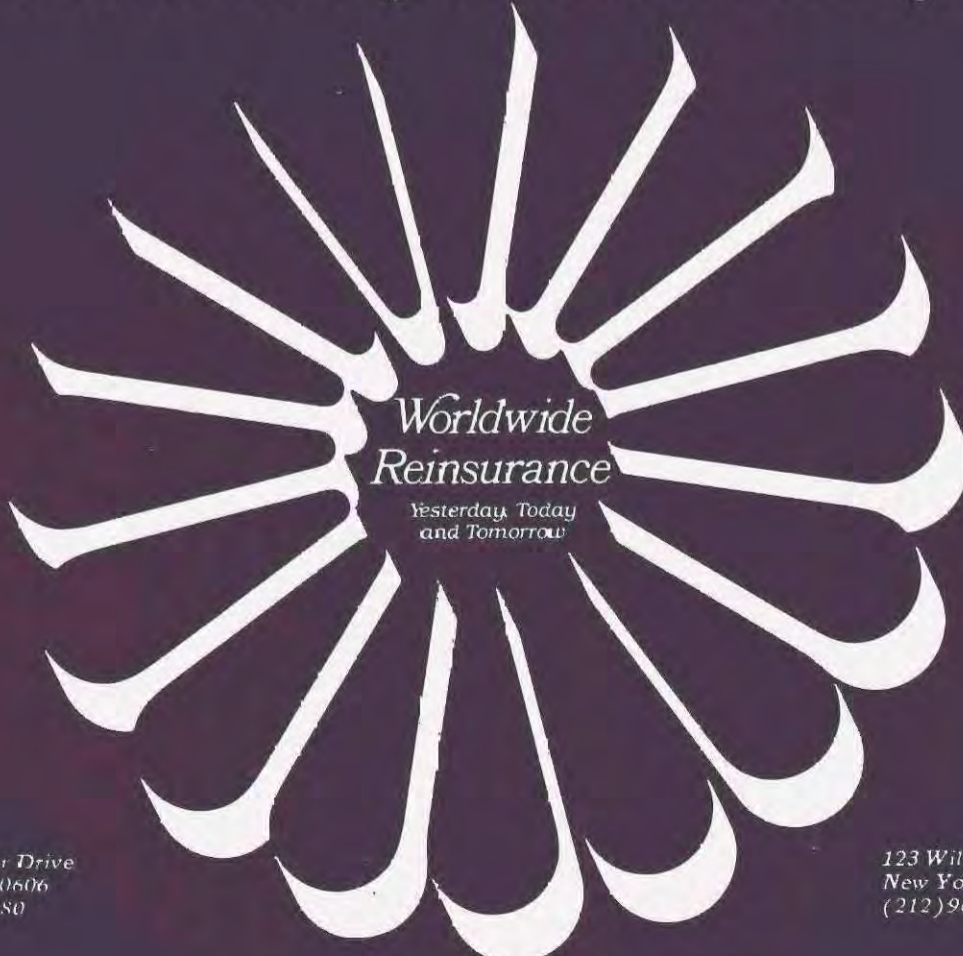
Under a rule adopted by the PBGC earlier this year, the premium due date for these plans was moved up to two months after the close of the plan year from seven months after the end of the plan year.

The due date for plans with fewer than 500 participants continues to be seven months at the end of the plan year.

Companies that don't pay premiums on time will be slapped with a 10% interest penalty.

Continued on next page

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Continued from previous page

The current annual PBGC termination insurance premium for single-employer plans is \$2.60 per plan participant, but Congress is considering proposals to raise the premium to between \$8 and \$8.50 per participant starting next January.

401(k) legislation

A congressional committee staff proposal to place new limits on 401(k) salary reduction plans could destroy the popular plans, a top insurance industry official says.

Richard Schweiker, president of the American Council of Life Insurance in Washington, said a House Ways and Means Committee staff proposal to place a \$5,000 ceiling on annual salary deferrals by employees—coupled with a staff proposal to offset employee contributions to Individual Retirement Accounts by 401(k) deferrals on a dollar-for-dollar basis—could destroy 401(k) plans.

Mr. Schweiker, a former secretary of health and human services in the Reagan administration, said 401(k) and other retirement plans are "most at risk" because of the difficulty in organizing coalitions to resist congressional and administration attacks on the plans.

In another matter, Mr. Schweiker said at a press briefing earlier this month that Congress should defer until next year consideration of a comprehensive pension reform bill introduced by Sen. John Heinz, R-Pa., and Rep. William Clay, D-Mo.

The proposal should not be "piggy-backed" on a tax reform bill, he said, adding that more time is needed to study the proposal.

The legislation, among other things, would require that employees enrolled in single-employer pension plans to be fully vested after five years (BI, Oct. 28).

Earthquake study

A severe earthquake in the central Mississippi Valley's "New Madrid Seismic Zone" could cause massive and widespread disruption and major loss of life, the Federal Emergency Management Agency says in a report.

The report, which examines the potential effects of earthquakes on six cities in the New Madrid Seismic Zone—Little Rock, Ark.; Carbondale, Ill.; Evansville, Ind.; Paducah, Ky.; Poplar Bluff, Mo.; and Memphis, Tenn.—estimates that an earthquake could cause \$50 billion in property damage and 25,000 deaths and injuries in those cities.

The report estimates losses based on damage probabilities for the types of structures identified and inventoried in each city.

The estimates reflect the effects of worst-case scenario earthquakes on the cities' structures and lifeline systems, such as utilities, water and transportation.

The report is part of the FEMA project to assess the earthquake vulnerability of states and localities in the New Madrid region.

For free copies of the report, "An Assessment of Damage and Casualties for Six Cities in the Central United States Resulting from Earthquakes in the New Madrid Seismic Zone," write "Six Cities Study," Federal Emergency Management Agency, P.O. Box 8181, Washington, D.C. 20024.

EBRI anniversary

The first and only organization in Washington that exclusively researches employee benefit issues is celebrating its seventh anniversary next month.

The Employee Benefit Research Institute was established in Dec. 4, 1978, with \$162,500 in contributions from 13 employee benefit consulting firms. At the time, EBRI had a staff of one: Dallas Salisbury, a former Labor Department and Pen-

sion Benefit Guaranty Corp. official.

Today, EBRI has 165 members who contribute between \$1,000 and \$70,000 annually each to support the benefit think-tank's research activities.

Of those 165 members, up from 114 last year, about half are employers, while an additional 30% are benefit consultants or insurers. The remaining 20% include banks, money managers and law firms.

Mr. Salisbury remains at EBRI as the organization's president. The EBRI staff has grown to 21 people and annual revenues have risen to \$1.7 million.

EBRI's growth—another sign of the increased attention employers are devoting to employee benefit issues—"has exceeded my expectations and the expectations of those who provided the initial contributions," Mr. Salisbury said.

EBRI is located at 2121 K St. N.W., Suite 860, Washington, D.C. 20037; 202-659-0670.

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reinsurance

HMO firm, Lincoln National combining some operations

United States Health Care Systems Inc., a health maintenance organization company, and Lincoln National Corp. are forming a new insurer called U.S. HealthLinc, which will assume some of the parent companies' current health insurance business.

In addition, HealthLinc will begin offering HMOs in the Washington/Baltimore area in early 1986 and in Dallas/Fort Worth and Houston later next year.

Leonard Abramson, president and chief executive officer of Blue Bell, Pa.-based U.S. Healthcare, which currently operates health maintenance organizations, explained that the new company's ownership would be split equally between the two partners.

Under the terms of the agreement, HealthLinc would own and operate USHC's existing HMOs in Chicago and Jacksonville, Orlando and Tampa, Fla.

In addition, HealthLinc will also underwrite group health, life and other lines of insurance formerly written by Fort Wayne, Ind.-based Lincoln National in those markets and in Washington, Baltimore, Dallas/Fort Worth and Houston.

The capitalization of the new company has not yet been determined, said Howard E. Steele, executive vp and head of Lincoln National's employee benefits division.

When HealthLinc becomes operational, it will provide health care

benefits for about 1 million people. The parent companies will market HealthLinc's products and develop joint administrative systems.

The new company plans to offer three types of benefit programs: a comprehensive HMO, a preferred provider organization and traditional fee-for-service indemnity insurance program.

Consulting center

Johnson & Higgins will establish a major facility in Princeton, N.J., to serve as a technical operations center and a resource for its human resources consulting business.

The Consulting Resource Center, expected to open early in 1986, will bring together a wide range of J&H employee benefit and compensation specialists, the company says.

Initially, its staff will number about 250 people, including more than 120 benefit and pension professionals from J&H's Employee Benefit Department in New York and 30 computer systems specialists from its Management Information Systems Division.

In addition, Sibson & Co., J&H's Princeton-based consulting subsidiary, and Winklevoss & Associates, its Philadelphia-based actuarial firm, will move to the Princeton center.

"Clearly, the emphasis in Princeton will be to coordinate many of our professional and technical resources in one central location," explained James Harlow, chairman of Johnson & Higgins National Benefits Practice Committee.

He said the center will be used mainly to assist J&H offices on the East Coast. But, he said, "We hope the center will serve eventually as a prototype for resource centralization in other regions."

Robert C. North Jr., currently a vp in National Benefits, will head the Princeton operation.

Nebraska insurer

Los Angeles-based H.F. Ahmanson & Co. is forming a new property and liability insurance company, National American Insurance Co. of Nebraska.

The company, which will be based in Omaha, will begin issuing policies Jan. 1, according to Ahmanson. Capitalization has not yet been determined.

markets

The company will write commercial auto, fire and allied lines, multiperil, workers compensation, liability and umbrella coverage as well as personal lines coverages. It will write only in Nebraska, the parent company said.

Richard H. Deihl, president and chief executive officer of Ahmanson, said, "H.F. Ahmanson & Co. has a long and continuing commitment to Omaha and the state of Nebraska. The decision to form National American Insurance Co. of Nebraska reinforces that commitment and is based on the recognition that such a regional company will be better able to provide competitive, responsive service to meet the needs of agents and their clients throughout the state."

The new company is a successor company to National American Insurance Co., a subsidiary of Ahmanson that was started in 1919. That company wrote coverage in 44 states, including Nebraska.

The new company will be managed by the executives and staff of its predecessor company. Edward W. Pedersen, president of National American Insurance Co., has been named president and chief executive officer of the new National American Insurance Co. of Nebraska.

The formation of the new company is part of the restructuring of Ahmanson's property and liability insurance operations. In August, the company's property/liability subsidiaries began a phased withdrawal from underwriting in all states except Nebraska.

The new company will be located at 10820 Harney Circle Omaha, Neb. 68154; ☎02-330-5600.

New MetLife HMOs

Metropolitan Life Insurance Co. is expanding its health maintenance organizations into seven new cities.

HealthCare Network, owned by MetLife HealthCare Management Corp. a Metropolitan subsidiary, is expanding into Chicago, Denver, Louisville, Ky., and Miami, Tampa, Orlando and Jacksonville Fla.

MetLife currently is negotiating with doctors and hospitals in the seven cities to join the HMOs. Its goal is to sign up 10% of the doctors in the each area. However, it has no

Continued on next page

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ninth-largest brokerage in 1984 with revenues of \$69.6 million, has expanded its operations with acquisitions of agencies in Arkansas and Georgia.

The Crump Co. of Arkansas in Little Rock has acquired the business of Bader Insurance Agency Inc., also in Little Rock

L.M. (Verne) Bader, president of Bader Insurance, is joining the Crump office in Little Rock as senior vp.

Sidney A. Stewart Jr., chairman and chief executive officer of Memphis-based Crump, said, "(The Bader agency's) special expertise in agricultural chemical accounts involves them directly in agribusiness, which has a primary role in the economic development of the Mid-South."

In Georgia, Crump has acquired Williams-Timlin Inc., an agency in Atlanta. The operations of that agency will be combined with E.H. Crump Co. of Georgia Inc. in Atlanta.

Continued on next page

Continued from previous page target number of hospitals that will participate in the network.

The company currently is operating HMOs in St. Louis and Cleveland.

MetLife HealthCare Network of Kentucky is planning to establish HMOs in Lexington, Bowling Green and Paducah.

MetLife HealthCare Network of Illinois will serve a six-county area of metropolitan Chicago.

MetLife Healthcare Network of Colorado will service a four-county area around Denver, with HMOs in Boulder and Colorado Springs planned.

New insurer formed

Pennsylvania Hospital Insurance Co. and Pennsylvania Casualty Co., two units of PHICO Corp, have been merged to form PHICO Insurance Co., an underwriter of liability coverages for hospitals, physicians and other health care providers.

PHICO, based in Mechanicsburg, Pa., provides professional and general liability, excess liability and workers compensation coverages to health care providers in 25 states and Washington. The merger creates an insurance company that currently insures more than 400 health care facilities and 7,000 physicians.

Pennsylvania Casualty Co. reported direct written premiums of \$61.6 million in 1984 with a year-end policyholders surplus of \$29.9 million.

Pennsylvania Hospital Insurance Co. reported direct written premiums of \$20.8 million in 1984 with a year-end policyholders surplus of \$57.6 million.

PHICO officials estimate the merged company's 1985 gross written premiums will exceed \$125 million.

The company is located at 1 PHICO Drive, Mechanicsburg, Pa. 17055-0085; 717-7666-1122.

Aviation management

A new management company will provide complete underwriting services to two insurance company pools that write aviation and satellite reinsurance.

ERG Management Corp. in New York was formed to provide underwriting, claims, marketing and other services to Extended Reinsurance Group and ERG Space.

Extended Reinsurance Group is made up of eight mutual life insurers that write aviation reinsurance with a per-risk capacity of about \$51 million.

Seven of the same insurers provide \$3 million in capacity for satellite reinsurance written by ERG Space.

Gustav P. Braun, owner of ERG Management, said the two pools formerly were managed by Duncanson & Holt Inc. in New York.

Mr. Braun said Extended Reinsurance Group was formed in 1969 as "a forerunner of life insurers getting into the property/casualty business."

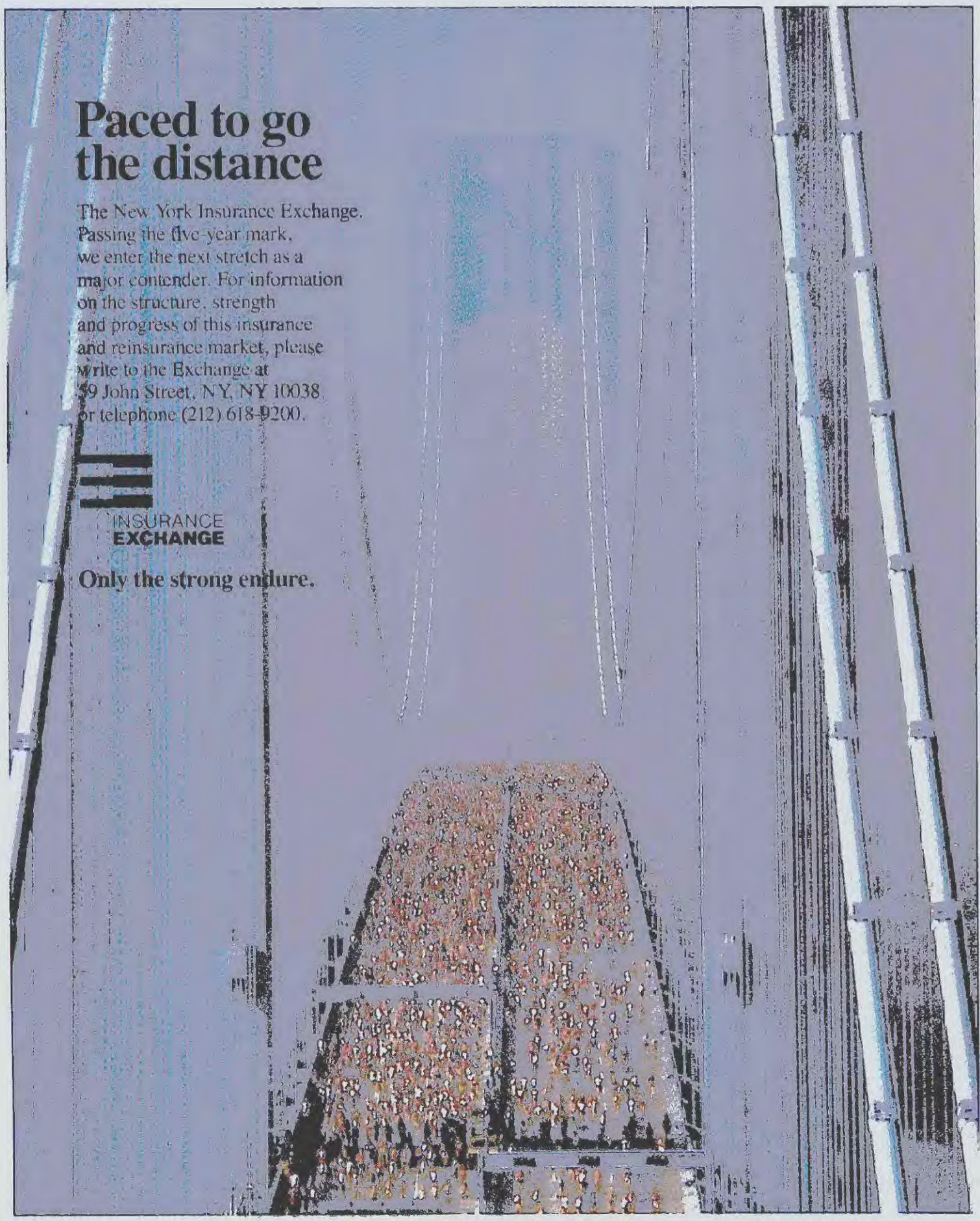
Legislation was changed in New York and New Jersey to allow formation of the pool, according to Mr. Braun.

The insurers that participate in the Extended Reinsurance Group are The Equitable Life Assurance Society of the United States, The Guardian Life Insurance Co. of America, Home Life Insurance Co., Metropolitan Life Insurance Co., Mutual Benefit Life Insurance Co., The Mutual Life Insurance Co. of New York, The Prudential Insurance Co. of America and State Mutual Life Assurance Co. of America.

Except for Metropolitan Life, those same insurers make up ERG Space.

Crump acquisitions

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markets

Continued from previous page

lanta. James R. Williams Jr., former president of the Williams Co., and other former members of the Williams staff are joining the Crump staff in Atlanta.

Mr. Stewart pointed out that Mr. Williams "has extensive experience with construction-related insurance and surety bond programs."

Loss-control services

Alper Services Inc., an insurance brokerage and risk management consulting firm in Chicago, has formed a loss-control engineering department.

Howard C. Alper, president of the company, said the new loss-control engineering department will provide services that aim to "control losses, which will in turn control premium costs."

Mr. Alper said the department's services will be available to Alper's clients, most of which are manufacturing companies, and to other businesses.

John Hamilton, who is heading the new department, said: "We are still developing how in-depth we want to go, but you can say we will provide loss-control services from the casualty and property standpoint."

Mr. Hamilton said the department would provide individually designed safety programs for clients.

