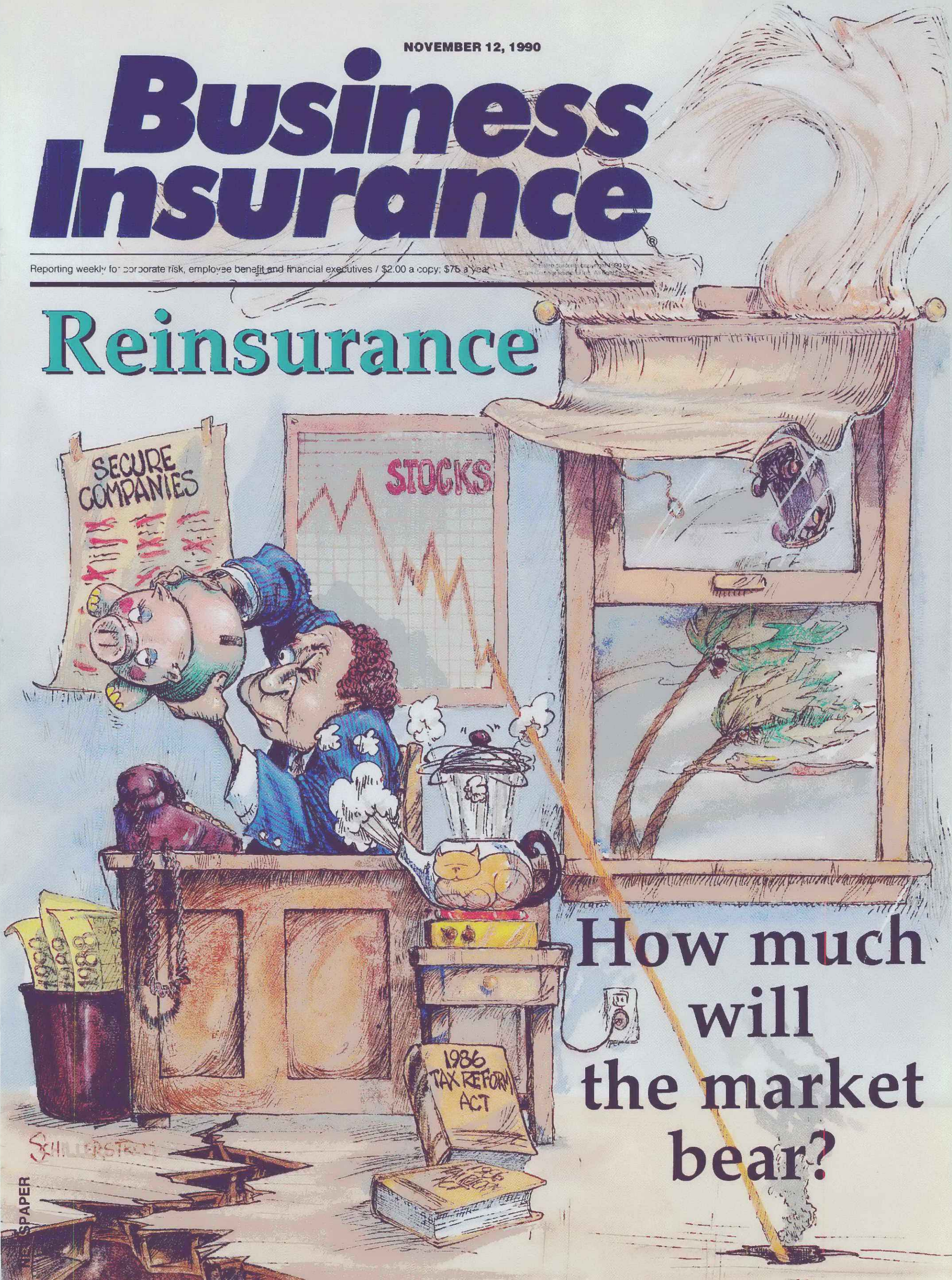


NOVEMBER 12, 1990

Business Insurance

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Reinsurance



How much
will
the market
bear?

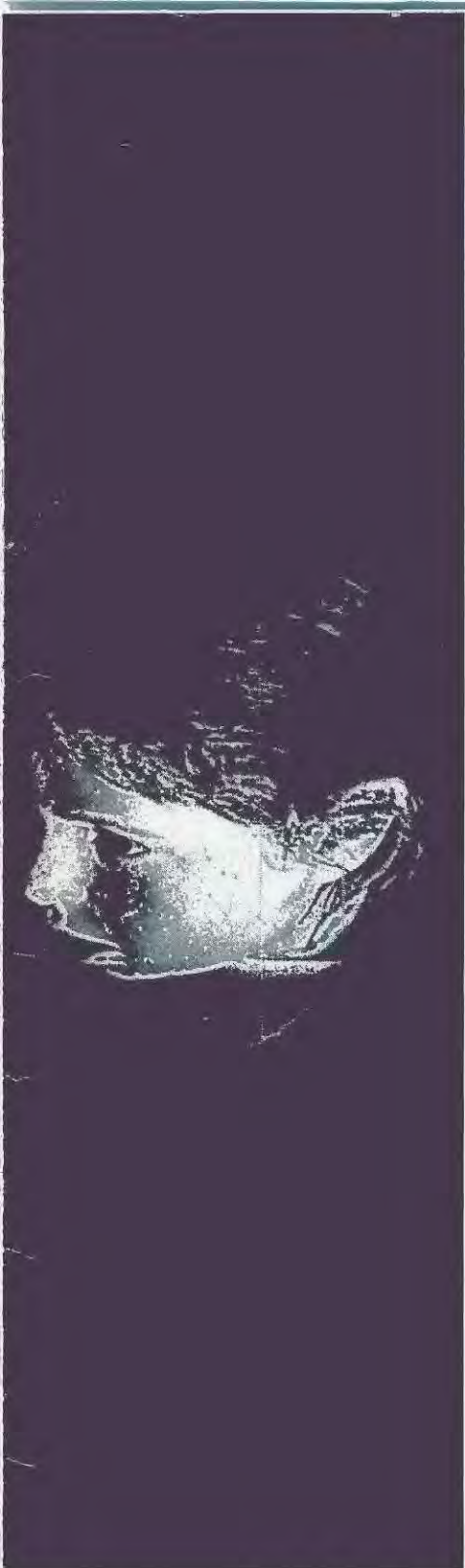


Photo by Elliott Erwitt

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CIGNA shuts London reinsurer; could aggravate LMX crunch

LONDON—CIGNA Corp. on Friday closed its London reinsurance subsidiary without warning, which could further tighten the London retrocessional market.

CIGNA Reinsurance Co. (U.K.) Ltd. "is withdrawing from the non-life reinsurance market in London because CIGNA does not believe it can earn acceptable long-term returns on the capital required," announced Norman M. Wayne, president of Philadelphia-based

Continued on next page

Court reduces EIL coverage

Ruling interprets '82 policy

By STACY ADLER

SAN FRANCISCO—A policyholder that claimed it realized its operations were creating hazardous chemicals but not that they were polluting its land cannot recover for cleanup costs under a 1982 environmental impairment liability policy, a California appellate court ruled.

The ruling marks one of the first interpretations of an early EIL policy by any appellate court, accord-

ing to attorneys.

Further, the decision is significant because it appears to fly in the face of the coverage the average policyholder would have expected when purchasing EIL coverage in the early 1980s, some attorneys say.

"In 1982, most companies wrote blanket EIL coverage for all operations," said Lawrence L. Drake, managing director at Marsh & McLennan Cos. Inc. in New York.

The market for EIL coverage has

changed dramatically, he noted. "Today, companies write site-specific coverage after conducting in-depth engineering studies."

In the case before the California appellate court, a policyholder was seeking coverage under an EIL policy written in 1982 by Great American Surplus Lines Insurance Co., a unit of American Financial Corp. now known as American Empire Surplus Lines Insurance Co. The policy specifically excluded pollution that was expected or intended by the policyholder.

The policyholder, Chicago-based Masonite Corp., claimed while it

knew it was putting hazardous chemicals into an unlined pond, it was not aware it was polluting the environment and therefore should be covered for the resulting damage.

The court disagreed and in a very narrow ruling held that the 1982 policy language barred coverage even when unintentional acts cause pollution.

Masonite purchased its EIL coverage, as most policyholders do, to "fill the gaps for pollution coverage" left open under its comprehensive general liability policy, explained policyholder attorney

Cindee Mayfield of Rawles, Hinkle, Carter, Behnke & Oglesby in Ukiah, Calif.

The standard CGL policy excludes coverage for all types of pollution that are not sudden and accidental. The standard EIL policy provides coverage for gradual pollution.

Denying coverage for gradual pollution that results when a policyholder's business operations cause unintentional damage contravenes the intent of a policyholder buying EIL coverage, Ms. Mayfield said.

Continued on page 127

Health costs vary widely by state

By CHRISTINE WOOLSEY

WASHINGTON—Annual health care costs exceed \$2,400 per individual American, a new study shows.

However, per-capita health care spending varies widely by state, according to the study.

For example, Massachusetts leads the nation in health care spending with estimated 1990 per-capita health care costs of \$3,031, or almost 25% higher than the national average, the study reported.

On the other end of the spectrum, South Carolina reported the lowest level of health care spending per capita—\$1,689—or 30.3% less than the national average and 44.3% less than the amount spent in Massachusetts.

The study—compiled by the Families United for Senior Action Foundation, a group representing poor and elderly people, and Citizen Action, a consumer group active in environmental and health care issues—tracked health care spending, including spending by employers, in the 50 states and the District of Columbia.

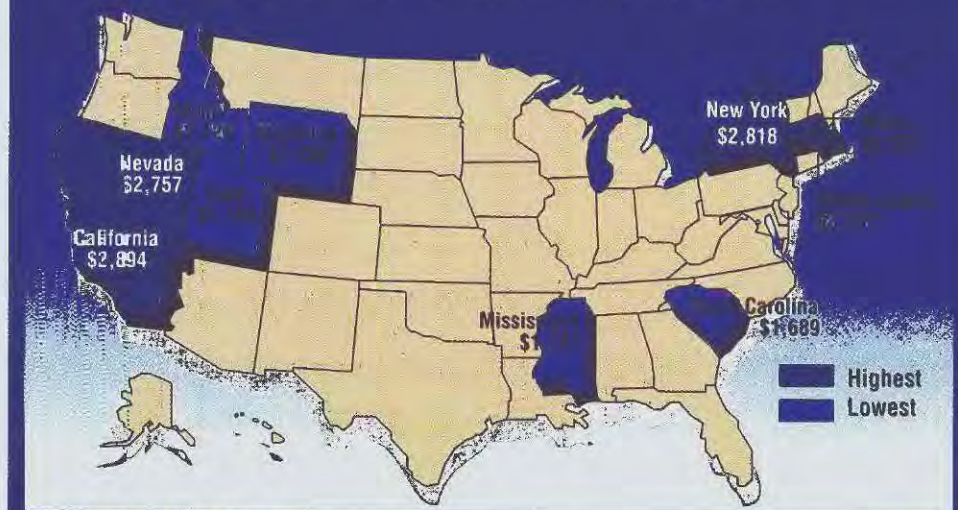
The study, according to its authors is the first to break down health care costs on a state-by-state basis since 1982, when the federal Health Care Financing Administration stopped tabulating this data.

The study estimated total per capita health care costs by state based on direct payments by individuals;

Continued on page 125

States' per capita health care costs

Massachusetts leads all states in health care costs per capita, while South Carolina's per capita health care costs are the lowest in the nation.



Source: Families USA Foundation

GRAPHIC BY HOLLY SEGUINE/CYNTHIA WATSON

Insolvent Weavers insurers may pay creditors

By CAROLYN ALDRED

LONDON—Policyholders of four insolvent insurers that once supported about half the line slip managed by H.S. Weavers (Underwriting) Agencies Ltd. could start receiving partial claims payments as early as next year under a proposal by the court-appointed administrator of the insurers' parent.

The percentage of claims to be paid has not been determined, though it is expected to be less than 60 cents on the dollar in the first year, said Colin Bird, a partner with Price Waterhouse in London and joint administrator of London United Investments P.L.C.

The four insurers were insolvent by 92.8 million pounds (\$149.4 million at the appropriate exchange rate) as of Dec. 31, 1989, according to court papers.

The proposal, which Mr. Bird describes as a "cash-flow scheme of arrangement," must be approved by creditors and a British court.

Policyholder response so far has been "favorable," even though some details have yet to be established, Mr. Bird said.

A London High Court hearing to "wind up" the four insurance companies was adjourned last week until Jan. 16 to allow the scheme of arrangement to be developed and presented to policyholders and other creditors.

If creditors accept the scheme
Continued on page 126



Last week's fire at the Universal Studios back lot damaged the courthouse made famous in films like 'Back to the Future'

Movie companies have insurance for fire at studio

By JUDY GREENWALD and DOUGLAS McLEOD

LOS ANGELES—MCA Inc. and at least one movie production company are insured for losses from last week's fire at MCA's Universal Studios, movie industry and insurance sources say.

Los Angeles County Sheriff Department's officials on Friday estimated the damage from the fire at \$25 million. An MCA spokeswoman earlier said the company did not have an estimate.

MCA risk management officials returned to their Los Angeles headquarters from New York last week to sift through the rubble from the fire, which destroyed 20% of the sets on Universal's back lot

and halted production of "Oscar," starring Sylvester Stallone.

Whipped by 50-mph winds, the fire—later determined to be arson—swept over four acres of Universal's back lot just after 7 p.m. Tuesday, engulfing sets known as New York Street, Brownstone Street and Courthouse Square.

The sets, decades old, were used in movies including "To Kill a Mockingbird," "The Sting," "Back to the Future" and "Dick Tracy."

Fire also damaged a building housing the King Kong exhibit on the Universal Studios tour, but tours continued the day after the fire.

More than 400 Los Angeles firefighters, with the help of water-

Continued on page 125

Update

CIGNA closes London reinsurer

Continued from previous page

CIGNA's property and casualty reinsurance division.

"Based on this consideration and the completion of a comprehensive strategic review, CIGNA has decided not to commit additional capital to new business," he said.

CIGNA Re (U.K.) wrote net reinsurance premiums of 50 million pounds (\$80.5 million at the appropriate exchange rate) in 1989, said a spokesman. The insurer is capitalized at 12 million pounds (\$23.6 million at current exchange rates), he said, adding that CIGNA had contributed new capital to the unit earlier this year. The spokesman would not say how much capital was increased.

The company wrote aviation and marine reinsurance as a member of the Institute of London Underwriters, as well as London market excess of loss and non-marine property reinsurance, he said.

CIGNA Re (U.K.) was a major player in the marine LMX market and its withdrawal is expected to have a significant impact on already scarce capacity in that market (see earlier story, page 43).

"This is the most significant withdrawal from the market so far," said one broker. Other brokers and underwriters warned that more withdrawals from the LMX market may be forthcoming.

CIGNA's other reinsurance operations worldwide and its other U.K. operations, including a large property/casualty insurance operation, are not affected by the closing of CIGNA Re (U.K.), the spokesman said.

Asbestos settlement nears

CINCINNATI—Former asbestos manufacturer Eagle-Picher Industries Inc. says it is close to reaching a settlement with 65,000 personal injury claimants.

Cincinnati-based Eagle-Picher would not disclose details, but plaintiffs' attorneys say the manufacturer would pay \$750 million to establish a court-administered fund that would pay present and future victims over 20 years.

The settlement is part of ongoing litigation before U.S. District Judge Jack B. Weinstein in New York, one of several federal judges trying to consolidate all asbestos cases nationwide into class-action suits (BI, Aug. 20).

If the settlement is completed, Judge Weinstein is expected to consolidate all of the personal injury cases pending against Eagle-Picher into a class-action lawsuit in his courtroom.

Plaintiffs are certain to appeal.

"It is not enough money," said plaintiffs' attorney Paul Gillenwater of Gillenwater, Nichol & Ames in Knoxville, Tenn.

Each of the 65,000 claimants would receive only \$11,500 under this plan. "However, I would be shocked if there weren't more than 65,000 claimants," said Mr. Gillenwater, noting that the settlement is designed to include all future claimants.

Eagle-Picher says its liability coverage is virtually exhausted. Some \$10 million in coverage is still being litigated, said a spokesman, adding that the company itself will fund the settlement.

Kents contained asbestos: Suit

PHILADELPHIA—In the first lawsuit of its kind, a man is suing a tobacco company claiming he contracted an asbestos-related disease because the filters of cigarettes he once smoked contained asbestos.

In a lawsuit filed in federal court in Philadelphia, 55-year-old Peter Ierardi claims he was never exposed to asbestos at any job and that he could have contracted mesothelioma, a type of lung cancer linked to asbestos exposure, only by smoking Kent cigarettes, which were made by New York-based Lorillard Inc., now a Loews Corp. unit.

The lawsuit alleges Lorillard and filter manufacturer Hollingworth & Vose Co. of East Walpole, Mass., were negligent in making the cigarettes and argues that they should be held strictly liable for marketing a dangerous product.

The lawsuit also charges Lorillard with fraud and misrepresentation, arguing its advertisements claimed that Kents were the safest cigarettes on the market. The lawsuit, filed on behalf of Mr. Ierardi and his wife, seeks more than \$100,000 and a jury trial.

Lorillard admits using asbestos in Kent filters from 1952 through 1956 but maintains that the asbestos could not be inhaled.

Plaintiff's attorney Daniel G. Childs of Johnson & Childs in Philadelphia noted that 1 million people smoked Kents with the asbestos filter. Only Kent cigarettes had asbestos in the filters, Mr. Childs said.

Centre Re activates U.S. unit

HAMILTON, Bermuda—Centre Reinsurance Holdings Ltd., a financial reinsurance specialist in Bermuda, is activating its U.S.-domiciled underwriting unit Jan. 1 under the management of two current KPMG Peat Marwick partners.

Bruce A. Bunner, who was California insurance commissioner from 1983 to 1986, is leaving Peat Marwick to join Centre Reinsurance Co. Ltd. of New York as chairman. David L. Wasserman, now national director of insurance consulting for Peat, will become president.

"The capability to provide Centre Re's products and services through a domestic insurance entity will greatly enhance our ability to serve the U.S. market," said Steven M. Gluckstern, president and chief executive officer of Centre Re Holdings.

Continued on page 126

Errors & omissions

• Due to a typographical error in the original manuscript, a reference to Section 107(c)(1) of the Comprehensive Environmental Response, Compensation and Liability Act of 1980 was attributed to the Internal Revenue Code in an Oct. 22 Perspective article. In addition, a potentially responsible party's liability for a waste site is the full cost of the cleanup and \$50 million in damages.

New California regulator vows to enforce Prop. 103

By JOANNE WOJCIC and MICHAEL BRADFORD

A former California state legislator who vows to "force insurers to obey Proposition 103" is the state's first elected insurance commissioner.

Former Democratic state Sen. John Garamendi captured 53% of the vote in defeating Republican Wes Bannister, an insurance agent from Huntington Beach, and other lesser-known candidates.

Mr. Bannister garnered 37% of the vote, and two other candidates received a total of 10%.

California voters also defeated an environmental liability initiative that was closely watched around the nation and another ballot initiative that would have allowed the formation of new pre-paid health care plans in certain areas of the state.

Among other election results

from across the nation:

• Arizona voters rejected an initiative modeled after California's Proposition 103.

• The governors-elect in Texas and Connecticut outlined their agendas to cut consumers' insurance costs.

• Four insurance commissioners were elected, including two incumbents.

• A federal judge in Georgia sealed the results of a referendum to limit public entities' liability until he rules on whether the language of the referendum is ambiguous.

In California, the office of insurance commissioner was made an elective office by Proposition 103, the 1988 voter initiative that required rolling back property/casualty insurance "charges" to 20% below November 1987 levels (BI, Nov. 14, 1988).

Roxani Gillespie, the current

commissioner, did not seek election.

Mr. Garamendi said his election signals "a refreshing change for the Department of Insurance," which regulates more than 1,500 insurance companies with combined annual premium volume of nearly \$60 billion.

"For two years, consumers have impatiently waited for rebates promised by Proposition 103. What they have gotten instead are rate increases," Mr. Garamendi said.

The California Supreme Court last year struck down a provision of Proposition 103 that exempted insurers from the law's rollback provision only if they were substantially threatened with insolvency, ruling it violated insurers' right to a fair rate of return (BI, May 8, 1989).

Ms. Gillespie in June agreed with an administrative law judge's rec-

Continued on page 128

BI directory of buyers available

The eighth edition of the *Business Insurance Directory of Corporate Buyers of Insurance, Benefit Plans and Risk Management Services* is being shipped from the printer within the next week.

The 1990-1991 edition has been updated to provide information on 2,130 U.S. corporations, including each company's address, telephone number, 1989 sales or assets, number of employees and type of business. Listings identify the chief financial officer, general counsel and executives in charge of risk management, employee benefits, personnel, pension/retirement plans, human resources, safety and other related functions.

The directory includes indexes ranking companies by number of employees, 1989 sales or assets and a geographical index.

The 1990-1991 edition of the BI directory costs \$85.

To order, contact Dorothy Wood, *Business Insurance*, Directory Copy Sales, 965 E. Jefferson Ave., Detroit, Mich. 48207; 313-446-1623 or 800-992-9970.

The directory also is available on computer tape. For information, call Denise Matthews, 313-446-1625 or 800-992-9970.

Underwriters Re, Mission estate settling dispute

By DOUGLAS McLEOD

SAN FRANCISCO—Underwriters Reinsurance Co. may pay as much as \$50.7 million to settle litigation with Mission Insurance Co.'s liquidator.

Under a settlement agreement announced last week, Underwriters Re, a Mission reinsurer, will commute several treaties it wrote for Mission and run off claims under numerous facultative reinsurance certificates.

Underwriters Re will pay \$18.7 million in four installments over two years to commute the treaties. In addition, it has agreed to pay a minimum of \$23.5 million and a maximum of \$32 million during the runoff of the facultative business, the settlement says.

The ultimate value of the settlement may be reduced by claims Underwriters Re says it is owed by the Mission estate. About \$1.8 million related to the claims has been deposited in an escrow account pending a California Supreme Court ruling on whether such offsets will be allowed.

The state Supreme Court earlier this year agreed to review an appellate decision allowing Prudential Reinsurance Co. to reduce amounts it owed the Mission estate by amounts Mission owed Prudential (BI, Jan. 8).

About \$300 million is at stake in

the litigation.

Mission's liquidator had sought a total of \$91 million from Underwriters Re, including \$71 million in accelerated payments for incurred-but-not-reported losses and \$20 million for paid losses and accelerated payment of case reserves.

Mission's liquidator had named Underwriters Re in 1988 as an additional defendant in a 1986 lawsuit seeking accelerated IBNR payments from 144 Mission reinsurers.

Underwriters Re earlier this year had asked a Los Angeles Superior Court judge to rule that Mission's liquidator had no right to accelerated IBNR payments (BI, Jan. 29). The reinsurer argued that such payments are contrary to industry practice and would cause reinsurance premiums to rise.

The court rejected Underwriters Re's arguments, and the California Court of Appeals later refused to review the ruling (BI, June 25).

"This settlement is fair and in the best interest of Mission's policyholders," California Insurance Commissioner Roxani Gillespie said in a statement.

Peter Bengelsdorf, senior vp and chief financial officer of Underwriters Re, also said the settlement is reasonable and upholds the reinsurer's right to offsets to the extent they are allowed by the state Supreme Court.

Inside

✓ Despite the defeat of several environmental ballot initiatives last week, companies must adopt strict environmental controls, this week's editorial says. **PAGE 8**

✓ In Speaking Out, Swiss Re's Hans R. Kaufmann warns that climatic changes are increasing property/casualty insurers' liability. **PAGE 68**

✓ Attorneys say recent coverage disputes over losses from a type of plywood mirror arguments raised in asbestos property damage litigation. **PAGE 87**

✓ More companies are offering benefits to help workers with their family care needs, experts say at a forum on work and family benefits. **PAGE 89**

✓ Fireman's Fund's chairman advocates a role for the federal government in insurance regulation. **PAGE 94**

✓ Risk management around the world is discussed at Asia-Pacific Risk Management conference and 20th International Insurance and Risk Management Conference. Coverage of two meetings begins on **PAGE 97**

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Vol.24, No.46—Business Insurance (ISSN 0007-6864) is published weekly by Crain Communications Inc., 740 N. Rush St., Chicago, Ill. 60611-2590. Second-class postage is paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes to *Business Insurance*, Circulation Department, 965 E. Jefferson Ave., Detroit, Mich. 48207; 800-992-9970 or 313-446-1611. Copyright 1990 by Crain Communications Inc.

Reinsurance

Market changes not expected despite catastrophe losses

Competition grows as new players enter financial reinsurance marketplace.
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NAIC reporting rules have not made dent in size of overdue recoverables.
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Arbitrations may become more popular as courtroom uncertainty grows.
Page 32

Predicted shortage of retrocessional, catastrophe covers worry Europeans.
Page 41

By JUDY GREENWALD

U.S. reinsurance executives are gloomily predicting a stagnant market for year-end renewals.

Most observers agree that the tighter capacity in Europe for catastrophe and retrocessional coverages triggered by the recent string of catastrophes will not notably affect the larger reinsurance market (see stories, pages 41 and 43).

Instead, except for catastrophe business, reinsurance renewal rates in the United States are generally expected to be either at or slightly below last year's levels, with terms and conditions remaining liberal.

At the same time, many reinsurance industry executives are unclear on what impact an expected recession would have on the insurance and reinsurance market, although some believe it could hasten a tightening (see story, page 16).

Meanwhile, despite the departure of U.S. International Reinsurance Co. and Metropolitan Reinsurance Co. from the reinsurance market, observers do not expect significant amounts of capital to leave—or enter—the market. Instead, they say, existing reinsurers will consolidate, which will cause many smaller companies to disappear with no overall loss of capacity (see story, page 17).

More immediately, however, reinsurance company executives, in-

Except for catastrophe business, reinsurance renewal rates in the United States are generally expected to be either at or slightly below last year's levels, with terms and conditions remaining liberal.

termediaries and others say they expect no significant rate tightening.

"I think in general we'll continue to see a softening of the market. To be honest with you, I just don't think the companies are ready to take a position on tightening the market," commented Robert J. Osborne Jr., executive vp of New York-based Arthur J. Gallagher Intermediaries Inc.

"It just seems companies are interested in maintaining their market share at just about any cost," he said.

Mr. Osborne said he is afraid it will be 1992 "before we see any sign of change." Not until the combined ratio deteriorates to 115%

will the market tighten, he predicts.

U.S. reinsurers posted an aggregate 107.2% combined ratio for the first half of 1990, according to the Reinsurance Assn. of America (BI, Sept. 17).

"From what I can tell so far, it's business as usual," said Steven J. Bensinger, senior vp and chief financial officer of Skandia America Reinsurance Corp. in New York.

Conditions have been consistent over the past few years, with rates not rising significantly for either treaty or facultative business. Mr. Bensinger said.

"We basically see a very very stagnant market at this point. We don't see anything different," said

Salvatore D. Zaffino, chairman and chief executive officer of intermediary Crump Re Inc. in Hartford, Conn. He predicted year-end decreases of 10% in casualty rates and 10% to 20% in property rates.

Renewals look "about the same as last year," said Thomas A. Greene, president and chief executive officer of New York-based reinsurance intermediary Thomas A. Greene & Co. Inc. "I don't see any big changes or any big difficulties."

"Overall, I think it's going to be pretty flat," said Michael Rothpletz, executive vp of reinsurance intermediary G.L. Hodson & Son Inc. in New Hyde Park, N.Y.

He predicts some firming in property catastrophe rates and slight softening in property per risk and casualty per risk business. "There's lots of capacity and people are looking for premium," he said.

"It's my sense we're not going to see a lot of movement in rates this year, up or down," though it is too early to say definitively, said Bill Stempson, group vp and head of the treaty department and North American Reinsurance Corp./Swiss Reinsurance Co. in New York. "It's more of the same, I think."

"I think what's happening is you basically have a continuing soft market where reinsurance companies are looking for business,"

Continued on page 14

Brokers predict revenue rebound

By COLLEEN JOHNSON

Even though rates are not rising in the overall reinsurance market, executives of the nation's largest reinsurance intermediaries expect to finish this year with increased revenues.

The brokers expect their revenue performance to improve primarily through new business production, though rising rates for catastrophe reinsurance as well as acquisitions and corporate reorganizations will benefit some of the brokers.

A spurt in growth in 1990 would follow three years of stagnant or falling revenues for the majority of the 10 largest reinsurance intermediaries ranked by *Business Insurance*.

For example, estimated 1989 revenues fell at four of the 10 largest U.S.-based reinsurance intermediaries ranked by *Business Insurance*, while estimated revenues at another two brokers remained flat and one broker's revenues rose only an estimated 0.5% (see chart).

A year ago, reinsurance brokerage executives said they expected their revenues to increase up to 10% this year because of higher reinsurance rates and smaller retentions among ceding companies following the record series of natural catastrophes in 1989 (BI, Nov. 6, 1989).

While reinsurance rates still are not rising, except for retrocessional and catastrophe coverages (see related story), executives of seven of the Top 10 reinsurance brokers expect revenues to rise this year because of new business production and other reasons.

In addition, the executive of an-

Executives say new business fueling growth

other Top 10 brokerage says that management changes will increase that company's business.

Roger D. Espe, president and chief executive officer of Seattle-based Sullivan Payne Co., a subsidiary of Sedgwick Group P.L.C. and the second-largest U.S.-based reinsurance

broker ranked by BI, said he expects his company's revenues to increase about 10% in 1990. Most of the growth is attributed to new business, both from other brokers and direct writers, Mr. Espe said.

In addition, Sullivan Payne is recording some growth this year from

increased catastrophe rates, "but that's a fairly small part of it," he said.

Sullivan Payne tends to handle more casualty business than property reinsurance, so its revenues are not greatly affected by rising catastrophe reinsurance rates, Mr. Espe

explained.

Michael W. Cashman, president and general partner of E.W. Blanch Co. in Minneapolis, the third-largest U.S. intermediary, said he expects 1990 revenues to be up "significantly."

He attributes this to new business attracted with "not necessarily a lot of fancy footwork" but by "concentrating on a lot of basics of reinsurance."

"I would say we've tried very hard to focus on basic production techniques and basic marketing techniques," Mr. Cashman said. "We attempted to get our most senior people involved in production work vs. over-emphasizing their management function."

Executives at Willcox Inc., a New York-based subsidiary of Johnson & Higgins and the fourth-largest intermediary, expect 1990 revenues to rise by 10% as a result of new business from both new and existing clients.

"Some of our business is coming from other brokers and some from direct writers," said Willis T. King Jr., chairman and chief executive officer, explaining that the mix is about 50-50.

Willcox also is brokering reinsurance for existing clients that are expanding into new lines of coverage, said Robert O'Leary, president and chief operating officer.

TPF&C Reinsurance's 1990 gross revenues probably will be up about 7%, said Philip W. Mitchell, managing director and chief executive officer of the reinsurance brokerage unit of Towers, Perrin, For-

Continued on next page

Company (Parent)	Gross revenues			Employees			% treaty	
	1989	1988	% chg.	1989	1988	% chg.	1989	1988
Sullivan Payne Co. (Sedgwick Group P.L.C.)	50.0	52.0	-3.8	410	430	-4.7	90	90
Willcox Inc. (Johnson & Higgins)	39.2	33.5	17.0	199	188	5.9	99	98
Intere Intermediaries Inc./RFC Intermediaries Inc. (The St. Paul Cos. Inc.)	30.0	30.0	-	NA	NA	-	67 ⁴	67 ⁴
G.L. Hodson & Son Inc. (Willis Corroon P.L.C.)	23.0	23.0	-	201	204	-1.5	91	81
John P. Woods Co. Inc. (Privately held)	15.5	14.3	8.4	50	48	4.2	100	100

1. Combined figures for Guy Carpenter & Co. Inc. and C.T. Bowring Reinsurance Ltd., which merged in August 1990. 2. Restated by E.W. Blanch Co.
3. Figure provided by TPF&C Reinsurance replaces BI estimate. 4. Combined figures for Intere Intermediaries Inc. and RFC Intermediaries Inc.

GRAPHIC BY CYNTHIA WATSON

Intermediaries

Continued from previous page
ster & Crosby Inc. in Philadelphia. TPF&C ties with the combined operations of Intere Intermediaries Inc. and RFC Intermediaries Inc. as the fifth-largest U.S.-based intermediary.

The revenue increase stems mainly from new business, half of which came from other brokers and the other half from direct writers, Mr. Mitchell said.

However, about a quarter of the revenue increase will come from rising catastrophe reinsurance rates, he added.

Aon Reinsurance Agency Inc. in Chicago, a subsidiary of Aon Corp. and the seventh-largest U.S.-based intermediary, expects a 20% increase in gross revenues for 1990 "due to new accounts written and important executives who have chosen to join us within the last two years," said Stephen L. Lunsford, the intermediary's

senior executive vp and chief operating officer.

Aon Reinsurance Agency's increase in revenues this year also can be attributed to a full year's results from the July 1989 purchase of Taylor Reinsurance Intermediaries in Seattle and new business that is coming both from other brokers and from direct writers, Mr. Lunsford said.

Executives at G.L. Hodson & Son Inc. also predict an increase in revenues for 1990.

New business will be responsible for much of the increase, remarked Stephen A. Crane, president and chief executive officer of the New Hyde Park, N.Y.-based subsidiary of Willis Corroon P.L.C. and the eighth-largest U.S. reinsurance intermediary.

About half of the new business growth came at the expense of other brokers, while another one-fourth to one-third resulted from new reinsurance programs, according to Mr. Crane.

The remainder came from business formerly placed with direct writers.

Hodson's revenues also will be increased by as much as 33% this year through its merger with Burlington, N.C.-based intermediary R/I Inc. (BI, April 2).

The merger of C&B and Willis Faber is 'definitely a big plus for us,' says Hodson's Mr. Crane.

R/I was acquired in June by Hodson's former parent, Corroon & Black Corp., before C&B merged with Willis Faber P.L.C. to form Willis Corroon P.L.C.

Thomas A. Greene & Co. Inc.'s 1990 revenues are expected to increase 5% to 10% over 1989's re-

sults, said Thomas A. Greene, president and chief executive officer of the New York-based subsidiary of Alexander & Alexander Services Inc. and the No. 9-ranked U.S.-based intermediary.

Mr. Greene also attributes the growth to new business, which was generated both by accounts previously handled by other brokers and by existing clients seeking reinsurance for new product niches.

Finally, combined gross revenues for Intere Intermediaries Inc. and RFC Intermediaries Inc. could rise by as much as 30% this year, predicted Bryan J. Hayes, chairman and chief executive officer of Minet Reinsurance Brokers International Ltd. in London, the parent company of Intere and RFC.

Although New York-based Intere and Atlanta-based RFC are separate companies, Minet Re—a unit of Minet Holdings P.L.C., which is owned by The St. Paul Cos. Inc.—views the two intermediaries together

as its North American operation, Mr. Hayes said.

In addition, Intere's and RFC's computer operations are linked, he explained.

Combined revenues from Intere and RFC, which had previously been ranked separately, place the Minet units in a tie with TPF&C Reinsurance as the fifth-largest U.S.-based reinsurance intermediary.

St. Paul bought Minet Holdings in February 1988, the same year that Minet acquired Intere (BI, Nov. 28, 1988). St. Paul already owned RFC.

Minet Re in London was set up in April 1989 to coordinate the company's reinsurance operations worldwide.

Mr. Hayes attributed Intere's and RFC's expected revenue growth this year to "dynamic management" with a chuckle, explaining that management changes had been made in the operations.

"I think it's just a better-run business now."

While Minet considers Intere and RFC as a single operation, Willis Corroon is not expected to merge Hodson with Willis Faber's existing U.S. reinsurance brokerage operations.

Willis Corroon is "not, at the present time, planning to put the two organizations together in terms of reinsurance," Mr. Crane said.

A project group has recommended to the transition committee deciding on the organizational structure of Willis Corroon that Hodson and the North American division of Willis Faber & Dumas Ltd., Willis Faber's reinsurance operation, not be merged, according to Mr. Crane.

Because Hodson is only one of many U.S. intermediaries that use Willis Faber's North American reinsurance operations to access the London market, the Willis Faber operations need "to retain a sufficient degree of independence from Hodson to assure their other U.S. accounts they will continue to serve them well," Mr. Crane said.

Still, Mr. Crane said he expects the merger of C&B and Willis Faber to benefit Hodson. "We think that in terms of reputation, and commitment, and image, it's definitely a big plus for us."

Hodson will have access to the "resources and capabilities" of Willis Faber's North American reinsurance operations, Mr. Crane noted.

He said it is "difficult to be specific" because Willis Corroon's structure has not yet been completely worked out.

Executives at other intermediaries say they are not concerned about the possible impact of any combination of C&B and Willis Faber's reinsurance brokerage operations.

"I don't think that there will be a competitive force created that will impact TPF&C," Mr. Mitchell said.

"We don't see that as an additional problem," Minet's Mr. Hayes said.

Generally, the Top 10 reinsurance intermediaries expect that 1990 will be an improvement over the past three years.

While 1989 was not a banner year for most of the reinsurance brokers, 1989 performance was generally better than in 1988, when six of the intermediaries' gross revenues dropped, with three falling by more than 10%, while two others' revenues remained flat.

And in 1987, three of the four Top 10 reinsurance brokers whose revenues dropped fell by more than 10%, while revenues at two other companies remained flat (BI, Oct. 31, 1988).

While brokers report that the retrocessional and catastrophe reinsurance markets are tightening, several do not think these increases will translate into increased revenues for their companies.

And, they do not see an increase in overall reinsurance rates in the near future.

Referring to the London excess—
Continued on page 6

**"Never."
"No way."
"Under no circumstances."
"By no means."
"On no account."
"No how."
"Not by a long shot."
"Not at any price."
"Not for love or money."
"Nosiree."
"Nope."
"Nix."
"Negatory."
"Fat chance."
"Nothing doing."
"No thanks."
"Forget it."**

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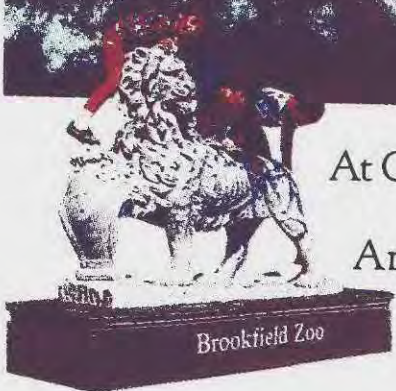
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Intermediaries

Continued from page 4

of-loss market, Minet's Mr. Hayes noted that "the market is very difficult in terms of capacity available or willingness to write it."

But, he added, intermediaries may not see increased commissions because of this tightening, because "your net gain is probably wiped out by your inability to place" some coverage.

"Probably it's a wash for us and for many others," he said.

Mr. Lunsford said Aon Reinsurance Agency has "not seen any marketwide increases in rates, although it appears likely for larger property catastrophe programs. For the most part, however, at this time any rate changes, up or down, have reflected specific client experience. We do not expect a change in this condition for some time."

TPF&C's Mr. Mitchell said he is seeing decreased supply and in-

creased rates "primarily in the retrocessional market, but that also is impacting the non-retrocessional catastrophe market."

"We don't think it will affect our commission income because we feel that some clients' increased retentions offsets an increase in premium," he said. Ceding companies are increasing their property catastrophe retentions because of the rate increases, Mr. Mitchell reported.

While brokerage executives agree about the general direction of the market, they disagree over whether ceding companies are changing their retention levels.

"There has been no discernible trend among buyers to increase either their retentions or their purchasing of traditional reinsurance products," Mr. Espe said.

"In fact, the difficulties in the retrocessional catastrophe market may see insurers buying less reinsurance either because of price or

because of lack of available capacity," he observed.

Mr. Hayes said he has seen some companies increasing their retentions for the first loss but reducing retentions for second, third and fourth losses.

**Ceding companies
'are seeking a more
holistic approach
from their brokers,'
says Mr. Espe.**

Michael E. Rothpletz, executive vp and Eastern regional manager at Hodson, said he has not seen an increase in retentions, but he thinks "there is more reinsurance being purchased at the top."

"I think because of the storms... they're recognizing that

they need to purchase as much reinsurance as they can," Mr. Rothpletz said, referring to Hurricane Hugo last year and the European windstorms earlier this year.

And Mr. Lunsford said Aon Reinsurance Agency has "not seen a widespread trend toward the purchase of more reinsurance. Companies are generally content with their current retention levels and do not seem inclined to make any major adjustments there."

Intermediary executives say they have seen an increased interest in financial reinsurance in the past year, but that interest is not always followed by a purchase (see story, page 20).

"It's sort of the flavor of the year, over the last few years, in that financial reinsurance is the answer to everybody's problems," Mr. Greene said. "In some cases it may be, but many companies need true transfer of risk."

Financial reinsurance accounts

for less than 5% of Thomas A. Greene's revenues, Mr. Greene said.

Hodson also has seen an increased interest in financial reinsurance and has formed a financial reinsurance/finite risk division in response, said Chairman Ronald J. Taylor.

"We don't advocate that financial reinsurance products replace the traditional reinsurance products, but we see a number of cases where they can be supplemental to the traditional reinsurance products," Mr. Taylor said.

"From our own experience, we have probably seen more interest than buying," Mr. Taylor said.

But, he added, in cases in which no purchase was made, "the file is still open."

Many ceding companies considering financial reinsurance transactions are doing "significant research" to make sure it would be acceptable to auditors and regulators, and that could be slowing down purchases, Mr. Taylor said (see story, page 24).

Mr. Mitchell agreed, saying he has seen "a mild increase in demand" for financial reinsurance but that ceding companies are "concerned about being looked at negatively" by auditors, regulators and rating agency A.M. Best Co.

Ceding companies are seeking a variety of services beyond the placement of reinsurance, intermediary executives agree.

"Reinsurance intermediaries must understand the goals and competitive strategies of their clients, who use reinsurance as a tool to manage risk, to augment their capital structure and to optimize the profitability of their companies," said Richard H. Blum, chairman and chief executive officer of New York-based Guy Carpenter & Co. Inc., the largest U.S.-based intermediary, at the 34th Rendez-Vous de Septembre in Monte Carlo earlier this year.

Intermediaries must act as consultants and advisers to their clients, and they must understand that reinsurance may be used as a substitute for capital and develop the products, tools and capabilities to further this objective, Mr. Blum said in his speech.

And, "the intermediary must retain his role as the advocate for the client," Mr. Blum said.

Similarly, Sullivan Payne's Mr. Espe said that ceding companies "are seeking a more holistic approach from their brokers."

"Clients are demanding an increasingly sophisticated approach to the traditional services of program design/marketing, the collection of claims, the preparation of documentation, the tracking of overdue balances (if any), as well as a sophisticated evaluation of reinsurers' security," Mr. Espe said.

"In addition, brokers are now being expected to fill the more complex roles of financial advisers, merger and acquisition consultants and, in a number of instances, are becoming important ex-officio members of their clients' senior management teams," Mr. Espe said.

"Challenges to our clients' financial performance are increasingly coming from areas not historically viewed as the purview of reinsurance—like non-performing real estate portfolios, bond portfolio composition, etc.—and we are being challenged to design products, approaches, etc. to address these broad needs."

TPF&C Reinsurance's Mr. Mitchell said ceding companies are "looking for a very strong approach to the financial analysis of the reinsurers we place business with."

And, increasingly they are "looking for in-depth financial analysis to ascertain what impact

Continued on page 10



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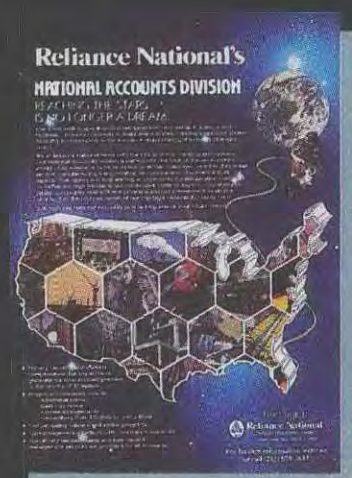
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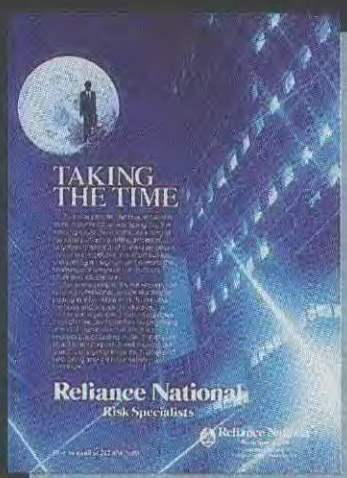
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Opinions

Don't stop thinking 'Green'

ADOPTING MORE STRINGENT environmental controls is no less a priority for businesses since voters last week rejected environmental ballot initiatives in several states around the country.

Rather, businesses should redouble their efforts to clean up past pollution and prevent additional damage to the environment. Proving to the public that businesses are doing their part to solve past pollution problems and minimize them in the future is the best defense against future ballot initiatives that businesses could find onerous. In addition, it reduces the risk of additional cleanup costs and liability suits.

Most noteworthy of the environmental ballot initiatives to fail was the so-called "Big Green" in California. Business interests in California apparently succeeded in convincing voters that the ballot initiative imposed with one sweep too many environmental controls whose cost to the state economy outweighed their benefit to the public.

Big Green also may have failed because it was too long and too complex for voters to fully understand, which is reminiscent of the defeat two years ago in California of the insurance industry-backed auto insurance initiative.

The defeat also has been partially blamed on voter concern about increasing spending when they fear worsening economic conditions and growing

voter disillusionment with government in general. Regardless of which was the more important factor in the defeat of Big Green, businesses must not read it as a dwindling public interest in improving the environment or public tolerance for pollution. Neither is the case.

Let's have an end to monkey business

ONCE AND FOR ALL, let's get rid of the hackneyed references to chimpanzees and a gorilla when debating regulation of the insurance business.

It is an old and often-repeated argument: The insurance industry would rather have to wrestle with 50 chimpanzees (read state insurance departments) than one gorilla (read federal regulator).

True, in times gone by when the most pressing criticisms of insurance regulation were that it was bureaucratic and petty, the allusion was pretty clever.

Now, however, when the debate is focused on the more serious issue of how to best regulate insurers for solvency, the references to primates are trite and, quite frankly, insulting.

Letters

Punitive damage awards deter arrogant insurers

To the editor: Insurance is supposed to spread the risk but, from some of the recent headlines I have been reading, it appears that insurance companies are trying to spread something other than risk.

The Oct. 29 issue of *Business Insurance* carried the letter to the editor titled "Punitive Damages Fuel Unjust Greed." What is troubling about this type of headline is that some fair-minded people who are not aware of the complete facts could give it some credence. The insurance industry public relations mills are becoming quite ingenious at distorting the truth in order to mold public opinion to their liking.

As a recent RAND Corp. survey showed, punitive damage verdicts are not as commonplace as the insurance industry wants everyone to believe. However, that is not the point. The crucial point which is kept in the dark is that very little money changes hands with respect to punitive damage verdicts. Due to some very stringent reviews by trial judges and appellate courts, only the most egregious cases survive. The overwhelming majority of punitive verdicts are either overturned or drastically reduced. Yet, you would not know this from reading the insurance industry hype.

The truth of the matter is that punitive verdicts are little more than a judicial slap on the wrist for some very offensive commercial behavior. The insurance industry is so arrogant that it is now attempting to snuff out the last remnant of discipline for its offenses, so that it can roam the commercial world unencumbered by any potential judicial wrist-slapping.

Insurers really don't want standards for punitive damages. We have standards for excessiveness of punitive damages all over the place. All one has to do is read

the appellate court opinions. What they really want is to wipe the law off the books so they can commit whatever offenses they want—to whomever they want—without any fear of judicial intervention.

The punishment handed out by juries against insurance companies has been beneficial for consumers. Jury verdicts are helping to equalize the power between the large insurance company with its unlimited funds and the small consumer. The message is clear: Those who abuse the free marketplace can be brought to justice and deterred from further wrongdoing. That message is in danger of being reduced to a whisper if the insurance lobby has its way.

What is really unfair is that there is no equality of punishment. When a policyholder commits fraud, he is prosecuted and goes to jail. When was the last time you heard of an insurance executive going to jail for defrauding a policyholder? It doesn't happen. Their licenses to do business don't even get suspended. About all that happens is the possibility of a punitive damage award which usually gets reduced. Now they want to take that away.

Industry lacks publicity sense

To the editor: Oh no, there they go again!

Business Insurance reported in the Oct. 29 issue that at a meeting of the Dallas-Fort Worth Chapter of the Risk & Insurance Management Society Inc., several leading insurance industry executives said that the next hard insurance market "could be as severe as the hard market of the 1980s."

Cui bono? Does the industry benefit from statements like these? Why not give the politicians and consumer activists a hammer, nail and coffin in which to bury us?

Where in heaven's name is the political acumen and public relations sense of this industry? Obviously it is grossly non-existent. Surely the current miasmic state of consumer public relations we are in proves this.

During the last hard market, I rejected the "get it all back now and get all the

The insurance industry argues that these awards are windfalls. If they are, they are not nearly the windfall the insurance industry reaps when it invests policyholders' money after delaying and denying benefit payments. Furthermore, whatever windfalls these awards represent, they also have the undeniable therapeutic effect of making the insurance industry more honest. Ironically, it is the insurance industry that has prevented the elimination of the windfall.

There have been many bills introduced in various legislatures allowing punitive damage awards to go to public interest projects. The insurance lobby has kept such laws off the books. They know if this money is used for public interest projects these awards would become more popular with judges, juries and the public. It is these awards, and these awards alone, that will ensure that ordinary people are treated fairly by their insurance companies. This is a sound, judicial policy that aims to preserve basic economic and social rights within a democracy.

William M. Shernoff
Senior Partner
Shernoff, Bidart & Darras
Claremont, Calif.

market will bear" philosophy of increasing premiums.

I predicted then that the excesses of the hard market would come back to haunt this industry in more ways than we could ever imagine. I am sorry to say that my prediction was correct.

This time, though, there may not be a next time. This hard market may be the last hard market.

I urge all executives and leaders to focus on the paramount issue facing our industry—improving our horrendous standing in the eyes of the public we all seek to serve.

This is a far more important and enormous task that demands our comprehensive energies now, before it is truly too late.

Dennis W. Jeff
President
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SUBSTANCE ABUSE IN THE WORKPLACE — THE BLUE COLLAR VIEW.

One in an ongoing series of conversations between Argonaut Insurance Company, our clients and their brokers, dealing with issues important to their business. The intent is to keep the lines of communication open. We invite your participation.

THE PARTICIPANTS: **CURTIS WESSELMAN**, Vice President of Wessem Construction; **DENNIS DELUCCIO**, Superintendent, Wessem Construction; **JESS GORMAN**, Superintendent, Wessem Construction; **STEVE LA SHIER**, Senior VP Safety Management, Argonaut Insurance Company; **LARRY EVANS**, Manager of Safety Management, Argonaut Insurance Company.

MODERATOR: We've been talking about the problems of substance abuse in the construction trade and how to deal with it. Your firm, Wessem Construction, specializes in residential framing. You said you have a core group of roughly 200 employees, and another 200 to 400 you bring in when things get really busy. Since framing jobs typically last a few weeks or months and then the guys move on to another job, how do you think the problem of substance abuse can be addressed?

JG: First, you have to get the builders and other subs aware of the whole problem, then get everyone to buy into the program. We talk to our competitors all the time. They all have the same problems we do. Yes, it would be good to have a program, but it always gets back to dollars and cents.

SL: Remember that you don't have to pay for an Employee Assistance Program. All you have to do is provide access to it. That could be as simple as a typewritten letter with a list of all the EAP providers. Or the number to your local cocaine hotline. Even if you did pay for it, it's almost always cheaper to help rehabilitate someone than it is to find and train someone to replace him. Especially if he's a foreman or manager.

JG: Does Argonaut reduce rates for companies with a drug policy? What incentives do you give?

SL: The incentive is money. Your money. You're on a participating plan. The smaller your losses, the more money you get back. We're not into guaranteed cost providing. That's a losing proposition for everyone. Say your comp rate is a 57. If you cut back to a 40, you're going to get more of your money back. We'll help you any way we can. That's the type of partnership we're looking for. Companies that want to do everything they can do to minimize losses. That's why the only plans we write are participation plans.

JG: It costs us money to get that rate down, it's not all savings. The better quality tools we have to buy, the labor we have to hire to keep the job sites clean and safe, that's money right out of our pocket.

CW: We're always open to new ideas. I think what's really going to change things is when owners say, "Every contractor must have a drug program." If all

the contractors and subcontractors have to pay the same costs to screen or test workers, then they're going to pass the added cost along in their bids. When that happens, everyone competes on the same level again.

DD: We had a foreman call about a year ago saying, "Hey, this guy's drunk or something. What can I do?" He didn't know. He cares about this company so he doesn't want to just say, "Hey you, get out of here." So he calls me. For insurance reasons, and we live in fear of insurance, I said, "Fire him!" What the heck, if he injures somebody, we'll be in worse shape. And nothing ever came of it. Never heard another word about it. But I was worried for a while.

SL: I understand that, and it sounds like you handled it OK. The thing you don't want to do is tell the employee he's a drunk. You'll land in court. Why? Because you're not a doctor, a district attorney, or a policeman. You have to teach your supervisors that while they may know a person is unfit for duty, they don't know why. You can terminate someone for being unfit for duty, but make absolutely sure you don't use the words "drunk," "alcoholic," "substance abuser," "cocaine addict," or anything like them. That is defamation of character.

That person may be a diabetic without his insulin. You don't know until you test him.

DD: What you just said should be written down. That's one of the things we need. Guidelines to tell us what we can and can't do.

MODERATOR: Is it difficult to find information about substance abuse in the construction industry?

CW: Like we said, we talk to other people

in the industry; other people on the union board. But no, as far as I know, there's no good source of information that tells us what we can and can't do, or how to do it, or who else has done it.

SL: You need to know that you have the right, the obligation, to provide a safe workplace. You have the legal right to set company policy. But remember that confidentiality is the key to any EAP program. You don't need to know who's in a program. No one here needs to know who's in the program and who's not.

MODERATOR: So all you need to know is that everyone on your payroll is testing negative for illegal drugs and alcohol?

SL: Exactly. There's something else you have to be careful about. Suppose your best carpenter suddenly can't hit a nail to save his life. Is he on drugs? Alcohol? Maybe. But it could be that his wife just left him, or his kid is in trouble. You don't know. And an EAP program is your best way of dealing with it. It lets you deal with a problem as a safety and productivity issue, without making you into a counselor.

LE: Meeting performance standards is really a key issue. If you have a problem with someone,

don't tell him it's because he's a drunk. You tell him it's because he's supposed to make ten widgets an hour and he's only made two. Tell him how to get help. If the problem doesn't go away, then you have

Assistance programs

initiated by the employer are
twice as likely to succeed.

to sit down and have a heart-to-heart talk about whether he's going to be able to remain an employee of your organization.

JG: But like you said, a guy breaking up with his wife isn't the same as being drunk or using drugs.

SL: You're right. But whatever the problem is, you sure don't want him up there stacking trusses until he gets it taken care of.

LE: A company I worked for instituted their first testing program in 1979. They found that some of the guys who had been working for them more than 25 years had been coming to work drunk every day. The supervisors didn't know it. They thought that was just the way the guys were.

CW: This is a hard-drinking, good old boy business.

SL: You bet, and some of those good old boys worked their way up to management and into the board room. They knew what was going on and didn't do anything about it. But things are changing. A lot of those guys are gone. There's new management, and they're very dollar conscious. They won't put up with this stuff. And do you know why? Because it increases their insurance costs. Like you said, Curtis, it all comes down to the bottom line.

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For a copy of the complete discussion on substance abuse in a blue collar environment, please write to Argonaut Insurance Company at the address above.

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Substance abusers
are absent 2 1/2 times more often
and file a comp claim 5 times
more often.

Intermediaries

Continued from page 6

their reinsurance has on their financial statements," he said.

They also want "more consultation and expertise to be provided by the intermediary in the claims area," Mr. Mitchell said.

To fill these demands, TPF&C Reinsurance can offer services in conjunction with Tillinghast, the insurance and risk management consulting division of its parent, Mr. Mitchell said. For example, the two TPF&C divisions combined can help insurer clients determine whether they have an appropriate system for monitoring their ceded reinsurance programs, he said.

Willcox's Mr. King said ceding companies are seeking "far more sophisticated financial modeling" to determine reinsurance needs based on past experience and predictions of the impact of natural disasters.

In addition, "I think intermediaries have been called on to do more work in the claims area," Mr. King said.

Minet's Mr. Hayes said ceding companies want intermediaries to be "professional, well-qualified and innovative."

And, "I think they want (intermediaries) to be global," he said.

Blanch's Mr. Cashman finds ceding companies particularly interested in financial information about reinsurers.

Actuarial services also are important to clients, particularly catastrophe analysis, he said.

Hodson's Mr. Taylor agreed that

financial analysis of reinsurers is important to clients.

For larger insurance companies that have their own security committees, Hodson is mainly "crossing all the Ts and dotting all the Is," but the intermediary plays an increasingly large role in determining the financial status of the reinsurer as the size of client shinks, Mr. Taylor said.

Ceding companies also are interested in actuarial analysis, particularly software that forecasts potential losses in the event of a disaster, he said.

Hodson receives support in this area from Corroon & Black actuaries and auditors, he said.

Mr. Taylor said he thinks the merger of Corroon & Black with Willis Faber will result in a "furtherance of our own credibility vis-à-vis our long-term staying power," though he added that Hodson already had that under C&B alone. "I'm not sure some of the smaller firms can make that statement."

While many ceding companies are increasingly interested in the financial wherewithal of their reinsurers, Aon Reinsurance Agency's Mr. Lunsford said ceding companies also "are examining the financial resources of intermediaries to ensure that these services can be provided not just now, but for many years to come."

"In addition to reinsurance program evaluation and design, we have provided service in areas such as contract and policy wording, claims runoff, letters of credit servicing (if applicable), and systems applications," he noted.

Summaries of the performance of the 10 largest reinsurance intermediaries follow:

Guy Carpenter & Co. Inc.

Business Insurance estimates that revenues for Guy Carpenter, the largest reinsurance intermediary, fell 1.3% to \$248.7 million in 1989, from \$252 million in 1988, based on information available in the annual statement of its parent, Marsh & McLennan Cos. Inc.

For the first time, Guy Carpenter's revenues were estimated by including revenues from C.T. Bowring Reinsurance Ltd. of London. M&M merged Guy Carpenter and Bowring's reinsurance activities into one operation earlier this year (BI, Aug. 20). The estimate of Carpenter's 1988 revenues was restated to reflect the combination.

While Guy Carpenter is the name of the combined international reinsurance brokerage, C.T. Bowring's operation in London retains its name.

Guy Carpenter does not disclose its premium volume or break down its business between treaty and facultative operations. Company officials would not consent to interviews.

Guy Carpenter Chief Executive Officer Richard H. Blum assumed the additional title of chairman when Carpenter's and Bowring's operations were combined. G.H.C. Wakefield, who had been chairman of Bowring, became deputy chairman of Guy Carpenter.

The intermediary reported that the employee count for Guy Carpenter

and C.T. Bowring together dropped by 1.5% to 2,117 in 1989 from 2,150 in 1988.

Sullivan Payne Co.

Estimated gross revenues at Sullivan Payne fell about 3.8% in 1989 to \$50 million from \$52 million in 1988.

Sullivan Payne does not disclose its premium volume. However, of its 1989 premium volume, 90% came from treaty business and 10% from facultative reinsurance, the same percentages as in 1988.

The intermediary's total number of employees dropped about 4.7%, to 410 in 1989, from 430 in 1988. Of these, 340 were assigned to treaty reinsurance, a drop from 355 in 1988. And, 70 employees were assigned to facultative reinsurance, compared with 75 in 1988.

Sullivan Payne's clients range from large nationwide and worldwide insurance companies to small regional insurers, and from multiline insurers to monoline companies. About 13% of its accounts are based outside the United States.

About 15% to 20% of Sullivan Payne's U.S. business is placed with reinsurers outside the United States, and its Canadian business is placed mainly with Canadian reinsurers, according to Mr. Espe, Sullivan Payne's president and chief executive officer.

"If anything, the volume of business placed in 1990 outside of the U.S. increased primarily because of new business activity in classes of business on which the London and continental European markets pro-

vide significant capacity," he said.

In the last year and a half to two years, Sullivan Payne invested more than \$1 million in research and development and in the development of sophisticated reinsurance analysis techniques, according to Mr. Espe.

One key personnel change in the past year was the hiring of Craig Ott as senior vp. Mr. Ott, who previously was a broker with Aon Reinsurance Agency Inc., will develop a management information system for clients that collects and analyzes risk data to facilitate underwriting, reinsurance buying and management decision making.

E.W. Blanch Co.

Business Insurance estimates E.W. Blanch's gross revenues increased 0.5% to \$47.2 million in 1989 from \$47 million in 1988.

The limited partnership reported a 0.5% increase in premium volume to \$940 million in 1989 from \$935 million in 1988. Treaty business accounted for 98% of premium volume in 1989, compared with 97% the prior year.

Blanch reported 301 employees in 1989, a 1.3% decrease from 305 in 1988. Of those 301, 286 were assigned to treaty reinsurance, up slightly from 284 in 1988. And, 15 were assigned to facultative reinsurance in 1989, down from 21 the previous year.

Mr. Cashman, Blanch's president and general partner, said the intermediary handles a core book of small to medium-sized regional insurers,

Continued on next page

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Continued from previous page but also works with a number of larger companies.

Blanch's insurance specialties include life, accident and health; professional liability; alternative risk financing mechanisms; and retrocessional accounts.

Fewer than 1% of Blanch's clients are based outside of the United States, and the intermediary places about 10% of its business with foreign reinsurers, he said.

About 1.5% to 2% of Blanch's business in 1989 was placed for alternative risk financing mechanisms, including risk retention groups and captives, Mr. Cashman said, but that figure is approaching 4% in 1990. Blanch has emphasized alternative risk business because "we see it as a continuing growth area," he said.

Blanch was sued in June in a Nashville, Tenn., state court by the insolvent Cherokee Insurance Co., which claims the intermediary is responsible for \$2.5 million in losses Cherokee has been unable to collect from five reinsurers (BI, July 23). Mr. Cashman said he could not comment on the pending litigation.

Key hires in the past year include Joseph W. Hullett, a senior vp who opened Blanch's Philadelphia office, from TPF&C Reinsurance, where he was a senior vp and director; Jon R. Kocourek, a vp in the San Francisco office, from Thomas A. Greene & Co. Inc.; and Thomas S. Nelson, senior vp-financial group, from Dougherty Dawkins Inc., a securities broker dealer where he was chief financial officer.

Key promotions include Donna M. Hentges, promoted to managing partner from executive vp-operations, and Chris L. Walker, promoted to senior vp from vp/senior broker.

Willcox Inc.

Business Insurance estimates Willcox's gross revenues jumped 17%, to \$39.2 million in 1989 from \$33.5 million in 1988.

The intermediary does not release its premium volume, but it reported that 99% of its 1989 premium volume came from treaty reinsurance, up from 98% in 1988.

Willcox reported an employee count of 199 for 1989, a 5.9% increase from 188 in 1988. Of those 199, 197 were assigned to treaty reinsurance, compared with 184 in 1988. The remainder in each year were assigned to facultative reinsurance.

Willcox executives report the company handles clients of "all sizes and types" and that about 20% of its clients are based outside the United States. Between 30% and 35% of Willcox's business is placed with reinsurers outside the United States, they say.

Willcox's specialties include international, marine, aviation, financial, life, accident and health reinsurance.

Recent promotions include Thomas Hancock, promoted to executive vp from senior vp, and Charles Griffin, John Reinman and Timothy Rivers, all promoted to senior vp from vp.

TPF&C Reinsurance

TPF&C reported its gross revenues

fell 14.3% to \$30 million in 1989 from \$35 million in 1988, compared with the \$40 million in 1988 revenues that *Business Insurance* had estimated a year ago.

The 1989 revenue decline is due to TPF&C's decision to restructure its facultative business, said Mr. Mitchell, the broker's managing director and chief executive officer. TPF&C in 1989 closed its New York facultative office and restructured its other facultative operations, he said.

"Our plan is to stay in the facultative business long-term, and our restructuring allowed us to do this," Mr. Mitchell said.

The intermediary reports its premium volume rose 2.4% to \$600 million in 1989 from \$586 million in 1988.

Of that premium volume, 80% stemmed from treaty reinsurance in 1989, while 20% came from facultative. In 1988, 78% was related to treaty, while 22% was related to facultative.

TPF&C reports it had 254 employees in 1989, a 9.6% drop from 281 in 1988. In 1989, 209 employees were assigned to treaty reinsurance, compared with 219 in 1988, while 45 were assigned to facultative in 1989, compared with 62 in 1988.

Among TPF&C's clients, 20% are national insurance companies, 60% are regional insurers and 20% are more localized, Mr. Mitchell said. They are primarily multiline companies or specialty writers for lumber and grain mills and elevator businesses, he said.

None of TPF&C's clients is based

outside the United States, Mr. Mitchell said.

In the past year, TPF&C increased its involvement in brokering reinsurance for professional liability lines like medical malpractice.

Mr. Mitchell said the brokerage sees professional liability as "a growing area."

About 40% of TPF&C's business was placed with reinsurers outside the United States in 1990, compared with 30% in 1989, Mr. Mitchell said.

Intere Intermediaries Inc./ RFC Intermediaries Inc.

Intere and RFC, both units of Minet Reinsurance Brokers International Ltd., have been ranked together this year because their financial results are now calculated together by Minet.

Intere and RFC together generated about \$30 million in gross revenues in 1989, according to Mr. Hayes, chairman and chief executive of Minet Re. For 1988, *Business Insurance* estimated Intere's gross revenues to be about \$18 million and RFC's to be about \$12 million.

Roughly two-thirds of the companies' business is treaty reinsurance, which is handled by Intere, and about one-third is facultative, which is handled by RFC, Mr. Hayes said. RFC's treaty business has been moved to Intere in the past year.

Intere's employees totaled 161 in 1989, a 5.8% drop from 171 in 1988. The company does not report its premium volume. Its specialties include marine, aviation, accident and health reinsurance.

RFC did not report its premium volume or employee count.

About 10% of Intere's and RFC's clients are based outside the United States, and about 15% of the companies' business is placed with foreign reinsurers, Mr. Hayes said.

Intere Chairman Ward B. Gordon will retire Dec. 31. He will subsequently become president of the Brokers & Reinsurance Markets Assn. (see story, page 35).

A new chairman has not been named. The president and chief executive officer of Intere is Daniel R. Colello.

Aon Reinsurance Agency Inc.

Business Insurance estimates Aon Reinsurance Agency's revenues rose 5% to \$27.3 million from \$26 million in 1988.

Aon Reinsurance Agency does not report its premium volume. In 1989, 97% of its premiums came from treaty business, the same as in 1988.

The intermediary reported 132 employees in 1989, a 9.6% decrease from 146 in 1988. Of those, 112 were assigned to treaty reinsurance, compared with 129 in 1988, and 20 were assigned to facultative reinsurance, compared with 17 in 1988.

Aon Reinsurance Agency's clients vary widely in size and type, said Mr. Lunsford, the brokerage's senior executive vp and chief operating officer. "We deal with just about everybody." Fewer than 5% of the intermediary's clients are based outside the United States, he said.

Continued on next page

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Intermediaries

Continued from previous page

Less than 15% of Aon Reinsurance Agency's business was placed with reinsurers outside the United States in 1989, and that number has increased to slightly more than 15% in 1990, according to Mr. Lunsford. "Most of this involves placement in Lloyd's and the London market," he said.

In October, Lee G. Eltringham joined Aon Reinsurance Agency as a senior vp in the New York office. Mr. Eltringham previously was president and chief executive officer of Houston Reinsurance Corp.

G.L. Hodson & Son Inc.

Estimated 1989 gross revenues for Hodson were flat, remaining at \$23 million for both 1989 and 1988.

Hodson reports a 5.6% increase in premium volume for 1989 to \$380 million from \$360 million.

The portion of premium volume from treaty reinsurance rose to 91% in 1989 from 81% in 1988.

Hodson's employee count shrank by 1.5% in 1989, to 201 from 204 in 1988. In 1989, 172 employees were assigned to treaty reinsurance, compared with 164 in 1988, and 29 were assigned to facultative reinsurance, a drop from 40 in 1988.

The portion of Hodson's business devoted to facultative reinsurance has decreased "pretty steadily" and is currently "well below 10%," said Mr. Crane, Hodson's president and chief executive officer.

Mr. Crane attributes the decrease to market conditions and Hodson's decision to emphasize treaty business, though he added that the intermediary would continue to handle facultative business when it is profitable.

The increase in percentage of treaty business also stems from Hodson's merger with R/I Inc., which handles treaty reinsurance

almost exclusively, Mr. Crane said.

The intermediary's clients "run the gamut from the very, very small to the very, very large," said Mr. Taylor, Hodson's chairman. "We go from A to Z in both size and type."

Only a "smidgen" of Hodson's clients are based outside the United States, Mr. Taylor said. Less than 20% of the business Hodson handles was placed with foreign reinsurers in 1989, and that figure will probably be between 20% and 25% for 1990, he said.

Hodson reports its specialties are aviation, surety, trucking, professional liability and finite risk reinsurance. Its trucking specialty was strengthened by merging with R/I.

A separate surety and fidelity division was created in August because "we think it's an attractive and profitable area of reinsurance," Mr. Crane said.

In personnel changes, Jay Johnson, formerly president and chief

executive officer of R/I, became an executive vp, a member of Hodson's management committee and manager of Hodson's Southern region, which includes Hodson's Atlanta office and R/I's Burlington operation. Neill Currie, also formerly with R/I as a senior vp, was named Hodson's resident manager in Georgia.

Michael R. Parker was recruited from Willcox to be senior vp in charge of the new surety and fidelity division.

Also, Senior Vp Patricia A. Donahue took on additional responsibilities for managing the financial reinsurance division, and a large account resources division was formed and is being directed by Mr. Rothpletz, executive vp and Eastern region manager.

Thomas A. Greene & Co.

Business Insurance estimates that Thomas A. Greene's gross revenues fell 6% to \$22.1 million in

1989 from \$23.5 million in 1988.

Greene reports that its premium volume fell 6% to \$435 million in 1989 from \$463 million in 1988. Of its total premium volume, 95.5% was derived from treaty business, compared with 93.5% in 1988.

The intermediary reported an 11.8% decrease in employees to 187 from 212 in 1988. Of these, 165 were assigned to treaty reinsurance, compared with 185 in 1988, and 22 handled facultative reinsurance, a drop from 27 in 1988.