Alper Services is located at 60 W. Superior St., Chicago, Ill. 60610; 312-642-1000.

Mergers/acquisitions

Insurex Inc. of Paramus, N.J., has merged with Specialty Coverage Concepts and Global American Insurance of Rochelle Park, N.J. The new wholesale brokerage company will be called SCC/INSUREX Inc. and will operate from 66 Route 17, Paramus, N.J. 07653; 201-368-8040.

Adjustco. Inc. of Tarrytown, N.Y., a claims management subsidiary of Frank B. Hall & Co. Inc., has acquired Southland/Marshall Group of Dallas, a multiline claims service company.

The NIA Group of Paramus, N.Y., has announced a merger with the Peter Murdock Agency Inc./Jacob G. Hall Ltd. of Spring Valley, N.Y.

The Actuarial Consultants Division of Meeker Sharkey Financial Group has merged with the American Pension Corp. The new entity will retain the American Pension Corp. name and will operate from Meeker Sharkey headquarters at 21 Commerce Drive, Cranford, N.J. 07016; 201-272-8100.

Houston-based broker Houstoun, Stevenson & Cummings has been acquired by Emmett & Chandler Cos. Inc. and now is part of Emmett & Chandler Texas Inc.

International Technology Corp. of Torrance, Calif., has acquired the assets of Energex Associates Inc. of Oak Ridge, Tenn. International Technology is a company dealing with management of

hazardous materials. Energex is a high-technology engineering consulting and loss-control services company.

Australian insurance broker H.M. Bates Australia Pty. Ltd. has formed H.M. Bates Australia Pty. Ltd. (Western Division) as a result of the merger of H.M. Bates, Hopcraft Bros. Insurance Brokers (N.S.W.) Pty. Ltd. and Orange Insurance Services Pty. Ltd.

New offices

American International Group Inc.'s Life Division, which includes AIG Life Insurance Co., Delaware American Life Insurance Co. and ALICO, has moved to new corporate headquarters located at One ALICO Plaza, P.O. Box 2226, Wilmington, Del. 19899; 302-594-2000.

The Homeland Cos.—including Homeland Insurance Co. and Homeland Industrial Corp.—is moving its home office to Homeland International Centre, 100 Homeland Court, San Jose, Calif. 95108. The mailing address remains P.O. Box 5969, San Jose, Calif. 95150. The new telephone number is 408-293-9000.

Health Cost Consultants Inc., based in Fairfax, Va., has opened a regional office in Atlanta. The Atlanta office is located at 1215 High Tower Trail, Atlanta, Ga. 30338; 404-642-1366.

Claim Administrators Inc., property/casualty insurance claim quality-control consultants, has opened an office at 1211 Mall Drive, Richmond, Va. 23235; 804-379-2857.

Am-Re Brokers Inc., a subsidiary of American Re-Insurance Co., has opened a second office in Chicago. The office is located at 300 S. Riverside Plaza, Suite 2334 South, Chicago, Ill. 60606; 312-454-5585.

Burns & Wilcox Ltd., a managing general agent based in Southfield, Mich., has opened an office at 8885 Rio San Diego Drive, Suite 335, San Diego, Calif. 92108; 619-294-4881.



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RIMS to hold conference in Singapore

NEW YORK—How risk management relates to insurance and loss-prevention and loss-control techniques will be the focus of the Risk & Insurance Management Society's Asia/Pacific Conference scheduled for Oct. 19-21, 1986, in Singapore.

"The Risk Management Opportunity, the first conference RIMS has scheduled in the Pacific region, is being held in response to requests for risk management assistance and information from business groups, educational institutions and government agencies in Southeast Asia.

The opening session of the conference, which will be held at the Shangri-La Hotel, will present an overview of the risk management process.

The opening session will concentrate on loss prevention and loss control. Among the topics to be discussed are the importance of implementing loss-control programs and how the costs associated with implementation relate to savings in

IIE syndicate immortalizes 1st transaction

CHICAGO—The first slip written by the recently capitalized NUA Syndicate Inc. on the Illinois Insurance Exchange is now a plaque hanging over the fireplace of the underwriting deputy who handled the transaction.

Underwriting deputy Francis P. McGovern received the immortalized slip from Alison Renner, president of Chicago surplus lines broker A.J. Renner & Associates Inc.

A slip is the term an exchange uses to describe the piece of paper submitted by a broker on which underwriters record their participation in a risk.

Mr. McGovern had underwritten this same account with three other insurers he had worked for before he joined NUA, Ms. Renner noted.

The coverage was written for a pharmaceutical company that Mr. McGovern would not identify.

NUA Syndicate wrote 20% of the second layer of the account's excess product liability coverage, or about \$1 million in coverage, according to Mr. McGovern.

The first layer was written by H.S. Weavers (Underwriting) Agencies Ltd., an underwriting agency in London. Weavers is owned by London United Investments Ltd. in London, the parent company of NUA Holdings Inc., which owns NUA Syndicate.

Richard Foss, president of the syndicate and its management company—NUA Management Inc.—noted that this risk was written on a claims-made form. The bulk of the casualty business written by NUA Syndicate will be on claims-made forms, he noted.

"And when we take the lead (layer), we will use an American version of the new Weavers claims-made form," he said. He explained that some of the British language will be changed to conform to the American market.

Since NUA's initial risk, which was written on Aug. 8, the syndicate has participated on a few other risks and has to date generated a premium volume of about \$2 million, Mr. McGovern said.

Besides underwriting casualty risks, NUA is the only syndicate on the IIE with a separate box for property transactions. NUA's reinsurance treaties for property risks were finalized late last month, and the syndicate was expected to begin underwriting those types of risks immediately, Mr. Foss said. ■

the form of lower insurance premiums.

Following the session will be workshops that will cover specific areas. Tentatively scheduled so far are sessions on financing techniques, including use of deductibles, self-insurance and captives; insurer capacity and solvency concerns; explanations of coverages such as political risk, directors and officers and business interruption insurance; and risk management department operation.

The workshops will also consider

the concept of total loss control; contingency and/or disaster planning; claims management; and property/casualty loss-control techniques.

Speakers will include risk managers, underwriters, brokers, consultants, educators and government officials based in North America, Europe and the Pacific region.

An exhibit that will highlight risk management-related services also will be featured as part of the conference.

Michael McDonald, risk man-

ager-foreign administration for United Technologies Corp. in Hartford, Conn., is conference chairman. Risk managers also on the RIMS International Cooperation Committee are Laura Hinckley, Avery International in Pasadena, Calif.; Edith Lichota, Irving Trust Co. in New York; Hugh Loader, Tetra Pak Insurance Services in Great Britain; and Ron McCartney, Johnson & Johnson in New Brunswick, N.J.

Other committee members are Chan Seck Cheng of Mass Rapid

Transit Corp. in Singapore; Kevin Knight of Australia Post Security and vp of the Assn. of Risk & Insurance Managers of Australia; and Yashuhiko Ushiba of Mitsubishi Corp. and chairman of the International Risk Management Society of Japan.

A brochure, containing the cost of the conference, and a registration form will be available in early 1986. For further information, write RIMS, Asia/Pacific Conference, 205 E. 42nd St., New York, N.Y. 10017. ■

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• "Securing Your Financial Future" is a package of publications for **employees who are considering retirement** published by Retirement Advisors Inc., a retirement planning firm. The package includes publications on finance, estate planning, insurance and savings and investments that can help provide answers to employees' retirement planning questions. Copies of the package can be ordered for \$7 each from Retirement Advisors Inc., 919 Third Ave., New York, N.Y. 10022.

• The Employee Benefit Research Institute is offering a book, "The Changing Profile of Pensions in America," which examines **pension coverage and vesting** since the 1974 Employee Retirement Income Security Act. The book highlights newer retirement income vehicles such as 401(k) plans and Individual Retirement Accounts. The cost of the book is \$18 for softbound copies. Order from EBRI-ERF Publications, P.O. Box 753, Waldorf, Md. 20601.

• The complexities of **escalating health care costs** are explained in "Health Care Cost Containment: A Basic Guide," a new book from the International Foundation of Employee Benefit Plans. The book discusses factors that have contributed to the rise of health care costs, including third-party reimbursement, inflation, advances in medical technology and an aging population. Copies of the book are \$25 each and can be ordered from the Publications Department, International Foundation of Employee Benefit Plans, 18700 W. Bluemound Road, Brook-

field, Wis. 52008-0069; 414-786-6700.

• Computer Security Issues and Answers is a new magazine supplement being offered by the Computer Security Institute. The 24-page supplement contains eight articles on **computer information protection** by prominent authors, including FBI Director William H. Webster. For a free copy, send a self-addressed 9- by 12-inch envelope with 73 cents postage to Phyllis St. Martin, Department A5, Computer Security Institute, 43 Boston Post Road, Northborough, Mass. 01532.

• A sourcebook summarizing more than 100 articles, books and studies on **vocational rehabilitation** is now available from the Workers Compensation Research Institute. "Vocational Rehabilitation in Workers' Compensation: Issues and Evidence" covers the success of rehabilitation, the importance of early intervention and the interaction of rehabilitation and litigation. The book is free to institute members; the cost to non-members is \$15. To order, write to Workers Compensation Research Institute, 245 First St., Suite 402, Cambridge, Mass. 02141; 617-494-1240.

• The **pros and cons of self-insurance** are among the topics discussed in "Practical Self-Insurance, An Executive Guide to Self-Insurance for Business." The book outlines methods for conducting feasibility studies, provides advice on structuring a self-insurance program and tells how to implement an effective loss-prevention pro-

gram. Copies are available for \$24.95 each from Risk Management Press, P.O. Box 670, Inverness, Calif. 94937.

• Designing and administering **association-sponsored benefit plans** is discussed in "Topics in Employee Benefits for Association Executives—1985," a book offered by the International Foundation of Employee Plans. The proceedings of the organization's 1985 Employee Benefits Institute for Association Executives are discussed in the 74-page book, including economic problems and their causes, political problems and "extras" the benefit plans can offer employees. The cost of the book is \$15 for IFEBP members and \$25 for non-members. Copies can be obtained from the Publications Department, International Foundation of Employee Benefit Plans, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

• "Arbitration Facts 1984-1985 Edition" is a 16-page booklet that details how insurers are turning to **arbitration to resolve claim disputes** rather than relying on costly litigation. The booklet describes how Insurance Arbitration Forums Inc., the nation's largest insurance arbitration organization, helped insurers settle disputes involving more than \$335 million in claims in 1984. Insurance Arbitration Forums, a non-profit corporation supported by more than 1,100 insurers, currently administers 12 different arbitration programs. Single copies of the booklet are available free of charge from Insurance Arbitration Forums Inc., 200 White Plains Road, P.O. Box 66, Tarrytown, N.Y. 10591-0065.

• The effects of the increasing

number of civil lawsuits on insurance rates and coverages are explained in a booklet offered by the Society of Chartered Property & Casualty Underwriters. "Breaking the Legal Logjam: Alternatives to the Courthouse" presents statistics on the increase in suits and discusses the use of **alternative dispute resolution to reduce litigation**. Single copies are free from the Public Relations Department, Society of CPCU, Kahler Hall, 720 Providence Road, Malvern, Pa. 19355; 215-251-2740.

• General claims, medical malpractice and workers compensation automation as performed by **RISK-MASTER software products** is discussed in notebooks offered by ComtecInc. "Second Edition: Computer Automation of Manual Functions Within Risk Management" also covers technical issues associated with operating the system software on personal computers. Copies can be obtained for \$4 each from Comtec Inc., Risk Management Services & Products Department, 24350 Indoplex Circle, Farmington Hills, Mich. 48018; 313-478-8775.

• Rockwood Systems Corp. is offering publications to assist chemical companies in dealing with **environmental impairment liability**. The publications present methods for using water-based foaming agents to prevent the runoff of hazardous materials during fires. Free copies can be ordered from Rockwood Systems Corp., Department JS, 640 E. Main St., Lancaster, Texas 7146; 214-227-3100.

• "The Effect of 404A Proposed Regulations on Foreign Plans," a reprint article available from employee benefit consultant

Kwasha Lipton, discusses this section of the Internal Revenue Code affecting companies whose foreign branches maintain pension plans. Free copies of the article are available from Department M, Kwasha Lipton, P.O. Box 1400, Fort Lee, N.J. 07024-1400; 201-592-1300 or 212-279-6800.

• "Employee Assistance Programs: Their Impact on Health Insurance and Other Company Benefits" is a research report published by the International Foundation of Employee Benefit Plans. Author Joseph A. Madonia, who defines an EAP as "a workplace-centered counseling service provided to employees with behavior and substance abuse problems," summarizes the results of a 1984 study of two groups of Houston firms. The cost is \$5 for IFEBP members and \$9 for non-members, and copies can be obtained from the Publications Department, International Foundation of Employee Benefit Plans, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

• The "1985 Directory of Business Coalitions for Health Action" lists by selected characteristics more than 130 **business/health coalitions** formed to implement health care cost-containment programs. The book includes summary tables comparing data from 1982, 1983 and 1984, and information on how to contact each of the coalitions. Copies are available for \$15 from the Clearinghouse on Business Coalitions for Health Action, Publication #6859, 1615 H St. N.W., Washington, D.C. 20062; 301-468-5128.

• The importance of collecting high-quality, effective and accurate
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Continued from previous page
health care statistics is emphasized in "Health-Care Statistics: What Do Employers Really Need to Know?" The reprint article is offered free of charge from Kwasha Lipton, P.O. Box 1400, Fort Lee, N.J. 07024-1400; 201-592-1300 or 212-279-6800.

• Recently concluded **Dalkon Shield cases** are the subject of a special issue of the "Verdict Reviews Consumer Products Quarterly," published by Jury Verdict Research. The four-page newsletter contains statistics on jury reaction to the issues of liability and damages as well as summaries of verdicts and settlements in cases involving the Dalkon Shield intrauterine device. Copies of the newsletter are available for \$17.50 each from Jury Verdict Research, 5325 Naiman Parkway, Suite B, Solon, Ohio 4139-1065; 800-321-6910, 216-248-7960 in Ohio.

• The considerations of **implementing a 401(k) plan** are the subject of a reprint article offered by Kwasha Lipton. "Installing a 401(k) Plan—A Guide to Effective Project Management" reviews the components involved in designing a 401(k) salary reduction plan, including employee communications, payroll modification and record-keeping systems, and significant elements affecting implementation schedules, such as legal compliance. Free copies of the article can be obtained from Department M, Kwasha Lipton, P.O. Box 1400, Fort Lee, N.J. 07024-1400; 201-592-1300 or 212-279-6800.

• The uses of **Employee Stock Ownership Plans** are illustrated in a brochure offered by Coopers & Lybrand. "ESOPs" describes both the employee benefit uses and the corporate financial uses of these plans, discusses legislative incentives and regulatory requirements and includes a summary of the advantages and disadvantages of the plans. Copies of the brochure are available free of charge from Coopers & Lybrand, 400 Renaissance Center, Detroit, Mich. 48243; 313-446-7100.

• To help contractors understand the new **commercial general liability form**, the International Risk Management Institute has published "Contractors' Guide to the 1986 Commercial General Liability Program." The 70-page booklet features a checklist of important things to consider when changing over to the new form, along with a sample policy form. The booklet is free to subscribers to "Contract Risk Management," an insurance desk reference for contractors also published by IRMI. "Contract Risk Management" is available for \$160 a set. For more information, contact the International Risk Management Institute, 10300 N. Central Expressway, Building 3, Suite 208, Dallas, Texas 75231; 214-363-9656.

• **CIVIL RICO: The Insurers Fight Back** is a booklet offered by the Chicago law offices of Leahy & Eisenberg Ltd. The 31-page booklet reviews the requirements of the **Racketeer Influenced and Corrupt Organizations Act** and illustrates the case law concerning the application of RICO both by and against insurance companies in claim litigation. For information about price and how to order copies, contact Ronald Olson, Leahy & Eisenberg, Ltd., 29 S. LaSalle St., Suite 300, Chicago, Ill. 60603; 312-368-4554.

• A booklet from the Alliance of American Insurers, "Hazard Communications and Employee Right-to-Know Loss Control Guidelines," provides useful information for employers concerning **compliance with federal hazard communica-**

tion standards. The booklet also includes guidelines for advanced employee safety and health programs. Copies are \$1.30 for Alliance members and \$2.70 for non-members. Order from the Alliance Publications Order Department, 1501 Woodfield Road, Suite 400 West, Schaumburg, Ill. 60195-4980; 312-490-8500.

• The concerns of the Professional Insurance Agents of New England about **changes in the commercial general liability forms** are expressed in a "White Paper" on the Insurance Services Office's new CGL policies. Free copies are available from PIANE, 1 Ash St., Hopkinton, Mass. 01748; 617-435-6801.

• The use of **electronic data processing for employee benefit plans** is covered in "EDP: Applications for Employee Benefit Plans," available from the International Foundation of Employee Benefit

Plans. The 55-page book is a compilation of presentations made at the 1984 Electronic Data Processing Institute and includes such subjects as evaluating and selecting computer hardware, auditing EDP operations and online claims adjudication. The cost is \$6 for IFEBP members and \$10 for non-members. Copies are available from Publications Department, International Foundation of Employee Benefit Plans, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

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New Chrysler contract adds PPO option

The United Auto Workers union's new contract with Chrysler Corp. adds a preferred provider option for health care coverage, in addition to the automaker's traditional fee-for-service plan and health maintenance organizations.

This triple-option health care plan mirrors the "Informed Choice" plan adopted by General Motors Corp. and Ford Motor Co. last year in their contract negotiations with the UAW (BI, Oct. 22, 1984).

The three-year contract between Chrysler and the UAW was ratified Oct. 27.

Like the GM and Ford contracts, the agreement between Chrysler and the UAW calls for a 10% targeted reduction in health care costs over the next three years. The contract also includes several cost-containment provisions to help achieve that goal.

Beginning April 1, 1986, or as soon as possible thereafter, Highland Park, Mich.-based Chrysler will offer workers two PPOs in southeastern Michigan: John Hancock Mutual Life Insurance Co.'s SelectCare program and Blue Cross/Blue Shield of Michigan's Preferred Care program.

benefit beat

In addition, PPOs sponsored by BC/BS plans will be offered to Chrysler employees in Indiana, northeastern Ohio and St. Louis.

At the beginning of each plan year, employees will choose from one of the three coverage options.

Those who select PPO coverage receive reimbursement for health care services, such as well-infant care, immunizations and other preventive care, which are not included in the traditional plan.

In addition, workers who pick the PPO option will pay only a small deductible for each office visit. The exact amount of the deductible has yet to be determined, but it probably will be less than \$10, a Chrysler spokeswoman said.

In contrast, the traditional plan requires workers to pay the entire cost of office visits, regardless of the reason, except for life-threatening situations.

The contract also mandates that prepaid dental plans sponsored by Prudential Insurance Co. of America be made available as soon as possible to workers in Alabama,

Delaware, Missouri, New York and Ohio. Currently, prepaid dental plans are available to workers in Michigan, Indiana and Illinois.

The contract also mandates that workers in southeastern Michigan who receive vision care through Co-Op Optical, a prepaid vision plan, be required to pay a \$5 per-visit deductible, down from \$12.50 under the old plan.

In addition to the PPO option, the contract mandates the addition of other cost-containment programs.

Pre-authorization will be required for all hospital admissions, ancillary services, outpatient procedures and the use of durable medical equipment and prosthetic devices.

An individual case management program also will be implemented to identify potential high-cost cases and develop alternative treatment plans designed to provide care in the most cost-effective manner.

The new contract also makes some changes in the traditional fee-for-service health care plan.

It increases the deductible for prescription drugs to \$5 from \$2, effective Jan. 1.

However, a mail-order prescription drug program will be introduced for all employees and retirees. It will provide up to a 90-day supply of a prescription drug for a single \$2 deductible.

The prescription drug reimbursement plan applies only to specified prescription drugs, although the new contract adds 25 drugs to the list of drugs eligible for reimbursement under the medical plan.

The new contract also increases the fee-for-service plan's maximum amount of reimbursement for hospital care to \$160 per day, up from \$100 under the old plan.

Heart, heart-lung, lung, pancreas and liver transplants will be covered benefits up to a maximum payment of \$25,000. Those five types of transplants were not covered under the previous contract.

Chrysler's fee-for-service medical, prescription drug and vision care programs are underwritten by

various Blue Cross & Blue Shield plans throughout the country. Its dental plan is underwritten by Aetna Life Insurance Co.

However, as of Jan. 1, Chrysler will self-insure all four plans; the current insurers will provide administrative services only, a spokesman said.

The UAW also won increases in pension benefits under the new contract.

Workers will receive four increases in their pension benefits over the life of the new contract.

Effective Nov. 1, workers who retired between Oct. 1, 1984, and Sept. 30, 1985, will have their basic monthly benefit increased to between \$20.20 and \$20.95 per year of service, up from a range of \$18.20 and \$18.95.

On April 1, 1986, the benefit will increase again, to between \$20.80 and \$21.55 a month per year of service.

On Oct. 1, 1986, the benefit will increase to between \$21.25 and \$22.

The fourth increase, effective April 1, 1987, will hike the monthly pension benefit range to \$21.85 to \$22.60 per year of service.

Workers who retire between Oct. 1, 1985, and Sept. 30, 1986, had their monthly pension benefit increased on Nov. 1 to a range of \$20.30 to \$21.05 per year of service. These benefits will be increased to between \$20.90 to \$21.65 on April 1, 1986; \$21.35 to \$22.10 on Oct. 1, 1986; and \$21.95 to \$22.70 on April 1, 1987.

Workers who retire on or after Oct. 1, 1986, will receive monthly pension benefits of between \$21.45 to \$22.20 per year of service. That monthly benefit will increase to between \$22.05 and \$22.80 of April 1, 1987.

A worker's actual retirement benefit is based on years of service and job description.

Early retirement benefits for employees with at least 30 years of service also will increase under the new contract, from \$935 a month to the following amounts:

Workers who retired before Oct. 1, 1984, receive \$1,060 a month, effective Nov. 1. That benefit will increase to \$1,105 on April 1, 1986; \$1,135 on Oct. 1, 1986; and \$1,185 on April 1, 1987.

Workers who retire between Oct. 1, 1985, and Sept. 30, 1986, receive \$1,070 a month, effective Nov. 1. That benefit will increase to \$1,115 on April 1, 1986; \$1,145 on Oct. 1, 1986; and \$1,195 on April 1, 1987.

Workers who retire on or after Oct. 1, 1986, will receive \$1,155 a month in pension benefits. On April 1, 1987, the benefit will increase to \$1,205.

In addition, all retirees will receive a lump-sum payment of \$1,000 in December 1985, regardless of when they retired.

Another lump-sum payment of

\$6.67 per year of credited service, up to a maximum of \$600, will be paid in December 1986 to employees who retired prior to Oct. 1, 1984.

Mead Corp. contract

The Mead Corp. has signed a new three-year labor contract with workers at its Chillicothe, Ohio, mills, which incorporates the health care cost-containment program the company already has in place at most of its 55 plants.

The contract affects 2,000 members of the United Paperworkers International Union.

The Mead Care program, which the company began bargaining into its labor contracts three years ago, uses both "carrots and sticks" to contain health care costs, explains Bill Rottler, labor relations manager for Mead.

The "sticks" include increasing both the major medical and hospitalization deductibles, Mr. Rottler said.

The "carrots" include expanded benefits, like hospice care, he said.

The new contract, effective Aug. 1, requires workers and their dependents covered under the medical plan to pay a deductible equal to half the room and board charges for the first day each time they are hospitalized. Previously, workers paid no deductible for hospitalization.

The contract also raises the major medical deductible to \$150 from \$100 for individual coverage and to \$300 from \$200 for family coverage.

And, the contract changes the plan's reimbursement from 100% of usual, reasonable and customary charges to 100% of charges established by a fee schedule. Workers must pay charges that exceed the fee schedule, Mr. Rottler said.

However, outpatient surgery will continue to be reimbursed according to usual, reasonable and customary charges to encourage workers to have surgery performed on an outpatient basis, Mr. Rottler said.

The new contract also lists several common surgical procedures for which workers must get a second opinion. If workers ignore this requirement, they will receive only 50% of the charge set by the fee schedule, Mr. Rottler said.

But, Mead Care also expands the health care services covered by the employer.

Hospice care is now a covered benefit, up to a maximum reimbursement level of \$75 a day for 30 days for inpatient care and \$50 a day up to a total maximum benefit of \$2,500 for outpatient care, Mr. Rottler said.

And, drug and alcohol rehabilitation is now covered under the plan. The maximum benefit is \$50 a day

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Continued from previous page for 45 days of inpatient or outpatient care, he said.

The new contract also increases pension, dental, life insurance and wage replacement benefits.

It increases the fee schedule for reimbursement of dental costs by 10% across the board, Mr. Rottler said.

The contract increases workers' life insurance benefit to a maximum of \$54,000, up from a maximum of \$49,000 under the previous contract. The exact amount of life insurance a worker receives is equal to his or her average earnings for the three years prior to the worker's death, Mr. Rottler said.

Pension benefits also increased, from \$18.50 a month per year of service to \$19 during the first year of the contract, \$19.50 during the second year and \$20 during the third year, Mr. Rottler said.

Sickness and accident benefits, which replace an ill or injured worker's wages for up to 26 weeks, also were increased, from \$180 a week to \$195 a week during the first year of the contract, \$210 a week during the second year and \$225 a week during the third year, Mr. Rottler said.

Mead self-insures its medical and dental plans.

The Prudential Insurance Co. of American underwrites its group life insurance and sickness and accident benefits.

PPO savings in Miami

Five Miami employers and their employees saved a total of \$4.6 million in health care costs during the first half of 1985 using Met-Elect, a preferred provider organization sponsored by the Metropolitan Life Insurance Co.

The five employers saved \$2.5 million in health care costs through provider discounts, which lower the cost per hospitalization by about 19%, according to Metropolitan.

In addition, the companies' 40,000 employees saved \$2.1 million in out-of-pocket costs because Met-Elect users pay no deductible or coinsurance.

Of the five employers, the Dade County School Public Schools experienced the most significant health care savings during the first half of the year.

The district, which began offering Met-Elect to its 15,000 employees in January 1984, saved \$1.5 million during the first half of 1985, compared with \$853,000 during the first half of 1984, according to Susan Weiner, executive director for the division of risk management of the Dade County Public Schools.

The school district was the first of the five employers to offer Met-Elect to its employees. The other four employers—Southeast Banking Corp., Dade County Community College, the Metro Dade County Government and Tel Tech Inc.—have offered the PPO since January 1985.

The school district saved a total of \$4.5 million the first year the PPO was offered to employees, Ms. Weiner said (BI, Jan. 21).

The school board expects to save as much as \$4 million by the end of this year, she added.

"There's going to be a minimum of \$3.2 million left over in our deposit liability account, which is used to pay health care claims," she said. "And we are being very conservative on that estimate. It could go to \$4 million, depending on the actual number of claims."

Ms. Weiner could not say how many district employees use Met-Elect because it is a "swing PPO," in which workers can choose between preferred providers and non-preferred providers—for different levels of reimbursement—each time they need care.

However; she did say that the

number of employees using PPO hospitals was increasing.

By the second half of 1985, 62% of hospital admissions of district employees were in one of the 14 hospitals participating in the Met-Elect PPO. Before the PPO was offered, only 23% of admissions were in those 14 hospitals, which were designated by Metropolitan as being the most efficient of the approximately 60 facilities in Dade and Broward counties.

"We've seen a steady increase in the migration to PPO hospitals," Ms. Weiner said. "Every quarter we see the numbers (of PPO hospital admissions) increase."

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Stock experts are optimistic about future of public HMOs

By JUDY GREENWALD

Securities analysts are giving a relatively healthy prognosis to the roughly 15 health maintenance organizations that have gone public over the last two years, though they note that health care industry competition could cause a market shakeout.

"I think they're terrific long-term stocks," says Barbara Santry, an analyst with Alex Brown & Sons in Baltimore. "I think the investor will be happy with any of the stocks over the next three to four years, because those that don't do well will probably be acquired."

"I think the near-term outlook is good," says Peter Grua, an analyst with William Blair & Co. in Chicago. HMO companies are pricing their products more competitively than in the past and memberships are likely to grow, he says.

With a nationwide HMO market penetration of only 6% to 7% to date, "You've got a large potential market out there," says David Goldsmith, a partner with Robertson Colmar & Stephen in San Francisco.

"They can't help but grow," adds Kenneth Abramowitz, an analyst with Sanford C. Bernstein & Co. in New York.

ticker

However, analysts warn that the HMOs could run into some pitfalls because of intensified competition for the health care dollar.

"As they grow larger, they will begin to compete with one another and—like with all businesses—the margins will become less attractive," says Doug Sherlock, a vp with Salomon Bros. in New York.

Competition is looming from other sources as well, warns Mr. Sherlock. He says insurance companies are changing their traditional indemnity product to compete with HMOs, and hospitals are another source of competition.

Large hospital groups, like Humana Inc., have entered the HMO market, and he expects all hospital management companies to eventually take the plunge (BI, July 22). "They have moved in a very dramatic way, and they will want to do that in the future," he says.

"Right now, everyone and their brother is trying to start an HMO," points out William J. Michalak, vp of research at Robinson-Humphrey Co. in Atlanta.

Not only are insurance companies and hospital management companies entering the HMO market, but the independent HMO companies themselves are beginning to broaden their products to include standard indemnity products and preferred provider organizations, says Joseph Eichinger, a partner and analyst with Cable

Howse & Ragen in Seattle.

"Over the long-term, all of these companies will look the same," he says. "To the consumers of health care, they'll be a fairly large blur."

"There are going to be some large national HMOs that will ultimately look like large national insurance companies," agrees Margo Vignola, an analyst with L.F. Rothschild, Unterberg, Towbin.

While analysts are concerned about the long-term future of the HMO market, they also note that competition has taken its toll on the stock prices of HMOs, which in recent months have generally been on a downward slide.

HMOs "had been the darlings of Wall Street," says Mr. Michalak. "They are now being looked at skeptically."

"I think people are still favorably inclined, but the bloom is off the rose," he adds.

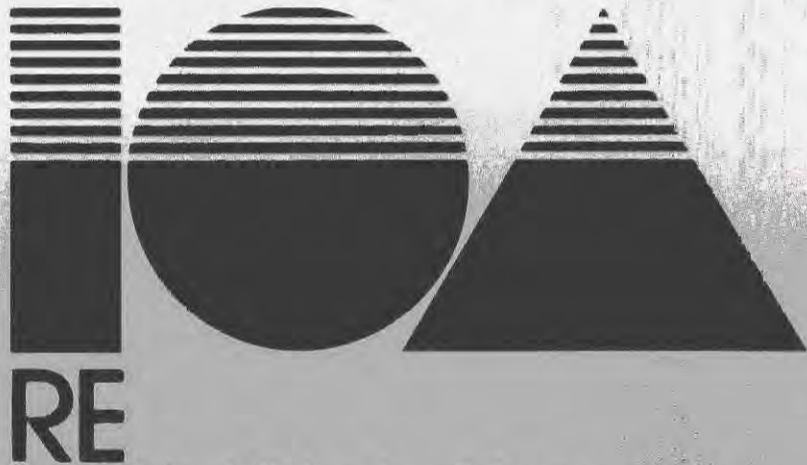
"Some people had downplayed the amount of competition there is in the industry," says Randy Huyser, a senior health care analyst with Montgomery Securities in San Francisco.

HMO companies are well aware of the competition in the market.

Larry Longacre, senior vp and chief financial officer of U.S. Health Care Systems in Blue Bell, Pa., explains that his company was the first HMO to go public when it made its initial offering 1983. By

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the end of that year, five other HMO companies had become publicly held, and another nine have gone public since then, he says.

Amid Wall Street's original euphoria over HMO stocks, a number of companies that should never have gone public did so, resulting in disappointing earnings results, Mr Longacre says. Wall Street now is "shaking out" these "weak sisters," he says.

Fred Wasserman, chairman of Maxicare Health Plans of Hawthorne, Calif., describes the recent downward slide in prices as one of a number of "periodic adjustments" that the HMO stocks have had over the last two years.

Analysts also note the disappointing earnings results among HMO companies. With some HMO stocks selling at price-to-earnings multiples of 20 to 30, they are "extremely vulnerable" to drops in their stock prices because of disappointing earnings, says James McCamant, editor of the Medical Technology Stock Letter in San Francisco.

Some analysts also distinguish between the so-called "Big Three" HMO companies—U.S. Health, Maxicare and Nashville, Tenn.-based HealthAmerica Corp.—and their smaller, regional rivals in evaluating how well HMO companies are likely to perform in the future. These analysts believe the size of the larger companies leaves them better poised for growth.

The larger HMOs are better capitalized, says Mr. Eichinger. "They can throw more money at advertising, marketing" and attract high-caliber people, he adds.

Oregon comp board is asked to review fewer cases in '84

SALEM, Ore.—The Oregon Workers Compensation Board was requested to review fewer cases in 1984 than in 1983, the first drop in requests since 1979, the state Workers Compensation Department says.

And, the number of cases the board closed dropped for the first time in nine years.

However, the number of cases the board re-reviewed reached an all-time high of 528. And, the number of workers compensation cases heard by the state Court of Appeals jumped 21% since 1983 to 324.

The board was requested to review 1,296 new cases in 1984, a 12.6% decrease from the 1983 figure. It also was the fewest number of new cases since 1979.

The board closed 1,642 cases last year, a 4.5% decrease from 1983 and the first decline since 1975.

In cases involving extent of disability, the board affirmed the state's workers compensation hearing division's order 80% of the time.

In the cases in which the board changed awards for permanent partial disability, the board decreased awards 78% of the time.

For the fourth consecutive year, the number of permanent total disability awards declined. These types of awards were affirmed by the board in 42 cases, rescinded in 20 cases and granted in two cases.

The board changed the size of awards in 20% of the cases involving temporary disability, with increases slightly outnumbering decreases.

The board also cut the average attorneys' fees by 4.5% from the previous year. The average fee fell to \$546 per case.

The state Court of Appeals decided extent of disability or compensability in 83% of the workers compensation cases it reviewed, according to the state Workers Compensation Department.

The court affirmed the state board's decision in 85% of those cases.

HMO companies are 'terrific long-term stocks,' says Ms. Santry. 'I think the investor will be happy with any of the stocks over the next three to four years, because those that don't do well will probably be acquired.'

Mr. Michalak says he is a "little bit more suspicious" of smaller firms because he is uncertain of their management capabilities.

The "people problem" is common throughout the industry, says R. Stevens Shean, vp-finance for the AmeriCare Health Corp., based in Sacramento, Calif., whose 150,000 HMO members are primarily in California. "It's hard finding good management people."

"There appears to be a tendency toward a national approach" among the larger HMO companies, says William Blair's Mr. Grua. This is being driven by national employ-

ers who prefer to deal with a handful of HMO organizations as opposed to 100 to 200 firms.

"I think that's a fair statement to make," says Stephen C. Schwartz, president of Bay Pacific Health Corp., an HMO company based in San Bruno Calif., which as of June 30 had 55,000 members in Northern California.

But, Mr. Schwartz adds, employers will also want to look at the product they are purchasing, as well as administrative costs.

Bay Pacific works with 1,400 to 1,500 doctors in the San Francisco vicinity, more than any other HMO

in the area, he says. While a large HMO network may offer volume savings to nationwide employers, if it had only 22 doctors signed up with it in a particular area, "that's not an acceptable product to offer someone," says Mr. Schwartz.

Mr. Eichinger predicts a shake-out of HMOs that are poorly capitalized and have poor information systems.

"I see that as basically a buying opportunity for the larger HMOs," he says. "That consolidation will produce better growth opportunity" for the better-managed companies.

However, officials of smaller HMO companies say they are ready to face the challenge of surviving and flourishing in the marketplace despite their size.

PacificCare, an HMO company based in Cypress, Calif., intends to "break away from the pack" of smaller companies, says President Terry Hartshorn.

In comparing PacificCare's size

with the Big Three companies, Mr. Hartshorn says: "We need to do things smarter, and we need to do them faster if we can."

In evaluating HMO companies for investment purposes, each one has to be looked at individually in terms of its management capabilities, its expansion goals and its response to competition, says David Willis, senior vp and chief financial officer of Sierra Health Services, based in Las Vegas, Nev.

Sierra, which now has 65,000 members in Nevada and New Mexico and plans to boost its membership to 100,000 by the end of 1986, is working to get out of the small group category, Mr. Willis says.

"We're well-funded—we're in this for the long haul," adds Ken Simmons, president of Peak Health Plan, in Colorado Springs, Colo.

Peak Health, with 80,000 members, has essentially no debt and \$25 million in equity, he says. "We're going to build a good company."

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Claims-made form to increase litigation: Lawyers

By STACY SHAPIRO

LONDON—A U.S. law firm that acts as defense counsel for insurers and reinsurers predicts massive new litigation if the Insurance Services Office's claims-made commercial general liability form is adopted.

Stephen Paris, a partner in the Boston firm of Morrison, Mahoney & Miller, said that if the claims-made form is implemented, attorneys will be in court for years battling over the interpretation of the form.

He made his remarks to about 250 brokers and underwriters at a recent seminar his firm sponsored in London on the new CGL form.

"I was worried for a while," Mr. Paris told the audience. "My oldest kid was put through college on asbestos, my second one on hazardous waste. I was worried about my daughter who is just starting. But, I'm not worried now."

The purpose of the claims-made form is to reduce the amount of litigation insurers currently face, but the form will not do so, said members of the firm who participated in the seminar.

For example, the claims-made form includes 10 pages of definitions to clarify what the form covers, said Richard R. Eurich, an attorney with the firm.

But, the courts may rule that the policy, with its exhaustive definitions, is too confusing for policyholders to understand, Mr. Eurich said.

"If you are trying to avoid litigation, you are not going to accomplish your purpose" using the new CGL form, he told the brokers and underwriters.

london line

Arthur Miller, a partner with the firm, added that the policy poses another problem, since the excess liability insurance market has not decided whether it will also use claims-made coverage.