The intermediary's current number of employees is down about 30 from year-end 1989, said Mr. Greene, president and chief executive officer. Staff was cut this year through attrition and layoffs, he said.

The cutbacks "were in support areas of the company where we just didn't need them anymore," he said. "We let no producers go, and we let no key people go in the service area." An investment in increased computerization allows the company to operate with fewer support staffers, he said.

In December 1989, Thomas A. Greene formed a life, accident and health reinsurance division, designed to assist life insurance companies with conventional and financial reinsurance placements as well as with mergers and acquisitions. The decision to form the division came after a study that showed "none of the major reinsurance brokers on the P/C side really have an across-the-board life and A&H capability," Mr. Greene said.

(Mr. Cashman of Blanch, however, disagrees, pointing out that Blanch has handled life and A&H reinsurance since 1977.)

The new Thomas A. Greene division has contributed a "very small" portion of business in 1990, Mr. Greene said, adding that "we expect it to be a significant portion of the business in three to five years."

Joseph F. Kolodney was hired to head the new division and is a senior vp of Thomas A. Greene. Mr. Kolodney most recently was president and chief operating officer of Presidential Life Insurance Co. in Nyack, N.Y.

Thomas A. Greene handles clients of all sizes and types, Mr. Greene said. "You name it, we do it." Nearly all of the intermediary's clients are in the United States, except for a couple of Canadian insurers, he said.

About 10% to 12% of Greene's business has been placed with reinsurers outside the United States for the past few years, he said.

Earlier this year, the intermediary hired James P. Snedeker as senior vp in the Stamford, Conn., office and Frank J. Lyons as senior vp of the marine department. Mr. Snedeker previously was a senior vp with Gill & Roeser Inc. in New York. Mr. Lyons had been senior vp of the marine department at Guy Carpenter.

John P. Woods Co. Inc.

The New York-based John P. Woods is included in the BI ranking of the 10 largest U.S. reinsurance intermediaries for the first time because it provided financial information to *Business Insurance* for the first time.

The intermediary, the 10th largest in the nation, took RFC's place in the ranking.

John P. Woods reports that its gross revenues increased 8.4% to \$15.5 million in 1989 from \$14.3 million in 1988. Premium volume rose 5.3%, to \$400 million from \$380 million.

John P. Woods reports that it handles only treaty reinsurance, and that it had 50 employees in 1989, a 4.2% increase over 48 in 1988.

Company officials declined to be interviewed for this story. ■

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Reinsurers

Continued from page 3

said Andrew Barile, co-chief executive officer of reinsurance intermediary Andrew Edwards & Co. Inc. in New York.

When the National Assn. of Independent Insurers' annual conference opens today in Los Angeles, reinsurers will be 'trying to figure out how to meet premium goals and expectations for 1991,' Mr. Barile added.

Executives of reinsurers flock to the NAIH annual meeting to meet with ceding companies.

Rates are not changing dramatically, "but even small declines are dramatic because we're at such a low level" and there is a multiplying effect, commented Bard E. Bunaes, chairman and chief executive officer of Constitution Reinsurance Corp. of New York.

"I think the market continues to be very soft for traditional types of business," including working layer and lower level excess-of-loss property and casualty business, said George Roberts, president of Reliance Reinsurance Management Inc. in Philadelphia.

"We see no signs, really, that the market is tightening at all. Reinsurers continue to be very, very hungry for those types of opportunities, and very little of that business can be written today with the expectation of making an underwriting profit," Mr. Roberts commented.

Reliance Reinsurance Management generally participates in the first \$1 million of exposure for specialty lines, including asbestos abatement, directors and officers and professional liability coverages.

Growing interest in this type of business is spurring competition, Mr. Roberts said. "Everyone now wants to be a niche underwriter, and everyone is searching for the right niche."

Terms "are being broadened and the rates are being lowered a bit, but they're not giving the store away," said Albert P. Amato, senior vp of New York-based C.L. Frates Reinsurance Intermediary Inc., whose specialties include D&O and fidelity coverages. "These lines of business have never been easy."

"We're certainly not seeing any serious change in rates or pricing or terms," said Michael Smith, a securities analyst with the Shearson Lehman Bros. unit of Shearson Lehman Hutton Inc. in New York.

"Certain property catastrophe rates are going to be higher and I think casualty catastrophe rates will be higher, although modestly so, but I see very little else changing much," commented A. Edward Gschwind, president and chief executive officer of American Royal Reinsurance Co. in New York.

With the exception of retrocessional catastrophe business, "I'm pretty much expecting it to be renewal as expiring at the reinsurance level," said Paul Ingrey, president of F&G Re Inc. in Morristown N.J., a USF&G Corp. unit.

Rates will not decline, but "I also don't see them going up," he said.

"I don't believe that the casualty reinsurance market ever really softened that much" and it has remained fairly stable for three or four years, said Philip W. Mitchell, managing director and chief executive officer of intermediary TPF&C Reinsurance, a division of Towers, Perrin, Forster & Crosby Inc. in Philadelphia. "I would expect that would continue," with "pretty much renewal as is" in the casualty segment of the market.

Property reinsurance, though, has softened more than casualty, Mr. Mitchell noted, adding that softening still seems to be taking place, although "at a much slower pace." He said, however, that he believes prices in this market seg-

ment will level off at year-end.

"On casualty business, I don't see much change," said Mark Mosca, vp and manager of the treaty department at NAC Re Corp. in Greenwich, Conn. "I would not anticipate much change in year-end renewal terms."

"On property business, there will be some upward pressure on rates for covers that incurred heavy losses for Hugo and/or Phillips and potentially other large property losses over the last 18 months," he said, referring to Hurricane Hugo (BI, Oct. 2, 1989) and the Phillips Petroleum Co. petrochemical plant explosion in Pasadena, Texas (BI, Jan. 1; Oct. 30, 1989).

However, for cedants without major losses, rates will be "level to maybe down a bit," Mr. Mosca said.

"We're between a rock and a hard place," suggested Ward B. Gordon, chairman of Intere Intermediaries Inc. in New York. There

is a lot of pressure to keep rates the same, and there will not be a great change in the rate structure, he said.

However, the retrocessional market will be a "bugaboo," with reinsurers unsure of both rates and

don.

"We are anticipating a long, difficult and contentious renewal season," said Willis T. King Jr., chairman and chief executive officer of Willcox Inc., a New York-based reinsurance intermediary. Many fac-

'Certain property catastrophe rates are going to be higher and I think casualty catastrophe rates will be higher, although modestly so, but I see very little else changing much,' says A. Edward Gschwind, of American Royal Reinsurance Co.

capacity, Mr. Gordon said.

The problem will be what to do once reinsurers realize their retrocessional covers are not complete even though they paid a lot. "In my opinion, this is going to be a very uncomfortable renewal time for a lot of underwriters," said Mr. Gor-

tors having little to do with U.S. insurers are having a definite impact on the capacity and strength of the worldwide market, he explained.

"I think there will be an attempt, especially by non-U.S. reinsurers, to harden their rates," Mr. King

said. However, U.S. ceding companies called upon to support increased rates because of substantial losses in Europe will find it difficult to do so, in light of competition at home and because their business has been profitable, he said.

"I think there will be a lot of testing, offers, rejections and more offers before the end of the season," said Mr. King. He added that he is unsure how successful attempts to raise rates will be.

Charles E. Erickson, executive vp at Signet Reinsurance Co. in Morristown, N.J., said that while it is still too early to be definitive, "I don't think there'll be any more erosion of rates."

"I think you'd either see it level, or possibly some modest increases, depending on how things go later in the season," Mr. Erickson said.

Generally, however, most observers agree that tightened capac-

Continued on next page



Continued from previous page
ity in the catastrophe and retrocessional markets caused by the disasters over the past 18 months is unlikely to significantly affect the overall reinsurance market.

Tighter catastrophe and retrocessional capacity alone is "not going to have much overall effect," said Mr. Greene.

"I'm pessimistic there'll be any spillover effect," said Paul Hawksworth, president and chief executive officer of the Mercantile & General Reinsurance Co. in Morristown, N.J.

Any spillover, said Mr. Hawksworth, would most likely be in the risk-excess area because some of those exposures "certainly contribute to your catastrophe exposures." But, he added that he is not very confident that "much attention will be paid to risk excess."

F&G Re's Mr. Ingrey also said he does not see a direct causal relationship between the tightening in

the London market excess of loss—or LMX—market and the overall reinsurance market.

None of the top 20 reinsurers in the U.S. market "were badly hit by the European storms," while none of them were too badly hit by Hurricane Hugo. "It was not a back breaker," Mr. Ingrey said.

"What's happening in the LMX market is going to affect a very narrow segment of the business, and that's catastrophe business," said NAC Re's Mr. Mosca.

"Abundant capacity" in the United States will diminish whatever impact the situation in London would have, said Thomas J. Gallagher, senior vp for Prudential Reinsurance Corp. in Newark, N.J.

"I don't see it affecting the domestic market to any great extent right now," said North American/Swiss Re's Mr. Stempson. "These things usually take a year or so to wash through the system."

"I don't think that will have any

impact" on the general market hardening, agreed TPF&C's Mr. Mitchell.

"Larger companies pay such a small percentage of their premium dollar for catastrophe protection" that the impact on the bottom line

"I'd say you may see the London market looking to write more non-catastrophe U.S. business and so, if anything, it would tend to dampen any price increases that might start developing," he said.

Noting that it is still "too early

'There's definitely a scrambling in London for their own protection. How that will flow to the U.S. ceding companies is not particularly clear, but my guess is it will have some impact, particularly on the larger companies,' says E.W. Blanch's Michael Cashman.

is not very significant, Mr. Mitchell said. Stock market movements have much greater potential impact, he added.

In fact, Mr. Erickson believes the LMX market could well discourage any general hardening in the U.S. reinsurance market.

to call," Mr. Erickson said, "I think that some of the (Lloyd's of London) syndicates are going to be de-emphasizing their catastrophe writings, and trying to replace it with non-catastrophe business."

Others, however, say the tightening in the LMX market may force

rates up.

"I do believe, yes, that '91 will see an increase in primary commercial property rates," said Steven H. Newman, chairman, president and chief executive officer of Underwriters Reinsurance Co. of Woodland Hills, Calif.

Rising catastrophe rates and the fact that ceding insurers will not be able to purchase as much coverage as they wish "puts a great deal of added strain" on insurers' ability to write property business as usual, he said.

Mr. Newman added that companies will differ in how soon they begin passing along higher rates.

Robert M. Huggins, chairman, president and chief executive officer of Belvedere America Reinsurance Co. in New York said, "I think it has the potential to impact the overall property market."

As chief executive officer, said Mr. Huggins, he buys catastrophe retrocessional coverage to protect his company's balance sheet. If either less or none at all is available, "we have to make a decision."

As a result, he said, a reinsurer may be unwilling to continue the same level of commitments if he cannot protect them.

Jeremy Wallis, president and chief executive officer of New Zealand Reinsurance Co. of America in Chatham, N.J., said also he believes the LMX situation will affect the overall market. "I think it will, personally. I can't see how it can't, frankly."

But Mr. Wallis is uncertain about when the impact will be felt. A key issue, he said, is whether reinsurers will expose their capital to retaining more risk.

Michael W. Cashman, president and general partner of E.W. Blanch Co. in Minneapolis, said he is not sure how the U.S. market will be affected the tightening in London.

"There's definitely a scrambling in London for their own protection. How that will flow to the U.S. ceding companies is not particularly clear, but my guess is it will have some impact, particularly on the larger companies," he said.

Meanwhile, most reinsurance observers say they expect contract terms and conditions to remain liberal at year-end renewals.

Terms and conditions "continue to loosen or broaden," said Mr. Greene of Thomas A. Greene.

Terms and conditions are "fairly liberal, but not reckless at all," said Crump Re's Mr. Zaffino.

"I really don't see any significant changes, not in a general sense," said NAC Re's Mr. Mosca.

"Most of the bells and whistles have come out already, and it's come down to what should be there: a good, basic, solid reinsurance contract," suggested Hodson's Mr. Rothpletz.

With terms and conditions already liberal, "we don't see any movement one way or another," commented John W. Smithson, president and chief operating officer of Philadelphia-based PMA Reinsurance Corp. In preliminary discussions "we're not experiencing much pressure in the way of liberalized terms. Terms have been very soft anyway."

Ceding commissions in recent years have been relatively high, so reinsurers are saying commissions cannot rise any higher and ceding companies are not going to be "too demanding," Mr. Smithson said. "Our sense is buyers and brokers are going to be happy with remaining as is."

"I don't anticipate any increase in ceding commissions in January," commented Edwin M. Millette, executive vp of Transamerica Reinsurance Co. in Stamford, Conn. Ceding commissions have increased up to 15% since 1988, he said, adding he does not anticipate many requests for increases and that Transamerica Re is setting up a project in 1991 to reduce them. ■

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Reinsurers split on impact of recession

By JUDY GREENWALD

The oft-predicted economic recession probably would not lead to a hardened property/casualty insurance market, some reinsurance industry executives say.

Contending that insurance market factors like competition play a more important role in rate movement and in reinsurers' and insurers' financial results, some experts say there is little correlation between the peaks and valleys of insurance market cycles and broader economic cycles.

However, other observers believe that lower interest rates during a recession could hurt reinsurers' investment income, thus cutting into capacity.

That would lead to hardened insurance and reinsurance markets, they say.

Reinsurance experts also disagree over whether a recession has begun or whether the economy is even headed into a significant recession.

"I think the recession, if it comes, isn't of the same importance (to insurers' profitability) as the competitive situation and the state of the (insurance) cycle we're in," said Gerald L. Radke, president and chief executive officer of Phoenix Reinsurance Co. in New York.

Thomas A. Greene, president and chief executive officer of Thomas A. Greene & Co. Inc. in New York, believes that U.S. economic cycles

have "very little correlation" with the state of the insurance market.

"I think we're pretty much immune from the normal cycles of the economy," agreed Michael Rothpletz, executive vp of G.L. Hodson & Son Inc. in New Hyde Park, N.Y.

"I don't think it's due to the recession, but certainly there are a lot of insurance companies that are having difficulties. I think that will have an impact more than the overall situation of the economy," he said.

"I don't see (a recession) affecting us very significantly, really," said Ward B. Gordon, chairman of Intere Intermediaries Inc. in New York. If someone builds a plant that makes widgets,

"he wants to protect that in the down times" at least as carefully as in more prosperous times, he said.

"I really don't see the recession being that much of an influence on the overall business," said Mr. Gordon.

Philip W. Mitchell, managing director and chief executive officer of TPF&C Reinsurance in Philadelphia, a unit of Towers, Perrin, Forster & Crosby Inc., agreed.

"I think to some degree the insurance product is immune from a recession" because insurance

that much to the reinsurance market," said Paul Hawkworth, president and chief executive officer of The Mercantile & General Reinsurance Co. of American in Morristown, N.J.

The major factor that would turn the market around would be negative cash flow, according to Mr. Hawkworth. "That's the one that really gets everyone scurrying."

Mr. Hawkworth said a recession could affect reinsurers' investments because the Federal Reserve Board may lower interest rates,

'If a recession brings with it significantly lower interest rates, you could make a case for it accelerating the date of a market turn,' says Mr. Mosca. 'I think that would probably be the major effect potentially on the reinsurance market.'

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buyers need coverage regardless of the state of the economy, he said.

But, Mr. Mitchell said the economy would have an impact on the insurance market "if the equity market takes a steep downward trend" and if there is an impact on the bond market as well.

Slumping equity and bond markets could depress insurers' capacity, "thus creating a harder market," Mr. Mitchell said.

A "real recession"—that is, one with widespread effects on equity markets—would hasten a hardening market, agreed Edwin M. Millette, executive vp of Transamerica Reinsurance Co. in Stamford, Conn.

But, "my guess would be the recession won't impact it that significantly," Mr. Millette said.

"Our own bet on the economy is a mild recession," said John W. Smithson, president and chief operating officer of Philadelphia-based PMA Reinsurance Corp.

A mild recession would be "an annoyance rather than a further significant deterioration in the situation" that would produce higher insurance rates, Mr. Smithson said.

"Generally speaking, the recession in and of itself doesn't do

which would lower the yield on reinsurers' investments and depress their profits.

"That could have the more immediate effect on the market in terms of results rather than any increases in losses," he said.

"If a recession brings with it significantly lower interest rates, you could make a case for it accelerating the date of a market turn," said Mark Mosca, vp and manager of the treaty department at NAC Reinsurance Corp. in Greenwich, Conn.

"I think that would probably be the major effect potentially on the reinsurance market," he said.

A recession's potential threat to reinsurers' and insurers' investment income would be more serious than increases in claims costs during an economic downturn, some reinsurance experts said.

For example, Mr. Mitchell said, insurers could lose 10% to 20% of their surplus if bond and equity markets are hard hit but that they would not lose that much because of increased claims costs.

"When economic times get bad, it is not unknown that insurance losses rise," which could lead to more reinsurance losses, Mr. Hawkworth observed.

But, "it does not appear the recession is severe enough at this point to cause any more dislocation," Mr. Hawkworth said.

Any impact "will probably be a bit into the future, and only if the recession proves to be a tough one. But a mild recession, I don't think will have any major effect," he said.

Other reinsurance experts, though, are more certain that the insurance industry will feel the effects of the anticipated recession.

The recession "is going to have some impact," predicted Thomas J. Gallagher, senior vp for Prudential Reinsurance Co. in Newark, N.J.

But, Mr. Gallagher believes the impact will be greater on primary insurers than reinsurers. "Maybe that's the push they need to move the marketplace."

"I think a recession may ultimately help the industry in tightening the rates," said Bob Osborne, executive vp of Arthur J. Gallagher Intermediaries Inc. in New York.

But, he said, a recession has not begun and that the market probably would not adjust to any economic changes before 1992.

Salvatore D. Zaffino, chairman and chief executive officer of intermediary Crump Re Inc. in Hartford, Conn., said a sustained economic slowdown would affect insurers' surplus.

As a result, "the need for reinsurance definitely should be on the increase," and this could cause the market to tighten, he said.

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Executives predict reinsurer consolidation

By JUDY GREENWALD

Smaller reinsurers may consolidate in the future to form better-capitalized companies, reinsurance industry executives say.

Meanwhile, reinsurance experts generally do not expect significant amounts of capital to leave the business, despite the ongoing soft commercial property/casualty insurance market and the recent announcements that two reinsurers will exit the marketplace.

However, nor do they expect investors to invest new capital into the reinsurance marketplace as long as rates remain low and capacity remains abundant.

The Home Insurance Co. recently announced that it was running off the business of its U.S. International Reinsurance Co. subsidiary, while Metropolitan Life Insurance Co. earlier this year sold Metropolitan Reinsurance Co.'s business to Skandia Insurance Co. (BI, Sept. 17; May 21).

Home President James J. Meenaghan said the insurer decided to run off U.S. International Re's business because it felt the company's inherent value was greater than the price that could be obtained if the unit were sold.

Subsequently, AmBase Corp., The Home's parent, agreed to sell The Home to an investment group led by a Swedish insurer (BI, Oct. 8).

A Metropolitan Life spokeswoman explained that the insurer intends to focus on other lines of business.

Observers say these moves are not indicative of a general trend.

"I think in each of those instances you had a definition of people who had major concerns as far as why they were in the market, so you really had unique concerns," said Andrew Barile, co-chief executive officer of reinsurance intermediary Andrew Edwards & Co. Inc. in New York.

Met Life, he said, thought it could make significant amounts of money in the reinsurance business, but did not, while U.S. International Re's parent company was up for sale and "they felt that basically it was better just to retire from reinsurance."

"I don't think you can really get a generalization from those two," Mr. Barile added.

The overcapacity in the reinsurance market meant U.S. International Re could not find a buyer because the return would not be adequate to justify the investment, said Michael Rothpletz, executive vp of G.L. Hodson & Son Inc. in New Hyde Park, N.Y. "I dare say that's the same reason Metropolitan decided to withdraw from the reinsurance arena"—because it could use its capacity elsewhere and obtain a better return.

"I think there's plenty of capital here now and a lot of people positioned to write business when the market turns, which is one reason the market is not going to turn quickly," he added.

"I would not read too much into those tea leaves," said Thomas A. Greene of reinsurance intermediary Thomas A. Greene & Co. Inc. in New York, referring to U.S. International Re and Metropolitan Re.

Mr. Greene noted, however, that in five years there will be fewer, but larger, players in the reinsurance market. "We will see consolidations and mergers" among the smaller reinsurance companies, he predicted.

"I see continued consolidation and concentration in the business," agreed Bill Stempson, group vp and head of the treaty department at North American Reinsurance Corp., a unit of Swiss Reinsurance Co. in New York.

"I see a continuation of the consolidation of small and medium-sized reinsurers," said Edward Gschwind, president and chief executive officer of American Royal Reinsurance Co. in New York.

"The general consensus of opinion is there's going to be a consolidation and

it seems to be occurring," commented Gerald L. Radke, president and chief executive officer of Phoenix Reinsurance Co. in New York.

"We have seen some interest on the part of European reinsurers in looking at U.S. business," said Michael Smith, an analyst with Lehman Bros. in New York. However, "we haven't really seen anyone committing large amounts of capital yet," he said, adding that new entrants must do so to become viable players in the U.S. reinsurance market.

Generally, reinsurance industry executives see little new capital entering the U.S. reinsurance market.

"I think it's more or less of a capital status quo," said Paul Ingrey, president of F&G Re Inc. of Morristown, N.J., a reinsurance subsidiary of USF&G Corp. Even for an astute investor, Mr. Ingrey added, "it's a lit-

tle early to think about putting new capital into the market."

"Now would not be a particularly wise time" to invest in the reinsurance industry because rates are soft, said Steven J. Bensinger, senior vp and chief financial officer of Skandia America Reinsurance Corp. in New York.

"I think for now the floodgates are closed," said George Roberts, president of Reliance Reinsurance Management in Philadelphia, a unit of Reliance Group Holdings Inc.

The net premium-to-surplus ratio for professional reinsurers was 0.86-to-1 in 1989, the lowest in history, indicating severe overcapacity, Mr. Roberts said, adding that the ratio is likely to be unchanged this year. There is also less motivation to establish new reinsurers because of increasing competition for premium volume, he said.

At the same time, the amount of available business has shrunk over the last four to five years, particularly when financial reinsurance is factored out, because of increased retentions by ceding insurers and the growth of the alternative market.

As a result, "I don't see any major influx (of capital) within the next two to three years," Mr. Roberts said.

"I don't see at this point any significant amount of new capital coming into the marketplace," said Charles E. Erickson, executive vp at Signet Reinsurance Co. in Morristown, N.J.

Given reinsurance results thus far in 1990 and that most reinsurers are writing at a premium-to-surplus ratio of 1-to-1 or less, "I don't think that situation would make it very attractive to new capital," Mr. Erickson said, adding that the market will continue to consolidate.

"At this point in time, I don't see additional capital coming into the marketplace," agreed Thomas J. Gallagher, senior vp for Prudential Reinsurance Co. in Newark, N.J. "I still think everybody's looking for some rate of return, and I don't know what will attract them to the market."

At the same time, said Mr. Gallagher, "there may be some shrinkage in the reinsurance market that could affect the smaller players."

"I don't think we're going to see dramatic decreases" in capital, said Bob Osborne, executive vp of Arthur J. Gallagher Intermediaries Inc. in New York. As the market tightens, the reinsurance business will become more viable, with a greater potential to provide a decent return on equity.

"I don't see a lot more capital coming into the business," said Ward B. *Continued on page 20*

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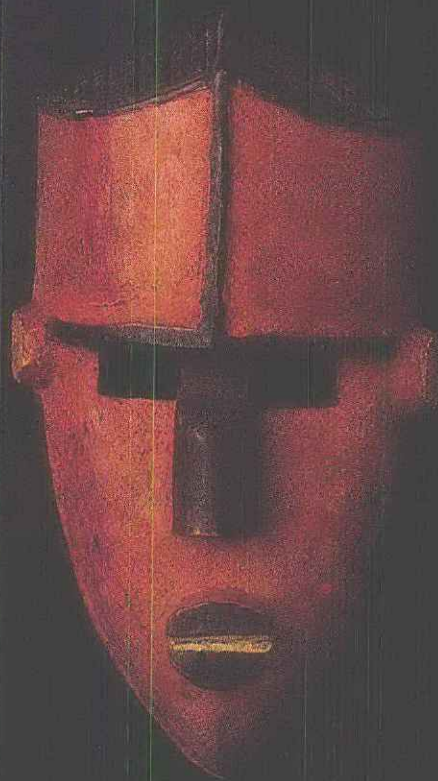
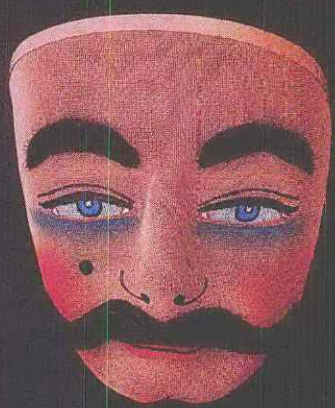
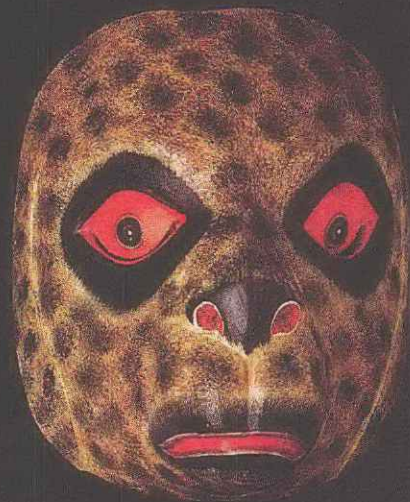
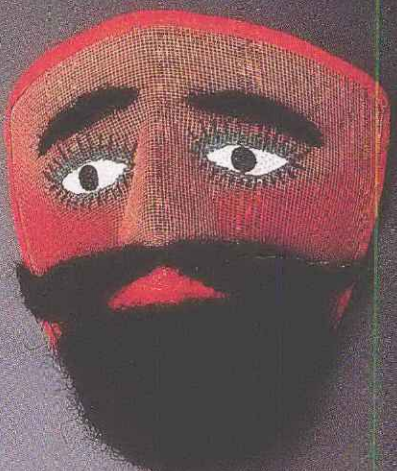
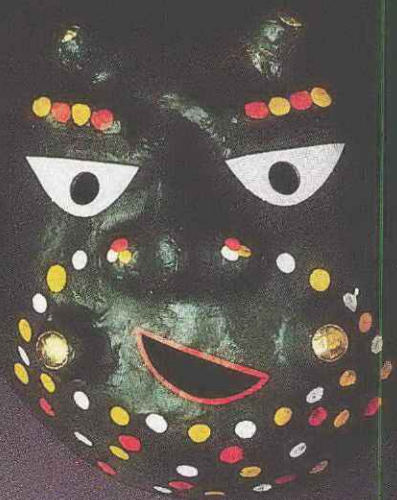
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Consolidation

Continued from page 17

Gordon, chairman of Intere Intermediaries Inc. in New York, noting there has been a "tremendous infusion" over the past five years.

While investors are not rushing to add new capital to the reinsurance market, capital is not shrinking either, some executives point out.

"I think the indications are of capital not going out," said Michael G. Fitt, chairman and chief executive officer of Employers Reinsurance Corp. of Kansas City, Mo.

There will, however, be consolidation of existing reinsurers because of the amount of money needed to operate in the marketplace, said Mr. Fitt, adding that he believes \$500 million in capital is needed to create an adequately financed reinsurer.

As a result, there will not be a lot of new players, he said. "I think the stakes are too high."

Mark Mosca, vp and manager of

the treaty department at NAC Re Corp. in Greenwich, Conn. said, "I don't see a movement of capital out of the reinsurance market in an amount sufficient to affect the overall supply and demand equation."

But, he added, "I do think that the withdrawal of Metropolitan Re and (U.S. International Re) increases the emphasis upon the long-term reinsurance security by ceding companies."

The two companies were A-rated reinsurers with surplus in excess of \$100 million "that were here one day and gone the next, and I think that is a situation that got the attention of ceding companies concerned about reinsurance security," Mr. Mosca said. That has hastened a flight to larger and more stable reinsurers, he added.

For ceding companies, "there is a big difference" between claims payment by a growing concern and by companies in a runoff situation, where it is likely to be "slower and

more difficult," Mr. Mosca said.

However, Willis T. King Jr., chairman and chief executive officer of intermediary Willcox Inc. in New York said that "capital is definitely leaving the marketplace" in the United States, pointing to Metropolitan Re and U.S. International Re.

"There's been a strong tendency" to take capital out of the reinsurance market in the last 36 months, and this trend has accelerated during the last 12 months, he said. How long this trend lasts, said Mr. King, "will all depend on how quickly the hardening of the market comes."

Philip W. Mitchell, managing director and chief executive officer of intermediary TPF&C Reinsurance in Philadelphia, said: "I believe there will be people still getting out of the reinsurance business in the near and long term, and I don't believe there will be a heavy influx of new capital into the business."

"I think there are some conditions for leaving the business, but I think

there are more conditions for consolidation" as insurance buyers continue to demand greater security, said Paul Hawksworth, president and chief executive officer of The Mercantile & General Reinsurance Co. of America in Morristown, N.J.

Only 15 years ago, Mr. Hawksworth explained, \$15 million to \$20 million in capital and surplus was considered acceptable, while today \$100 million is "looked at as the new benchmark."

But many reinsurers have parents unwilling or unable to invest that much money, which will lead to more closures and mergers and acquisitions, Mr. Hawksworth said.

Jack Legener, president of Indianapolis-based American Union Reinsurance Co., noted that his company's parent, Lincoln National Corp., recently injected \$50 million in capital into American Union to bring its capital to over the \$100 million mark. "I think that's going to be a measure for all reinsurers."

New players plunge into financial reinsurance marketplace

By DOUGLAS McLEOD

NEW YORK—The financial reinsurance market is no longer a small pond with a few large fish.

Competition in the market is heating up as more new players join the growing ranks of established financial reinsurers and "traditional" reinsurers that have moved into financial reinsurance.

For some financial reinsurance products, competition is taking the form of price cutting. More broadly, though, competition can be seen in the increasing degree of risk included in financial reinsurance transactions and in other concessions by reinsurers in the way deals are structured, reinsurance observers say.

"There is a veritable explosion of new suppliers," said Kirk Roeser, president of New York-based intermediary Gill & Roeser Inc. "It's made the pricing more competitive, it's enhanced available capacity and it's worried some of the older-line financial reinsurance companies."

At the same time, reinsurers are reporting rising interest among ceding insurers in financial reinsurance products. While this has not necessarily produced an increase in the number of completed deals, some reinsurers say they are seeing more "serious" proposals that are likely to be consummated.

Among the products generating interest, reinsurance sources agree, is a funded catastrophe reinsurance cover designed to replace London market capacity that has dried up in the wake of the unprecedented catastrophe losses over the last 18 months.

Although a single definition of financial reinsurance is tough to pin down, the product generally can be described as one where anticipated investment income is an acknowledged underwriting component and where there is a cap on reinsurers' ultimate liabilities.

Financial reinsurance deals are often tailored to suit ceding insurers' needs and are therefore difficult to categorize. However, common types of financial reinsurance transactions include:

- Time-and-distance policies, which guarantee ceding insurers specific payments at specific times in the future based on the initial premium paid and investment returns anticipated by the reinsurer (see story, page 45).

- Loss portfolio transfers, where the ceding insurer cedes reserves for known losses to the reinsurer on a discounted basis (see story, page 24).

- Retrospective aggregates, under which an insurer cedes reserves for known and incurred-but-not-reported losses.

- Prospective aggregates, also known as "funding deals." In these transactions, the ceding insurance company pays a premium and is guaranteed certain future payments to fund future losses. If losses are smaller than expected, the ceding insurer receives a profit commission.

Some funding deals eliminate underwriting and timing risk, with the ceding insurer entitled to payments only up to the amount of its premium plus investment income.

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Which is why we should learn to prevent more occupational diseases and injuries. We should work closely with workers on-site, so they can be trained in the very latest safety procedures.

We should also give more attention to quality rehabilitation and suitable alternative employment—in the event a worker can't return to his or her original job.

Most importantly, we should get injured workers into the system faster from the very beginning—and insure more efficient, personalized follow-through.

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Financial reinsurers

Continued from page 20

• Financing quota-share contracts, or surplus relief contracts, under which the reinsurer assumes a fixed percentage of a ceding insurer's entire book. Unlike traditional quota-share contracts, though, the reinsurer caps its aggregate losses under the contract.

While investment in traditional reinsurance operations has slowed in recent years, money has poured into new financial reinsurance ventures.

Most recently, Cologne Reinsurance Co. of Cologne, Germany, has committed \$100 million to a new Irish financial reinsurance unit, Cologne Re (Dublin) Ltd., according to John B. Houldsworth, chief executive of the Dublin company and a vp with Cologne Re (Bermuda) Ltd., another financial reinsurance unit.

Cologne Re (Dublin) will write prospective aggregate covers and other types of finite risk transactions while the Bermuda company continues to write time-and-distance policies, its long-time specialty, Mr. Houldsworth said.

Separately, 11 U.S. and overseas reinsurers led by American Re-Insurance Co. formed Inter-Ocean Re-Insurance Co., a Bermuda-based financial reinsurer that started writing business last month. Inter-Ocean has initial capital of \$25 million, and its investors have committed to contribute up to \$100 million (BI, Oct. 22).

Meanwhile, many established U.S. reinsurers have moved into the financial reinsurance arena over the last few years, adding to the growing capacity offered by offshore markets.

For some, the move has been spurred by the depressed state of the traditional reinsurance market and the need to expand into new product lines to maintain eroding premium volume, observers say.

"Their reason is the depressed rates they see on the conventional reinsurance side," Mr. Roeser observed. "They are running from losses."

"Most reinsurers want to look at financial reinsurance business. There are many more people coming into the marketplace," said Heidi Hutter, senior vp with Atrium Corp., a financial reinsurance underwriting management unit of North American Reinsurance Corp. "It's not exactly comforting."

Some reinsurers have hurried into the financial reinsurance market with the misguided notion that it is a risk-free way to earn premiums, observers say.

"There is a perception of safety in financial reinsurance, and it is a misperception," Mr. Roeser said.

"Many people are approaching this business thinking it's easier and safer than it is," Ms. Hutter agreed.

The rush of new entrants to the market has produced some "rashly" structured financial reinsurance proposals, according to

Ms. Hutter.

For example, she noted that some brokered submissions are represented as financial transactions but are actually only priced that way, with tight margins and interest credits but very little limitation of reinsurers' risk.

Other proposals appear to have been "put together by amateurs," containing provisions that are unworkable, she said.

For example, one quota-share proposal Ms. Hutter received included a commutation clause that would allow the reinsurer to avoid some loss payments in the event of the ceding company's insolvency. This provision conflicted with the standard insolvency clause, which requires claims payments without diminution in case of insolvency.

The lack of care with which some transactions are being put together is "dangerous for ceding companies... and certainly for the reinsurers," Ms. Hutter observed.

She added that "if that's the way (the reinsurers) approach the business and they lose money, I can't feel sorry for them. I'm more concerned about ceding companies" that could be hurt if the reinsurance transactions do not work out as planned.

While some traditional reinsurers that have ventured into financial reinsurance may withdraw again when the market hardens, observers expect financial reinsurance to be a permanent part of many traditional reinsurers' product lines.

"If they can't give clients financial reinsurance, somebody else will and may well take their traditional business off them," too, Mr. Houldsworth said.

The advent of financial reinsurance has changed the way many traditional reinsurers operate and is part of a larger change in the way ceding companies think about and buy reinsurance, reinsurers and brokers say.

"There is a permanent change taking place. There's no question that the purchase of reinsurance, and for that matter insurance, is changing," Mr. Roeser observed.

"The insurance and reinsurance dollar is clearly moving. It's moving away from the traditional supply mechanism," he said.

Reinsurance buyers are increasingly looking for lower-cost ways of smoothing peaks and valleys in their underwriting results or performing other types of balance sheet cosmetics, and financial reinsurance answers this need, he said.

"We are starting to see the line that divides traditional reinsurance from finite risk reinsurance become more blurred," said Steven J. Eensinger, executive vp and chief financial officer of Skandia America Reinsurance Corp.

This has happened in recent years as features of financial reinsurance contracts—such as loss ratio caps—have crept into "traditional" reinsurance transactions, he noted.

Skandia underwrites financial reinsurance products, though a fi-

nancial reinsurance joint venture it had planned—dubbed "Gemini"—fell apart earlier this year after its intended partner, Citicorp Insurance Group, pulled out (BI, Sept. 24).

"I think the market in general will move to a finite risk and financially oriented market," agreed Peter Gakos, director of financial reinsurance for CIGNA Reinsurance Co.

CIGNA Re moved into the financial reinsurance market two years ago and will handle about \$40 million to \$50 million in premium volume this year, he said.

"The traditional underwriters are almost institutionalizing financial reinsurance now. They see it as an integral part of their traditional underwriting," noted Stephen K. Lawrence, senior vp and director of Bermuda-based Pinnacle Reinsurance Co. Ltd.

One byproduct of growing capacity in the financial reinsurance marketplace has been growing competition.

The competition is for all types of financial reinsurance transactions, noted Paul Ingrey, president of F&G Re Inc. in Morristown, N.J., a unit of USP&G Corp.

"There are no exceptions," Mr. Ingrey said.

For time-and-distance policies—which are less complex than some other forms of financial reinsurance and frequently written for Lloyd's of London syndicates—the competition has taken the form of

Continued on next page

Cost vs Quality: The Case Manager's Dilemma.
By Helen Bolus

We all face the dilemma every day. To maximize the cost effectiveness of the care we arrange while at the same time maximizing the quality of care. It's a balancing act that requires a medical background sufficient to properly assess the quality of the care being arranged. And a business head to know when the cost is justifiable. As managed care becomes more prevalent in healthcare (the consensus is that, within 5 years, the majority of patients will be managed care patients), the dilemma becomes more acute. Yet only one solution exists: to ensure that the quality of care is maintained while the cost is kept under control.

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Calculator display: 5,894.00, 6,739.00, 5,513.00, 4,910.00, 3,502.00, 4,381.00, 10.6, 8.1, 15.5, 25.5, 35.5, 45.5, 55.5, 65.5, 75.5, 85.5, 95.5, 105.5, 115.5, 125.5, 135.5, 145.5, 155.5, 165.5, 175.5, 185.5, 195.5, 205.5, 215.5, 225.5, 235.5, 245.5, 255.5, 265.5, 275.5, 285.5, 295.5, 305.5, 315.5, 325.5, 335.5, 345.5, 355.5, 365.5, 375.5, 385.5, 395.5, 405.5, 415.5, 425.5, 435.5, 445.5, 455.5, 465.5, 475.5, 485.5, 495.5, 505.5, 515.5, 525.5, 535.5, 545.5, 555.5, 565.5, 575.5, 585.5, 595.5, 605.5, 615.5, 625.5, 635.5, 645.5, 655.5, 665.5, 675.5, 685.5, 695.5, 705.5, 715.5, 725.5, 735.5, 745.5, 755.5, 765.5, 775.5, 785.5, 795.5, 805.5, 815.5, 825.5, 835.5, 845.5, 855.5, 865.5, 875.5, 885.5, 895.5, 905.5, 915.5, 925.5, 935.5, 945.5, 955.5, 965.5, 975.5, 985.5, 995.5, 1005.5, 1015.5, 1025.5, 1035.5, 1045.5, 1055.5, 1065.5, 1075.5, 1085.5, 1095.5, 1105.5, 1115.5, 1125.5, 1135.5, 1145.5, 1155.5, 1165.5, 1175.5, 1185.5, 1195.5, 1205.5, 1215.5, 1225.5, 1235.5, 1245.5, 1255.5, 1265.5, 1275.5, 1285.5, 1295.5, 1305.5, 1315.5, 1325.5, 1335.5, 1345.5, 1355.5, 1365.5, 1375.5, 1385.5, 1395.5, 1405.5, 1415.5, 1425.5, 1435.5, 1445.5, 1455.5, 1465.5, 1475.5, 1485.5, 1495.5, 1505.5, 1515.5, 1525.5, 1535.5, 1545.5, 1555.5, 1565.5, 1575.5, 1585.5, 1595.5, 1605.5, 1615.5, 1625.5, 1635.5, 1645.5, 1655.5, 1665.5, 1675.5, 1685.5, 1695.5, 1705.5, 1715.5, 1725.5, 1735.5, 1745.5, 1755.5, 1765.5, 1775.5, 1785.5, 1795.5, 1805.5, 1815.5, 1825.5, 1835.5, 1845.5, 1855.5, 1865.5, 1875.5, 1885.5, 1895.5, 1905.5, 1915.5, 1925.5, 1935.5, 1945.5, 1955.5, 1965.5, 1975.5, 1985.5, 1995.5, 2005.5, 2015.5, 2025.5, 2035.5, 2045.5, 2055.5, 2065.5, 2075.5, 2085.5, 2095.5, 2105.5, 2115.5, 2125.5, 2135.5, 2145.5, 2155.5, 2165.5, 2175.5, 2185.5, 2195.5, 2205.5, 2215.5, 2225.5, 2235.5, 2245.5, 2255.5, 2265.5, 2275.5, 2285.5, 2295.5, 2305.5, 2315.5, 2325.5, 2335.5, 2345.5, 2355.5, 2365.5, 2375.5, 2385.5, 2395.5, 2405.5, 2415.5, 2425.5, 2435.5, 2445.5, 2455.5, 2465.5, 2475.5, 2485.5, 2495.5, 2505.5, 2515.5, 2525.5, 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3785.5, 3795.5, 3805.5, 3815.5, 3825.5, 3835.5, 3845.5, 3855.5, 3865.5, 3875.5, 3885.5, 3895.5, 3905.5, 3915.5, 3925.5, 3935.5, 3945.5, 3955.5, 3965.5, 3975.5, 3985.5, 3995.5, 4005.5, 4015.5, 4025.5, 4035.5, 4045.5, 4055.5, 4065.5, 4075.5, 4085.5, 4095.5, 4105.5, 4115.5, 4125.5, 4135.5, 4145.5, 4155.5, 4165.5, 4175.5, 4185.5, 4195.5, 4205.5, 4215.5, 4225.5, 4235.5, 4245.5, 4255.5, 4265.5, 4275.5, 4285.5, 4295.5, 4305.5, 4315.5, 4325.5, 4335.5, 4345.5, 4355.5, 4365.5, 4375.5, 4385.5, 4395.5, 4405.5, 4415.5, 4425.5, 4435.5, 4445.5, 4455.5, 4465.5, 4475.5, 4485.5, 4495.5, 4505.5, 4515.5, 4525.5, 4535.5, 4545.5, 4555.5, 4565.5, 4575.5, 4585.5, 4595.5, 4605.5, 4615.5, 4625.5, 4635.5, 4645.5, 4655.5, 4665.5, 4675.5, 4685.5, 4695.5, 4705.5, 4715.5, 4725.5, 4735.5, 4745.5, 4755.5, 4765.5, 4775.5, 4785.5, 4795.5, 4805.5, 4815.5, 4825.5, 4835.5, 4845.5, 4855.5, 4865.5, 4875.5, 4885.5, 4895.5, 4905.5, 4915.5, 4925.5, 4935.5, 4945.5, 4955.5, 4965.5, 4975.5, 4985.5, 4995.5, 5005.5, 5015.5, 5025.5, 5035.5, 5045.5, 5055.5, 5065.5, 5075.5, 5085.5, 5095.5, 5105.5, 5115.5, 5125.5, 5135.5, 5145.5, 5155.5, 5165.5, 5175.5, 5185.5, 5195.5, 5205.5, 5215.5, 5225.5, 5235.5, 5245.5, 5255.5, 5265.5, 5275.5, 5285.5, 5295.5, 5305.5, 5315.5, 5325.5, 5335.5, 5345.5, 5355.5, 5365.5, 5375.5, 5385.5, 5395.5, 5405.5, 5415.5, 5425.5, 5435.5, 5445.5, 5455.5, 5465.5, 5475.5, 5485.5, 5495.5, 5505.5, 5515.5, 5525.5, 5535.5, 5545.5, 5555.5, 5565.5, 5575.5, 5585.5, 5595.5, 5605.5, 5615.5, 5625.5, 5635.5, 5645.5, 5655.5, 5665.5, 5675.5, 5685.5, 5695.5, 5705.5, 5715.5, 5725.5, 5735.5, 5745.5, 5755.5, 5765.5, 5775.5, 5785.5, 5795.5, 5805.5, 5815.5, 5825.5, 5835.5, 5845.5, 5855.5, 5865.5, 5875.5, 5885.5, 5895.5, 5905.5, 5915.5, 5925.5, 5935.5, 5945.5, 5955.5, 5965.5, 5975.5, 5985.5, 5995.5, 6005.5, 6015.5, 6025.5, 6035.5, 6045.5, 6055.5, 6065.5, 6075.5, 6085.5, 6095.5, 6105.5, 6115.5, 6125.5, 6135.5, 6145.5, 6155.5, 6165.5, 6175.5, 6185.5, 6195.5, 6205.5, 6215.5, 6225.5, 6235.5, 6245.5, 6255.5, 6265.5, 6275.5, 6285.5, 6295.5, 6305.5, 6315.5, 6325.5, 6335.5, 6345.5, 6355.5, 6365.5, 6375.5, 6385.5, 6395.5, 6405.5, 6415.5, 6425.5, 6435.5, 6445.5, 6455.5, 6465.5, 6475.5, 6485.5, 6495.5, 6505.5, 6515.5, 6525.5, 6535.5, 6545.5, 6555.5, 6565.5, 6575.5, 6585.5, 6595.5, 6605.5, 6615.5, 6625.5, 6635.5, 6645.5, 6655.5, 6665.5, 6675.5, 6685.5, 6695.5, 6705.5, 6715.5, 6725.5, 6735.5, 6745.5, 6755.5, 6765.5, 6775.5, 6785.5, 6795.5, 6805.5, 6815.5, 6825.5, 6835.5, 6845.5, 6855.5, 6865.5, 6875.5, 6885.5, 6895.5, 6905.5, 6915.5, 6925.5, 6935.5, 6945.5, 6955.5, 6965.5, 6975.5, 6985.5, 6995.5, 7005.5, 7015.5, 7025.5, 7035.5, 7045.5, 7055.5, 7065.5, 7075.5, 7085.5, 7095.5, 7105.5, 7115.5, 7125.5, 7135.5, 7145.5, 7155.5, 7165.5, 7175.5, 7185.5, 7195.5, 7205.5, 7215.5, 7225.5, 7235.5, 7245.5, 7255.5, 7265.5, 7275.5, 7285.5, 7295.5, 7305.5, 7315.5, 7325.5, 7335.5, 7345.5, 7355.5, 7365.5, 7375.5, 7385.5, 7395.5, 7405.5, 7415.5, 7425.5, 7435.5, 7445.5, 7455.5, 7465.5, 7475.5, 7485.5, 7495.5, 7505.5, 7515.5, 7525.5, 7535.5, 7545.5, 7555.5, 7565.5, 7575.5, 7585.5, 7595.5, 7605.5, 7615.5, 7625.5, 7635.5, 7645.5, 7655.5, 7665.5, 7675.5, 7685.5, 7695.5, 7705.5, 7715.5, 7725.5, 7735.5, 7745.5, 7755.5, 7765.5, 7775.5, 7785.5, 7795.5, 7805.5, 7815.5, 7825.5, 7835.5, 7845.5, 7855.5, 7865.5, 7875.5, 7885.5, 7895.5, 7905.5, 7915.5, 7925.5, 7935.5, 7945.5, 7955.5, 7965.5, 7975.5, 7985.5, 7995.5, 8005.5, 8015.5, 8025.5, 8035.5, 8045.5, 8055.5, 8065.5, 8075.5, 8085.5, 8095.5, 8105.5, 8115.5, 8125.5, 8135.5, 8145.5, 8155.5, 8165.5, 8175.5, 8185.5, 8195.5, 8205.5, 8215.5, 8225.5, 8235.5, 8245.5, 8255.5, 8265.5, 8275.5, 8285.5, 8295.5, 8305.5, 8315.5, 8325.5, 8335.5, 8345.5, 8355.5, 8365.5, 8375.5, 8385.5, 8395.5, 8405.5, 8415.5, 8425.5, 8435.5, 8445.5, 8455.5, 8465.5, 8475.5, 8485.5, 8495.5, 8505.5, 8515.5, 8525.5, 8535.5, 8545.5, 8555.5, 8565.5, 8575.5, 8585.5, 8595.5, 8605.5, 8615.5, 8625.5, 8635.5, 8645.5, 8655.5, 8665.5, 8675.5, 8685.5, 8695.5, 8705.5, 8715.5, 8725.5, 8735.5, 8745.5, 8755.5, 8765.5, 8775.5, 8785.5, 8795.5, 8805.5, 8815.5, 8825.5, 8835.5, 8845.5, 8855.5, 8865.5, 8875.5, 8885.5, 8895.5, 8905.5, 8915.5, 8925.5, 8935.5, 8945.5, 8955.5, 8965.5, 8975.5, 8985.5, 8995.5, 9005.5, 9015.5, 9025.5, 9035.5, 9045.5, 9055.5, 9065.5, 9075.5, 9085.5, 9095.5, 9105.5, 9115.5, 9125.5, 9135.5, 9145.5, 9155.5, 9165.5, 9175.5, 9185.5, 9195.5, 9205.5, 9215.5, 9225.5, 9235.5, 9245.5, 9255.5, 9265.5, 9275.5, 9285.5, 9295.5, 9305.5, 9315.5, 9325.5, 9335.5, 9345.5, 9355.5, 9365.5, 9375.5, 9385.5, 9395.5, 9405.5, 9415.5, 9425.5, 9435.5, 9445.5, 9455.5, 9465.5, 9475.5, 9485.5, 9495.5, 9505.5, 9515.5, 9525.5, 9535.5, 9545.5, 9555.5, 9565.5, 9575.5, 9585.5, 9595.5, 9605.5, 9615.5, 9625.5, 9635.5, 9645.5, 9655.5, 9665.5, 9675.5, 9685.5, 9695.5, 9705.5, 9715.5, 9725.5, 9735.5, 9745.5, 9755.5, 9765.5, 9775.5, 9785.5, 9795.5, 9805.5, 9815.5, 9825.5, 9835.5, 9845.5, 9855.5, 9865.5, 9875.5, 9885.5, 9895.5, 9905.5, 9915.5, 9925.5, 9935.5, 9945.5, 9955.5, 9965.5, 9975.5, 9985.5, 9995.5, 10005.5, 10015.5, 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Continued from previous page
price-cutting, reinsurers say.

"It's difficult to make a decent return on that type of business," conceded Cologne Re's Mr. Houldsworth, who said competition has squeezed reinsurers' margins.

For other, more complex reinsurance deals, the competition is seen as a mixture of price reductions and more liberal terms in structuring the transactions, reinsurers say.

"There's no question about the fact that there is more competition in the marketplace and that is putting pressure on pricing," said Ajit Jain, president of the reinsurance division of Berkshire Hathaway Inc., which will write \$400 million to \$500 million in financial reinsurance premiums this year.

Atrium's Ms. Hutter added that competition is often felt as a "price/risk trade-off," with more reinsurers willing to incorporate greater risk in reinsurance transactions even though the risks may not be supported by the price being charged.

"It's a matter of people trying to grab the business to keep their premium volume stable," she observed.

Mr. Ingrey added that more deals are being done on a "funds held" basis, with ceding insurers holding onto premiums rather than turning them over to the reinsurer or placing them in trust. Under these deals, reinsurers may be credited with a negotiated percentage of in-

vestment earnings on the withheld funds, he explained.

With the supply of financial reinsurance capacity rising, demand also is increasing for many products, reinsurers and brokers say.

"I'm seeing more activity this year than at the same time last year and the same time the year before," Mr. Jain noted.

Several reinsurers cited funded catastrophe excess reinsurance as an increasingly popular product, given the skyrocketing cost and dwindling capacity in the traditional catastrophe reinsurance market following Hurricane Hugo, this year's European windstorm losses and other catastrophe losses.

Judged by the number of deals completed—as opposed to the premium volume they generate—this may be the biggest selling financial reinsurance product this year, Mr. Ingrey ventured.

Funded catastrophe programs typically run for five years or more and are designed so that if heavy losses are incurred in one year, the ceding insurer pays back the reinsurer with higher premiums in later years when losses are lighter, reinsurers explain. As with other forms of financial reinsurance, the reinsurer may cap its aggregate losses under the contract, credit the ceding company with investment income and offer a profit commission.

While these programs involve less risk transfer than traditional catastrophe reinsurance, they also are much cheaper, Mr. Roeser said.

He noted that funded catastrophe programs may cost one-fifth what traditional catastrophe reinsurance would cost.

Not everyone is enthusiastic about the product, though.

While Berkshire Hathaway has written a large number of one-shot, guaranteed-cost catastrophe excess covers, it has not been able to develop a pure, multiyear funded excess product it considers suitable, according to Mr. Jain.

One problem is that investment income is a key component of the

'I'm seeing more activity this year than at the same time last year,' Berkshire's Mr. Jain says.

product, he explained. "If you are talking about property catastrophes, you do not have (enough of a) tail to generate investment income," he said.

In addition, funded cat programs require the reinsurer to take a credit risk in dealing with ceding companies at the time of a major catastrophe, he observed.

The success of such a program relies on the reinsurer being able to recoup losses from the ceding company in future years, and the credit risk inherent in assuming the ceding company will survive to pay

back cat losses left Berkshire Hathaway "very uncomfortable," Mr. Jain said.

Also generating interest are products described by Ms. Hutter as "overflow facilities," intended to free up ceding companies' surplus at the onset of a hard market to allow them to write more new business.

Under this type of program, which Mr. Roeser described as "squirrel coverage," the ceding company pays an up-front option price to put the facility in place for a defined period. If the market hardens and the ceding insurer decides to trigger the coverage, it then pays agreed-upon premiums and cedes a portion of its book to the reinsurer.

In doing so, the ceding company reduces its leverage position, freeing surplus to write hard market business at more attractive rates, he explained.

One product declining in popularity, reinsurers report, is the relatively risk-free loss portfolio transfer, the market for which is evaporating largely because of restrictions imposed by the New York Insurance Department's Regulation 108.

In addition, the National Assn. of Insurance Commissioners has followed Regulation 108 in instructing state examiners to disallow any surplus gain reported by an insurer as a result of a loss portfolio transfer that does not include underwriting risk (see story, page 24).

Meanwhile, the accounting treatment of other types of financial reinsurance is moving closer to a resolution with the latest draft of accounting standards by the American Institute of Certified Public Accountants.

The draft, dated Sept. 27, provides that a contract will be considered legitimate reinsurance if it involves a transfer of both underwriting and timing risk to a reinsurer. Investment yield risk, credit risk and expense risk should not be considered in auditors' evaluations of contracts, the draft says.

Even though the draft does not pin down exactly how much underwriting risk must be transferred, the draft—if finalized by the AICPA and adopted by the Financial Accounting Standards Board—will not represent an impediment to the use of financial reinsurance, some say.

"I don't think it's a problem. They have really defined what risk is," CIGNA Re's Mr. Gakos said.

Still, some observers say U.S. reinsurers have been slow to develop as financial reinsurance markets and point to the protracted debate over accounting rules as a possible reason.

Large European reinsurers are "gearing up to effectively dominate the financial reinsurance market," said Pinnacle's Mr. Lawrence.

"It may be that the U.S. has been so hung up on risk transfer that they haven't seen the wood for the trees," he observed.

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NAIC wrestles with financial reinsurance

By MEG FLETCHER

The National Assn. of Insurance Commissioners is taking steps to regulate some financial reinsurance arrangements like loss portfolio transfers that allow insurers to use the time value of money to improve their bottom lines.

The NAIC in June authorized immediate changes to its standard accounting manual that are nearly identical to an existing New York rule. Essentially, the changes establish minimum standards for acceptable loss portfolio transfers and require that insurers highlight such transactions in their financial statements.

Most states are expected to adopt the changes automatically. Unlike NAIC model laws, accounting rule

changes do not require approval by each state legislature.

In addition, the NAIC subgroup that proposed these changes is reviewing how other financial reinsurance arrangements are treated in various NAIC rulebooks, with an eye to determining whether similar curbs are needed.

Regulators are scrutinizing the increasing number of financial reinsurance arrangements as part of stepped-up efforts to police insurer solvency, said Vincent Laurenzano, chief of the New York Insurance Department's Property Companies Bureau.

State regulators increasingly feel that many financial reinsurance arrangements do not entail enough underwriting risk to make them reinsurance—rather than merely

financing—arrangements.

The concept of "underwriting risk" is that a reinsurer should "follow the underwriting fortunes of the direct writer," said Martin Carus, assistant chief examiner with the New York Insurance Department.

Regulators and accountants are still debating a precise definition of underwriting risk and how to apply the concept.

Regulators consider a reinsurer's timing risk or interest rate risk as elements of a financing deal and insufficient alone for an insurance transaction. A timing risk refers to the possibility that claims will be paid more quickly than projected. An interest rate risk refers to the possibility that interest rates will drop below the level projected by the reinsurer.

"Financial reinsurance arrangements that do not transfer underwriting risk contain no real economic value. They serve only to artificially inflate surplus or provide window-dressing for an insurer's operating results," Mr. Laurenzano said in a statement.

Such arrangements, though "not inherently bad," distort underwriting results and the results of the NAIC's Insurance Regulatory Information System ratio calculations, which are used to detect troubled companies, he said.

Financial reinsurance arrangements often are very complex and packaged in a variety of ways, including loss portfolio transfers, retrospective aggregates, prospective aggregate covers and financing quota-share contracts (see story, page

20; and *BI*, April 30).

In a typical arrangement under fire from the NAIC, neither the ceding company nor the reinsurer intends to actually share losses.

In addition, the ceding company's real economic position deteriorates as a result of the fee paid to the reinsurer, critics contend.

And, the reinsurer has a guaranteed underwriting profit and at best a minimum investment risk, Mr. Laurenzano said.

The new NAIC accounting rules specifically apply to loss portfolio transfers, in which a ceding insurer transfers loss reserves for known losses on a discounted basis to a reinsurer.

For example, before regulators stepped in, a ceding insurer could transfer \$100 million in loss reserves to a reinsurer, which would give the ceding insurer a "consideration" approximately equal to the present value of the transferred reserves, perhaps \$80 million. The transaction could have carried no underwriting risk for the reinsurer.

"These transactions would be recorded in the both companies' books and accounted for in various manners, but inevitably they would be reflected in the underwriting results of the companies," Mr. Carus said.

For example, a ceding insurer would reduce its outstanding loss reserves by the amount of the reserves transferred—\$100 million—and record an \$80 million loss payment.

Accordingly, the \$20 million disparity would be reflected as an underwriting gain, increasing the ceding insurer's policyholder surplus by \$20 million.

Loss portfolio transfers are "a major issue as far as regulators are concerned," noted Robert Solitro, chief examiner with the New Hampshire Insurance Department in Concord.

"These transactions usually could have a material financial impact on a company," added Mr. Solitro, who chairs the NAIC Property and Casualty Reinsurance Study Group, which developed the accounting changes and will review other financial reinsurance products.

California and New York regulators curbed loss portfolio transfers in the early 1980s.

The California Insurance Department changed its accounting rules retroactively to blunt the effect of three loss portfolio transfers Fireman's Fund Insurance Co. engaged in between 1981 and 1983. As a result, American Express Co., then-owner of Fireman's Fund, injected \$130 million into the insurer's statutory reserves and \$70 million into its surplus in November 1984 (*BI*, Nov. 19, 1984; March 5, 1984).

And, New York in 1984 issued Regulation 108, which regulates the disclosure and crediting of loss portfolio transfers (*BI*, Nov. 19, 1984; Oct. 8, 1984).

Some states, like Michigan, have not regulated loss portfolio transfers until now because they have not been a problem, said Leon Hank, director of the insurance bureau's division of financial analysis and examinations.

On June 7, the NAIC essentially changed its accounting manual to reflect New York's Regulation 108.

Minimum standards were set for loss portfolio transfers with underwriting risk that are entered into or developed after June 7.

These include: banning guaranteed profit for either the ceding company or the reinsurer; limiting commissions and adjustments to the contract after it is in force; and requiring losses to be paid at least quarterly.

In addition, a loss portfolio transfer may not be canceled or rescinded without the approval of the insurance commissioner of the

Continued on next page

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Regulations

Continued from previous page
ceding company's domiciliary state.

Cedants that do not follow these standards generally will not be able to take immediate credit for the loss portfolio transfer.

The new rules also outline special accounting treatment for most loss portfolio transfers that carry underwriting risk.

Both ceding and assuming insurers must separately report all loss portfolio transfers and segregate surplus into special accounts.

In contracts with underwriting risk, ceding companies can take credit immediately for all the surplus generated by the loss portfolio transfer. The reinsurer must report the undiscounted value of the transfer on its books as a liability.

Rules, however, are stricter for transfers without underwriting risk or for any transfer—with or without underwriting risk—among affiliated companies. The companies involved in such arrangements must meet additional reporting requirements and the ceding company must defer some of the surplus relief provided by the transaction.

The new NAIC rules do not apply to: structured settlement annuities for individuals, the phaseout of routine reinsurance treaties and some transactions in connection with court-ordered rehabilitations, liquidations or receiverships.

Insurers that belong to the Washington, D.C.-based American Insurance Assn., many of which already must comply with New York Regulation 108, are "resigned" to the NAIC change, though it is "too restrictive," said Phillip Schwartz, the AIA's vp-financial reporting and associate general counsel.

The new rules could restrict some legitimate loss portfolio transfers, insurers contend.

The Alliance of American Insurers in Schaumburg, Ill., "generally supported the NAIC activity because there were some abuses, although we feel the new limitations unduly restrict certain legitimate business transactions," said Richard Hefferan, vp-tax and finance.

However, "the final version was not as specific as it should have been, and companies will use interpretations that will vary greatly," predicted James Shamberger, senior vp with the Reinsurance Assn. of America in Washington, D.C.

In addition, he questioned whether states will actually follow the guidelines.

New York, for example, intends to retain its own rule, which is applied more retroactively than the NAIC's, Mr. Carus said.

Regulators say insurers usually have nothing to fear if loss portfolio transfers have underwriting risk.

"The industry has said we have hurt their ability to do loss portfolio transfers," Mr. Solitro said. "We haven't. We just told them they have to be clearly reported."

In addition, the NAIC study group was assigned the task of reviewing how other types of financial reinsurance arrangements are handled in other NAIC rulebooks, including the accounting manual, financial examiners' handbook and annual statement instructions guide.

The plan is for the study group to consider whether changes are needed to strengthen the prohibition against insurers taking credit for such arrangements that do not entail enough underwriting risk for them to be considered insurance transactions.

Members of an industry advisory group are expected to report on their review of those documents to the study group during the NAIC's winter meeting, scheduled for Dec. 2-5 in Louisville, Ky.

Reinsurers cater to captives, facilities

By JOANNE WOJCIK

Alternative risk financing mechanisms are becoming such a significant market for many reinsurers that more reinsurers are developing special units to offer capacity and a host of services.

Many of the reinsurers—finding that commercial insurers still are retaining more risk than a decade ago—are eager to tap a new source of business.

However, while alternative facilities—like captives and risk retention groups—now have easier access to reinsurance capacity, most reinsurers still subject alternative facilities to more stringent underwriting standards than they impose on standard insurers (see story, page 28).

But simply providing capacity

offer, is not enough to satisfy the needs of these facilities, reinsurers have found. Many alternative facilities also are seeking financial and actuarial consulting and claims-handling services from reinsurers—the type of services that commercial insurers usually supply on their own.

Reinsurers are more aggressively marketing themselves to alternative facilities because "there's been an emerging realization that the facilities created by the last hard market are here to stay," said Roger Espe, president of reinsurance intermediary Sullivan Payne Co. in Philadelphia.

"It's more than just a flash in the pan," he said.

Because commercial insurers are retaining a larger portion of the risk they underwrite, reinsurers

"needed to find a way to access the non-traditional market," observed Harry Shuford senior vp and director of actuarial and financial consulting at Anistics Inc., the New York-based risk management consulting division of broker Alexander & Alexander Services Inc.

While most reinsurers previously would not accept risks ceded by an underwriter that was not rated by A.M. Best Co. of Oldwick, N.J., reinsurers today "are willing to consider just about anything," observed Andrew Barile, co-chief executive officer of reinsurance intermediary Andrew Edwards & Co. Inc. in New York.

"Risk retention groups are no longer a new, scary monster. We may still be scary, but we're not new anymore," said Charles A. Taylor Jr., president of LPG Risk

Retention Group Insurance Co., a Dallas facility formed in 1988.

LPG writes \$5 million of general liability and commercial auto liability limits for its 350 members, which are propane gas suppliers concentrated in the South and Midwest.

While the risk retention group "ran into a brick wall" when it first sought reinsurance in November 1987, by February 1988 the facility found Employers Reinsurance Co. of Overland Park, Kan., and Lloyd's of London underwriters receptive, he said.

Employers Re provides the first \$1 million layer of reinsurance, and Lloyd's underwriters provide \$4 million in excess-of-loss reinsurance coverage.

Merrillville, Ind.-based American

Continued on next page

The image shows a collage of several Lincoln National Employee Benefits cards. Each card features the Lincoln National logo and the text "EMPLOYEE BENEFITS". The cards are from different locations and include contact information:

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Continued from previous page

Inter-Fidelity Exchange, another early risk retention group, also "drew high suspicion from traditional markets" at first, said Vp Davide W. Tomei, one of the founders of the National Risk Retention Assn. based in Washington, D.C.

But "reinsurers' attitudes have changed simultaneously with market conditions," he said.

American Inter-Fidelity Exchange provides up to \$1 million in auto liability, bobtail/deadhead liability and inland marine coverage to its 70 motor trucking firm members.

Individual members can retain \$5,000 to \$150,000 of aggregate losses, with American Inter-Fidelity paying 60% of aggregate losses above the retention up to \$500,000. American Re-Insurance Co. of Princeton, N.J., reinsures the remainder.

Jaxon White, president of Burlington, Vt.-based MEDMARC Insurance Co. Risk Retention Group Inc., the first captive that came ashore as a

risk retention group after the passage of the Risk Retention Act of 1986 (BI, Feb. 2, 1987), agreed. MEDMARC provides its 492 members/owners product liability reinsurance limits of \$5 million.

"Reinsurers have been wooing us for the past 18 months," he said.

According to Anistics' Mr. Shuford, three types of reinsurance products currently are available to alternative risk financing facilities: capacity alone, capacity and services, and financial reinsurance.

The first reinsurers that opened their doors to alternative risk financing mechanisms offered only capacity, but they soon found that "there was a need to provide additional services, such as actuarial work, financial analysis and claims consulting," Mr. Shuford explained.

Mr. Barile concurred: "If you're underwriting a primary insurer, they provide the information, but risk retention groups don't have all of the information prepared in the way you

want it," so "the reinsurance market ends up doing more work."

Many reinsurers also arrange fronting services for workers comp coverage for members of alternative facilities, Mr. Shuford noted.

Interest is also increasing "in getting down into working layers rather than the excess layers because risk retention groups often start off with limited capital and cannot pay a lot of claims early on," he said.

Alternative risk financing facilities' capacity and service demands provide reinsurers an opportunity to earn a larger premium, because traditional excess-of-loss reinsurance generates "relatively thin premiums," Mr. Shuford said.

"The total premium would be small if they limited themselves to excess layers," he said.

In addition, reinsurers generally charge fees for consulting and fronting services, Mr. Shuford noted.

Many reinsurers also are offering alternative facilities financial rein-

surance like time-and-distance policies—products that formerly were provided only to standard insurers (see story, page 20).

"Instead of excess-of-loss, a reinsurer might write finite risk insurance or time-and-distance policies" for a large, self-insured client, Mr. Shuford said.

"It's an extension of what they were providing to the primary insurers, which were assuming larger retentions and buying less traditional reinsurance," he explained.

Among the reinsurers that will consider alternative risk-financing mechanisms are: Employers Re; NAC Reinsurance Corp.; North American Reinsurance Corp./Swiss Reinsurance Co.; Reliance Reinsurance Management Inc., a Reliance Group Holdings Inc. unit; Skandia American Reinsurance Corp.; and Trenwick American Reinsurance Corp.

But some reinsurers have established or are in the process of setting up special units that do more

than just provide capacity.

Genesis Underwriting Management Co., a unit of General Re Corp. of Stamford, Conn., was formed in 1988 to underwrite workers comp and general and auto liability coverages through two General Re subsidiaries: General Reinsurance Corp. and General Star National Insurance Co. (BI, April 25, 1988).

According to Anistics' Mr. Shuford, Genesis is among the reinsurers that provide additional services, such as acting as a fronting underwriter and conducting actuarial analyses.

Genesis generally acts as a direct writer, but it will accept business from a retail broker or reinsurance intermediary, Mr. Shuford said.

American Re-Insurance Co. of New York formed Am-Re Managers in Princeton, N.J., two years ago in response to the growing popularity of self-insurance, according to Executive Vp Kenneth J. LeStrange.

"Each cycle, more business is going to the alternative market. We feel at Am-Re that our products and services are fairly adaptable to that market. We would like to work directly with risk managers through their brokers," he said.

Am-Re Managers provides many of the same products and services available to its parent company's traditional insurer clients: property and casualty reinsurance, written on either a facultative or treaty basis; finite risk reinsurance, available through Inter-Ocean Re-Insurance Co. Ltd. (BI, Oct. 22); actuarial, claims and tax consulting; and environmental and risk management consulting.

During the last year, Am-Re Managers added two risk management experts, increasing its staff to three, and created a three-person environmental consulting department, bringing Am-Re's total staff to 14.

Mr. LeStrange declined to specify the number of alternative facility accounts being serviced by Am-Re Managers, but he outlined the types of facilities it targets: single-parent captives, public entities and large self-insured clients with annual premiums of \$250,000 to \$1 million.

"We like to work with companies that have been frustrated in dealings with the traditional insurance mechanism," like public entities, companies with hard-to-place product liability exposures and companies with environmental exposures, Mr. LeStrange said.

Am-Re provides casualty reinsurance limits of \$10 million and property reinsurance limits of \$40 million.

"In addition, we can generate substantial additional capacity through Am-Re Brokers," an American Re reinsurance intermediary unit, Mr. LeStrange pointed out.

Am-Re Managers works mostly through retail brokers, actuarial consulting firms, law firms and investment banks. It does not use reinsurance intermediaries to service the alternative facilities.

Stamford, Conn.-based Transamerica Reinsurance Co. will kick off a joint venture by year-end with a newly formed reinsurer dedicated to alternative facilities, according to Lydia Kam, senior vp.