Only one excess insurer, H.S. Weavers (Underwriting) Agencies Ltd., has devised its own claims-made excess form, he pointed out. However, Lloyd's underwriters plan to unveil a form of their own.

Mr. Paris said the inclusion of defense costs in aggregate policy limits, proposed by ISO for implementation July 1, 1986, is "just plain stupid."

Instead, he suggested maintaining the old occurrence form and working for reform of the U.S. legal system.

JAL crash

Boeing Co. says in a letter to its London, U.S. and French brokers and underwriters that repairs it made in 1978 to a Japan Air Lines Boeing 747 jet that crashed Aug. 12 were made incorrectly.

However, Boeing adds that press reports describing the incorrect repairs have not been accurate.

JAL and Boeing have agreed to share liability in the crash of JAL Flight 123, which killed all but four of the 524 people aboard. However, they have not determined how the liability will be divided (BI, Aug. 19; Oct. 28).

The letter was written by Keith Gerrard of the Seattle law firm of Perkins Coie, which represents Boeing.

The letter explains that a review of the aircraft's history reveals that in 1978—four years after the jet was delivered to JAL—"the aircraft was involved in a nose-high, hard landing which required extensive repairs to the aft pressure bulkhead and fuselage below the aircraft's tail." Those repairs were performed by a Boeing team, according to the letter.

The letter continues: "Examination of the bulkhead area which was repaired in 1978 has revealed that a relatively small section of the bulkhead splice... was not correctly assembled during the repair. Contrary to published press reports, the misassembly does not involve a missing row of rivets. Rather, the splice plate added during the repair was incorrectly installed..."

According to the letter, Boeing sent personnel to Japan after the crash to help the Japanese government in its investigation.

After the accident, various regulatory agencies required inspection of the 747s, the letter says. But, the letter stresses that as of mid-September, half the 747 fleet worldwide had been inspected and there was "no evidence that would suggest any problem with the basic design, manufacture or structural integrity of the 747 model aircraft."

The letter also says that JAL has settled claims by survivors of two Indian nationals who were passengers on Flight 123 for a total payment of \$120,000. And, JAL's U.S. counsel has been in touch with the survivors of three victims who were U.S. citizens, the letter says.

Japanese news reports indicate that JAL has agreed to pay between \$70,000 and \$94,000 each to the families of the people killed in the crash and to provide educational scholarships to 300 children whose parents or guardians died in the crash.

C.E. Heath sale

Another Lloyd's of London broker has reached an agreement to sell its Lloyd's underwriting management agency to comply with the Lloyd's Act of 1982.

C.E. Heath & Co. (Underwriting) Ltd. has agreed to sell both its members and managing agencies to the management of C.E. Heath (Underwriting) Ltd.

The management has set up a new company, Cuthbert Heath Underwriting Ltd., to take over the agencies on Jan. 1.

The sale price is just more than 2 million pounds (\$2.8 million), Heath announced.

The board of Cuthbert Heath will be headed by Chairman and Chief Executive D.J.W. Coles.

In addition, three officers of C.E. Heath Group are resigning from the board of the agency company: Derek Newton, chairman and chief executive; David Barham, a Heath director; and Peter Dawson, the group's treasurer.

"After such a long time, it is naturally sad to sever our links with the part of the group which more than any represents the original Lloyd's activities of our founder, Cuthbert Heath," Mr. Newton said.

"However, given that we are required to divest ourselves of these operations to comply with the requirements of the Lloyd's Act, we are more than happy that we should be able to do it in a way which encourages the natural ambitions and aspirations of our underwriters."

Heath's divestment of its agencies follows its restructuring of its worldwide direct brokerage business by forming a new intermediate holding company, C.E. Heath (Insurance Broking) Holdings Ltd., with Mr. Newton as chairman and chief executive.

The aim of the restructuring is to give executive responsibility to the management of each unit while leaving the parent in charge of corporate strategy and group finance, Mr. Newton said.

Underwriters warned

Lloyd's of London non-marine underwriters have been warned to tread carefully in the United States if they plan to cancel or not renew liability insurance policies.

The Lloyd's Non-Marine Underwriters' Assn. advised underwriters in a letter to avoid canceling policies midterm or canceling entire books of business, according to a report in Lloyd's List, a newspaper published by Lloyd's.

The letter is a response to emergency action taken by several U.S. insurance regulators to place tight restrictions on midterm cancellations and non-renewals.

"The present situation throughout the United States is tense, politically charged and dangerous to insurers," the letter warns.

Hughes satellites

While Hughes Aircraft Co. and underwriters wait to see whether the repaired satellite Syncom IV-F3 will work properly, they are heaving a sigh of relief about another near miss.

Earlier this autumn, it was feared that Syncom IV-F2, which was launched in September 1984

Continued on next page

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Oct 28	Oct 16
Nov 4	Oct 23
Nov 11	Oct 20
Nov 18	Nov 6
Nov 25	Nov 13
Dec 2	Nov 19
Dec 9	Nov 26
Dec 16	Dec 4
Dec 23	Dec 10
Dec 30	Dec 16

1986

Jan 6	Dec 20
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Jan 20	Jan 8
Jan 27	Jan 14
Feb 3	Jan 22
Feb 10	Jan 29
Feb 17	Feb 4
Feb 24	Feb 11
Mar 3	Feb 19
Mar 10	Feb 26
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London line

Continued from previous page and leased to the U.S. Navy, had stopped transmitting on one of its 13 channels. But, the channel switched itself on again, London sources confirm, so there will be no claim.

And, sources say that even if the channel had not switched on, there may have been no claim. Hughes has an in-orbit deductible of \$8 million per satellite, and the loss may not have totaled that much.

In the meantime, Hughes, its brokers—Marsh & McLennan Inc. in New York and Bowring Space Projects in London—and its underwriters wait to see if Syncom IV-F3 works.

The probe was repaired by astronauts aboard a space shuttle flight this summer. On Oct. 27, its engines were successfully fired, and it was lifted into its proper orbit (BI, Nov. 4).

Underwriters, including International Technology Underwriters in Washington and Lloyd's of London underwriters, paid the \$80.7 million claim on the satellite. But, if it becomes operational and is leased to the U.S. Navy, the underwriters will recoup some of their losses, because part of the money received from the Navy would go to the underwriters.

Changes urged

The time has come for Lloyd's of London underwriters to distribute their own underwriting documents directly to policyholders, says Richard Hazell, chairman of Lloyd's Non-Marine Underwriters' Assn.

He said Lloyd's underwriters have depended on Lloyd's brokers for too long to issue policy docu-

ments after underwriters have signed slips binding themselves to the coverage.

The practice has led to incredible delays between the time the underwriter agrees to write the coverage and the time the policyholder has proof of coverage from Lloyd's, Mr. Hazell said.

Mr. Hazell noted that Swiss law requires policyholders to have copies of their insurance policies within 30 days of the time underwriters agree to bind the coverage. But, Lloyd's brokers sometimes produce the policies six months after the underwriter agreed to the coverage, he said.

"This is our document," he said. "If the Swiss client doesn't get anything for six months, then we are trading illegally."

He urged the formation of a Lloyd's policy producing office.

Mr. Hazell, Lloyd's underwriter for F.R. White & Others, made his remarks at a luncheon meeting of underwriters and brokers at the Institute of London Underwriters.

Mr. Hazell, who is stepping down as chairman of LNMUA and was elected to a seat on the Council of Lloyd's, believes there are other

changes Lloyd's can make to improve the market.

For example, he believes brokers should pay premiums to underwriters more quickly. He suggested that brokers who do not make premium payments within a specified time should be penalized.

He said that Lloyd's current systems of premium payment and policy issuing are "outdated and outmoded."

But, he does not support some recent changes at Lloyd's.

"I find it distressing and distasteful to publish (syndicate) accounts publicly," he said. "We are a partnership, and no other partnership has to publish accounts publicly."

Mr. Hazell also said he does not see an increase in capacity at Lloyd's next year because of the limits Lloyd's places on the amount of premium that syndicates can write.

Therefore, many "exotic third-party" coverages, particularly from the United States, will not be written by Lloyd's, he said.

As a result, he predicts an increase in the number of captive insurance companies for members of certain industries.

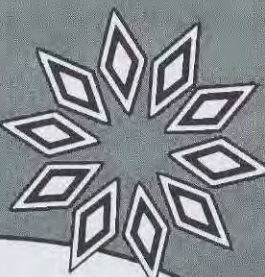
"I have no quibble with this," he said, noting that industry captives have better knowledge of their policyholder's unique risks.

Bill would permit military malpractice suits

WASHINGTON—The House of Representatives has passed legislation that would allow members of the Armed Forces to sue the federal government for medical malpractice in military hospitals.

H.R. 3174, sponsored by a bipartisan group of more than 80 congressmen, calls for reversal of a 1950 Supreme Court ruling barring lawsuits against the federal government by active-duty servicemen. Servicemen's dependents can by law file such suits. But the bill prohibits suits charging malpractice as a result of treatment received in combat situations.

The Reagan administration and the Pentagon oppose the bill on grounds that suits by active-duty servicemen could hamper military discipline and allow involvement of civil courts in a review of military command decisions.




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THE
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Fred S. James names Nevins to new posts

comings & goings: industry

Robert C. Nevins, 51, has been named executive vp and chief operating officer of Fred S. James & Co. Inc. in New York.

Mr. Nevins, who most recently was responsible for James' West Coast operations, also will maintain an office in San Francisco.



Mr. Nevins

Mr. Nevins, who began his insurance career with the Insurance Co. of North America, joined James as a senior vp in 1983 after the merger of James and Dinner Levi-son Co., an independent San Francisco brokerage where he had been executive vp and a member of the company's executive committee.

Mr. Nevins described his new post as "a challenge and an opportunity in today's difficult and changing insurance marketplace." He added that he looks forward to directing the company's efforts to insure a high level of client service, create new products and continue professional development of James employees.

Other agent/broker changes:

Walter L. Harris named president and chief executive officer of Tanenbaum-Harber Co. in New York. Mr. Harris, who joined the brokerage seven years ago as its legal counsel and executive vp, becomes the seventh president of the 125-year-old company.

Warren B. Huey named vp and general manager of Moore & Povenz Metro Inc. in Mount Clemens, Mich.

Roger M. Simpson Jr. named to the newly created position of senior vp-product and service development at Rollins Burdick Hunter Co. in Chicago. Mr. Simpson previously was senior vp-Central region and president of subsidiary Rollins Burdick Hunter of Illinois Inc.

John A. St. George named vp-employee benefits division at Near North Insurance Agency Inc. in Chicago. Mr. St. George formerly was employed by Connecticut General Insurance Co. Also at Near North, **Steven Coleman** named vp and head of the agency's newly formed Settlement Planning Associates division. Mr. Coleman previously owned his own company.



Mr. Higgins

George J. Higgins named president of the American Business Insurance Agency in Kansas City, Kan., an agency of San Francisco-based ABI Management. Also, **Ralph E. Aulenta** named president of the American Business Insurance Agency in Schaumburg, Ill., and **Laurent R. Leventure** named president of American Business Insurance Agency in Minneapolis.



Mr. Aulenta

Jerry Conrad appointed vp of agencies for MSI Insurance in Arden Hills, Minn. Mr. Conrad has been with the company 18 years.



Mr. Laventure

Several executive appointments have been made

at various offices of New York-based Johnson & Higgins. They include: **Peter A. Shoudy** and **Edward J. Buchwald** named senior vps at J&H of Washington Inc.; **Marvin C. Anderson**, **John L. Treadway** and **Keith L. Reid** named senior vps at J&H of California. **Michael Guerin** and **Roy T. Johnson** named senior vps of J&H of Pennsylvania Inc.; **John**

W. Gussenhoven named senior vp at J&H of Michigan Inc.

Also named senior vps in J&H's New York headquarters: **Robert F. Bauer**, **Martin L. Rayner**, **Dennis B. McKoy**, **Arthur Crooks Eddy**, and **Edward A. Effrat**.

Excess/surplus

Los Angeles-based Swett &



Mr. Roehrig



Mr. Wartick

Crawford Group has appointed seven executives to senior management positions. Named senior vps

were **P. Kenneth Nitz**, **W. Dana Roehrig**, **Warren S. Stanley**, **Ronald D. Wartick**, **Peter A. Wilkens** and **Donald J. Tarrence**. In addition, **John R. Hartman** recently has been appointed president of Swett & Crawford Group's Appleton & Ccx



Mr. Hartman

Continued on next page



Continued from previous page
 division. Mr. Nitz joined Swett & Crawford as vp and was named Los Angeles branch manager in 1979. Mr. Roehrig, co-founder and president of Roehrig & Associates, the broker's Florida-based unit, will continue working in the company's St. Petersburg, Fla., office. Mr. Stanley, who joined Swett & Crawford's IWes: Insurance Managers in 1973, will continue at the company's San Francisco office. Mr. Tarrence, who joined Swett & Crawford in 1977, will continue in the company's Dallas office. Mr. Wartick, president of Swett & Crawford's J.H. Crowther Inc., will continue to be based in Minneapolis. Mr. Wilkens, who joined the

company in 1981, is based in New York. And, Mr. Hartman will be based in Appleton & Cox's Minneapolis office.
 Also at Swett & Crawford, **Thomas S. O'Brien** named president of Chicago-based Swett & Crawford of Illinois Inc. and senior vp of Swett & Crawford. Mr. O'Brien had previously been president of Stewart Smith Mid-America in Chicago.
Allan N. Young named vp-claims administration at L.W. Biegler Inc. in Chicago.

Reinsurance

George T. Derfus named senior vp of Herbert Clough Inc. in Stam-

ford, Conn., a member of the General Re Group. Mr. Derfus, who joined the company 25 years ago, most recently served as vp.
Joe E. Cook Jr. named vp-facultative casualty at Mead Reinsurance Corp. in Dayton, Ohio. Mr. Cook, who joined the company in 1984, most recently was assistant vp-facultative casualty. Also at Mead Re, **Floyd R. Radach** promoted from actuary to vp and actuary. Mr. Radach has been with the company since 1984.
Kenneth R. Fewell named senior vp and manager of the Atlanta branch of New York-based Intere Insurance Intermediaries Inc. Mr. Fewell joined the company in 1981 and most recently served as vp and

manager of the Atlanta branch. In addition, Assistant Vps **Ronnie Matalon** and **Linda Platzer** promoted to resident vps in Intere's New York office.
Arthur J. Mella named senior vp-claims at Reliance Reinsurance Management Inc. in Philadelphia, an affiliate of the Reliance Insurance Co. of Philadelphia. Mr. Mella previously served as vp-claims at Skandia America Reinsurance Co.
Robert K. Peglar named president and manager of the New York office of John F. Sullivan Co., a Seattle-based reinsurance intermediary. Mr. Peglar has been with Sullivan's New York office since 1981.

Insurers

Lawrence W. Fisher named vp at New Hampshire Insurance Co. in Manchester, N.H. Mr. Fisher will be responsible for analysis, development, implementation and support of information systems for parent company New Hampshire Insurance Group.
Dr. Stuart Teague named vp and medical director of Home Life Insurance Co., a member of New York-based HL Financial Group. Dr. Teague succeeds **Dr. Robert Oehrig**, who retired this year.
John H. McCue named senior vp at New York-based The Home Insurance Co. Mr. McCue, head of The Home's New England Division and profit center manager of the Boston office, joined the company in 1983 as vp and profit center manager.

Frank J. Suppe appointed vp and chief engineering officer at Arkwright-Boston Manufacturers Mutual Insurance Co. in Waltham, Mass. Mr. Suppe had been assistant vp and regional engineering manager at Arkwright-Boston's Eastern regional headquarters in Malvern, Pa., since 1984.

Other suppliers

Drake Ratcliff promoted to executive vp at claims adjuster Toplis & Harding Inc. in New York.
Neville W. Duvall joins The Structured Settlements Co. in Los Angeles as a consultant. Mr. Duvall previously was vp-claims at Transit Casualty Co.
Peter H. Bickford joins the New York law firm of Calinoff & Katz, which specializes in insurance law, reinsurance law and product manufacturers' defense. Mr. Bickford previously was vp, general counsel and secretary of the New York Insurance Exchange.
David C. Landin named senior vp at Yeager & Co. Inc. in Southfield, Mich., an administrator of self-insured workers compensation, group health and liability insurance programs. Mr. Landin previously was vp.
Richard E. Brown joins employee benefit and compensation consulting firm William M. Mercer-Meidinger Inc.'s Los Angeles office as a senior consultant. He's been involved over the past 15 years in development and management of alternative health care cost delivery systems.

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"We wrote the book"

Scott Paper names Carangi as corporate risk manager

comings & goings: buyers

Kathleen G. Carangi, 31, has been named corporate risk manager at Scott Paper Co. in Philadelphia. She will be responsible for administering the company's liability and workers compensation insurance programs. She will also administer risk management programs for several of the company's plants and mills. Ms. Carangi, who reports to Director of Risk Management C. Robert Lindahl, replaces **John Polakovic**, who is now director of risk management at RCA Corp. in Princeton, N.J. Ms. Carangi previously was corporate risk manager at IU International Corp. in Philadelphia. She received a bachelor's degree in business administration from Temple University in Philadelphia and a master's degree in business administration from Philadelphia College of Textiles and Science. Ms. Carangi also has been named to the board of directors of the Delaware Valley Chapter of the Risk & Insurance Management Society. In addition, Ms. Carangi is a member of RIMS' 1986 National Conference Planning Committee.

Claire Caithamer, 30, has been named vp-human resources at L.W. Biegler Inc. in Chicago. In this newly created position, Ms. Caithamer will be responsible for all personnel and human resource functions, including employee benefit and salary administration, training and manpower development. She will report to Walter L. Mueller, senior vp/chief administrative officer. Before joining Biegler, Ms. Caithamer was assistant compensation manager at Allstate Insurance Co. in Northbrook, Ill. She most recently was on special assignment, working as a staff assistant in the corporate personnel department at Sears, Roebuck & Co., Allstate's parent company. Ms. Caithamer has a bachelor's degree in biology from Ripon College in Ripon, Wis. In addition, she is a member of the American Compensation Assn.

Douglas S. Kasten, 37, has been named director of risk management at Northern Telecom Inc., a telecommunications company in Nashville, Tenn. Mr. Kasten, who will be responsible for administering all of the company's risk management functions, reports to Treasurer Robert H. Berry and has replaced **Robert Hiatt**, who left the

company. Mr. Kasten has a bachelor of science degree in commerce from the University of Louisville in Louisville, Ky., and a master of business administration degree from The College of Insurance in New York. In addition, he holds the Chartered Property & Casualty Underwriter and Associate in Risk Management designations. Mr. Kasten is a former member of the board of directors of the New York chapter of the Risk & Insurance Management Society, serving as vp-education.

Several risk management and employee benefit appointments

have been made at LyphoMed Inc., a pharmaceutical manufacturer based in Melrose Park, Ill. **Edward A. Khamis**, 33, currently director of human resources, will also take on responsibilities for the company's risk management programs. He will be responsible for administering all property/casualty insurance programs, including product liability, business interruption and workers compensation, as well as the company's self-insured medical benefits program. He will report to John Kapoor, the company's chairman and president. Before Mr. Khamis took on his new duties, the company's risk management program was handled by an outside consultant. Mr. Khamis has a bachelor's degree in psychology and education from Milton College in Milton, Wis., and a master's degree in human resource management and development from The National College of Education in Evanston, Ill.

Doris Rogers, 46, has been promoted to manager of benefits and payroll at LyphoMed. In this newly created position, Ms. Rogers, who previously was supervisor-payroll and bene-

fits, will be responsible for handling employee benefit and payroll functions. Ms. Rogers, who will report to Mr. Khamis, has a bachelor's degree in education from Judson College in Marion, Ala., and a master's degree in human resource management and development from The National College of Education.

Bill Mader, 29, has been named research and development/safety compliance officer at LyphoMed. In this new position, Mr. Mader will develop safety programs and procedures needed to assure that company practices comply with Occupational Safety & Health Administration regulations. Mr. Mader also will oversee the company's training of supervisors in standard operating procedures and product handling. He will report to Abu Alam, director of research and development. Mr. Mader has a bachelor of science degree in pharmacy from the University of Illinois.

William Frawley, 41, has been named director of corporate risk management at First National Supermarkets Inc. in Windsor Locks, Conn. Mr. Frawley will be responsible for administering First National Supermarkets' safety, self-insured claims management and property and casualty programs. He reports to Donald DeSantis, vp-finance for First National Supermarkets, and replaces **Ray Lebert**, who has joined Fred S. James & Co. Inc. in Hartford, Conn. Before joining First National Supermarkets, Mr. Frawley held a risk management position at Carlson Cos. Inc. in Minneapolis. He holds a bachelor's degree from the University of Wisconsin-Eau Claire.

We'd like to report on staff changes in your company's risk management, safety or employee benefits department. Just drop a note to Marla Antelis, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611, or call 312-649-5282. Please send a photograph, too.

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Programs seek to cut psychiatric care costs

Parkside Medical Services Corp. and Integra Inc. have developed separate programs designed to minimize the cost of employer-funded mental health care benefits.

The Psychiatric Case Management Program, offered to employers as a component of Parkside's Managed Care Services, provides pre-certification of both inpatient and outpatient mental health treatment, discharge planning and after-care monitoring of all psychiatric disorders.

The program is available nationwide to employers with 500 or more employees.

The program can be coordinated with any type of health care plan, including health maintenance organizations and preferred provider organizations.

The monthly cost to employers ranges from 50 cents to 60 cents per employee. Employers also can pay on a per-case basis.

For more information about the program, contact Gloria Tavares at Parkside Medical Services Corp., 205 W. Touhy Ave., Park Ridge, Ill. 60068; 312-698-4700.

Integra Inc.'s new HealthCap PPO program is designed to help contain the costs of employer-funded mental health and substance abuse treatment.

HealthCap screens patients prior to hospitalization to determine whether inpatient treatment is necessary.

When the treatment is required, the program selects the most cost-effective mental health center that belongs to the PPO.

HealthCap also monitors a patient's treatment, seeking placement in a less-expensive, alternate setting when hospitalization is no longer required.

Participating medical facilities nationwide generally will give discounts of at least 20% and waive any insurance deductible, according to Dr. Peter Brill, president of Integra.

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For additional information about the program, contact K.C. Baldadian at Integra Inc., 3910 Chestnut St., Philadelphia, Pa. 19104; 215-662-4080.

ESOP publication

Employee stock ownership plans, their potential impact on both employers and employees and applicable government regulations are reviewed in the second edition of "ESOP—The Employee Stock Ownership Plan," a book published by Commerce Clearing House.

The 296-page book was written by attorneys Harry F. Weyher and

Hiram Knott, who specialize in employee benefits.

The book was designed to assist employers and others responsible for communicating employee benefit information.

The publication focuses on ESOP questions and problems regarding the Employment Retirement Income Security Act and other employer-related concerns.

Also included are a historical introduction, an analysis of various ESOPs, discussion of the consequences of setting up a plan and the role of ESOPs in leveraged buyouts and in a defense against a hostile takeover.

In addition, an appendix covers

the ESOP provisions contained in the Reagan administration's tax proposal.

Single copies are available at a cost of \$30. Order from Commerce Clearing House, 4025 W. Peterson Ave. Chicago, Ill. 60646; 312-583-8500.

Hazard communication

The Occupational Safety and Health Administration is offering employers audiovisual training materials developed for its own compliance officers to help companies comply with the agency's new hazard communication standard.

The training program also is suitable as a general introduction to training employees in how to deal with specific chemical hazards in the workplace, said Patrick R.

Tyson, acting assistant secretary of labor.

"An Introduction to the Hazard Communication Standard: 29CFR 1910.1200" highlights major provisions of the hazard communication standard, including the standard's scope; definitions; hazard determinations; written hazard communication programs; labels; material safety data sheets; employee information and training; and trade secrets.

Under OSHA's 1983 hazard communication standard, chemical manufacturers, distributors and importers must assess the chemicals they produce or import and pass that information along to their customers by Nov. 25.

The standard also requires manufacturing employers in Standard
Continued on next page

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Continued from previous page

Industrial Codes 20-39 to provide information on the hazards of the substances in the workplace to their employees by May 25, 1986 (BI, Sept. 30).

The hazard standards training program, which includes audiovisual materials and a script, can be purchased in one of four formats: slide/tape (Order #A14615, \$95); ¼-inch tape (Order #A14628, \$110); ½-inch VHS tape (Order #A14629, \$110); and ½-inch Beta tape (Order #A14630, \$110).

To order write the National Audiovisual Center, Washington, D.C. 20409.

Health care manual

"The Jaymar Health Resource Book" is a reference and teaching manual for those that must communicate information about health benefits.

Group Computer Systems Inc.'s 825-page looseleaf publication details the contracts and practices of health care plan sponsors, the obligations and requirements of agents and applicable state and federal laws pertaining to individual and group health and disability insurance contracts.

Health maintenance organizations, preferred provider organizations, the federal Medicare program and other types of health care plans also are explained in the publication.

A subscription to the publication, which includes quarterly updates and an editor's letter, costs \$495 the first year and \$238 annually thereafter.

To order, contact Publisher, Group Computer Systems Inc., 5100 N. Sixth St., Fresno, Calif. 93710; 209-236-6301.

Loss-analysis software

3R Co. has introduced Triangle Analysis, a loss-reserve analysis software program that is designed for risk managers, brokers and actuaries.

Under the software program, information regarding the number of claims paid to date, in addition to the amount reserved for other claims, is input into a computer to analyze and chart incurred loss de-

velopment for a particular policy year.

Paid loss development can be charted by inputting only the amount of claims paid.

The software also can combine several years of analysis on a single chart, providing a means by which to project future losses and extract information on incurred-but-not-reported losses, according to Joseph A. Rinaldi, who developed the program.

The program also can generate retrospective premium adjustments and can project a company's future liability insurance based on past losses and premium expenses, he said.

And, for claims-made policyholders, the program is designed to measure tail exposures.

The program runs on all IBM computers; however, it can be modified for use with other computer systems.

The cost of the program is \$995. For additional information or to order, contact the 3R Co., 39 Bowman Lane, Kings Park, N.Y. 11754; 516-265-1796.

401(k) information kit

A communication kit designed to help employers explain 401(k) salary deferred savings plans to employees is available to John Hancock Mutual Life Insurance Co. policyholders.

The 401(k) plan kit, designed by Hancock's Benefit Communication Services division, features 14 components, including artwork for a brochure, a slide presentation, payroll stuffers, posters, direct mail information, enrollment forms and a telephone hotline to call with questions.

Instructions for production supervision, printing and distribution are also included.

The information can be modified if Congress changes 401(k) plan regulations, according to a John Hancock spokesman.

The cost of the communication kit is \$449.

In addition, the company also offers employers a 401(k) enrollment meeting leader's manual, which is customized to meet the employer's plan specifications.

The leader's manual, which costs

\$235, explains how to organize meetings and increase 401(k) plan enrollment and includes a sample script for an audiovisual presentation.

For more information on the kit or the manual, contact the insurer at 617-421-3986.

10K disclosure report

"SEC Loss Reserve Disclosures—1984," a compilation and analysis of new loss-reserve disclosures in property/casualty insurers' 10-K forms filed with the Securities and Exchange Commission, has been published by consultant Tillinghast, Nelson & Warren Inc.

The report facilitates comparisons between insurers on the basis of past loss-reserving performance, stated reserving practices, underwriting experience and quality of their disclosures.

The data base for the study comprises 55 publicly held property/casualty insurers of all sizes, encompassing more than half of the domestic stock property/casualty insurers' aggregate loss reserves and more than one-third of the total domestic property/casualty industry's reserves.

Data from the 20 largest publicly held property/casualty insurers are included.

As appendix to the report contains the numerical submissions of individual companies, as well as industry totals.

Individual responses to SEC-specified discussion topics, including loss reserve portfolio transfers and loss reserve discounting, are also summarized in a table.

The volume costs \$400 for a single copy; additional copies are \$100 each.

Personal computer diskettes containing both individual and combined companies' tables in LOTUS 1-2-3 format are available at a cost of \$100 to those purchasing the report.

For information or to order, contact Lisa Chanzit at Tillinghast, Nelson & Warren Inc., 1 Mill Pond Lane, Simsbury, Conn. 06070-2486; 203-651-3761.

Hazard training program

A four-module audiovisual training series on hazard communication has been produced by Industrial Training Systems Corp. of Marlton, N.J.

The "Hazard Communication" series consists of:

- "To Your Health," which defines industrial hygiene terms and explains the basics of industrial hygiene to workers.

- "What You Don't Know Can Hurt You," which explains the fundamental concepts of toxicology and teaches employees that "an ounce of prevention is worth a pound of cure."

- "What's It All About?" which informs employees about the Occupational Safety and Health Administration requirements for chemical evaluation, hazard determinations, warning labels, material safety data sheets, written hazard communication plans and work area specific training.

- "The MSDS: Cornerstone of Chemical Safety," which provides employees with an understanding of the importance of the material safety data sheet in hazard communication programs. It also provides an overview of the elements of an MSDS.

The complete series is available in slide/tape or any video format and sells for \$1,245.

Modules also may be purchased individually.

Each of the four parts features a comprehensive leader's guide that includes discussion topics and a reproducible quiz.

All programs are available on a five-day preview for a fee of \$20 per module.

Continued on next page

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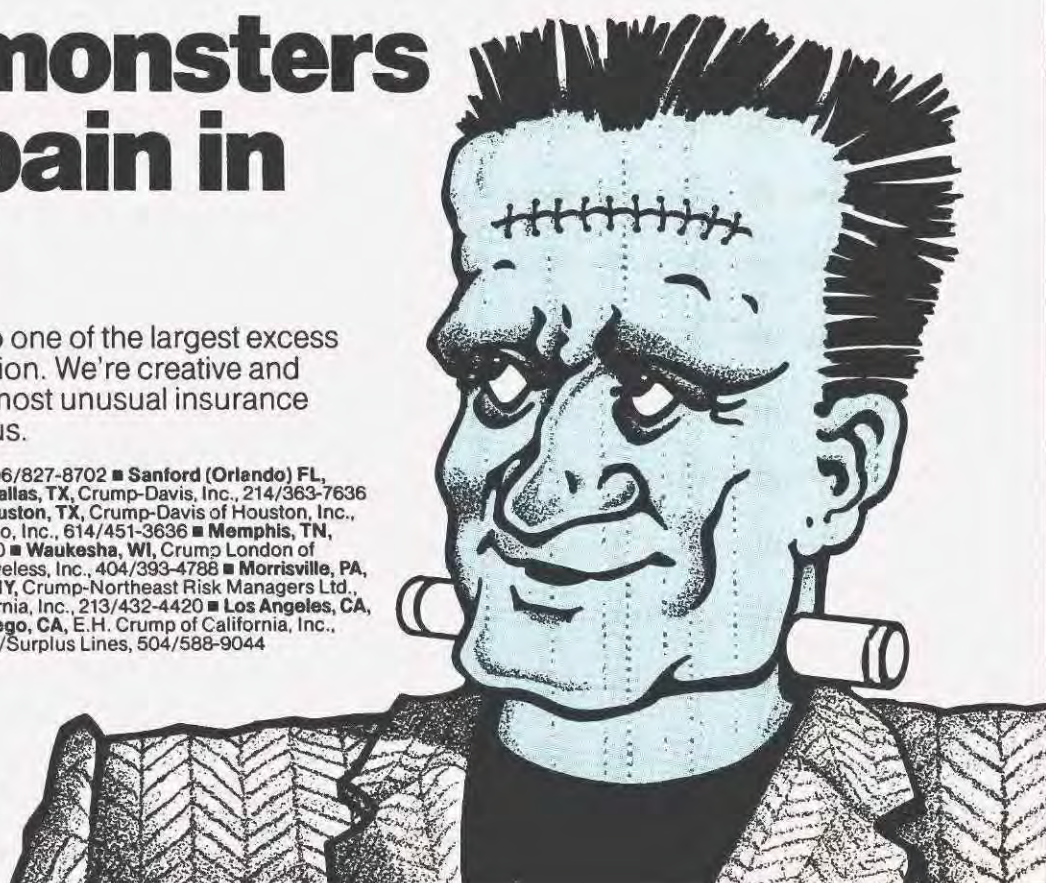
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Continued from previous page

In addition to the four-part audiovisual series, Industrial Training Systems Corp. also has introduced a two-volume "Hazcom Manual." The manual serves as a guide for supervisors who are responsible for establishing a hazard communication program.

For additional information, contact Tina Stover at Industrial Training Systems Corp., 20 W. Stow Road, Marlton, N.J. 08053; 800-922-0782.

Structured settlements

A new structured settlement tool has been introduced by The Mangelsdorf Cos. in Dallas to pay a personal injury victim's special expenses as they occur.

The Mangelsdorf Settlement Trust is a trust created between the defendant as donor and the Massachusetts Co. Inc., a Boston-based trust company, as trustee.

The funding for the settlement

trust will come from the defendant at the time of settlement.

In addition, supplemental funding may be arranged at the time of settlement.

The trust is designed to supplement an insurance company annuity to provide payments that meet claimants' special needs that cannot always be determined when a settlement and periodic payments are negotiated.

The type of expenses covered by the trust would include doctor bills, rehabilitation therapy, X-rays, bills for hospital stays, educational costs and family emergencies.

However, covered expenses are not limited to these types of expenses.

The trust also contains a "spendthrift clause." The "spendthrift" clause would prevent any creditors of the claimant or his or her family from attempting to attach their claims to the trust.

Assets in the settlement trust will be invested by The Massachusetts

Co.

And, Mangelsdorf, which acts as broker for the Massachusetts Co., charges no fees to clients for its service.

For additional information about the Mangelsdorf Settlement Trust, call Pamela Drake, Director of Marketing, The Mangelsdorf Cos., 8340 Meadow Road, Dallas, Texas 75231; 800-527-2388; or 800-442-6138 in Texas.

Group term life plan

A voluntary group term life insurance plan that allows employees to purchase insurance through payroll deductions has been introduced by Unionmutual in Portland, Maine.

With "The Lifestyle Protection Plan," which is fully employee-paid, an employer can offer employees the level of insurance coverage that best meets their individual needs without increasing the employer's benefit costs, according

to Unionmutual.

Employees who are enrolled in the plan, which is marketed through Unionmutual Stock Life Insurance Co. of America and Unionmutual Stock Life Insurance Co. of New York, can change the terms of their life insurance coverage annually and are charged unisex group rates.

In addition, participating employees have the option of maintaining their life insurance coverage at the same group rates even after they leave the company, Unionmutual says.

The Lifestyle Protection Plan offers various features, including discounts for non-smokers and an optional survivor benefit. The optional survivor benefit provides extra security by allowing a two- or five-year extension of coverage for enrolled family members of deceased employees.

It also offers "age-banded" rates, in which premiums are averaged over a five-year period.

Those falling within the specified age group pay these average rates, which are guaranteed for three years.

Employees participating in the plan can elect life insurance coverage in \$10,000 increments up to four times their annual salary. The maximum insurable amount is \$300,000.

Employees also can purchase coverage for their spouses in \$5,000 increments up to 50% of the amount of their own coverage.

And, coverage for children can be purchased in \$2,000 increments up to a maximum of \$10,000 per covered child.

Depending on the number of eligible employees and the participation level, up to \$150,000 of employee coverage and \$75,000 of spouse coverage can be purchased without a physical examination requirement.

For information about the plan, contact any Unionmutual sales office.

Fewer elderly enter hospital

The sharpest decline ever in admissions of patients aged 65 or over led to a substantial drop in all hospital admissions in the second quarter of 1985, according to the American Hospital Assn.'s National Hospital Panel survey.

The AHA attributes the decline in admissions to an increase in outpatient care.

Admissions of patients 65 years old or over totaled 2.7 million in the second quarter, a 7.6% drop compared with the same period in 1984 and a 4.6% drop from the first quarter of 1985.

For the first half of 1985, admissions of the elderly totaled 5.6 million, a 6.2% drop from the first half last year.

Total admissions during the second quarter were 8.6 million, a 5.8% decline compared with the same period in 1984 and a 1.6% decline from 1985 first-quarter admissions.

Total admissions for the first half of 1985 totaled 17.5 million, reflecting a 6.2% drop from the first half of 1984.

Meanwhile, outpatient care has surged, with visits totaling 61.8 million in the second quarter, up 4.5 million from the previous quarter, according to the AHA.

As a result of the second-quarter surge, outpatient visits in the first half of 1985 increased nearly 2.9 million compared with the same period last year.

Despite the decline in admissions in the second quarter, hospital expenses rose 1.9% from first quarter expenses, according to the AHA.

The sharp climb in outpatient care, combined with fewer staffing reductions than in previous quarters, spurred the increase, according to the AHA.

However, the growth in the average cost per case slowed in the second quarter. The average cost rose a seasonally adjusted 2.7%, compared with 3.5% during the first quarter.

Lincoln National earnings increase

FORT WAYNE, Ind.—Operating earnings at Lincoln National Corp. grew nearly 27% in the third quarter to \$50 million, compared with \$39.5 million in the third quarter of 1984.

Nine-month operating income rose 19% to \$134.2 million from \$112.7 million in the corresponding period of 1984.

The company attributed the increases to a significant recovery in its property/casualty operations and excellent results from Lincoln National's group life and health business.

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State actions

Continued from page 2

adopted a measure to create a Select Committee on Affordability of Insurance.

The committee's task is to identify problems related to the tight insurance market—especially problems confronting small businesses and municipalities—and devise solutions for the Legislature to consider in its next session, beginning in January.

The committee held its first meeting Oct. 30 and has scheduled a second meeting for Tuesday in Chicago.

A proposal to create a similar panel in the House was expected to come up for a vote last week. The speaker of the House also has appointed three legislators to head a task force to handle insurance complaints from businesses (BI, Oct. 14).