The Indiana-domiciled facility, Discover Reinsurance Co., a subsidiary of holding company Discover Re Managers Inc., has initial capital and surplus of \$25 million, according to Ms. Kam.

The facility will target mainly group and association captive business that will generate premiums ranging from \$100,000 to \$3 million.

However, Discover Re also will underwrite some "unusual risks," like professional liability insurance for captives that cede reinsurance to the new company.

"Basically, we're open to whatever the retailers show us," Ms. Kam said, referring to retail brokers.

Initially, Discover Re will provide \$5 million in reinsurance capacity in such lines as general liability, auto liability, workers comp and umbrella.

Continued on next page

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Alternative markets

Continued from previous page

liability. While the "main focus of the facility is still providing reinsurance capacity and underwriting services," Discover Re also will provide consulting services to its alternative facility clients.

"The key is to tailor the product to the buyer," Ms. Kam said. "They left the traditional market because they didn't want a prepackaged program. But not all buyers need all services."

Discover Re will have an initial staff of 13 professionals and four clerical workers led by two former General Re officers: George L. Estes III will be chairman and chief executive officer, and Scott P. Doyle, a former Gen Re vp who helped form Genesis, will be president and chief operating officer.

"All the professional staff are seasoned professionals that have dealt

with the alternative risk market for some time," Ms. Kam stressed.

Newark, N.J.-based Prudential Reinsurance Co. renamed its captive reinsurance unit the Alternative Risk Services Division in an effort to increase its visibility as a reinsurance market for a variety of risk-financing mechanisms, according to Joseph F. Peloso, vp-treaty underwriting.

Prudential Re mainly reinsures general liability and auto liability risks for its alternative facility accounts, providing about \$2 million of reinsurance to risk purchasing groups, risk retention groups, self-insurance pools and captive insurers.

Prudential Re also may provide more than \$2 million in coverage if it arranges fronting services.

The unit also provides "value-added services"—such as fronting arrangements, actuarial services, and underwriting and claims consulting.

While Prudential Re is a direct-writing reinsurer, business underwritten by the alternative market

services department is generated by reinsurance intermediaries.

Three full-time underwriters currently are servicing 12 clients, which is double the number the unit had been servicing 18 months ago under the banner of the former captive reinsurance unit.

Bermuda-based Skandia International Risk Management Ltd.'s Alternative Risk Transfer Department provides all aspects of captive management services in addition to reinsurance capacity.

Rob Rosser, vp-marketing for the unit of Skandia America Corp., said: "With one-third of our premium base leaving the traditional market, we decided to create a department to focus on providing services to the alternative market."

The department, which was launched 2½ years ago, gives alternative facilities access to accounting services, claims audits, investment expertise, financial reinsurance and rent-a-captive facility Hudson Rein-

surance Co., which is owned by Skandia's parent company, Skandia International Insurance Corp.

As part of its effort to court the business of alternative facilities, Skandia co-sponsored the First World Captive Conference last month with the Tillinghast Division of Towers, Perrin, Forster & Crosby Inc. and Swedish captive manager SINSER (see stories, beginning on page 80).

Thirty-one ART department staff members from Bermuda, Vermont and New York are servicing 100 clients. Skandia's ART department can provide up to \$4 million of reinsurance limits but generally prefers to work within the first \$1 million to \$2 million layer of loss-sensitive programs like workers comp, general liability and auto liability, Mr. Rosser said.

The majority of its business is derived from retail brokers, but consultants also are "a fertile field from which to harvest," he said. ■

Reinsurers scrutinize facilities

By JOANNE WOJCIC

Reinsurers are welcoming business from alternative risk financing mechanisms—as long those markets can meet underwriting standards that often are stricter than commercial primary insurers face, reinsurance experts say.

Reinsurers are more closely scrutinizing these facilities than they examine commercial insurers because there generally is less information available on them, said Andrew Barile, co-chief executive officer of New York-based reinsurance intermediary Andrew Edwards & Co. Inc.

For example, insurers' financial histories are published in Best's Insurance Reports, but little data can be found on a newly formed risk retention group, he explained.

In addition, because the officers of alternative facilities generally do not have underwriting backgrounds, reinsurers want to keep close tabs on the facilities' activities, according to Roger Espe, president of reinsurance intermediary Sullivan Payne Co. in Philadelphia.

The predominant trait reinsurers seek in alternative facilities is longevity: They will reject a facility if they think its parent is likely to mothball it when the commercial property/casualty insurance market softens and reactivate it when the market hardens.

"We're looking for long-term, mutually profitable, mutually beneficial relationships," said Rob Rosser, vp-marketing for Bermuda-based Skandia International Risk Management Ltd.'s Alternative Risk Transfer Department in Bermuda.

MEDMARC Insurance Co. Risk Retention Group Inc. is an example of the type of alternative market facility that reinsurers find attractive, according to Jaxon White, president of the Burlington, Vt.-based facility.

MEDMARC, which provides product liability insurance for medical device and diagnostic equipment manufacturers, provides its 492 members/owners with limits of \$5 million.

"They like our business history," Mr. White said, referring to reinsurers. "They know the business will remain stable."

In addition, MEDMARC "hasn't had a lot of catastrophic losses" and can provide its own claims-handling services, according to Mr. White.

While the policies are fronted by National Union Fire Insurance Co. of Pittsburgh, Pa., a unit of American International Group Inc., 100% of the first \$2 million of each risk is ceded back to MEDMARC. The next \$3 million layer is ceded to other AIG units.

The risk retention group also purchases finite risk insurance from Skandia America Reinsurance Corp.

MEDMARC bought \$1.5 million in finite risk limits during 1990 but plans to purchase \$3 million in 1991 as "balance sheet protection," because the risk retention group is trying to obtain a Best's rating, Mr. White explained.

Before Merrillville, Ind.-based American Inter-Fidelity Exchange, a risk retention group for trucking risks, obtained reinsurance from American Re-Insurance Co. in July 1989, it was forced to undergo a rigorous financial examination, according to Davide W. Tomei, vp.

"They were in here every two weeks, sometimes two people, sometimes three. After four or five months, they finally agreed to do it," he said.

The reinsurer was "highly selective," making sure that the coverage was adequately priced and that the management was dedicated, Mr. Tomei said. ■

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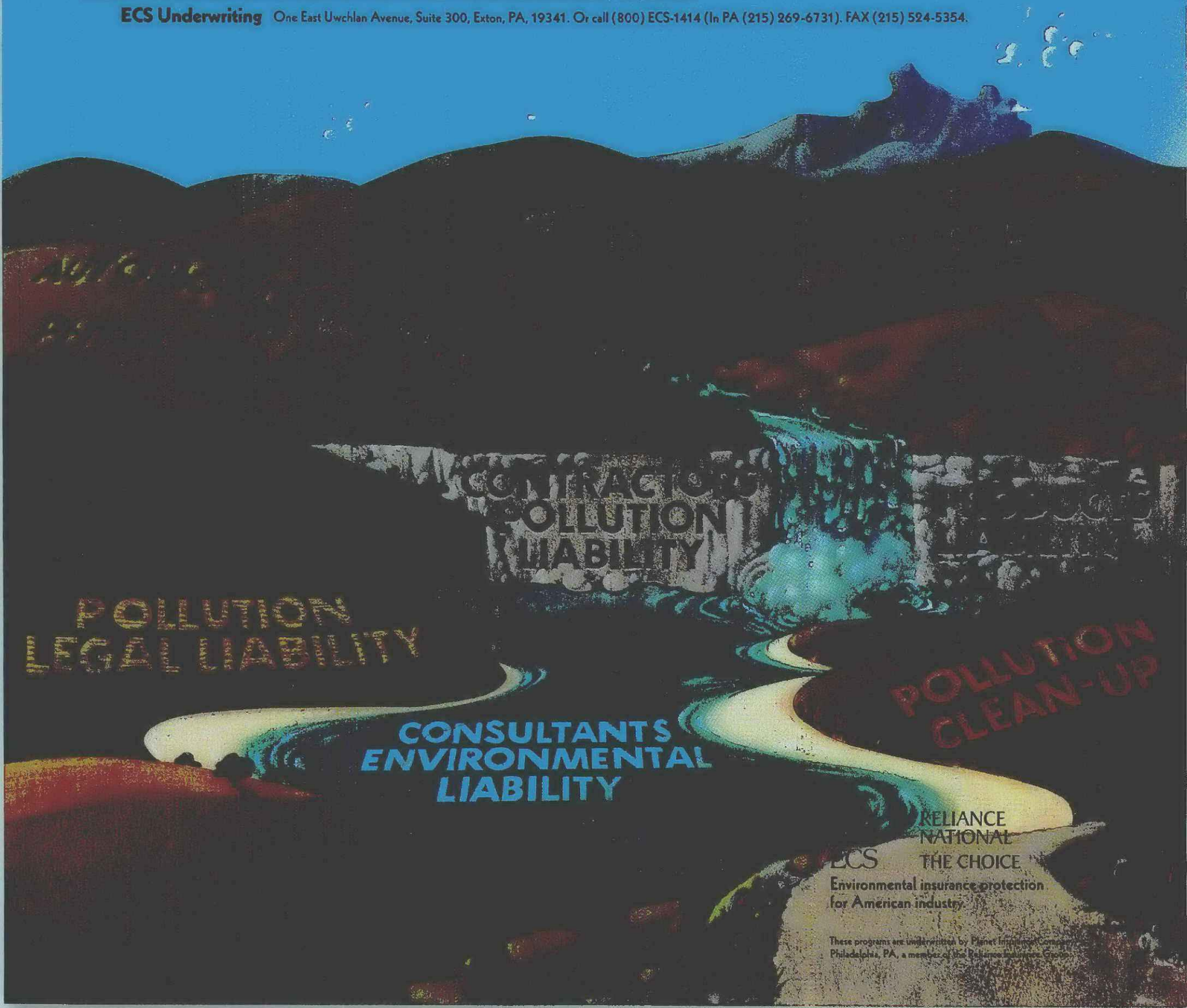
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New rules do not solve recoverable problems

By DOUGLAS McLEOD

Nearly a year after state regulators imposed new rules intended to flush out the extent of insurers' overdue reinsurance balances, the question of how much of those balances will prove uncollectible remains hazy.

The rules, which went into effect with insurers' 1989 statutory annual statements, required them to report authorized reinsurance recoverables on paid losses overdue by more than 90 days. Insurers were then required to take a charge against surplus for a portion of those undisputed balances.

The new rules marked the first attempt by the National Assn. of Insurance Commissioners to come to grips with the problem of uncollectible reinsurance, which some industry observers have predicted could leave a huge hole in the property/casualty industry's surplus (*BI*, Dec. 26, 1988).

While most observers applaud the rule as a step in the right direction, many are questioning its effectiveness, particularly in light of the relatively small aggregate penalty it generated in its first year of implementation.

Property/casualty insurers took penalties against surplus totaling about \$543 million for overdue reinsurance in 1989, a figure that represents less than 1% of those companies' aggregate surplus of about \$76.8 billion, said Robert M. Solitro, chief examiner of the New Hampshire Insurance Department and head of an NAIC group setting regulations on overdue reinsurance.

Many companies were able to avoid penalties by taking advantage of various loopholes in the regulations, several observers say.

These loopholes include an exception from the penalty for reinsurance balances classified as "in dispute," which led some companies to send out large numbers of arbitration notices to reinsurers at the end of 1989.

"In essence, the rules are being bypassed" by some insurers, said Myron M. Picoult, senior vp and senior insurance analyst with Oppenheimer & Co. in New York. "It looks like you could drive a 16-wheeler through this thing sideways."

In addition, shortcomings in the reporting format of annual statements' Schedule F, which details reinsurance transactions, have made it difficult to gauge the impact of reinsurer defaults. For example, Schedule F does not require insurers to show reinsurance recoverable from authorized companies on incurred-but-not-reported losses and loss adjustment expenses, noted Shaun P. Flynn, assistant vp with Standard & Poor's Corp. in New York.

The NAIC is hoping to address some of these problems with clarified instructions and changes in reporting requirements for future annual statements, according to Mr. Solitro of New Hampshire.

Despite the perceived shortcomings in the NAIC's reinsurance recoverable rules and the information they have produced, some observers have concluded that unrecoverable reinsurance may not turn into the calamity others have predicted.

"While some thinly capitalized insurers may be dangerously exposed to uncollectible recoverables, the likely scale of defaults does not pose an unmanageable threat to the industry's solvency," an S&P report on recoverables concludes.

Although the size of the problem has never been easy to judge, uncollectible reinsurance has been a growing concern for regulators and ceding insurers since the industry sank into the soft market of the early 1980s.

The soft market, driven in part by cheap, plentiful reinsurance, produced huge losses for property/casualty insurers that ultimately pushed many reinsurers into insolvency and left many others in ten-

uous financial condition.

Since the soft market debacle, insurers have generally placed much greater emphasis on reinsurer security, and most observers agree that the unrecoverable reinsurance problem in future years will not be nearly as severe as it is now.

"Going forward, people have paid far greater attention to security, so we don't anticipate any significant problems," said Willis T. King Jr., chairman of New York-based Willcox Inc., a reinsurance brokerage unit of Johnson & Higgins.

"I guess you can make the argument that it will not be as much of a problem," Oppenheimer's Mr. Picoult conceded. "But that's only after you've crossed the bridge over the problems from prior years."

In an effort to address these problems from the past, the NAIC—after

long negotiation—developed its 90-day rule for aging reinsurance balances.

Under the rule, ceding insurers must report in Schedule F the amounts of paid losses recoverable from each reinsurer that are current, 30 to 90 days overdue, 91 to 180 days overdue and more than 180 days overdue.

The rule then imposes a penalty against surplus equal to 20% of all undisputed reinsurance balances recoverable from authorized reinsurers that are identified as slow payers. Balances used for this calculation include paid, unpaid and IBNR losses, unearned premiums and allocated loss adjustment expenses recoverable less deposits by and funds withheld from those reinsurers and other off-setting credits.

A reinsurer is considered a slow

payer if paid loss recoverables that are more than 90 days past due amount to more than 20% of all paid losses recoverable from that reinsurer plus payments the ceding company has received from the reinsurer within the previous 90 days.

Results reported under the new rule varied widely from insurer to insurer, as S&P found in an analysis of 30 major property/casualty groups' reinsurance recoverables.

The 30 groups—which included the property/casualty operations of Aetna Life & Casualty Co., American International Group Inc., CIGNA Corp., Crum & Forster Inc., Hartford Insurance Group and Prudential Insurance Co. of America—accounted for \$131.7 billion in net written premiums in 1989 and reported \$173.5 billion in reserves and \$75.7 billion in surplus.

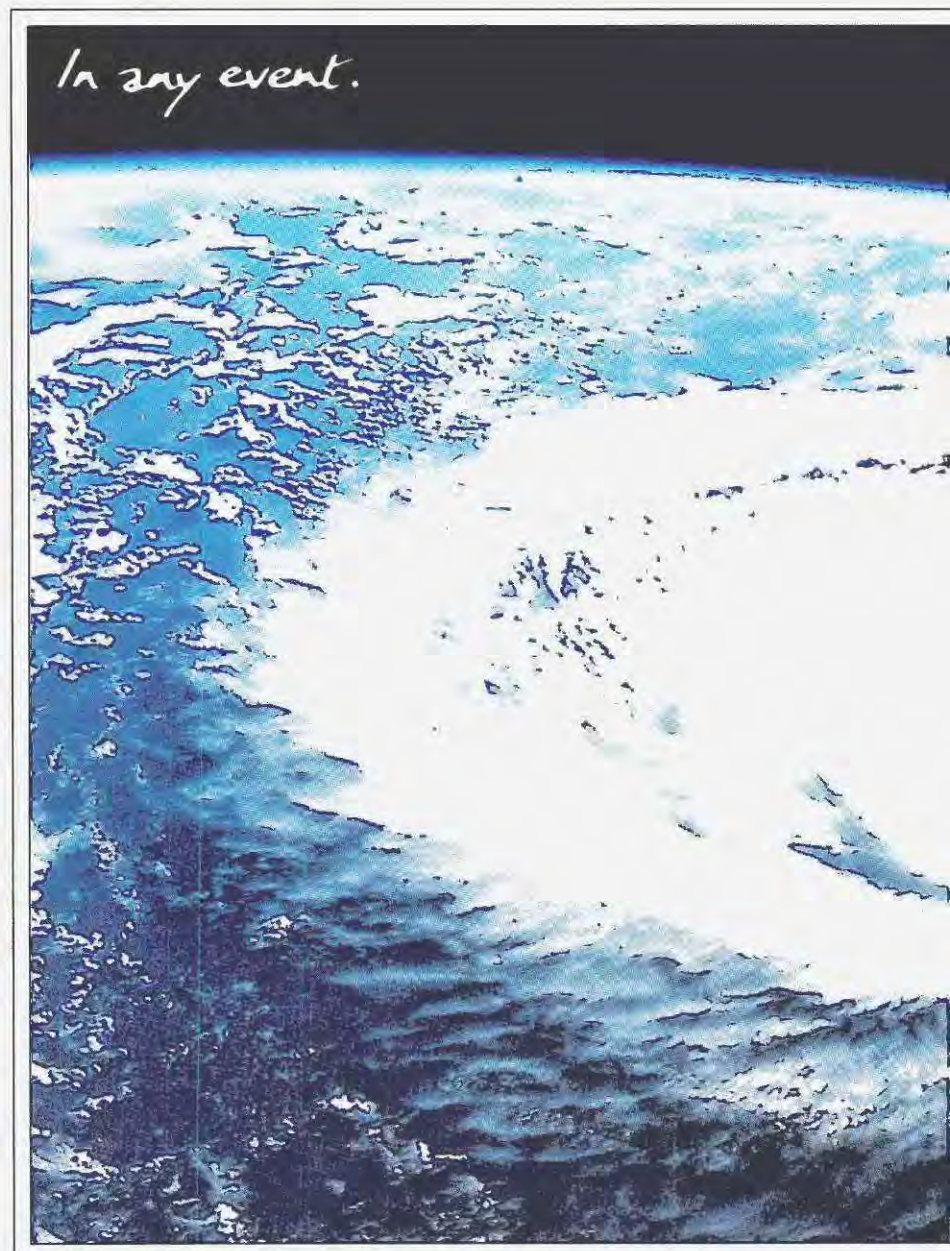
Overall, the 30 groups reported \$5.8 billion in reinsurance recoverable on paid losses, of which 65.8% was current, 8.3% was 30 to 90 days late, 5.3% was 91 to 180 days late and 20.5% was more than 180 days past due, according to the S&P figures. This made for a weighted average of 42.5 days overdue for the group overall.

The S&P study also attempted to show the groups' net exposure to reinsurance recoverables.

Together, the 30 groups reported total Schedule F reinsurance recoverables of \$43 billion, or 56.9% of surplus for 1989.

However, S&P added recoverables on ceded IBNR losses and allocated loss adjustment expenses, which are not fully disclosed in Schedule F. It also gave credit for funds held by the

Continued on next page



Continued from previous page
companies and charges against surplus for overdue recoverables.

After making these calculations, S&P concluded that the net exposure to reinsurance recoverables for the group amounted to \$67.8 billion, or 89.6% of surplus, a much larger figure than the reinsurance recoverable numbers provided in Schedule F would indicate.

Reinsurance collection patterns and net exposure to recoverables also varied widely among the companies being analyzed.

Prudential, for example, showed an average collection period of 17.7 days for paid loss recoverables and a net reinsurance recoverables-to-surplus ratio of 0.54-to-1, according to S&P.

CIGNA, though, showed an average collection period of 60.7 days and a net recoverables-to-surplus ratio of 3.42-to-1. CIGNA officials declined to comment on ratio.

The amount of the penalty on overdue recoverables also varied among

companies.

For example, one CIGNA unit—CIGNA Property & Casualty Insurance Co.—reported overdue paid loss recoverables totaling \$206.7 million and took penalties totaling \$182.5 million, according to NAIC figures.

But Hartford reported about \$284 million in overdue paid loss recoverables and took a penalty of only \$5.1 million.

James Westervelt, vp and group controller for Hartford Fire Insurance Co., explained that the group's penalty was substantially reduced by credits for funds Hartford withheld from reinsurers to secure balances payable.

While conceding that the new Schedule F reinsurance data is helpful, several industry observers—including S&P—question the effectiveness of the 90-day rule.

Penalties taken by the 30 property/casualty groups S&P analyzed—which accounted for the bulk of the \$543 million in penalties reported by

all insurers—increased the groups' total reinsurance write-offs to \$1.8 billion last year from \$1.3 billion reported in 1988.

As the S&P report points out, this \$1.8 billion represents only 2.5% of \$72 billion in gross reinsurance recoverables—defined as recoverables before credits for funds withheld and write-offs—and 2.3% of surplus.

"Clearly the industry's exposure to uncollectible reinsurance is larger than this amount," the report concludes. "In addition to understating ceded IBNR and allocated (loss adjustment expenses) due from unauthorized companies, ceding companies have avoided reinsurance penalties because of vague definitions regarding what constitutes a dispute and where the 90-day period begins."

"It's clearly something that's being misused," Mr. Picoult said of the dispute provision.

"I think there is gross underreporting because there are so many loopholes and it's so easy not to re-

port," agreed Edmond F. Rondepierre, senior vp and general counsel of General Reinsurance Corp. in Stamford, Conn.

"There are a dozen ways not to report, so there must have been rampant underreporting," he said.

"I've looked at a few annual statements that I just don't think are credible," said James Shamberger, senior vp of the Reinsurance Assn. of America in Washington, D.C.

Reinsurance observers had correctly predicted the dispute provision—which allows insurers to exclude disputed balances from their past due reinsurance totals—would lead many insurers to file arbitration demands, commence litigation or take other steps to classify balances as being in dispute before year-end 1989.

Crum & Forster, for example, sent out large numbers of arbitration demands before the end of the year, confirmed Robert J. Sullivan, senior vp and general counsel.

"We did send out an unusually

high number of arbitration notices in order to resolve things," Mr. Sullivan said. "The rule had a salutary effect in that it expedited efforts to settle outstanding recoverables."

Mr. Sullivan declined to say how many notices C&F sent out or specify the volume of recoverables they covered.

Another problem area, some observers say, is defining when a reinsurance balance is payable and, thus, when it becomes 90 days past due.

The rule states that paid loss recoverables are due pursuant to the terms of the reinsurance contract on the date of execution. If the contract does not specify a payment period, the period is deemed to be 30 days after a proof of loss is provided to the reinsurer.

Insurers can stretch the payment period simply by asking reinsurers if they have all the information they need to complete a proof of loss filing. If the answer is no, as it likely would be, the claim is not complete and the 90-day clock has not started.

"All it takes is a phone call," Mr. Rondepierre said.

In the extended debate that preceded the NAIC's adoption of the 90-day rule, Mr. Rondepierre said he had pushed for a provision that would have started the clock from the date a ceding company pays a claim from its policyholder.

"If you're concerned with solvency, that's the date that counts—when the (ceding) company is out the funds," Mr. Rondepierre said. "That's a date they can't monkey with."

The NAIC is hoping to address some of these problems with proposed changes to the reinsurance reporting rules, according to New Hampshire's Mr. Solitro.

The proposed changes have been approved by the NAIC's Blanks Committee and are expected to be approved by the NAIC as a whole later this year, he said.

Effective with the 1991 annual statement, the changes would require insurers to report reinsurance balances in dispute in a footnote to Schedule F, he said.

In an effort to tighten the definition of when the 90-day period begins, the NAIC would add a provision stating that notices of loss to a reinsurance broker will constitute notice to the reinsurer. This provision is intended to address slowdowns in reinsurance payments caused by paperwork having to pass through the hands of brokers, a particular problem with some placements with overseas reinsurers where more than one broker is involved.

In addition, the section of Schedule F that reports ceded reinsurance would be changed to require insurers to add loss adjustment expense recoverables to paid and unpaid loss recoverables, and to require reporting of IBNR loss recoverables.

Despite the shortcomings of the 90-day rule, some observers have concluded that the unrecoverable reinsurance problem by itself will not trigger widespread solvency problems.

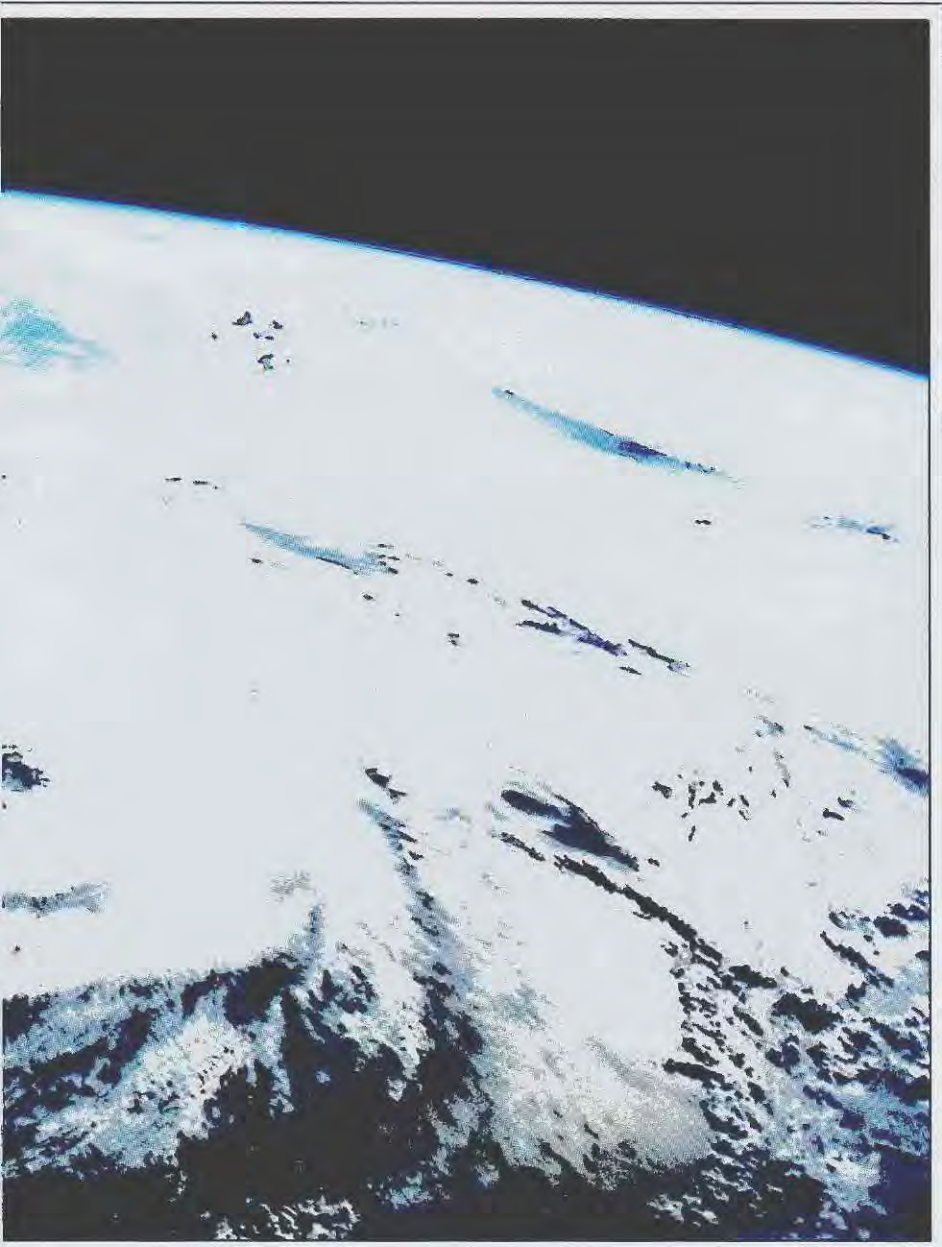
Even if the industry were to write off 20% of its gross reinsurance recoverables, the impact would be roughly the same as an 8% deficiency in loss reserves, S&P calculated.

In this case, "the industry's leverage position would rise, but wholesale cedant insolvency would be unlikely," S&P concluded.

The rating agency cautioned, though, that "notwithstanding the relative security of the industry overall, some individual carriers are quite exposed to uncollectible reinsurance, typically as a result of poor reinsurer selection and thin capitalization."

Most ceding insurers would even survive a possible move by the NAIC to raise the penalty on recoverables from slow-paying reinsurers, Mr. Shamberger adds.

"For 90% to 95% of the companies, I don't think that doubling (the penalty) to 40% would be a problem," he said.



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REINSURANCE

Court 'mess' makes arbitration attractive

By STACY ADLER

Recent confusing and conflicting court decisions in reinsurance coverage litigation could cause reinsurers and primary insurers to arbitrate more of their disputes.

While many reinsurers and primary companies have criticized the arbitration system as expensive and as time-consuming as litigation, they may soon begin demanding arbitration clauses in their reinsurance contracts because of the "mess" courts have created, attorneys say.

"Contract law in the courtroom is Russian roulette," said Edmond Rondepierre, general counsel for General Reinsurance Corp. of Stamford, Conn.

"There is an inconsistency that has developed" in judge-made reinsurance law, agreed reinsurance attor-

ney Anthony M. Lanzone, who heads his own firm in New York. Some reinsurers and ceding companies "will be influenced by this and will return to arbitration," he said.

Messrs. Rondepierre and Lanzone specifically referred to three recent New York federal court decisions establishing different rules for reinsurers than for primary insurers (*BI*, Sept. 3).

In one of the decisions a federal court interpreting New York law said a reinsurer must show it has been prejudiced by a cedant's late notice before it can avoid coverage.

The decision is important because primary insurers in New York do not have to show they have been prejudiced by a policyholder's late notice to avoid coverage.

The Aug. 6 ruling stemmed from a dispute between Christiana Gen-

eral Insurance Corp. of New York in Tarrytown, N.Y., and Great American Insurance Co. of Cincinnati. In his decision, U.S. District Judge Peter K. Leisure held a different rule should apply to reinsurers because "reinsurers have no duty to defend claims, nor is the potential staleness of a claim as significant a concern to a reinsurer as to a primary insurer."

In another decision, a different New York federal court, also interpreting New York law, found that a reinsurer does not have to prove that the lack of timely notice caused prejudice to avoid coverage.

In *Travelers Insurance Co. vs. Buffalo Reinsurance Co.*, U.S. District Court Judge John M. Cannella ruled that a reinsurer is excused from paying under its contract if the cedant gives late notice without "a reason-

able" excuse for the delay.

And, a third federal court judge in New York, U.S. District Judge Robert W. Sweet, ruled in *Unigard vs. North River Insurance Co.* that whether a reinsurer can avoid coverage because of late notice of a claim from a ceding insurer depends on the "custom and practice" of the reinsurance industry.

"All three courts were supposed to apply New York law, yet each defined New York law differently," Mr. Rondepierre said. "This is an impossible situation for contract drafters."

The result of this confusion is that parties to reinsurance contracts lose confidence in the courts, he said. "It causes people to say, 'Any forum is better than the courts.'"

General Re uses arbitration clauses in "virtually all the contracts" it

writes, according to Mr. Rondepierre.

However, the reinsurer is willing to negotiate use of the clause with its clients, he said, though "we believe you are better off with businessmen arbitrators than a judge who is trying criminal cases."

"Courts really lack the expertise" to interpret reinsurance contracts, agreed Mr. Lanzone, noting that reinsurance litigation usually evolves into a "battle of the experts" as each side brings forth expert witnesses to testify on its behalf. While arbitration panels seek to find an equitable solution to a reinsurance dispute, courts "look for black and white answers."

"The courts are muddying the waters" agreed Fletcher Phelan, president of Phelan International Consulting in Larkspur, Calif.

The courts have issued "contradictory and confusing rulings," variously holding that reinsurers should and should not be treated differently from insurers, said Mr. Phelan, who provides reinsurance consulting, arbitration and commutation services.

"One of the strongest arguments against arbitration is a quest for certainty," Mr. Phelan said. Yet, early court interpretations of reinsurance contracts have failed to create any certainty, he said.

"One reason people move away from arbitration is a need for certainty," agreed Gerald F. Fisher, vp and special counsel at North American Reinsurance Corp. of New York, a unit of Swiss Reinsurance Co. "But going to court is never a guarantee of certainty or predictability."

There are many variables to be considered by the parties to a reinsurance contract when deciding whether they want to arbitrate or litigate their disputes, he said.

"The fact that courts have not built a consistent or coherent body of law in this area is only one factor in determining the desirability of litigation," Mr. Fisher said.

He outlined several other factors that must be considered, including:

- The desire to maintain a working relationship, which may cause parties to choose arbitration because it often is less acrimonious than litigation.
- The technical complexity of the dispute, which may require the experience of arbitrators.
- The probability of finding suitable arbitrators and an umpire. Because the pool of qualified, neutral arbitrators is shrinking, some parties may prefer litigation.

North American Re prefers to use arbitration clauses, according to Mr. Fisher. The reinsurer has arbitration clauses in 99% of the contracts it writes, he said. Nonetheless, he is hopeful that as the body of judge-made reinsurance law develops further more clarity will emerge.

Reinsurance attorney Kathryn Broderick was not so optimistic.

"There is similar confusion in the direct insurance context," Ms. Broderick said, noting that courts also have issued confusing and conflicting rulings in primary insurance disputes.

"What I have seen in the direct insurance context does not make me optimistic that a more developed body of reinsurance law will be more coherent," said Ms. Broderick, who is with Preston, Gates, Ellis & Rouvelas Meeds in Washington, D.C.

However, "arbitration panels also issue conflicting and confusing rulings," she noted.

"There is a movement toward finding alternatives to both litigation and arbitration," said Robert M. Hall, general counsel and secretary for American Re-Insurance Co. of Princeton, N.J.

One alternative is as simple as talking. Rather than litigate or arbitrate its disputes, American Re tries to negotiate solutions with its clients, Mr. Hall said.



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Solvency is key issue: RAA president

By MARK A. HOFMANN

WASHINGTON—Solvency questions are becoming the primary focus of the Reinsurance Assn. of America.

Mitigating the impact of a major U.S. earthquake on the U.S. insurance market and determining who should pay for environmental impairment liabilities are also high on the RAA's list of concerns, said Jack H. Blaine, the new president of the Washington, D.C.-based association.

Mr. Blaine joined the RAA as executive vp about a year ago after having served as vp-state relations and general counsel for the Washington, D.C.-based American Council of Life Insurance.

Mr. Blaine succeeded Andre Maisonnier as the RAA's president about six months ago.

"Solvency is the number-one issue" for the RAA, Mr. Blaine said. "I think working with the regulators to enhance solvency controls will take up a great deal of our time."

For example, the RAA has been working with National Assn. of Insurance Commissioners' committees dealing with accounting and annual statements in the development of model laws, Mr. Blaine said. In addition, states "are showing a real interest in discussing solvency policing measures, so we'll be participating in public hearings stressing affirmative measures to prevent insolvencies," Mr. Blaine said.

The RAA is keeping in touch with increased concern about insurer solvency on Capitol Hill, Mr. Blaine said, pointing to the report issued earlier this year by the House Oversight and Investigations Subcommittee, chaired by Rep. John D. Dingell, D-Mich., that criticized state solvency regulation (*BI*, Feb. 26).

Mr. Blaine described the report during an address to the Society of Chartered Property & Casualty Underwriters' annual meeting in Washington, D.C., last month (*BI*, Oct. 22).

"The report states that the subcommittee was told several times that 'reinsurance is not being properly regulated and that federal involvement will be necessary to correct the problems.' It asks such questions as: How should reinsurance be regulated? Should there be limits on the amounts of reinsurance allowed on a single risk, or on an insurance company's liabilities? Should the credit given for reinsured business be restricted? These and the many other questions give some indication that the staff has at least thought about some answers," Mr. Blaine said.

He also pointed out that one of the subcommittee's major concerns was the operation of alien reinsurers in the United States. "They haven't really given any indication of how they would respond to the alien reinsurance situation yet, but they're looking at it."

Mr. Blaine said that the RAA had testified before the subcommittee earlier this year and probably will not be called to testify again in the future. "A lot of our written testimony was the basics of reinsurance," he said.

The subcommittee's areas of concern about reinsurance were identical to their concerns about primary insurance, he said, explaining that these concerns included the integrity of financial statements and the adequacy of loss reserves.

Mr. Blaine stressed, however, that the RAA is not among the insurance groups that have suggested a federal role in solvency regulation. The association has tradition-

ally supported state regulation.



Mr. Blaine

insurance industries in the aftermath of a major earthquake, said Mr. Blaine.

The RAA has joined other property/casualty insurance industry groups in support of the Earthquake Project (*BI*, Oct. 23, 1989).

The Earthquake Project, which

is supported by a group of property/casualty insurers and reinsurers as well as industry trade associations like the RAA, proposes the creation of a federal corporation that would accumulate catastrophic coverage premiums tax-free to meet the coverage needs of a major earthquake (*BI*, July 24, 1989). Property owners in designated "earthquake zones" would be required to buy earthquake coverage to broaden the premium base.

"The Earthquake Project is very important to us," Mr. Blaine said. He added quickly, however, that the RAA does not expect congressional action in the near future, even though a bill embodying the Earthquake Project approach was introduced in the U.S. House of

Representatives this spring (*BI*, Apr. 19).

That bill—H.R. 4480—was introduced by Reps. Al Swift, D-Wash., and David Drier, R-Calif., with nine co-sponsors. However, Reps. George B. Brown, D-Calif., and Sherwood Boehlert, R-N.Y., offered another earthquake reinsurance bill—H.R. 4462—at about the same time. The major difference between the two bills is their approach to earthquake loss prevention, Mr. Blaine said.

"The (Earthquake Project) approach has been to do it through incentives," whereas supporters of the Brown-Boehlert measure want to mandate that communities eligible for federal coverage take loss prevention measures like strengthening building codes and

requiring automatic shutoff valves for natural gas lines in tremor-prone areas, according to Mr. Blaine.

The Brown-Boehlert measure would create an earthquake insurance mechanism much like that of the National Flood Insurance Program, said Mr. Blaine. Earthquake-prone communities would be required to enforce federally mandated building codes that would minimize the impact of earthquakes, just as the NFIP requires communities on flood plains to enforce measures that would minimize the impact of flooding, he said.

The RAA also is tracking the impact of environmental liability decisions and regulations on the sol-

Continued on next page



Continued from previous page
vency of reinsurers, Mr. Blaine said. "We have at least the same concerns as the primary insurers do."

Mr. Blaine said that because reinsurance loss payments lag behind those of primary insurers, the full impact of pollution cleanup losses has not hit reinsurers yet. But he made clear that the cost to reinsurers would be considerable.

In fact, in his Society of CPCU address, Mr. Blaine said that estimates of cleaning up environmentally impaired sites could "be as high as \$750 billion or more." He noted that insurers never intended to pay for cleaning up sites first used decades ago, and that the courts differ as to who should pay for cleanups.

Still, reinsurers will be served with a least a portion of the bill, he said. "It's almost impossible to measure it, given the fact that almost nobody assumed they were

involved with it."

Mr. Blaine said that the RAA's role in the legislative process is often one of education. Lawmakers and regulators often have little knowledge of reinsurance, he said. He freely admits that he had little awareness of the business himself when he accepted the job with the RAA. That's since changed.

"As an old life (insurance) guy, I've found the business of reinsurance intriguing," said Mr. Blaine, adding the business is much more complicated than he had originally thought.

"I guess we'd like to have a little more visibility in the legislative and regulatory arena," said Mr. Blaine. However, the size of RAA's 10-person staff—which is small compared to those of other insurance associations—limits its influence to a certain degree.

The RAA was founded in 1968, and currently has 31 member companies. To be eligible for member-

ship, a company must:

- Be a professional reinsurer. Although some RAA members write direct insurance, reinsurance represents at least 90% of the business of most members.

- Be domiciled in the United States. Foreign-owned companies domiciled in the United States can join the association, but reinsurers owned by foreign governments are ineligible.

- Maintain minimum capital and surplus of \$75 million.

- Be licensed in California, New York and at least 23 other states.

- Maintain at least a B rating from A.M. Best Co.

"There aren't many reinsurers that are over \$75 million that are not members," said Mr. Blaine, citing Long Grove, Ill.-based Kemper Reinsurance Co. and Stamford, Conn.-based Transamerica Reinsurance Co. as the only major domestic reinsurers that don't belong to the RAA. ■

New book touted as way to reduce reinsurer disputes

By MARK A. HOFMANN

OLYMPIA FIELDS, Ill.—A new reinsurance contract wording reference book by the Brokers & Reinsurance Markets Assn. should help resolve disputes before they occur, says the association's president.

In fact, its recently published book represents "the most important work of the association" to date, said President William J. Gilmartin (BI, Oct. 1; Sept. 24).

"The object of the association

from the beginning was to come up with such a reference book," said Mr. Gilmartin, who has headed the Olympia Fields, Ill.-based organization since its inception in November 1986 (BI, Nov. 16, 1987).

"The purpose of the contract wording manual is to have a book of clauses that can be referred to in the slip so that differences are resolved beforehand," he said.

By referring to the manual, ceding companies can see what alternative contract wordings are available in the marketplace, Mr. Gilmartin said. As such, the handbook can be seen as a sort of consumer protection guide, he said.

"This, I think, is a landmark in the business. It really took an organization like BRMA to put this together," he said.

Mr. Gilmartin pointed out that the project required input from both intermediaries and underwriters and that BRMA's membership—11 intermediaries and 19 underwriters—put it in a unique

'Non-lobbying' BRMA plans to do more 'monitoring' of laws, regulation, says Ward Gordon.

position to gather such input.

Mr. Gilmartin stressed that although the book carries a price tag of \$250, BRMA will not receive any royalties from its sales. In addition, he said that a second edition of the work will probably be prepared next year.

As a follow-up to the publication of its reference book, BRMA has begun working on an electronic communications network to speed the processing of reinsurance contracts, Mr. Gilmartin said. The goal of the project is to devise a standardized internationally accepted format that would allow instantaneous electronic communication of contracts among all parties, he said.

Mr. Gilmartin, however, will not be overseeing the project as BRMA president. The retired senior vp of Chicago-based CNA Financial Corp. will retire as BRMA president at the end of the year and pursue a third career in reinsurance consulting and arbitration work.

Ward Gordon, who is taking early retirement from his post as chairman of New York-based Intere Intermediaries, Inc., will succeed Mr. Gilmartin.

Mr. Gordon said that BRMA will move its offices to New York early next year, though he has not decided on a precise location yet.

Mr. Gordon said that BRMA, although it intends to remain a "non-lobbying organization," plans to take a more active role in monitoring legislation and regulation affecting the reinsurance business. Lobbying chores generally will be left with the Washington, D.C.-based Reinsurance Assn. of America, the association of reinsurance underwriters that has "a lot of common members" with BRMA, he said (see story, page 34).

However, Mr. Gordon said that BRMA is "actively seeking someone who will have the orientation" to track state and federal legislative and regulatory developments. ■



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'Lovelorn' reinsurers praised for 'discipline'

By MICHAEL SCHACHNER

NEW YORK—Reinsurers deserve praise for maintaining underwriting discipline during the current soft primary insurance market, but they are out of touch with insurers, says an insurance stock analyst.

Reinsurers must rebuild waning "partnerships" so insurers will feel more comfortable returning to the reinsurance marketplace when the market hardens, according to A. Michael Frinquelli, a managing director with Salomon



Bros. in New York.

"Despite their discipline, relatively low combined ratios and relatively reasonable returns on equity, reinsurers are not a happy bunch today. Their customers do not seem to love them anymore," Mr. Frinquelli said at a research seminar co-sponsored by the Insurance Information Institute and the Reinsurance Assn. of America in New York last month.

For example, litigation between reinsurers and insurance com-

panies has increased, Mr. Frinquelli observed.

"Reinsurers are eagerly awaiting the time when their customer base gets in trouble because of increasing retentions. They're saying: 'Then they'll come crawling back to us and we can have our way with them,'" he said.

That, Mr. Frinquelli suggested, is the wrong approach.

Noting that the U.S. property/casualty market reported premiums of \$209 billion, surplus of \$134 billion and assets totaling \$527 billion in 1989, Mr. Frinquelli said: "Such sheer size may suggest that your customers do not need you as much as they used to."

However, because insurers are larger and "more unfocused" than reinsurers and because they are staring at very low rates of return on equity, they need help in getting focused on what they do best, and reinsurers can help, Mr. Frinquelli said.

"You can help by reinsuring them out of non-core, marginal ac-

**Reinsurers'
'customers do not
seem to love them
anymore,' says
Mr. Frinquelli.**

tivities. Consider this: Your customers are beginning to come to us gentle, altruistic souls on Wall Street first because they see us as cheaper than you. Invariably, we're told that reinsurance is their most expensive option," he said.

Cash-flow problems plague many insurers and reinsurers should do more than simply offer advice, he said.

"They get loads of advice from Wall Street, actuarial consultants and their auditors. What they need from you is what only you can provide: a reinsurance contract that deals with cash flow, tax and other matters of pressing urgency.

"Again, offer this at a partnership price, not one that smacks of what the traffic will bear," Mr. Frinquelli said.

The biggest single issue facing the industry today, he said, is one very few insurers want to discuss: toxic waste cleanups.

"Where's the reinsurance industry on this subject?" he asked.

"Everyone is afraid to bring up the topic because they fear arousing the curiosity of lawyers and the EPA. Well, I'll tell you a little secret: The EPA and the lawyers already know you exist. Reinsurers must admit that (they) have a stake in this \$750 billion problem and work with the customer and his customers openly," he urged.

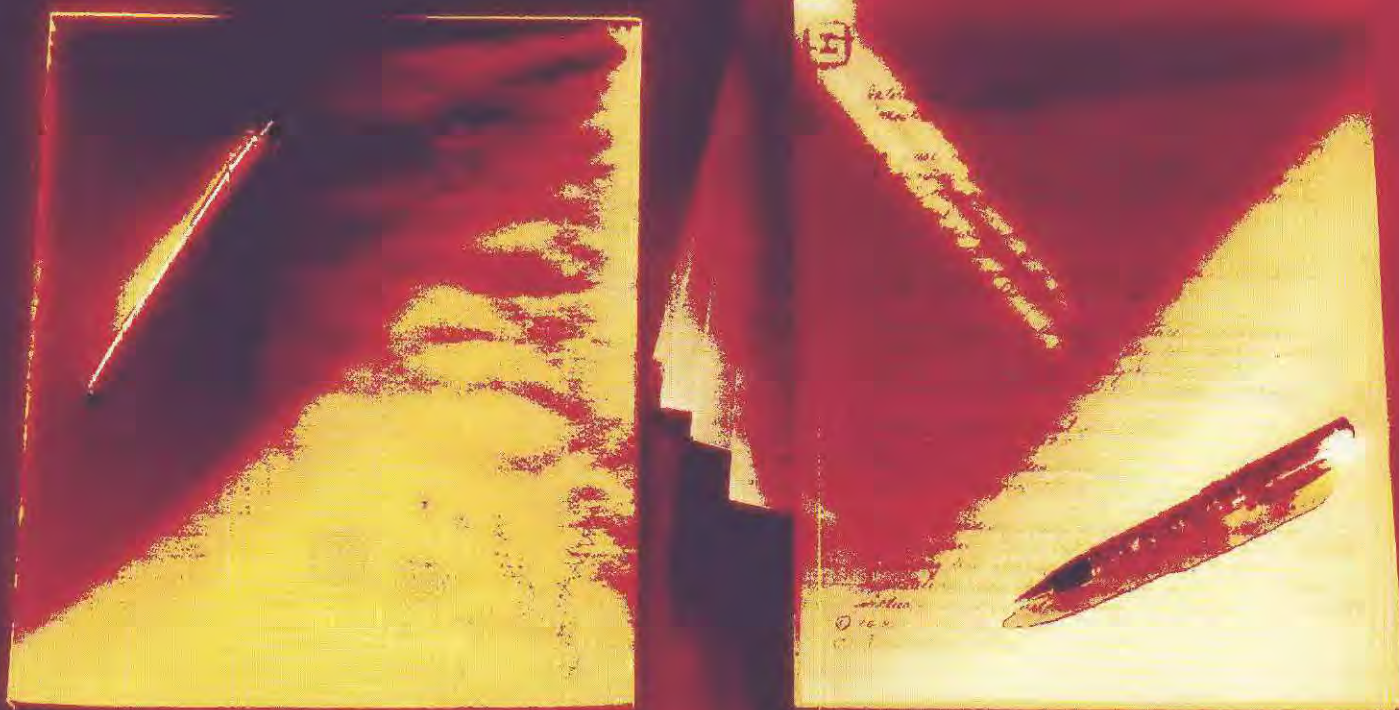
Mr. Frinquelli likened the current state of reinsurer/insurer relations to relations between life insurers and policyholders in the 1970s.

As interest rates and inflation rose, policyholder needs changed. Yet life insurers failed to improve customer relations, instead cutting costs and diversifying away from traditional products, Mr. Frinquelli said.

After realizing that they had alienated virtually all their customers, life insurers were forced to "burn (their) way back into a savings-oriented market by cutting rates," he explained. The end result was more volatility and less profitable business.

Continued on page 38

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Reinsurers

Continued from page 36

Referring to reinsurers, Mr. Fringuelli observed: "You can stand back and wait for your customer base to get in trouble—and they will, of course—but when they return, they will come back to you not as a partner, but as an adversary."

Reinsurers, though, can "accept the fact that the insurance and financial world are changing," Mr. Fringuelli said. "Adapt and avoid the false luxury of time. Adaptation is needed over the next one, three, five and 10 years—not just over the next 10 years."

However, a reinsurer executive and an investment banker said they do not believe the reinsurance industry can function as a true partner with insurers.

"I agree that clients have been alienated and the reinsurance industry hasn't listened to clients'

needs, but partnership is still an overused and dangerous word," said Franklin Montross, vp of General Reinsurance Corp. of Stamford, Conn.

"The primary industry's premiums were over \$200 billion last year. That's 10 times greater than the reinsurance industry's. Reinsurance can't support primary insurers when it comes to security and solvency," he said.

"I don't support the partnership theory," said Alice L. Cornish, managing director of Northington Partners Inc., an investment banking firm in Avon, Conn.

"Reinsurance doesn't exist to support the primary industry. But, reinsurers must think broader, because as the market tightens, there will be a shift back to facultative demand."

James F. Dowd, president and chief executive officer of Skandia America Corp. of New York, moderated the session.

Federal solvency regulator needed: Professor

By MICHAEL SCHACHNER

NEW YORK—Congress should appoint a federal regulator to monitor the solvency of multistate insurers and evaluate and certify state solvency policing practices for smaller insurers, says a risk management professor.

"Solvency surveillance can be significantly improved through the use of a national regulatory agency," said Jack M. Nelson, an associate professor in risk management and insurance brokering at The College of Insurance in New York.

Mr. Nelson advocated the creation of a federal agency that would operate under the auspices of the National Assn. of Insurance Commissioners or some other unspecified entity during the 15th annual research seminar co-sponsored by the Insurance Information Institute and the Reinsurance Assn. of America in New York last month.

Such a system "would allow a coordinated, centralized group to deal with the solvency issues of larger, multistate insurers and reinsurers and allow state regulators to retain control over issues of policy structure and form, as well as solvency policing responsibilities for intrastate insurers," Mr. Nelson explained.

The proposed system also would benefit insurers, because they would be subjected to a more consistent review process devoid of federal and state regulators attempting to perform the same function while using different methods, he said.

Under Mr. Nelson's proposal, the federal agency would be responsible for setting financial standards for insurers that operate in more than one state and for monitoring insurer compliance with established standards.

State insurance departments would be responsible for regulating insurers that operate solely within their states using the financial standards developed by the national regulatory body.

The federal agency also would evaluate and certify state insurance departments based on their effectiveness in various regulatory areas, including solvency enforcement, Mr. Nelson said.

Insurers domiciled in a state with an insurance department that is not certified by the federal agency would be prohibited from writing new policies in other states until the state insurance department is certified, under Mr. Nelson's plan.

"State certification is necessary to provide a market incentive for efficient enforcement of solvency standards and for sufficient funding of the state insurance departments," he said.

Mr. Nelson said that if the insurance industry does not address its widespread insolvency problem, consumers will become even more hostile toward insurers than they are today.

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Continued on page 40

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Solvency

Continued from page 38

wrong channel," Mr. Nelson said.

Mr. Nelson observed that reinsurers believe the system needs only a "fine tuning." However, "productive fine-tuning requires that basic solvency policing is adequate," he said.

However, Mr. Nelson asserted that the current system of solvency policing is inadequate and that more than "fine-tuning" is necessary.

He said that a comparison of the number of annual insurer insolvencies in the 1980s with the number of insolvencies in the 1970s supports his claim.

During the 1980s, the number of insurer insolvencies averaged 12 per year—twice as much as during the 1970s.

Indeed, in 1988, the NAIC designated that 569 insurers needed regulatory attention.

Only 132 insurers required regulatory attention in 1979, Mr. Nelson said.

In addition, an analysis of guaranty fund assessments shows that state guaranty funds paid out significantly more in the late 1980s than in previous years, according to Mr. Nelson.

From 1969 to 1984, guaranty fund assessments totaled \$393.2 million, with an average annual assessment of about \$25 million.

But total guaranty fund assessments in 1985 alone skyrocketed to \$322 million, almost 13 times the average annual assessment for each of the preceding 16 years.

The 1986 assessment jumped more than 51% to approximately \$488 million, followed by a 94% increase in 1987 to \$947 million. While guaranty fund assessments in 1988 fell nearly two-thirds to \$327 million, they still far exceeded total assessments during the 1970s.

"There has been a tremendous increase in guaranty fund assessments and that's why insolvencies have become a major political issue," Mr. Nelson said.

Several industry experts that participated in a panel discussion that followed Mr. Nelson's presentation said that Mr. Nelson's proposal has merit.

"I'm not opposed to a federal course of regulation, because the problem of insurer solvency is great enough," said Peter K. Demmerle, a partner with the New York law firm of LeBoeuf, Lamb, Leiby & MacRae.

"The situation has to be corrected. If the states can't do it, then a federal gorilla may have to."

If the states can't correct the situation, then a federal gorilla may have to, says Peter K. Demmerle.

However, others did not fully support the plan.

"This is a valiant attempt to preserve states' rights, but it's proba-

bly unworkable," observed Michael E. Hogue, managing director and chief executive officer of Providence, R.I.-based PW Group Inc., a group of independent property/casualty insurers.

Mr. Hogue intimated that once the federal government gets involved in any form of regulation, it tends to take over.

Therefore, it is unlikely that a federal insurance regulatory agency and the states could work together as well as handle their own responsibilities, Mr. Hogue

said.

And, Robert O'Leary, president of New York-based Willcox Inc., the reinsurance brokerage arm of Johnson & Higgins, said underwriting deficiencies and "serious financial difficulties cannot be overcome by simple regulatory oversight, although that might help."

Ronald L. Bornhuetter, president and chief executive officer of Greenwich, Conn.-based NAC Reinsurance Corp., moderated the session.

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Retrocessional problems raise anxiety

By CAROLYN ALDRED

BADEN-BADEN, Germany—Anxiety over rapidly disappearing capacity in the retrocessional and catastrophe reinsurance markets is dominating reinsurance discussions as year-end renewals approach.

At their annual gathering in the German spa town of Baden-Baden

last month, many underwriters expressed extreme concern about the growing shortage of retrocessional and catastrophe reinsurance capacity.

"Direct insurers are worried about whether their catastrophe programs will be placed and reinsurers are worried about whether their retrocessional cover will be placed," said Richard Harffey, a

treaty reinsurance manager for Eagle Star Insurance Co. Ltd. of London.

An "anxious mood" prevailed throughout the Oct. 22-26 conference, he observed.

"The big worry for many continental European companies is the availability—or lack of it—of capacity for retrocessional business," agreed Philip Heitlinger, non-mar-

ine general manager for English & American Underwriting Agency Ltd. in London.

"The continental reinsurers are waking up to the fact that there will be a dearth in retrocessional capacity, particularly in London," he noted.

"People are faced with a situation of a marketplace full of uncertainties. It's not the rosy world it

once was. People are apprehensive and nervous," said Mr. Heitlinger.

Reinsurance executives at the meeting said they doubt that the proportional property reinsurance market and the liability reinsurance market will tighten for another year.

For more than 40 years, officials of reinsurers, ceding companies and brokerages, primarily from Europe, have met in Baden-Baden for a week in late October to discuss individual contracts and the general market.

Widely regarded as the season's most important pre-renewal gathering, the conference features discussions that are more detailed and technical than, for example, those at the Rendez-Vous de Septembre in Monte Carlo (BI, Sept. 24).

At least one underwriter, however, noted that less business was transacted this year than in previous years because of the uncertainty surrounding the retrocessional market.

"There was not as much decision making as normal in Baden-Baden," noted Mr. Harffey.

"The whole renewal process has been slowed down because of the inertia in London," he added.

"There's no doubt about a change in the market but it's difficult to say what the change will be at the end of the day. For the time being everything is pending, especially in the London market, which still is very important for the continental (European) market," said Peter Hecker, a member of the executive board of directors of Hannover Reinsurance A.G./Eisen & Stahl Reinsurance A.G. in Hannover, Germany.

"We don't know whether capacity will be sufficient to provide all companies with the protection they need. In the middle of November that gives the market a feeling of uncertainty," said Mr. Hecker.

A recent string of massive catastrophe losses is beginning to dry up retrocessional capacity, particularly in London. Rates for retrocessional and catastrophe reinsurance contracts are shooting up, underwriters say.

Among the losses that have walloped the market have been the 1987 October European windstorm, Hurricane Hugo, the California earthquake and windstorms that hit Europe early this year.

As a result, many reinsurers and Lloyd's of London syndicates are dramatically cutting the amount of retrocessional business they write. Some underwriters estimate that capacity in the London excess-of-loss retrocessional market has fallen 40% to 50% (see story, page 41).

Companies in continental Europe also are cutting down the amount of retrocessional business they write, underwriters point out.

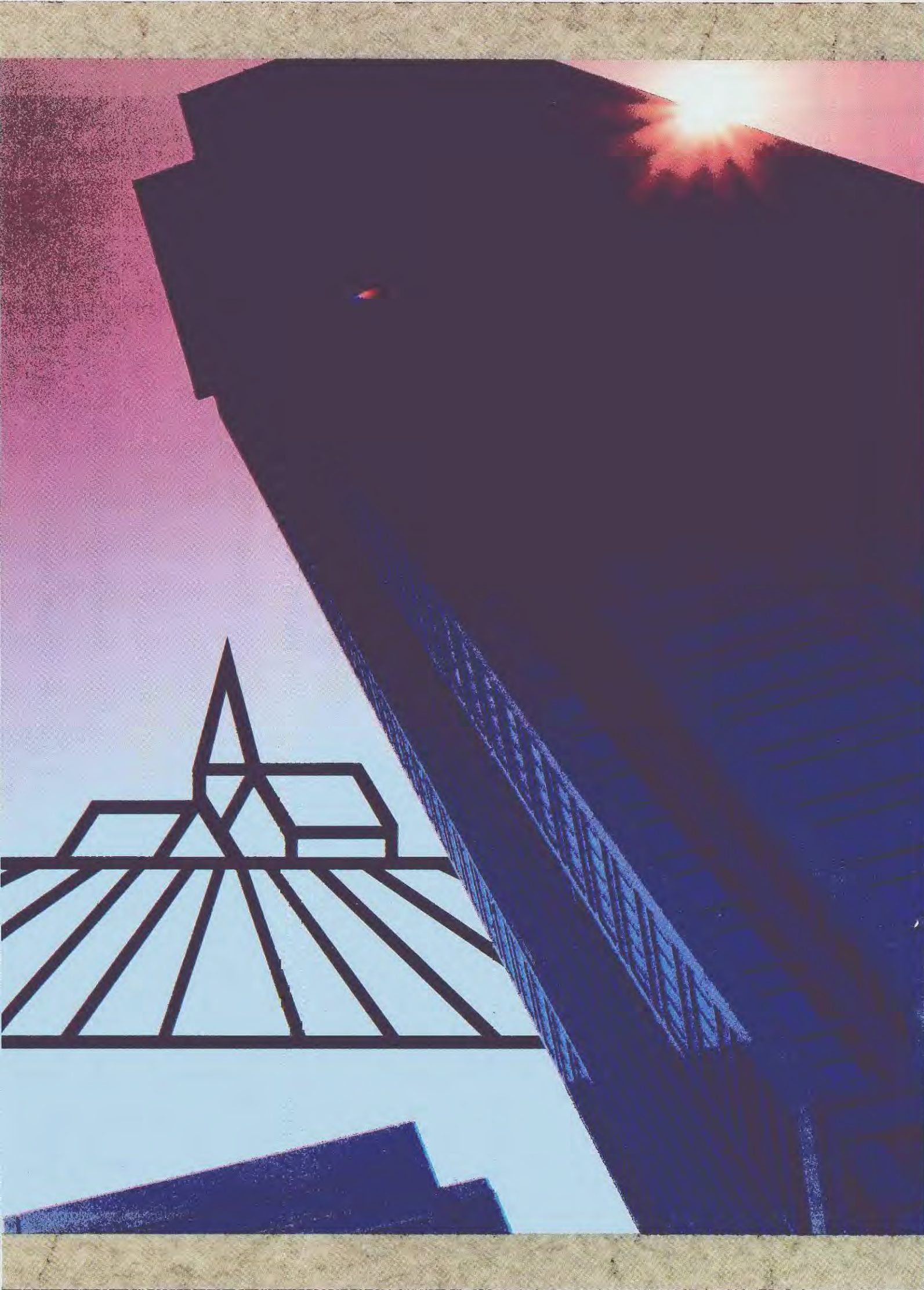
"If you look at the number of companies which have stopped writing retrocessional business, it is quite a long list," said Mr. Hecker of Hannover Re/Eisen & Stahl.

Some sources have estimated that total retrocessional capacity has been reduced by a total of about 1 billion deutsche marks (\$669.3 million), said Mr. Hecker.

Uncertain about how much retrocessional capacity will be available during year-end renewals, many reinsurers are not prepared to agree to any business, and the renewal season has not yet got into gear, underwriters point out.

"There is no doubt that the big losses from the catastrophes since 1987 are causing considerable disruption in the reinsurance market," said Tony Dodd, treaty underwriting manager for The British & European Reinsurance Co. Ltd.,

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Baden-Baden

Continued from previous page
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Many direct insurers and reinsurers who "dabble" in underwriting retrocessional business are considering whether to continue and many companies have already reduced their lines, he noted.

"It is resulting in a marked reduction in capacity" for retrocessional business, according to Mr. Dodd.

In addition, "rates for all (retrocessional) business are going up, even for accounts free of claims," he noted.

As a result, many insurers and reinsurers will probably be forced to retain more risk, he added.

However, with the market "changing from week to week" it is very difficult to talk about rate levels, Mr. Dodd said.

At the Baden-Baden meeting last

year many continental European reinsurers suggested that only London market retrocessional underwriters were suffering because of the catastrophe losses (BI, Nov. 6, 1989). But this year reinsurers outside of London are beginning to suffer, Mr. Dodd pointed out.

"It is a continental myth that London is suffering more. . . European reinsurers have protections in London and they are becoming more aware that (the capacity crunch) is affecting the whole international excess-of-loss reinsurance market," said Mr. Dodd.

Christian Baumguertal, a deputy member of the board of managers of Gerling-Konzern Allgemeine Versicherungs A.G. in Cologne, Germany, countered that the contractions would be more acutely felt in London "partly because insurers in continental Europe tend to carry higher retentions."

However, Mr. Baumguertal predicted, the lack of capacity and

higher rates for retrocessional business could increase rates worldwide for excess-of-loss catastrophe reinsurance.

"In the last couple of years, more direct insurers have stopped writing retrocessional business and smaller reinsurance companies have cut their capacity," Mr. Baumguertal said.

Meanwhile, severe storms have struck more frequently, particularly in France and the United Kingdom, and there "is a feeling that the storm losses will continue," he added.

"So far as catastrophe protections are concerned, I feel that rate increases will be far more than normal for accounts which have suffered from the recent storm losses," said Mr. Hecker.

Rates normally would increase 10% to 15% for an account with losses, he said. But "I feel pretty sure that there will be substantial, extraordinary rate increases of 100% or more for catastrophe reinsurance this renewal."

Reinsurers have to accept that severe weather losses are becoming more frequent and that losses like the European storm losses this year are not a one-time occurrence, he said.

"There is no doubt that rates for catastrophe business will rise by 100% or more. The problem will be whether there will be enough capacity to run the renewal season," said Mr. Harffey.

Lower retrocessional market capacity has made reinsurers and insurers "aware that they will have to pay more for non-proportional cover and take bigger deductibles," said Mr. Heitlinger of E&A.

"We think there's a tremendous impetus to increase rates and terms and conditions for non-proportional reinsurance business," he said.

Underwriters agree that they cannot yet predict how much the squeeze in capacity in the catastrophe reinsurance market and the retrocessional market will affect the overall non-proportional reinsurance market.

"It is difficult to say whether there are strong signs that the market is turning this renewal season but I am absolutely convinced that by next renewal season there will be very strong signs of a turning market," said Mr. Baumguertal.

"It's very, very difficult to predict the effect of the situation" at the moment, said Mr. Hecker.

Ceding companies have grown concerned about security as growing numbers of companies pull out of the retrocessional and catastrophe reinsurance markets after being burned with losses, pointed out Mr. Dodds of British & European Re.

"Security was being talked about more than ever at Baden-Baden," he said.

"For the first time for many years, client companies started raising the subject of security and expressed an attraction for larger companies," he said.

"People also expressed concern about the security of their own jobs with several people joking about whether they would be (here) next year," he said.

While the non-proportional property reinsurance market is going through an extreme bout of jitters, underwriters point out that the proportional property reinsurance markets and liability reinsurance markets probably will remain unchanged this renewal season.

The reinsurance market for liability risks is rather stable at the moment although "some people fear that innocent capacity frightened away from the property market will come into the casualty market," warned Mr. Hecker.

Most proportional treaties will renew as last year, predicted Mr. Harffey of Eagle Star.



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LMX underwriters call for reform

Huge losses shrink capacity

By CAROLYN ALDRED

LONDON—The catastrophe reinsurance market must be overhauled in the wake of heavy catastrophic losses that have pounded the marketplace in recent years, two London market excess-of-loss reinsurance underwriters contend.

For the upcoming year-end renewal season, LMX underwriters must demand that ceding insurers retain far more risk, which will cause great strains in the market, according to some underwriters.

LMX coverage also must be restructured, they contend.

Because of the frequency and size of losses that have stung the LMX market since 1987, LMX market capacity has shrunk by about 50% in the past year, underwriters estimate.

In the past few years, "we have had the six or seven largest losses in the history of insurance, and people are just buckling at the knees," observed leading Lloyd's of London marine LMX underwriter Dave King, chairman of K.P.H. Underwriting Agencies Ltd.

"A lot of companies and syndicates have stopped (writing LMX business) or have cut back. We are looking at 40% or 50% of last year's capacity in the marine market and even less capacity in the non-marine market," he said.

The series of catastrophes in the last few years has left both the marine and non-marine LMX markets reeling and both markets now are dramatically smaller.

Those catastrophes include:

- The \$1.4 billion Piper Alpha North Sea oil platform loss in July 1988 (BI, July 11, 1988).
- Exxon Corp.'s \$400 million loss stemming from the Alaska oil spill (BI, Aug. 21, 1989; April 3, 1989).
- The multibillion-dollar Hurricane Hugo loss last year (BI, Oct. 2, 1989; Sept. 25, 1989).
- The \$1 billion loss stemming from the San Francisco Bay-area earthquake last year (BI, Oct. 30, 1989; Oct. 23, 1989).
- The \$1.3 billion loss of the Phillips Petroleum Co. chemical plant in Pasadena, Texas, last year (BI, Oct. 30, 1989).
- The estimated \$8 billion of damages caused by windstorms that belted Europe early this year (BI, Sept. 24; Feb. 5).

The catastrophes "call into question not only the future of any LMX market but also that of the primary catastrophe (reinsurance) market," said John Emney, chief underwriter and director of Charter Reinsurance Co. Ltd. in London, in a speech at the Insurance Institute of London.

In addition to the number of catastrophes, the speed at which the losses have spiraled through the market has surprised and hurt underwriters, Mr. Emney noted.

The LMX spiral occurs because of the complex retrocession arrangements among underwriters, many of whom retrocede with one another many times, taking a small retention each time and reinsuring the remainder of the risk (BI, Nov. 16, 1987).

In the past, claims from catastrophes have continued to circulate around the market for years—even up to a decade—after the original loss occurred.

However, the larger losses of recent years have spiraled through the market much more quickly than previous losses, causing a considerable cash-flow strain on many reinsurers, Mr. Emney explained.

"I spoke (last year) of a major loss exhausting the LMX spiral within the space of some two years. Hurricane Hugo would have appeared to have achieved that feat in a little over 12 months. The really frightening thing about that is that Hugo is by no means the largest original loss one can conceive," he said.

"Suddenly the game has

changed: We no longer have the once-accustomed luxury of spreading the payment of the loss over a number of years. The game is now all about cash and bloody great dollops of it at that, and that is the one thing the entire reinsurance market appears not to have," he observed.

Both Messrs. King and Emney argue that to help solve the problem, reinsurers must demand that ceding companies dramatically increase their retentions.

"It is my belief that the excess-of-loss reinsurer must take a very strong line in this area and only consider giving cover in excess of a reasonable retention," Mr. King said.

"In the past, some more discerning excess-of-loss underwriters have attempted this only to find that other reinsurers have given cover below and re-established the original problem," Mr. King commented.

However, "it is quite simple to

stop this. When an excess-of-loss reinsurer feels the need to increase the cedant's retention, he can withdraw the 'benefit of underlying' clause, so that the retention he has established must be kept by the cedant whatever he buys below this figure," he explained.

For example, a ceding insurer buys \$9 million of reinsurance excess of \$1 million and then finds another reinsurer to cover the ceding insurer's \$1 million retention

Continued on next page



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LMX overhaul

Continued from previous page
under the first reinsurance contract. In the event of a covered \$10 million loss, the first reinsurer would cover \$8 million excess \$2 million; the second reinsurer's \$1 million of coverage and a \$1 million retention by the ceding insurer.

Because of the huge reduction in LMX capacity, retentions by insurers and reinsurers this renewal season will inevitably be much higher, Mr. King predicts.

"What I am hoping is that the lack of protection will make the direct underwriters look more carefully at what they are writing and the size of their line so that prices will inevitably rise," he said.

Mr. Emney also believes that retentions must be increased dramatically to facilitate a total redesign of the entire catastrophe reinsurance product.

As part of that redesign, the term catastrophe must be redefined, he said.

"The solution does not lie in the hands of the LMX market but in those of the primary reinsurers," he asserted.

"Ceding underwriters need to suffer a loss on their own balance sheet in the event of a catastrophe before being able to pass part of the loss off to their own reinsurer," Mr. Emney said.