In addition, the General Assembly enacted an amended version of S.B. 907 introduced by Rep. Terry Steczo, D-Country Club Hills, that prohibits arbitrary or unilateral cancellation of commercial property/casualty insurance policies that have been in effect for at least 60 days.

The bill allows policy cancellations only in the cases of non-payment of premium, material misrepresentation, violation of policy terms or conditions, a substantial increase in the originally accepted risk, loss of reinsurance or a determination by the state insurance director that continuation of the coverage would be in violation of Illinois insurance laws.

The measure was passed Oct. 31 and immediately went into effect when signed by Gov. Thompson Nov. 1.

"Everybody realizes there's a problem; we've been hearing about it since our July adjournment," Rep. Steczo said.

This measure does not solve all the state's insurance-related problems, he said, but it does address abusive midterm cancellations.

The Illinois Department of Insurance also has announced the creation of a market assistance program called the Illinois Insurance Assistance Program.

Several organizational meetings already have been held and another is scheduled for Nov. 18. The program is expected to be operating by Dec. 1 and will offer all types of commercial coverage.

In a market assistance program, insurers join together to help provide types of coverage that are unavailable in the marketplace or cannot be obtained at reasonable prices.

"It's a voluntary mechanism to steer off some bad legislation for pools," said Robert Heisler, an assistant deputy director with the Illinois Insurance Department.

Several Illinois legislators have suggested the creation of assigned risk pools to address the availability crunch.

Mr. Heisler said the advantage of market assistance programs is that they only operate as long as they are needed.

Illinois and several other states set up MAPs for product liability insurance in the 1970s, he said.

Pennsylvania also plans to use an MAP. Its program, designed to assist municipalities, day-care facilities and establishments that serve alcoholic beverages, is expected to be operating by the end of this week.

The voluntary plan has the support of insurers, said Thomas Buzby, assistant to Pennsylvania Insurance Commissioner George F. Grode.

"According to the MAP that we're generating, these risks (municipal liability, day-care liability and liquor liability) will be written under existing rate structures and existing underwriting standards," Mr. Buzby said.

In a letter last month to chief executive officers of property/casualty insurers, Mr. Grode said: "Pennsylvania's citizens and municipal officials deserve to know that insurance coverage is available for the services provided by their municipal governments.

"Operators of day-care centers, who provide valuable service to families and the business community, must continue to benefit from an opportunity to obtain liability insurance protection," the letter said.

"Tavern owners should not have their businesses and place in the free enterprise system threatened by the unavailability of liability insurance," he said.

Mr. Grode urged all insurers issuing liability policies in Pennsylvania to commit to active participation in the MAP "to demonstrate the industry's willingness and ability to respond effectively to the present availability problem."

New Hampshire also has estab-

'We don't expect any lack of cooperation,' says a spokesman for the Georgia department.

lished a market assistance program. The program, which began operating Oct. 1, is designed to help buyers find municipal, day-care and liquor liability coverages.

Other states are looking for other solutions to the problems of insurance unavailability and unaffordability.

For instance, Ohio Gov. Richard F. Celeste signed an emergency regulation Oct. 23 that prohibits insurance companies from canceling commercial property, casualty or fire insurance policies. The order took effect immediately.

The Ohio regulation applies to commercial policies written by ad-

mitted and surplus lines insurers, but exempts personal lines coverages, according to Wayne Jones, Insurance Department deputy director.

Georgia Commissioner Evans issued a directive Oct. 30 concerning notices of renewal or non-renewal for both personal and commercial coverages.

"I have been informed by some business concerns that, due to the increase in the insurance premiums, it has become difficult for them to adjust their budgets to accommodate this increase and they do not have sufficient time to review their insurance programs to make any coverage changes," Mr. Evans said.

"Therefore, it is requested by this department that in all possible cases the lead time for premium renewal notices and non-renewal notices sent to the insured be at least 60 days," he said.

Mr. Evans also noted in the directive that midterm cancellations

are appropriate "only on an individual basis."

If a risk or policy produces an unacceptably high loss ratio, all reasonable methods of risk improvement should be addressed by the insurer, he said, adding that cancellation of the policy should only be used as a last resort.

"In no case where the risk is substantially the same as originally presented should the rate be increased from that at policy inception," he said.

The Georgia Insurance Department will view as unfair trade practices any chronic instances of providing short lead times for renewal premium notification or non-renewal action or the use of midterm cancellation and midterm premium increases, the directive said.

"We don't expect any lack of cooperation," said a department spokesman. "No one has been chronically doing it, but we had run into isolated cases."

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Tax action

Continued from page 1
401(k) plans.

- Limit the use of the plans by tax-exempt employers, like state and local governments.

- Impose a 10% tax on assets employers recover when they terminate overfunded defined benefit plans.

In the lone victory for employers, the committee rejected imposing new non-discrimination rules on pension plans, agreeing instead to have the Treasury Department study the issue.

But, the committee still could impose non-discrimination rules on welfare benefits, like health insurance, when it tackles those benefits this week or next week.

Last week's committee action on benefit issues only involved pension and savings plans.

Benefit lobbyists last week nervously paced the long, dimly lit corridors of the Longworth House

Office Building where, behind immense closed doors, the Ways and Means Committee voted on the pension provisions.

When the results of the voting were made known, the lobbyists were angry.

"They are destroying the attractiveness of retirement savings programs," said Mark Ugoretz, executive director of the ERISA Industry Committee in Washington.

"What does any of this have to do with simplicity and reform," which was the committee's original goal in writing comprehensive tax legislation? asked Stuart J. Brahs, executive director of the Washington-based Assn. of Private Pension and Welfare Plans.

He said the committee singled out employee benefits as an area in which revenues can be increased, while it has preserved or created tax preferences in other areas.

The pension and savings plan changes, approved by the committee Nov. 6, are designed to raise \$18

billion in new revenues over the next five years, committee staffers said.

The cuts made to maximum pension benefits and contributions were linked to the 401(k) changes, committee staffers said at a press briefing after the voting.

They noted that the committee was anxious to preserve 401(k) plans, which the Reagan administration had proposed eliminating, but noted that revenue had to be found to pay for the continuation of 401(k) plans. Slashing maximum pension limits will raise \$1.5 billion over the next five years, the staffers said.

However, benefits experts say the new limits will force companies to provide promised benefits that exceed these limits through excess pension plans.

Excess plans, unlike qualified plans, are not advance-funded. Employer contributions are made only when benefits are paid, so benefits are more costly to provide because

there is no interest income.

In addition, tax deductions are taken only when the benefits provided by these plans are paid.

Since there are no pre-funded assets in the plan, the benefits are less-secure for the employees.

Benefit experts add that 401(k) plans, now offered to about 20 million people, will lose much of their appeal if the Ways and Means Committee's proposal is made law.

In addition to lowering the maximum annual deferral limit to \$7,000, employee contributions to an IRA would be offset dollar-for-dollar by 401(k) deferrals. For example, if a single employee deferred \$1,000 of salary to a 401(k) plan, he or she could only contribute \$1,000 to an IRA.

Under current law, 401(k) deferrals have no effect on an employee's IRA contributions.

The committee also approved a new, more restrictive and complicated non-discrimination test for 401(k) plans.

Under the new test, plan discrimination would be tested by comparing deferrals made by highly compensated employees with deferrals made by lower-paid employees. Highly paid employees would include:

- Employees who own 5% or more of a company.

- The 10 employees who own the largest percentage of a company and whose income exceeds \$30,000.

- Employees earning more than \$50,000.

- The top 10% of employees based on salary, excluding employees earning less than \$20,000 and employees earning less than \$35,000 who are not among the top 5% in compensation.

- Family members of the 10 highest-paid employees.

This lengthy definition of highly compensated employees contrasts sharply with the current non-discrimination test, which simply compares deferrals made by the highest-paid one-third of a company's employees to deferrals made by lower-paid workers.

In addition to expanding the definition of highly paid employees, the committee approved making the actual deferral percentage test more strict.

Under the tests adopted, the average salary deferral elected by the highly compensated group could not exceed the greater of two amounts:

- 125% of the average deferral percentage (ADP) of the lower-paid employees.

- The lesser of 200% of the ADP of the lower-paid workers or the ADP of the lower-paid employees plus 2%.

Under the latter test, if the ADP among lower-paid employees was 3%, the maximum ADP for the higher-paid group would be 5%.

Under current non-discrimination tests, the average deferral by the higher-paid one-third cannot exceed the greater of:

- 150% of the ADP of the lower-paid two-thirds.

- 250% of the average deferral among the lower-paid two-thirds as long as the difference between the average deferral of the two groups does not exceed 3%.

The committee also accepted a staff option that recommended that employer matching contributions be considered in the discrimination tests and that created separate tests for contributions that are not immediately vested (BI, Oct. 7).

Under current law, employer contributions can be included in the discrimination tests at the discretion of the sponsor. Otherwise, such contributions only have to meet very general non-discrimination guidelines.

The committee upheld so-called pre-retirement hardship withdrawals of funds from 401(k) plans. However, employees who withdraw funds before age 59½ for a hardship—defined as the purchase of a primary home, catastrophic medical expenses or children's educational expenses—must pay a 15% excise tax on the withdrawn funds.

"You're punishing people who really need the money," Mr. Ugoretz said.

In addition, the committee proposed that only tax-exempt employers that have received Internal Revenue Service approval as of Nov. 6, can sponsor 401(k) plans.

The administration had recommended that tax-exempt employers not be allowed to offer 401(k) plans.

The committee also voted to have the Treasury Department study whether new non-discrimination rules are needed for qualified pension plans. The study would be due by July 1, 1986.

Some benefit experts say Ways and Means could send a tax bill to the House floor by the end of the month. But, even so there probably wouldn't be time for Senate action this year.

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Legislator may propose end to cafeteria plans

By JERRY GEISEL

WASHINGTON—A California congressman may propose wiping out cafeteria benefit plans as part of the comprehensive tax bill now being hammered out by the House Ways and Means Committee.

As part of a benefit-for-benefit swap, Rep. Fortney (Pete) Stark, D-Calif., is prepared to recommend repealing the section of the Internal Revenue Code that allows employers to offer the plans. In exchange, the House Ways and Means Committee would reject a staff option that would tax employees on employer premium contributions for the first \$50,000 of term life insurance.

Rep. Stark was not available for comment, but his staff confirmed that he intends to make the proposal if necessary. He is a pivotal member of the Ways and Means Committee, with widely recognized expertise on insurance and employee benefit issues.

Sources say the swap could be proposed if another committee member, Rep. Charles Rangel, D-N.Y., proposes to retain Section 79 of the tax code, which allows companies to provide up to \$50,000 of term life insurance tax-free to employees.

If the committee rejects Rep. Rangel's proposal, then Rep. Stark will propose wiping out Section 125—which allows cafeteria benefit plans—in exchange for retaining Section 79.

Section 125 allows employers to offer employees a choice of benefits and cash. It also allows employees to pay for uncovered benefit expenses, like health care deductibles, with pretax dollars.

The swap would at least partially offset revenue that would be generated if Section 79 were repealed. The Joint Committee on Taxation has estimated taxing employees on all employer-provided term life insurance would generate an additional \$9.8 billion in revenue over the next five years.

The amount added to an employee's taxable in-

come under the proposal to tax term life insurance would vary widely, depending on the employee's age and amount of coverage. For example, experts say taxing the value of \$50,000 of employer-provided life insurance would boost a 35-year-old employee's taxable income by only about \$60. But, the proposal would boost the income of a 60- to 65-year-old employee by about \$700.

While it isn't known how much revenue would be gained by wiping out Section 125, a Department of Health and Human Services study published this year said cafeteria plans cost the government billions of dollars in lost revenues (*BI*, May 27).

Dallas Salisbury, president of the Employee Benefit Research Institute, a Washington-based benefits think tank, estimates some 400 employers nationwide offer "full-fledged" cafeteria benefit plans, though he said eliminating Section 125 would partially affect thousands of other plans. Almost all employers offer group term life insurance benefits.

Benefits experts say sacrificing the tax-preferred status of one benefit for another isn't good policy. "It is a revolting game to have to trade one benefit for another," said Peter Hutchings, a partner at benefit consultant Kwasha Lipton in Fort Lee, N.J.

Mr. Salisbury notes that unions would probably accept or do little to oppose Rep. Stark's proposal. Taxing term life insurance would impose a new tax burden on all their members. Employers' positions would depend on whether they have or intend to offer a cafeteria benefit plan. For insurers, it would depend on the importance of group term life insurance to their book of business, observers say.

If Section 79 were repealed, the Internal Revenue Service would develop tax tables to determine how much taxes employees would have to pay on employer-provided life insurance coverage. Tables now exist to determine taxes for employer-provided coverage above \$50,000.

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Claims-made form

Continued from page 2
must be obtained from regulators before a policy form can be used by insurers.

In several other states, however, forms can be used by insurers without regulatory approval, although regulators have the power to reject the form after it is filed (see related story).

While some states do not require hearings to be held on the introduction of a new form, many states have held or will hold hearings to obtain detailed information on how the claims-made form will work and how it will affect the buyers and sellers.

"It's rather unusual that we would call for such a hearing... but this is a situation... a form that could dramatically change the way insurance is procured," said New Hampshire Insurance Commissioner Louis E. Bergeron.

The New Hampshire hearing is set for 9:30 a.m. Nov. 18 in Room 201 of the Legislative Office Building on North State Street in Concord.

The New Hampshire Insurance Department has been acting on the new form since last spring, Mr. Bergeron explained, "by asking ISO questions and asking for revisions."

In addition, Tennessee was scheduled last Friday to hold a hearing on the form.

The form reflects 'one of the most significant changes in insurance in 50 years,' said Mr. Neff.

"This is one of the most significant changes proposed in the insurance industry in the last 50 years," said Tennessee Insurance Commissioner John C. Neff.

ISO already has listed Tennessee among the states where the new claims-made policy is "booked for use"—a term implying consent by the state regulator for the form's use after Jan. 1.

Five other states, according to ISO, are in the same category.

However, Mr. Neff points out that, under Tennessee insurance law, he may disapprove the form before its effective date.

In addition, Mr. Neff also has the authority to disapprove the form after its effective date if a hearing is held.

"But we've chosen to have a hearing now," Mr. Neff said, adding that the department has discussed the form with ISO officials for several months.

In Tennessee, the form may be disapproved if it is "unfair, unjust or discriminatory" to consumers, Mr. Neff said.

ISO list draws complaints from states

The Insurance Services Office periodically reports a running total of states in which the new commercial general liability form will be available for use on Jan. 1, ISO's targeted implementation date.

That list includes states that have officially approved the form as well as states that have no statutory provisions to approve a form and, thus—by absence of regulatory action—are considered to have approved it.

However, some of those states object to being included on ISO's list of states that have approved the form, noting they still can disapprove the form.

Using information provided by ISO, *Business Insurance* incorrectly reported in the Nov. 4 issue

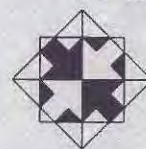
that approval of the new form was guaranteed in six states. ISO said at the time those six states have laws that neither require insurance department approval of the form, nor give regulators statutory authority to reject the form.

However, Carole Banfield, vp of government relations for ISO, noted last week that regulators in all states have some method of disapproving a policy form.

Minnesota was also incorrectly included by ISO in its list. Minnesota, which disapproved the form earlier this year, held a hearing Oct. 23 to discuss whether to reverse that action (*BI*, Oct. 21). The state is not expected to take further action on the form for several weeks.



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Mission units

Continued from page 1
all of them," says one regulator who asked not to be named.

California Insurance Commissioner Bruce Bunner says if Mr. Lindner does not contribute additional capital to MIC, "then very clearly those companies will come down."

Because of intercompany reinsurance pooling arrangements, if MIC is insolvent, these companies are also insolvent, Mr. Bunner explains.

"Lindner is in the driver's seat. A lot depends on what he does or doesn't do. Is he or is he not going to have some commitment in respect to the Old Mission?" he asked, referring to MIC. Mission American is known as "The New Mission."

Mr. Lindner, the wealthy Cincinnati investor, controls MIG and MIC through his American Financial Corp., which owns 49.9% of MIG.

California regulators have been meeting with representatives of Mr. Lindner—but not Mr. Lindner—in pursuit of additional capital, reports Joe A. Morton, deputy insurance commissioner and chief of conservation and liquidation.

In March, Mr. Lindner contributed \$75 million to Mission Insurance Group in two transactions that resulted in the creation of Mission American.

In the first transaction, MIC paid

\$120.5 million in securities to Republic Indemnity Co. of Encino, Calif., another AFC unit, in exchange for Republic's assumption of about half of MIC's existing workers compensation liabilities, estimated at \$158 million. This loss-reserve transfer with Republic enabled MIC to report a \$37.5 million gain in surplus.

In the second transaction, MIG purchased Transport Indemnity Co. in Los Angeles from AFC for a subordinated note of \$37.5 million, the value of Transport's surplus. MIG then contributed MIC's stock, valued at \$54 million, to Transport Indemnity. The resulting entity was named Mission American.

The loss reserves remaining after the transfer to Republic stayed in MIC.

In August, Mr. Lindner agreed to contribute an additional \$40 million to MIG. But that contribution has not been made, say regulators, who aren't sure they can legally enforce such a promise.

The \$40 million from Mr. Lindner would not be enough to put MIC in the black, but, Mr. Morton says, "That would be a start."

However, Mr. Bunner says he suspects that Mr. Lindner has earmarked this \$40 million for the New Mission, "when the company that needs it is the Old Mission."

"That's not going to happen—believe me. I'd hope our commissioner would not allow that," says one California regulator.

Mission American is being

treated as "financially independent" of other MIG companies and isn't taking part in MIG's financial pooling arrangement, according to an Aug. 21 memorandum distributed to agents and brokers.

"It is essentially a brand new company," MIG President Ray D. Johnson Jr. said in the memo. There are "no losses or loss reserves that need to be worried about," he added.

Mission American is the company in which "virtually all" of the group's new and renewal business will be written, he said.

Mission American wrote gross premiums of \$20 million to \$25 million as of September, one regulator estimates.

Accompanied by Mission American's statutory balance sheet, Mr. Johnson's memo touts the company's \$73 million policyholder surplus and a surplus projection of \$103 million.

As of June 30, policyholder surplus was \$62.5 million, according to its second-quarter statement filed with the California Insurance Department.

But Mr. Bunner says Mission American's surplus is now actually closer to \$40 million.

As of June 30, Mission American had net income of \$20 million.

The California Insurance Department seized MIC in the midst of conducting a triennial examination begun this spring.

California examiners and examiners from Kansas, Missouri, Ore-

gon, South Carolina and Texas have worked daily since March 25 examining MIC's books.

They determined that nearly \$59 million that MIC claimed in receivables from non-insurer affiliates—principally two pool managers and Sayre & Toso Inc., MIG's wholesale MGA—should not be recognized as assets.

These receivables, totaling \$58.9 million, chiefly reflect funds MIC and its insurer units have advanced the pool managers to settle claims, and expenses MIC and its subsidiaries have paid on behalf of the affiliates.