"If, in fact, the reinsured has been able to absorb the hit within his 'profit and loss' account, then he has suffered no real catastrophe," Mr. Emney noted.

"If the loss is so large as to impair the reinsured's net worth, then quite obviously he has suffered a genuine catastrophe and it is in those circumstances that our new product should respond," he explained.

"To put such a product into operation would obviously require a massive hike in retentions for most major reinsureds. It would also require the reinsurer to view those retentions in a new light. Currently the level of retentions is determined from a combination of premium income, line limits and loss record," said Mr. King.

"In my scenario, those factors would be replaced in importance by the circumstances of the balance sheet," he said.

Mr. King also recommended that excess-of-loss reinsurance underwriters not provide "general" or "whole account" protections for single losses, such as the Piper Alpha loss.

"Whole account" or "general" excess-of-loss reinsurance provides coverage for all of a cedant's losses excess of a predetermined amount of losses. Specific excess-of-loss reinsurance provides protection for only certain risks covered by a cedant.

Mr. King noted that after many cedants had tapped their specific reinsurance for their Piper Alpha losses, the cedants then made claims against their whole account reinsurers.

"Most excess-of-loss underwriters have experienced up to 75% of their book of (whole account protections) being affected by Piper Alpha. This fact alone tells us that the vast majority of direct underwriters are accepting lines far in excess of their specific protection limits," he noted.

As a result, "the excess-of-loss market must say to their clients: 'Enough. We will provide you with catastrophe cover for earthquake, windstorm and other multiple loss on a whole-account basis, but for single losses you must purchase specific reinsurance for each class of business underwritten.'"

"Should the direct underwriter sustain a loss which exceeds his specific program, then he must retain" that portion of the loss that exceeds his specific coverage, Mr.

King said.

"It would then be up to the direct underwriter to manage his underwriting and line structure and aggregations in a much greater professional manner than he does currently," he explained.

"It is a fact that the market capacity for excess-of-loss is considerably reduced and, I believe, only by applying (these) restrictions will the direct underwriters be able to arrange sufficient cover for their future needs," Mr. King warned.

"If the primary market continues in the old manner, then I can see little point in continuing with LMX business," Mr. Emney said. If market underwriting is not changed, reinsurers either will suffer huge losses, or they will price themselves out of business, he predicted.

The LMX market was created to provide reinsurance for major catastrophes, Mr. Emney pointed out.

So, "doesn't it strike you as farcical that here we are, faced with what appears to be the imminent collapse of the LMX market, when all that has really happened is that which was inevitable in the first place," Mr. Emney observed.

Unless reforms are forthcoming, Mr. Emney says he sees 'little point in continuing with LMX.'

"How is it when the inevitable occurs, almost everybody throws up their hands in horror and flees the market?" he asked.

However, it is the rising frequency of catastrophic losses that really necessitates a change in how catastrophe reinsurance is under-

written, according to Mr. Emney.

"The entire insurance industry has always based its current operations upon historical performance," he said. Previously, insurers and reinsurers could predict roughly how many major catastrophes would occur over a certain time period, he said.

"Well, all that changed from 1987 onwards," during which time the frequency of losses has increased dramatically, according to Mr. Emney.

"In a space of less than 2½ years, all our previously conceived notions regarding the likely frequency of major catastrophes have been blown to smithereens," he said.

And "if the recent experience is a pointer as to what the future holds, then catastrophe reinsurance as we know it today has become totally unviable," Mr. Emney observed.

"One simply cannot make a book of catastrophe business if one is

going to have a major catastrophe every year. No client would be prepared to pay the price that would be required to make such a book a viable position," he noted.

The LMX market already has tried increasing premiums, but that has not been a cure for the market's woes, noted Mr. King of K.P.H. Underwriting.

In the marine market, after the Piper Alpha, Exxon, Hugo and Phillips losses, "the excess-of-loss market began to shrink and also to charge huge rises in its pricing," Mr. King said.

"The ointment was being applied, but the cause was not being cured. The direct market's response was to write more cheap and unprofitable business. It was their only route. If they trimmed their account they would lose income and with reinsurance costs rising fast their current net premium could never respond to previous year's losses," he said. ■

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Lloyd's issues reinsurance guidelines

By CAROLYN ALDRED

LONDON—Lloyd's of London is circulating reinsurance guidelines to the market as a growing number of syndicates, faced with a serious shortage of catastrophe reinsurance capacity, turn to alternative forms of reinsurance like financial and finite risk reinsurance.

Lloyd's Deputy Chairman Colin Murray late last month issued a market bulletin outlining the principles that syndicates must adhere to when purchasing reinsurance protection.

The bulletin was the result of deliberations of a working party formed "in response to market concerns that Lloyd's underwriters are facing a serious shortage of available outward reinsurance," Mr. Murray said.

Because of a dearth of capacity in the retrocessional and catastro-

phe reinsurance markets and the fact that Lloyd's syndicates are not allowed to create catastrophe funds, brokers and underwriters are increasingly looking at forms of reinsurance that allow syndicates to spread losses over several years.

These forms of reinsurance include financial reinsurance; finite risk reinsurance; reinsurance covering several syndicate years; and funding and banking-type contracts, sources say.

However, because the membership of Lloyd's syndicates changes each year, special attention must be paid in such deals to maintain a fair distribution of premiums and claims among different underwriting years, Lloyd's points out.

"Underwriters and brokers are looking for new types of reinsurance cover where continuity is involved," Mr. Murray said.

"It's quite clear that the losses of the last 12 months have been of a far greater magnitude than in the past and there are very many changes happening in the retrocessional market with severe shortages of capacity," he said in an interview.

As a result, increasing numbers of underwriters are looking at purchasing financial reinsurance and other types of alternative reinsurance contracts to enable them to continue to offer adequate capacity during the upcoming renewal season (see story, page 22).

Many of these deals involve less risk taking than traditional reinsurance deals and spread the losses and gains out over several or many years.

"There's more interest in finite risk reinsurance, with less risk transfer, and some people are turning to these products almost out of panic because

they are worried about the shortfall in the retrocessional market," said Philip Heitlinger, general manager for non-marine for English & American Underwriting Agency Ltd., a London insurance company.

"The only deals being done at the moment are financial reinsurance deals on a payback and profit commission basis" involving less risk to the reinsurer, agreed Richard Harfey, treaty underwriting manager for Eagle Star Insurance Co. Ltd. in London.

Lloyd's decided to review the situation because "quite a few people have telephoned asking for guidance" about the types of reinsurance that can be purchased under Lloyd's regulations, said Mr. Murray.

"Underwriters and their reinsurers wish to be able to enter into longer-term arrangements which cover, or

are capable of covering, several underwriting years of account," Mr. Murray points out in the bulletin he issued Oct. 25. "Lloyd's rules do not prevent underwriters from entering into such contracts provided that they meet the governing principles and are in the best interest of all years of account that may be affected," he added.

For example, according to Mr. Murray:

- "There must be a genuine transfer of risk under the contract. In other words, the indemnity must not simply be calculated as a function of the premium (and the income thereon) which accrues over a stated period of time."

However, Lloyd's will still allow syndicates to purchase time-and-distance policies, which have been purchased by Lloyd's syndicates for many years.

A time-and-distance policy guarantees the ceding syndicate specific payments at specific times in the future based on the initial premium paid and the investment returns expected by the reinsurer.

- "It should not be apparent when the contract is taken out that any year of account would be advantaged or disadvantaged by the arrangement." Any advantage or disadvantage should be fortuitous and not built into the contract, the bulletin says.

- The contract should not allow a choice as to which year of account would benefit from any claim under the policy, profit commission, return of premium provided for in the contract or sum received under any commutation clause.

- The terms of the contract should be fully and clearly stated in the insurance documentation and not subject to side agreements or understandings.

- The contract should be properly accounted for and such contracts should be drawn to the attention of the syndicate auditor and disclosed adequately in the syndicate's annual report.

According to the bulletin, it should also be remembered that:

- A reinsurance contract cannot be made for a future syndicate year until that year is provisionally in existence. For instance, reinsurance for a future year cannot be negotiated until the syndicate manager has a reasonable idea of the number of names that will belong to the syndicate for that year.

- Any agreement to pay a premium can only be given on behalf of the syndicate members for whom the underwriter has authority to act. Members joining or remaining on the syndicate must be fully informed of all of the implications of the arrangement.

The guidelines do not rule out financial reinsurance deals like time-and-distance policies, Mr. Murray stressed. The bulletin is "simply trying to draw underwriters to the principles involved" when new types of deals are constructed, he said.

There often is a fine line between what is considered a banking policy and what is considered a reinsurance policy, Mr. Murray noted, adding that straight funding or banking policies would be unacceptable as reinsurance.

"A lot of brokers are trying to get around the terrible shortage of reinsurance by arranging new types of contracts. We were worried whether (some of) these were against the regulations," said Robert Hiscox, chairman of Lloyd's underwriting agency Roberts & Hiscox Ltd.

The bulletin helps ease the situation by stating that new forms of contracts are permissible provided that a set of syndicate members for one underwriting year is clearly not put at a disadvantage compared with another set of members in another underwriting year, he said. ■



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617-262-5300

Los Angeles, CA
213-487-2910

San Francisco, CA
415-362-1987

BI's annual directory of reinsurance brokers

A

AM-RE Brokers Inc.

685 College Road E., Princeton,
N.J. 08543-5212; 609-243-4900;
fax: 609-243-4940

	1989	1988
Premium volume	\$111,890,000	\$222,270,000
% Treaty	99%	100%
% Facultative	1%	0%
Gross revenues	\$6,710,000	\$10,800,000
Total employees	40	36
Treaty	38	36
Facultative	2	0

Year founded: 1978.

Parent company: American Re-Insurance Co.

Branch offices: San Francisco.
Licensed reinsurance inter-
mediary in: New York.

Conducts business in: All
states and abroad.

Principal officers: Edward B.
Jobe, president; James Anastasio,
senior vp/treasurer; W.C. Godfrey
and Therese Arana-Adams, vps;
John Varca, vp/actuary; Donald F.
Merkel Jr., senior vp.

Contact: Donald F. Merkel Jr.,
609-243-4925.

Agnew International Inc.

14 Washington Road, Princeton
Junction, N.J. 08550;
609-799-7373;
fax: 609-799-2265

	1989	1988
Premium volume	\$4,500,000	\$4,000,000
% Treaty	5%	5%
% Facultative	95%	95%
Gross revenues	\$467,000	\$420,000
Total employees	7	7

Year founded: 1976.

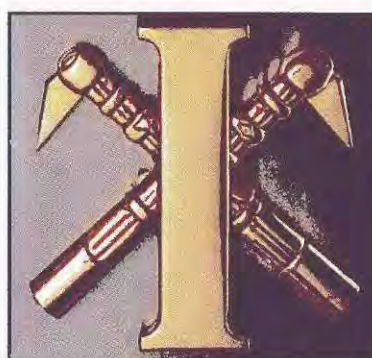
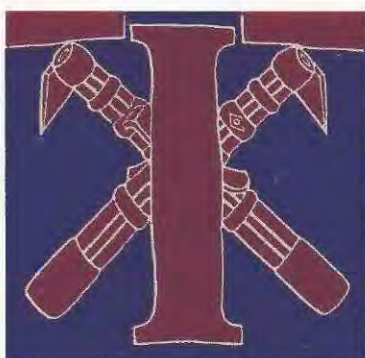
Specialties: International pro-
grams.

Licensed reinsurance inter-
mediary in: New York.

Conducts business in: United
States and abroad.

Principal officers: Patrick J.L.
Agnew, W. James Cook and An-
tonio S. Calvo Jr.

Contact: Patrick J.L. Agnew.



Alexander Howden Reinsurance Intermediaries Inc.

1270 Ave. of the Americas, New
York, N.Y. 10020; 212-408-3860;
fax: 212-977-9471

Continued on next page

Guide to brokers' directory

Information for the eighth
annual directory of reinsur-
ance intermediaries was gath-
ered from responses to ques-
tionnaires sent to companies
by *Business Insurance*.

The directory is published
as an editorial service; there is
no charge for intermediaries
to be included.

Following the name and ad-
dress of the company, finan-
cial and operational informa-
tion for 1988 and 1989 is
given, including the **premium
volume** related to reinsur-
ance, percent of **treaty** and
facultative business (as a
percent of reinsurance pre-
mium volume), and **gross re-
venues** related to reinsurance.
The number of **total employ-
ees** and those assigned to
treaty and facultative reinsur-
ance are also given.

Next, the **year founded** and
parent company (if any) are
noted, as well as locations of
branch offices and **subsidi-
aries** brokering reinsur-
ance. **Acquisitions** and
mergers in 1989 and so far in
1990 and names and titles of
principal officers follow. If a
company specializes in brok-
ering reinsurance for particu-
lar types of risks, it is noted
under the **specialties** head-
ing. Names of states in which
the company is **licensed** or
does business as a reinsurance
intermediary complete the
listings.

When a company is newly
founded or refused to provide
financial information it is
noted in the listings as NA
(not available).

If you wish to locate an in-
termediary by state you may
refer to the geographic index
following the directory. Home
offices, branch offices and
subsidiaries brokering reinsur-
ance are included.

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gross written premiums of
\$9.8 billion, Yasuda is ready
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Continued from previous page

	1989	1988
Premium volume...	NA	NA
% Treaty.....	100%	100%
Gross revenues...	NA	NA
Total employees...	5	5
Treaty.....	5	5

Year founded: 1988.**Parent company:** Alexander Howden Reinsurance Brokers Ltd./Alexander & Alexander Services Inc.**Specialties:** International programs.**Licensed reinsurance intermediary in:** New York.**Principal officers:** Joseph Artel, senior vp; David Hatwell and Gloria Paider.**Contact:** Joseph Artel.**Alydon International Ltd.**

Jardine House, 33-35 Reid St., P.O. Box HM 2217, Hamilton HM JX, Bermuda; 809-292-5099; fax: 809-292-9067

	1989	1988
Premium volume...	\$8,000,000	\$7,000,000
% Treaty.....	99%	95%
% Facultative...	1%	5%
Gross revenues...	NA	NA
Total employees...	3	3

Year founded: 1986.**Specialties:** Captive and self-insurance programs, risk retention groups, financial reinsurance.**Licensed reinsurance intermediary in:** Bermuda.**Principal officers:** Roy V. Bray, president/managing director.**American Healthcare Intermediaries Inc.**

1000 North Point, Suite 1405, San Francisco, Calif. 94109-1061; 415-346-5670; fax: 415-776-6358

	1989	1988
Premium volume...	\$30,000,000	\$27,000,000
% Treaty.....	100%	100%
Gross revenues...	\$290,000	\$215,000
Total employees...	3	2
Treaty.....	3	2

Year founded: 1987.**Specialties:** Accident and health, surplus relief, life.**Conducts business in:** California, Texas, Missouri.**Principal officer:** Donald K. Anderson.**American Intermediaries Inc.**

200 S. Los Robles Ave., Suite 230, Pasadena, Calif. 91101-2431; 818-449-0904; fax: 818-449-3831

	1989	1988
Premium volume...	\$17,782,000	\$20,071,312
% Treaty.....	100%	100%
Gross revenues...	NA	NA
Total employees...	8	8
Treaty.....	8	8

Year founded: 1984.**Branch offices:** New York.**Specialties:** Medical malpractice, surety, casualty.**Licensed reinsurance intermediary in:** New York.**Conducts business in:** United States.**Principal officers:** W.J. Buettner, president; Nora B. Smith, executive vp; K. Mark Russ III, vp.**American Treaty Brokers Inc.**

600 Holiday Plaza Drive, Suite 545, Matteson, Ill. 60443; 708-748-9550; fax: 708-748-9540

	1989	1988
Premium volume...	\$42,000,000	NA
% Treaty.....	100%	99.9%
% Facultative...	0%	0.1%
Gross revenues...	\$572,610	\$525,188
Total employees...	10	7
Treaty.....	10	7

Year founded: 1985.**Licensed reinsurance intermediary in:** New York.**Conducts business in:** All states.**Principal officers:** Edward N. Murray, chairman/chief executive officer; Ann M. Hall, secretary/treasurer.**Contact:** Edward Murray.**Andrew Edwards & Co. Inc.**

111 John St., New York, N.Y. 10038; 212-227-1300; fax: 212-349-1651

	1989	1988
Premium volume...	\$52,000,000	\$73,500,000
% Treaty.....	100%	100%
Gross revenues...	NA	NA
Total employees...	10	12
Treaty.....	10	12

Year founded: 1977.**Parent company:** AANA Holding Co. Inc.**Branch offices:** Woodbury, N.Y.**Specialties:** Casualty excess of loss, program business.**Licensed reinsurance intermediary:** New York.**Conducts business in:** United States.**Principal officers:** Andrew Barile and Edward Mallozzi, co-chief executive officers.**Membership:** National Assn of Reinsurance Brokers.**Aon Reinsurance Agency Inc.**

123 N. Wacker Drive, Chicago, Ill. 60606; 312-781-7900; fax: 312-781-7901

	1989	1988
Premium volume...	NA	NA
% Treaty.....	97%	97%
% Facultative...	3%	3%
Gross revenues...	\$27,300,000	\$26,000,000
Total employees...	132	146
Treaty.....	112	129
Facultative...	21	17

Year founded: 1945.**Parent company:** Aon Corp.**Branch offices:** Hoboken, N.J.; San Francisco; Seattle.**Subsidiaries:** Aon Re Inc., New York.**Principal officers:** Paul R. Davies, chairman/president/chief executive officer; W. Eugene Taylor, vice chairman; Stephen L. Lunsford, senior executive vp/ chief operating officer; Michael Bungert and David Kelly, executive vps.**Associated Intermediaries Inc.**

P.O. Box 1260, Flowery Branch, Ga. 30542; 404-967-4009; fax: 404-967-2804

	1989	1988
Premium volume...	\$1,500,000	\$4,000,000
% Treaty.....	100%	20%
% Facultative...	0%	80%
Gross revenues...	NA	NA
Total employees...	6	6
Treaty.....	6	2
Facultative...	6	4

Year founded: 1982.**Parent company:** Associated Reinsurance Management Corp.**Specialties:** Financial risks, excess workers compensation, specific and aggregate medical stop loss, captive rental facilities, surplus relief.**Licensed reinsurance intermediary in:** New York.

Continued on next page

A V I A T I O N S A F E T Y S E R I E S N O . 4

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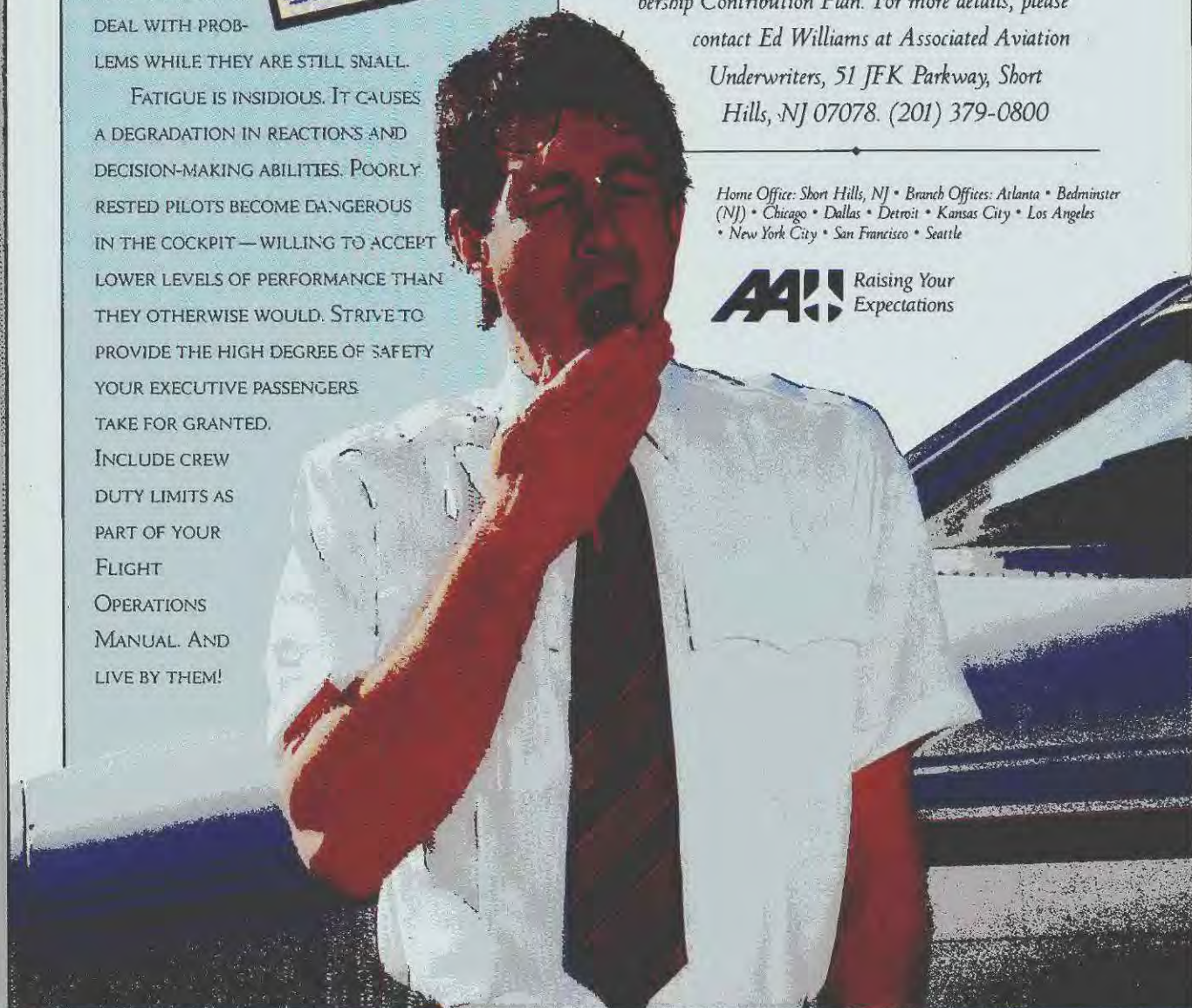
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Continued from previous page

Conducts business in: All states except Hawaii and Maine.

Principal officers: Alph H. Browne, president; Diana D. Browne, secretary/treasurer.

Membership: National Assn. of Reinsurance Brokers.

Atlantic Security Ltd.

Windsor Place, 18 Queen St.,
 Hamilton HM 11, Bermuda;
 809-295-5425; fax: 809-295-5444

	1989	1988
Premium volume	NA	NA
% Treaty	20%	20%
% Facultative	80%	80%
Gross revenues	NA	NA
Total employees	11	11
Treaty	1	1
Facultative	1	1

Year founded: 1974.

Specialties: Financial risks, surplus relief, excess and aggregate stop loss, captives.

Principal officers: Hal Forkush, president; Colin James, senior vp.

Atrium Corp.

200 Park Ave., 16th Floor, New York, N.Y. 10166; 212-973-5072; fax: 212-973-5083

	1989	1988
Premium volume	\$1.8 billion	\$1.6 billion
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	25	19
Treaty	25	19

Year founded: 1983.

Parent company: Swiss Re Group.

Branch offices: Westport, Conn.

Specialties: Financial risks, surplus relief, limited risk reinsurance, financial guarantee, life reinsurance.

Licensed reinsurance intermediary in: New York.

Conducts business in: United States and abroad.

Principal officers: Jay A. Novik, president; Peter A. Gentile, Heidi E. Hutter and Owen Whitby, senior vps; Robert P. Johnson, executive vp; Marvin D. Fineman,

Bruce P. Reich and Debra J. Roberts, vps; Jean M. Lawry, Margaret E. Seiter and Steve Fallon, assistant vps.

Contact: Jay A. Novik, 212-973-5072 or Heidi E. Hutter, 212-973-5066.

B**BEP International Inc.**

1140 de Maisonneuve W., Montreal, Quebec; 514-288-1133; fax: 514-288-0840

	1989	1988
Premium volume	\$360,000,000	\$300,000,000
% Treaty	97%	98%
% Facultative	3%	2%
Gross revenues	NA	NA
Total employees	142	160
Treaty	105	115
Facultative	7	5

Year founded: 1960.

Parent company: Sodarcam Inc.

Branch offices: Jersey City, N.J.; Seattle; Toronto.

Subsidiaries: BEP International Corp., Jersey City, N.J.; BEP International (West Coast) Corp., Seattle; BEP International (Canada) Inc., Toronto; BEP International Inc. (Holding), Montreal.

Acquisitions: Nelson Hurst & Bailey Inc.

Specialties: Marine, aviation, workers compensation.

Licensed reinsurance intermediary in: New York.

Principal officers: Raymond Gilbert, chairman/chief executive officer; Robert W. Bailey, Peter M. Bennett, Peter V. Dale and Christopher J. Robey, executive vps; Robert Limoges, senior vp-finance/administration/secretary/treasurer; Pascal Perrier, senior vp; Rene Lapierre and Serge Dufresne, vps; Andre Carignan, senior vp/regional manager. BEP International Corp. (Jersey City, N.J.): Peter V. Dale, chairman-U.S. operations; Robert W. Bailey, president/chief operating officer-U.S. operations; James O'Brien and John W. Waite, senior vps. BEP International (West Coast) Corp.: Michael D. Elliott, senior vp/regional manager; Peter W. Taubenheim, vp. BEP International (Canada) Inc.: Peter M. Bennett, chairman-Canadian operations; Maureen Mackay, senior vp/regional manager; Kenneth G. Hague, Anthony P. Ward-Smith and William A. Weeks, senior vps.

Membership: National Assn. of Reinsurance Brokers.

BRI International Agency Inc.

156 William St., New York, N.Y. 10038; 212-233-7171; fax: 212-513-1859

	1989	1988
Premium volume	\$1,354,000	\$1,726,000
% Treaty	99%	99%
% Facultative	1%	1%
Gross revenues	NA	NA
Total employees	7	7
Treaty	6	6
Facultative	1	1

Year founded: 1981.

Parent company: BRI Holding Corp.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states.

Principal officers: Bruno Rummigani, president; Fred Ghawi, Howard Miller and Joseph Zweig, vps; Burton Matfus, secretary/treasurer.

E.T. Bailey Co.

3 First National Plaza, Suite 1400, Chicago, Ill. 60602; 312-236-3434; fax: 312-236-1587

	1989	1988
Premium volume	NA	NA
% Treaty	90%	90%
% Facultative	10%	10%
Gross revenues	NA	NA
Total employees	2	2

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 (800) 845-7330, 1200 Colonial Life Blvd., Columbia, SC 29202

Continued on next page

Continued from previous page

Year founded: 1963.**Specialties:** Life reinsurance.**Conducts business in:** United States and abroad.**Principal officers:** E.T. Bailey, president.**Adrian Baker Reinsurance Intermediaries Inc.**

34 N. Meramec Ave., St. Louis, Mo. 63105; 314-721-1372; fax: 314-721-1290

	1989	1988
Premium volume...	\$27,000,000	\$20,000,000
% Treaty...	70%	80%
% Facultative...	30%	20%
Gross revenues...	NA	NA
Total employees...	10	7
Treaty...	7	5
Facultative...	3	2

Year founded: 1974.**Specialties:** Accident and health, workers compensation, medical, aviation, property, life.**Licensed reinsurance intermediary in:** New York.**Conducts business in:** United States and abroad.**Principal officers:** Adrian N. Baker II, president; Richard H. Chomeau, executive vp; Anthony J. Sutcliffe, senior vp; Martha A. McBride, assistant vp.**Bates Turner Inc.**

5200 Metcalf, P.O. Box 2959, Overland Park, Kan. 66201; 913-676-5920; fax: 913-676-5940

	1989	1988
Premium volume...	\$253,000,000	\$237,000,000
% Treaty...	100%	100%
Gross revenues...	NA	NA
Total employees...	18	18
Treaty...	18	18

Year founded: 1982.**Parent company:** Employers Reinsurance Corp.**Licensed reinsurance intermediary in:** New York.**Conducts business in:** All states.**Principal officers:** Michael G. Fitt, chairman/chief executive officer; Michael E. Fisher, president/ chief operating officer; James C. Blanton III, vp; John R. Klag, Kathy A. Sandberg and E. Wilson Wyant, assistant vps; Lori D. Norden, assistant treasurer.**Contact:** Michael E. Fisher.**Bell Nicholson Henderson (USA) Inc.**

123 William St., New York, N.Y. 10038; 212-406-1750; fax: 212-619-8354

	1989	1988
Premium volume...	NA	NA
% Treaty...	100%	100%
Gross revenues...	NA	NA
Total employees...	22	18
Treaty...	22	18

Year founded: 1980.**Branch offices:** Dallas.**Specialties:** Property, casualty, marine and aviation.**Licensed reinsurance intermediary in:** New York.**Conducts business in:** New York and Texas.**Principal officers:** John K. Witherspoon Jr., president; William L. Healy, Roger P. Milbert, vps; Arthur Myers, secretary/controller; George Daddario Jr. and Nicholas P. Roberto, assistant vps.**Contact:** Arthur Myers.**Le Blanc de Nicolay U.S. Inc.**

140 E. 45th St., New York, N.Y. 10017; 212-972-7090; fax: 212-687-4852

	1989	1988
Premium volume...	\$50,000,000	\$52,000,000
% Treaty...	100%	100%
Gross revenues...	\$647,654	\$700,080
Total employees...	6	6
Treaty...	6	6

Year founded: 1986.**Parent company:** Le Blanc de Nicolay Reassurance.**Licensed reinsurance intermediary in:** New York.**Principal officers:** Gilles Lorans, president; William H. Asay, vp; Ryoko Mochizuki, assistant secretary.**E.W. Blanch Co.**

3500 W. 80th St., Minneapolis, Minn. 55431; 612-835-3310; fax: 612-835-1590

	1989	1988
Premium volume...	\$330,000,000	\$935,000,000
% Treaty...	98%	97%
% Facultative...	2%	3%
Gross revenues*	\$47,200,000	\$47,000,000
Total employees...	301	305
Treaty...	286	284
Facultative...	15	21

* BI estimate.

Year founded: 1957.**Branch offices:** New York; Chicago; San Francisco; Hartford, Conn.; Copenhagen, Denmark.**Specialties:** Life, accident and health, professional liability, retrocessions, alternative risk mechanisms.**Licensed reinsurance intermediary in:** New York.**Conducts business in:** All states.**Principal officers:** E.W. Blanch Jr., chief executive officer/general partner; Michael W. Cashman Sr., president/general partner; Frank S. Wilkinson Jr., Andrew M. O'Brien and Clifford English, general partners; Donna M. Hentges, managing partner.**Burridge Storey & Co. Inc.**

33 West Higgins Road, South Barrington, Ill. 60010; 708-551-1900; fax: 708-551-1917

	1989	1988
Premium volume...	NA	NA
Total employees...	NA	NA

Continued on next page

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*Admitted in most states

Continued from previous page

Year founded: 1989.
Parent companies: Farmers Mutual Hail Insurance Co. of Iowa and H.S. Fox Corp.
Licensed reinsurance intermediary in: New York.
Conducts business in: All states.
Principal officers: John E. Burrige, president; Geoffrey F. Storey, executive vp.

C

Guy Carpenter & Co. Inc.
2 World Trade Center, New York, N.Y. 10048; 212-323-1000
fax: 212-313-4970

	1989	1988
Premium volume	NA	NA
Gross revenues*	\$248,700,000	\$252,000,000
Total employees*	2,150	2,117

*BI estimate, includes C.T. Bowring Reinsurance Ltd.

Year founded: 1922.
Parent company: Marsh & McLennan Cos. Inc.

Branch offices: Atlanta; Chicago; Coral Gables, Fla.; Dallas; Hartford, Conn.; Los Angeles; Minneapolis; San Francisco.

Subsidiaries: C.T. Bowring Reinsurance Ltd., London; Melbourne and Sydney, Australia. Winchester Bowring Ltd., London. Balis & Co. Inc., Philadelphia. Guy Carpenter & Co. (Canada) Ltd., Toronto. Guy Carpenter Italia SRL, Milan and Trieste, Italy. Guy Carpenter & Co. (Asia) Ltd., Hong Kong. Guy Carpenter & Co. A/S, Copenhagen, Denmark. Guy

Carpenter & Co. (Stockholm) AB, Stockholm, Sweden. Guy Carpenter & Co. S.A., Brussels, Belgium. Guy Carpenter & Cia. S.A. Correduria de Reaseguros, Madrid, Spain. Gradmann & Holler-Guy Carpenter GmbH, Munich, Germany.

Mergers: C.T. Bowring Reinsurance Ltd.

Licensed reinsurance intermediary in: New York.

Conducts business in: Georgia, Illinois, Florida, Texas, Connecticut, California, Minnesota and New York.

Principal officers: Richard H. Blum, chairman/chief executive officer; G.H.C. Wakefield, deputy chairman; Robert H. Brandon, Daniel E. Dolan, Clement S. Dwyer Jr., Edward G. Maher, Edmund R. Megna Jr., Don A. Salyer, Gabriele J. Troiano and Robin C. Watts, senior vps/directors; Michael S. Cooper, executive vp/director; Stanley C. Allain, Charles J.S. Cullum, Simon P. Fisher, Anthony C. McCallum, Kenneth J. Mead, Anthony N. Robertson, A.J.C. Smith, Frank J. Tasco and James D. Weaver, directors.

Contact: Gabriele J. Troiano.
Membership: National Assn. of Reinsurance Brokers.

John B. Collins Associates Inc.

8500 Normandale Lake Blvd., Minneapolis, Minn. 55437;
612-921-3933; fax: 612-921-3940

	1989	1988
Premium volume	\$109,500,000	\$79,400,000
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	11	10
Treaty	11	10

Year founded: 1987.

Specialties: Property, casualty, crop, life, accident and health.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states.

Principal officers: John B. Collins, James A. Brost, Daniel J. Burke and Gregory L. Brettingen, principals; Timothy J. Pawlick, vp; James E. Christianson, assistant vp; Diane M. Klemenhausen, man-

ager-treaty accounting/claims.

Contact: Gregory L. Brettingen.

Combined Intermediaries of America Inc.

3010 LBJ Freeway, 11th Floor, Dallas, Texas 75234;
214-247-2621; fax: 214-247-0705

	1989	1988
Premium volume	\$120,000,000	\$135,000,000
% Treaty	100%	99%
% Facultative	0%	1%
Gross revenues	\$981,000	\$787,000
Total employees	7	7
Treaty	7	7

Year founded: 1985.

Specialties: Non-standard automobile, workers compensation.

Conducts business in: Texas, Louisiana, Oklahoma, Arkansas, California, Florida, Pennsylvania.

Principal officers: Alan G. Hardin, president; Nolan Strahan, executive vp; Avis Johnson, senior vp; Craig Regan, chief financial officer.

Contact: John DiNardo.

Cooper Gay Steele & Co. Ltd.

120 Wall St., New York, N.Y. 10005; 212-248-1150;
fax: 212-248-1181

	1989	1988
Premium volume	NA	NA
% Treaty	20%	20%
% Facultative	80%	80%
Gross revenues	NA	NA
Total employees	11	11
Treaty	2	2
Facultative	5	5

Year founded: 1988.

Parent company: Cooper Gay (Holdings) Ltd.

Specialties: Domestic and international property and casualty.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states and Puerto Rico.

Principal officers: David A. Gay, chairman; R. Patrick Steele, president; Toby C.D. Esser, vp; Douglas G. Staplehurst, secretary/treasurer; Michael Jones and Martin Shaw, directors.

Contact: R. Patrick Steele.

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Cravens & Co. Inc.

555 California St., Suite 2920, San Francisco, Calif. 94104; 415-433-6161; fax: 415-622-7561

	1989	1988
Premium volume...	\$40,000,000	\$40,000,000
% Treaty.....	100%	100%
Gross revenues...	NA	NA
Total employees...	18	23
Treaty.....	18	13

Year founded: 1978.

Licensed reinsurance intermediary in: New York.

Conducts business in: United States.

Principal officers: Malcolm Cravens, chairman; Hartley D. Cravens, president; Duncan Shanklin, treasurer; Michael D. Reynolds, senior vp; Carol C. Cravens and Kenneth Davis, vps; Malcolm Mark Cravens and William F. James, assistant vps.

Contact: Carol C. Cravens.

Membership: National Assn. of Reinsurance Brokers.

	1989	1988
Premium volume...	\$30,000,000	\$25,000,000
% Treaty.....	100%	100%
Gross revenues...	\$1,200,000	\$1,000,000
Total employees...	5	5
Treaty.....	5	5

Year founded: 1954.

Branch offices: Allenhurst, N.J.

Specialties: U.S. and international property, casualty, financial, aviation, life, ocean marine and health reinsurance; directors and officers liability.

Licensed reinsurance intermediary in: New York.

Conducts business in: United States and abroad.

Principal officers: William F. Delaney Jr., president; Donna Wright, vp; Christa Campbell, secretary.

Membership: National Assn. of Reinsurance Brokers.

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Crump Re Inc.

Hartford Square North, 10 Columbus Blvd., Hartford, Conn. 06106; 203-727-9727; fax: 203-522-3284

	1989	1988
Premium volume...	\$96,000,000	\$97,500,000
% Facultative...	100%	100%
Gross revenues...	\$8,000,000	\$8,100,000
Total employees...	60	57
Facultative...	60	57

Year founded: 1978.

Parent company: Sedgwick Group P.L.C.

Branch offices: New York, Atlanta, Dallas, Los Angeles, San Francisco.

Acquisitions: Domestic facultative division of Madison Intermediaries Inc.

Specialties: Property and casualty, loss portfolio transfers.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states.

Principal officers: Salvatore D. Zaffino, chairman/chief executive officer; David Wahl, vp-finance/administration; Edward Stanton, vp-claims; Carl Bach, Jodi M. Valenti, Robert J. Byrne, Rudy Maggi, George McMahon and Jon Goodman, executive vps; Mark Bouchane, senior vp.

Contact: David Wahl.

Cypress Creek Intermediaries Inc.

440 Crown Oak Centre Drive, Longwood, Fla. 32750; 407-830-9990; fax: 407-830-9984

	1989	1988
Premium volume...	\$40,000,000	\$32,000,000
% Treaty.....	90%	99%
% Facultative...	10%	1%
Gross revenues...	\$375,000	\$300,000
Total employees...	4	4
Treaty.....	2	2
Facultative...	1	2

Year founded: 1984.

Affiliate: Westminster Intermediaries Ltd., Freeport, Bahamas.

Acquisitions: Westminster Intermediaries Ltd.

Specialties: Agricultural business programs, accident and health, medical, risk retention and risk purchasing groups, bloodstock programs.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states and abroad.

Principal officers: Michael T. Pyle, president; Peggy B. Pyle, vp; Laurie A. Langston, assistant vp; Christine A. Sullivan, assistant secretary.

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E

EWI RE Inc.

70 Pine St., 60th Floor, New York, N.Y. 10270; 212-248-3980; fax: 212-248-3981

	1989	1988
Premium volume...	NA	NA
% Treaty.....	100%	100%
Gross revenues...	NA	NA
Total employees...	7	6
Treaty.....	7	6

Year founded: 1988.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states and abroad.

Principal officers: James C. Epstein, president; Vaughn V.R. Harris, vp; Jorge I. Cardona, vp/controller.

Contact: James C. Epstein.

Enan & Co.

1440 Chapin Ave., Suite 300, Burlingame, Calif. 94010; 415-347-2100; fax: 415-347-2478

	1989	1988
Premium volume...	NA	NA
% Treaty.....	100%	100%
Gross revenues...	NA	NA
Total employees...	27	23
Treaty.....	27	23

Year founded: 1979.

Parent company: Karnak Trust & Employees.

Licensed reinsurance intermediary in: New York.

Conducts business in: Western states.

Principal officers: Hussein A. Enan, chairman; James E. Webster, president; Peter J. Murphy, executive vp-marketing; Dale N. Hoemke, executive vp; Susan C. Fisch, Glenn H. Reid, Michael W. Leong, vps-marketing; Marian C. Taylor, vp; Edward C. Woodward, executive vp-claims; Alys C. Yeh, vp-finance; Terri L. Hazlewood, assistant vp-systems.

Contact: Hussein A. Enan.

Encon Reinsurance Managers Inc.

141 Adelaide St. W., Suite 1706, Toronto, Ontario M5H3L5; 416-865-9640; fax: 416-865-9214

	1989	1988
Premium volume...	\$10,000,000	\$10,000,000
% Treaty.....	90%	85%
% Facultative...	10%	15%
Gross revenues...	\$858,000	\$611,000
Total employees...	5	6

Year founded: 1984.

Parent company: Marsh & McLennan Inc.

Specialties: Professional liability.

Licensed reinsurance intermediary in: Canada.

Principal officers: Denis J. Shillington, president/chief executive officer; William A. Salisbury, vp/manager.

F

Financial Reinsurance Inc.

140 S. Atlantic Ave., Ormond Beach, Fla. 32176; 904-677-4453; fax: 904-673-1630

	1989	1988
Premium volume...	\$25,592,424	\$26,295,130
% Treaty.....	100%	100%
Gross revenues...	NA	NA
Total employees...	5	5
Treaty.....	2	2

Year founded: 1960.

Parent company: Ormond Re Group Inc.

Subsidiaries: W.J. Burt & Associates Inc., New York.

Specialties: Crop hail.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states.

Principal officers: W. Lockwood Burt, president; David A. Burt, executive vp; John B. Deiner, executive vp/secretary/assistant general counsel; A.L. DiPardo, senior vp-claims; William T. Long, vp/controller-reinsurance accounting.

Contact: John B. Deiner.

First Reinsurance Intermediaries Corp.

55 John St., New York, N.Y. 10038; 212-608-8270; fax: 212-619-0480

	1989	1988
Premium volume...	\$50,000,000	\$50,000,000
% Treaty.....	100%	100%
Gross revenues...	NA	NA
Total employees...	5	5
Treaty.....	5	5

Year founded: 1983.

Specialties: Casualty reinsurance.

Licensed reinsurance intermediary in: New York.

Principal officers: Stephen M. Edwards, president; Paul G. Curtis, vp; Denise D'Arco, secretary.

Continued on page 56

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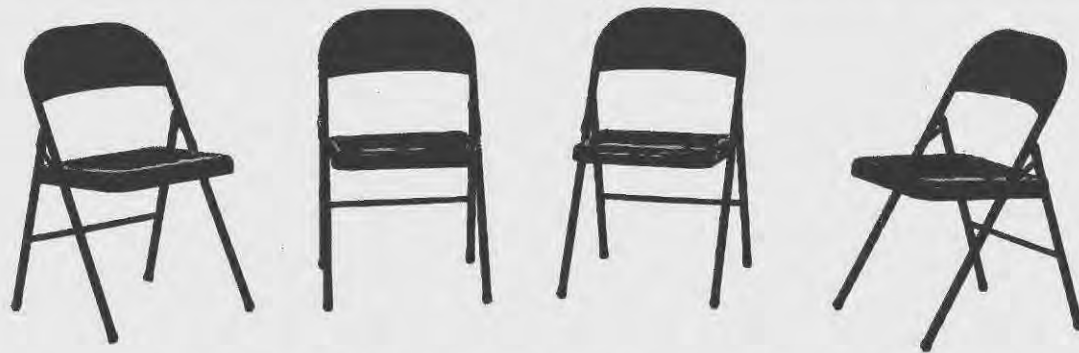
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Continued from page 54

H.S. Fox Corp.

8222 Douglas Ave., Suite 400.
Dallas, Texas 75225;
214-369-2211; fax: 214-369-8380

	1989	1988
Premium volume	\$200,000,000	\$150,000,000
% Treaty	100%	100%
Gross revenues	\$5,000,000	\$4,000,000
Total employees	23	18
Treaty	23	18

Year founded: 1985.

Specialties: Health risks, professional liability.

Licensed reinsurance intermediary in: New York.

Conducts business in: Texas and New York.

Principal officers: Donald M. Fox, president; Robert C. Henderson and Alan R. Sheppard, executive vps; Donald C. Blackburn, Kathy K. Brandon, Larry L. Collins, Robert F. McGarry and Robert M. Hodge, vps; Anne Marie Roberts, vp-administration; Diana R. Wickman, assistant vp; Peter A.

Fries, treasurer, Shelley M. Buehrle, assistant treasurer; Leah M. Macchia, Janice M. Carroll and Shirley B. Kirk, assistant secretaries.

Contact: Donald C. Blackburn.

C.L. Frates Reinsurance Intermediary Inc.

17 Battery Place, New York, N.Y. 10004; 212-363-8975; fax: 212-558-6727

	1989	1988
Premium volume	\$19,000,000	\$19,000,000
% Treaty	100%	100%
Gross revenues	\$920,000	\$900,000
Total employees	3	3
Treaty	3	3

Year founded: 1986.

Specialties: Casualty, professional liability.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states.

Principal officers: Albert P. Amato, senior vp; Lynett M. Snappinn, account service manager.

Contact: Albert P. Amato.

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GFN Intermediaries Inc.

30 Broad St., New York, N.Y. 10004; 212-509-6210; fax: 212-509-6652

	1989	1988
Premium volume	\$16,000,000	\$11,000,000
% Treaty	65%	60%
% Facultative	35%	40%
Gross revenues	NA	NA
Total employees	16	9
Treaty	10	6
Facultative	6	3

Year founded: 1985.

Parent company: Insurance Co. of Florida.

Subsidiaries: GFN Intermediarios de Reaseguro S.A. Dec.V., Mexico.

Specialties: Domestic and international property, casualty, life, accident and health.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states.

Principal officers: Orlando Marini, president; Victor Honore and Ralph Luna, executive vps; Philip Cawley, Joe Corelli and Karen Gantt, vps; Elizabeth Arguto, assistant vp.

Arthur J. Gallagher Intermediaries Inc.

111 John St., Suite 1912, New York, N.Y. 10038; 212-732-9855

	1989	1988
Premium volume	\$16,590,000	\$16,183,000
% Facultative	100%	100%
Gross revenues	NA	NA
Total employees	19	17
Facultative	15	14

Year founded: 1987.

Parent company: Arthur J. Gallagher & Co.

Subsidiaries: Arthur J. Gallagher International Inc., Cranston, R.I.

Specialties: Property, casualty, programs and financial reinsurance.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states.

Principal officers: Robert L. Osborne, Randall Jensen, Edward Santos, Kevin Denike, John O'Reilly and Joseph DeChristofaro.

Contact: Robert L. Osborne.

Gill & Roeser Inc.

535 Fifth Ave., 34th Floor, New York, N.Y. 10017; 212-972-4880; fax: 212-972-4885

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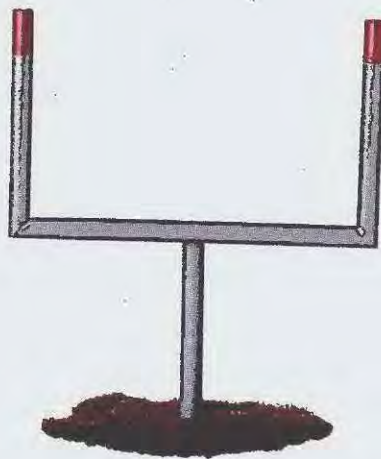
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Spotlight report

Continued from page 56

	1989	1988
Premium volume...	NA	NA
% Treaty.....	100%	100%
Gross revenues...	NA	NA
Total employees...	11	11
Treaty.....	11	11

Year founded: 1983.**Specialties:** Financial reinsurance and spread loss reinsurance.**Licensed reinsurance intermediary in:** New York.**Conducts business in:** All states.**Principal officers:** Ardian Gill, chairman; Kirk Roeser, president; Steven Bolland, senior vp; David Koegel, vp; Ondine Holohan, assistant secretary.**Contact:** Robert Kaufman, president-Creative Strategies Inc., 25 W. 39th St., New York, N.Y. 10018; 212-302-2080.**Thomas A. Greene & Co. Inc.**

1270 Ave. of the Americas, New York, N.Y. 10020; 212-408-3700; fax: 212-977-9471

	1989	1988
Premium volume...	\$435,000,000	\$463,000,000
% Treaty.....	95.5%	93.5%
% Facultative...	4.5%	6.5%
Gross revenues*	\$22,100,000	\$23,500,000
Total employees...	187	212
Treaty.....	165	185
Facultative...	22	27

* BI estimate.

Year founded: 1979.**Parent company:** Alexander & Alexander Services Inc.**Branch offices:** Chicago; Stamford, Conn.; San Francisco.**Specialties:** Property, casualty, life, accident and health.**Licensed reinsurance intermediary in:** New York.**Conducts business in:** All states.**Principal officers:** Thomas A. Greene, president/chief executive officer; John L. Busi, executive vp/ chief financial officer; William R. Coleman, executive vp-Stamford office; John M. Marek, senior vp-New York office; Robert T. Mobyed, senior vp-Chicago office; John W. Tornquist, senior vp-San Francisco office; Joseph F. Kolodney, John F. Langen, Frank J. Lyons, John J. O'Connell, Donald B. Peat and James P. Snedeker, senior vps.**Greig Fester (North America) Inc.**

116 John St., Suite 1410, New York, N.Y. 10038; 212-619-0140; fax: 212-608-4544

	1989	1988
Premium volume...	\$50 billion	\$45 billion
% Treaty.....	98%	98%
% Facultative...	2%	2%
Gross revenues...	NA	NA
Total employees...	33	35
Treaty.....	32	34
Facultative...	1	1

Year founded: 1981.**Parent company:** Greig Fester Group Ltd.**Subsidiaries:** Ashwood Reinsurance Intermediaries, New York.**Licensed reinsurance intermediary in:** New York.**Principal officers:** Charles B. Penruddocke, vice chairman/ chief executive officer; Leonard B. Wagner, chief financial officer; D. Jay Carbine, executive vp; Drew Beauchamp, vp-domestic department; James G. Cerreta and Joseph R. Curcio, vps-facultative department; Richard D. Stary, vp-credit/ specialty department.**Contact:** Leonard B. Wagner.

	1989	1988
Premium volume...	\$9,500,000	\$9,000,000
% Treaty.....	90%	90%
% Facultative...	10%	10%
Gross revenues...	NA	NA
Total employees...	8	8
Treaty.....	8	8

Year founded: 1977.**Specialties:** Self-insured programs.**Licensed reinsurance intermediary in:** Bermuda.**Conducts business in:** Bermuda.**Principal officers:** Simon C. Everett, president; W.H. Outerbridge and Paul Bailie, vps; David Ezekiel, David Pickering and Terry Power, directors.**Contact:** Simon Everett, W.H. Outerbridge or Paul Bailie.**Harrison & Co.**

320 Alvarado Ave., Los Altos, Calif. 94022; 415-941-4419

	1989	1988
Premium volume...	\$7,500,000	\$7,500,000
% Treaty.....	99%	99%
% Facultative...	1%	1%
Gross revenues...	\$80,000	\$75,000
Total employees...	2	2
Treaty.....	1	1
Facultative...	1	1

Year founded: 1977.**Licensed reinsurance intermediary in:** New York.**Principal officers:** John P. Harrison, president/treasurer; Ann P. Harrison, secretary.**Heddington Brokers Ltd.**

P.O. Box HM 1187, Hamilton HM EX, Bermuda; 809-295-3063; fax: 809-292-3548

	1989	1988
Premium volume...	NA	NA
% Treaty.....	5%	5%
% Facultative...	95%	95%
Gross revenues...	NA	NA
Total employees...	12	10

Year founded: 1981.**Parent company:** Heddington Insurance Ltd. and Willis Faber P.L.C.**Subsidiaries:** Willis Faber Heddington Ltd., London.**Specialties:** International risks.**Principal officers:** R.C. Golden, president/ chief executive officer; M. Dobbie, senior vp; M.G. Randall, vp; J.O. Heyliger, assistant vp.**Hileman, Justice & Co.**

251 O'Connor Ridge Blvd., Suite 200, Irving, Texas 75038; 214-717-0555; fax: 214-717-0054

	1989	1988
Premium volume...	\$60,000,000	\$50,000,000
% Treaty.....	100%	100%
Gross revenues...	\$680,000	\$632,000
Total employees...	11	11
Treaty.....	11	11

Year founded: 1975.**Parent company:** Jayfive Enterprises Inc.**Licensed reinsurance intermediary in:** New York.**Conducts business in:** Arkansas, Kansas, Louisiana, Missouri, Oklahoma, Tennessee and Texas.**Principal officers:** Gene Justice, president; Andy Justice, senior vp; Tina Mercer, vp; Sharon Cockrill, treasurer; Rusty Justice, corporate secretary.**G.L. Hodson & Son, Inc.**

3333 New Hyde Park Road, New Hyde Park, N.Y. 10042; 516-365-9000; fax: 516-365-4828

	1989	1988
Premium volume...	\$380,000,000	\$360,000,000
% Treaty.....	91%	81%
% Facultative...	9%	19%
Gross revenues*	\$23,000,000	\$23,000,000
Total employees...	201	204
Treaty.....	172	164
Facultative...	29	40

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Chevron House, 11 Church St., Hamilton, Bermuda; P.O. Box HM 1861, Hamilton, Bermuda; 809-295-3342; fax: 809-295-4065

Continued from previous page

Year founded: 1924.
Parent company: Willis Corroon P.L.C.
Branch offices: Atlanta; Boston; Burlington, N.C.; Los Angeles; Minneapolis; San Francisco.
Acquisitions: R/I Inc., Burlington, N.C.
Specialties: Aviation, surety, trucking, professional liability and finite risks.
Licensed reinsurance intermediary in: New York.
Conducts business in: United States.
Principal officers: Ronald J. Taylor, chairman; Stephen A. Crane, president/chief executive officer.
Contact: Ronald J. Taylor.

Holborn Agency Corp.

90 John St., New York, N.Y. 10038;
 212-267-0224; fax: 212-964-0919

	1989	1988
Premium volume	NA	NA
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	40	40
Treaty	40	40

Year founded: 1920.
Specialties: Property and casualty.
Licensed reinsurance intermediary in: New York.
Principal officers: John N. Gilbert Jr., president; James A. Cathcart III, executive vp; Joseph N. Gaffney, senior vp.

Independent Brokers Ltd.

P.O. Box HM 2070, Hamilton HM
 HX, Bermuda; 809-295-1646; fax:
 809-292-8062

	1989	1988
Premium volume	\$5,194,000	\$2,101,000
% Treaty	80%	80%
% Facultative	20%	20%
Gross revenues	\$124,000	\$85,275
Total employees	9	8

Year founded: 1984.
Principal officers: Peter J.N. Strong, president; John G. Neal, vp.

Intere Intermediaries, Inc.

199 Water St., New York, N.Y.
 10038; 212-809-3900; fax:
 212-514-5959

	1989	1988
Premium volume	NA	NA
% Treaty	100%	100%
Gross revenues	\$18,000,000	\$18,000,000
Total employees	161	171
Treaty	161	171

* B/ estimate.

Year founded: 1919.
Parent company: The St. Paul Cos. Inc.

Branch offices: Atlanta; Chicago; Minneapolis; New York; Philadelphia; San Francisco.

Subsidiaries: Intere (Bermuda) Ltd., Hamilton, Bermuda.

Specialties: Property, casualty, marine, aviation, accident & health, domestic and international.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states.

Principal officers: Daniel R. Colello, president/chief executive officer; Wallace E. Winter, vice chairman; Brian S. Keegan and Thomas F. McGrath III, executive vps; Michael G. Woll, executive vp/chief administrative officer; Ronald C. Anderson, Kenneth R. Fewell, Thomas J. Williams, Arthur P. Schoessler, senior vps; Charles M. Caporale Sr., vp/treasurer; Ronald C. Fazio, vp/secretary; Robert L. Mendes, senior vp/general counsel.

Contact: Claire M. Kostbar, resident vp.

JBW & Co. Inc.

1450-C Enea Circle, Suite 690,
 Concord, Calif. 94524;
 415-680-8060; fax: 415-680-1421

	1989	1988
Premium volume	\$13,000,000	\$19,000,000
% Treaty	100%	100%
Gross revenues	\$1,100,000	\$1,400,000
Total employees	25	21
Treaty	25	21

Year founded: 1980.

Parent company: Concord General Corp.

Branch offices: New York; Monroe, Conn.; Newark, Ohio; Dallas.

Specialties: Professional liability, alternative risk, non-standard automobile.

Licensed reinsurance intermediary in: New York.

Conducts business in: United States.

Principal officers: Roland G. Roth, president; Tom Thie and Phil Russo, executive vps; John Broadnax, Don Salierno, Ed Lukco, Ian Brook, Peter Norton and Gary Christensen, senior vps.

Contact: Peter Norton.

Membership: National Assn. of Reinsurance Brokers.

J&H Intermediaries, a division of Johnson & Higgins (Bermuda) Ltd.

P.O. Box HM 68, Victoria Hall,
 Victoria Street, Hamilton HM AX,
 Bermuda; 809-292-1552; fax:
 809-292-2091

	1989	1988
Premium volume	NA	NA
Gross revenues	NA	NA
Total employees	22	21

Year founded: 1978.

Parent company: Johnson & Higgins.

Specialties: Direct offshore alternative market excess liability, directors and officers liability, professional liability, captive reinsurance programs, portfolio transfers, financial reinsurance.

Licensed reinsurance intermediary in: Bermuda.

Conducts business in: United States and abroad.

Principal officers: Brian Hall, president; John Pritchard, Richard Reynell, Cathy Lord and Roger Gillett, vps.

K**J.L. Kelley Inc.**

784 Franklin Ave., N.J. 07417;
 201-891-7920; fax: 201-891-6956

	1989	1988
Premium volume	\$84,600,000	\$101,000,000
% Treaty	91%	87%
% Facultative	9%	13%
Gross revenues	NA	NA
Total employees	36	36

Year founded: 1975.

Branch offices: New York, Chicago.

Subsidiaries: J.L. Kelley West Inc., Los Angeles.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states.

Principal officers: Joseph L. Kelley, chairman/chief executive officer; David Gilligan, president; Bernard J. Bowden, executive vp; John W. Dunleavy, senior vp.

Kirkway International Ltd.

Belvedere Building, Pitts Bay Road,
 P.O. Box HM 2340, Hamilton
 HM JX; 809-292-7569;
 fax: 809-292-3299

	1989	1988
Premium volume	NA	NA
% Treaty	100%	NA
Gross revenues	NA	NA
Total employees	2	NA
Treaty	2	NA

Year founded: 1982, activated in 1989.

Specialties: Captives, financial and finite reinsurance, self-insured workers compensation, surety, casualty reinsurance.

Licensed reinsurance intermediary in: Bermuda.

Principal officers: Michael Woodroffe, president.

Contact: Michael Woodroffe.

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Continued from previous page

L**LRO Intermediaries**

11365 Ventura Blvd., Suite 113,
Studio City, Calif. 91604;
818-763-9965; fax: 818-762-2242

	1989	1988
Premium volume	\$4,000,000	NA
% Treaty	100%	NA
Gross revenues	\$300,000	NA
Total employees	8	NA
Treaty	3	NA

Year founded: 1989.

Subsidiaries: FSA Financial Services, Century City, Calif.

Specialties: Excess professional liability, financial reinsurance, funded casualty and aggregate stop-loss programs.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states and abroad.

Principal officers: John Lepire, managing partner; Daniel Hess, reinsurance broker.

Contact: John Lepire.

Lincoln National Intermediaries

1300 S. Clinton St., Fort Wayne, Ind. 46801; 219-455-3290; fax: 219-455-4000

	1989	1988
Premium volume	NA	NA
% Facultative	100%	100%
Gross revenues	\$4,563,424	\$3,707,548
Total employees	16	15
Facultative	16	15

Year founded: 1982.

Parent company: Lincoln National Corp.

Specialties: Financial reinsurance

Licensed reinsurance intermediary in: New York.

Conducts business in: All states.

Principal officers: Kenneth J. Clark, president; Louis D. Fisher and Thomas E. Skillman, vps.

Contact: Kenneth J. Clark.

Edward Lloyd Ltd.

55 John St., 11th floor, New York, N.Y. 10038; 212-619-5701; fax: 212-619-5714

	1989	1988
Premium volume	\$16,000,000	\$18,000,000
% Treaty	65%	65%
% Facultative	35%	35%
Gross revenues	NA	NA
Total employees	5	8
Treaty	3	3
Facultative	2	3

Year founded: 1984.

Parent company: Lowndes Lambert Group.

Specialties: Property, casualty specialty and global programs.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states and abroad.

Principal officers: Ronald H. Molatto, president; John M. Manix, vp.

Contact: Ronald H. Molatto.

M**Madison Intermediaries Inc.**

261 Madison Ave., New York, N.Y. 10016; 212-867-4601; fax: 212-490-1487

	1989	1988
Premium volume	NA	NA
% Treaty	90%	90%
% Facultative	10%	10%
Gross revenues	NA	NA
Total employees	100	112

Year founded: 1949.

Parent company: Frank B. Hall & Co. Inc.

Specialties: Casualty, property, marine, aviation, title, professional liability.

Licensed reinsurance intermediary in: New York.

Conducts business in: New York.

Principal officers: Thomas J. Kennedy, president/chief executive officer; John R. Cashin, Robert W. Clark, Clarke Dewaters and Philip L. Parker, senior vps; Charles A. Higham, chief financial officer/senior vp.

Contact: Charles A. Higham.

Manhattan Intermediaries Inc.

45 John St., New York, N.Y. 10038; 212-608-1849; fax: 212-608-1849

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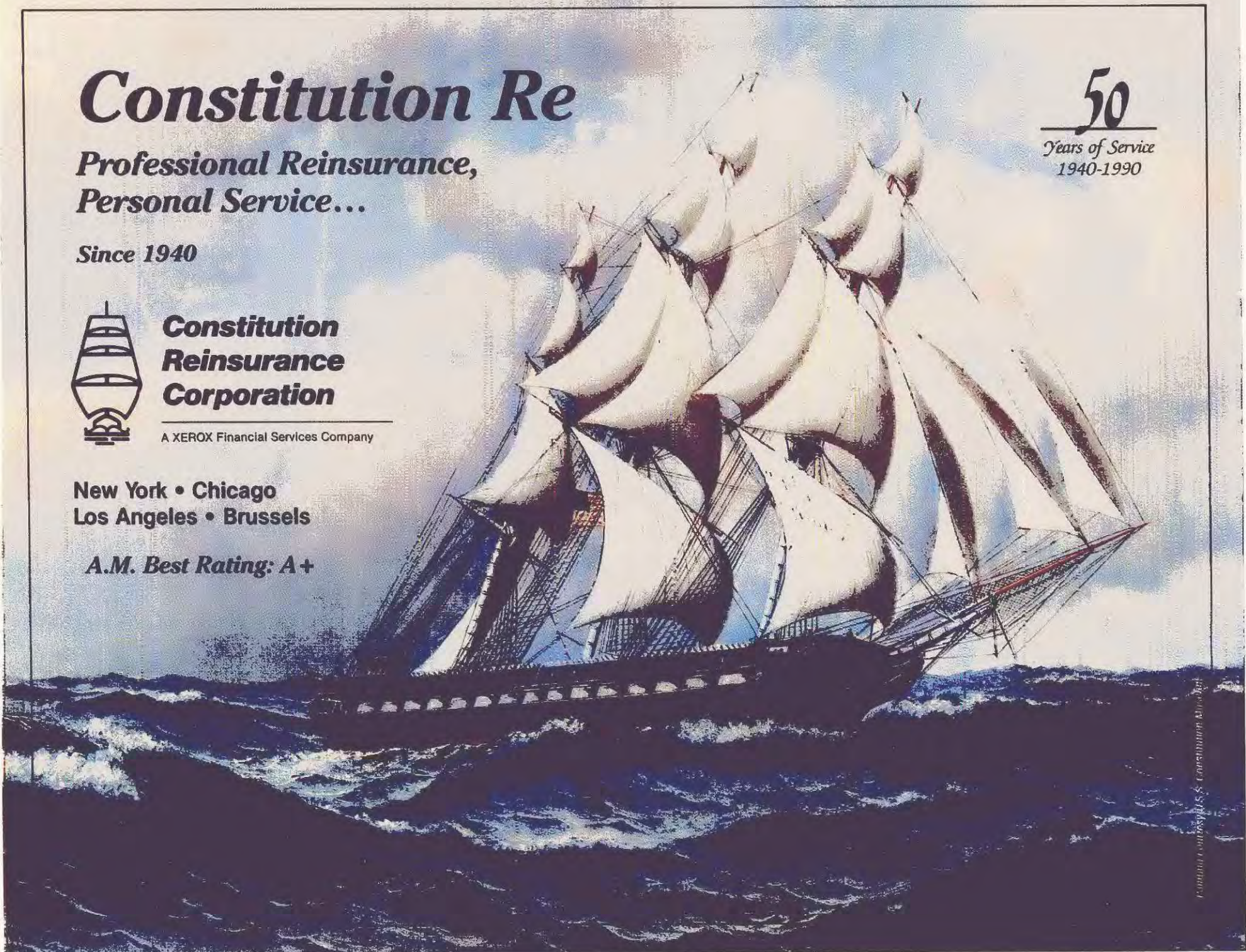
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	1989	1988
Premium volume...	NA	NA
% Treaty.....	100%	NA
Gross revenues...	NA	NA

Year founded: 1989.**Specialties:** Financial, portfolio and financial guarantee reinsurance.**Licensed reinsurance intermediary in:** New York.**Conducts business in:** New York.**Principal officers:** Rachel Treichler, president.

P

PWS Holdings P.L.C.52-56 Minories, London, England
EC3N 1JJ; 44-71-480-6622;
fax: 44-71-702-1689

	1989	1988
Premium volume...	\$550,000,000	\$500,000,000
% Treaty.....	15%	20%
% Facultative...	85%	80%
Gross revenues...	\$35,000,000	\$30,000,000
Total employees...	320	347
Treaty.....	20	20
Facultative...	50	50

Year founded: 1964.**Branch offices:** New York; Johannesburg, South Africa; Guernsey, Channel Islands; Hamilton, Bermuda; Copenhagen, Denmark; Vancouver, British Columbia.

Continued on next page

Meadowbrook Intermediaries Inc.

276 Fifth Ave., Suite 406, New York, N.Y. 10001; 212-545-1555; fax: 212-545-1810

	1989	1988
Premium volume...	NA	NA
% Treaty.....	85%	85%
% Facultative...	15%	15%
Gross revenues...	NA	NA
Total employees...	6	5
Treaty.....	6	5

Year founded: 1985.**Parent company:** Meadowbrook Inc.**Specialties:** Self-insureds, association and group captives, municipal programs.**Licensed reinsurance intermediary in:** New York.**Conducts business in:** All states.**Principal officers:** Thomas E. Reid, vp/manager.**Contact:** Virginia L. Glasser, office manager.

N

Paul Napolitan Co. Inc.

80 Maiden Lane, New York, N.Y. 10038; 212-422-0630; fax: 212-809-6958

	1989	1988
Premium volume...	NA	NA
% Treaty.....	100%	100%
Gross revenues...	NA	NA
Total employees...	91	106
Treaty.....	91	106

Year founded: 1972.**Parent company:** C.V. Starr & Co. Inc.**Subsidiaries:** Paul Napolitan Inc., Montreal; Lees Preston, Fairy (Holdings) Ltd., London.**Specialties:** Property, casualty, accident and health.**Licensed reinsurance intermediary in:** New York.**Conducts business in:** All states.**Principal officers:** P.F. McPherson, vice chairman/chief financial officer; P.F. Napolitan, president; F.E. Hernandez, executive vp; F.S. Kalita, senior vp; C.S. McCarthy, vp; A. Skornick, treasurer; J. Grimaldi, comptroller.**Contact:** E.A. Connell.**National Intermediaries Inc.**

777 Long Ridge Road, P.O. Box 10167, Stamford, Conn. 06904; 203-329-7700; fax: 203-329-9027

	1989	1988
Premium volume...	NA	NA
% Treaty.....	95%	5%
% Facultative...	5%	95%
Gross revenues...	NA	NA
Total employees...	5	5
Treaty.....	5	5

Year founded: 1976.**Parent company:** National Reinsurance Corp.**Branch offices:** New York.**Specialties:** Property and casualty.**Licensed reinsurance intermediary:** New York.**Conducts business in:** All states and Canada.**Principal officers:** Robert W. Eager, president; Carl Quanelli, executive vp; James M. Brautigam, vp.**Contact:** Christina Zambrano.

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Subsidiaries: PWS International, PWS North America, Thurgood, Farmer & Hackett (Craven Farmer), Fryer Cheasley Light (Harrington Austin), PWS Group Services (PGS), PWS Overseas Holdings, PWS Life & Pensions, PWS Bermuda.

Joint venture: Danish Underwriting & Services (DUNAS A/S), Copenhagen, Denmark, formed by agreement with Municipal General Insurance Ltd.

Specialties: International facultative and treaty reinsurance; U.S. property and casualty; aviation excess of loss, political risks, excess of loss, financial, Canadian binders, marine insurance services.

Licensed reinsurance intermediary: New York.

Conducts business in: All states.

Principal officers: M.E.M. Pearson, chairman; J.J.S. Farmer, deputy chairman; D.J. Springbett, deputy chairman; P.J. English and D.R. Neale, managing directors.

Contact: D.R. Neale or D.J. Springbett, London, 44-71-480-6622; C.E. Aman III, New York, 212-791-9350.

Pearson & Georgi International Inc.

P.O. Box 1597, 117 Washington St., Hoboken, N.J. 07030; 201-656-0800; fax: 201-656-3412

	1989	1988
Premium volume	\$110,000,000	\$75,000,000
% Treaty	89%	87%
% Facultative	11%	13%
Gross revenues	\$2,950,000	\$2,500,000
Total employees	30	30
Treaty	24	24
Facultative	6	6

Year founded: 1979.

Subsidiaries: Pearson & Georgi (Europe) Ltd. and Pearson & Georgi (Hellas) S.A., Athens, Greece; Pearson & Georgi (S.E. Asia) Inc., Manila, Philippines.

Specialties: Accident and health, workers compensation, marine, property, casualty.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states and abroad.

Principal officers: Fred H. Pearson, chairman; Ernest G. Georgi, president/chief executive officer; Joseph A. Zaffarese, managing director; Rodolfo A. Agatep, executive vp; Theresa Hipple and Michael S. Abesamis, vps; Stanley R. Kelsall, managing director-Pearson & Georgi (Europe) Ltd.; Yannis Linos, managing director-Pearson & Georgi (Hellas) S.A.; Jose S. Panlilio, regional vp-Pearson & Georgi (S.E. Asia) Inc.

Membership: National Assn. of Reinsurance Brokers.

Pegasus Advisors Inc.

86 Hopmeadow St., P.O. Box 398, Simsbury, Conn. 06070; 203-651-0641; fax: 203-658-5470

	1989	1988
Premium volume	NA	NA
Gross revenues	NA	NA
Total employees	4	NA
Treaty	4	NA

Year founded: 1989.