"The balances due from the non-insurance affiliates do not meet statutory requirements for admissibility," the report says. "The affiliates do not have sufficient liquid assets to secure the balances. The major assets of the affiliates are reinsurance recoverables which the affiliates are having difficulty collecting. Some of these recoverables are involved in lawsuits, while others will probably end up in litigation or arbitration."

The examiners also found huge losses on reinsurance MIC assumed from two affiliated underwriting managers: Pacific Reinsurance Management Corp., which managed a treaty reinsurance pool; and Mission Reinsurance Management Corp., which managed a facultative reinsurance pool.

MIC and its subsidiary insurers are underreserved for reinsurance losses by \$82.5 million, according to

a reserve analysis by the California department.

Pacific Re and Mission Re, which are running off their business, are embroiled in several lawsuits seeking millions of dollars and rescission of numerous reinsurance agreements.

In the meantime, MIC has paid out at least \$28 million in claims since June on behalf of a group of non-U.S. reinsurers that backed MIC business via the Pacific pool.

The payments were made after MIC agreed to temporarily relieve the reinsurers of their obligations pending the outcome of an independent audit of the pool. MIC intends to be reimbursed these funds after satisfying the reinsurers that the business was handled properly (BI, May 13, May 20).

The regulators estimate that MIC will suffer a combined loss ratio approaching 500% on the reinsurance it underwrote. As of Aug. 31, the combined ratio on reinsurance business was about 375%.

Mission's reinsurance underwriting "was dreadful—just bloody awful," shudders Ansel Shapiro, the department's chief examiner in San Francisco.

Reinsurance purchased by MIC also is criticized by the examiners, who said MIC and its subordinate companies were unable to provide adequate detail to support its reinsurance recoverable on loss payments.

"Due to the volume of reinsur-

Continued on next page

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Sub-total 22,087
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Government, unions and educational systems 1,030

Commercial Consumers
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Insurance companies 6,089
Financial institutions 536
Actuaries, attorneys, adjusters, appraisers and consultants 3,464
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TOTAL 44,878

* Source: Business/Occupational breakdown of qualified circulation, May 6, 1985 issue, as submitted to BPA for June 1985. BPA Publisher's Statement.

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Mission units

Continued from page 96

ance and treaties involved in MIG's reinsurance programs, MIG has lost control of the reinsurance accounting function," they say in their evaluation report.

The examiners denied \$2.5 million in letters of credit for unauthorized reinsurance.

The examiners also comment on the difficulties MIC and its subsidiaries have in collecting reinsurance owed to them.

For example, Mission has so far failed to collect about \$50 million in reinsurance recoveries it says Centaur Insurance Co. owes (BI, Oct. 14).

Mr. Shapiro notes one bright spot for MIC: Representatives of General Reinsurance Corp., MIC's largest reinsurer with \$19.6 million payable on unpaid losses at year-end 1984, are being extremely cooperative and "trying to help any way they can."

Another major factor in MIC's insolvency is the examiners' decision to reduce by more than half the value of stock MIC holds in its five insurance company subsidiaries. The examiners set the value of the stock at \$29.6 million, the aggregate policyholder surplus of the companies, while MIC valued the stock at \$63 million.

The California Insurance Department won't speculate if MIC can emerge from conservation without a capital infusion.

However, MIC's workers compensation insurance policyholders should not be affected by the takeover, the department says.

MIC's workers compensation loss reserves, maintained to meet regulatory requirements, total \$15.8 million more than necessary, according to an actuarial study.

If MIC is liquidated, state guar-

anty funds will respond to policyholder claims because MIC was licensed in all states.

However, MIC's reinsurance policyholders—which include MIC subsidiaries—will not be able to collect from state guaranty funds, which do not respond to reinsurance claims.

And, in liquidation, these reinsurance policyholders will be general, unsecured creditors, in line after policyholders and the myriad state guaranty funds. They could wait years to collect anything on their claims.

MIC's principal unaffiliated reinsured is Agricultural Insurance Co., an AFC affiliate in Cincinnati. MIC reports \$6.2 million in reinsurance payable on Agricultural's unpaid losses and \$208,000 payable on its paid losses for 1984.

Regulators in some states are waiting for California's next step before taking their own action.

The Oregon Insurance Department, for example, says it will revoke MIC's license if California initiates liquidation proceedings.

MIC's license has already been suspended in Kansas. And, Kansas has suspended the certificates of four other MIG units licensed in the state, preventing them from writing new or renewal business, says Terry Tiede, the Insurance Department's director of research and planning.

Mission American is among the five companies prohibited from doing business in Kansas. "Everything we'd heard indicated that Mission American was going to be assuming a large portion of business from the same companies that have problems. We didn't feel the surplus of Mission American was sufficient to handle that," Mr. Tiede says.

Brokers, policyholders and insurers last week questioned why Cali-

fornia regulators waited so long to seize MIC.

For instance, about 85% of the insurers with whom Los Angeles-based wholesaler Swett & Crawford Group places business have been unwilling, since the beginning of the year, to issue coverage excess of any MIG unit for fear of being held responsible for underlying layers if the unit went under, said Executive Vp James Bradley.

But, Norris W. Clark, deputy insurance commissioner and chief of financial analysis, defends the department's monitoring of MIC.

The department regularly inspected MIC's quarterly and annual results over the past three years, but the severity of reinsurance losses "just didn't show up" until year-end 1984, he says.

"Either they weren't aware of how bad the reinsurance was getting, or weren't willing to admit it," Mr. Clark speculates. On further thought, he adds, "They couldn't even imagine just how bad that was."

But Mr. Clark admits, "The accusations are going to be thrown around and there'll be a lot of second-guessing."

"In retrospect, if we'd taken them over in July 1984, there'd be no difference," he says, noting that Mission had ceased its reinsurance operations by that time.

And, MIC hasn't written any new business since July 1985.

Mission officials did not return numerous phone calls last week. Nor would they meet with *Business Insurance* at their offices. An executive secretary said the company did not want to comment until it learned more specifics of its situation.

A terse statement issued by MIG the day MIC was taken over said it was cooperating fully with the department.

Journey to insolvency

Nov. 17, 1983: After 20 years as MIG president and chief executive officer, E. Richard DeRosa, 59, officially retires, although he has not directed the company since August. He sells his Mission stock but continues as a director of MIG.

Executive Vp and Chief Operating Officer Louis F. Marioni, 55, formally steps in as MIG president and chief executive officer after a six-month search for candidates.

December 1983: MIG posts a \$15.4 million net loss—its first in 19 years. Its year-end combined loss and expense ratio hits 124.7%.

March 1984: Moody's Investors Service Inc. lowers its rating to Baa-3 from A-3 on about \$75 million of outstanding MIG senior debt.

June 14, 1984: Ray D. Johnson Jr. comes aboard as president of Mission Insurance Co. His most recent experience was earned at two American Financial Corp. affiliates.

After eight years, Stanley Braun leaves his post as president of MIC to become executive vp at Fairmont Insurance Co. in Burbank.

July 1, 1984: MIC's policyholder surplus drops 34.8% in the first half of the year, to \$192.2 million from \$294.9 million.

August 1984: The A.M. Best Co. drops its rating to an A from A-plus on MIC and other MIG units.

Moody's again reduces its rating, this time to a single B-1 from Baa-3, on \$75 million of MIG senior debt.

Nov. 16, 1984: Mr. Johnson is elected chief operating officer of MIG and continues to serve as MIC president.

Dec. 31, 1984: MIG adds \$188 million to reserves in 1984, \$70 million of which was added in the fourth quarter, and suffers a \$198.1 million net loss for the year.

Jan. 1, 1985: Mission Reinsurance Corp., a New York-based MIC unit, stops writing new and renewal treaty and facultative business and begins canceling facultative business.

Feb. 1985: Mission retains Soloman Bros. Inc. to secure \$75 million in additional capital.

Feb. 14, 1985: Mr. Marioni, a 23-year MIG veteran, resigns as president and chief executive officer of MIG and is replaced by Mr. Johnson, 56, after eight months with the company.

Feb. 21, 1985: Reinsurers sue MIC in U.S. District Court for the Southern District of New York citing MIC's role in a reinsurance pool managed by an affiliate, Pacific Reinsurance Management Corp. Pacific and MIG are also named. Plaintiff reinsurers seek rescission of contracts written by MIC that they reinsured.

March 8, 1985: To allay concern over financial and management turmoil at Mission, Mr. Johnson sends state insurance commissioners a three-page letter, assuring them that MIG will "take every action necessary" to put it back into "a solid financial operating position."

March 11, 1985: MIG announces that its principal shareholder, American Financial Corp. in Cincinnati, will boost MIG's surplus by \$75 million from an estimated \$43 million.

AFC is widely criticized for the complicated transaction, which called for the abrupt dissolution of another AFC subsidiary, Transport Indemnity Co. AFC is given the right to increase its stake in Mission to 91.3% from 49.9%.

Mr. DeRosa resigns as an MIG director.

March 25, 1985: California Insurance Department begins its routine triennial examination of MIC several months early.

March 26, 1985: Accountants Coopers & Lybrand qualify MIG's 1984 financial statements pending the outcome of the Feb. 21 lawsuit and of a similar one filed Feb. 18 that names Pacific and MIG.

March 27, 1985: AFC and 10 MIG directors and officers are sued by a Mission shareholder in Los Angeles County Superior Court over the handling of the previously announced capital infusion.

March 31, 1985: Michael A. Mulholland resigns as MIG's chief financial officer.

May 20, 1985: To dissuade other participants in Pacific's reinsurance pool from joining the Feb. 21 suit, which purports to be a class-action, MIG temporarily relieves 18 non-U.S. companies of their responsibility to pay reinsurance claims pending outcome of an independent audit of Pacific.

May 23, 1985: Policyholders sue AFC's Transport Indemnity Co. over sweeping coverage cancellations that result from AFC's attempts to bail out MIG.

June 17, 1985: MIC wins a round in its reinsurance battles when a U.S. District Court orders arbitration of the disputes stemming from Pacific's pool.

June 20, 1985: AFC's Carl H. Lindner, 65, is elected chairman of MIG at the group's annual shareholding meeting in Cincinnati, the first time the meeting is not held in Los Angeles. Four long-time directors resign.

William R. Story assumes the position of MIC president, replacing Mr. Johnson. MIC waits to announce the power shift in its second quarter 1985 financial statement.

June 28, 1985: Best reduces the rating of MIC and all other MIG insurers to "omitted."

July 1, 1985: MIG reopens the doors of Transport Indemnity, christening the facility Mission American Insurance Co. Mission American is now the group's chief risk-bearer with \$62.5 million in surplus.

Aug. 9, 1985: MIC steps-up efforts to collect outstanding reinsurance, and asks the U.S. District Court in Chicago to hold Borg-Warner Corp. liable for \$50 million in current and projected obligations of its Centaur Insurance Co. subsidiary.

Aug. 14, 1985: AFC agrees to commit an additional \$40 million to surplus of MIG before end of the third quarter.

Sept. 11, 1985: MIC estimates it has paid out \$28 million in claims since June on behalf of the 26 reinsurers now reviewing the books of Pacific's pool.

Oct. 7, 1985: Mission American writes its first policy, an umbrella policy for a California risk.

Oct. 31, 1985: Declaring MIC insolvent by \$169 million as of Aug. 31, the California Insurance Department takes control of the insurer.

Nov. 1, 1985: Moody's further reduces its rating on MIG debt to Caa from single B-1.

Nov. 4, 1985: MIG's stock drops to an all-time low of \$1.25 on the New York Stock Exchange.

By Steve Taravella

California insurers angry

By ROBERT A. FINLAYSON

LOS ANGELES—California-licensed insurers are mortified at the possibility that the state Insurance Department will allow newly formed Mission American Insurance Co. to rise like a phoenix from the ashes of its now-insolvent predecessor, Mission Insurance Co.

Mission Insurance Co. was placed into conservation by the California Department of Insurance Oct. 31 (see related story, page 1).

However, the department has yet to decide the fate of other members of the Mission Insurance Group. And, some insurers fear Mission Insurance Co.'s management and investors will be allowed to continue business as usual through other companies within the Mission group, even if MIC is liquidated and unpaid claims are turned over to the state guaranty fund.

The California Insurance Guarantee Fund, which is triggered when an insurer is found to be insolvent and is placed in liquidation, can assess California-licensed insurers up to 1% of their direct written premiums to pay claims on policies written by insolvent insurance companies.

At the center of the controversy is Mission American Insurance Co., which began business July 1 as the new parent of MIC and the underwriter of business up for renewal with MIC.

Insurers are railing at the idea that investor American Financial Corp. would be allowed to virtually abandon MIC, after shifting its business to Mission American. And, they expect the California Insurance Department to require AFC to bail out MIC.

Failing this, insurers say they want the Insurance Department to sweep all of Mission Insurance Group's assets into the conservatorship to pay MIC's outstanding claims.

"It's wrong to allow an economic family like the Mission Group to go under to the point where it must be supported by the rest of the insurance industry, and yet allow the same economic group to continue doing business under another name," maintains an official of a California-based workers compensation insurer who asked not to be identified.

"Besides being wrong, it's immoral," adds David McIntyre, president and chairman of the board of Fremont Indemnity Co. of Los Angeles. If the practice of shifting assets from an insolvent company to create a new insurer is not illegal, "then it ought to be," he adds.

Some insurers say they may take legal action against

the Insurance Department if MIC is liquidated and they are required to pay an assessment to the state's guaranty fund.

"We'd sure put up a lot of money to fight this," Mr. McIntyre says.

Officials at several other insurers say they also are considering litigation.

The guaranty fund's board of directors, which is composed of officials of insurance companies licensed in California, met Nov. 7 to discuss the likelihood of the guaranty fund being triggered by the liquidation of MIC. Insurance Commissioner Bruce Bunner is a non-voting member of the board.

Larry Mulryan, vp and corporate counsel for Industrial Indemnity and secretary of the guaranty fund's board, says board members want to make sure that all of Mission Insurance Group's assets are tapped to pay MIC policyholders' claims.

Litigation is "always a possibility when companies are being asked to pay what could be an extremely large assessment," he adds.

Despite insurers' fears, Commissioner Bunner says even if Mission Insurance Co. is placed in liquidation, it is only a "remote possibility" that the guaranty fund would be tapped to pay claims.

Mission has substantial funds on deposit to cover claims against workers compensation policies, its biggest line of business. And, most of Mission's losses are related to reinsurance it underwrote, and reinsurance claims are not covered by the guaranty fund.

Fremont Indemnity's Mr. McIntyre also points out that commercial insurance policyholders would ultimately bear the burden of any assessments made against insurers by the guaranty fund.

The California law establishing the guaranty fund was amended to require insurers to pass guaranty fund assessments on to policyholders, but only for commercial insurance lines.

Mr. McIntyre says this is intended to show the public the result of inadequately priced insurance.

Mission wrote by far most of its business in California, with \$210 million in direct written premium in 1984 in California out of \$311.7 million total.

Other states where MIC wrote significant direct premium volume include Florida (\$15 million), Oklahoma (\$10.5 million), New York (\$7.8 million), Missouri (\$7.1 million), Louisiana (\$6.3 million), and Texas (\$6.3 million).

Brokers' results soar

Continued from page 1

plexities in combining A&A's results with its newly acquired Canadian partner, Reed Stenhouse Cos. Ltd.

However, A&A has already announced that it will take an estimated \$15.3 million charge to the third quarter to strengthen the reserves of its U.S.-based discontinued underwriting operations (BI, Nov. 4).

Generally, the smaller of the public brokers reported the largest gains in both revenues and earnings in the third quarter.

The largest quarterly revenue gain—50%—was reported by Memphis-based Crump. Crump's revenues soared to \$27.3 million from \$18.2 million in the third quarter of 1984.

The brokerage's net income for the third quarter likewise jumped 97.5% to \$2.74 million from \$1.4 million in the third quarter of 1984.

For the first nine months of 1985, Crump's gross revenues increased 39.4% to \$70.9 million from \$50.9 million. Nine-month net income rose 72.5% to \$7 million from \$4.06 million for the comparable period in 1984.

"Crump was helped more than any other brokers by its excess/surplus brokerage business," which accounts for 30% of Crump's revenues," said Mr. Rosencrants. "It has also been very successful in new-business development."

"Crump continues to surprise us more than any of the other brokers," he added.

Sidney A. Stewart Jr., Crump's chairman and chief executive officer, attributes the brokerage's growth to "a combination of several things," including insurer rate hikes and "the planning we have done in anticipation of this market, which includes being a factor in the E&S market as well as having an insurance company through which we wrote very little business during the soft market, so that we are able to take advantage of the market conditions now."

Mr. Stewart added: "At the top of the list would have to be our people. We have done a lot of work over the past few years to develop the organization we now have."

Crump is also actively acquiring agencies to further increase its business.

In August, it acquired Ralph Hamm Agency Inc., an agency in Dallas that specialized in energy business. The agency's general

property/casualty business was incorporated into its Dallas office.

Crump subsequently formed Crump Energy Risks Inc., using as a base the Hamm agency's energy accounts, which Mr. Stewart said were spread across the United States and Canada.

"Crump is trying to be a niche specialty operation. Our brokers now have Crump Energy to fall back on when they write these types of accounts," Mr. Stewart explained.

In October, Crump acquired Williams-Timlin Inc., an agency in Atlanta that will be incorporated into its Atlanta office, and Bader Insurance Agency Inc. in Little Rock, Ark., which will be consolidated with its office in Arkansas.

"There is an economical advantage to adding people to our existing offices. We can effect more economy in that way," Mr. Stewart said.

Los Angeles-based Emmett & Chandler Cos. Inc. reported a 40.3% increase in gross revenues during the third quarter to \$12.1 million from \$8.6 million in the third quarter of 1984.

Emmett & Chandler's net income for the same period soared to a record \$1.27 million, a 3,082% increase over the \$40,000 it reported

in 1984's third quarter. The increase was partly due to an extraordinary federal income tax credit of \$555,000 carried forward from last year.

The brokerage's gross revenues for the first nine months of 1985 increased 38.2% to \$34.65 million from \$25.1 million. Net income for the nine months jumped 4,140% in 1985, to \$3.43 million from \$81,000 in 1984, due in part to an extraordinary federal income tax credit in 1985 of \$1.4 million.

"All areas of our brokerage operations have had substantial growth," explains Lawrence H. Patton, Emmett & Chandler's vp and chief financial officer.

Mr. Patton attributes this growth to a combination of rate increases, which have boosted commission income, and to "a lot of the start-up operations we began between 1979 and 1983, which have turned the corner and are producing profitable results."

In July, Emmett & Chandler acquired Houston, Stevenson & Cummings, a Houston brokerage operation with 32 employees, and merged it with its Houston office. It also acquired some smaller agencies, Mr. Patton said.

Continued on facing page

N.J. regulations

Continued from page 2

ages. Although other states have also taken steps to protect insurance buyers as the insurance market tightens, New Jersey's rules are more restrictive.

Insurers say the rules are unconstitutional, arbitrary, in violation of the department's statutory limits of authority and threaten their solvency by forcing them to write coverage for which they have no reinsurance (BI, Nov. 4).