Parent company: Skandia America Group.

Specialties: Finite risk reinsurance.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states.

Principal officers: Gregory E. Leonard, president/chief executive officer; Lawrence G. Frank, vp; Iris S. Newsome, assistant vp.

Peglar & Associates Inc.

100 Prospect St., Stamford, Conn. 06901; 203-325-0863; fax: 203-359-2658

	1989	1988
Premium volume	NA	NA
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	16	15
Treaty	16	15

Year founded: 1986.

Specialties: Property and casualty.

Licensed reinsurance intermediary in: New York.

Principal officers: Robb K. Peglar, president; Charles A. Morton, chief financial officer/secretary/treasurer; Peter B. Scanlan and George F. Baumann, vps/account executives; Christian F. Haerle, assistant vp/director-internal service

Preferred Reinsurance Intermediaries Inc.

1634 Man St., Suite 100, Columbia, S.C. 29211; 803-256-4467; fax: 803-256-7312

	1989	1988
Premium volume	\$48,600,000	\$41,800,000
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	12	11
Treaty	12	11

Year founded: 1938.

Branch offices: Port Washington, N.Y.; Canoga Park, Calif.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states and abroad.

Principal officers: Robert H. Sanders, president; Karen N. Basso, senior vp; David L. Coulter Jr., Robert P. Hodson, vps; Kevin M. Elmore and Veritha W. Lee, assistant vps.

Contact: Charles W. Perry, corporate accounting.



RBI Insurance Services Inc.

308-A2 Pompton Ave., P.O. Box 308, Cedar Grove, N.J. 07009; 201-857-1466; 201-857-1487

	1989	1988
Premium volume	NA	NA
% Treaty	70%	70%
% Facultative	30%	30%
Gross revenues	NA	NA
Total employees	4	4

Year founded: 1978.

Specialties: Life, health, health maintenance organizations, preferred provider organizations, stop-loss coverage, special risk programs, fronting programs for HMOs, PPOs and health care delivery systems.

Licensed reinsurance intermediary in: New York.

Conducts business in: New York, New Jersey, Pennsylvania and California.

Principal officers: Paul Wolf, president.

Contact: Paul Wolf.

Continued on next page

THE H O M



OLD PROS ON

Continued from previous page

RGI Inc.

1 Exeter Plaza, Ninth Floor, Boston, Mass. 02116-2836; 617-262-5300; fax: 617-262-8964

	1989	1988
Premium volume.	NA	NA
% Facultative.	100%	100%
Gross revenues...	NA	NA
Total employees...	9	9
Facultative...	9	9

Year founded: 1978.

Parent company: Willis Corroon P.L.C.

Specialties: Medical malpractice, municipalities, trucking, contractors, excess workers compensation, associations, captives, risk

retention groups.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states.

Principal officers: John W. Furlong, president; Diane Sawicky, executive vp.

Contact: Steven L. Reale, vp.

Re/Insurance Brokers Inc.

100 Brookwood Place, Suite 605, Birmingham, Ala. 35209; 205-871-4949; fax: 205-871-4950

	1989	1988
Premium volume.	NA	NA
% Treaty.....	90%	NA

	% Facultative.	10%	NA
Gross revenues...	NA	NA	NA
Total employees...	3	NA	NA
Treaty.....	2	NA	NA

Year founded: 1990.

Acquisitions: Acquired the right to renew the insurance and reinsurance accounts of Southeast Special Risks Inc., Birmingham, Ala., effective Aug. 1, 1990.

Specialties: Professional liability for doctors, dentists and hospitals; disability for airline pilots.

Conducts business in: Alabama, Georgia, Florida and Missouri.

Principal officers: Dale R. Busby, president.

Reinsurance Brokers Co.

2325 Severn Ave., Metairie, La. 70001; 504-837-4646; fax: 504-833-1972

	1989	1988
Premium volume.	\$5,000,000	\$4,500,000
% Facultative.	100%	100%
Gross revenues...	\$5,000,000	\$4,500,000
Total employees...	18	18
Facultative...	4	4

Year founded: 1979.

Parent company: Sherar, Cook & Gardner Inc.

Specialties: Marine, oil, chemicals, pharmaceuticals, construction, umbrella policies, international risks.

Conducts business in: United States and abroad.

Principal officers: J. William Sherar, president; James A. Gardner and Wayne C. Solis, vps; William G. Sherar, assistant vp.

Reinsurance Facilities Corp.

1117 Perimeter Center W., Suite N-500, Atlanta, Ga. 30338; 404-392-9541; fax: 404-392-1464

	1989	1988
Premium volume.	NA	NA
% Treaty.....	NA	70%
% Facultative.	NA	30%
Gross revenues*	\$12,000,000	\$12,000,000
Total employees...	NA	154

* BI estimate.

Year founded: 1972.

Parent company: The St. Paul Cos.

Branch offices: Atlanta; Chicago; Dallas; Hartford, Conn.; Los Angeles and San Mateo, Calif.; New York; and Philadelphia.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states.

Principal officers: David L. Cargile, president; Paviptar S. Safir, executive vp.

Contact: David Cargile.

ReSOURCE**Intermediary Group**

200 Berwyn Park, Suite 110, Berwyn, Pa. 19312; 215-647-9500; fax: 215-647-4329

	1989	1988
Premium volume.	\$86,320,000	\$42,780,000
% Treaty.....	100%	100%
Gross revenues...	\$1,910,000	\$1,435,000
Total employees...	15	9
Treaty.....	15	9

Year founded: 1987.

Specialties: Financial reinsurance, portfolio sales and transfers, mergers and acquisitions.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states.

Principal officers: Larry E. Fondren, president; Elaine M. Miller, Thomas J. Dickson and Benn Prybutok, general partners; Maureen A. Smykal, vp/treasurer; Karyl J. Wittlinger, vp/secretary.

Contact: Larry E. Fondren.

S

Saturn Intermediaries Ltd.

200 N. LaSalle St., Suite 2800, Chicago, Ill. 60601; 312-236-4303; fax: 312-236-2186

	1989	1988
Premium volume.	\$91,000,000	\$82,000,000
% Treaty.....	100%	100%
Gross revenues...	NA	NA
Total employees...	9	12
Treaty.....	9	12

Year founded: 1985.

Branch offices: Scottsdale, Ariz.

Specialties: Domestic and international property, casualty and crop hail reinsurance.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states.

Principal officers: John J. Norton, president; Lorenz Lang, Erin Nancy Doherty and Deborah Steiner, vps.

John D. Sayer & Co. Inc.

130 Pennington-Washington Crossing Road, P.O. Box 326, Pennington, N.J. 08534; 609-737-1391; fax: 609-737-8524

	1989	1988
Premium volume.	\$45,000,000	\$35,000,000
% Treaty.....	100%	100%
Gross revenues...	\$2,000,000	\$1,450,000
Total employees...	14	10
Treaty.....	14	10

Year founded: 1979.

Parent company: Jardine Thompson Graham Ltd.

Specialties: Surety.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states.

Principal officers: John D. Sayer, president; John S. Yeuroukis, executive vp.

Continued on page 72

E T O D A Y

HOME INSURANCE COMPANIES
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1 17 759737 P

PAY TO THE ORDER OF BIEDERMAN, KELLY & SHAFFER
100 FIFTH AVENUE
NEW YORK, NY 10011

POLICY NUMBER
5138-23-30

NET AMOUNT

\$****5,693.20

FIVE THOUSAND SIX HUNDRED NINETY THREE AND 20/100 DOLLARS

Michel J. Conroy
For the Company

⑈68208020⑈ ⑆013010920⑆ 83088014⑈

He built his success on losses.

Mike Conroy has been dealing with insurance claims for a quarter century now.

He was a claims veteran even before joining us as Executive Vice President for Claims and Loss Control.

"I rose through the ranks," he says. "The first claim check I delivered was for \$35. When you start like that, you never forget your policyholders are people."

Under Mike's direction, The Home is doing an even better job of handling claims these days.

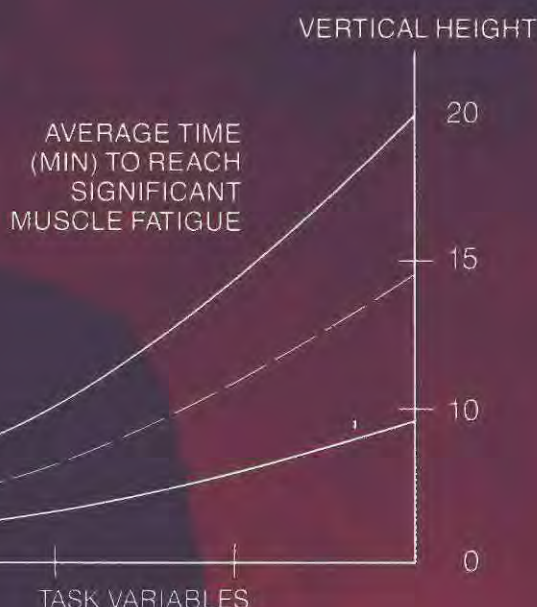
Among other things, every time we settle a claim, we ask our policyholders to tell us how we're doing. To make sure we're delivering everything they expect of us.

If that was important before, it's even more so now. Because now that we're concentrating on larger, more complex risks, we need the best claims people in the business.

Which is, after all, why Mike Conroy's with us now. The Home underwrites Commercial Lines, Major Accounts, Specialty Lines and upscale Personal Lines.

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A N E W T E A M



In 1851, when *America* won the first Cup Race, Allendale's

For nearly 60 miles, one sleek bow cut like a razor between sky and sea. Outnumbered by seventeen of Britain's best sailing vessels, *America* streaked across the finish line to victory. "Where is the second?" Queen Victoria asked. "Your Majesty, there is no second," the signalman replied. And when *America* crossed the finish line eighteen minutes ahead of its closest competitor,

Allendale had been leading the property insurance industry with innovations in loss control engineering and coverage for 16 years.

In a changing world where events like this shape history, this is our way of reminding you of one progressive, stable company that's been in business since 1835.



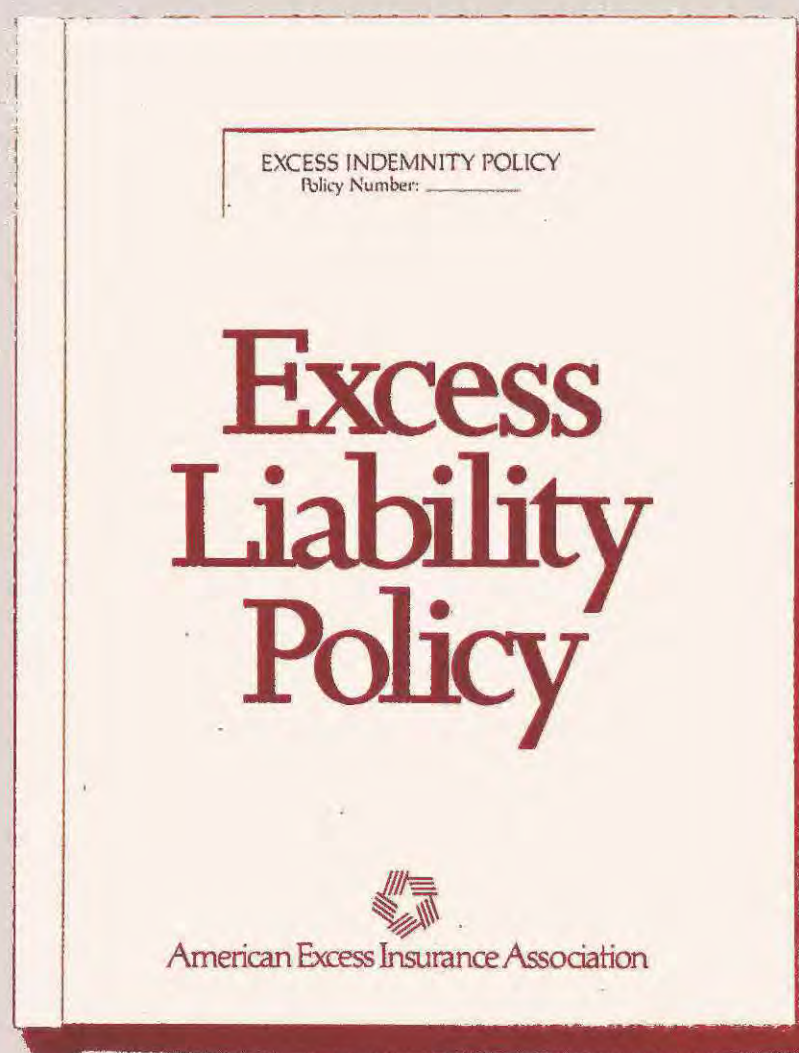
engineers had been charting a winning course for 16 years.

Today at Allendale, we continue to shape the history of loss control with engineering, training, research and testing, responsiveness and fairness in the way we do business.

Throughout the years we've been more than an ordinary insurance company. Commitment to our insureds goes well beyond the property coverages we provide.

After a century and a half, that part of our philosophy is not about to change. Allendale Insurance, P.O. Box 7500, Johnston, Rhode Island 02919.

Allendale Insurance/Factory Mutual System
Over 150 years of progress and stability.



The Patchwork Quilt Vs. Our \$75 Million Blanket.

A single policy of \$75 million over \$25 million in excess liability coverage is available today from the American Excess Insurance Association,* a facility comprised entirely of domestically admitted insurance companies. Within our policy you can avoid missing layers, inconsistent language, offshore captives or disputes among multiple carriers.

You enjoy the benefits of one claim manager, one underwriting facility, one policy of \$75 million beginning at \$25 million. You may choose \$50 million or \$25 million policies (also in excess of \$25 million) if they represent your top layer of coverage.*

The members of the American Excess Insurance Association (you may have heard us called the "American Slip") are among the nation's largest and strongest insurance institutions, with the capacity to bring stability, consistency and permanence to excess liability coverage. The association is qualified to do business in almost every state of the union.

Your premiums are tax deductible, and there's no added investment or "reserve premium" to lock you in. Our underwriting standards are designed to satisfy a broad spectrum of North American business.

If you're interested in the advantages of stable and uniform excess liability coverage, ask your broker or company agent to call this number: (203) 528-2155.



American Excess
Insurance Association

*Note: A few classes are restricted to \$50 million in excess of \$50 million.

Each member is severally and not jointly liable for its share, as specified in the policy, of any assumed risk. Terms and conditions of coverage are as stated in the policy.

Ætna Life & Casualty; American International Group; CNA Insurance Companies; Chubb Group of Insurance Companies; The Continental Corp.; Crum and Forster Insurance Organizations; General Star National Insurance Company, Subsidiary of General Re; The Home Insurance Company; Insurance Company of North America, a CIGNA company; Maryland Casualty Company; NAC Re Corp.; Royal Insurance Company of America, a member company of Royal Insurance group; The Travelers; Zurich-American Insurance Group. (Underwriting member companies: The Ætna Casualty and Surety Company; American Home Assurance Company; Continental Casualty Company; Federal Insurance Company; The Continental Insurance Company; United States Fire Insurance Company; General Star National Insurance Company; The Home Insurance Company; Insurance Company of North America; Maryland Casualty Company; NAC Reinsurance Corporation; Royal Insurance Company of America; The Travelers Indemnity Company; Zurich Insurance Company, U.S. Branch.)

ASK A CASUALTY ACTUARY

Attempting to fathom insurance futures

Q

What are insurance futures, how would they work and how would they impact the marketplace for insurance?

A

The Chicago Board of Trade has developed and presented proposals for an insurance futures contract. Proposals for two such types of contracts—one for health insurance and one for automobile collision coverage—have been filed with

the Commodity Futures Trading Commission in Washington, D.C. The CBOT has also developed two additional types of insurance futures contracts—one for homeowners physical damage coverage and one for commercial property insurance.

At this time, it is difficult to say exactly how the futures will work and what their impact will be. Many of the details about the proposed contracts are not yet available to the public or are still in the developmental stage. To try to answer your question, I will make a number of assumptions about how the contracts probably will work and will then discuss what impact such contracts would have on the marketplace. When the final details are out, there may be differences between the actual contracts and what I am describing. However, our purpose here is to gain a general working understanding of these types of contracts. As someone who has traded futures on a regular basis as a hobby and who is also a professional specializing in insurance, I can perhaps shed some light on what many view as a mysterious area.

Anyone who has traded futures will attest to the fact that the key primal emotions of fear and greed come powerfully into play in this area. How can such raw human emotions benefit or hamper the traditionally staid and conservative arena of insurance? There are many intriguing possibilities with far-ranging implications.

Futures contracts are not easy to understand, but they don't have to be overly difficult to comprehend, either. The best way I know of to grasp their operation is to work through some examples. Let's first work through Table 1. This table provides a hypothetical summary of the loss experience and trading prices of one group of insurance futures contracts. These contracts expire in October 1991 and relate to policies of automobile collision insurance. All the policies have six-month terms and were underwritten by several different companies. The first policies incept on Jan. 1, 1991, and the last on Jan. 31, 1991.

The first column of Table 1 provides an expected pattern of the emergence of incurred losses, based on past experience and various profitability and expense assumptions. The second column provides a history of the emergence of loss experience on this fixed group of policies.

During the first four months of 1991, the reported loss experience on these policies is worse than anticipated, but then it turns around and becomes more favorable than expected during June and on through until contract expiration in October 1991. After virtually all the claims are settled, actual incurred losses on these policies turn out to be \$65 million, generating "gross profitability" of \$35 million from an initial premium of \$100 million.

The CBOT uses "gross profitability" to refer to total premiums less losses "paid or payable." Expenses have not been deducted. Whether losses "paid or payable" refers only to reported incurred

losses or to total incurred losses—including incurred-but-not-reported losses—has not been made clear in the CBOT literature that I have reviewed. I personally do not like the term "gross profitability" because it implies that actual profits are somehow related. Given the typical magnitude of insurers' expenses, this can be quite misleading. For example, most insurers today that are losing money—even after full inclusion of investment income—would show a healthy-looking "gross profitability." On the other hand, the CBOT was probably wise in basing the price on something that excludes company expenses, especially since companies allocate expenses to lines of business in a wide variety of ways.

The purchaser of an insurance futures contract on these policies is buying the right to receive a portion of the "gross profitability" on these policies, as it stands at the end of October 1991. Each contract relates to \$100,000 of premium. If total premium is \$100 million, then each unit represents 0.1% of total premium. In this case, the holder of the contract would be entitled to a cash settlement of \$35,000 at the end of October. In a sense, the contract holder had bought a 0.1% share of the "gross profitability" of \$35 million.

What we see in the columns on the right side of Table 1 is that the trading price of the insurance futures will tend to be the sum of three components:

- The extent to which actual loss experience to date is more or less favorable than expected.
- The expected gross profitability of \$30,000.
- The number of months until expiration—times \$1,000.

Each of these components has been estimated by a simple formula in this table. In actuality, the forces of the marketplace will determine the trading price. I should add that there are more sophisticated

formulas for estimating the reasonable price of a futures contract at any given point than the simplistic ones shown here. Nevertheless, these simple formulas should give the reader a good feel for the key factors that drive the price of insurance futures.

In this example, we have assumed that the difference between actual and expected loss experience will drive movements in the price of the contracts. In actuality, anything that affects the expected gross profitability of the contracts will tend to affect the price, even if such developments have not yet begun to have an effect on the actual loss experience.

For example, expectations on near term rates of inflation in claims costs can shift quickly based on economic developments.

Initially, it was expected that the gross underwriting margin would be \$30 million, or 30%. How much would you be willing to pay for a 0.1% share of the gross profitability on these contracts? If you were making that decision in early January when the contracts first started trading, you might think that \$30,000 was a fair price. Assuming that trading on these contracts is similar to that of other futures contracts, however, you would find that they would tend to trade at about \$40,000 instead of \$30,000.

Why the high price? Normally, the number of interested buyers is larger in relation to the available supply of contracts. There are two groups of people who make up the bulk of these eager buyers: traders and speculators. Neither fit within the category of traditional investors. This is because a simple "buy-and-hold" strategy (i.e., keeping the contracts until expiration) will normally produce a significant loss. Some conservative investors might

Continued on next page

History of loss experience and trading prices October 1991 insurance futures contracts

Table 1

End of month (1991)	(1) Expected incurred losses (thousands)	(2) Actual incurred losses (thousands)	Components of trading prices			(6) Trading price of contract (3) + (4) + (5) (thousands)
			(3) Difference (1) - (2) (thousands)	(4) Expected gross profitability* (thousands)	(5) Months to expiration	
				\$30	10	\$40
January	\$3,000	\$5,000	-\$2,000	30	9	37
February	13,000	18,000	-5,000	30	8	33
March	25,000	33,000	-8,000	30	7	29
April	35,000	38,000	-3,000	30	6	33
May	45,000	45,000	0	30	5	35
June	55,000	53,000	2,000	30	4	36
July	60,000	58,000	2,000	30	3	35
August	65,000	60,000	5,000	30	2	37
September	68,000	65,000	3,000	30	1	34
October	70,000	65,000	5,000	30	0	35

Table 2

				\$30	10	\$40
January	\$3,000	\$2,000	\$1,000	30	9	40
February	13,000	9,000	4,000	30	8	42
March	25,000	23,000	2,000	30	7	39
April	35,000	34,000	1,000	30	6	37
May	45,000	47,000	-2,000	30	5	33
June	55,000	63,000	-8,000	30	4	26
July	60,000	75,000	-15,000	30	3	18
August	65,000	86,000	-21,000	30	2	11
September	68,000	94,000	-26,000	30	1	5
October	70,000	104,000	-34,000	30	0	-4

* Premiums of \$100,000 less expected incurred losses at the end of October 1991. Expenses have not been deducted.

Futures contracts

Continued from previous page

try a buy-and-hold strategy in the belief that insurance companies normally make large profits. If correct, this would imply that the contracts are most likely underpriced to begin with. To such investors, I can only say "good luck."

Traders buy futures contracts in the hope of making a quick profit. Since the price of futures tends to fluctuate dramatically, even on a daily basis, it is not irrational to believe that you might be able to make a quick profit. For example, on any given week—or sometimes day—in January, the value of the October 1991 contracts might fluctuate between \$38,000 and \$42,000. Those who are nimble enough to buy a contract at \$38,000 and sell it at \$42,000 can make \$4,000—less commission—very quickly. Essentially, greed is the trader's primary motivation. I can say this because I have been a trader at various times in the past. It is an area where there are, somewhat jokingly, only two types of players: the quick and the dead.

The second group of buyers are the speculators. Such people develop a belief that there will be a significant move in the price over the next so many months, so they take a position to profit from that perceived opportunity. If they foresee a significant rise in the gross profitability, they would buy the contracts. If a decline is foreseen, they might sell short such contracts. In other words, they would borrow the contracts from some holder and sell them to yet another party. Later, they would have to buy them back, hopefully at a lower price.

The presence of traders and speculators in the marketplace—and the fact that the degree of uncertainty in the ultimate value of the contract is heavily affected by the length of time until its expiration—causes nearly all futures contracts to trade at a significant premium over their expected value. In the example in Table 1, we have estimated the size of this premium as the number of months until expiration times \$1,000. Because of its size, the buyer of the initial contract who ends up holding it until expiration loses \$5,000, although actual claims experience was \$5,000 better than anticipated.

Typically, about 85% of the time, the buyer of a futures contract loses money. This should not be surprising because time is working against them and

in favor of those who sell the contracts. Why are people so eager to buy futures contracts when the odds are stacked against them? It's not unlike asking why people go to Las Vegas or Atlantic City or why they play the lottery. In those situations, the odds are clearly against them (often to a much greater extent) and yet there are always large numbers of willing participants. Nearly 3,000 years ago, King Solomon summed it up when he said, "He who gathers money little by little makes it grow" (Proverbs 13:11), "but the man who wants to get rich quick will quickly fail" (Proverbs 28:20). Has human nature really changed much since then?

I suspect that the advent of insurance futures will encourage insurers to underwrite more business that might otherwise be considered more risky and thus expand the availability of coverage. Once insurance futures become established, I would not be surprised to see the CBOT try to introduce separate contracts for various types of risks for which coverage is often not available. This would probably not occur to any great extent unless the contracts are expanded to include long-tail lines. In essence, the presence of such contracts would encourage insurers to underwrite undesirable business, pass the risk on to traders and speculators and typically turn a handsome profit for themselves.

Table 2 illustrates how insurance futures would limit the risk of companies that sell the contracts. For each contract the insurer sold for \$40,000 in January, it would end up with an additional \$4,000 on contract expiration because the loss experience was so unfavorable. This illustrates the almost unlimited risk assumed by those who buy insurance futures.

Insurance futures could easily serve an additional function that reinsurance contracts seldom perform today. By and large, reinsurance contracts are entered into before any of the subject policies incept. In contrast, most trades involving futures contracts will occur during the terms of the subject policies or after their expiration dates. For this reason, it would not surprise me if reinsurers responded to the introduction of insurance futures by expanding the availability of retroactive reinsurance contracts, which would in many ways serve as competing products for insurance futures.

Given the power to hedge against losses that is provided by the selling of insurance futures, one

might ask what incentives the insurers would have to keep claims costs in check. It should be remembered that the price of the contracts will depend on the experience of the group of companies. The issuing company still stands to directly benefit to the extent that it can keep its own losses down. To the extent that the issuing company's policies represent a high percentage of the entire pool of policies covered by the contract, its incentives decline. In the extreme case where there is only one issuing company, insurance futures would totally eliminate incentives to hold claims costs down. For this reason, the CBOT should assure that contracts are only issued when there are multiple companies participating.

If the introduction of insurance futures is successful, I would not be surprised to see them expanded to longer-tail lines. Most likely, "losses paid or payable" would be defined to exclude IBNR. It would only make sense to eliminate from the reported experience an item that is essentially the result of a management decision. ■

Would you like advice from an experienced colleague on a risk management, benefit management or actuarial problem? Four features in the Perspective section of Business Insurance can give you some answers.

Ask A Casualty Actuary, Ask A Benefit Actuary, Ask A Benefit Manager and Ask A Risk Manager answer written questions from readers on risk and benefit management issues and actuarial problems.



Mr. Sherman

This month's column on actuarial issues in the casualty field is written by Richard E. Sherman, a principal with Coopers & Lybrand in San Francisco. William J. Miner, an actuary with The Wyatt Co. in Chicago, answers actuarial questions in the benefits field. Susan M. Werner, director of risk management at Hardee's Food Systems Inc. in Rocky Mount, N.C., answers risk management questions.

Mr. Sherman's and Mr. Miner's columns appear alternately on the first Monday of each month. Ms. Werner's column appears alternately on the second Monday of each month. Mr. Sherman's next column will appear in January.

Address your questions to ASK, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please give us your name, title and employer; however, Business Insurance will consider unsigned letters.

Climatic changes to increase insurers' risks

By Hans R. Kaufmann

Speaking out

IN 1989, the insured worldwide damage from natural catastrophe losses totaled a record \$8.5 billion, and yet this negative record lasted barely three months. The European storms of early 1990—Hurricanes Daria, Herta, Viviane and Wibke, dubbed storms 90A, 90D and 90G in the London market—alone will cost the property/casualty insurance industry at least \$10 billion (*BI*, April 30).

This is alarming from the reinsurer's viewpoint, not only because of the enormous amount of loss involved, but because the traditional principle of spreading risks as widely as possible has been reversed. The damage caused by the European storms was assumed by about 1,000 insurers that, in turn, bought protection from about 100 reinsurers.

As a result, some two-thirds of the total loss is concentrated with reinsurers.

There is a significant body of scientific evidence indicating that last year's record insured losses from natural catastrophes was not a random occurrence. Instead, it may be the result of climatic changes that will enormously expand the liability of the

property/casualty industry.

Much has been written in both Europe and the United States about the theory that man-made causes, particularly the emission of greenhouse gases like carbon dioxide, are causing the acceleration of a gradual, long-term warming of global temperatures.

The scientific community is divided over the validity of this thesis. There are scientists with impressive credentials on both sides of this debate. However, in light of the magnitude of these losses, it would be prudent for the property/casualty industry to act as if this theory is correct. Failure to act would leave our industry and our policyholders vulnerable to truly disastrous consequences.

Data compiled worldwide by Swiss Re provides indisputable evidence that the number and extent of natural catastrophes have been greatly increasing since 1970. Part of the explanation for these staggering losses is unrelated to climatic changes. Over the last two decades there has been an increase in the density of settlement on both sides of the North American

and European continents, especially in potentially exposed regions like the Southeastern coast of the United States.

The growing settlement density is, however, no explanation for the higher frequency of wind and hail storms clearly evident in recent years, nor for their increasing vehemence. A plausible explanation is that this is an initial consequence of climatic change.

In 1988, Europe experienced its warmest year since the introduction of regular weather records about 130 years ago. Since 1987, we have experienced in succession three of the mildest recorded winters of the last seven centuries.

More heat means greater energy in the atmosphere and larger clouds. Warm air absorbs more moisture, causing an increase in the number of violent storms and more periods of intense rainfall. As a result, the insurance industry experiences more frequent and severe weather damage.

Research meteorologists are in no doubt that this climatic change has already begun. In the last 150 years, the average global temperature has risen by 0.6 to 0.7 degrees Celsius. Certain consequences of this already are evident.

In the Pacific Ocean, for example,

the size of the area where the sea temperature exceeds 26 degrees Celsius (78.8 degrees Fahrenheit) has grown by more than 15%. This climatic change increases the likelihood of tropical cyclones.

The future implications of climatic change are likewise unclear. Many climatic researchers believe that the average global temperature will increase by 0.5 to 5 degrees Celsius over the next two decades. This means that in the foreseeable future the climate will be warmer than it has been for many millions of years. Moreover, the increase in the "average global temperature" means that there might be increases in local extremes, particularly in the northern latitudes.

If this is so, the implications for many parts of the world would be devastating. Entire countries like Bangladesh would be threatened. The danger of storm floods along the European Atlantic coast would be drastically increased.

Should the number and intensity of storms continue to rise, the insurance risk will no longer grow as a linear function of the concentration of values over distinct periods, leaving plenty of time for reaction. Instead, risks will multiply exponentially and with

Continued on page 70

Bad Things Do Happen!



Bad things do happen...dogs bite, bees sting, things go boom in the night! Casualty underwriters have always had to "expect the unexpected." But in this crazy mixed up world, there seems to be a contest to invent new theories of liability and juries continue to one-up each other with their lottery-size awards. The "rules of the game" are a moving target and the stakes are constantly changing.

In such an environment, placing casualty business can be a risky proposition. Not only do you face the formidable task of finding an underwriter who truly understands the risk being transferred but you must find one that is comfortable with the constant change.

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Catastrophes

Continued from page 68

gathering speed. The statistics of the past three years already would make this development alarmingly clear.

As far as the insurance industry is concerned, this development calls for immediate action. First and foremost, we must address the problems caused by inadequate insurance premiums for perils of nature risks. These were particularly eroded by tougher competition in the 1980s and have to be adjusted to take into account new developments.

In addition, insurance deductibles must be reviewed in light of weather damage, adjusted to match

policyholders' economic capacity and really implemented in the event of a catastrophe.

Experience with the 1990 European storms has shown that it is extremely difficult to examine tens of thousands of small claims speedily and objectively, decline unjustified claims and settle justified ones without delay.

Today's standard method of relative risk sharing between insurer and reinsurer by means of a catastrophic excess-of-loss treaty has to be reconsidered so that the risk is better distributed by the two partners. In order to achieve a certain congruence in the sharing of the loss burden and an improved identity of interest, higher retentions and a coinsurance

participation in the reinsurance are an important goal.

The premium for catastrophe reinsurance will have to be greatly increased and the structure changed in relation to the extent of cover and premium calculation method. In addition, the method of risk cession, including natural perils exposure in the case of proportional property reinsurance treaties, must also be reviewed, together with the pricing of such treaties.

If the feared climatic change is confirmed, it will obviously stretch the insurance industry to its limits. Extending those limits will require the equitable distribution of added burdens between policyholders,

insurers and reinsurers, based on their relative financial strength.

This burden sharing must go beyond the concept of the solidarity of the risk community on which insurance is originally based. We must marshal all our talents for innovation to develop new cover concepts and methods that can be immediately put into effect. ■



Hans R. Kaufmann is general manager of reinsurance for the Swiss Reinsurance Co. in Zurich, Switzerland.

Fronting oversight proposed

NAIC model act may put fronting arrangements at risk

By Robert M. Hunt

THE NATIONAL Assn. of Insurance Commissioners recently began drafting a model act that may create restrictions on various fronting arrangements. The model act considers fronting arrangements by—among other criteria—the percentage of risk assumed by the unlicensed insurer.

Ostensibly, this act is being developed to protect policyholders and to provide a degree of regulatory supervision for an area that is perceived as having an egregious effect on the risk and insurance industry.

As is often the case, discussions of fronting are quite often misconstrued and may fail to draw several distinctions which, if not analyzed from the proper perspective, will quite often lead to responses that may be ill-advised.

Putting aside any questions of the tax deductibility of premium, a clear distinction must be drawn between those fronting arrangements that are meant to provide a type of insurance by spreading risk among a variety of participants and those fronting programs that present a focal point for the financing and retention of risk for the larger commercial entity.

In very essential ways, the characteristics common to fronting arrangements for association captives are very different from those areas addressed by the

An otherwise intelligently conceived captive program may be compromised by the insolvency of an admitted and presumably more regulated front insurer.

risk financing mechanism utilized by the pure parent.

While one vehicle is used to provide insurance (quite often for a very difficult class of risk), the latter vehicle is used to both formalize and create efficiencies within the overall self-insurance concept.

Therefore, while the concept of "policyholder" may have some bearing on the association captive and risk retention group, it is completely inappropriate in understanding the captive self-insured model.

In the properly constructed fronting arrangements for captive self-insurance, security is always the paramount issue.

Usage of letters of credit, security trust agreements and funds withholding agreements will create actual attachable funds that may be, in fact, a superior arrangement to admitted reinsurance since the funds will invariably be backed by a

Federal Reserve member bank.

This is true regardless of what portion of the premium is ceded. In a pure front program, something approaching or even exceeding 100% of potential liabilities may be collateralized by a letter of credit drawn on a Federal Reserve member bank.

Is this surplus inferior when compared to an unsecured recoverable from a marginally capitalized admitted insurer? Does it then matter if 50% or 100% of the premium has been ceded?

There have been, of course, those captive plans that were terminated not because of captive insolvency through either underwriting operations or cash management, but for insolvency caused by reinsurance assumed into the captive proceeding from an insolvent front, as in the case of Mission Insurance Co.

In this case, the typical perceived fear of an insolvent captive bringing down a solvent admitted insurer is inverted.

An otherwise intelligently conceived captive program may then be compromised by the insolvency of an admitted and presumably more regulated front insurer.

If anything, the situation would suggest that effective regulation (including the regulators' analysis of IBNR reserves) addressing the solvency of admitted facilities and corresponding quality of reinsurance ceded would be much more appropriate than an attempt to regulate fronting arrangements per se.

In other words, regulation directed at the fronting insurer's estimate of case reserves plus IBNR and the corresponding quality of security, such as letters of credit for these obligations, must necessarily create an adequate degree of regulation for the fronting arrangement if the regulatory process is competent.

A careful analysis must be made as to the exact distinction between captive insurance and reinsurance arrangements and those of general agency relationships between two commercial insurers.

Again, in this instance a critical distinction can be drawn between a reinsurance arrangement involving two commercial insurers and is designed to provide pure capacity on one side of the equation and servicing on the other and those reinsurance arrangements of the pure captive type which are, of course, built on the unbundled service components underlying the funding and control of the parent risk.

In a typical pure parent captive arrangement (particularly where a statutory coverage like workers compensation is being provided), the arrangement will hinge on service elements that are, above all, acceptable to the fronting insurer.

These will include the following:

- Establishment of an adequate claims escrow fund.

- Acceptable third-party administration.
- Acceptable security from Federal Reserve member banks.
- Adequate loss control provided either internally or through vendors.

In relation to each of these areas, the fronting insurer will maintain an audit function which will, in most cases, actually improve the quality of service through the inherent accountability built into the program and the loss-responsive economics

Competent and effective regulation of admitted insurer solvency will... provide adequate oversight of any policy issuance or front-line activities in which the insurer may be involved.

reflected in the funding of actual loss on a paid basis.

While the considerations in the pure captive formation will always include enhanced program control, the same cannot be said for purely commercial ventures designed to provide capacity for a particular market need.

It's important to note that fronting, insofar as it encompasses both commercial reinsurance arrangements and captive self-insurance programs, is often mistakenly considered an undifferentiated arrangement.

If fronting is to be considered subject to any effective regulation, it must be differentiated by at least two critical conceptual approaches:

- Insurance provided to policyholders.
- Risk financing for the self-insured.

Unless detailed and precise analysis is done in regard to the many components of each of these contrasting concepts, a blanket approach to the regulation of fronting will result only in the unnecessary restriction of an extremely valuable risk-financing vehicle for large commercial enterprises.

A blanket approach would also possibly result in inadequate protection of policyholders that may be victimized by strictly commercial insurance ventures built on unadmitted capacity.

Competent and effective regulation of admitted insurer solvency will necessarily provide adequate oversight of any policy issuance or front-line activities in which the insurer may be involved. However, this requires a precise understanding of the various and distinct characteristics of fronting. ■

Robert M. Hunt is a principal with R.M. Hunt & Associates Inc., a risk management consultant in Burlingame, Calif., specializing in risk financing.

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P.O. Box 2928, 2831 Ringling Blvd.,
Sarasota, Fla. 34230-9998;
813-954-0308; fax: 813-366-1076

	1989	1988
Premium volume...	NA	NA
% Treaty...	50%	NA
% Facultative...	50%	NA
Gross revenues...	NA	NA
Total employees...	5	NA

Year founded: Activated in 1989.

Specialties: Self-insured workers compensation and health.

Conducts business in: Florida.
Principal officers: Robert F. Kallio and Gerald L. Shivener.

Sickler Reinsurance Inc.

8383 Craig St., Suite 320,
Indianapolis, Ind. 46250;
317-577-2077; fax: 317-577-2030

	1989	1988
Premium volume...	\$3,227,087	\$3,155,810
% Treaty...	96.2%	95.6%
% Facultative...	3.8%	3.4%
Gross revenues...	\$283,686	\$1,188
Total employees...	4	4
Treaty...	3	3
Facultative...	1	1

Year founded: 1971.

Specialties: Fire, farm and homeowners, personal liability for farm owners.

Conducts business in: Iowa, Illinois, Indiana, Kentucky, Maryland, Michigan, North Dakota, Pennsylvania, South Carolina, South Dakota and Wyoming.

Principal officers: Francis E. Sickler, president/chief executive officer; Douglas B. Butler, vp.
Contact: Francis E. Sickler.

Smyth, Sanford & Gerard Reinsurance Intermediaries Inc.

135 William St., New York, N.Y.
10038; 212-374-1323;
fax: 212-693-0722

	1989	1988
Premium volume...	\$22,000,000	\$20,000,000
% Treaty...	40%	40%
% Facultative...	60%	60%
Gross revenues...	NA	NA
Total employees...	15	15
Treaty...	8	8
Facultative...	7	7

Year founded: 1913.

Branch offices: Coral Gables, Fla.

Specialties: Property, casualty, marine, accident and health, international, machinery breakdown, bloodstock.

Licensed reinsurance intermediary in: New York.

Principal officers: Robert L. Sanford, chairman; Douglas L. King, president.

Specialty Intermediaries Inc.

2643 Old Bridge Road, Manasquan, N.J. 08736; 201-223-1400;
fax: 201-223-4676

	1989	1988
Premium volume...	\$6,200,000	NA
% Treaty...	99%	NA
% Facultative...	1%	NA
Gross revenues...	\$213,000	NA
Total employees...	2	NA
Treaty...	1	NA
Facultative...	1	NA

Year founded: 1988.

Licensed reinsurance intermediary in: New York.

Conducts business in: New Jersey, New York, Florida and Texas.

Principal officers: Anthony J. Verducci, president.

Sterling Universal Ltd.

4 King St. W., Toronto, Ontario M5H 1B6; 416-364-7231; fax:
416-364-6826

	1989	1988
Premium volume...	\$200,000,000	\$190,000,000
% Treaty...	96%	95%
% Facultative...	4%	5%
Gross revenues...	\$10,500,000	\$10,000,000
Total employees...	84	84
Treaty...	80	80
Facultative...	4	4

Year founded: 1940.

Parent company: Alexander & Alexander Services Inc.

Branch offices: Montreal.

Licensed reinsurance intermediary: Ontario, Quebec and New York.

Conducts business in: Most states and Puerto Rico.

Principal officers: R. Willemssen, chairman; B. Sorensen, president; R. Meurer, executive vp; G. Crutcher, P. Mittertreiner, M. Thorn, D. Warren, M. Mulville and J. Holmes, senior vps.

Contact: R. Willemssen.
Membership: National Assn. of Reinsurance Brokers.

G.J. Sullivan

Co.—Reinsurance
800 W. 6th St., Los Angeles, Calif.
90017; 213-626-1000; fax:
213-622-5921

	1989	1988
Premium volume...	\$207,000,000	\$218,000,000
% Treaty...	99%	99%
% Facultative...	1%	1%
Gross revenues...	\$12,700,000	\$11,500,000
Total employees...	32	26
Treaty...	29	23
Facultative...	3	3

Year founded: 1980.

Parent company: Gerald J. Sullivan & Associates Inc.

Branch offices: New York.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states.

Principal officers: Gerald J. Sullivan, chief executive officer; John F. Sullivan Jr., president; R. Daniel DePalma, Suzanne Alaway, Julius Friedman, Paul G. Wayne, senior vps; Mark J. Ruggles, vp/treasurer; Theodore A. Verspyck, Eric R. Van Elkan, John H. Howard, George P. Biagiotti, Greg Perzell, Jeffrey F. Koenig, vps; Steven V. Moccandine, Julie L. Drobner, assistant vps; John R. Bigelow, secretary.

Contact: John F. Sullivan Jr.

Sullivan Payne Co.

1501 Fourth Ave., Seattle, Wash.
98101; 206-223-1200;
fax: 206-625-6926

	1989	1988
Premium volume...	NA	NA
% Treaty...	90%	90%
% Facultative...	10%	10%
Gross revenues...	\$50,000,000	\$52,000,000
Total employees...	410	430
Treaty...	340	355
Facultative...	70	75

* BI estimate.

Year founded: 1928.

Parent company: Sedgwick Group P.L.C.

Branch offices: Chicago; Dallas; Los Angeles; New York; Philadelphia; Toronto; Vancouver, British Columbia.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states.

Principal officers: Roger Espe, president/chief executive officer; Bob Holmes, executive vp/president-Sullivan Payne Co. of Canada; Tom Hopkinson, executive vp-Sullivan Payne Co. of Canada; Vic Arneill, senior vp-Sullivan Payne Co. of Canada; Michael Wybar and Brian Smith, executive vps; Lewis Hale, senior vp/chief operating officer; Rick Richman, senior vp/chief financial officer;

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Setting the Pace for Treaty and Facultative Reinsurance

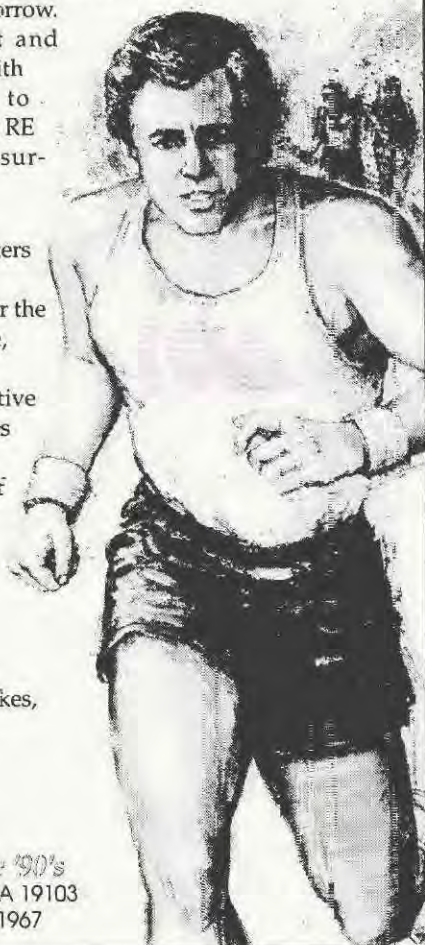
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Jim Grieser, senior vp-facultative; John Jolly, Taylor Collings, Barbara Buffkin, Jeffrey Sirr, Len Bar-kinge, Tom Rogers, Dan Malloy Jr., Jed Rhoads and Bruce Catherwood, senior vps.

Contact: Roger Espe, One Liberty Place, Suite 300, 1650 Market St., Philadelphia, Pa. 19103; 215-564-6060.

T

T.H.B. Intermediaries Inc.

3333 Wilshire Blvd., Suite 711, Los Angeles, Calif. 90010; 213-388-6630; fax: 213-388-9117

	1989	1988
Premium volume...	\$21,356,522	\$19,658,023
% Facultative...	100%	100%
Gross revenues...	\$1,628,288	\$1,444,276
Total employees...	27	19
Facultative...	27	19

Year founded: 1984.

Parent company: Thompson Heath & Bond (Holdings) Ltd.

Branch offices: New York and Chicago.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states.

Principal officers: Victor H. Thompson, chairman; George R. Jacobbe, president; James Van Slyke, director-facultative reinsurance; Richard DiClemente, vp/branch manager-New York office; William Ullmann, vp/branch manager-Chicago office; Larry Parks, vp/branch manager-Los Angeles office.

TPF&C Reinsurance

11 Penn Center, 1835 Market St., Philadelphia, Pa. 19103-2965; 215-963-7700; fax: 215-963-7873

	1989	1988
Premium volume...	\$600,000,000	\$586,000,000
% Treaty...	80%	78%
% Facultative...	20	22%
Gross revenues...	\$30,000,000	\$35,000,000
Total employees...	254	281
Treaty...	209	219
Facultative...	45	62

Year founded: 1934.

Parent company: Towers, Perrin, Forster & Crosby Inc.

Branch offices: San Francisco; Stamford and Hartford, Conn.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states.

Principal officers: Philip W. Mitchell, managing director/chief executive officer; Christopher T. Brockett, Patrick J. McFadden, Edwin W. Reynolds and Jacobus Van de Graaf, William Ray, senior vps.

Tanenbaum-Harber Reinsurance Intermediaries

320 W. 57th St., New York, N.Y. 10019; 212-603-0362; fax: 212-582-6256

	1989	1988
Premium volume...	\$15,000,000	\$8,500,000
% Treaty...	95%	95%
% Facultative...	5%	5%
Gross revenues...	NA	NA
Total employees...	6	6
Treaty...	6	6

Year founded: 1986.

Specialties: Property, casualty, life, health.

Principal officers: Robert K. Harris, chairman; Walter L. Harris, president; Ronnie Ellen Raymond, executive vp.

Contact: Ronnie Ellen Raymond.

Totsch Enterprises Inc.

8303 W. Higgins Road, Suite 500, Chicago, Ill. 60631; 312-380-8040; fax: 312-380-8054

	1989	1988
Premium volume...	NA	NA
% Treaty...	97.5%	97.5%
% Facultative...	2.5%	2.3%
Gross revenues...	NA	NA
Total employees...	5	5
Treaty...	4	4
Facultative...	1	1

Year founded: 1978.

Specialties: Property.

Conducts business in: United States and Canada.

Principal officers: Marvin D. Totsch, president; Mary Ellen Totsch, secretary/treasurer; Robert L. Totsch and William E. Totsch, vps.

Tretis Group Inc.

1 Sansome St., 15th Floor, San Francisco, Calif. 94104; 415-421-3555; fax: 415-397-4230

	1989	1988
Premium volume...	\$78,600,000	\$57,200,000
% Treaty...	100%	100%
Gross revenues...	\$3,000,000	\$2,800,000
Total employees...	26	25
Treaty...	26	25

Year founded: 1986.

Specialties: Property, casualty, finite financial risks.

Licensed reinsurance intermediary in: New York.

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Continued from previous page

Conducts business in: All states.

Principal officers: Robert N. Tremelling II, president; William A. Klepp and John M. Peeke-Vout, directors.

U

U.S. Re Corp.

5 Hanover Square, New York, N.Y. 10004; 212-747-1100; fax: 212-747-1109

	1989	1988
Premium volume...	NA	NA
Gross revenues...	NA	NA
Total employees...	10	9

Year founded: 1987.

Parent company: Electra Investment Trust P.L.C., Noble Grossart Investments Ltd., Octavianian Securities Ltd., Gartmore Investment Ltd. and principals of the company.

Branch offices: Atlanta.

Subsidiaries: Hannover Management Services Inc.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states.

Principal officers: Tal P. Piccione, president/chief executive officer; Joseph M. Fedor, executive vp; John M. Kwaak and Richard D. Wallace, senior vps; Richard Davies and Brian R. McGuire, vps.

Contact: Richard Davies.

V

D.W. Van Dyke & Co. of Connecticut Inc.

95 Rowayton Ave., Rowayton, Conn. 06853; 203-855-0499; fax: 203-852-6776

	1989	1988
Premium volume...	\$200,000,000	\$150,000,000
% Treaty...	95%	95%
% Facultative...	5%	5%
Gross revenues...	NA	NA
Total employees...	6	4
Treaty...	5	3
Facultative...	1	1

Year founded: 1978.

Specialties: Life, accident, health, financial reinsurance.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states and abroad.

Principal officers: Donald W. Van Dyke II, chief executive officer/chairman; Donald K. Drelich, president; Robert A. Welke, vp; Lauren Kennedy, vp/comptroller.

Contact: Lauren Kennedy.

W

Willcox Inc.

130 John St., New York, N.Y. 10038; 212-952-0650; fax: 212-952-0295

	1989	1988
Premium volume...	NA	NA
% Treaty...	99%	98%
% Facultative...	1%	2%
Gross revenues*	\$33,500,000	\$39,200,000
Total employees...	199	188
Treaty...	197	184
Facultative...	2	4

* BI estimates.

Year founded: 1894.

Parent company: Johnson & Higgins.

Branch offices: Los Angeles, San Francisco, Philadelphia, London.

Subsidiaries: Willcox Intermediaries Ltd., England.

Specialties: International, marine, aviation, property, casualty, financial, life, accident and health.

Licensed reinsurance intermediary in: New York.

Conducts business in: All states.

Principal officers: Willis King, chairman/chief executive officer; Robert O'Leary, president/chief operating officer; Peter Armour and Thomas Hancock, executive vps; Edwin Barber, David Christie, Charles Griffin, George Reeth, John Reinman, Timothy Rivers and Emmett Henry, senior vps.

Willis Faber (Bermuda) Ltd.

P.O. Box HM 1995, Hamilton HM HX, Bermuda; 809-295-3063; fax: 809-295-4143

	1989	1988
Premium volume...	NA	NA
% Facultative...	100%	100%
Gross revenues...	NA	NA
Total employees...	NA	NA

Year founded: 1983.

Parent company: Willis Faber International Ltd.

Specialties: International programs.

Principal officers: R.C. Golden, president/chief executive officer; M. Dobbie, senior vp; M.G. Randall, vp.

Continued on next page



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LINCOLN NATIONAL CORPORATION

Continued from previous page

John P. Woods Co. Inc.

90 William St., New York, N.Y.
10036; 212-785-2500;
fax: 212-269-4138

	1989	1988
Premium volume	\$400,000,000	\$380,000,000
% Treaty	100%	100%
Gross revenues	\$15,500,000	\$14,300,000
Total employees	50	48
Treaty	50	48

Year founded: 1978.**Subsidiaries:** Empire Treaty Corp., New York.**Licensed reinsurance intermediary in:** New York.**Conducts business in:** All states and Puerto Rico.

Principal officers: John P. Woods, Josephine A. Hoey, Charles M. Wade, Thomas J. Tartaro, John M. Rider, John P. Woods III, Matthew C. Albanese, Francis T. Donohue and Charles M. Donohue.

	1989	1988
Premium volume	\$29,000,000	\$29,418,500
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	5	5
Treaty	5	5

Year founded: 1979.**Specialties:** Ocean marine energy risks.**Licensed reinsurance intermediary in:** New York.**Conducts business in:** New York.**Principal officers:** H.E. Yerkes, president; Ann Kaplan, vp.**Contact:** Ann Kaplan.**H.E. Yerkes & Associates Inc.**

127 John St., New York, N.Y.
10038; 212-344-1707;
fax: 212-422-8473

George G. Zimmerman & Co. Inc.

Jockey Hollow Professional Park,
P.O. Box 372, Mendham, N.J.
07945; 201-543-3250;
fax: 201-543-2947

	1989	1988
Premium volume	\$160,000,000	\$109,000,000
% Treaty	90%	98%
% Facultative	10%	2%
Gross revenues	\$8,900,000	\$4,500,000
Total employees	32	18
Treaty	32	18

Year founded: 1980.**Branch offices:** Upland, Calif.**Subsidiaries:** U.S. Cap Insurance Co. Ltd., Tortola, British Virgin Islands.**Specialties:** Accident, health, workers compensation, student accident risks, college and professional athletes, performers, nursing and home health care.**Licensed reinsurance intermediary in:** New York.

Principal officers: George G. Zimmerman, chairman/president; Eugene J. Schiller, executive vp; Charles J. Sharkey, executive vp-operations; Edward A. Dipple, secretary; Thomas D. Kinney, vp/controller.

Reinsurance brokerages arranged by state, city

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Birmingham
Re/Insurance Brokers Inc.

Arizona

Scottsdale
Saturn Intermediaries Ltd.

California

Burlingame
Enan & Co.
Canoga Park
Preferred Reinsurance Intermediaries Inc.
Century City
FSA Financial Services (LRO Intermediaries)
Concord
JBW & Co. Inc.
Los Altos
Harrison & Co.
Los Angeles
Crump Re Inc.
Guy Carpenter & Co. Inc.
G.L. Hodson & Son Inc.
J.L. Kelley West Inc.
Madison Intermediaries Inc.
RFC Intermediaries Inc.
Gerald J. Sullivan Co. Reinsurance
Sullivan Payne Co.
T.H.B. Intermediaries Inc.
Willcox Inc.
Pasadena
American Intermediaries Inc.
San Francisco
AM-RE Brokers Inc.
American Healthcare
Crump Re Inc.
Intermediaries Inc.
Aon Reinsurance Agency Inc.
E.W. Blanch Co.
Guy Carpenter & Co. Inc.
Cravens & Co. Inc.
Thomas A. Greene & Co. Inc.
G.L. Hodson & Son Inc.
Intere Intermediaries Inc.
TPF&C Reinsurance
Tretis Group Inc.
Willcox Inc.
San Mateo
RFC Intermediaries Inc.
Studio City
LRO Intermediaries
Upland
George G. Zimmerman & Co. Inc.

Connecticut

Hartford
E.W. Blanch Co.
Guy Carpenter & Co. Inc.
Crump Re Inc.
RFC Intermediaries Inc.
TPF&C Reinsurance
Rowayton
D.W. Van Dyke & Co. Inc.
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Pegasus Advisors Inc.
Stamford
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Peglar & Associates Inc.
TPF&C Reinsurance
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Atrium Corp.
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Continued on page 78



Gerald D. Stephens, CPCU
President & CEO, RLI Corp.

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The **World Insurance Congress** will provide a unique forum for all members of the insurance, reinsurance and risk management communities.

The Congress will enable attendees to:

- meet top insurance and reinsurance executives from all over the world;
- attend plenary sessions dealing with subjects of global interest;
- participate in special breakout sessions;
- exhibit their products and services.

The insurance industry, at a time of many changes, is also facing many challenges. The Congress will provide a timely opportunity for top industry professionals to meet and discuss the future of the global insurance market.

Morning plenary sessions will focus on issues of concern throughout the industry. Afternoon breakout sessions will focus on more specialized subjects.

Under the title of 'Restructuring For Opportunity,' a host of internationally recognized experts will address the following issues:

Plenary Sessions

- **The Distribution System**
 - Brokering Insurance Worldwide
 - Captive Insurers: Their Role in the Marketplace
 - Private Insurers: Their Role in the Marketplace
- **Coping With Catastrophes**
 - Assessing the Risk
 - Following a Catastrophe...
 - The Broker's Role
 - The Insurer's Role
 - The Reinsurer's Role
 - The Banker's Role
 - A Policyholder's Response
- **Global Restructuring of Insurance Markets**
 - An American Viewpoint
 - A European Viewpoint
 - A Japanese Viewpoint
 - The Eastern Bloc
 - Rethinking Risk Management

Breakout Sessions

- Banking and Insurance
- Professional Liability
- Financial Reinsurance
- Global Insurance Programs
- Claims Handling Following a Disaster
- The LMX Market
- Toxic Torts and Product Liability
- Insurance Regulation Worldwide
- The Green Movement
- EC Directives

Restructuring For Opportunity

July 1-3, 1991

Queen Elizabeth II Conference Centre
London

Speakers

The 1991 **World Insurance Congress** will be opened by the Lord Mayor of London. The keynote address to this exceptional event will be given by David Coleridge, Chairman, Sturge Holdings PLC.

Included on the program are:

- J. E. Adams, Emeritus Professor
Queen Mary & Westfield College,
University of London
Director of Training, Titmuss, Sainer & Webb
- Mark Burbidge, Managing Director
Robert Fraser Insurance Brokers Ltd.
- John J. Carey, Chairman & CEO
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- Peter Christie, Vice Chairman
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- William Zeller, Member of the Board
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Exhibition

As an integral part of the conference, a comprehensive exhibition is planned. Insurance and reinsurance companies, brokerages, automation firms and other industry service providers are invited to exhibit their products and services. Exhibit space is limited.

Delegates will have access to the exhibition during planned hours.

Spouse/Guest Program (Optional)

Complementing this event, an attractive spouse/guest program has been arranged:

- A visit to Blenheim Palace — birthplace of Sir Winston Churchill; champagne reception, luncheon, transportation.
- A Polo Day at Windsor Great Park — watch the 'sport of kings'; champagne reception, luncheon, souvenir program, transportation.
- The Gala Casino Ball — dining and entertainment, including a fun casino.

Post Conference Program (Optional)

After the Congress, spend a day relaxing at the Henley Royal Regatta enjoying a boat trip, champagne lunch and traditional Strawberry Tea.

Hotels

Sponsors of the Congress have reserved blocks of guest rooms, at reduced rates, at a number of London hotels. These will be available to registrants of the Congress. A full list of hotels along with rates and reservation details will be provided along with confirmation of delegate registration.

Registration

For further details on the World Insurance Congress, the exhibition, or to register, contact:

Jan Marshall
Conference Department
Lloyd's of London Press
One Singer Street
London EC2A 4LQ
England

Phone: 071-250-1500
Fax: 071-253-9907
Telex: 987321 LLOYDS G

Barbara Dalton
Communication Services Dept.
Business Insurance
220 East 42nd Street
New York, NY 10017
USA

Phone: 212-210-0299
Fax: 212-210-0704
Telex: CRAIN COM NYK

Registration Fees

All delegate fees include conference materials, access to the exhibition, continental breakfasts, luncheons and a gala Casino Ball on the final evening of the Congress.

Early Bird Fee

— payment received prior to March 1, 1991
£ 550* each delegate

Regular Fee

— payment received after March 1, 1991
£ 650* first delegate from a company
£ 585* each add'l delegate, same company

Full Spouse/Guest Program Fee

£ 275* covering all events

Spouse/Guest Casino Ball Ticket Only

£ 95* (only for spouse/guest of delegate)

Exhibitor Fee

£ 2,000* per exhibit, incl. one registration

Post Conference Program

£ 150* per person

* NOTE: Under UK excise regulations, delegates are required to pay 15% VAT on all courses and related functions taking place in the UK.

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All UK Sterling checks must be drawn on a United Kingdom bank. Make checks payable to Lloyd's of London Press Ltd.

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Prior to June 14, 1991 a 20% administrative fee will apply to all cancellations received. No refunds will be made for cancellations received after June 14. Substitutions may be made at any time.

WIC
World Insurance Congress

Registration Form

☐ **YES**, please register me for the World Insurance Congress, July 1-3, 1991, to be held at the Queen Elizabeth II Conference Centre, London.

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Continued from page 75

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NSWMA

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	Guy Carpenter y Cia. (Mexico) S.A. de C.V. Intermediario De Reaseguros (Guy Carpenter & Co. Inc.)

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Johannesburg	PWS Holdings P.L.C.
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Madrid	Guy Carpenter & Cia. S.A. Correduria de Reaseguros (Guy Carpenter & Co. Inc.)
Sweden	
Stockholm	Guy Carpenter & Co. (Stockholm) A.B.
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Tortola	U.S. Cap Insurance Co. Ltd. (George G. Zimmerman & Co. Inc.) ■

Captives face some challenges to growth

By DOUGLAS McLEOD

NEW YORK—Captives have risen from modest beginnings, but face challenges on several fronts if they are to flourish in the future, one expert says.

At a conference held in 1962, insurance brokers showed "almost universal aversion" to the ideas outlined by captive pioneer Frederick M. Reiss, recalls H. Felix Kloman, principal with New York-based consultant Tillinghast, a division of Towers, Perrin, Forster & Crosby Inc.

Since then, captives have become an accepted part of companies' risk management and risk financing plans, Mr. Kloman said at the First World Captive Forum held last month in New York. The three-day conference was co-sponsored by



Tillinghast along with captive manager SINSER of Stockholm, Sweden, and New York-based reinsurer Skandia America Corp.

Captives have grown by focusing on five key goals, which he described as "Captives in C-Minor":

- Cost savings.
- Coverage: providing broader coverage terms and conditions than traditional market offerings.
- Cash flow: retaining premiums that otherwise would be paid to insurance companies, along with the investment earnings on those premiums.
- Capacity: filling holes in commercial insurance programs.
- Control: focusing the attention of parent companies and operating units on risk control and providing a viable risk financing alternative to traditional insurance.

This isn't to say captives haven't had their problems, Mr. Kloman noted. Limited capitalization, for example, led some captives to rely too much on the reinsurance market for capacity or limited their ability to bear risk, he said.

Nevertheless, some captives have been spectacularly successful, he added, citing the "bedpan mutuals" or hospital group captives set up in response to the medical malpractice insurance crisis of the mid-1970s.

The bedpan mutuals have grown to write about 70% of the \$4.3 billion in annual U.S. medical malpractice insurance premiums, Mr. Kloman said.

"They are surviving. They have proven their ability to create financial stability in a world of instability," he said.

Mr. Kloman also cited "private insurers," like A.C.E. Insurance Co. Ltd. and X.L. Insurance Co. Ltd., as captive success stories.

Like the bedpan mutuals, these insurers are self-managed and have the strong commitment of their corporate owners. Adding to their stability, he said, is their high capitalization and complete lack of reliance on reinsurers for financial support.

If captives are to prosper, they must overcome several ongoing challenges, which Mr. Kloman de-

Continued on next page

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Challenges

Continued from previous page
scribed as "Captives in C-Major":

- **Coordination.** Captive insurers should serve as coordinators of their parent companies' and affiliates' internal risk assessment and risk control efforts.

For example, captives could provide their parents' operating units with low interest loans to install sprinkler systems and other loss control measures, Mr. Kloman said.

- **Communication.** Mr. Kloman painted a picture of a single-parent captive as a mutual insurer, with the parent's operating units as the mutual's policyholders. Running the captive this way should improve communication between the captive insurer and the operating subsidiaries of the parent, he suggested.

The challenge is even greater for a parent company with captives in more than one domicile, Mr. Kloman added.

- **Contrary thinking.** Captives should grow in opposition to commercial insurance markets, financing less predictable risks and unusual risks commercial insurers aren't willing to write, like currency or interest rate risks or product warranty exposures, said Mr. Kloman.

Captives should also assist in the decentralization of risk management, allowing local managers more autonomy in risk control and financing decisions, according to Mr. Kloman.

- **Competence.** Captive insurers should be formed with enough cap-

ital to insulate their parents from commercial market cycles by providing capacity when it is needed most.

In addition, companies' financial management must be convinced not to hold captives to return-on-investment goals that could destabilize growth and risk financing activities, Mr. Kloman said. Captive underwriting operations must be prudent and conservative, he said.

- **Continuity.** A captive must support the strategic goal of its parent company to buffer shocks from the commercial insurance market cycle.

"It's got to become a long-term risk financing vehicle," Mr. Kloman said.

Mark W. Hinkley, senior vp with Skandia America Corp. in New York, also sought to dispel several myths in the insurance marketplace, among them that "big is beautiful" and that only the largest companies will be able to serve their clients well in the future.

"Consolidation is a trend that is obvious to all of us," Mr. Hinkley observed, referring to the recent spate of mergers and acquisitions among insurers, reinsurers and brokers.

However, he said, "big is not beautiful. Big is big."

Entrepreneurs can still operate smaller, narrowly focused companies that are more efficient and can provide better service than the behemoths, he suggested.

"Captives worldwide represent the most entrepreneurial challenge to the industry," Mr. Hinkley pointed out.

'Big is not beautiful. Big is big,' said Mark W. Hinkley of Skandia America Corp.

Captive tax treatment can vary

By DOUGLAS MCLEOD

NEW YORK—Owners of captive insurers may be able to take advantage of tax discrepancies between the United States and other nations when structuring captive operations, a tax lawyer says.

Differing approaches to premium deductibility and taxation of captive income—as well as various tax treaties—may help captive shareholders build multinational operations, says James Cameron, a partner with Baker & McKenzie in New York.

"I see an increase in multicountry operations, particularly with single-owner captives," Mr. Cameron said at the First World Captive Forum in New York last month.

He added that he also foresees growth of group captives with multi-country owners, the structure of which could be influenced by tax considerations.

The Internal Revenue Service has long argued against deductibility of premiums paid to single-parent captives. Tax authorities abroad have taken different stands.

In the United Kingdom, parents can generally deduct premiums paid to captives as long as the transaction is deemed to be at "arms-length"; any payments beyond what is deemed to be a reasonable "arms-length" premium are disallowed as deductions, Mr. Cameron said.

British tax authorities, like their U.S. counterparts, do not allow companies without captives a similar deduction for build-up of self-insurance reserves, he added.

Canada allows deductions for captive premiums and applies arms-length principles, while disallowing deductions for self-insurance reserves, he said.



Captive premiums generally are deductible in Japan if paid in connection with the parent's normal operations, said Mr. Cameron. Japan also applies arms-length principles.

After repeated IRS attacks on premium deductibility for U.S. firms, captive owners last year won a victory in the 6th U.S. Circuit Court of Appeals (*BI*, Aug. 7, 1989).

The court allowed units of Humana Inc., a Louisville, Ky.-based hospital chain, to deduct medical malpractice and hospital liability premiums paid to its Colorado captive.

Similar deductions for the parent company itself were denied. But the court found that coverage the captive wrote for Humana units met the tests of "risk shifting" and "risk distribution" required for deductions.

He said the ruling could provide a means of taking profits from U.S. subsidiaries while generating tax deductions for those operations.

If the captive operation is properly structured, premiums paid by the U.S. subsidiaries would be deductible under the Humana ruling, he said. Property/casualty premiums paid to an offshore captive would also be subject to a 4% excise tax. Reinsurance and life insurance premiums would be taxed at 1%.

Depending on the jurisdiction of the foreign parent, the premiums the captive receives from the U.S. operations may now be taxed by the parent's country or deferred until the

funds are actually repatriated to the parent, Mr. Cameron explained.

He cautioned, however, that the opening on premium deductibility provided by the Humana case may not last forever.

He said the IRS—which declined to appeal the Humana ruling to the Supreme Court—will probably take another case to the high court to try to eliminate the deductions.

If unsuccessful, the IRS may then ask Congress to limit deductions on premiums paid to captives, he said. Any such legislation would probably also spell out when deductions can be taken for premiums paid to multiple-owner captives, an issue that has not yet been clearly resolved, he said.

Along with more liberal rules on premium deductibility, foreign jurisdictions may also have tax treaties that captive operations can take advantage of, Mr. Cameron said.

Most countries do not enter into tax treaties with captive domiciles that are considered tax havens, though there are exceptions, he said, pointing to a tax treaty between Canada and Barbados.

Treaties may also exist with countries like Ireland that offer special tax incentives for foreign insurer investment, Mr. Cameron said.

Foreign jurisdictions also differ in their tax treatment of income earned by captives, he added.

While U.S.-owned foreign captives may be currently taxed on all or part of their income under complex sets of IRS rules, this may not be the case for captive shareholders subject to tax laws in other jurisdictions.

In some cases, Mr. Cameron said, premium payments to captives may not now be taxed as income to the captive but may still be deductible by the payer.

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Captive movement grows outside U.S.

By MICHAEL SCHACHNER

NEW YORK—The captive insurance concept is growing in France, Germany and the Pacific Rim as risk managers seek to better protect their companies against premium volatility and find better loss prevention programs, captive experts say.

For example, French interest in captives is expanding after a decade of little growth, primarily because risk managers believe captive programs provide better loss prevention mechanisms than those offered by direct insurers, said Michel Cournier, director of risk management for Paris-based Compagnie Generale d'Electricite.

In Germany, a growing number of risk managers realize that captives are the best method of risk financing when insurance premi-



ums are on the rise, said Wolfram Rohde-Liebenau, executive director with Siemens A.G. in Munich.

Captive formation also "prevents monopolistic behavior by insurers and works to prevent prohibitively high premiums," he said.

And, in the Pacific Rim, "the captive insurance industry is alive and well," said Shaun Wilkinson, group risk and insurance manager for Auckland, New Zealand-based Fletcher Challenge Ltd.

"The number of organizations that are now domiciled in the re-

gion that have captives will continue to grow," he predicted.

Messrs. Cournier, Rohde-Liebenau and Wilkinson, whose companies all own captives, offered their impressions on the worldwide captive insurance industry at the First World Captive Forum, held last month in New York.

The three-day conference was co-sponsored by SINER, a captive manager based in Stockholm, Sweden; Skandia America Corp. of New York; and Tillinghast, a unit of Towers, Perrin, Forster & Crosby Inc. of New York.

"All parties are now promoting the captive concept" in France, including insurers and reinsurers, said Mr. Cournier of CGE, one of France's leading utilities.

"But in the 1980s, when pioneers wanted to start their own captives, they found a hostile environment.

The control authority would not grant any authorization to build reserves through a captive in France, with only two exceptions—nuclear and space risks."

However, there are now 47 French-owned captives throughout the world, the bulk of which are domiciled in Luxembourg, he said.

Of the 137 captives domiciled in Luxembourg, 37 are French-owned, Mr. Cournier said.

"Luxembourg is good because it's a member of the European Economic Community; a broad scope of business lines are authorized to be written there; it has a well-recognized banking and financial community; and the French language is spoken there," he said.

Luxembourg's only drawback is that the corporate tax rate applicable to captives is 34%, although that rate will be rolled back to 30%

in 1991, making Luxembourg an even more attractive domicile, Mr. Cournier said.