However, the state Supreme Court last week upheld the Nov. 1 decision of the New Jersey Superior Court's appellate division denying a request by three insurance trade associations for an immediate stay of the department's emergency market-control rules.

The American Insurance Assn., the National Assn. of Independent Insurers and the Alliance of American Insurers wanted the rules suspended while the Superior Court's appellate division considers their request that the rules be repealed.

This court date has not been set yet. However, "the replacement regulation doesn't render the appeal moot," said Patrick J. O'Brien, senior counsel for the American Insurance Assn.

Insurers would still want the court to determine their responsibility to provide all policyholders with insurance coverage during the two-month period when the emergency rules were in effect, he explained.

The insurers' appeal would be moot only if the new regulations were to nullify the effect of the emergency rules, Mr. O'Brien added.

Specifically, the New Jersey rules:

- Prohibit midterm premium increases and/or any reduction in the amount of coverage provided under a policy.

- Prohibit insurers from cancelling blocks of policies or not renewing entire lines of coverage unless Ms. Gluck approves a plan to minimize market disruption.

- Prohibit issuance of notices of nonrenewal or cancellation unless the insurer receives the department's approval of underwriting standards 90 days in advance of their use.

- Prohibit changes in policy terms and conditions when policies are renewed, unless mutually agreed upon by the policyholder and the insurer.

The emergency rules were adopted after the New Jersey Insurance Department received "literally hundreds" of letters from policyholders disclosing examples of "a pervasive" industry-wide practice of terminating policies in "flagrant" violation of established statutory law, Commissioner Gluck said in an affidavit filed in Superior Court and the state Supreme Court.

Insurers were ignoring explicit, pre-existing requirements to give 30-day notice and provide policy-

holders with documentation explaining why their policy was not renewed, according to the brief filed by the state's attorney general on behalf of the Insurance Department.

"The emergency rules have now been in effect for over six weeks, and by all reports have been working, and working well," Commissioner Gluck pointed out in her affidavit.

"Essential insurance has been preserved for those entitled to it, the industry has been put on notice that unlawful or arbitrary and capricious terminations of coverage will not be permitted, and a mechanism has been created for reviewing and responding to company requests for approval of legitimate termination reasons.

"I understand that many policies have been reinstated which would otherwise have been terminated improperly."

In arguing against the insurers' challenge of the emergency rules, the state said:

- Insurers failed to show grounds that would allow the court to grant them interim relief from the regulations.

Insurers' predictions of financial disaster as a result of the regulations is "specious," the state's brief says.

It is necessary to balance the "substantial" risk of harm to policyholders and the public interest against the insurers' various claims of "unfairness," the state said.

"No insurers are or will be required to continue coverage indefinitely on 'bad' risks, or on risks for which reinsurance is not available. Nor will insurers be 'locked in' to lines of business which, if retained, would affect financial stability, merely because no alternative coverage can be found," the brief says.

However, insurers' standards in determining which is a "bad" risk will be scrutinized to ensure that they are not arbitrary, capricious and unfairly discriminatory, the

brief said. "A loss of reinsurance will be subject to verification, and information about alternative coverage will have to be provided," it continues.

"These requirements cannot pose a serious threat to 'responsible' insurers," the brief said.

The department has reassigned staff members and hired additional temporary employees "to assist in reviewing and processing the company requests for approval of proposed underwriting reasons for the cancellation and nonrenewal of policies."

As of Oct. 28, the Insurance Department had received 433 requests from insurers to have their decisions to cancel or not renew coverage approved, and the department has responded to all requests within 30 days, Ms. Gluck said in the brief.

- The emergency rules are reasonable and authorized by statute.

The rules "are reasonably directed to protection of the public from the consequences of indiscriminate cancellation and nonrenewal practices of insurers," the brief says.

As an administrative agency, the Insurance Department is accorded "wide" discretion, which includes regulation of surplus lines insurers.

"It cannot be seriously suggested any longer that surplus lines insurers are not 'doing business' in the state; they are clearly subject to reasonable restrictions on the conduct of their business."

- The emergency rules do not violate any constitutional rights of insurers.

The regulations are a "reasonable and legitimate exercise" of police power, despite insurers' protests that the rules were retroactive, took their property and impaired their contracts, the state said in its brief.

"Even if the effect of the regulations on the termination notices issued prior to Sept. 17 is considered 'retroactive,' it is of only a limited

duration and, when compared to the extreme public interest in preventing improper cancellations and nonrenewals at a time when replacement coverage may be nonexistent, this minimal 'retroactive' effect cannot be considered to be of constitutional dimension," the brief says.

Insurers misconstrue the rules if they say the regulations compel an insurer to provide coverage to undesirable risks or to extend coverage to any risks at noncompensatory rates, the brief adds. Loss of reinsurance, adverse loss experience and failure to meet reasonable underwriting guidelines are all acceptable as grounds for avoiding exposure.

"What the regulations require is that the loss of reinsurance be verifiable and the phrase 'loss of reinsurance' not be used to discriminate unfairly between similar risks," the brief says. "In addition, the use of 'adverse loss experience' and 'failure to meet underwriting guidelines' will be held to a more objective, articulable standard than simply 'solid business judgment.'"

- Adoption of the regulations substantially complies with the requirements of the Administrative Procedure Act.

While insurers seem to suggest that the facts upon which the emergency adoption of the rules is based are merely "unsubstantiated allegations," any requirement that facts be adjudicated prior to adoption of an emergency regulation would defeat the utility of the procedure, the state said.

Deputy Atty. General John J. Hayden, the state's lead counsel, said the state Insurance Department has applied no sanctions to insurers that have failed to follow the emergency rules, although the department has sent letters asking insurers to reinstate coverage to policyholders.

The department has the authority to fine insurers that violate regulations.

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BankAmerica shareholder appeals suit dismissal

SAN FRANCISCO—A BankAmerica Corp. shareholder filed an appeal Oct. 25 trying to overturn a lower court's dismissal of his derivative shareholder suit against the bank's top officials.

The appeal was filed in the 9th Circuit Court of Appeals on behalf of Ned Schwartz, a Cincinnati businessman. On Sept. 27, the U.S. District Court in San Francisco dismissed his suit, which claimed the bank's top officials were guilty of negligence and mismanagement (BI, June 10).

Mr. Schwartz's allegations stem from officials' handling of \$95 million in pretax losses in 1984 incurred by a subsidiary bank's involvement with allegedly fraudulent mortgage-backed securities, said his attorney, Paul Bennett of San Francisco.

If the appeal is granted, Mr. Schwartz's lawsuit will continue to be the second claim against the corporation's canceled directors and officers liability insurance relating to the \$95 million loss.

The first claim, filed in March in an effort by the bank to recover its loss, did not involve a third-party plaintiff (BI, March 11). A third potential claim may result from a derivative shareholder suit filed July 19 in Chancery Court in Wilmington, Del., on behalf of the corporation by International Apparel Associates, a New York marketing consultant with common stock in the corporation (BI, July 29).

BankAmerica's \$100 million of directors and officers liability insurance written by Employers Insurance of Wausau and First State Insurance Co. was canceled effective May 15 by First State and April 15 by Wausau.

However, BankAmerica has a 12-month claims discovery period on the Wausau coverage that began April 15, according to a Wausau executive.

Unable to find replacement D&O coverage, the company formed a Cayman Islands-based captive insurer, which has not been able to find reinsurance (BI, April 29).

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Continued from facing page

Poe & Associates Inc. in Tampa, Fla., the smallest of the publicly held brokers, reported a 36.7% increase in gross revenues in the third quarter to \$8.5 million from \$6.2 million in last year's third quarter.

Poe's net income for the quarter jumped 389% to \$1.07 million from \$219,000 in third-quarter 1984.

For the first nine months of 1985, Poe's gross revenues rose 21.2% to \$21.2 million from \$17.5 million last year. Net income rose 108% during the nine-month period to \$2.12 million in 1985 from \$1.02 million in 1984.

A Poe spokesman said that the broker's growth is attributable to a combination of premium hikes and the generation of new business. He added that the brokerage expects the industry's current "premium strengthening and market capacity shortages" to continue into 1986.

"We expect more business to come to us because we have markets others may not have because of our size and contacts. Due to cost-containment measures we undertook in the last few years, we feel we have the people and systems in place to help us take advantage of the opportunities presented by current market conditions," the spokesman explained.

Poe is also gaining a lot of new business from its association-sponsored programs, which represent more than 30% of its total business.

In October, Poe acquired Insurance Management Services of Orlando, an agency with a special group program for wrecker services, and incorporated it into its Orlando, Fla., office.

New York-based Corroon & Black Corp. reported its revenue grew by 32.7% in the third quarter to \$70.9 million compared with \$53.5 million in the third quarter of 1984.

Corroon & Black's net income for the quarter rose 380% to \$9.8 million from \$2.04 million in the third quarter of 1984. The third-quarter 1984 results included a \$4.04 million loss from discontinued operations pertaining to the brokerage's Underwriting Management Group.

Income from Corroon & Black's continuing operations for the third quarter rose 61% to \$9.8 million from \$6.1 million in 1984.

For the first nine months of 1985, Corroon & Black's gross revenues climbed 27.8% to \$191 million from \$149.4 million in 1984. Net

income for the first nine months jumped 199% to \$20.5 million from \$6.9 million in 1984, including losses from discontinued operations and extraordinary charges in both reporting periods.

Income from Corroon & Black's continuing operations for the first nine months rose 66% to \$22.4 million from \$13.5 million in 1984.

Corroon & Black experienced "outstanding gains, not only in premium rates but in new business as well," Mr. Keefe at Drexel, Burnham commented.

Mr. Wilson and Mr. Rosencrants agreed that C&B's third-quarter results were "very strong."

Corroon & Black has also announced plans to acquire Olliver/Pilcher Insurance Inc., the largest independent agency in Arizona and the nation's 35th-largest brokerage according to Business Insurance's rankings.

Olliver/Pilcher "is a large, strong, quality operation. With the acquisition, we will become the No. 1 broker in Arizona and will be on our way to becoming No. 1 in the whole Southwest," C&B's Mr. Crane said.

Arthur J. Gallagher & Co., based in Rolling Meadows, Ill., reported its revenues jumped 30.2% in the third quarter to \$23.1 million from \$17.76 million in 1984.

Gallagher's net income increased more than 50.4% during the quarter to \$3.9 million from \$2.6 million.

For the first nine months of 1985, Gallagher's gross revenues rose 26.7% to \$59.7 million from \$47.1 million in the first three quarters of 1984. Net income for the nine-month period rose 57.3% to \$8.03 million in 1985 from \$5.1 million in 1984.

Michael J. Cloberty, Gallagher's vp of finance, said the brokerage "has always been driven by new business" and has continued to have strong new-business growth in the third quarter.

In addition, "property/casualty premium rates have gone up and we attribute some of our commission growth to that," he said.

"Gallagher had an extraordinarily strong quarter," Mr. Wilson observed. "Its self-insurance (services) also showed respectable gains. The company as a whole is on a very strong growth track." Mr. Rosencrants also stressed that Gallagher had a "superb third quarter. Gallagher reports that there has been such a tremendous demand for such services as self-insurance and captive management that it can't meet the demands.

"I expect Gallagher's growth to continue for a few more quarters. In addition to the short-term, it has strong long-term potential," Mr. Rosencrants added.

In September, Gallagher acquired Besnard & Associates, a brokerage in Tampa Bay, Fla., which will be operated as Arthur J. Gallagher Co./Tampa Bay.

The brokerage also formed Gallagher Risk Data Inc. in July to provide computerized risk management information to insurance companies, risk managers and risk management consultants. It will be based in the Roll-

ing Meadows home office.

The largest of the brokers, Marsh & McLennan Cos. Inc., reported a 27.7% increase in gross revenues for the third quarter of 1985 to \$351 million from \$275 million in 1984.

M&M's net income for the third quarter rose 34.7% to \$42.3 million from \$31.4 million for the same period of 1984.

Gross revenues for the first nine months of 1985 just topped the \$1 billion mark and represented a 21.3% increase over the \$829.5 million the brokerage reported in the corresponding period of 1984.

M&M's income from continuing operations for the first nine months of 1985 increased by 34% to \$254.5 million from \$190.2 million in 1984. Net income totaled \$126.2 million in the first nine months of 1985 compared with \$32.1 million in 1984. The 1984 figure reflects a \$110 million unusual charge attributable to unauthorized investment activities.

"Marsh & McLennan had an excellent third quarter, very improved in terms of domestic gains and gains in reinsurance brokerage operations," Mr. Wilson said.

Mr. Rosencrants said that since rates are now rising in Europe and the United Kingdom as well as the United States, Marsh & McLennan's results should improve even further next year. "They are also substantially adding market share and new accounts," he commented.

"It's amazing to think that a company so large in size can keep gaining as it does," added Mr. Keefe, noting that he has increased his 1986 earnings estimates for M&M based on its third-quarter results.

A spokesman for M&M attributed the brokerage's gains to both new business and premium rate increases, "but the main contributor is new business," he said.

New clients, he said, have been attracted by the brokerage's professional skills in structuring total insurance programs and to "our longstanding relationships with our markets. . . . We have an international network with which to provide" for clients' needs, he added.

M&M in October acquired Hoag & Hoag Inc., a brokerage in Columbus, Ohio, which more than doubled the size of its Columbus operations.

In addition, M&M has purchased E.S. Knight & Co., a consulting actuarial firm in Australia.

Frank B. Hall, based in Briarcliff Manor, N.Y., has the dubious honor of trailing the field both in revenue growth and net income.

Hall's revenues did increase 17.3% in the third quarter to \$105.1 million from \$89.6 million.

But, Hall's reported a \$94.5 million net loss in the quarter, primarily because of costs attributable to subsidiary Jartran Inc., the truck-leasing company Hall announced plans to sell or dispose of in August, and to the establishment of additional reserves to discontinued underwriting operations.

Third-quarter income from continuing operations—not including Jartran and the underwriting units—totaled \$2.5 million, a 49.1% increase over the \$1.7 million reported in 1984.

For the first nine months of 1985, Hall reported an 11.8% rise in gross revenues to \$311 million from \$278.1 million in the first nine months of 1984.

Hall reported a nine-month net loss of \$103.2 million, again largely because of Jartran and the underwriting units, compared with a \$2 million gain in the comparable period last year.

Income from continuing operations for the first nine months totaled \$10.7 million, a 37.7% increase over \$7.8 million in 1984.

Hall "is now in discussions with a potential buyer" for Jartran, said Senior Vp John Addeo.

"Based on the information we have today, we feel comfortable that the writeoffs for both operations are substantially behind us now, and that we're going into 1986 with a clean slate," he said.

"After booking the \$95 million loss, Hall will have a net worth of \$136 million," Mr. Addeo stressed, explaining that a preferred loan of \$50 million from Reliance Group Holdings, Reliance's purchase of \$50 million in Hall preferred stock and a public stock offering raised more than \$115 million for the brokerage in 1985.

Focusing on Hall's brokerage and related operations, Mr. Addeo said that "our mix of business is a bit different, and that's why we may be trailing a bit behind other brokers."

He explained that revenues at Hall's claims adjusting operations, which represent 10% of its revenues, are growing at a slower rate of 8%.

Similarly, the revenues of Hall's benefits consulting operations, which represent another 10% of its book, are growing at a rate of 10% to 12%.

In addition, Hall has a larger book of marine and aviation business than do most other brokers, and these lines of business "are not enjoying the same rate increases as the rest of the commercial property/casualty arena," Mr. Addeo said. "I feel comfortable with our property/casualty growth and feel that growth will continue throughout 1986 and into 1987."

Rothschild's Mr. Wilson said analysts will study Hall's progress in the upcoming months, "but I'd say that they're moving in the right direction."

Conning's Mr. Rosencrants commented, "It's going to be a tough go for the company," but added that recent management changes should aid the brokerage. "I think their results will continue to improve."

In the third quarter, Hall's claims subsidiary Adjustco acquired Southland-Marshall Group, a Dallas-based independent adjusting company with several offices throughout Texas. "The new offices will help fill out the Adjustco network," Mr. Addeo said.

HMO stocks touted

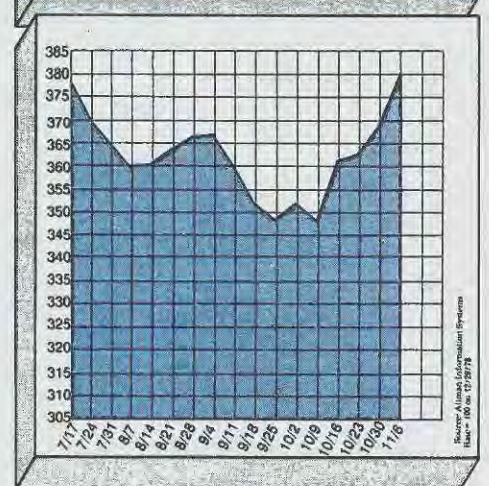
Securities analysts are relatively bullish on the roughly 15 health maintenance organization companies that have gone public over the last two years. But, they warn that a shakeout among the companies could occur because of heavy competition in the HMO industry. See story, page 80.

BI Industry Stock Report

November 6, 1985 10/31/85 thru 11/6/85

Table with columns for Brokers, Conglomerates & Holding Cos., Insurers, and Insurance Companies. Each section lists company names, stock prices, changes, P/E ratios, dividends, yields, and volumes.

BI Insurance Index



The Business Insurance stock index surged ahead during the most recent trading period. The index closed at 381.9 points on Nov. 6, up 12.7 points from 369.2 points on Oct. 30. A total of 45 stocks posted gains, nine stocks declined and four stocks were unchanged. The biggest gains were by W.R. Berkley Corp., up 24.7%; Kansas City Life Insurance Co., up 14.4%; Corroon & Black Corp., up 12.5%; Home Group Inc., up 12.3%; and Frank B. Hall & Co. Inc., up 10.4%. The biggest losses were by Mission Insurance Group Inc., down 28.6%; Washington National Corp., down 6.5%; Baldwin & Lyons Inc., down 4.6%; Great West Assurance Co., down 4.2%; and Emett & Chandler Cos. Inc., down 3.6%. The index rose 3.4% for the period.

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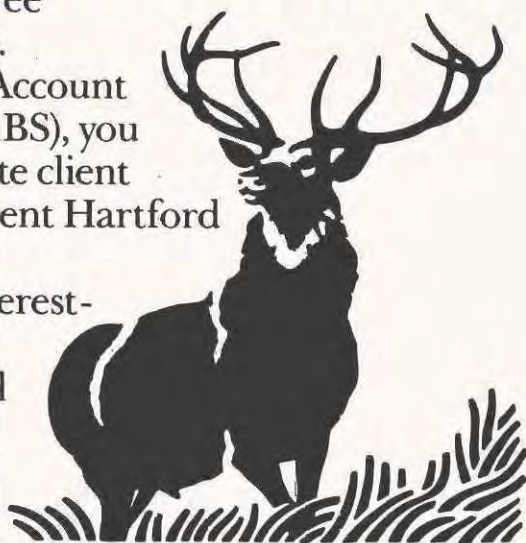
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