Four Bermuda-based captives are French-owned, two of which are long-standing captives owned by French oil companies, he said.

Only three French-owned captives are based in France, because the country's regulatory commission must grant special permission for reserves to go untaxed and that permission is difficult to attain, he explained.

German companies interested in exploring captive insurance arrangements should bone up on Celtic lore, because Ireland will be the future haven for German-owned captives as well as captives from around the world, predicted Mr. Rohde-Liebenau of Siemens, a worldwide manufacturer of electrical components.

Ireland requires captives to pay only a 10% tax on profits if they are located in Dublin's International Financial Services Center. This tax rate cannot be beaten by any other European domicile, Mr. Rohde-Liebenau said.

Furthermore, Ireland-based captives are not subject to reserve requirements, and Ireland's captive supervisory practices "are far more lenient than in Germany," Mr. Rohde-Liebenau said.

A German manufacturer—Munich-based Bavarian Motor Works A.G.—was the first company to establish a captive in Ireland (BI, April 30).

Most German insurance buyers, though, still have not jumped head-first into the captive scene because "in Germany, industry and insurers have maintained a strong, long-term relationship," he said.

"However, German supervisory laws are quite restrictive and German tax laws are not conducive to forming captives within Germany. Thus, Germany's first choice for captives is and will be Ireland, and the reasons why are clear."

The captive market throughout the Pacific Rim is just beginning to blossom, according to Mr. Wilkinson of Fletcher Challenge, a conglomerate specializing in pulp and paper products as well as building materials and construction.

Eighty-six captives are based in the Pacific, according to Mr. Wilkinson's research. Forty-four of the captives are domiciled in Singapore; 12 in Hong Kong; 10 in Australia; nine in Hawaii; four in New Zealand; three in the Cook Islands; two in Vanuatu; and one each in Nauru and the Philippines. Of the 86 captives, 47 are owned by Australian companies, 11 by Japanese corporations, nine by New Zealand companies, five by Hong Kong companies and the remaining 14 captives by companies from various countries.

Captive owners in the Pacific Rim "tend to select domiciles that are close to their own countries, even though there are many countries and states around the world competing for business," Mr. Wilkinson said, adding that he expects to see developing countries like Singapore, Taiwan and Korea getting into more captive arrangements over the next three years.

Of the three largest captive domiciles in the Pacific region, Singapore, New Zealand and Australia offer captive owners the best tax situation, he said. Captives are subject to a 10% tax in Singapore, a 33% tax in New Zealand and a 39% tax in Australia, Mr. Wilkinson said. He predicted that New Zealand will grow as a popular domicile for captives "because of its 33% tax rate, good infrastructure and the fact that financial centers in New Zealand are the first to open in the world each day, being two hours ahead of Sydney and Melbourne in Australia." ■

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European domiciles catching on: Manager

By STACY ADLER

NEW YORK—European companies some day may overtake North American firms as the leading developers of captive insurance companies, according to a captive insurance company expert.

The growth of European captives has been astonishing, according to Mats Lindkvist, chief executive officer of SINER, a Stockholm, Sweden-based captive manager.

"The captive concept is neither American nor strictly European, but international and on a worldwide scale," Mr. Lindkvist said during the First World Captive Forum held last month in New York.

The three-day program, which featured discussions on several factors affecting captive development, was co-sponsored by SINER, Skandia America Corp. and the Tillinghast division of Towers, Perrin, Forster & Crosby Inc. It drew nearly 300 people from around the world.

As evidence of the rapid growth of European captives, Mr. Lindkvist cited captive development in Luxembourg.

In 1984, there were no captives in Luxembourg, he noted. But, by June this year, there were 119 captives domiciled in the grand duchy. And, that number has since grown to more than 130 captives, he said.

"Ten years ago, it wouldn't have been very difficult to tell you all about the European captive developments within a 10-minute time frame," Mr. Lindkvist quipped.

"But today, there are some 400 European captives with an anticipated growth of as many as 50 to 100—or even more—new captives each year," he said.

By comparison, there are approxi-

mately 2,000 captives domiciled in North American, Bermuda and the Caribbean (BI, April 30).

"So far, some two-thirds of the European captives belong (to companies based) in the United Kingdom or Sweden," Mr. Lindkvist said. "But this is changing rapidly as an increasing number of captives (are



formed by companies in) France, the Netherlands, Finland and Belgium."

Currently, most European captives are single-parent reinsurance captives that write mostly property coverages, according to Mr. Lindkvist.

"Compared to the U.S. experience, there are very few association captives, risk retention groups or risk exchanges... in the European market," he said. "This may change when reinsurance market conditions harden."

Mr. Lindkvist also pointed out a trend among European captives of forming captive networks. In a captive network, a multinational corporation might set up two or three captives to meet its different risk financing needs.

"By means of this, they can coordinate each geographical zone, and they can also use different regulations or insurance laws for different pieces of their business," Mr. Lindkvist explained.

"They may conduct insurance from Ireland, reinsurance funding from Luxembourg and control of U.S. pro-

grams from Bermuda," he said.

More than 10 of SINER's clients already have more than one captive, according to Mr. Lindkvist.

"We will see more of such captive networks in the future," he predicted. "Maybe this trend will influence U.S. captive development."

But, "Europe has and must continue to learn from the American experience," Mr. Lindkvist asserted.

For example, service providers in Europe must provide unbundled products such as loss prevention, engineering and loss adjustment programs to captives, he said.

In the United States, buyers, insurers and regulators will most influence captive development in the next decade, according to Albert J. Beer, senior vp of Skandia America.

"While many of us believe the captive industry is relatively mature, it is still embryonic," Mr. Beer said. The buyer, insurer and regulator each will affect how this "teen-ager" of an industry develops, he said.

Today's insurance buyer is "unbelievably sophisticated," according to Mr. Beer. "This has had a tremendous impact and will continue to have a tremendous impact" on captive development.

As a result, the seller of insurance and reinsurance services to captives "can no longer just sell paper," he said. "They must add services."

The regulatory environment has a mixed impact on captives, Mr. Beer said.

"From a tax point of view, it has become more onerous," he said. "Clearly the IRS has taken a more aggressive stance on the deductibility of premiums paid to captives."

"From a statutory point of view, however, there are many positives," he said.

"There's been an increased level of scrutiny by regulators in each of the domiciles. This protects captive policyholders, third-party claimants and responsible members of the insurance industry who don't have to pay for others' mistakes," Mr. Beer explained.

Buyers, sellers and regulators all must be firmly committed to captive growth and development, according to Mr. Beer.

"You must distinguish between involved and committed," he said.

"Picture a ham and eggs breakfast: The chicken was involved; the pig was committed," Mr. Beer quipped.

"Long-term commitment in the captive industry is critical," he said.

Commitment also is key to forming a successful group captive, said K. Doyle Stephens, president and chief executive officer of OIL Insurance Ltd., a Bermuda-based oil and gas industry mutual insurer.

Mr. Stephens outlined the key issues that any group attempting to form a group or association captive insurer must address.

"There must be a strong, demonstrated need for the service," he said.

Mr. Doyle explained that such a need can stem from:

- A loss of capacity in the traditional insurance market.
 - An inability to get certain lines of coverage in the traditional market, such as pollution coverage.
- However, "not every buyer faced with a loss of cover or higher premiums is a candidate for a captive," Mr. Stephens observed.

• An unfriendly regulatory environment.

Several other elements must also be in place, he said.

For example, group captive mem-

bers must have a mutuality of interest, which usually means similar risks, Mr. Stephens said.

Also, group captive members must be willing to share their risks, he said. A company that truly believes its risks are superior to other companies' in its industry probably will not be willing to pool its risks, he explained.

For example, Texaco Corp. formed its wholly owned captive insurance subsidiary—Heddington Insurance Co.—because it was unwilling to share its risks, said John J. Alfieri, vp of Am-Re Managers Inc., a captive management firm in Princeton, N.J.

A third element that is key for a successful group captive is that members must have the ability to fund their losses, said OIL's Mr. Stephens.

"By definition, this means that each member over time should be able to fund its own losses, except for catastrophic losses," he said.

And, a group captive's members must be firmly committed to the project, just as the pig is committed to the ham and eggs breakfast, Mr. Stephens said, referring to Mr. Beer's observation.

Only "if all of these factors are present will the group captive have a chance," Mr. Stephens said.

Mr. Stephens also offered a piece of advice to any group designing its own captive: "Keep it simple."

And, he warned that a group captive "must be healthy financially or it will not succeed."

Ultimately, it is not important whether the captive is labeled as a special interest insurer, a group captive or anything else, Mr. Stephens said. What does matter is that the insurer is not run as a "cash cow" for the founding members, he said. ■

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NCCI chief says comp changes needed soon

By MEG FLETCHER

The new president of the National Council on Compensation Insurance is approaching his job with a sense of urgency.

"We are convinced that states have a window of 24 months to make substantive changes" in their workers compensation systems, said William Hager, a former Iowa insurance commissioner.

"If states elect not to, or make less than systemwide changes, costs will go through the roof," causing some state systems to collapse, he warned. Mr. Hager would not identify states where he thinks collapses are likely.

The NCCI plans to work closely with insurance trade groups in its attempt to control rising workers comp costs, he said. It also is enhancing its computer capabilities

and assigning more of its staff to assess the impact of proposed or enacted benefit changes and cost containment measures.

Those improvements will speed up and improve NCCI responses to inquiries from both trade groups and state legislators, he said. In addition, the NCCI will research and develop new sources of data for use in evaluating the impact of workers comp reform proposals.

The group also will conduct special claims studies.

Providing credible information promptly and in a flexible manner is the association's goal, said Mr. Hager, 43, who took over as the Boca Raton, Fla.-based NCCI's president last summer (BI, June 4).

Workers comp insurers, including competitive state funds, finance the operations of the NCCI, a voluntary non-profit statistical

and ratemaking organization. The group prepares and administers rates and rating plans for workers comp insurance in 32 states and provides similar rating assistance



Mr. Hager

in several other states. The NCCI also is the leading administrative agency for state workers comp residual market operations. Workers comp insurers increasingly are worried because claims costs are increasing faster than wage hikes. For example, according to NCCI estimates, medical benefits are rising 8.6% annually, and indemnity benefits, which compensate workers for lost wages,

are up 6.1%. The increases in both benefits exceed wage increases, which have been hovering in the 5% range for the past few years.

Those numbers help explain why the combined ratio for workers comp insurance is expected to be 118% this year. Even that figure would be a slight improvement over insurers' 118.2% combined ratio in 1989 and 118.4% combined ratio in 1988, Mr. Hager stressed.

Yet, those results are not as poor as comparable figures for the assigned risk—or residual market—programs the NCCI administers in most states. For each risk it writes voluntarily, an insurer is assigned, directly or indirectly, a portion of the workers comp assigned risk market and its accompanying losses. The assigned risk market generally provides coverage to employers that cannot purchase cov-

erage in the voluntary market.

Insurers reported a 153.8% combined ratio on business written through assigned risk programs in 1989 and a 154.6% combined ratio on business written the previous year.

And, the market share of NCCI-administered assigned risk pools has grown "tremendously" to \$3.6 billion in annual premiums, or 22% of the entire workers compensation market, the group says.

"We are talking about a system that is out of control or on the verge of being out of control," Mr. Hager said. "If rate adequacy is not achieved, the system will implode."

One of Mr. Hager's top priorities is raising workers comp rates to reflect insurers' cost of doing business. If workers comp rates remain low, insurers may pull out of some markets, he predicted. Those withdrawals could spark "a death spiral" that swells residual markets, compounding the burden on the insurers still writing coverage in the voluntary market.

Decreasing the size of the residual market is another priority for Mr. Hager, who is pleased that some states share the NCCI's concern over the growth of these markets.

The NCCI has proposed several tactics to reduce the size of states' residual markets—which many states have adopted—that make it unattractive for employers with other options to seek insurance from an assigned risk pool.

For example, 22 states thus far have adopted surcharges or rate differentials that require employers buying coverage from residual markets to pay more than they would in the voluntary market.

In addition, 18 states have eliminated upfront premium discounts for large risks in the residual market.

Mr. Hager said he also wants to help the NCCI strengthen its credibility with all parties involved in the workers comp system.

That includes evaluating criticism—usually from some state insurance regulators and consumer representatives—and responding to it.

Currently, the NCCI is evaluating complaints that residual market servicing insurers provide inadequate claims handling and other services to policyholders.

The group has launched a pilot program in Rhode Island that asks agents and the servicing insurer to fill out "report cards" to evaluate each other's performance, said Helen Westervelt, the NCCI's director of residual market liaison.

If this approach proves useful, it could be implemented elsewhere, she said.

In another major step, the NCCI announced last summer that it was changing its primary focus to providing data on developed loss costs rather than fully developed advisory rates, which include allocations for insurer profits and underwriting expenses (BI, July 23).

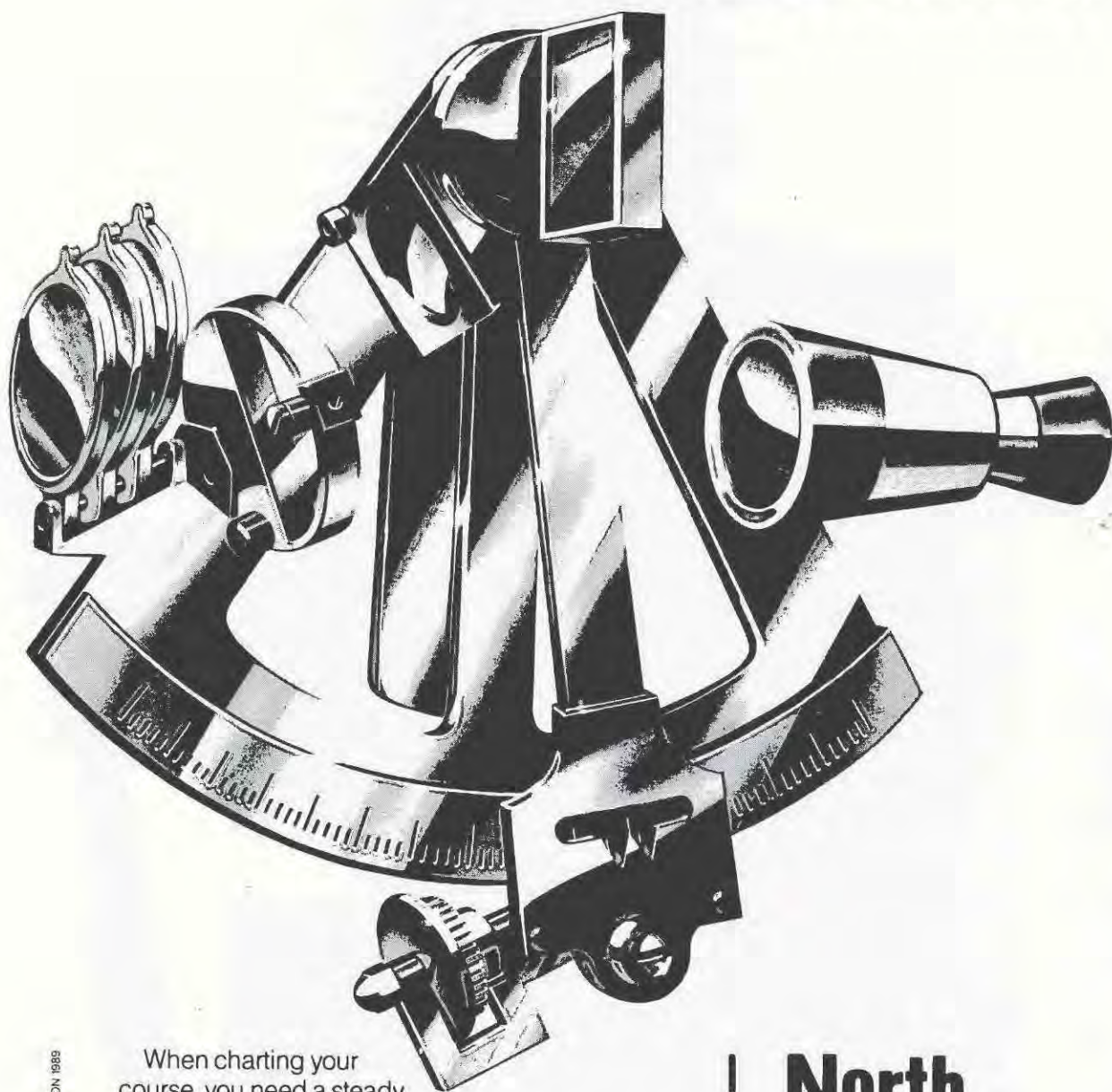
This move follows a similar decision by the Insurance Services Office Inc., the insurer-supported organization that provides rating data for other types of property/casualty insurance.

States adopting a "loss cost" approach to workers comp ratemaking force each insurer to independently calculate its own profits and underwriting expenses, rather than using advisory rates.

The NCCI apparently hopes that its action will help soothe those regulators and consumers who criticize fully developed rates as a form of industry price fixing.

However, the move to loss costs is not expected to reduce rising workers comp costs, Mr. Hager has said.

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New Orleans site of '91 RIMS conference

NEW YORK—Thousands of risk management and employee benefit professionals will gather amid the charm of New Orleans next spring for the 1991 Risk & Insurance Management Society conference.

RIMS' 29th annual Risk Management and Employee Benefits Conference will be held April 28-May 3. Most activities will be in the New Orleans Convention Center.

As always, the conference will feature more than 100 sessions and panel discussions on employee benefit, risk management and other management topics. Other special sessions and events are also scheduled. The advance program, to be published next month, will feature the full slate of events.

The conference will kick off on Sunday evening—April 28—with a reception benefiting the Spencer Educational Foundation, which awards scholarships to college students studying risk management and insurance. With the theme "Sensational Celebrations of America," the party will feature glimpses of the Texas State Fair, St. Patrick's Day in Boston, San Francisco's Chinese New Year and other celebrations.

Conference business opens Monday, April 29, and sessions continue through the morning of Friday, May 3. Among the areas to be covered are:

- Employee benefits.

Scheduled sessions include: "Provider and Payers: Allies or Adversaries in Cost Containment?"; "Drug and Alcohol Abuse Prevention"; "Probing the Cost/Needs Nexus for Benefit Plans"; "Formulating a Benefits Strategy for the Future Labor Force"; "Managing Mental Health Care Costs"; and "The Importance of Long-Term Care Benefits."

- Finance.

Scheduled sessions include: "Navigating the Market: A Reinsurance Road Atlas"; "Solvency and Insolvency of Insurers and Reinsurers"; "Cash Flow-Sensitive Programs: The Good, Bad and Unexpected"; "Cutting to the Quick in the Maze of Captive Options"; "Alternative Sources of Insurance—Benefits of the Non-traditional Market"; and "Structured Products—Portfolio Transfers and Prospective Funding Programs."

- Insurance.

Among the scheduled sessions are: "Surplus Lines—The Window to the Specialty Market"; "Marine Insurance for Beginners"; "Who's Underwriting Your D&O Policy: Your Insurer or the Courts?"; "Political Risk Insurance—'Hot Spot' Marketing Report"; "Case Studies in Business Interruption Insurance"; and "Is There a Way to Finance Environmental Impairment?"

- Legal.

Sessions are to include: "Beware: The New Liabilities of Employment"; "Protection of In-House Personnel and Documents"; "Will Your Hold-Harmless Agreement Hold Water?"; "Insurance Commissioners—The Balancing Act"; "An Inside Look at Alternative Dispute Resolution"; "Risk Management and the Legal Department"; and "Controlling Litigation Costs."

- Loss Control.

Among the scheduled sessions are: "Recognizing Your Environmental Risk Management Exposures"; "Product Liability Prevention—The Systems Safety Approach"; "Seven Deadly Sins and Their Application to Loss Control"; "Disaster Recovery Planning—Preparing for Your Worst Nightmare"; "Avoiding Common Pitfalls in Claims Negotiations"; "Environmental Risk in Real Estate

Transfers"; "Structured Settlements and Their Favorable Impact"; and "Communicating Hazards to Employees."

- Risk Management.

Scheduled sessions include: "Primer for International Risk Management"; "Ethics in Insurance and Risk Management"; "Certificates of Insurance—Use or Abuse?"; "Corporate Terrorism—Before, During and After"; "Risk Management Excellence in the '90s"; "How to Create a Usable Risk Management Manual"; "Evaluating Liabilities in Merger and Acquisition Candidates"; "Risk Management Jeopardy"; and "Between Now and the 21st Century."

- Workers Compensation.

Among the scheduled sessions are: "Workers Compensation Investigations"; "Ergonomic Approach to Reducing Cumulative Trauma Disorders"; "Self-insurance and the Workers Compensation Exposure"; "Claims Management for Self-insureds"; "Is There a Workers Compensation Crisis?"; and "Reducing Workers Compensation Costs in a Unionized Environment." In addition to its regular seminars, the conference will again include industry sessions, which allow risk managers in the same or similar industries to discuss common concerns and exchange ideas.

Among the industries for which sessions are planned are: Adhesives, cleaners, office products and specialty chemicals; advertising agencies; agricultural cooperatives; aluminum; amusement parks; aviation; cement and related products; colleges and universities; conglomerates; construction; consumer beverages; drugs, chemicals and pharmaceuticals; electronics manufacturing; employment agencies; energy; enter-

tainment; financial institutions; and fast-food chains.

Also, food processing and distribution; grain and feed processing; hazardous waste; hospitals and health care; hotels; insurance; machinery and equipment; mining and metals; motor transport; motor vehicle manufacture and import; paper; ports, marine terminals, stevedores and shipbuilders; public and government entities; publishing, printing and broadcasting; real estate; religious non-profit organizations; restaurants; retailers; satellites; secular non-profit organizations; telecommunications; and utilities.

Two luncheon speakers already have been booked.

Steve Allen is to speak Tuesday, April 30. Besides being a popular comedian for four decades, Mr. Allen is an actor, songwriter, author and musician.

William Safire, a Pulitzer Prize-winning political columnist for The New York Times, will speak on Thursday, May 2. Besides his column on The Times' Op-Ed page, he is known for his language columns in The New York Times Magazine and for several novels.

The Exhibit Hall at the 1991 RIMS conference will be in the New Orleans Convention Center. It will include more than 520 booths featuring information on products and services for risk and employee benefit managers. The exhibition will open at noon on Sunday, April 28, and will run through noon on Thursday, May 2.

Only conference registrants and authorized exhibitor personnel will be admitted to the Exhibit Hall.

Registration for the full conference is \$595 for members and \$695 for non-members. Registration for a partial week (Sunday through 2 p.m.

Wednesday, or Wednesday through noon Friday) is \$475 for members and \$575 for non-members. These fees will increase by \$100 for registrations received after March 1.

One-day registrations cost \$195.

RIMS also provides a centralized hotel registration system through Rogal America Inc. Individual hotels will not accept reservation, cancellations and changes directly from conference registrants.

The hotels hosting the 1991 RIMS conference are the Clarion Hotel, Days Inn-Canal, Fairmont Hotel, Holiday Inn Crowne Plaza, Holiday Inn Superdome, Hotel Inter-Continental, Hyatt Regency New Orleans, La Meridien New Orleans, Le Pavillon Hotel, The Monteleone, New Orleans Marriott, Omni Royal Orleans, Radisson Suite Hotel, Royal Sonesta Hotel, Sheraton New Orleans, Westin Canal Place and Windsor Court Hotel.

RIMS also is offering reduced airfare packages. Conference attendees who purchase tickets at least seven days before the travel date will receive 40% off full coach fares on Delta Air Lines and 50% off the full coach fare and 45% off the first-class fare on Continental Airlines.

A 5% discount off any published fare is also available when applicable restrictions are met.

For more information on reduced airfares, contact Garber Travel and ask for the RIMS desk at 800-225-4570; or 617-787-0600 in Massachusetts.

For more information on the conference and to receive a conference and hotel registration form, contact the Risk & Insurance Management Society Inc., Conference Department, 205 E. 42nd St., New York, N.Y. 10017; 212-236-9292.

WHEN TOMORROW COMES...

Bank of Montreal names risk manager

J.A. Bridger, 52, has been named risk manager-corporate risk and insurance at the Bank of Montreal in Toronto. Mr. Bridger replaces **Rudolf Henkel**, who is now risk manager at George Weston Ltd., a Toronto-based food products conglomerate. In his new job, Mr. Bridger is responsible for property/casualty insurance and risk management activities. He reports to Brian W. Jay, vp-insurance and pension fund. Before joining the Bank of Montreal, Mr. Bridger was risk manager at Canada Packers Inc., a meatpacking firm in Toronto. He holds a bachelor's degree in economics from Waterloo Lutheran University—now Wilfrid Laurier University—in Waterloo, Ontario. Mr. Bridger holds the Associate in Risk Management designation and is vp-business and industry liaison

Comings & goings: buyers



Mr. Bridger



Mr. Helberg

for the Risk & Insurance Management Society Inc. In addition, he teaches loss control courses for the Associate in Risk Management program at the University of Toronto.

Bruce M. Helberg, 34, has been

named manager-risk insurance of Trinova Corp. in Maumee, Ohio. He replaces **Richard Klosek**, who retired. Mr. Helberg is responsible for corporate risk management, including domestic and foreign property/casualty insurance programs. He reports to William E. Rose, director-risk insurance and retirement assets. Before joining Trinova—a manufacturer of power and motion control machinery—Mr. Helberg was casualty insurance manager at Owens-Illinois Inc. in Toledo, Ohio. He holds a bachelor's degree in business administration with a major in insurance from Bowling Green State University in Bowling Green, Ohio. In addition, Mr. Helberg is a deputy member of

the Risk & Insurance Management Society.

James P. Wayne, 50, has been named vp-compensation and benefits of USF&G Corp. in Baltimore. In this newly created position, he is responsible for the company's compensation and employee benefit programs. Mr. Wayne reports to Charles D. Zimmerman III, corporate senior vp-human resources. Before joining USF&G, Mr. Wayne was corporate director of compensation and benefits at Peoples Drug Stores Inc. in Alexandria, Va. He holds a bachelor's degree in industrial relations from Seton Hall University in South Orange, N.J., and a master's degree in business administration from Youngstown State University in Youngstown, Ohio. Mr. Wayne is a member of the American Compensation Assn.

and also is a member of the Washington Personnel Assn.

Kent M. Edwards, 42, has been named vp-administration of Vallen Corp. in Houston. In this newly created position, he is responsible for insurance and risk management, real estate, legal and corporate services. Mr. Edwards reports to J.M. Wayne Code, president and chief executive officer. Mr. Edwards has been at Vallen—a distributor of industrial safety and health products—for 16 years, most recently as director of administration. Before joining Vallen, he was a sales representative for Jo-



Mr. Edwards



Mr. Glynn

seph T. Reyerson & Son Inc., a Houston-based steel distributor. Mr. Edwards holds a bachelor's degree in business administration from Lamar University in Beaumont, Texas, and a master's degree in business administration from the University of Houston.

Denis A. Glaude, 40, has been named director of risk management at Dominion Textile Inc. in Montreal. In this newly created position, he is responsible for the company's global risk management program, including loss prevention, environmental issues and health and safety programs. Mr. Glaude reports to William K. Rusak, vp-corporate services and relations. Mr. Glaude previously was director of insurance and real estate at Dominion, a textile manufacturer and distributor with operations in 50 countries. Before joining Dominion, Mr. Glaude was assistant vp at Marsh & McLennan Protection Consultants in Montreal. He holds a bachelor's degree in chemical engineering from the University of Toronto and a master's degree in business administration from McGill University in Montreal. Mr. Glaude holds the Canadian Risk Manager designation. In addition, Mr. Glaude is president of the St. Lawrence Chapter of the Society of Fire Protection Engineers and is a deputy member of the Quebec Chapter of the Risk & Insurance Management Society Inc.

William Glynn, 66, has retired as risk manager at Children's Memorial Medical Center in Chicago. A successor has not been named. As risk manager, Mr. Glynn handled self-insurance for hospital professional and general liability coverage for about 100 hospital-based physicians, and was responsible for risk control activities. Mr. Glynn reported to Theodore J. Leitterman, executive vp. Before joining Children's Memorial 13 years ago, he was a claims administrator at Insurance Co. of North America in Chicago. He holds a bachelor's degree in philosophy from Loyola University of Chicago. Mr. Glynn also holds the Associate in Risk Management designation, and is a deputy member of the Risk & Insurance Management Society Inc.

We'd like to report on staff changes in your company's risk management, safety and employee benefits departments. Just drop a note to Nancy Johnson, Copy Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590, or call 312-649-7784. Please send a photograph, too.

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Fire-resistant plywood sparks legal disputes

By STACY ADLER

Recent coverage disputes over the use of fire-resistant plywood on the roofs of new homes raise legal arguments that mirror the arguments in asbestos property damage lawsuits, according to attorneys.

Several suits in state and federal courts seek a ruling on whether comprehensive general liability policies written for plywood manufacturers and distributors must respond to homeowners' claims that the plywood in their roofs is decaying prematurely and causing property damage.

Tens of millions of dollars are at stake, according to attorneys.

"A lot of the issues raised in the asbestos context will be important in this litigation as well," said attorney Dave Steuber of Hill, Wynne, Troop & Meisinger in Los Angeles, who represents a plywood manufacturer in one lawsuit.

Although only four coverage lawsuits are believed to have been filed so far, "this could become a bigger problem," Mr. Steuber cautioned.

Further, decisions in the first few cases could determine whether other manufacturers sued for problems stemming from fire-resistant plywood would be able to tap their general liability policies, according to attorneys.

"It is a question whether the insurance industry will regard the result in these cases as controlling," Mr. Steuber said.

The litigation also is significant because it involves some of the largest insurance companies in the nation, including Aetna Casualty & Surety Co. and Commercial Union

Insurance Co.

At the center of the disputes is plywood coated with organic and inorganic salts to prevent it from catching fire.

The treated wood chars—rather than burns—in a blaze.

The wood also is designed to release carbon dioxide and water to hinder a fire's progress.

The problem with the treated plywood, which has been used in millions of homes nationwide, is that normal rooftop temperatures allegedly trigger a chemical reaction causing the wood to char and weaken prematurely.

As a result, homeowners, homeowners' associations, condominium associations, architects, building contractors and building materials suppliers have filed dozens of lawsuits against the plywood manufacturers.

The plaintiffs seek to hold the plywood manufacturers liable for the costs of inspecting, repairing or replacing the roofs. Many also seek compensation for property damage and diminution of property values.

Among the dozens of legal theories raised in the attempt to hold the plywood manufacturers liable are: failure to warn of product defects, conspiracy to conceal product defects, breach of contract, breach of warranty, negligence and strict product liability.

Plywood manufacturers and distributors have turned to their general liability insurers for a defense and, if necessary, indemnification.

However, insurance companies have denied coverage, citing several defenses, including: There is no property damage nor occurrence as required by the policies, and several exclusions make the

policies inapplicable.

In fact, most of the arguments insurers raise in the plywood context are identical to those insurers cite in asbestos property damage litigation.

"There are similarities to the asbestos property damage litigation," said Mr. Steuber, who represents plywood manufacturer Georgia Pacific Corp. in one of the lawsuits. "There are a variety of similar arguments."

For example, the "event" that would trigger coverage in the plywood cases is expected to be hotly debated as it was in the asbestos litigation.

Three coverage trigger theories have been developed in asbestos property damage cases. Under those theories, coverage is triggered:

- When the material is installed.
- When harmful particles of asbestos are released into the air.
- Continuously, from the time the defective product is installed until it is removed.

"Trigger of coverage will be important" in the plywood coverage litigation as well, Mr. Steuber said.

Any one of the theories developed in the asbestos property damage litigation could be applied in the plywood cases, he explained.

Courts could find that the CGL policies are triggered when the plywood was installed, when it first begins to char and break down, or continuously from the time it is installed until it is removed.

Similarly, several policy exclusions at the heart of asbestos property damage litigation also are critical in the plywood coverage litigation.

For example, in the plywood suits insurers again cite the "sistership" exclusion as a defense.

The "sistership" exclusion provides that there is no coverage when the policyholder withdraws, inspects, repairs or replaces its own product because it is known to be or suspected to be defective.

For example, if an aircraft crashed and all other similar models were withdrawn for inspection, there would be no coverage for the expense of recall and inspection.

Currently, four separate plywood coverage lawsuits are pending in state and federal courts:

- In the largest, Aetna has sued dozens of plywood manufacturers and distributors in New Jersey state court. The list of defendants runs nine pages.

Aetna argues that the liability insurance it wrote for the defendants should not respond to their claims because the defendants, among other things, failed to disclose the underlying lawsuits and fraudulently concealed that the plywood was defective.

In addition, the insurer asserts that the claims filed against the plywood manufacturers do not constitute property damage as defined in the policies and do not stem from an occurrence as defined in the policies.

The attorney representing Aetna in the case would not return repeated phone calls.

- Georgia-Pacific has sued its liability insurers in federal district court in Florida.

The Atlanta-based manufacturer filed suit against 18 insurers that wrote its primary and excess liability coverage from 1983 to the

present.

"This action is more focused than the New Jersey action," explained Georgia Pacific attorney Mr. Steuber.

In its complaint, the company contends the underlying lawsuits filed against it for property damage stemming from the use of fire-resistant treated plywood "represent potential liability of many millions of dollars."

In addition, the manufacturer says it expects more lawsuits to be filed against it in the future.

- Commercial Union and subsidiary American Employers Insurance Co. have filed their own lawsuit against policyholders in state court in Georgia.

This lawsuit names, among others, Georgia Pacific, Hoover Treated Wood Products Inc. and Lowe's Cos Inc., a building material supplier.

- The Commerce & Industry Insurance Co., an American International Group Inc. unit, has filed a lawsuit in state court in Georgia. This lawsuit also names Georgia Pacific, Hoover, Lowe's and several companies related to Lowe's.

Commerce & Insurance wrote primary liability coverage for the defendants from November 1987 to September 1988, with annual policy limits of \$1 million.

While these are the only four coverage dispute lawsuits filed regarding plywood claims to date, observers say many more may be filed in the future.

"It is certainly possible there will be other lawsuits," said Commerce & Industry attorney Henry E. Scrudder Jr. of Goldner, Sommers & Scrudder in Atlanta. ■

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Employers blast provision in D.C. comp law

By ADRIENNE C. LOCKE

WASHINGTON—One portion of a compromise workers compensation reform law in the District of Columbia will have a chilling effect on employer-sponsored health plans if it is not successfully challenged in court, employers contend.

District insured and self-insured employers are fuming over a provision of the law requiring them to fully pay for an injured workers' health care coverage for up to a year.

A special workers comp fund eventually will reimburse employers for the coverage. But the law will still discourage some employers from offering health care coverage and will force others to drop health plans, predicted Lawrence Mirel, a member of the Greater Washington Board of Trade's workers comp committee.

In addition, employers contend the provision violates the Employee Retirement Income Security Act of 1974 by requiring employers that self-insure their health care plans to pay the full cost of injured workers' health care coverage.

The GWBT, an employer group that testified at city council hearings on the bill, is discussing possible challenges to the law, and Mr. Mirel believes a suit is likely.

Supporters of the provision contend it does not violate the ERISA pre-emption for self-insured employers. The required health insurance is really a workers comp benefit, they say.

Employers generally support other reforms in the package—including higher compensation—al-

though their costs will probably rise 11%, according to preliminary estimates by the National Council on Compensation Insurance.

District of Columbia employers that insure their workers comp risks paid \$138.4 million in premiums in 1989, according to the NCCI.

District employers have enjoyed only modest workers comp insurance rate increases—and even one decrease—in recent years, so they do not oppose the increased cost of benefits under the new law, said Mr. Mirel, who also is executive director and general counsel for the District of Columbia Insurance Federation.

The Department of Employment Services, the District's of Columbia's labor department, is pleased with what it considers a "fine-tuning" of the 1979 workers comp law, said Bruce Eanet, chief of the DES planning branch.

"The new law takes care of some of the problem areas in the 1979 law and increases benefits to injured workers and their families at a modest—and what we believe is an acceptable—cost to employers," he said.

Labor unions are also satisfied with the reforms Mayor Marion Barry signed into law Oct. 24 (BI, Oct. 29).

"I think what we were able to get... was a good piece of legislation," said Mary Murphy, president of the Washington, D.C., council of the Communications Workers of America.

Employers, though, are unhappy with the requirement that they provide workers with health care coverage to pay 100% of the cost of coverage for up to 52 weeks for in-

jured employees who are unable to work, even if the employer had been paying only a portion of that coverage previously.

The provision is intended to ensure that an injured employee is covered for any other injuries or illnesses not covered by workers comp and to maintain coverage for spouses and dependents, explained Mr. Eanet of the DES.

"The (health) insurance was a major concern because you have workers out on workers comp who have no other source of income and

Mr. Mirel said.

However, Mr. Eanet pointed out, the special workers comp fund will reimburse employers for those costs. The fund, as in the past, will also partially reimburse workers comp insurers and self-insurers for benefits paid to workers with a pre-existing condition who re-injure themselves. The fund reimburses insurers and self-insurers for lost wage benefits paid when benefits exceed 104 weeks of compensation.

Most of its financing comes from

'The new law takes care of some of the problem areas in the 1979 law and increases benefits to injured workers and their families at a modest—and what we believe is an acceptable—cost to employers,' says Mr. Eanet.

have no health insurance," said the CWA's Ms. Murphy.

Mr. Mirel, however, contends that the continued coverage requirement will hit smaller employers especially hard and will discourage employers from offering health plans.

"Those smaller employers who are considering providing health insurance might not, and those who have health insurance might consider dropping their coverage because of the potential impact on their health insurance costs if they have an injured worker," he said.

Many small employers could not afford to hire a new worker and provide health insurance if they were also picking up the entire cost of coverage for an injured worker,

assessments employers pay at year end based on their annual workers comp losses. Fines against employers for not having workers comp coverage or for otherwise violating regulations also go into the fund.

Between 1984 and 1989, assessments generated about \$3.5 million and fines generated nearly \$80,000 for the fund, according to Mr. Eanet.

Insurers pay the assessment against insured plans, while self-insured plans pay the assessment directly to the fund.

Mr. Mirel argues that the reimbursement scheme will create cash-flow problems for employers. Because fines paid to the fund will not cover employers' added costs under the new law, employers will

only be reimbursed after assessments are collected, he said.

Employers also contend that the health care requirement violates ERISA.

The question it raises is whether "a benefit in a workers comp law is a workers comp benefit or some other kind of benefit. We argued that it shouldn't be in there because it's not a workers comp benefit," Mr. Mirel said.

Even if a health care benefit is mandated for self-insurers in a workers comp law, it is subject to the 1974 law, he said.

Its supporters argue that the provision does not violate ERISA because the required coverage is actually a workers comp benefit.

Employer challenges, based on ERISA, to similar provisions in other states have met with mixed results, Mr. Mirel said.

He acknowledged that the district's city council was careful to pattern the law closely on a Connecticut law, which he said a federal court has upheld.

Still, employers oppose the provision, he said.

Employers, though, do not oppose other workers comp benefits improvements in the measure. Mr. Mirel said the business community felt that some of the benefit increases were necessary and will accept the higher costs.

Some companies will be hit harder than others, he said.

The reform law:

- Sets the workers comp wage reimbursement level at 66% of gross average weekly wages, eliminating the choice between that or 80% of net wages.

- Provides an inflation adjust-

Continued on next page

MEN AT WORK

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STRETCHING THE LEAD.

Continued from previous page
ment for benefits for injured workers with non-scheduled partial permanent disabilities who are returning to work but with different duties because of their injuries.

Under the old law, if an employee with a non-scheduled injury who previously earned \$500 a week as a driver returns to work as an assembly line worker earning \$400 a week, the workers comp benefit was 66 2/3% of the difference between the two wages.

Under the new law, the benefit would be based on either the difference between a driver's current wages and the wages for an assembly line job at the time of the employee's injury, or the difference in a driver's wages and an assembly line worker's wages at the time of the injury.

- Allows anyone whose principal place of business is outside of the District of Columbia, but who works regularly within the district, to file for workers comp benefits in the district.

- Increases the benefit for disfigurement to \$7,500 from \$3,500.

- Increases the funeral benefit to \$5,000 from \$1,000.

In its most recent analysis of the cost effect of the workers comp legislation before it was signed into law, the NCCI estimated the reforms will increase employers' costs approximately 11%.

If the estimate does not change, this increase could translate into one of the largest rate increases in the district in several years.

Employers in the district have had been hit with relatively small increases, and some sizable decreases, in their workers comp rates since the district's original workers comp law went into effect in 1982. The law, while passed in 1979, was disputed in court for several years.

Before the 1979 law was enacted, the workers comp system in the district was governed by the federal Longshoremen's and Harbor Workers' Compensation Act, under which injured workers received more generous benefits than under the 1979 workers comp law.

When the district moved from those old benefit levels, which were as much as 200% above the national average, workers comp insurance rates fell, Mr. Eanet of the DES explained.

In 1979, when the original workers comp law was passed, workers comp rates were increased 8.6% in April and 22.7% in December.

However in 1981, rates decreased 5.3%, and in 1982, when the law was enacted, rate decreases totaling 36.8% were approved, the NCCI said. More recently, rates fell 5.8% in 1988; increased 3.8% in 1989; and increased 3% in April 1990.

The new workers comp reform law also:

- Permits injured workers to choose their own physicians.

- Expands the list of health care providers considered reimbursable by workers comp to include chiropractors.

- Increases the penalty for an employer that has no workers comp coverage to a maximum of \$10,000 from a maximum of \$1,000.

- Establishes a three-year commission that will, among other things, review procedures for setting new workers comp rates, study other mechanisms for setting rates and look into the possibility of the district providing workers comp coverage to employers.

Seven of the nine board members, who will be appointed by the mayor, will represent business, labor, health care providers, insurers and consumers, but the number of representatives from each group has not been determined.

Directors of the district's Department of Consumer and Regulatory Affairs and the Department of Employment Services will serve as ex-officio members. ■

Firms nurturing families

Companies increasingly offer work and family benefits

By DEBORAH SHALOWITZ

CHICAGO—More and more companies are inquiring about their employees' family care needs and developing programs to help them balance these needs with their work responsibilities.

The most prevalent family management benefits offered by companies include child care resource and referral services and flexible work schedules, according to company representatives who spoke at a forum on work and family issues in Chicago last month, sponsored by the Family Resource Coalition, a Chicago-based non-profit community organization that works to strengthen families.

However, several of the speakers said their companies also offer more progressive work and family benefits, such as elder care resource and referral services and parental leave programs. And one company recently opened an on-site child care facility.

Changing demographics and employee needs were the major impetus to institute work and family benefit programs, the corporate representatives said.

"AT&T is large enough to mirror a lot of U.S. trends" like the impending labor shortages brought on by an aging population, said Deborah Stahl, director of American Telephone & Telegraph Co.'s family care development fund in

Morristown, N.J. "Demographics do have something to do with compelling us" to develop work and family benefits.

The communications giant in 1989 negotiated a labor agreement with two unions that featured a package of family management benefits, including a one-year unpaid leave of absence following the birth or adoption of a child and a one-year unpaid leave of absence to care for a seriously ill family member (BI, June 5, 1989).

AT&T also offers an employee assistance program that offers counseling to dependents of workers and child-care and elder-care reimbursement accounts. And, the company has established a \$10

million fund to provide grants to help communities develop quality child-care and elder-care services, Ms. Stahl said.

"We do have a set of wonderful programs," she said. However, "this is a different way of thinking and managing" for some of the conservative, old-line style of managers that work in some parts of the company, she admitted.

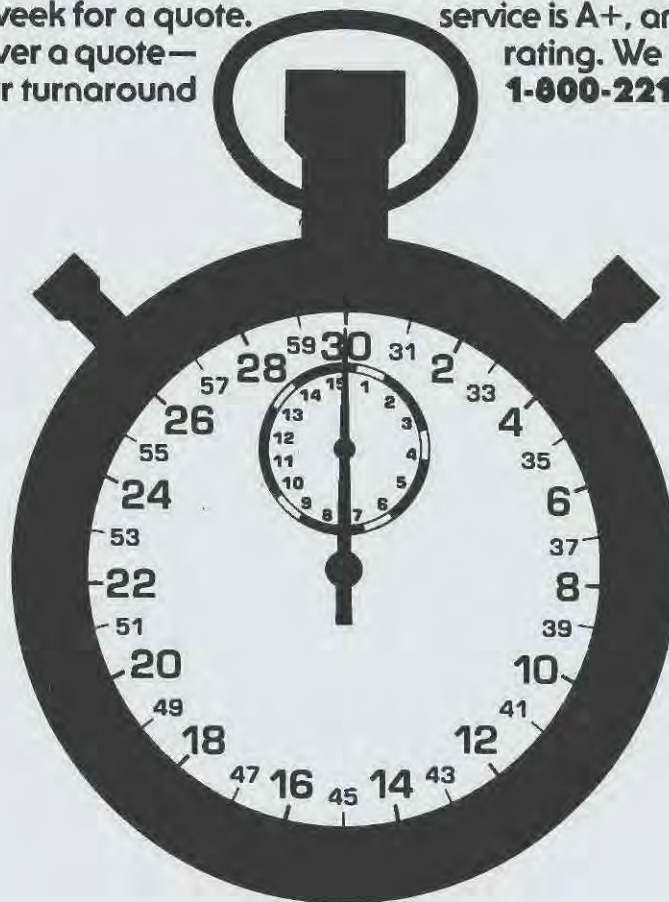
Even so, Ms. Stahl maintained that the family management programs "will have an effect on AT&T's ability to attract and retain talent." And, the programs may have a "catalytic effect on other companies."

Demographic change also was a
Continued on next page

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Family benefits

Continued from previous page
major factor behind International Business Machines Corp.'s decision to implement work and family benefits, said Ted Childs, manager of work/life programs for IBM United States in Purchase, N.Y.

By the end of the century, IBM estimates that women will constitute 40% of the computer company's workforce, Mr. Childs said.

And in a 1986 survey of employees aged 40 or younger, 30% said they had missed at least one day of work to care for a sick child and 30% said they had responsibility for an elderly relative, he said. And, of those who did not already have children, 55% said they planned to have a child, he said.

IBM offers employees both child- and elder-care resource and referral services; adoption assistance covering 80% of expenses associated with a legal adoption, up to a \$2,500 limit; and flexible work schedules allowing employees to arrive between 7:30 a.m. and 9:30 a.m., depart between 3:30 p.m. and 5:30 p.m. and add up to two hours to a lunch break if the extra time is made up the same day, Mr. Childs said.

IBM also allows employees up to a three-year leave of absence following the birth or adoption of a child, provided the employee is available for part-time work in the second and third years of leave, Mr. Childs said. The leave is granted in one-year increments by the employee's supervisors.

And, with managerial approval, employees can opt to work at home provided they come to work at least four consecutive hours per week.

Despite the progressive family benefit offerings, there remains a "need to convince senior management that these are real issues," Mr. Childs conceded.

However, as these issues hit home—such as when executives themselves are faced with the responsibility of caring for elderly relatives or when they see the lack of quality day care available for their grandchildren—senior management will become more receptive, he predicted.

These programs' payoff is a "loyal, dedicated and competitive workforce," Mr. Childs said.

Another company that responded to family benefit needs after surveying its employees is E.I. du Pont de Nemours & Co. of Wilmington, Del.

An employee survey conducted in the mid-1980s at DuPont revealed that 70% of all employees with children younger than 13 used child care outside the home, reported Faith Wohl, director of the company's work force partnering division, which coordinates work and family benefits. So, in 1986 DuPont created a child care resource and referral service for the Wilmington area, she said. And, this year DuPont implemented a national child-care resource and referral service.

Although this addressed child care needs, elder care is "turning out to be the sleeper issue" at DuPont, Ms. Wohl noted. Currently, about 40% of employees have some degree of responsibility for an elderly person's care, she said.

In response, DuPont this year also implemented a national elder-care resource and referral service, Ms. Wohl said.

Mobil Oil Corp. also implemented work and family benefits to respond to workers' needs, said Margaret Meiers, employee relations adviser in Fairfax, Va.

Ms. Meiers pointed out that many of the oil company's workers are frequently relocated, live overseas or live in small, isolated towns, so they lack the support of parents or siblings that people often count on to help with family responsibilities.

In response, Mobil instituted a national child-care resource and referral service, a spouse employment assistance program and an elder-care consultation and referral service, Ms. Meiers said.

And, Mobil allows employees to use the counseling services offered by its employee assistance program to deal with work and family issues, she noted.

Mobil also allows some employees to arrive at work within a 2½-hour window of 8:15 a.m. And, employees may take an unpaid leave of absence of up to one year to care for a new or sick child or family member, Ms. Meiers said.

Northern Trust Co., a Chicago-based bank, discovered in an employee survey that some two-thirds of its workers are women and 78% of the women are between 18 and 40 years old, said Bill Setterstrom, senior vp of human resources.

And, there was an "overwhelming" positive response to a question on whether the women

planned to have a child in the next five years, Mr. Setterstrom said.

So, the bank decided that it would devote part of a new facility it was building in Chicago to an on-site child-care center, Mr. Setterstrom related.

The center, which opened Sept.

The programs' payoff is a 'loyal, dedicated and competitive workforce,' says IBM's Ted Childs.

19, can accommodate 72 children—15 infants, 20 toddlers and 36 preschoolers. The cost to employees is \$125 per week for infants and toddlers and \$85 per week for preschoolers, Mr. Setterstrom said.

Next year Northern Trust plans to institute a host of new work and

family benefits, including dependent care and medical care expense accounts; allowing employees to use two of their annual sick days to care for a sick family member; adoption assistance; a national child-care resource and referral service; and an employee assistance program, Mr. Setterstrom said.

Unlike the other companies, Hewitt Associates, a Lincolnshire, Ill.-based consultant, did not base its decision to implement work and family benefits on the results of empirical data, noted Linda Foster, a family resource consultant with Hewitt.

Instead, the firm's chief executive officer traveled around the country and held focus group sessions with employees who are mothers, Ms. Foster related.

Employees were in need of information, the CEO discovered, so Hewitt established a resource and referral program for child care and elder care in each regional office,

staffed by a part-time employee.

Working mothers also said in the focus group sessions that they encounter child-care difficulties while traveling for business, so Hewitt now reimburses employees for the cost of dependent care if the consultant has to travel overnight or arrive home late during the evening from a business trip, Ms. Foster said.

In addition, Ms. Foster pointed out that Hewitt maintains a large work and family resources library, stocked with books and videotapes at its headquarters. And, each regional office has or is soon going to have a "mother's room" specifically designed for women to pump and store breast milk.

Hewitt also offers seminars and training sessions for expectant parents, single parents and workers with elder care responsibilities. And, employees can negotiate for up to three additional days off of work per year to care for a sick family member. ■

Five Years Ago, This Was Considered An Inte



Family benefits can attract new workers

By DEBORAH SHALOWITZ

CHICAGO—Companies that offer benefits to respond to work and family needs will be better able to attract and retain valuable employees, experts say.

However, to be truly supportive of family needs, companies should change their assumptions about what is the "right" way to work, they say.

Furthermore, work and family benefits do not simply mean offering child care assistance, the experts said. Elder care and flexible work schedules also are important benefits, they add.

Companies that have implemented benefits to help employees coordinate their work and family responsibilities report the benefits have helped improve their ability to recruit and retain employees,

improved morale and reduced absenteeism, said Ellen Galinsky, co-president of Families & Work Institute, a New York-based research and consulting firm.

Work and family benefits have "become a means by which employers can distinguish themselves and make them the employers of choice," pointed out Arlene Johnson, program director of work force research for The Conference Board, a New York-based association composed of business leaders.

Ms. Galinsky and Ms. Johnson spoke at a forum on work and family issues held in Chicago last month, sponsored by the Family Resource Coalition, a Chicago-based non-profit community organization that works to strengthen families.

Currently, there is concern among U.S. corporations about the

competitive ability of the labor force, according to Fran Sussner Rodgers, president of Work Family Directions, a Boston consulting firm.

Jobs are becoming more complicated and there are fewer people available to do them, Ms. Sussner explained.

Small businesses will be hardest hit by a labor shortage, said Victor Rubin, principal analyst for Berkeley Planning Associates, a Berkeley, Calif., consulting company.

However, "99% of small businesses have not even recognized the work-family issue yet," Mr. Rubin said, citing statistics from a survey conducted by the U.S. Small Business Administration.

He recommended that small businesses try to create "economies of scale" to offer family benefits typically available at larger firms.

For example, a group of small businesses could jointly develop a co-operative daycare center, Mr. Rubin said.

Among larger companies, "there is now a recognition of a reciprocal relationship between work and family," according to Ms. Johnson of the Conference Board.

However, offering work and family benefits solely to increase the productivity of workers is an inappropriate basis for offering such programs, she said.

Freeing parents from responsibilities at home so they can work more is not necessarily good, she said, noting that "absence (from work) and time with the family can be a positive, and not always something to reduce."

One of the major problems corporations face in developing work and family benefits is that "basic

work practices have stayed practically the same in the last 20 years," explained Ms. Rodgers of Work Family Directions.

A key assumption about work—that "time at work equals one's contribution"—simply is not true, she said.

There is an "unquestioned assumption" that anyone who is in a position of authority or responsibility has to work 60 hours per week, Ms. Rodgers noted. However, "there is no direct relationship here."

Everything that equates time at work with productivity works against working parents, she added.

"We are a society that has become irreversibly dependent on women working," Ms. Rodgers said, adding that "we cannot turn back and still be a healthy economy."

Work and family issues are not just women's issues, one speaker at the conference pointed out.

James Levine, director of the Fatherhood Project of the Families & Work Institute, said that there is an "emerging group of men who are feeling real work and family conflicts."

For example, in a 1989 poll conducted by The New York Times, some 72% of men reported a conflict between their work and family, Mr. Levine reported.

Advertisements for baby lotion that depict men cuddling their bare-bottomed babies indicate that "many corporations have realized that men are an emerging market" for baby products, "but they don't realize that fathers are also employees," he said.

Mr. Levine acknowledged that this conflict goes largely unnoticed because of a "culture of male silence."

Also, there is an absence of role models of men in senior corporate positions who have a balance in their lives between work and family, he added.

To change this situation, corporate human relations planners should include working fathers in their consideration of work and family benefits, top management should support and endorse work and family programs and "individual fathers have to speak up," Mr. Levine said.

Child care is not the only work and family issue that a company should address, other speakers said.

Elder care "is going to eclipse child care in its magnitude," predicted Ms. Galinsky of the Families & Work Institute. Some 40% to 45% of employees say they will be assuming responsibility for older relatives in the next five years, she said, citing the institute's own research.

These responsibilities can lead to more turnover of employees, more absenteeism, late arrivals and early departures from work and less productivity in general, she continued.

To respond, companies can develop information and referral services on adult care, adult daycare services and long-term care insurance programs, she advised.

Flexible work schedules can help companies reduce absenteeism among workers that have to care for a child or elderly relative, Ms. Galinsky noted.

Flexibility in work schedules can be provided in several ways, Ms. Galinsky explained, including: flex-time, in which employees may start and end the day earlier or later than the normal schedule; extended lunch periods; part-time work; job sharing, where two part-time workers do the work of a full-time employee; and leaves to care for a sick child or an elderly relative.

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Regulators told to take fast action

Spot troubled insurers before it's too late: Insurance attorney

By MICHAEL BRADFORD

WASHINGTON—The heat on insurance regulators must be turned up to force them to take corrective action against financially troubled insurers before it is too late, a well-known insurance attorney charges.

George K. Bernstein, a Washington attorney, told a nationwide audience at a teleconference sponsored last month by the American Bar Assn. that state insurance regulators have the tools to adequately police insurers but lack the will to do so.

The role of insurance regulation is to spot troubled companies

early, Mr. Bernstein said. If insolvencies can't be prevented, then the regulator should "cut the losses as quickly as possible," he added.

Regulators have adequate personnel and funding to help them determine which insurers are financially troubled, said Mr. Bernstein. But they don't act quickly enough to take corrective action, he charged.

Huge losses by insurance companies don't occur overnight, Mr. Bernstein said, but instead happen while financial examinations by regulators are ongoing.

"The tools are there. The tools are being improved every day. But still someone has to bite the bul-

let," Mr. Bernstein remarked. "Some regulator has to say: 'Enough. I'm going to put this company under row and cut the losses quickly.'"

Moves by the National Assn. of Insurance Commissioners have helped to strengthen regulators' abilities to spot troubled companies, Mr. Bernstein acknowledged. "They've improved requirements for things like certification of annual statements and certification of reserves."

These types of tools, "unless they are used, are meaningless," Mr. Bernstein said.

"I think one of the greatest tools you could possibly have is some-

thing as simple as a case reserve examination," he remarked. He explained that "a major cause of insurer insolvencies is underpricing the product. You can hear all the sexy stories about fraud here and fraud there, but it's basically underpricing the product."

And to cover up the results of underpricing, some companies will intentionally underreserve for future claims, said Mr. Bernstein. "You don't need actuaries to project all the losses to get an idea that something's wrong. You send in a team of examiners to look at case reserves," he said.

"You can spot from that a trend of intentional underreserving. That

is a tool to tell you early that you've got a troubled company."

However, Dan Conway, vp-external affairs at Chubb Corp. in Washington, D.C., and another panelist in the teleconference, said insurance companies are faced with the difficult question of how to properly price a risk "when you don't know what that ultimate cost is going to be."

In some lines of business, he added, "there have been serious problems determining what are appropriate reserves, particularly in the environmental area."

For example, Mr. Conway said, "You have policies that were written not intending to cover gradual pollution. But some courts, not all of them, have interpreted it as covering gradual pollution. The question is, in the next case, which way is the court going to come out on that?"

Underpricing and insolvency are often the result of intense insurer competition, another panelist pointed out.

Robert Hall, general counsel at American Re-Insurance Co. in Princeton, N.J., noted that "there are about 6,100 insurance companies in the United States and they compete very vigorously. . . . When you compete you have winners and losers."

Sometimes the losers are companies that compete "stupidly," said Mr. Hall, and those companies include insurers that "get into business they don't understand, low-ball their reserves" or give away "essential management authority to third parties in terms of underwriting, handling of claims and placing of reinsurance. When you give away everything that makes you an insurance company, then you more or less get what you

Continued on next page

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While these are factors that identify "companies that don't know how to compete well," Mr. Hall commented, "I believe these companies are in the minority."

He said, "the mission, it seems to me, (is) how do you reconcile the fact that in a capitalistic society some companies are going to go down? With the societal fallout from that, it's not an easy equation."

Under the regulatory reform proposal outlined by Mr. Bernstein during the teleconference, state insurance regulators would be forced to take a more aggressive posture in identifying troubled companies.

He proposes a system that will "recognize the human nature of regulation and the fact that it's a lack of will rather than tools" that allows insolvencies "to get as bad as they do."

The system envisioned by Mr. Bernstein would build a "counter-pressure on the regulator to overcome the reluctance to pull the plug quickly," he said.

Mr. Bernstein proposes that insurance regulators be forced by state statutes to rate insurance companies according to their financial strength and then publish the ratings.

"Insurance departments employ 6,000 employees. They have \$300 million of funding. They are competent to perform that task," Mr. Bernstein asserted.

And if the ratings published by insurers caused policyholders and intermediaries to stay away from some insurers, that's fine with Mr. Bernstein.

"I think that if the rating is such as to scare people off, then those people should be scared off," he said. Current rating systems and "the word out on the street" already accomplish that to an extent, Mr. Bernstein said.

Also under Mr. Bernstein's proposed system, insurer assessments paid to state guaranty funds would be "reflective of the risk involved in that individual company."

James F. Johnson, an attorney with the New York law firm LeBoeuf, Lamb, Leiby & MacRae, questioned a system that would call for weaker companies to pay higher assessments to a guaranty fund and prompt regulators "when in doubt" to put an insurer "in the tank early."

"George, you are asking regulators to put the death sentence on an insurance company that they are not yet prepared to put into the tank," said Mr. Johnson. "I think that has all sorts of procedural problems."

Mr. Bernstein said his proposal contains provisions for administrative and judicial reviews of any rating by an insurance department.

"My problem with the proposal," said William D. Latza, an attorney with the law firm Stroock & Stroock & Lavan in New York, "is not one so much of regulatory will, but of legislative will. Would the New York Legislature, for example, wall off this huge pile of money" to be used solely as a hedge against insurer insolvency, or would it be tempted to use the funds in other areas?"

"And the other thing I am reminded of is 1985, when commercial liability premiums were seeing huge increases," he remarked. "Your proposal, I think, would further increase premiums that would have to be charged on account of risky business."

Mr. Latza suggested that legislators are not going to vote for laws that would set up a system that could increase insurance premiums.

Mr. Bernstein said that while he could not predict how state legislatures would react to proposals such as his, "unless the state legislatures, as well as the regulators,

have the guts to take steps to ensure solvency or at least ensure that insolvencies are caught quickly, I think the future of state regulation is doomed."

But Mr. Bernstein acknowledged that higher guaranty fund assessments against "a poorer-quality company is going to hurt that company. And I think, to be cruel, in terms of benefit of policyholders down the road... It's best to get those companies out of the game quickly rather than let them build up to billion-dollar insolvencies."

"The human price is going to be far less in the long run by getting the bad companies out early," he remarked.

Despite his lack of enthusiasm over the current state of state regulation, Mr. Bernstein acknowledged that federal regulation of the insurance industry probably is not a good idea.

The federal government's recent performance in the budget debate left little confidence in its ability

to do anything, he noted.

"If you look to the federal government and you see \$325 billion to \$500 billion of insolvencies in the savings and loan and banking industry as compared to \$15 billion in the insurance industry, you rec-

find itself under increased federal supervision.

The NAIC, he said, is "reading the tea leaves" and trying to improve regulation at the state level before the federal government steps in.

'What worries me most about federal oversight (of the insurance industry) is if you just get another regulator layered on top of the state regulator, you've got a real problem,' says Washington attorney George K. Bernstein.

ognize that the federal government can foul up as badly as the state government fouls up," Mr. Bernstein commented.

But, Mr. Bernstein added, if proposals like those from the NAIC don't result in improved state insurer solvency regulation, the insurance industry might eventually

"What worries me most about federal oversight," said Mr. Bernstein, "is if you just get another regulator layered on top of the state regulator, you've got a real problem."

Mr. Bernstein suggested that one answer to that potential dilemma might be to enact legislation offer-

ing insurers an option of either state regulation or federal oversight.

Chubb's Mr. Conway agreed that insurers fear dual regulation.

Duplicative regulation would mean insurers "not only have to jump through 50 hoops, we have to jump through 51. People always talk about whether it's better to have 50 chimpanzees or one gorilla. We don't want to have 50 chimpanzees and one gorilla on our backs," Mr. Conway said.

Other panelists at the teleconference included Jonathan F. Bank, attorney with the law firm of Buchalter, Nemer, Fields & Younger in Los Angeles; Paul E. Dassenko, director of insurance operations for the liquidator of Transit Casualty Co.; and David M. Spector, an attorney with Mayer, Brown & Platt in Chicago.

Francine L. Semaya, reinsurance counsel at Integrity Insurance Co. in Paramus, N.J., moderated the discussion.



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Byrne advocates some federal regulation

By COLLEEN JOHNSON

CHICAGO—"Just a little bit" of federal regulation could be a good thing for insurers, says the chairman of Novato, Calif.-based Fireman's Fund Insurance Co.

Insurers overall are not adequately capitalized, and state regulation has its problems, said John J. Byrne, who also is chief executive officer of Fireman's Fund and chairman and CEO of Fund American Cos. Inc. Mr. Byrne spoke at a seminar sponsored by Alexander & Alexander Services Inc. in Chicago late last month.

"There is something behind these headlines," Mr. Byrne said, referring to copies of news stories that were projected on a screen while he spoke. "There is some kind of a problem. And the heart of the problem is capital."

"We report a lot more capital than we have," Mr. Byrne explained. Producing a chart that showed U.S. property/casualty insurers' capital from 1972-1989, Mr. Byrne said that Fireman's Fund's calculations of capital for each year—which were developed by marking bonds to their market value for each year and marking loss reserves to the point they had reached by the end of 1989—showed that insurers' actual capital was much less than their reported capital.

For example, his chart showed that the property/casualty industry reported more than \$50 billion in capital in 1980, but its actual capital was zero. And while reported capital increased slightly in 1981, actual capital dropped below zero, according to Mr. Byrne's chart.

The industry likely will report about \$135 billion in capital for 1990, but that figure is at least "\$60 billion too light," he said.

"Loss reserves are atrociously light today," Mr. Byrne said. And, he said, uncollectible reinsurance has become "a black hole."

State solvency regulation also is plagued with problems, Mr. Byrne said. Among those he cited were:

- Delays in recognizing and acting on problems.
- Inadequate resources.
- Misplaced priorities.
- Inconsistency among states.
- The dilemma of solvency vs. rates. Elected officials often be-

lieve controlling rates is more important than regulating solvency, because their constituents are more concerned about rates, he said.

- Increasing guaranty fund assessments.

State regulation of insurers "was a system made for another era, and it is scrambling very hard to pull itself into the modern era," Mr. Byrne said.

Capital and regulatory problems together bring to mind warnings five years ago of the impending savings and loan crisis, Mr. Byrne said. "I don't think we should be matched with the S&L crisis," but he added that insurers shouldn't ignore the lessons that can be learned.

"Do we need some help from the feds?" he asked. "Maybe just a lit-

"If we have to have a little help from the federal government, this is my personal favorite," he said, adding, "I'd rather see it administered in a professional manner than in an amateurish manner."

Under this plan, he said, participation by insurers would be voluntary. If insurers chose to remain subject to state regulation and that state's guaranty fund, they could do so.

Also, the Insurance Guaranty Corp. would rehabilitate its failed members, he said.

The Insurance Guaranty Corp., proposed earlier this year by several insurer CEOs, most likely would report to federal authorities and would have a representative of the federal government on its board, said Peter Lefkin, vp-federal affairs for Fireman's Fund.

State regulation of insurers 'was a system made for another era, and it is scrambling very hard to pull itself into the modern era,' says Mr. Byrne. 'Do we need some help from the feds?' he asks. 'Maybe just a little bit.'

tle bit."

Mr. Byrne cited several proposals currently being circulated that would involve the federal government or some sort of national regulation, including:

- Writing minimum requirements for insurers into federal law, perhaps using the voluntary standards established by the National Assn. of Insurance Commissioners for use by state insurance departments in regulating insurer solvency (BI, June 19, 1989).
- Strengthening the NAIC's central authority.
- Creating a nationwide self-regulatory organization for insurers.
- The "port-of-entry" concept, which would couple minimum solvency standards with the idea that an insurer domiciled in one state could obtain a license in another state by meeting those standards.
- Creating a national Insurance Guaranty Corp. that would be funded by insurers and privately administered.

Mr. Byrne also offered some of his own suggestions for improving the financial health of the property/casualty insurance industry:

- Certification of loss reserves by actuaries with an FCA—or Fellow, Conference of Actuaries in Public Practice—designation.
 - Certification by public accountants of the detailed financial statements insurance companies submit to regulators.
 - Integrity in reinsurance accounting.
 - Marking assets to market value.
 - No discounting of loss reserves.
 - The tabulation of loss reserves.
- Under this proposal, tables could be drawn up that would estimate the amount of claims insurers will face for various lines of insurance, a Fireman's Fund spokesman said. Regulators could then compare a company's reserves to the amount of reserves the tables indicate should have been set aside, he said.
- Getting the NAIC "serious

about solvency."

"If we could just account for our business properly and set up the right loss reserves, we would drive the cycles right out of the business," Mr. Byrne said.

He said the insurance business needs stability and that he thinks the purchase of Fireman's Fund by German insurer Allianz A.G. Holdings will help provide that (BI, Aug. 6). He will retire as chairman and CEO of Fireman's Fund following the acquisition.

During his speech, Mr. Byrne criticized last month's report by Public Citizen—a Washington-based consumer organization founded by Ralph Nader—that ini-

tially said five of the nation's 20 largest property/casualty insurers are financially vulnerable and potentially at risk in a severe economic downturn (BI, Oct. 22).

"That is totally silly," Mr. Byrne said, but he added that two of the insurers named in the report are having financial problems. He would not identify them.

Public Citizen has admitted it erred in calculating the surpluses of two of the insurers it said were potentially at risk—Hartford Insurance Group and Aetna Life & Casualty Co.—and says it should not have raised solvency concerns about the two insurers (BI, Oct. 29). ■

Eastern Europe offers unique opportunities, risks, says insurer

By COLLEEN JOHNSON

CHICAGO—Americans seeking to invest in Central and Eastern Europe face enormous challenges and some special risks, but "the opportunities are there," says an insurer executive.

"The world is a global marketplace, and if we as Americans don't recognize that, we're going to come in second or third place," said Finley N. Middleton II, vp-Central and Eastern Europe for CIGNA Worldwide Inc., a unit of Philadelphia-based CIGNA Corp.

Americans should note that prior simple divisions between the Western and Eastern markets are "long in retreat now," Mr. Middleton said at a seminar held by Alexander & Alexander Services Inc. in Chicago late last month.

The establishment of a single market in the European Community in 1992 has "taken a back seat" to concern over the opening of Central and Eastern European markets, and the flow of Eastern goods into the West has "created quite a bit of havoc in the E.C.," he noted.

"This market (Central and Eastern Europe) is huge, and a year ago it was absolutely closed to everyone in this room," Mr. Middleton observed.

But, while there is potential for profit in this newly opened area, investors should beware of several possible risks, Mr. Middleton warned.

Expansion-minded Westerners should not forget the risk of natural catastrophe, particularly in the southern portion of the region, which has a "bad history of earthquakes," he said. "Social catastrophe" is also a possibility, in that social unrest is likely as countries change rapidly and are no longer protected from worldwide economic developments, he said.

Insurers should also be aware of pollution exposure, Mr. Middleton said.

He asked his audience if they had ever wondered why there seemed to be fewer pollution problems in Western Europe than in the United States. "They mailed it all to Eastern Europe," which accepted it in exchange for hard currency, he said.

"The greening issues were one of the nails in the coffin for the Communists" in Eastern Europe in that people in these countries saw an increase in pollution and observed their leaders doing nothing about it, Mr. Middleton noted.

According to Mr. Middleton, other issues of which all potential investors in Central and Eastern Europe should be aware include:

- Property law. The issue of who owns land is "more complex than giving land back to whom it belonged" before Communist takeover, he said. There is the problem of "how far do you go back"—whether ownership should be determined by who held the land at the time of Nazi invasion, or who held it during an interim period between Nazi and Communist control, he said. "It's a nightmare."
 - Unreliable economic statistics. "Numbers were created to conform with the plan," he observed.
 - Lack of safe investments. Without banks, stock markets, equity markets or unencumbered real estate, an investor's only option is a venture capital investment, he said. That is "very dangerous," he added.
 - Differences in markets. Central and Eastern Europe is not one homogeneous market, but rather a combination of varied markets, he said.
 - Political uncertainty. Governments have not yet stabilized, and some could revert back to totalitarianism, he said.
- "History and tradition have a significant role in the area," Mr. Middleton said. Recent history has created "an enormous amount of anti-German sentiment and anti-Soviet sentiment," he added.
- Mr. Middleton said there is a great deal of pro-American sentiment, and apparently "a fairly strong bond" between people in the region and relatives in the United States. "They like America, they like Americans, they want to be like us," but the problem is that people don't necessarily have the skills to convert to a market economy, he said.

But, Mr. Middleton added, "I don't want to be pessimistic. I think the opportunities are there. It is an enormous market. I feel reasonably confident that in most of the countries we could all generate a profit."

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Workplace safety vs. profitability

OSHA must study impact of its regulations: Broker

By COLLEEN JOHNSON

CHICAGO—The Occupational Safety and Health Administration should consider the economic costs and possible impact on national competitiveness of setting rigid workplace standards, a brokerage executive warns.

OSHA plans to study the effects of work rates on cumulative trauma disorders in developing guidelines on the conditions (*BI*, Sept. 10), and "there is reason to be concerned that OSHA's advisory panel will not face up to the hard questions," said Robert H. Moore, senior vp-corporate relations for Alexander & Alexander Services Inc.

Mr. Moore spoke on "Risk Management Issues for the '90s" at an A&A seminar in Chicago late last month.

The issue is whether "OSHA will face up to the impact its own regulations have on profitability," Mr. Moore said in a later interview. "What OSHA tends to do is say, 'Hey, it's not our job to worry about that.'"

But strict cumulative trauma guidelines on the amount of work that can be performed would not take into account that more work may occasionally be necessary to complete projects, Mr. Moore said. "Do we go so far as to prescribe things that are disruptive of conventional work practices?"

"I think that's bad policy, and that OSHA needs to be encouraged to take into account the economic impact of its own regulations," he said.

"Obviously workplace and environmental hazards need to be eliminated or mitigated whenever possible," Mr. Moore observed.

But if a "risk-free existence" is pursued without concern for costs, "we could eventually become ethically and financially bankrupt," he said. That could happen "if we refuse to have an honest dialogue about the economic costs of a risk-free society," he argued.

A&A in October interviewed risk managers by telephone on several topics, including whether companies felt pressured to provide a risk-free environment.

Some respondents said perceived pressures had forced them to broaden their coverages and increase their limits, Mr. Moore reported. Others noted an increase in product liability and workers comp claims, which they partially attributed to media coverage of tort litigation, he said.

The poll also updated some parts of A&A's annual "National Risk Management Survey," released in April (*BI*, April 30). It found that workers compensation claims and hazardous waste management controls are increasingly serious problems for risk managers.

More than 1,800 risk managers were queried in the earlier survey. For the October telephone interviews, A&A selected a "representative sampling" of about 20 "particularly well-informed" risk managers in different industries and parts of the country, Mr. Moore said in the interview.

The survey earlier this year found top concerns to be tort reform and the prospect of quick, sharp price changes in the property/casualty market. While about one-third of those responding to the new poll saw no changes in the top concerns, more than half reported that civil justice issues, particularly caps on damages and limits on directors and officers lia-

bility, were less critical than they were six months ago, he said.

Instead, more than half of those polled recently thought workers compensation had become the most pressing issue they faced, said Mr. Moore, adding that workers comp renewals in July forced more companies into the residual market.

And, half of those interviewed thought hazardous waste management controls should be near the top of their concerns, he said.

The most recent poll also queried risk managers about changes in the workplace and their expectations for the future. Some of their per-

ceptions and concerns, Mr. Moore told the audience, are that:

- Known and suspected problems with video display terminals will increase.
- There will be an increased emphasis on safety rather than on what respondents called "carefully constructed insurance programs."
- Litigation and media coverage has led some workers to believe they are entitled to an injury- and risk-free work environment.
- There will be a "marked escalation in stress-related losses."
- There will be difficulty in drawing the line between work and non-work exposures.
- OSHA's role in setting ergonomic guidelines is expanding.
- There have been dramatic improvements in loss prevention at companies with a significant num-

ber of "blue-collar workers."

- More employees are working at home.

Risk managers also were asked about the demographics of their workers. The poll found that the average workforce is getting older in most industries, with an influx of younger people in manufacturing, petrochemical and high-tech companies, as well as in firms that deal in information rather than products, he said. And it found that overall, the workforce is shrinking from retirement and layoffs.

The poll showed that many companies—particularly in the traditional manufacturing sector—are encountering "diminishing skill and commitment levels in their entry-level workforce," Mr. Moore said. But it also showed that com-

panies are employing "information literate" workers that deal with information rather than machines, he reported.

As workers increasingly are responsible for mental rather than physical labor, risk managers will focus more on limiting work-related stress and other nervous and emotional disorders, he said.

These "information literate" workers will be well-educated and valuable and will have a sophisticated understanding of working conditions, legal entitlements and benefits that will require employers to respond to their demands or possibly face litigation, Mr. Moore said. "This group of employees will demand and they will receive more participation in all phases of corporate policy making that affect them."

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INTERNATIONAL

Global risk management

International events touch all companies: RIMS leader

By KATHRYN J. McINTYRE

SINGAPORE—Risk managers today must think globally, advises the president of the Risk & Insurance Management Society Inc.

"Even if you don't do business overseas, foreign events can significantly impact your business," warns Cheri J. Hawkins, who also is assistant treasurer and director of insurance for Weyerhaeuser Co. in Tacoma, Wash.

"Looking at the Middle East crisis, imagine how many companies face significantly higher transportation costs because of a rise in world oil prices," Ms. Hawkins explained.

"The companies we work for—whether manufacturers, distributors or service companies, such as hotels and airlines—are counting on us as risk managers to identify their exposures to loss both at home and abroad," Ms. Hawkins said.

"We must be able to recommend to company leaders appropriate actions to take, whether it be finding insurance for certain risks or avoiding locating in certain places," she said.

Ms. Hawkins addressed global risk management trends at the second Asia-Pacific Risk Management Conference, held Oct. 28-31 and co-sponsored late last month by RIMS and the Risk & Insurance Management Assn. of Singapore.

In addition to urging risk managers to think globally, she criticized insurers for "retreating from providing the coverage that business needs."

Risk managers whose companies have operations overseas "first and foremost must pay attention to customs, laws and events outside our own countries," Ms. Hawkins suggested.

"We must be aware of risks that may be unique to a particular area, and we must be aware of how local customs and laws permit or restrict us from covering those risks," she said.

Risk managers must be concerned with both tort liability in various countries and with political instability, Ms. Hawkins pointed out.

Continued on next page



Photo by Stacy Shapiro

Local music welcomed attendees to the Asia-Pacific Risk Management Conference.

Pollution crisis increases risk managers' role: Broker

By STACY SHAPIRO

SINGAPORE—U.S. risk managers have the opportunity to expand their role in their corporations as environmental awareness grows worldwide.

As governments around the world introduce legislation to limit environmental risks, company executives are increasingly relying on environmental risk assessment procedures developed by risk management departments.

The assessments have proven the worth of the risk manager and helped to encourage insurers to consider offering new environmentally related coverages, risk management experts say.

"The business of the next 30 years is the same as the business of the last 20 years in the United States," said Myra Tobin, managing director of Marsh & McLennan Inc. in New York. "And that is for all of us to take a look at the environment and cleaning up the environment, and doing what we can—either in the insurance industry as we play our role, through trade associations, individually, or to actively participate in a consumer lobby to have a better environment in which to live."

"Probably the most exciting thing that I have seen happen, as far as the risk management profession in the last two or three years, is the expanded job description that many risk managers have assumed or has been created by their corporations," Ms. Tobin said during the second Asia-Pacific Risk Management Conference co-sponsored by the Risk & Insurance Management Society Inc. and the Risk & Insurance Management Assn. of Singapore.

"Several risk managers today are not only looking at loss control and claims handling and financing of risk as being part of their job description, but are given a much greater challenge in being responsible for environmental liability and risk," Ms. Tobin said (BI, Oct. 8).

And risk managers "take a more active role in the coordination of managing these risks," she added.

In the 1990s, many risk managers may see a whole new career plan for themselves as a result of these new responsibilities, Ms. Tobin said.

The environmental awareness of many U.S. *Continued on page 103*

Political risks lurk in thriving Pacific area: RIMAS leader

By KATHRYN J. McINTYRE

SINGAPORE—Political risks confront companies doing business in the Asia-Pacific region, the president of the Risk & Insurance Management Assn. of Singapore warns.

But, after a slow start in the region, risk management "will provide an effective instrument in protecting and securing the prosperity and stability for the businesses that operate in this region," said Michael Wan, who also is financial controller of Singapore-based Getz Corp., a Marmon Corp. unit.

Mr. Wan spoke at the second Asia-Pacific Risk Management Conference co-sponsored late last month in Singapore by RIMAS and the Risk & Insurance Management Society Inc.

Among the sources of "tensions that are currently lurking in this region," according to Mr. Wan, are:

- The possible emergence of India, China, Japan or Vietnam as regional superpowers.
- The possession of nuclear weapons by both India and Pakistan, neither of which has signed the nuclear non-proliferation treaty.
- Conflicting claims over the Spratly Islands in the South China Sea by China, Taiwan, Vietnam, Malaysia and the Philippines.
- The prospect of Sabah, formerly North Borneo, demanding greater autonomy from Malaysia.
- The Philippines' unresolved 27-year claim over Sabah.
- Insurgencies in the Philippines and the ethnic tensions in Sri Lanka, India, Fiji and other Pacific states.
- Conflicting claims by China and Japan over the Senkaku Islands.

Mr. Wan expressed "hope" that these tensions "will not be the sparks for possible upheaval of explosive proportions in the near future."

Opportunities available in the region include an Asian population of "well over" 2.5 billion, said Mr. Wan.

"Even though the double-digit (population) growth of the last decade for many *Continued on page 100*

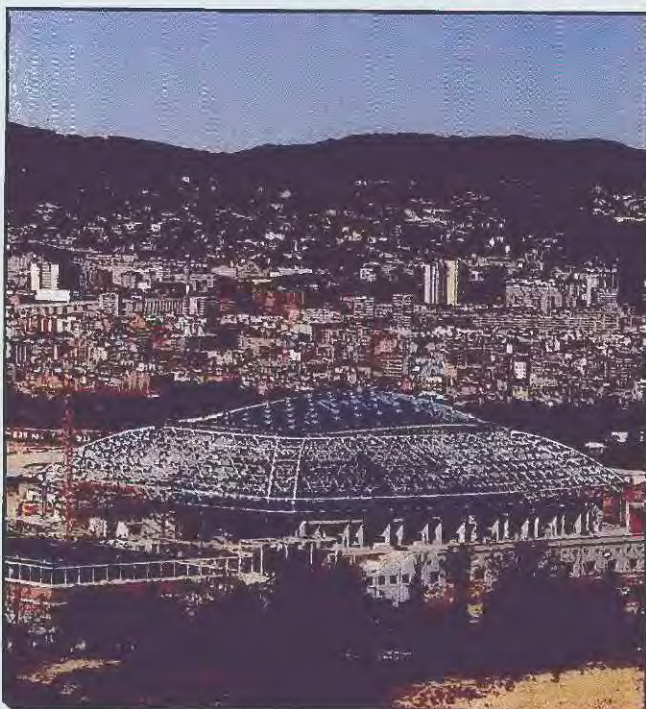


Image Bank photo

Sardà Olympic Hall in Barcelona is among the sites under a comprehensive risk management and program for the '92 Games.

Olympian exposures

Barcelona structures gold medal coverage program

By CAROLYN ALDRED

BARCELONA, Spain—Olympic fever already is spreading in Barcelona—the host of 1992 Summer Olympic Games.

Workers are rebuilding the international airport, constructing a huge Olympic village and expanding the Barcelona stadium.

Behind the scenes, COOB '92—the Barcelona Olympic Organizing Committee—has been creating a complex risk management and insurance program to ensure the games run smoothly—and profitably.

Managing and financing the risks accompanying of a mammoth 16-day world event held every four years in a different location cannot be compared easily to any other risk management endeavor, observed Oriol Serra Meijas, assistant deputy director of COOB '92's general administration organization committee.

Mr. Serra and Javier Parrizas Capdevila, risk manager of COOB '92, detailed their complex task at the 20th International Insurance and Risk Management Conference organized by Management Centre Europe, the European arm of the American Management Assn., and held Oct. 24-26 in Barcelona.

COOB '92's Insurance and Risk Management Department was created in January 1988 to identify, analyze and finance

the Games' risks as well as handle claims, Mr. Parrizas explained.

Among the hundreds of thousands of duties and risks for which the risk management department is responsible, Mr. Parrizas said, are:

- Hundreds of contracts with, for example, building and equipment contractors. COOB '92 already has handled about 800 contracts.
- 2,000 nine-seater vehicles.
- 16 ships to be used as floating hotels.
- 10,000 beds in private houses.
- 6,000 televisions.
- 4,000 radio pagers.
- 46 sports facilities.
- 3,500 houses in the Olympic Village and the press enclave.
- Sports equipment and furniture.

In addition, "numerous institutions and companies are involved in the organization of any Olympic Games. In this sense, the question of who is responsible for insuring what is raised," Mr. Serra noted.

To obtain the most appropriate coverages, COOB '92 initially planned to identify, analyze and evaluate the risks with its advisers and brokers Nespa, Cogrup, Grupo Max Galceran *Continued on page 117*

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Global thinking

Continued from previous page

"The risk of doing business overseas has been dramatically illustrated by recent events in the Middle East," she noted.

"The blockade in the Persian Gulf is affecting ships at sea and the goods carried on those ships," she said. "It's affecting insurers who have written coverage on these ships and their cargoes. It's affecting delivery of raw materials or components required in production processes, causing business interruption losses."

Some companies, Ms. Hawkins said, "have lost significant assets in the Middle East, either because they failed to purchase appropriate insurance or because it was unavailable."

Positive developments like the removal of trade barriers within the European Community also re-

quire risk managers to act, she suggested.

E.C. nations are harmonizing their fire and safety codes and other regulations, Ms. Hawkins noted.

And companies will consolidate plants and manufacturing operations and branch offices in the European Community, which will create higher concentrations of values in given facilities, she said.

Companies also will have a "different work force whose benefits and pension plans must be integrated into a companywide program," she said.

Following the "spate of mergers and acquisitions" in the European

Community, risk management departments also will be consolidated, she added.

Risk managers can assist each other in confronting these changes, Ms. Hawkins said.

"We can and must call upon one another for information on business practices, insurance and tax regulations, insurance market conditions and available coverages in our respective countries," she advised.

"Fortunately, we are well on our way to creating an international network through the International Federation of Risk & Insurance Management Assns.," Ms. Hawkins said.

As "the world becomes smaller," three kinds of risks are growing, Ms. Hawkins pointed out. In addition to political instability, she cited the risks of massive environmental cleanup bills and lawsuits against businesses.

"Compounding all these risks is another development which I consider entirely indefensible," Ms. Hawkins said. "This is the growing trend for insurance companies to exclude or limit coverage on almost any risk that might lead to a claim. The greater the potential claim, the more timid the industry becomes."

"This situation is reaching proportions where certain kinds of insurance are unavailable at any price."

Insurers are retreating from writing political risk insurance, coverage of sudden and accidental pollution and certain tort liabilities, like product malfunction or medical malpractice, Ms. Hawkins said.

"As head of an organization whose members purchase approximately \$60 billion worth of insurance and insurance services each year, I would like to give the insurance industry a word of warning: Don't protect yourself out of existence," she said.

"The insurance industry's function is to protect the insured against loss, not to protect itself against claims. When it begins covering only those eventualities that pose no real risk, it will no longer have a function."

Already, Ms. Hawkins pointed out, "More and more corporations are beginning to examine alternative ways of covering risk now that they see huge deductibles or exclusions attached to the kind of insurance coverage they need."

In addition to using captive insurers, companies are developing "new and innovative schemes for covering risk," she said, including "annual set-asides to reinsurance companies to create a company-owned reserve against catastrophic loss."

Ms. Hawkins urged risk managers to "press insurance companies for the risk coverages we need," including political risk insurance, coverage against accidental and sudden pollution and disposal of hazardous wastes.

At the same time, she said, risk managers should "work for a stable, well-financed insurance market" by "encouraging the development of adequate solvency regulation not only in the European Community, which is now in the process of harmonizing its rules and regulations, but everywhere."

"As we grow closer and better understand local mechanisms, we risk managers will be able to work together with brokers, insurers and governments to create good and uniform rules and regulations worldwide. We'll be able to draft policy language that makes sense, that follows form, that ensures the integrity of the insurance product."

"Or, we may look to pooling, to global captives and various risk-sharing mechanisms," Ms. Hawkins said.



Ms. Hawkins

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Asian risks

Continued from page 97

countries in Asia may be difficult to maintain in the '90s, it will certainly be higher than in the United States or Europe," Mr. Wan predicted.

He also cited a "new order," referring to the "renaissance of democracy, the failure of communism as an economic and political system, the renewed force of free enterprise" and technological advances.

Noting that risk managers from about 20 nations were attending the meeting, Mr. Wan said "risk managers are now taking a more proactive role in discharging their duties."

Tracing the development of risk management in the region, Mr. Wan pointed out that the first introductions in Japan and Taiwan in the 1970s, "started out as nothing more than an academic pursuit by insurance professionals and academics fo-

cusing on the concept rather than the practice."

Asian companies were slow to accept risk management, he said, partly due to four factors:

- Business culture focused on production and marketing, delegating the cost of risk to a secondary status.

- Governments controlled insurance markets, offering no incentives for innovative ideas on alternative risk financing.

- Legal liability rights were not significantly invoked.

- The belief that the "forces of nature" should not be fought was deep-rooted in many cultures.

While not embracing risk manage-

ment, both Japan and Taiwan championed "quality control," a risk control practice, he noted.

Japanese managers "have been saying repeatedly that 'If we get quality right, nothing else matters as everything is going to be right if we get quality right.'"

There were no risk management associations in the region until the Assn. of Risk & Insurance Managers of Australia was formed in 1975, Mr. Wan reported.

When RIMS shifted its attention from Europe to the Western and Southern Pacific region, the first Asia-Pacific Risk Management Conference was sponsored in 1986 by RIMS in cooperation with the Singapore Insurance Training Centre, now called the Singapore Insurance Institute, he added.

Several more associations have sprung up, he reported:

- The Japan Society of Risk Management in 1980.

- The International Federation of Risk & Insurance Management Assns. in 1984, which is an umbrella organization for risk management associations.

- The Indian Institute of Insurance & Risk Management in 1985.

- The Risk & Insurance Management Assn. of Singapore in 1988.

- The Society of Risk & Insurance Management of the Philippines in 1988.

- The Korea Risk Management Society in 1989.

For the future, Mr. Wan recommended that "continuing education will be absolutely vital for risk management to continue to be a separate management discipline."

"And to survive and progress, future risk managers will need to have additional skills and the proper tools to discharge their responsibility with credibility in the ever-changing economy."

Mr. Wan suggested that the "co-

operation of RIMS, members of IFRIMA, insurance professionals and academics will be the vital force behind the successful establishment of institutions for the education of risk managers of the future."

Senior management and other staff, Mr. Wan noted, "should be made aware that not only will the firm suffer losses if assets are lost or damaged, but unforeseen accidents will cause the whole nation to suffer."

He cited as examples the sharply reduced supply of North Sea oil following the loss of the Piper Alpha oil rig and the environmental destruction from the Exxon Valdez oil tanker spill in Alaska.

In addition to the importance of risk management to successfully operating in the Asia-Pacific region, Mr. Wan observed that successful companies will be those with an "efficient corporate structure and producing quality products." ■

Centralized program aids Sembawang

SINGAPORE—Sembawang Shipyard Ltd. is paying less for insurance and has yet to suffer a major self-insured loss since adopting a formal, centralized risk management program.

The commercial ship repair yard and marine group with annual revenues of \$300 million Singapore (\$176.5 million) formerly had a decentralized insurance program, explained S. Gerard Vincent, company secretary.

He outlined the company's centralized risk management program at the second Asia-Pacific Risk Management Conference co-sponsored by the Risk & Insurance Management Society Inc. and the Risk & Insurance Management Assn. of Singapore.

"The increasing costs of insurance pushed us to look at the most advantageous covers for premium dollars being paid and where possible to self-insure known and manageable risks properly," Mr. Vincent said.

A review of the company's insurance programs revealed that "we had been taking quite a number of insurance policies and over minute risks, like all-risks cover for walkie-talkies, pagers and hand sets," he said. At the same time, the company was not buying adequate limits of insurance for ship repair operations and special perils, he said.

For a "financially sound organization with a good safety and loss prevention record, we were purchasing too much insurance," Mr. Vincent said, while "the majority of liability loss limits were too low for catastrophic events."

Under the current centralized insurance program, Sembawang Shipyard absorbs about \$6 million Singapore (\$3.5 million) in annual deductibles and self-funds workers compensation, as well as loss of profits. And, it no longer insures certain machinery with a value of less than \$25,000 Singapore (\$14,706).

But, it also buys higher limits of liability insurance and limits its liability in contracts with owners, clients and sub-contractors.

Overall, Sembawang Shipyard has saved annually almost \$1 million Singapore (\$588,235) in premiums.

"Self-financing expenses have also been minimal and we have been fortunate in not as yet having to write off any huge losses that were self-insured," he added.

"We cannot say that we have solved all our problems," Mr. Vincent said, noting, "More challenges are constantly being faced in finding the right balance between recognizing risks, evaluating and controlling them and providing adequate cover or self-financing."

—By Kathryn J. McIntyre

HOW ARKWRIGHT MINIMIZE YOUR COST OF RISK.

INTERNATIONAL

Protecting foreign partnerships not easy

By KATHRYN J. MCINTYRE

SINGAPORE—Risk managers handling their companies' joint ventures in Asia can face considerable resistance to their risk financing proposals, an Asian-based broker warns.

"Your Asian partners will probably regard insurance as, at best, an unnecessary evil," advises John King, director of Asli-Jardine Insurance Brokers Sdn. Bhd. in Kuala Lumpur, Malaysia.

"Most Asian businessmen only buy insurance when they are forced to—normally at the insistence of a bank to protect a loan," he explained during a workshop at the second Asia-Pacific Risk Management Conference co-sponsored by the Risk & Insurance Management Society Inc. and the Risk & Insurance Management

Assn. of Singapore.

According to Mr. King, joint ventures are quite attractive because the Asia-Pacific region is extremely rich in natural resources, its rising standard of living is creating a larger



market for consumer goods and labor costs remain low. Nations in the area also are generally politically stable and welcome foreign investment.

However, except for Singapore and Hong Kong, countries generally require foreign investors to take a local partner.

When dealing with a local partner, foreign investors must realize

that when Asian businesses have to buy insurance, they tend to "look at price, not coverage," Mr. King said. "Many of them expect to be cheated when there is a claim."

Specifically, he said, a local partner is likely to object to:

- Sizable deductibles under global property and business interruption programs. The partner may complain that the capital of the local operation is inadequate to withstand a high deductible.

Or, the partner may ask why any insurance is needed if, for example, sprinklers have been installed.

- High limits of liability insurance, since liability awards in Asia are far lower than in the United States.

If products are being manufactured for domestic use in Indonesia, Thailand, the Philippines or Malaysia, "it

may be difficult to persuade the local partner to insure at all" against product liability risks.

- The U.S. partner's choice of an insurance broker or underwriter.

"The average Asian business tends to give its insurances to cousins and friends as a favor with little or no thought to professionalism or security," Mr. King said. "The imposition of an international broker or insurer is often regarded as 'breaking someone's rice bowl,'" he explained.

When the foreign partner controls the majority of the company, it can have full control of the insurance program, he said. However, this is generally in the initial years of a joint venture, he said. "Problems are likely to arise once the majority control passes to the local shareholders in compliance with local legislation."

Nonetheless, Mr. King said, global insurance programs can cover joint ventures in Asia. "What it requires is communication" by the risk manager who "takes time to visit the local operation, explain the advantages of the global programs and is prepared to accept that local conditions may well require certain exceptions," he said.

"The other solution," Mr. King said, "is to use a broker in Asia who totally understands the Asian scene."

David F. Blake, staff vp-risk management and insurance at Inter-Continental Hotels Corp. in Montvale, N.J., suggested that objections to introducing a global broker can be overcome by simply paying the local broker the same commission it would have received without another broker's involvement.

Mr. King agreed, noting that the foreign partner may also decide to subsidize the additional insurance if it wants to protect its own interests.

In addition to obtaining the desired insurance programs, foreign partners in joint ventures should be aware of other pitfalls to avoid, Mr. King said.

Any potential partner should be carefully researched, he advised.

"I know of one case where a foreign construction company transferred \$3 million to the bank account of its prospective local partner never to see the money again," Mr. King reported. "Such a situation could so easily have been avoided by a simple due diligence inquiry."

Before forming the joint venture, "both parties should be exactly clear on their respective roles in the company" and their understanding formalized in a shareholders' agreement, he suggested.

Foreign investors also should research the local legal system to determine if they could tolerate a dispute being heard in local courts.

Mr. Blake suggested that the contract should require arbitration of disputes in a third country.

And, the foreign partner should be well aware of how business people should conduct themselves, Mr. King said.

"In certain Asian countries it is considered extremely rude to point your finger at someone. Raising your voice is considered a loss of face. And forcing someone into a corner by being too direct will result in a total breakdown of communication," he said.

Mr. Blake also offered helpful tips for risk managers with a joint venture in Asia:

- Know if there were any unwritten agreements behind the formal joint venture agreement.

- Analyze any gray areas of the contract.

- Determine who is responsible for selecting insurers and brokers, paying the premiums, managing claims and overseeing employee safety programs.

- Review reporting requirements under the company's master insurance program.

- Ask what indemnifications are possible and know who is holding whom harmless and for what.

- Check directors and officers liability insurance coverage.

- Identify any securities exposures in the capitalization of the new company.

- Determine who the end users of the product are, who the vendors are and any warranties attached to the products.

- Determine who will be responsible for any successor liability.

- Determine who is keeping records, which will be very important in any product liability suit.

- Determine funding for claims from injured expatriates.

- Assess any political risks.

- Comply with environmental regulations.

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INTERNATIONAL

Mergers require risk manager's expertise

By STACY SHAPIRO

SINGAPORE—Accountants and lawyers don't always ask the questions before a merger or acquisition that would prevent a company from acquiring unforeseen liabilities, a risk manager asserts.

Therefore, risk managers can and should become involved before deals are completed, she says.

"Part of the problem, with all due respect, is depending too much on ac-



countants and lawyers," said Beverly Coen, director of taxes and insurance for Nordson Corp., an industrial

products manufacturer and distributor in Westlake, Ohio.

Ms. Coen spoke at a workshop at the second Asia-Pacific Risk Management Conference, co-sponsored by the Risk & Insurance Management Society Inc. and the Risk & Insurance Management Assn. of Singapore.

Risk managers "should get on the acquisition team and point out what

must be looked at" because they know better than lawyers or accountants what to look for, she said.

Sometimes you have to ask financial advisers and the acquisition team to take off their rose-colored glasses to face facts, she said. And sometimes accountants and lawyers will suggest reducing liabilities in an acquisition by buying "coverages that I have never seen in my life," she said.

However, Chan Cher Boon of the Singapore law firm Chan Cher Boon & Leong defended lawyers' and accountants' contribution to acquisitions. "We have some way to go before risk managers get involved early in mergers and acquisitions. So it is a necessary evil that accountants and lawyers are brought in—it is thought that they can keep secrets."

Mr. Chan also noted that accountants and lawyers learn through experience how to identify problems that insiders in the company may overlook. "As a risk manager I would value outside consultation," he said.

Ms. Coen noted that acquisitions are becoming routine. "It seems to me that acquisition activity is as great everywhere in the world as it has ever been and probably greater."

But risk managers often do not learn about an acquisition until after it has been completed, when senior management wants to combine coverages and examine liabilities, she said.

However, with the help of a few contacts within and outside the company, the risk manager can learn about acquisitions ahead of time, she said.

For example, Ms. Coen takes a look at the operation plans of her company's divisions "to identify what is going on." Plans will indicate which markets have been targeted for expansion in the next year or two, the kind of businesses targeted for future growth and, possibly, proposed acquisitions.

"This way, you can begin to prepare yourself and familiarize yourself with the area that your company is going to be expanding into," she said.

Risk managers should also make contacts with specialists throughout the company, she said. Many Nordson products, for example, require the help of a chemist or engineer to understand.

Ms. Coen said she has put together a "risk assessment team" of professionals inside and outside her company who can help her understand any acquisition before it occurs.

Ms. Coen and her staff have also developed questions to ask regarding any acquisition:

- What type of real estate or property will be acquired? This includes its current condition—for example, whether it's protected by sprinklers—and possible environmental exposures from past use.

- Have building environment tests been conducted, including air, water and ground quality tests? Who did the testing and when?

- What is the product liability performance of the company?

- How is the acquired company's product used? How are the products labeled? Do labels carry warnings? Do they clearly detail the ingredients and safety use?

- What is the status of employee benefit programs? Are there any contracts that require expensive severance pay if executives retire or are asked to leave the firm? What is the benefit climate of the countries where the acquired company is located? In some countries, severance pay can become very expensive, she noted.

Ms. Coen said she is fortunate because she reports to Nordson's chief financial officer, who usually knows when an acquisition is taking place. And, because she also is involved in the firm's tax matters—an essential

ingredient in merger negotiations—she usually is involved early in the process.

However, she suggested other ways a risk manager can learn about upcoming acquisitions:

- Review operation plans.
- Keep in touch with senior management.

- Review trip reports of senior executives. Often, she said, executives have visited the proposed acquisition and have reported on the acquired company's properties and work conditions.

- Look at your firm's forecasts of earnings streams to see where the company is headed and whether it will take acquisitions to head in that direction. Marketing reports can also help identify these areas.

Ms. Coen cited two acquisitions she has dealt with—one potential "disaster" story and one "success" story.

In the disaster story, Ms. Coen was called in to a meeting between five representatives of her company and five of a European company.

Ms. Coen was told the head of the European firm wanted to know about her company's insurance program. After she answered his questions, she learned that his company had a product line that "we had just agreed to distribute in the United States," she said.

The product was a highly technical item in the food industry, an area with which Ms. Coen was unfamiliar. "I was a little bit late in terms of asking questions about losses," she admitted.

When she asked the European executive if his firm had ever had a product liability claim, he said "no." She later learned that the company in fact had faced product liability claims, though they were for small amounts.

Despite her surprise about the new product line, the product did turn out to be profitable, she said.

After this experience, Ms. Coen decided let the acquisition team know what she could do for them. She distributed her list of questions and talked to others in the company about what factors they might want to consider in the event of an acquisition.

Some time later, Ms. Coen's boss told her the company was considering acquiring some operations of a European manufacturing company. It was a complex organization, and Ms. Coen was asked to examine its financial statements for the past few years.

She discovered that if the deal had gone ahead as originally planned, her company would acquire a division that designed products that would not be sold by her company. She convinced the acquisition team not to buy this division. "So we didn't buy any assets, any patents, any intangibles that we weren't going to be running ourselves."

With help from experts in her firm, Ms. Coen also identified some labeling that needed to be changed to comply with local requirements in countries in which the targeted company was not currently operating.

Ms. Coen noted that a company can buy insurance to cover exposures acquired through a merger.

And, Mr. Chan and another speaker—Ong Yee Huat, director of Ernst & Young Consultants Pte. Ltd. in Singapore—pointed out that escrow accounts can be set up to protect the purchaser from acquiring unforeseen losses. Part of the amount paid for the acquisition is placed into the escrow account and any unforeseen losses or losses discovered in due diligence can be deducted from that amount.

However, "risk management goes far beyond insurance," Ms. Coen said. "It is the contribution that you make to your company's financial success, its security and its future." ■

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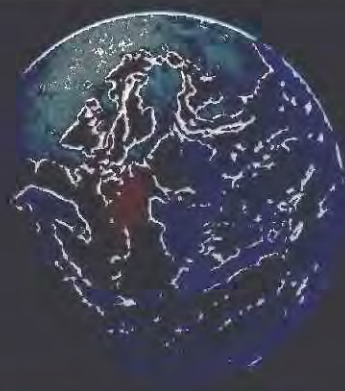
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Pollution risks

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companies has also led them to take various pollution prevention steps, according to other panelists who spoke at a plenary session on "Environmental Risk and Issues" at the risk management conference.

For example, chemical companies, which were among the first U.S. companies to attack environmental issues, are now leading cleanup efforts, said Paul F. York, international risk manager for Union Carbide Corp. in Danbury, Conn.

Union Carbide now has an environmental audit program that is headed by its vp of health and safety affairs who reports directly to Union Carbide's chairman, Mr. York explained. In addition, executive bonuses are affected by how well the company has decreased the environmental risk, he said.

Union Carbide also has created new processes to help in the cleanup of the environment, Mr. York noted. These include a process for removing dioxin from contaminated soil, as well as a process for eliminating polychlorinated biphenyls—or PCBs.

Other chemical companies are also "thinking and acting 'Green,'" said Mr. York.

As a result of their efforts, chemical companies are a much better risk today for insurers, added Ms. Tobin.

"This is a time when corporations are coming into their own and have spent a lot of money, certainly in the United States, in the last 20 years" on environmental cleanup, she said. "And much of it has been done in the same way that capital investment has been done—it is now being budgeted to spend so much on improving their environmental liabilities."

And, because chemical companies have been such a target in the United States for consumer activists, "many of these companies are so much better risks today—in fact, better risks than industries in other manufacturing segments—because they have spent a lot of money in the capital investment area to improve their exposures," Ms. Tobin said.

As corporations become more environmentally aware, underwriters may consider environmental risk to be more insurable in the future because more information will be available about the risks, speakers said.

"If the underwriting community can get the old pollution problems put aside, I think there will be a lot of new products for the emerging environmental exposure and risks that will be part of the decade of the '90s. And I think we will have a better story to tell on the part of corporations because they will present a lot of work in risk assessments and audits in that area," Ms. Tobin said.

No business in the world today is immune from environmental liability exposures, panelists noted.

"Only a few years ago, most of us associated pollution and pollution liabilities with chemical manufacturers, steel plants, paper mills and power generation," said Jaswant Singh, senior vp and director of Pacific operations for Clayton Environmental Consultants Inc. in Cypress, Calif., a Marsh & McLennan unit. "But today... you face environmental liabilities whether you are a real estate developer, a financial organization, a service organization or a butcher, baker or candlestick maker."

Just about any company today can face an environmental exposure from PCBs found in electrical equipment, underground storage tanks or liabilities transferred to the company through mergers and acquisitions, Mr. Singh said.

And although U.S. risk managers have been coping with environmental issues for the past 25 years, environmental concerns are now spreading across the world to Europe, Asia and the Pacific region, in particular, he added.

"One thing is quite clear: All the way from Australia to Thailand, environmental regulations are being developed," said Mr. Singh.

In Singapore, for example, where a "Green" consumer campaign began this month, clean air legislation already exists, a new law to control poisonous substances was recently implemented and legislation to ban chlorofluorocarbons—or CFCs—is now under consideration, Mr. Singh said.

In Europe, many countries are introducing legislation to protect the environment and the Green political movement is strengthening, panelists said.

In the United Kingdom, for ex-

ample, legislation to curb environmental pollution is in the pipeline (BI, Oct. 8).

In India the government has established a minister for the environment following the aftermath



Ms. Tobin



Mr. York



Mr. Singh



Mr. Ramanan

of the 1984 Bhopal chemical disaster, in which a cloud of poison gas released from a Union Carbide plant killed thousands of people (BI, Dec. 17, 1984).

The Indian government also recently introduced the Mandatory

Public Liability Insurance bill, which requires all companies handling or producing hazardous substances to buy liability insurance.

The insurance must be bought from the state-owned General In-

surance Corp. to provide coverage for third-party property damage, death, and permanent or partial injuries, explained T. Ramanan, insurance and risk manager for Hindustan Lever Ltd. in Bombay. Liability is limited to 25,000

rupees per person (\$1,400), he said.

"This measure is expected to protect the poor who are illiterate and who have no knowledge about their legal rights," said Mr. Ramanan.

"The liabilities are there no matter what country you are in," Mr. Singh noted. Even though two-thirds of the world's lawyers are located in the United States, there is another one-third based in other parts of the world who are ready to bring bodily injury or property damage claims for environmental contamination, he said.

The panelists agreed that although companies and governments are taking big steps in controlling environmental damage, a long list of horror stories exists worldwide.

For instance, the Aral Sea in the Soviet Union is quickly dying because the government diverted

Continued on next page

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INTERNATIONAL

Pollution risks

Continued from previous page

rivers that feed into the sea to irrigate cotton crops, noted Union Carbide's Mr. York. Sea level has dropped more than 45 feet, and the revival prospects "are not encouraging," he said.

Reports have said that the China Sea is so polluted that it is invisible to satellite photography, Mr. York said. And it is thought to be dangerous to eat fish in Hong Kong because of water pollution, he noted.

Landfills are approaching capacity in Europe, he said.

The average American family produces 100 pounds of garbage per week, and a total of 14 billion pounds of garbage is thrown in the sea each year, Mr. York said. In addition, more than 200,000 tons of pesticide is used annually in California alone.

And every year in the United States, "we throw away enough aluminum to build an entire air fleet," said Mr. York.

Meanwhile, the population of the world is exploding, which is probably "the most serious problem for the environment," Ms. Tobin pointed out.

Drought is spreading in Africa and portions of rain forests in Brazil are gone forever, other panelists said.

Deforestation is also occurring in Africa, Asia and the Americas as more land is sought for agriculture, Mr. Ramanan said. This has led to the depletion of medicinal herbs that are available in forests like those in India, where 2,500 plants have been officially recognized for their medicinal uses, he said.

In addition, sedimentation in Bangladesh, India and Pakistan resulting in deforestation has led to serious flooding and destruction of reservoirs and irrigation systems costing more than \$1 billion a year, Mr. Ramanan said.

The flooding caused by deforestation has cost India more than \$250 million annually in flood prevention and compensation, he added.

Besides the cost of pollution to society at large, pollution can cause special problems for businesses, Mr. Singh said. For example:

- Thousands of tons of toxic chemicals may be buried on sites without the knowledge of the site's owner or developer.

Mr. Singh showed a slide of a golf course that hasn't been used for some time because the Environmental Protection Agency has listed it as a contaminated site. Unknown to the golf course's developer, the land was used in 1942 as a toxic waste dump.

- Underground storage tanks can cause "a massive threat" to ground water supplies.

- Asbestos still is being found in buildings and, according to Mr. Singh, still is probably the single biggest environmental concern.

The "asbestos saga drags on," he said, with 1,000 new claims filed in court each month for asbestos-related injuries. In addition, about 10,000 people die from asbestos-related diseases each year, he said.

Nevertheless, asbestos is still being used in some Asian countries, Mr. Singh noted.

Risk managers should conduct environmental risk audits on existing sites as "a powerful management tool" to identify such environmental problems, said Mr. Singh. Environmental risk assessments should also be conducted on sites before they are acquired through an acquisition or merger, he said, and the audits should include:

- Review of documents.
- Walk-through surveys of the sites using equipment to screen potential liabilities above and below ground, which include the use of

ground penetrator radar that can detect metal containers below ground.

Increased use of risk assessments could encourage insurers to expand the pollution coverage currently offered, Ms. Tobin noted.

Meanwhile, air quality will become a major environmental issue during the 1990s, Mr. Singh said, referring specifically to air pollution in Eastern Europe and in Los Angeles. The concern will fall into two categories, he said: slow emissions, like auto exhausts, and catastrophic release of contaminants in an explosion, like the Bhopal disaster.

Another budding issue causing a great deal of concern is indoor air pollution, or "sick building syndrome," Mr. Singh said.

"This problem is particularly severe in countries and cities with high humidity and high temperatures" like Singapore, Mr. Singh

said.

Indoor air quality can affect employee health and morale and sometimes cause mysterious deaths, as in the case of Legionnaires' disease, which causes 5,000 deaths a year, said Mr. Singh. Le-

The 'asbestos saga drags on,' with 1,000 claims filed monthly, says Jaswant Singh.

gionnaires' disease is caused by bacteria that can spread through air conditioning systems.

As environmental awareness increases around the world, governments should not necessarily follow the U.S. example of

environmental regulation, Ms. Tobin noted.

American risk managers have been required to cope with federal and state laws on pollution for more than 25 years, finding them "frustrating" and "tedious," she said.

American legislators are not reducing the pressure on risk managers, according to Ms. Tobin, citing proposals to elevate the Environmental Protection Agency to a Cabinet-level department.

Despite \$15 billion set aside to clean up EPA-listed contaminated sites, only 27 have been cleaned up so far, noted Ms. Tobin.

So, "what is the solution to pollution, and is the insurance industry going to be part of that?" asked Ms. Tobin. "One easy solution would be if the insurance industry would just pick up the bill and sign the check. But I would like to remind you that in all of this dis-

cussion we are only one part of the continuum to a much more complex issue that governments, the United Nations and industry are working in a public and private partnership to resolve."

Ms. Tobin noted that American International Group Inc.—one of the largest environmental impairment liability insurance underwriters—has proposed a 2% surcharge to be added to all commercial property/casualty insurance premiums, which would generate \$40 billion to finance a no-fault systems to clean up hazardous waste sites in the next decade (BI, March 6, 1989).

Looking into the next decade, Ms. Tobin is optimistic that environmental losses can be reduced and controlled.

Already because of recycling, "the waste of one industry is the raw material for others," according to Ms. Tobin. ■

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P R O F E S S I O N A L L I A B I L I T Y

INTERNATIONAL

Evaluating political risk exposures

Risk managers must lead effort: Lichota

By STACY SHAPIRO

SINGAPORE—Risk managers in today's "global village" must become "practical political scientists" to protect their companies from exposures created by political upheavals, a former risk manager says.

Risk managers must evaluate political, technological, social and economic situations wherever their companies have operations. They also need to evaluate the potential for losses from political risk exposures like expropriation, nationalization or confiscation of assets, a

panel of political risk experts agreed.

By understanding each nation's political climate, risk managers also may be able to curb credit



insurance losses by anticipating which contractors and customers will fail to pay.

Political risk insurance will cover some of these risks, but risk managers should not depend solely

on insurance, said the panel of experts at the second Asia-Pacific Risk Management Conference in Singapore last month, co-sponsored by the Risk & Insurance Management Society Inc. and the Risk & Insurance Management Assn. of Singapore.

Experts on the panel also noted that the political risk insurance market is tightening, particularly for contract frustration coverage. Very little capacity may be available in areas where companies need it most, they explained (see story, page 107).

"Insurance is an important ele-

ment in protecting against some of the effects of exposure to political uncertainty, but there are significant risk management measures which can be taken to protect against political risk pitfalls," said Edith Lichota, president of risk management consultant Lichota & Associates in Norwalk, Conn., and former senior vp-risk management at Irving Trust Co. in New York.

"Risk managers must become the practicing political scientists

of the future," Mrs. Lichota says.

They must base their actions on evaluations of all factors related to possible political risk exposures, she said, explaining that risk managers must identify the risks, understand them and then try to eliminate them.

"What is political risk?" Mrs. Lichota asked. "Risk managers should regard it as the whole range of politically motivated, governmental activity that impacts on the conduct of business."

However, risks outside a company's home nation may not only be politically oriented but can also be created by technological, economic and social changes, a brokerage executive pointed out.

"Businesses operating in international markets are profoundly affected by events that are difficult to understand and anticipate," said Marnix L.K. Guillaume, president of Corroon & Black International, a unit of Willis Corroon P.L.C. in New York.

"It would be very difficult for a company to respond correctly to an adverse change or to recognize a new opportunity without a forecast of the future based on the identification of major trends and probable developments in the world," said Mr. Guillaume.

"A company in international business must be aware of general global trends to realize its strongest markets and its greatest risks," he said.

Risk managers for multinationals must first identify their risks, noted Mrs. Lichota.

"Corporations that engage in international business—that invest abroad, that have major interests outside their home countries—need to understand current trends and anticipate future global developments to survive and thrive," Mr. Guillaume added.

The experts mentioned several ways of identifying and understanding political risks.

Risk managers can contact political forecasters, Mr. Guillaume said. "Without a forecast of probability trends, (risk managers) are held hostage by events unforeseen and unexpected. With forecasts of global developments, corporations are forewarned and 'fore-armed' to cope with the future."

Political risk forecasters, he admitted, have a less-than-stellar track record.

"Few spotted the Iranian debacle for banks or multinationals to be able to take action," according to Mr. Guillaume. "Few foresaw the Falkland Islands crisis and its impact on the Argentinian economy. Practically no one predicted the Latin American debt crisis."

Analysts "generally missed" the Polish financial crisis of the early '80s because they "thought Russia would not allow financial disaster to further worsen the already bad political situation in Poland," he said.

And had anyone asked political risk forecasters early in 1989 whether the Berlin Wall would crumble by the end of the year, none would have predicted it, Mr. Guillaume said.

Even forecasters agree that they depend too much on statistics and too little on the social climate of the nations they study, noted Mr. Guillaume.

Nevertheless, forecasts are good

Continued on next page



Mrs. Lichota



Mr. Guillaume

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INTERNATIONAL

Political risks

Continued from previous page
starting points for risk managers to get a feel for what is happening in the world, he said.

Risk managers themselves also should investigate possible political risks facing their foreign subsidiaries, Mrs. Lichota and Mr. Guillaume said.

"Local insurance managers are particularly valuable" when evaluating local conditions, said Mrs. Lichota.

Mr. Guillaume said risk managers should learn about each nation's level of technology and dependence on foreign knowledge; economic strength; dependence on foreign aid; and social trends.

Social trends in particular "can determine the character of the demand for goods and services and the stability of the political order," he said.

"Population growth is a concern of global scope. What will the additional millions of people do to support themselves? What goods and services will they produce and what will they consume? What effect does increasing disparity in technological competence, income, food and health have on the stability of the world order? These questions need to be considered by international businesses to better understand the risk faced in investment in other countries," said Mr. Guillaume.

Risk managers also need to understand international events and political developments, he said.

"Conflicts among countries created by clashing ideology, political systems, religion, and perceived threats and dangers can drastically change the environment for business," he explained. Such conflicts could force traditional markets for a company's

products to close suddenly or cut off contact with important suppliers, he said.

Once risk managers understand the political risks that they may face, they can take action to avoid or mitigate these risks, the panelists noted.

Mrs. Lichota said companies can reduce political risks by:

- Leasing rather than owning assets overseas. This reduces exposures if assets are seized.

- Matching cash flows for the foreign operation with the currency of the company's home country.

- Practicing "local good citizenship" and "absolutely" complying with local laws.

- Operating through another company based in the host country.

- Taking all steps to preserve the local environment. Most national governments are interested in environmental liability and many are looking to make foreign companies pay for cleaning up pollution, she noted.

- Reducing the presence of expatriate employees, instead hiring local employees to make the operation resemble more a local company stressing local understanding.

But should these steps fail, risk managers must have the resources to stave off political risk losses in a crisis, the panelists said.

Both cautioned that political risk insurance will not pay for all incurred costs. All companies should have "alternative sourcing" programs so that the foreign subsidiary encountering trouble can either move its operations to another country immediately or can find alternative resources if necessary, Mrs. Lichota said.

"Know your alternative sources and alternative markets," she said. "It should be an integral part of your data base."



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INTERNATIONAL

Some political risk cover scarce: Expert

By STACY SHAPIRO

SINGAPORE—The market for contract frustration coverage is tightening following the recent withdrawal of several political risk insurers, says a leading political risk underwriter.

Lloyd's of London Syndicate 418, managed by Merrett Underwriting Agency Management Ltd., stopped writing contract frustration coverage earlier this year, citing the unpredictability of the market (BI, Aug. 20).

Because Merrett had been a leading underwriter of the coverage and was recognized as a pioneer in the field, its withdrawal will have an impact on the market, said John Salinger, president of the political risk division of American International Underwriters, a unit of American International Group Inc. in New York.

Other London underwriters have also stopped writing contract frustration coverage, Mr. Salinger said.

"I think that capacity is going to be tighter this year than it was last year" for some types of political risk insurance, but for others—like confiscation coverage—capacity is plentiful, he concluded during a session at the second Asia-Pacific Risk Management Conference co-sponsored by the Risk & Insurance Management Society Inc. and the Risk & Insurance Management Assn. of Singapore.

Plenty of underwriters—including Merrett—continue to write confiscation coverage, Mr. Salinger noted.

"I think that there will be significant capacity for confiscation risks. I think there will be a pulling back on contract repudiation/frustration—how far back, I don't know," he said.

"Capacity is there for the right kinds of risks. But there are a lot of losses for some of the risks and capacity isn't going to be there for those," Mr. Salinger said.

For example, companies that waited until after Iraq's Aug. 2 invasion of Kuwait to cover their Middle East operations are finding capacity tight and coverage expensive, he said.

For U.S. trade credit agencies, potential losses from the invasion already total as much as \$1 billion, he said.

AIU's losses from the invasion so far are minuscule, he said. But, if war breaks out "it is not clear how far the damage could spread," Mr. Salinger said.

"Our submissions went through the roof in August for (political risk coverage in) the Middle East. Our rates did as well," he said.

Mr. Salinger dedicated his talk on "political risk as a reality" to Ayatollah Khomeini, the former Iranian ruler whom he called the "father of political risk, the man responsible for starting the political risk insurance industry—at least in the private sector."

Losses for confiscated assets and repudiated contracts following the 1979 Iranian revolution ran into the billions of dollars. "No one saw it coming. And by the time the nature of revolution was fully understood, it was too late for managers to do anything," Mr. Salinger said.

Political risk insurance—and its economic cousin, credit insurance—protect companies investing or trading abroad. Investments can be protected against confiscation, appropriation and nationalization.

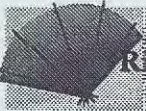
Currency inconvertibility coverage is also available, though is generally more expensive, more restrictive and less widely available than other types of coverage.

Credit in foreign trade today involves much larger sums than does traditional direct investment. Foreign trade can be insured either transaction by transaction or on a balance sheet basis, Mr. Salinger said.

Trade risks include the wrongful calling of guarantees. A number of

wrongful calling of trade guarantees are outstanding in favor of Iraqi and Kuwaiti creditors, and "these, before the conflict is over, are going to create losses," he said.

Embargo, license cancellation and



**Asia Pacific
Risk Management
Conference**

non-payment are other risks that affect trade.

One AIU political risk policyholder, for instance, was manufacturing radios to ship to Libya when the United States blocked trade with Libya in 1986. "His problem was taken care of," Mr. Salinger noted.

Not all were so fortunate. Another AIU policyholder had contracted to

purchase some specially manufactured equipment to ship to Libya. Knowing that the manufacture and sale of the equipment could be a lengthy process, the customer had purchased a one-year policy. But delays held up delivery and three days after the policy expired, the embargo was called, he said.

When the United States responded to the 1979 Soviet invasion of Afghanistan with a trade embargo, "AIG ended up the proud owner of a truck assembly plant packaged in crates in a warehouse in Detroit," he said, noting that "the technology was such that the only people who wanted it were the Soviets."

However, "the reason most companies buy political risk or trade credit insurance" is to cover non-payment for goods, Mr. Salinger said.

And, risks are increasing, he noted, citing "highly leveraged corporate balance sheets, large public sector deficits, fluctuating interest and foreign exchange rates and, most recently, uncertainty over the cost of energy."

Traditionally, companies have purchased credit insurance on individual trade transactions when they were concerned about non-payment, he said.

Sources of coverage include government credit agencies, although the red tape and required paperwork can be burdensome, he noted.

Buying the coverage on a per-transaction basis, however, "is not the most cost-effective way to look at political risk problems," Mr. Salinger suggested. Instead, he recommended a "balance sheet" approach.

"Accounts receivable are a major corporate balance sheet item. Curiously, it's probably the largest single category that is not broadly insured," he said.

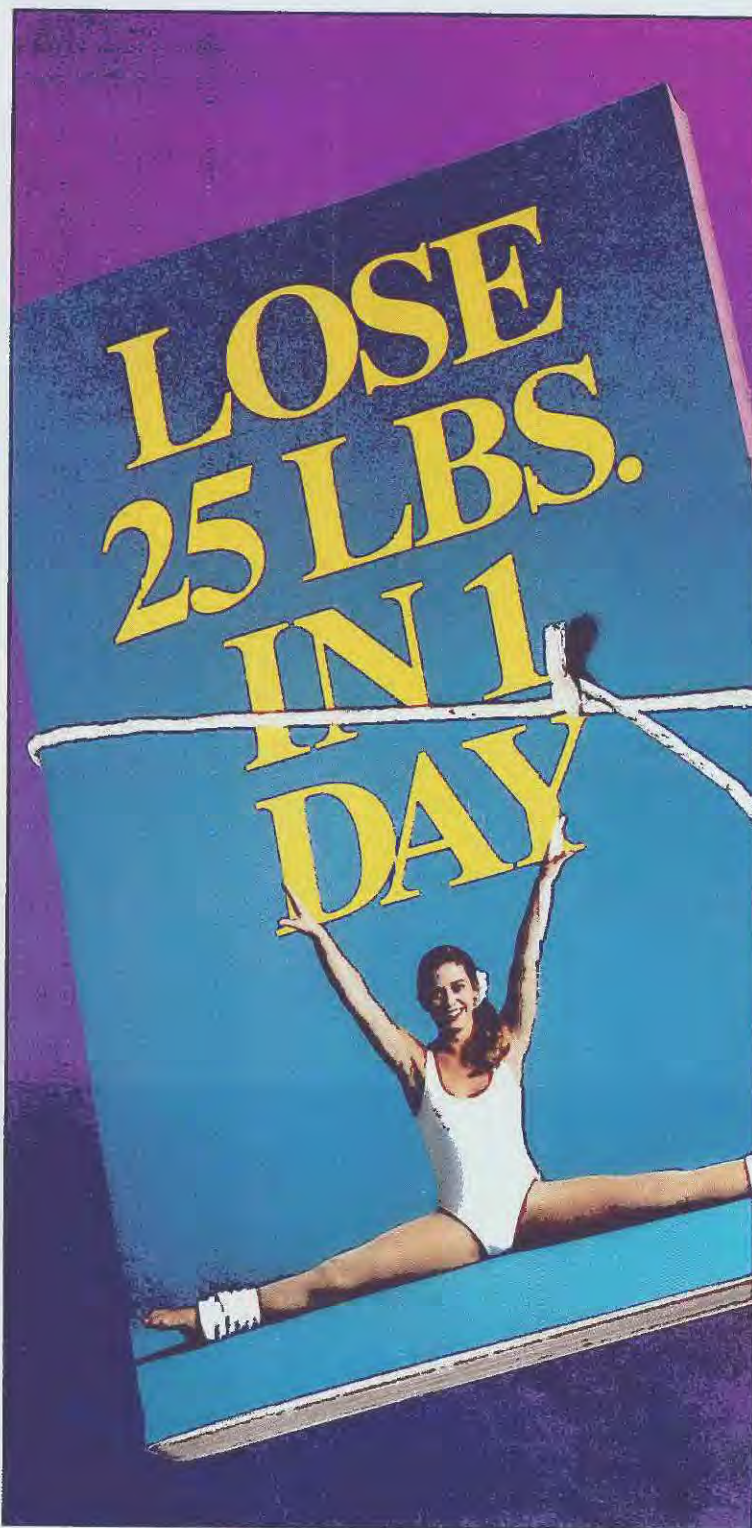
AIG, therefore, is offering what it calls "worldwide receivables insurance protection," which covers all sales: export and domestic by domestic operations and export and domestic by foreign subsidiaries.

"In short, it provides an all-risk coverage for all the accounts receivables on a company's balance sheet."

This "balance sheet protection requires an excess-of-loss approach," with the insured company accepting a self-insured retention, he said.

The AIG product, which Mr. Salinger said is "unique as far as we are aware," currently is aimed at Fortune 100 companies.

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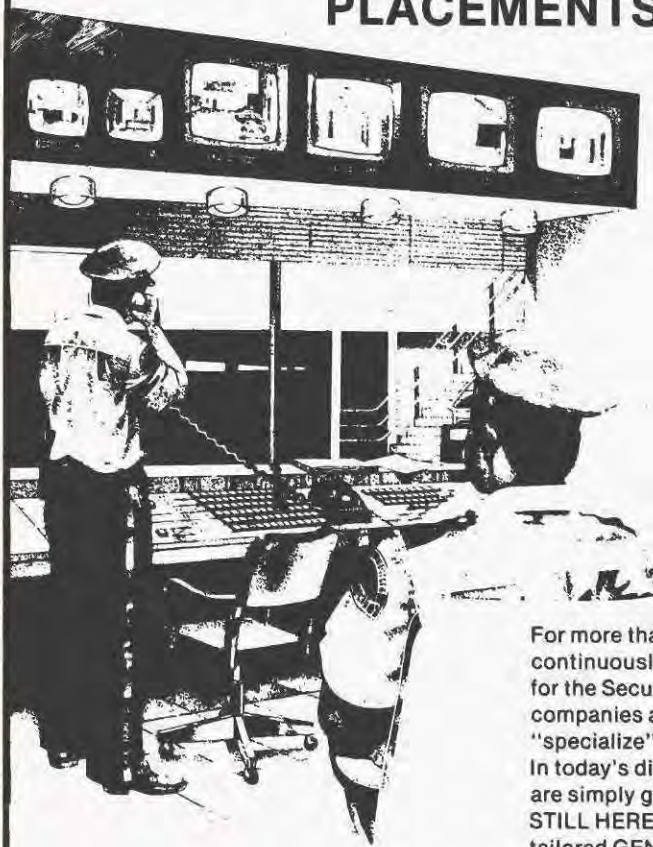
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INTERNATIONAL

Contingency plan needs commitment from company units

By KATHRYN J. McINTYRE

SINGAPORE—Effective contingency planning requires full participation and cooperation from various company units, advises a risk manager.

"The management of the unit must buy into the process and dedicate resources to accomplish it," says William J. Kelly, senior vp of J.P. Morgan & Co. Inc. in New York.

Mr. Kelly described the method developed and refined over five years by Peter Benwell, the contingency planning officer at J.P. Morgan, during a workshop at the second Asia-Pacific Risk Management Conference co-sponsored by the Risk & Insurance Management Society Inc. and the Risk & Insurance Management Assn. of Singapore.

While there is "universal acceptance that every year money will be spent on insurance," Mr. Kelly said, "there is no such universal acceptance of the need for the commitment of business resources to the identification and assessment of risk for the purpose of contingency planning or for planning itself."

As a result, the risk manager must sell the need for contingency planning to a company's business units, he said.

"As in any sale, the buyer must perceive the need for your product," Mr. Kelly explained.

J.P. Morgan's method "serves first to get the attention of the business unit and, even more importantly, to immediately follow through and proceed to the goal. The blueprint for completion—this follow-through—is critical, as

false starts are simply not tolerated."

The first step in the process is to conduct a physical site audit of the building, Mr. Kelly said.



"To be productive, you will also need those people responsible for the facility and its services: electrical power, water, heating ventilation and air conditioning, as well as telecommunications and security," he said.

Particularly important, Mr. Kelly noted, is analyzing the power system: Is there an uninterruptible power system and is there an emergency power system?

An uninterruptible power system consists of batteries that serve several purposes: as a filter between the power supplied by the utility and the computers to filter out potential effects of power surges or drops in power; as an interim power source in a complete power outage, allowing the orderly shut-down of equipment if there is no other emergency power; and as an interim source of power until an emergency power system can be activated.

An emergency power system consists of generators that run on fuel and provide electricity until the public utility is restored.

Mr. Kelly reminded the audience that emergency power was all that was available to much of Wall Street during a week-long power failure in August.

The site audit also should in-

Continued on next page

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INTERNATIONAL

Continued from previous page
clude a review of protection and emergency procedures, seeking out any safety audits or insurance surveys and any history of fires, power failures and water damage, he said.

The location of the building relative to the power station, telephone office, fire and police departments also is important, as are any peculiar problems such as limited access, traffic problems or a high incidence of crime in the area.

Several documents also must be obtained or developed during the site inspection, Mr. Kelly advised:

- A blueprint or diagram of streets, adjoining buildings, entry points and feeds for power, water, telephone and gas lines.
- A building stacking plan, which indicates business and support areas by floor to help determine which are critical and could be affected by the same problem. Locations of fuel tanks and mechanical equipment should be noted.

• Building floor plans that detail the infrastructure of the building, including elevators, telephone closets, power closets and technical centers as well as the layout of office furniture and equipment.

In the second phase of this risk identification process, the information collected during this fieldwork then must be analyzed with those responsible for each aspect to identify problems and potential single points of failure under existing controls and response mechanisms, Mr. Kelly said.

For example, in analyzing fire protection, questions should focus on causes and prevention, safety and training, detection and suppression. Questions should include:

- What do local fire codes require?
- What additional protection exists here?
- What training is conducted and how often?
- Do all spaces, including air ducts, have smoke detectors? What about sprinklers?
- What is the nature of the detection system? Is it monitored around the clock?
- Is Halon used as a fire suppressant? Where?

Similar analysis must be applied to electrical power, water supply, heating ventilation and air conditioning, security and technology.

"Once this overall review has been completed, you will know more about the potential vulnerabilities of the business unit than its own management does," Mr. Kelly said.

As the third phase, all this information should be summarized in a report that addresses: critical single points of failure; probability analysis; current controls; required controls; and recommendations, he said.

The next step is to "review the business unit itself," Mr. Kelly said.

Generally available and helpful information includes recent audits, the departmental charter, the business plan, a description of specific business functions, flow charts showing major activities, a list of resources used to conduct the business under normal operations, a description of records, an organizational chart and an annotated floor plan showing offices, cubicles, desks and equipment.

At this point, key business unit and support personnel—department heads and business executives—are asked to meet for about two hours to discuss disaster simulations, Mr. Kelly said.

"The key individuals, having seen the level of effort already expended, are generally receptive to meet and discuss potential problems," Mr. Kelly said.

"The intent is that this meeting be very active," he stressed. "You guide the participants through disaster scenarios as if they were actually occurring."

For example, the group can be told: "It is 4 a.m. You have just received a call notifying you that your facility is on fire. What is your first concern?"

This risk assessment exercise will focus on a worst-case event as well as less extensive exposure to loss resulting from single points of failure, Mr. Kelly advised.

"At this stage, the business unit personnel may express their assumptions about the existence of backups, controls and other protections," Mr. Kelly noted. "Your extensive preparatory work will permit you to immediately advise the unit on the validity of these often erroneous or overly optimistic assumptions." These, he added, can give management "a false sense of security" and the perception that further planning is unnecessary.

In addition, the interdependency of

the business units should be addressed. For example, in a bank, "the head of a support department may say that the reports it produces on credit exposure can be delayed for two weeks and still maintain regulatory compliance," Mr. Kelly said. "However, a business unit manager may say he cannot perform the trading function unless he continues to receive timely information on credit risks. Other areas then join in and an acceptable strategy begins to take shape."

Mr. Kelly said other questions about losses to be addressed with the group include:

- Who should be contacted in the event of a loss and in what order?
- Who are the people outside the unit to be notified?
- What staffing and equipment would be needed to continue critical functions?
- What are the critical time limitations?

"If the major loss exposure occurs in the first six hours, a contingency plan that brings the unit up in 12 hours is of very little value," Mr. Kelly emphasized.

On the basis of this meeting, the final phase of risk assessment—documentation—can begin.

Mr. Kelly recommended that within 10 business days of the meeting, a report be given to the business unit management detailing:

- Critical exposures.
- Potential mitigating actions and their effectiveness.
- Time/exposure analysis.
- Contingency plan recovery requirements.
- Additional recommendations to immediately reduce exposures.

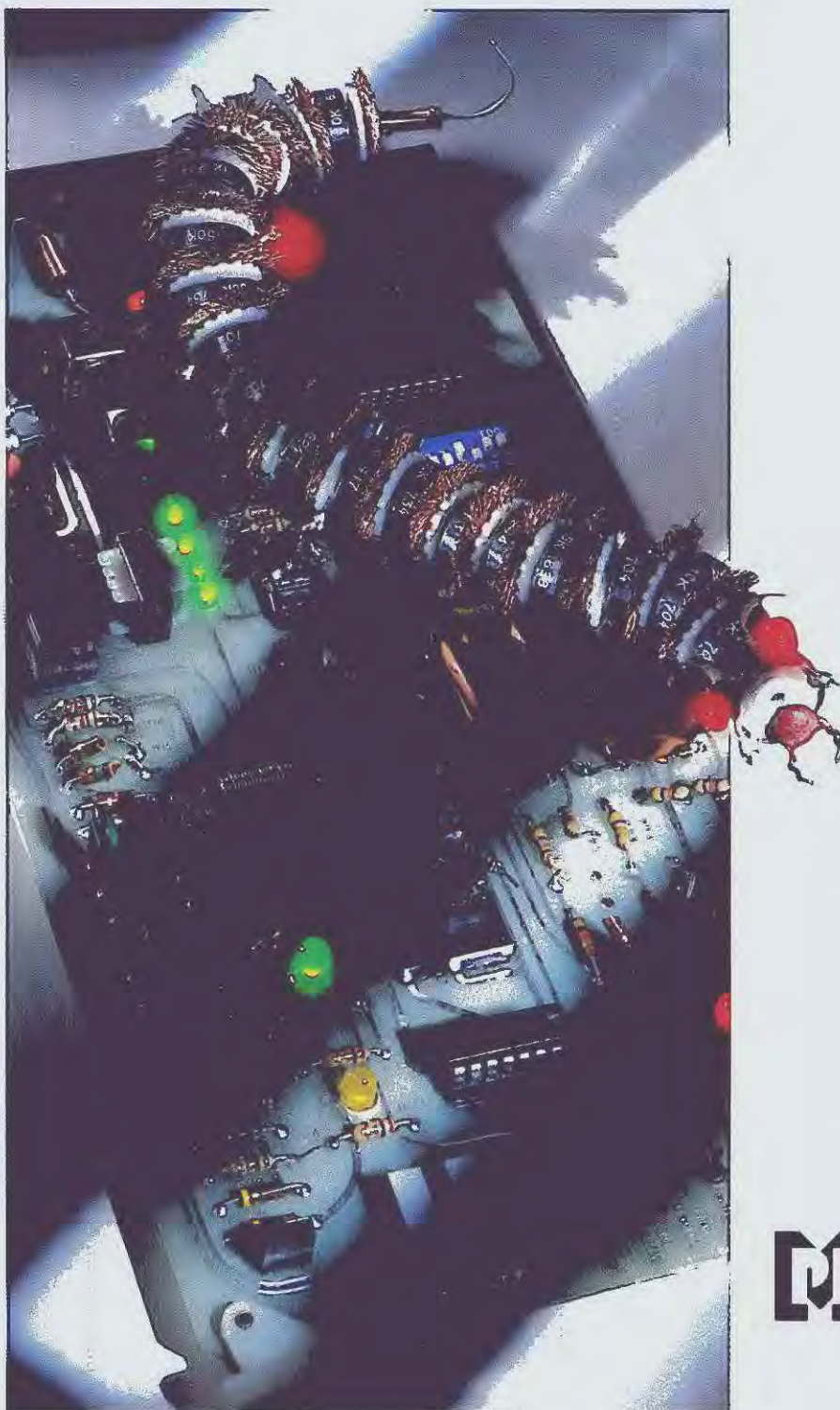
"It has been our experience that this analysis will achieve the management buy-in and will result in resources being dedicated to the contingency planning process," Mr. Kelly said. "This will occur because

management will now understand how critical a plan is to their ability to achieve their first priorities: to meet revenue targets, maintain processing volumes and meet critical deadlines."

While the contingency plan still needs to be documented, at this point the risk management department has passed "the most critical threshold, which brings you from rejection to acceptance—the point when the business unit perceives the critical need for your assistance and commits resources," Mr. Kelly said.

Also speaking during the workshop were Bill Kizorek, president of In-Photo Surveillance in Naperville, Ill., who described his company's video surveillance services for investigating claimants who contend they have suffered incapacitating injuries, and P. Richard Hackenburg, executive vp of Corroon & Black of Massachusetts Inc., who reviewed risk financing options.

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INTERNATIONAL

'Mixed captive' can be mixed blessing

By KATHRYN J. McINTYRE

SINGAPORE—Asian companies' practice of buying insurance from an insurance unit of the same conglomerate can hurt the conglomerate, a broker warns.

"In most Asian countries, there are insurance companies owned by industrial conglomerates from whom they derive a substantial share of their business," explained Ross W. Bovill, regional development director-Asia of Sedgwick James Asia Pacific Ltd. in Singapore.

Mr. Bovill describes these insurers as "mixed captives," since they fulfill the role of a captive insurance company, "although often not in the truest risk management sense."

"The benefit to the parent corporation lies only in the profit generated by the insurance company

without any real coordination of the group interest," Mr. Bovill explained at the second Asia-Pacific Risk Management Conference last month, co-sponsored by the Risk & Insurance Management Society



Inc. and the Risk & Insurance Management Assn. of Singapore.

Doing business with the so-called "mixed captive" can have a "negative influence," Mr. Bovill maintained, by eliminating competition for the parent group's insurance program.

"Most of the innovation in risk management and insurance has risen from competition between various providers of insurance or services, in particular insurance brokers," Mr. Bovill asserted.

"There is a very real danger that such in-house commercial insurance companies tend not only to screen out competition but also new ideas and techniques and price advantages," he said.

In comparison, "pure captives," which underwrite only the risks of their shareholders, "are tools in the risk management process," Mr. Bovill said. "The only justification for their existence is to reduce the

total cost of risk for their owners or to offer administrative assistance to other programs designed to do this.

"It is not always necessary for the captive to make a profit in its own right in order to achieve the objective of its existence," he added.

Mr. Bovill reported that, based on his research, 94 Asia-Pacific companies own pure captives, 59 of which are in Asia-Pacific domiciles.

Classes of risk that have driven formation of captives in other countries—like product liability, directors and officers liability and business interruption insurance—are rarely insured in Asia, Mr. Bovill said.

"Even where coverage does exist, it may be inadequate in amount," he added.

However, strict insurance rate regulation in some Asian countries, which frustrates companies with risk management programs seeking insurance price reductions, may lead more companies to form captive insurers, he noted.

And, with increasing investment by companies in the region, often with local partners, investors may decide to form captives specifically to serve their growing Asia-Pacific operations, Mr. Bovill said.

"We are already seeing interest

in the creation of regional captives to cater to the increasing autonomy of Asia-Pacific operations of global corporations," he said.

While "on the surface there are a significant number of Asia-Pacific domiciles for captives," Singapore clearly is the leader, Mr. Bovill said (see story, page 111).

Elsewhere in the Asia-Pacific region—which Mr. Bovill defined as stretching from Japan south to Australia and New Zealand and from the Indian sub-continent east to the Pacific islands—mixed captives are more popular than pure captives, Mr. Bovill noted.

The only other pure captives of note are five in Australia and three in New Zealand, according to Mr. Bovill's research.

Australia recently relaxed its regulation of captives, he noted, easing restrictions on the amount of business that can be reinsured with offshore companies and restrictions on investment with related corporations.

However, he noted, "there is still considerable control when compared with Singapore and other domiciles."

In addition, while Australia has implemented tough new rules on the taxation of foreign-sourced income of Australian companies, "some taxation benefit still remains offshore," he observed.

Australia also imposes a high tax rate: 39%.

As a result, "it is difficult to see a significant move of Singapore-based Australian captives back onshore," Mr. Bovill said.

New Zealand makes it easy to form insurers, but has a hefty tax rate of 33% to 38%.

New Zealand also has tough tax rules for taxing the income of New Zealand-controlled foreign corporations, like captives based in other countries.

Extremely competitive insurance pricing also has "dampened inter-

est in captives by New Zealand corporations," he noted.

Several Pacific islands are tax havens and permit captives to incorporate, but "these are largely tax planning vehicles with little risk management objective," he said, citing the Cook Islands and Vanuatu.

While Hong Kong is often described as a captive center, Mr. Bovill said the captives are "hard to locate."

Because its regulators do not distinguish captives from other insurers, Hong Kong lacks official figures on captives.

"I suspect if there is a substantial captive insurance industry in Hong Kong, it has precious little to do with risk management and is largely unknown to the insurance industry there," he said.

Concerns over Hong Kong's prospects after 1997, when the colony reverts to Chinese control, and "a lack of clear direction in the regulation (also) are likely to inhibit Hong Kong's development as a captive center," Mr. Bovill added.

Finally, Malaysia has slated the island of Labuan off the coast of Brunei for development as a regional financial center, Mr. Bovill reported.

The applicable 3% tax rate will make Labuan competitive as a location for Asian-owned captives now domiciled in Bermuda, which imposes no income tax on captives, he said.

However, the lack of an infrastructure to service captive insurers in Labuan may hinder its development as a captive domicile in the short-term, Mr. Bovill pointed out.

For mixed captives, Japan leads with eight, followed by South Korea with six, he said.

Singapore has five mixed captives, while Malaysia, Taiwan and Australia each have two, Mr. Bovill reported.

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INTERNATIONAL

Singapore hopes to grow as domicile

Asian city-state is already home to 44 captive insurers

By KATHRYN J. MCINTYRE

SINGAPORE—This city-state wants to increase from 44 the number of captive insurers that call Singapore home, according to its insurance commissioner.

"With a population of only 2.7 million, Singapore realized early in its economic development that it must pursue a policy of free trade and open market competition and be plugged into the world marketplace," said Law Song Keng.

"For insurance, this means the promotion of Singapore as a reinsurance center and a domicile for captive insurers," Mr. Law said at the second Asia-Pacific Risk Management Conference co-sponsored by the Risk & Insurance Management Society Inc. and the Risk & Insurance Management Assn. of Singapore.

"We were attracted to promoting Singapore as a domicile for insurance captives, as captive management services are a high value-added, fee-based activity. Its promotion will also have spin-offs for reinsurance, banking, accounting and legal services," Mr. Law explained.

The first captive was domiciled in Singapore in 1983. In 1989, Singapore's 43 captives generated premiums of \$170 million Singapore (\$100 million at current exchange rates).

A 44th captive has received approval in principal to domicile in Singapore.

Singapore's attractions include "a conducive and supportive regulatory environment," Mr. Law pointed out, noting that since 1978 income on offshore business has been taxed at 10%, less than a third of Singapore's 31% corporate tax rate.

Singapore, Mr. Law commented, also provides "political and social stability, an efficient total business environment, a central location in the Asia-Pacific region, a well-developed basic infrastructure and a well-established financial center."

At a session held during the conference, Lim Shu Chiau, deputy director in the Singapore Insurance Department, noted that only Switzerland has a higher score for political stability than Singapore, according to Business Environment Risk Intelligence. BERI has rated Singapore's workers the world's most productive since 1978, she added.

And, in a study involving more than 500 Japanese corporations, the Mitsubishi Research Institute ranked Singapore's infrastructure the best among nine developing East Asian countries surveyed, Ms. Lim said.

She stressed that Singapore is interested in attracting "financially sound and reputable multinational corporations" to establish "pure captive insurance companies."

Pure captives underwrite insurance only for their owners or affiliated companies.

"We also are open to proposals to set up rent-a-captive operations, as well as mutuals, where these proposals can be justified," Ms. Lim added.

Recognizing that "captive insur-



ers are essentially 'self-insurance vehicles,' Singapore allows "considerable freedom to well-managed insurers to conduct their business with minimal interference," she said.

Captives are required to have only \$1 million Singapore (\$588,235) in paid-up capital, compared with \$5 million Singapore

(\$2.9 million) for commercial insurers.

And Singapore captives are exempt from the statutory deposit of \$500,000 Singapore (\$294,118).

"I would like to stress that our more relaxed attitude toward captives does not imply that there is no supervision," Ms. Lim pointed out.

"For instance, in addition to ensuring that they are from reputable parents, we require that a feasibility study be conducted prior to the setting up of the captive to assess its commercial viability," she said.

Singapore has predominately attracted Australian-owned captives, noted Ross W. Bovill, a regional development director for Sedgwick James Asia Pacific Ltd

in Singapore.

Speaking at the same session as Ms. Lim, Mr. Bovill attributed Singapore's attractiveness to Australians to its geographic location, the fact that it is not perceived as a tax haven and "the general level of comfort that Australian business feels about Singapore."

Japanese companies recently have formed six captives in Singapore, he added.

However, he noted, unlike Australia and the United States, "Singapore does not extend special regulatory treatment to its own national companies that form captives and therefore a number of Singapore-owned captives are domiciled elsewhere."

The first professional reinsurer

was established in Singapore in 1973. Thirty professional reinsurers are now based in Singapore, writing \$312 million Singapore (\$183.5 million) in premiums from ceding companies outside of Singapore in 1989, Mr. Law pointed out.

Reinsurance and captive growth has been made possible in part by the development of insurance expertise in Singapore.

"The Singapore Insurance Training Centre was set up in 1974 to spearhead insurance education and training," Mr. Law noted.

Some 886 people in Singapore now hold the qualifications of the Chartered Insurance Institute or the Australian Insurance Institute, up from only about 100 in 1974. ■

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INTERNATIONAL

Airline asks for audit of insurance program

By KATHRYN J. McINTYRE



Asia Pacific
Risk Management
Conference

SINGAPORE—Singapore Airlines Ltd. has selected broker Alexander & Alexander Services Inc. to audit a risk management and insurance program that the airline fears it may have outgrown.

Singapore Airlines selected the Singapore office of A&A after methodically searching for a consultant to review its program, said Martin de Souza, the airline's insurance officer, during a workshop at the second Asia-Pacific Risk Management Conference, co-sponsored by the Risk & Insurance Management Society Inc. and the Risk & Insurance Management Assn. of Singapore.

Last year the airline decided it needed to review the risk management and insurance program that had been in place since 1982, Mr. de Souza said.

Among the major concerns were:

- Have all major exposures been identified and protected?
- Are contingency plans and self-insurance funds adequate to meet worst case scenarios?
- Are the limits and scope of the insurance coverage sufficient?

The airline did not, however, want the consultant to place its insurance, because Singapore Airlines has had a long-standing relationship with Willis Faber, which is now Willis Corroon P.L.C. in London, according to Mr. de Souza.

Two representatives of the insurance department and a director with legal expertise drew up the specifications, Mr. de Souza explained.

"We spent a fair bit of time on this because we felt it was impor-

tant for both the client and the consultant to agree on the aims and key tasks of the review," he said.

In electing consultants to bid for the project, the airline decided the consultant had to be "fairly well-established in risk management, operating in Singapore or at least have some representation in Singapore and experienced in the airline or, at least, the aviation industry," Mr. de Souza said.



Mr. de Souza

Based on suggestions from risk management societies, other airlines and risk managers, Singapore Airlines invited seven companies to bid.

To help them prepare proposals, "we gave as much information as we possibly could" about the company, its risk management philosophy, and its existing risk management and insurance programs, Mr. de Souza said.

Consultants had six weeks to submit review proposals, including an all-inclusive fee. Evaluations, Mr. de Souza said, were based on five factors:

- Cost, including whether it was all-inclusive as requested, or if there were other cost variables like travel expenses.
- The proposed approach, including whether it met the airline's requirements and how long it

would take.

- The expertise of the personnel to be involved in the project.
- The consultant's support services available in Singapore.
- The quality of the written proposal and oral presentation, including the consultant's responsiveness to questions and ability to communicate effectively.

The consultants with the best four proposals were invited back for more meetings. "We met the actual people who would be involved in the project," Mr. de Souza stressed.

"Face-to-face meetings helped us gauge the quality, professionalism and experience of the people who would actually be undertaking the project," Mr. de Souza said. "It also gave them another chance to demonstrate their expertise and clarify any remaining doubts over the review."

The four consultants also were asked to review their bids and to submit any required adjustments within 14 days.

Two stood by their original proposals and the other two reduced their bids "because they had a better idea of what we wanted done," Mr. de Souza noted during an interview.

The final review of the four proposals was "difficult as all seemed capable of performing the review," Mr. de Souza said.

Using basically the same criteria as for the initial review of bids, Singapore Airlines chose the A&A office, Mr. de Souza said in the interview.

"All that remains to be done is for us to work closely with them to achieve the agreed aims and key tasks of the review," he said. ■



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Brokers focusing on 'today'

By KATHRYN J. McINTYRE

SINGAPORE—While risk management departments concentrate on tomorrow, brokers emphasize today's issues, says an insurance broker.

"The challenge of risk management is to identify risks, analyze risks, manage risks. That is very tomorrow-oriented," says Richard A. Ambrose, managing director of Johnson & Higgins in Singapore.

"But in today's world, there are problems of today, also," he pointed out. "The broker does what the risk management department doesn't have time or the interest to do," he said.

Successful brokers must bring three functions—knowledge, interest and service—to the client, Mr. Ambrose said.

Knowledge, according to Mr. Ambrose, entails "understanding the business—the ability to turn a product into a result." Brokers need to know insurance policy conditions and clauses, business conditions, cultural conditions and human behavioral conditions, he added.

"Local companies with local risk problems require knowledge of that locale and the insurance available in that location," he said. "Expensive international staff or high-tech consultants are probably

Continued on next page

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INTERNATIONAL

Choosing broker

Continued from previous page
unnecessary. So to keep costs down, a local problem can best be solved locally."

For sophisticated and extensive problems, however, a brokerage needs staff and facilities drawn from "experts in specialized areas from wherever they are located."

A broker exhibits interest in a client with its "responsiveness and enthusiasm put into his/her work," Mr. Ambrose continued.

Some obvious signs of interest, he said, include "readiness to respond the same day to telephone inquiries, the extra effort to provide a risk analysis study in conjunction with a quotation, the thoughtfulness to respect personality differences, regular meetings, stewardship studies, trips to plants and hypothetical risk case studies."

An interested broker understands

the risk manager's goals, the client's business goals and the economic situation, he said.

The services provided by the broker should "line up with the area of need for the risk manager," Mr. Ambrose said.

Risk analysis services should be provided by brokerage offices in countries where the client does business. "The brokerage professional located near the risk has to be prepared to help the local management with technical insurance analysis," he added.

Loss control services are important, as is claims assistance, "whether the risk is insured or not," Mr. Ambrose said.

"When a claim occurs, the broker's claim assistance can be valuable," he said. An "arm's length" approach by a third party can help "the risk manager stay objective and not get involved until he/she wants to do so."

Finally, insurance marketing, the broker's historic role, entails knowing the strengths and weaknesses of individual underwriters, Mr. Ambrose pointed out.

Russ Soh, country manager for CIGNA Worldwide in Singapore, spoke at the same workshop, pointing out that the need for a broker's risk management services "varies with the risk management needs of a particular business."

Client risk management needs depend on "the nature of the business it is engaged in and a number of other factors, in particular its size and complexity. The bigger your business, the more complex it is, the more you need to use brokers," Mr. Soh said.

However, some risk managers prefer to do more themselves, while others want to run "every little detail through a broker," he noted.

Generally, he added, risk managers are "very rational and logical in the way they make their decisions re-

garding broker involvement." They conduct a "cost-benefit analysis in order to help with their decisions."

Mr. Soh offered what he called two "compelling reasons" for involving brokers in risk management:

- The broker has a sense of detachment regarding, for example, the amount of the premium or the amount of loss reimbursed.

"Such detachment is rarely possible by either of the two primary parties since both have heavy financial interest in these transactions," Mr. Soh explained.

- The broker can justify the actions taken.

The risk manager can use the broker to sound out ideas and to double-check decisions, Mr. Soh said. This is important because insurance is complicated and the contract must be clearly understood by all parties before a claim is filed.

Mr. Soh recommended basing a choice of a broker on:

- The company's needs for services, not necessarily on the size of the broker.

- The broker's experience in the particular field.

- The broker's claims handling experience.

- The broker's local presence.

- The broker's global insurance expertise if the company is multinational.

- The broker's financial health.

Mr. Soh also offered some advice on how not to select a broker:

- Do not look through the yellow pages for an appealing advertisement.

- Do not give a broker a shot "simply because a friend works there or owns it. It may be a very good way to end a perfect relationship," he warned.

- Do not look for a bargain.

- Do not make the broker annually bid for the program. "You want to build a relationship," he said.



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Broker offers plan if a loss interrupts firm's business

By KATHRYN J. MCINTYRE

SINGAPORE—Confronted with an insured business interruption loss, risk managers should follow a nine-point plan, a broker advises.

Brian O'Neil, assistant vp in the claim department of Frank B. Hall of California in San Francisco, reviewed these points during a workshop at the second Asia-Pacific Risk Management Conference co-sponsored by the Risk & Insurance Management Society Inc. and the Risk & Insurance Management Assn. of Singapore.

Mr. O'Neil recommended:

- First, "call your broker or agent," who needs to "get your insurer involved immediately."

- Second, before the adjuster arrives, and even during the adjustment of the claim, make decisions in your company's best interest, regardless of whether they "fit into insurance coverage."

- Third, assign an account number to the loss so that all costs can be captured.

"It makes it easier to keep track of expenses," he explained.

- Fourth, provide the adjuster with access to the people that know the impact of the loss and what needs to be done to restore operations.

These will include people from building maintenance, production, equipment and the financial department, Mr. O'Neil said.

- Fifth, determine the potential loss of sales, which the insurer will need to estimate loss reserves.

- Sixth, identify the extra expenses that could reduce the loss of sales.

These could include the cost of continuing production at the current site, moving to a temporary location, using other company facilities, contracting out work and paying overtime and bonuses, he said.

- Seventh, evaluate what must be done to get back into business, either at the current location or a temporary location.

Also determine what products are most important to get back into production and identify the extra expenses already being incurred, he said.

- Eighth, gather all documents to submit the business interruption claim.

These will include: the insurance policy; accounts and financial information; production, sales and inventory records; budgets and forecasts; reports produced by department heads on activities; external research,

like marketing reports; and other representations by management and staff on business conditions.

- Ninth, keep the paper flowing to the adjuster.

Edwin J. Baker Jr., vp of loss adjuster Maxson Young Associates Inc., pointed out during the workshop that while there are differences in semantics between the U.S. gross earnings



business interruption insurance form and the U.K. gross profits form, for similar indemnity periods the monetary recovery on the policies will be about the same.

However, the U.S. form generally restricts the coverage period to the time it takes for the property to be repaired or replaced while the U.K. form covers the loss while the business is affected by the damage from an insured peril, limited to a pre-agreed time period, he said.

U.S. business interruption forms, however, can be liberalized to allow additional time beyond the repair period to restore the yield or output that existed prior to the loss, Mr. Baker said.

And, some U.S. policies provide an extended period of indemnity for up to 180 days, he said.

In reviewing the provisions of a business interruption policy, Steven A. Rosenthal, a senior partner of accounting firm Campos & Stratis in San Francisco, pointed out that if a company generates more sales in a non-loss area after a business interruption loss, the insurer will use those "excess sales" to "fill in" the lost sales in other areas when adjusting the loss.

The most difficult aspect of adjusting a business interruption loss is determining "projected sales," according to Mr. Rosenthal. "In most cases, there are differences of opinion on what sales would have been had no loss occurred," with the policyholder generally being more optimistic than the insurer.

As a result, the accountant working on the claim "needs to make a reasonable projection" of what sales would have been, he said.

The accountant will talk with representatives of the policyholder and review various documents, including two years of financial statements, market studies, memorandums and production and inventory forecasts, he explained.

INTERNATIONAL

Product liability laws are growing concern for Asian companies

By STACY SHAPIRO

SINGAPORE—Strict product liability laws are spreading to the Asia-Pacific region.

Asian manufacturers already are concerned about the strict liability standards enforced in Europe and the United States, where their products often are shipped. Now, some governments in the Asia-Pacific region are considering similar measures.

Japan, for example, is consid-

tor in Kuala Lumpur, Malaysia, for Gerling Service Asia Sdn. Bhd., a Gerling-Konzern Allgemeine Versicherungs-AG unit, pointed out one major cultural difference: A European who opens a can and finds a worm would still just complain to the manufacturer; his U.S. counterpart may call in a doctor and lawyer.

Asian exporters, cautioned Mr. Reischel, should be aware that the E.C. product liability directive imposes strict liability on manufacturers, suppliers and distributors that ship defective products in Europe.

Increasingly, Asian exports to Europe "not only represent good business opportunities for both sides but also lead to risks which have to be carefully monitored," he said.

Even manufacturers that do not ship goods directly to Europe could be held strictly liable.

Mr. Reischel offers the example of a manufacturer whose tires wind up on Japanese cars. "The Asian producer of raw material or components does not even necessarily have to know that his products are part of a product being exported to the E.C."

All 12 E.C. nations were to have changed their national laws to reflect the product liability directive by July 1988. Only eight have done so, and the European Commission is pursuing legal action against several others (BI, Nov. 5).

Contrary to many evaluations, contended Mr. Reischel, most product liability claims do not arise from injuries to consumers, the primary concern of the E.C. directive. "For years, 60% of all damages paid have been for 'inter-industrial' claims," he said.

Those claims included one from a paint company that supplied a special primer for an auto manufacturer. The primer did not adhere tightly enough, and 153 cars had to be taken apart, the re-usable parts repainted and then used in other cars. The total insured cost: \$600,000.

Another speaker noted that product liability issues are taking on a higher profile in Australia.

Recent recalls of several products—including a pressurized paint stripper, an extension cord for electric kettles and an insect repellent—have cost hundreds of thousands of dollars, said Robin Patchett, loss control engineering manager for Richard Oliver Risk Management Pty. in Sydney.

Risk managers, the panelists cautioned, should help make their companies less vulnerable to product liability suits.

"You need to get involved in the design, manufacturing and marketing," said Cabot's Ms. Inman. "If there is a defect, you'll pay."

Risk managers should make sure that appropriate warnings are displayed on packages. The "failure to warn" can be the most damaging single aspect of a liability claim, she said.

Ms. Inman also advised risk managers to be involved in product engineering, standards reviews and marketing plans to make sure salespeople are trained to explain the product clearly and concisely.

From the earliest design stages, a company should keep records of product and test results in case the information is needed later to defend the company in a lawsuit, she advised. "You must know the chain of your product."



Photo courtesy Singapore Tourist Promotion Board

Risk managers found time to see the sights and sample the culture of the city-state of Singapore.

Singapore offers diversions

SINGAPORE—Eating, entertaining and shopping.

Many of the 220 people in Singapore for the second Asia-Pacific Risk Management Conference co-sponsored by the Risk & Insurance Management Society Inc. and the Risk & Insurance Management Assn. of Singapore indulged in all three diversions during the Oct. 28-31 meeting.

Restaurants are as abundant as the varieties of cuisine in Singapore: from McDonald's serving American hamburgers to elegant Chinese restaurants featuring shark's fin soup and suckling pig.

Several companies hosted evening gatherings to share with participants the cultures of Singapore, which are Chinese, Malaysian and Indian.

On Sunday, Oct. 28, RIMS/RIMAS co-hosted an opening reception where guests were greeted by a slithering black and yellow snake that the stout of heart were free to hold. Hostesses wore dresses in colorful ethnic garb and headdresses.

Entertainment included children singing native songs and local artisans writing registrants' names in Chinese on scrolls and creating origami figures.

On Monday, Oct. 29, Chubb Pacific Underwriting Management

Services Pte. Ltd., a Singapore-based unit of Chubb Corp., hosted 100 people aboard the junk "Fairwind" for a harbor cruise and dinner.

Sights included the loading and unloading of scores of tankers in the bustling port—one of the world's busiest—and the city-state's spectacular skyline.

On Tuesday evening, Sedgwick James Asia Pacific Ltd. hosted a "Taste of Singapore" dinner for about 80 people. Following the meal was a show of Chinese opera as well as Indian and Malaysian dancing.

When not at sessions or enjoying the cuisines, attendees shopped at scores of shopping centers for anything from T-shirts to expensive camera equipment. Signs in many shops indicated that they were approved by the Singapore tourist authority, meaning there would be no traditional haggling. Haggling or not, few attendees found any real bargains. Many compared the prices to those in New York.

Conference participants came from more than 20 countries. Many took advantage of the trip to Singapore to visit nearby countries such as Thailand, Japan and Australia, whether to visit offices or make contacts.

RIMS President Cheri J. Haw-

kins, assistant treasurer and director of insurance for Weyerhaeuser Co., also visited Kuala Lumpur, the capital of Malaysia, as well as Japan, where she gave a speech at the Risk Management Center Co. Ltd. of Tokyo.

The first Asia-Pacific Risk Management conference was held four years ago, sponsored by RIMS in association with the Singapore Insurance Training Centre, now known as the Singapore Insurance Institute. It attracted 210 attendees from 15 countries and about a dozen exhibitors.

RIMAS, which was founded in April 1988, held its first conference in November 1988, attracting 150 participants and 10 exhibitors.

The 1990 Asia-Pacific Risk Management Conference co-sponsored with RIMS attracted 220 participants from 21 countries and more than a dozen exhibitors.

Singapore had the largest representation—almost 70—followed by the United States with more than 50. Others registrants came from Australia, Belgium, Bermuda, Canada, Germany, France, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, the Philippines, Saudi Arabia, Taiwan, Thailand and the United Kingdom.

—By Stacy Shapiro



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INTERNATIONAL

How emergency plan can succeed—or fail

By STACY SHAPIRO

SINGAPORE—If catastrophe strikes, a flexible contingency plan designed for all kinds of emergencies can minimize injury, death and financial loss.

"Too often contingency planning addresses the expected problems rather than the unexpected," said Kevin W. Knight, the risk management adviser of Australia Post, the national postal service, in Brisbane.

"Don't consider just the expected," he warned risk managers at the second Asia-Pacific Risk Management Conference co-sponsored by the Risk & Insurance Management Society Inc. and the Risk & Insurance Management Assn. of Singapore.

"Look at the unexpected. . . look at all the possibilities and probabilities. Use the lateral vision that risk managers are supposed to possess," he said.

At a packed workshop on surviving a major crisis, Mr. Knight recalled two incidents involving contingency planning at the Australian postal service.



One is a tragedy, the other a success story.

It was Dec. 8, 1987, when a young man who had decided "it was the day he was going to die" walked into the 191 Queens St. post office in Melbourne with a gun, 140 rounds of ammunition and the urge to kill a high school buddy.

About 800 people were in the building, Mr. Knight recalled. Tenants included Australia Post and Telecom Credit Union, where the gunman's intended target worked.

The young man killed his first victim downstairs. Having failed to find his target, he randomly hit an elevator button, ending up in the 12th floor offices of the postal ser-



Mr. Knight

vice.

Once off the elevator, he began shooting at random, said Mr. Knight, who was not in the building at the time.

Seven more people were fatally shot before an employee grabbed the gun. Breaking free, the gunman bolted for a window and jumped to his death.

During the attack "there was no communication throughout the building," said Mr. Knight.

Everyone in the building knew the fire drill and how to get ambulances in that situation, but there was no system for handling other emergencies.

Police outside believed a robbery was in progress. So rather than evacuate the building, the police cordoned it off, telling people to stay inside so the thief could not escape.

Police combed the office building, which had no medical facilities, for three hours before allowing medical staff in to tend to the wounded.

"Confusion reigned," Mr. Knight said.

A coroner later attributed at least two of the seven deaths to the delay in treatment, he added. "The incident wasn't handled at all well."

Preparing for emergencies other than fire might have saved lives, according to Mr. Knight.

He also recommended that emergency plans take into account the post-distress trauma of employees.

Postal service "bean counters" wanted to touch up the damage and immediately bring employees back to the same office, he said. But Mr. Knight intervened, convincing the chief executive officer to completely remodel the entire floor at a total cost of \$250,000 Australian (\$195,750 U.S.).

"We probably reduced our workers compensation exposure," as a result of the investment, he added.

Australia Post now plans for a range of emergencies at all its offices, according to Mr. Knight. If other building tenants will not participate in such planning, he added, the postal service finds another building.

Such a plan was in place when an explosion earlier this year injured several employees at a parcel and mail center in Brisbane, Mr. Knight said.

Department managers are directed to lead emergency responses, and the parcel center manager "had the medical team in there quickly," he said. The area was evacuated quickly. A bomb squad unit arrived shortly thereafter.

"We were concerned it was terrorism," a common fear in mailrooms, he said.

He credits the contingency plan for a large role in having the parcel center partially running within 12 hours of the explosion. Full operations resumed within four weeks.

Investigators concluded that a package of 44,000 starting caps used to start races had "decided to explode for no reason," Mr. Knight said.

"It's an accident that no one's been able to explain."

The biggest problem in the whole episode was that dozens of people, alarmed by press reports with the wrong address for the explosion, jammed phone lines to find out if their relatives were safe.

"Don't consider just the expected," Mr. Knight emphasized. "Look for the unexpected."

Planners advise heeding the law—Murphy's, that is

By STACY SHAPIRO

SINGAPORE—The way to survive a loss is not to have one.

But, according to Murphy's Law, "what can go wrong will go wrong."

Risk managers should be prepared for the unexpected, pointed out Wolfgang F. Friedel, director of international operations for Arkwright Mutual Insurance Co. in Shelton, Conn.

All companies should try to prevent losses, but when disaster does strike, emergency plans are needed to contain losses and recovery plans to get the company back on its feet, he said.

Companies without those plans may not survive, said Mr. Friedel, who spoke at the second Asia-Pacific Risk Management Conference, held last month in Singapore and co-sponsored by the Risk & Insurance Management Society Inc. and the Risk & Insurance Management Assn. of Singapore.

By promoting risk management, Pechiney S.A., a Paris-based metals manufacturer, held a potential \$250 million loss to \$372,000, he said.

Risk management audits done over five years in the early 1980s found that no employees fully understood risk management and that the company was woefully underinsured, Mr. Friedel said.

Working with Arkwright, the French company established a priority plan and tried to cut its exposures.

Altogether, Pechiney put \$30 million into loss control efforts in those five years, according to Mr. Friedel.

"In April of 1987, the investment paid off," he said.

A fire at its aluminum rolling mill could have done up to \$250 million in damage. But \$5 million worth of preventive measures, including an automatic sprinkler system, kept losses from physical damage down to \$22,000, Mr. Friedel said.

Another \$350,000 was lost because the mill had to shut down for half a day.

Keeping that loss under control had other benefits. A huge loss, he said, could have jeopardized Pechiney's \$3.5 billion buyout of Chicago-based American National Can Co., which was being negotiated when the fire broke out.

Other companies, however, have learned the necessity of a catastrophe plan the hard way.

Wabasso Ltd., a Montreal-based textile manufacturer, was forced out of business by a 1973 fire, Mr. Friedel said.

Half its operations was lost. No backup sites were available, and one-third of its 1,400 workers were laid off indefinitely.

Among the "unexpected loss elements" the company should have anticipated, according to Mr. Friedel, were:

- Costs to replace machinery.
- Lost shelf space in stores that sold its goods.
- The time it would take to rebuild operations.
- Lost employees.
- Start-up costs like advertising budgets.

Wabasso, which was covered by Factory Mutual Insurance Co., "had plenty of insurance," Mr. Friedel said. "What they didn't have was risk management."

Other companies have fared poorly after major crises.

For example, Source Perrier S.A. of France paid for an uninsured product recall and suffered subsequent loss of sales after benzene was found in several bottles of its famous mineral water.

Expenses, including public relations, totaled \$170 million, and the company's chairman lost his job in part because the firm had no emergency plans, he said.

"Remember the first rule of risk management: What can happen will happen, again and again," Mr. Friedel urged. "You need a lot of hard work and planning."

Financially crippling disasters are becoming more common, said another speaker at the Singapore meeting.

Average insured catastrophe losses have risen dramatically since 1970, said James D. Sloan, a regional manager in Melbourne, Australia, for Factory Mutual International.

"Planning is the best way to recover from a loss, although the best way is not to have it in the first place," he said.

Mr. Sloan gave risk managers six steps to follow in recovery planning:

- Gain senior management support.
- Send your CEO the curriculum vitae of the chairman of Perrier. That will get his attention," he said.
- Complete a vulnerability analysis to identify the most important areas to look out for in emergency and recovery plans, including suppliers, key customers and markets.
- Establish priorities for resources. Have a senior executive do this, Mr. Sloan suggested. "Recovery from a disaster is no time for on-the-job training."
- Establish mutual aid plans, which are agreements with other companies to replace lost systems or resources.

FMI, for instance, has such an arrangement with Hewlett-Packard Co. in case its computer system in London fails, Mr. Sloan pointed out.

• Explain the plan to employees, and train them to implement and test the arrangements.

• Appoint a single corporate spokesman with access to the board of directors to limit negative publicity and preserve the company's reputation.



Mr. Friedel



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Several steps can cut cargo-related losses

By KATHRYN J. MCINTYRE

SINGAPORE—Exporters can use several loss control measures to reduce their cargo losses, insurance and risk management experts agree.

Packaging is the first loss control issue to address, suggests Gary L. Buckingham, president of AIU (Singapore) Pte. Ltd., a unit of American International Group Inc.

"If your own firm or specialists are not good enough to ensure proper packaging, there are plenty of experts" to help, Mr. Buckingham said at the second Asia-Pacific Risk Management Conference co-sponsored by the Risk & Insurance Management Society Inc. and the Risk & Insurance Management Assn. of Singapore.

David R. Frediani, director and technical adviser at Johnson & Higgins Insurance Brokers (M) Sdn. Bhd. in Kuala Lumpur, Malaysia, noted "there is not enough time, money and effort spent on marine transit loss control."

The number of instances of inadequate packaging is "mind boggling," he said.

However, brokers and insurers can provide loss control advice to minimize such losses, he said.

Determining how goods are damaged "is an easy process," Mr. Frediani noted. "You take a camera through a warehouse and photograph the damage."

Risk managers then can work with materials managers to improve packaging, he explained.

By packaging exports properly "you minimize risk and will enjoy the lowest insurance rates," noted AIU's Mr. Buckingham.

Another workshop speaker agreed. "If you have poor packaging, you'll pay for it in higher premiums or higher deductibles," said John Stokdyk, national risk manager for Toyota Motor Sales U.S.A. Inc. in Torrance, Calif.

Choosing a good carrier to han-

Asia Pacific Risk Management Conference

dle the goods also is important, Mr. Buckingham said. "Don't be influenced by price alone."

Insurance may cover the total loss of a shipment in the hands of a carrier. But it will not cover the loss of market or the cost of delays in shipping new goods if the exporter gets involved with a "fraudulent deviation" of the shipment, he explained.

Mr. Buckingham also suggested that the services of a freight forwarder, which will examine these



Mr. Buckingham Mr. Frediani

issues and can arrange insurance, are useful to exporters of small volumes.

However, he recommended that exporters of larger volumes of goods purchase their own insurance so they have control over how claims are handled.

Marine cargo insurance covers both marine and air transportation and will cover travel over land during shipment and temporary warehousing, he said.

"The price will depend upon the type of product, packaging, method of transport, length of voyage" and other factors, Mr. Buckingham said.

In addition to transit risks, exporters must be aware of the other risks they face, it was pointed out during the workshop. These include financial and political risks,

property risks when property is owned abroad, general and product liability risks, extortion risks and health insurance risks for employees traveling abroad.

On these issues, the panelists offered several loss control tips:

- Contract language should clearly state when title to the goods passes to the buyer, Mr. Buckingham said. Preferably, it would be when payment has been received, he said.

- Property risks associated with setting up overseas offices have to be analyzed, and local insurance laws governing the use of licensed insurers must be observed, J&H's Mr. Frediani pointed out.

- Exporters should analyze their product liability exposure, especially when shipping goods to the United States, Mr. Frediani stressed. Coverage is important not only to cover any potential claims costs but also to cover defense costs if the exporter is sued.

If an exporter goes undefended in a case and is found negligent, it would make it impossible to export to the United States in the future, he advised.

- International safety signs should be placed on products to provide proper warnings, Mr. Stokdyk of Toyota advised.

- Employees traveling overseas should be advised to take common-sense precautions against kidnapping, Mr. Buckingham suggested. Local police departments, export authorities and the U.S. State Department are all sources of information about such risks, he said.

- Employee health insurance should cover employees worldwide, 24 hours a day, Mr. Frediani suggested.

Most Asian companies' health insurance policy limits are adequate to cover health care in their own countries but are not adequate to cover costs incurred by employees traveling to Australia, Europe or the United States, he said. ■

Olympic coverage

Continued from page 97

and Dutch broker Hudig Langeveldt Group bv.

The risk study was divided into several categories: contracts; transportation and logistics; installations, computers and telecommunications; and organization.

After the risks were analyzed, COOB '92 planned to establish "the most appropriate policies for the coverage of the risks," Mr. Serra said.

But that plan was scrapped. What "appeared to be theoretically viable proved to be totally unfeasible in the daily practices of the organizing committee," Mr. Serra explained.

The organizing committee was unable "to rationalize and systemize all of the functions with the advance time necessary to make analysis of the risks possible," he said.

Because risk analysts needed their information while most Olympic projects were still being planned, risk analysis was very difficult, he noted.

"For this reason, the logical order of the theoretical plans had to be altered, and the plan for the financing of the Barcelona '92 risks had to be introduced without having a detailed analysis of those risks," Mr. Serra said.

"Without being able to precisely identify the implicit risks, the task of deciding which policies should be contracted and with what specific coverages turned out to be

more difficult than usual," he pointed out.

"The fact that there were no valid precedents from which to extract comparisons and lessons added to the difficulty in the planning," he said.

Olympic organizing committees all disappear immediately after the Games conclude, leaving neither their successors nor the International Olympic Committee with reliable records, Mr. Serra observed.

"Without sufficient information regarding precedents and incapable of resolving the internal problem of the identification of risks, the organizing committee was faced with the problem of how to define the composition of the policies which would make up the insurance plan as well as the scope of each one of those policies," Mr. Serra said.

"It was decided that not knowing the specific risks which must be covered, it was easier to identify those risks which didn't need to be covered. And, from there, it was decided that all the policies would be written on all an 'all-risks except' basis," he said.

The committee persuaded the Barcelona Games' official property/casualty insurer, La Union y el Fenix Espanol Cia de Seguros y

Reasegueros S.A. of Madrid, to agree to joint negotiations with the committee and the reinsurance market despite the fact that Spanish law requires all policies "to be subscribed 100% with the Spanish company, which in turn arranges the corresponding reinsurance of the parts which it does not wish to retain," Mr. Serra explained.

Johnson & Higgins Ltd. in London and Paris-based Gras Savoye S.A., both members of the UNISON brokerage network, were appointed reinsurance brokers for the program, he said.

With the support of reinsurers worldwide, COOB '92 has secured what Mr. Serra said is a surprisingly comprehensive set of policies for very acceptable rates.

Particularly for liability coverage, as well as for coverage for the guaranteed income from the sale of television broadcast rights, "the market didn't quote unreasonably high costs for the idea of an 'all-risk except' policy, but rather that it offered quotations which, in comparison with those of other similar events and past Olympic Games, were actually lower in cost," Mr. Serra said.

For civil liability, COOB '92 has up to 11 billion pesetas (\$117 million at current exchange rates) of coverage per occurrence for a premium of 57 million pesetas (\$606,480).

The policy is effective from Feb. 1, 1991.

Continued on next page

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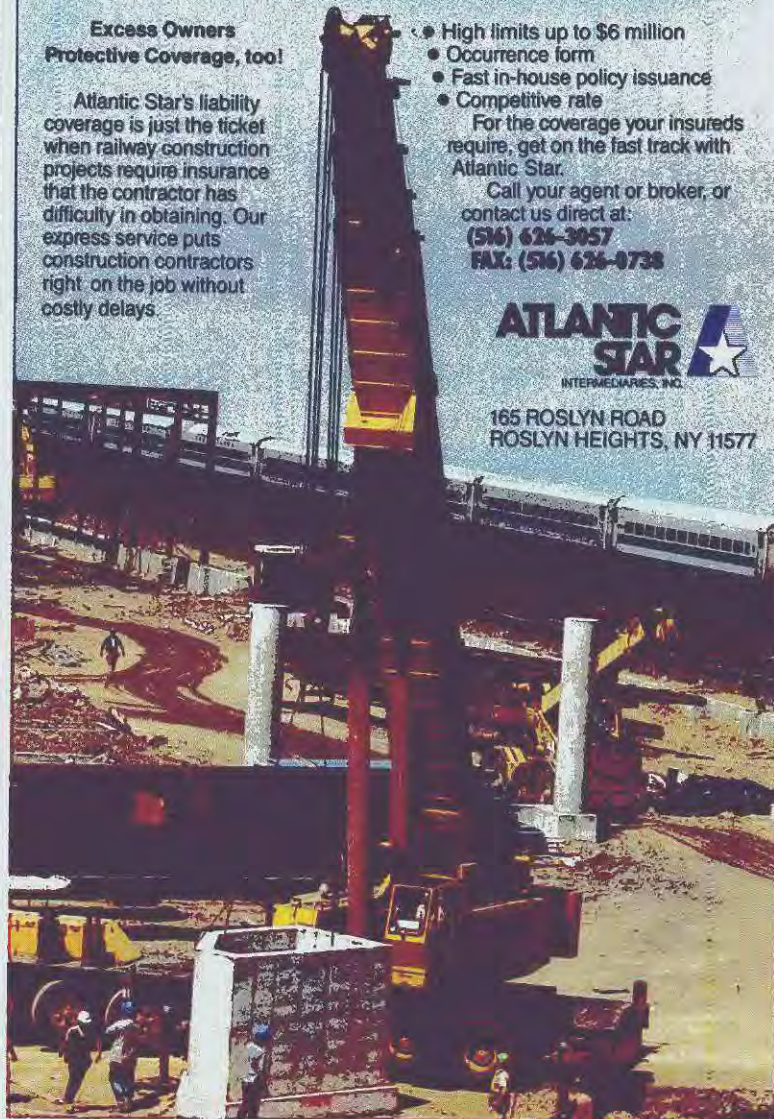
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INTERNATIONAL

Olympic coverage

Continued from previous page
1, 1990, until the COOB '92 disbanded in February 1993.

The policy covers "any damage, either bodily, material or to property, which might arise from any of COOB '92's activities during the organization of the Barcelona '92 Olympic Games or during the Games themselves," Mr. Serra said.

Coverage is excluded for claims stemming from employees' actions; claims covered by compulsory insurance; fines; radioactivity; and unilateral decisions taken by the policyholder, except those that are obviously in the best interest of the Games.

For the television rights insurance policy—which guarantees COOB '92's income from the sale of broadcasting rights—COOB '92 obtained 15 billion pesetas (\$159.6 million) of coverage limits for a premium of 375 million pesetas (\$4 million).

The policy excludes coverage if COOB '92 financially defaults; in the event of war or radioactivity; and if there is no television coverage of the Games because of unilateral decisions by COOB '92, except those made in the best interest of the Games. The policy is effective from July 24, 1990, until the end of the Games.

Other coverages obtained by COOB '92 include:

- 5 billion pesetas (\$53.2 million) of limits per occurrence for electronic and technical equipment. This policy, which cost 29 million pesetas (\$465,160), is effective from July 24, 1990, until February 1993.

- 2.5 billion pesetas (\$26.6 million) of occurrence-based third-

party property coverage for buildings and 500 million pesetas (\$5.32 million) of occurrence-based property coverage for goods. This policy, which cost a total of 19 million pesetas, is effective from July 24, 1990, until February 1993.

- 2.5 billion pesetas (\$26.6 million) of occurrence-based medical and accident coverage for participants in the Games and spectators. This policy, which cost 68 million pesetas (\$723,520), is effective from July 1, 1992, to Aug. 31, 1992.

While "the main objective of the insurance plan was to transfer the risks to the insurance market, the principal objective of the organizing committee was to avoid all types of losses, and if, in spite of the risk prevention and control efforts, a loss happens to occur, that the handling of the loss is the most efficient and rapid that it can be in order to avoid claims and indemnities to the extent that that is possible," Mr. Serra said.

"The risk management plan of the organizing committee is now in this stage of the challenge," he said.

"The ultimate goal to be reached is that the materializing of a risk in the form of an actual loss causes the least economic damage possible to the Barcelona '92 Olympic Organizing Committee, as well as the least loss of image possible to the committee, the Olympic Games themselves and the Olympic movement in general," observed Mr. Parrizas, COOB '92's risk manager.

He also noted that "given the importance and transcendental nature of an event such as the '92 Olympic Games, risk management is dealt with at levels higher than the organizing committee: by public authorities involved in the '92 Olympic Games."

As a result, several special organizations have been created to supervise various risk management responsibilities, he said. For example:

- The Olympic Security Board was created to coordinate police security at the Games.
- The Loss Prevention Commission was created to guarantee maximum security in the sports

'Without being able to precisely identify the implicit risks, the task of deciding which policies should be contracted and with what specific coverages turned out to be more difficult than usual,' says Oriol Serra Meijas.

and support installations.

- Transgrup was created to handle logistics and land transport during the Games.

The Insurance and Risk Management Department participates in all of the organizations, Mr. Parrizas noted.

According to Mr. Parrizas, the department has succeeded in transferring many of the risks connected with staging the Games through the use of contract clauses.

These include:

- The total transfer of risks posed by products that carry the logo of the Olympic Games.
- The total transfer of risks posed by completed projects and installations or work in progress.

- The total transfer of risk of damage to finished works or installations when under the control of their owners during the Games.

- The partial transfer of the risk of losses sustained by electronic, computer or telecommunications equipment on loan during the Games.

- The partial transfer of financial risks, especially those relating

to the risk management department to establish a 90 million-peseta (\$957,600) emergency fund, Mr. Parrizas said.

The "moment of the highest concentration of risk, the time when losses are most likely to take place, and also the period when the potential for losses of great magnitude is at its peak" will be between July 25 and Aug. 9, 1992, when the Games take place, Mr. Parrizas noted.

To meet this challenge, the Insurance and Risk Management Department is working on a loss prevention plan that includes creating:

- A committee of La Union y el Fenix and Insurance and Risk Management Department representatives that has "full decision-making authority in the management and liquidation of losses."

- A team of loss adjusters.

- A regulations manual outlining the appropriate actions to take in the event of a loss.

The manual will cover "all eventualities" and will be used by the directors of facilities or buildings used during the Games, Mr. Parrizas said.

- A standard claims form.

- A computerized communications network to support the claims-handling system.

"All of this is designed to allow an efficient handling of losses which occur during the '92 Olympic Games, estimated to probably total around 1,500 of varying degrees of seriousness," Mr. Parrizas said.

Risk management foreign to Eastern European firms

By CAROLYN ALDRED

BARCELONA, Spain—Western insurers and risk managers have much to teach companies in Eastern Europe, according to a Finnish risk manager and a Hungarian insurer.

Companies planning to form joint ventures with operations in formerly communist countries may find themselves faced with managers who have no concept of what risk management is—and very little interest, said Seppo Hero, corporate vp of risk management for Valmet Corp. of Helsinki, Finland, an engineering manufacturer.

Unlike many Western countries, Finland has strong and long-established trading links with the countries of Eastern Europe, Mr. Hero noted during a session at the 20th International Insurance and Risk Management conference, held last month in Barcelona, Spain, and sponsored by Management Centre Europe, the European arm of the American Management Assn.

"One of the first questions a Western risk manager is likely to be asked by any operation in the Eastern bloc is 'What is risk management?' and the Western risk manager will have to explain the basis of risk management and why it is important," Mr. Hero said.

However, it is important that Western companies persevere in trying to educate Eastern European managers about the value of risk management, said Sandor Palfi, director of the international underwriting and claims division of Hungaria Biztosito, a Budapest, Hungary-based insurer that is 51% owned by the state and 49% owned by Allianz A.G. Holding of Germany.

"During the 1980s there has been a creeping in of risk management thinking in Eastern Europe but it is happening very slowly. It's still going on and there's a lot to develop," said Mr. Palfi.

"My advice to foreign investors is please also import your risk management approach," he said.

The lack of experience and interest in risk management and insurance matters by many Eastern European companies was evident in a recent joint venture deal struck in Hungary, Mr. Palfi told his audience.

A huge new plant is being built in Hungary at a cost of about \$100 million by a group of foreign and Hungarian investors, he said.

However, the foreign investors handled coverage negotiations with a Hungarian insurer alone because "the local participant did not want to take part in the discussions at all. It was not interested," he said.

Meanwhile, many risk management and insurance concepts are very difficult to understand in an economy that is changing to one shaped by free market forces from one controlled by the state, both men noted.

For example, "how can you have loss-of-profit insurance in a country which has not been used to the concept of profit for the last 40 years?" asked Mr. Palfi.

The risk manager must also bear in mind that fire protection and occupational safety standards in Eastern Europe are very different from Western standards, Valmet's Mr. Hero pointed out.

In addition, "it may be difficult to get anything passed by local management to improve safety if it requires money being spent," he said.

Western risk managers entering into joint ventures with Eastern European partners must also be aware that the natural catastrophe exposures of companies in Eastern Europe are different from those in

Western Europe, Mr. Hero said. For example, "major parts of Eastern Europe are in earthquake zones," he noted.

The "experience of the last few years shows that the probability of failure of a joint venture is very high." There have been more than 1,300 joint ventures so far in the Soviet Union, but only a few are active as expected, Mr. Hero said.

Despite the differences between the two cultures, "there's a growing readiness for local insurers to cooperate with Western insurers," Biztosito's Mr. Palfi said, adding that Eastern European insurers are willing to provide the local portion of global programs.

"But they need to understand how these programs work. Eastern European insurers will find themselves facing new conditions, new challenges, new dangers," Mr. Palfi explained. "Please encourage them and trust them to be able to do so."

"I don't think Eastern Europe is a gold mine or a hidden treasure (for Western companies) as is a widely supported misbelief. But companies thinking European have to include Eastern Europe as a segment of the European market," Mr. Palfi said.

"If you want a piece of that market, you have to do something for it. You have to offer something for insurance companies in this part of the world," he said.

According to Mr. Palfi, the two things Eastern European insurers are most in need of are:

- Capital.

Eastern companies "have enormous shortages of working capital and we need it to improve education and training, communication, computerization, etc.," he said.

- Foreign "know-how."

"If you are ready to offer this, you may expect a positive response and success in closer cooperation with Eastern European partners," said Mr. Palfi.

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INTERNATIONAL

Monsanto enjoys fruits of risk control

By CAROLYN ALDRED

BARCELONA, Spain—Aggressive risk management can offer plenty of paybacks besides lower insurance costs, claims a chemical company's financial executive.

It also can ensure environmental and workplace safety, said Pierre Burnay, treasurer for the European and African operations of Monsanto S.A./N.V. in Brussels, Belgium, a subsidiary of St. Louis-based Monsanto Co.

Monsanto, a manufacturer of chemical and agricultural products, reported 1989 revenues of \$8.7 billion, with 40% of its sales outside of the United States, according to Mr. Burnay. The company employs 42,000 people in 24 countries.

During a session at the 20th International Insurance & Risk Management Conference in Barcelona

last month, Mr. Burnay traced the development of Monsanto's risk management philosophy since the 1950s, when Monsanto established a risk management department.



Mr. Burnay noted.

But, that approach changed with the formation of a risk management department after a major loss at a Texas plant, Mr. Burnay noted.

During the 1960s, the company "bought one of the first global covers" with deductibles, he claimed.

Monsanto increased its retention

during the 1970s through higher deductibles and the use of a captive insurer.

By the 1980s, the company had increased its deductibles to the extent that it really purchased only catastrophe protection from insurers, Mr. Burnay said.

Today, risk management "is placed in the mainstream of management, with insurance used mainly for catastrophe protection," he said.

"Because of the nature of our business, Monsanto faces severe risks in public liability; transportation risks; risks to employees; risks of business interruption and risks to the environment. The implication of all these risks could be substantial—devastating," he said.

"Our aim is to get high limits (of insurance coverage) to protect against a catastrophe," Mr. Burnay pointed out.

The company has maintained "one of the most aggressive deductible approaches in industry," Mr. Burnay pointed out.

"With 40 years' of good losses behind us, we have been able to consider deductibles in the tens of millions of dollars," he said.

To obtain the maximum catastrophe liability coverage available for chemical companies, Monsanto has had to tap insurers around the world.

"I was surprised to see how few insurers are willing (to insure chemical companies) compared to the number of bankers willing to lend us money," Mr. Burnay remarked.

Monsanto is forced to use "imaginative alternatives"—like combining liability coverage with marine cargo policies—to obtain sufficient insurance, he said.

"This more aggressive risk tak-

ing is increasingly becoming part of our corporate culture," he said.

"Our aggressive policy provides significant value to the company" by, for example, better controlling premiums, he said. "We spend one quarter of what we spent 10 years ago for our property insurance."

Aggressive risk management also "limits the cost and dependency on the insurance cycle," he said.

And, it improves the company's safety and environmental record, he noted.

"I believe that risk management cannot be divorced from a company's commitment to environmental safety and the safety of its employees. A company should attempt first to meet public expectation of this," Mr. Burnay said, adding that Monsanto spends a hefty sum each year to promote the safety of its employees and the environment.

BASF boosts BI cover after huge loss

By CAROLYN ALDRED

BARCELONA, Spain—German chemical giant BASF A.G.—hit with an estimated \$200 million business interruption loss last year—is dramatically increasing its business interruption coverage.

BASF is doubling its business interruption insurance limits to 1 billion deutsche marks (\$658 million), and the company now is covered for up to 36 months of business interruption, up from 24 months, said Karl-Heinz Jaeger, a director of the central insurance department of the Ludwigshafen, Germany-based company.

In March 1989, an explosion ripped apart a BASF ethylene oxide production plant in Antwerp, Belgium, resulting in perhaps the largest non-marine business interruption loss in history (BI, April 10, 1989).

Initial estimates of more than 594 million deutsche marks (\$391 million) of business interruption losses exceeded policy limits of 500 deutsche marks (\$329.1 million), Mr. Jaeger said. He noted that the

company will not be able to replace the plant within two years.

But, falling ethylene prices have led to lower reduced business interruption loss estimates of 305 million deutsche marks (\$201 million).

The property damage claim was settled for 135 million deutsche marks (\$88.9 million), less than half the lowered business interruption loss estimate, Mr. Jaeger said.

Gerling-Konzern Insurance A.G. of Cologne, Germany, led BASF's property and business interruption coverage.

Three major losses in 1989 brought the importance of business interruption losses home to chemical concerns, Mr. Jaeger pointed out at the 20th International Insurance and Risk Management Conference in Barcelona, Spain. The Oct. 24-26 conference was sponsored by the Management Centre Europe, a branch of the American Management Assn.

Explosions at a Bayer A.G. plant in Verdinger, Germany; the BASF plant; and a Phillips Petroleum Co. petrochemical plant in Pasadena,



Texas (BI, Oct. 30, 1989), produced massive losses.

In each case, business interruption losses exceeded the property loss, Mr. Jaeger said.

BASF recently surveyed six of its plants and found that a serious accident at five of them would likely produce larger business interruption losses than property losses, Mr. Jaeger noted.

"The chemical industry is frequently damaged by fire, and even with the best risk management there is always a residual risk," he said.

Standard business interruption policies outside the United States cover 12 or 24 months of lost profits, but neither term is adequate for chemical and pharmaceutical companies, he said.

Business interruption "losses can be a major threat to a company and in the worst cases could lead to bankruptcy for even the biggest of companies," Mr. Jaeger warned.

"People tend to underestimate the replacement times for damaged plants or facilities," he said. Specialized equipment for chemical companies cannot always be replaced quickly, Mr. Jaeger noted.

And, even though some fires are stopped before spreading, fire damage to even a single piece of machinery could shut down an entire plant, Mr. Jaeger said.

As the industry grows increasingly specialized, companies will have more difficulty trying to switch production of a product from a destroyed plant to a plant that usually produces some other substance or product, he warned.

Plant conversions obviously present technical difficulties, but transportation and staffing also can be problems, he pointed out.

Transporting chemical products, for instance, requires detailed planning, and routes and methods cannot be quickly altered, he said.

And, the increasing reliance by companies on the products that they produce themselves makes massive business interruption losses more likely, he said.

In addition, the likely impact of any loss on clients or suppliers, who may decide not to do business with the company because production is interrupted, also is an important factor in calculating the total impact of the loss on the company, he warned.

"Technical downtime" presents another obstacle to restarting production after an accident, he said. Especially in the case of accidents near residential areas, governments often will shut down a plant until an official investigation is closed.

When looking for business interruption coverage, insurance buyers also should consider whether to use the same insurer that writes its property exposures, he said.

Using different insurers often can present a conflict when machinery or materials must be replaced, Mr. Jaeger commented. Property insurers will be prepared to wait for a low price for the replacement items; business interruption insurers will want a replacement as soon as possible to reduce their payouts.

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INTERNATIONAL

E.C. has impact on risk management

Increased savvy, power and retentions seen

By CAROLYN ALDRED

BARCELONA, Spain—European industry is relying less on insurers as it increasingly flexes its own financial muscle, contends a German risk management expert.

As companies expand beyond their national borders through mergers and acquisitions, they can retain more of their industrial risks, said Christian Schmidt-Leithoff, manager of Daimler-Benz InterServices A.G. in Stuttgart, Germany.

DBI, a subsidiary of automaker Daimler-Benz, sells services, such as risk management and insurance services, to affiliated companies.

However, risk managers should take steps to ensure that small insurers are not squeezed out of the market as other larger insurers also expand internationally, Mr. Schmidt-Leithoff said at the 20th International Insurance & Risk Management Conference last month. Management Centre Europe, an arm of the American Management Assn., sponsored the Oct. 24-26 conference in Barcelona.

Relaxed trade barriers within the European Community and international expansion are chang-

ing the insurance buying practices of many European corporations, Mr. Schmidt-Leithoff said.

In the last few years, the world has witnessed "a whole wave of corporate acquisitions and mergers, and 50% of the transnational mergers are taking place in the E.C.," Mr. Schmidt-Leithoff said.

"The technical know-how increases with the size of a company, and this influences the purchasing policy of a company," he said.

Companies 'can increasingly become their own insurer, says DBI's Mr. Schmidt-Leithoff.

The greater a company's financial resources, "the greater the possibility of higher retentions," he explained.

"Moreover, the wide spreading of risks produces a balance of risks within the company," he said.

Companies "can increasingly become their own insurer and, due to their financial potential, they can achieve considerable independence from the insurers," Mr. Schmidt-Leithoff said.

"Industrial policyholders are in

an easier situation. They are not in a direct bi-polar relationship with insurers. They have more resources to deal with the matters themselves," he said.

But, like their policyholders, many insurers are expanding beyond their national boundaries, he noted. National and international insurers probably will compete on price to attract market share, he predicted.

"This has advantages as far as we're concerned, but if this continues into the future we should be concerned about the independence of the smaller insurers and include them in our programs," he advised.

Multinationals should not be allowed to squeeze their smaller competitors completely out of the market, Mr. Schmidt-Leithoff asserted.

"The danger of oligopolistic conditions should be noted," he said.

Mr. Schmidt-Leithoff explained that as insurers expand, large industrial policyholders could find fewer insurers and may be able to find only standardized group programs.

Risk managers can counter such a trend by taking precautions such as carefully maintaining relationships with smaller companies, he said.

"The room for maneuver for insurance customers will be maintained by, on the one hand, competition between the international insurers and, on the other hand, by the smaller, nationally-based insurers and specialist insurers, which also want to exist in a narrower market," he explained.

"In this situation, price competition will come to the fore. For the industrial insurance customer, the preservation of a broad spectrum



Photo courtesy National Tourist Office of Spain

Barcelona's Templo de la Sagrada Familia was designed by Antoni Gaudí, who began construction on the cathedral in 1883. Though he labored on it for the next 43 years, at his death in 1926 it remained unfinished. Work resumed on the cathedral after the end of the Spanish Civil War in 1939, but the cathedral is still incomplete. There is a constant debate over whether the work should be completed or left unfinished as a monument to its architect.

of insurers is in his own interest," Mr. Schmidt-Leithoff said.

Industrial companies also will require better insurance programs to cope with their growing needs, he said.

"The internationalization of the economy requires more than trans-frontier coverage concepts," Mr. Schmidt-Leithoff said.

"The insurers will have to develop, particularly, such forms of cover which implement an E.C. standard and are connected with comprehensive service provisions such as information and loss settlement," he said.

"The trend towards bonus systems, retro-programs and profit sharing agreements will become stronger, where the customer can establish a link with his individual claims record and where, for example, his efforts in the area of technical risk management can be taken into account to a greater ex-

tent," Mr. Schmidt-Leithoff said.

Insurer competition for market share initially will lead to lower rates for customers, but eventually it will mean a more stable market, he predicted.

"Cuts in capacity or a real capacity crisis as in the mid-1980s have become less likely. More effective self-insurance models within the more financially powerful insurance customer companies have substantially reduced their dependence on cyclical or artificially induced market forces," he explained.

And, the changing market will "require serious adaptation by brokers," he warned.

Their "success will primarily depend on the extent to which they are able to match the international and therefore complex range of products to the requirements of the customers and give comprehensive advice," he said.

MCE celebrates 20th meeting

BARCELONA, Spain—Management Centre Europe celebrated the staging of its 20th International Insurance & Risk Management Conference with a gala reception for the conference attendees.

About 370 risk managers, insurers, brokers and consultants from throughout Europe attended the conference.

MCE's annual risk management conference was held Oct. 24-26 in Barcelona.

Next year's conference will be held Oct. 9-11 in Paris.

The 1991 conference will be chaired by Alain Neveu, director of risk management and environmental affairs for Paris-based metals manufacturer Pechiney S.A. The conference's deputy chairman will be Bernard Fink, member of the executive board of Gerling-Konzern Welt-Versicherungs Pool A.G. of Cologne, Germany.

Among the speakers already lined up for the conference are: Claude Bebear, president of AXA Group of Paris; Patrick Peugeot, chairman and chief executive officer of Societe Commerciale de Reassurance S.A. of Paris; and Mikhail Safronov, chairman of the Insurance Co. of the U.S.S.R. (Ingosstrakh) Ltd. in Moscow.

For more information and registration materials, contact Management Centre Europe, Rue Caroly 15, 1040 Brussels, Belgium; telephone: 322-5161911.

Brokers told survival hinges on better image

By KATE McILWAINE

GOLD COAST, Australia—The continuing soft insurance market in Australia demands tough responses from brokers, their trade group president contends.

At the eighth annual National Insurance Brokers Assn. convention, Terry Paradine reiterated the meeting's theme—when the going gets tough, the tough get going.

Brokers must become more professional to cope with the tough times in Australia's insurance market, as well as its economy, said Mr. Paradine, who is also chief executive of Marsh & McLennan Pty. Ltd. in Sydney.

Australia has been in an economic recession for more than a decade, according to Peter Barry, a former trade union official who is now an industrial relations consultant in Canberra.

"There's going to be a shakeout in the 1990s," he told brokers. "The next few years will be deadly, but those who change and adapt will be in a position to benefit."

"The winners will be those who are innovative and go out there and give it their best shot," Mr. Barry said. He also told brokers "not to sit on your bottoms or the fence if you want to ride out the recession."

Current conditions in Australia make insurance "a tough and joyless business" characterized by "self-inflicted wounds" as well as

"nature and the economy conspiring" to make this year more difficult, said John K. Staveley, managing director of insurer AMP General Insurance Ltd. in Sydney, an underwriting unit of the Australian Mutual Provident Society.

Natural disasters and political and economic events are unavoidable.

But the industry could change the "chronic underpricing of the property insurance market, where the underwriting side of the industry

has made a technical profit—even allowing for investment income—only once in the past 10 years," Mr. Staveley said.

Price now dominates the Australian market, he said. Until underwriters muster the courage to charge a realistic price and brokers convince clients they should pay a realistic price for services, the soft market will continue, he said.

M&M's Mr. Paradine said NIBA must work to improve brokers' public image.

Natural disasters during the past year—the Newcastle earthquake, floods in New South Wales and Queensland and severe hailstorms—have created challenges for brokers because the insurance industry was the focus of adverse media attention in the wake of the disas-

ters, he observed.

NIBA must fund a public relations campaign, either alone or with the Insurance Council of Australia, to overcome the "extraordinary, often vitriolic commentaries heard over the airwaves at the time of the Newcastle earthquake" and the floods, Mr. Paradine said.

Complaints at the time focused on the problems of underinsured homeowners and the fact that most commercial and personal property policies excluded coverage for flood damage.

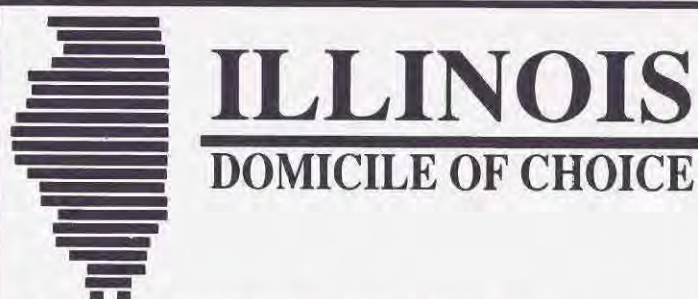
Yet Mr. Paradine said such a campaign was unlikely to come to fruition because only about half of NIBA members favored it.

Meanwhile, at a members meeting before the convention, brokers discussed raising the minimum level of professional liability insurance required of members.

NIBA currently requires minimum coverage of \$500,000 Australian (\$389,000), which can be placed for members by M&M.

NIBA Executive Director John Unkles said the group's board of directors was proposing raising the limit to \$1 million Australian (\$778,000). But some brokers favored a minimum of \$5 million Australian, and others preferred a sliding scale based on the number of principals in a firm, Mr. Unkles said.

A decision on the matter will be made by the NIBA board at a later date.



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INTERNATIONAL

Brokers raise fees vs. commissions debate

By KATE McILWAINE

GOLD COAST, Australia—Although many Australian brokers oppose receiving compensation solely based on fees rather than commissions, several say raising fees is the only way to boost compensation in a tough insurance market.

During a panel discussion at the eighth annual National Insurance Brokers Assn. convention last month in Gold Coast, Queensland, brokers who favored fee-only compensation were asked to raise their hands.

Among the 500 brokers, only a couple of hands were raised.

John J. Mallick, general manager of Sydney-based underwriter Sun Alliance Australia Ltd., said he did not consider the question of fees vs. commissions a big issue, but noted that consumers do.

Public pressure for brokers to be independent of underwriters could force a change to fees from commissions, according to Mr. Mallick.

"Society is being driven by consumers," Mr. Mallick said. "The public is beginning to question who you are working for. I believe brokers will need to be seen as a profession remunerated by its principals": the clients.

Mr. Mallick said the public would soon be demanding full disclosure of fees and commissions. He said many brokers detail fees but few report commissions on their bills.

"Do you disclose commissions, and is it ethical to take commissions as well as fees?" he asked the audience.

Panel chairman and NIBA President Terry Paradine, chief executive of Sydney-based Marsh & McLennan Pty. Ltd., noted that charging a fee for services removes potential conflicts between the legal duty of care owed a client and the receipt of money from an underwriter.

"Our clients are looking at that conflict of interest and it is common for them to insist there is no other form of remuneration (apart from fees)," Mr. Paradine noted.

Graeme Hannan, executive chairman of The Hannan Group, a Melbourne-based broker, agreed that commissions should be disclosed.

Clients needed to be reminded of the two levels of compensation each year when policies are renewed, he said.

Mr. Hannan said that it was a matter of "being up front" with the client and there was no conflict of interest as long as fees and commissions were disclosed.

He said The Hannan Group receives both fees and commissions as compensation.

"Fees are a common way of charging for services in other industries, and I see no reason why it should not happen in the broking profession," Mr. Paradine said.

In Australia's current highly competitive market (see story, page 120), brokers that relied solely on commissions "would not earn enough money to get the job done," he said.

He estimated that M&M is compensated in Australia by about 60% fees, 10% commissions and 30% a mix of both.

Another panelist agreed that brokers should charge fees in addition to earning commissions.

If brokerage services suffer because of reduced commission rates

in a soft market, brokers are in danger of becoming nothing more than quote seekers, said Michael Cybulski, chief executive officer of Sydney-based specialist broker Credit Indemnity & Financial Services Pty. Ltd.

"If you allow yourselves to vacillate rather than insisting on more adequate remuneration for the services you provide, there is no way brokers' image will change," Mr. Cybulski said.

You're not retailing packets of cigarettes, he told the audience. "You are—or should be—providing a sophisticated, professional insurance broking service," he said.

He warned that brokers would remain "hostage to price" unless they insist on improved remuneration.

Specialists charge higher fees than others, Mr. Cybulski said. In fact, CIFS charges four times the highest fee charged by its competitors, he said.

Brokers should disclose commissions to clients, says Graeme Hannan,

"We have made that a virtue, by featuring services not provided by other brokers. By isolating CIFS, we have enhanced our reputation," according to Mr. Cybulski.

"There is a direct, positive relationship between income and service; if you improve your income you can afford to improve your service," he said.

In a later speech at the convention, Alastair Mitchell, deputy chief executive of M&M in Australia, said brokers were underpaid for their services by an average of 30% to 40% in the ongoing soft market.

And, he warned brokers who were allowing "excessive rate cutting by underwriters to totally dictate their earnings capacity" that the highly competitive market would continue.

Mr. Mitchell said that M&M's move toward increased fees was partly initiated by the growth of consumer awareness, but also by

competitive forces.

"Avoid the temptation to take on an account at any cost," he advised the audience.

And, Mr. Mitchell told them to charge fees for any post-policy servicing or, if they had lost the account, to hand over all the files to the new broker.

"In the past, we have viewed commission or fees earned during the original policy year as covering an open-ended commitment by the broker. This should no longer be the case," he said.

While post-policy servicing was one of the most important services provided by a broker, remuneration should be for work during the policy period only, with a client being billed for any additional policy work, Mr. Mitchell said. ■



During our 100th Anniversary Year, IRI thanks all of the very important people -- Risk and Insurance Managers, Agents, Brokers, Financial Officers, Plant Engineers, Professional Societies, IRI Employees and Retirees, Member Company Representatives, and others -- who have led us to our 2nd Century.

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- 1) an existing state-wide network and agreements with participating pharmacies within the State of West Virginia; 2) full prescription drug claims administration capability; and 3) drug utilization review program and complete utilization/cost reporting capabilities.

Interested and qualified organizations may contact Ann M. Stottlemeyer, Deputy Director, PEIA, Bldg. 5, Rm. 1025, Charleston, WV 25305 [FAX: (304) 348-2516].

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Vice-Presidents, General Managers
and Other Administrative Personnel 4,438

Financial:
Chief Financial Officers and Vice-presidents of Finance 3,149
Secretaries, Treasurers, controllers and other Financial Personnel 4,505

Risk/Employee Benefits:
Vice-presidents, directors, managers, and other related department personnel of: insurance, risk, employee benefits, personnel, compensation, pension, safety, security, industrial relations, human resources and employee/labor relations 10,830
Sub-total 25,592

Associations 511
Government, Unions and Educational Institutions 1,289

Commercial Consumers
Sub-total 27,392

Insurance Agents and Brokers . 9,815
Insurance Companies 7,891
Accountants, Actuaries, Attorneys & Consultants 3,377
Adjusters, Appraisers, TPA's, Captive Managers & Health Care Providers 1,218
Others Allied to the Field 1,693
TOTAL 51,386

* Source Business/Occupational breakdown of qualified circulation, May 28, 1990 issue, as submitted to BPA for June 1990 BPA Publisher's Statement.

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NOTICES

IN THE CIRCUIT COURT OF
COOK COUNTY, ILLINOIS
COUNTY DEPARTMENT,
CHANCERY
DIVISION

PEOPLE OF THE
STATE OF ILLINOIS,
ex rel.,
Zack Stamp,
Director of Insurance
of the State of Illinois

Plaintiff, No. 88 CH 7300

v.

COOPERATIVE
HEALTH PLAN,
an Illinois
Domestic Stock
Health Maintenance
Organization

Defendant.

NOTICE OF CLAIMS DATE AND PROCEDURES

PLEASE TAKE NOTICE, that on March 29, 1989 an Order of Liquidation With A Finding of Insolvency was entered against Cooperative Health Plan ("Cooperative") by the Circuit Court of Cook County, Illinois. Zack Stamp, Director of Insurance of the State of Illinois ("liquidator") is the statutory and court affirmed Liquidator of Cooperative.

TAKE FURTHER NOTICE, that on October 29, 1990, the Circuit Court of Cook County, Illinois, entered an Order Extending the Final Date for the Filing of Claims ("Fixing Order"). Pursuant to the terms and conditions of the Fixing Order, all rights and liabilities of Cooperative and its creditors, policyholders and stockholders, and all other persons interested in its assets, are extended and fixed as of April 1, 1991, unless otherwise provided in a subsequent Order of the Court.

TAKE FURTHER NOTICE, that all persons and entities, who have, or may have, claims, contingent or otherwise, against Cooperative, or the property or assets of Cooperative, shall have the right to present and file with the Liquidator, proper proofs of claim on or before 4:30 p.m., C.S.T., on April 1, 1991. Such contingent claims by insureds may be allowed if such claim is fully liquidated, and the insured presents evidence of the payment of such claim to the Liquidator, on or before such final date and such contingent claims by person claiming against such insureds may be allowed if such persons demonstrate to the Liquidator that the proofs submitted to the liquidator upon such claim satisfy the requirements of Illinois Revised Statutes 1989, Ch. 73, Par. 821 by such final date.

TAKE FURTHER NOTICE, that the form of, and required contents of, all proofs of claim are described in Illinois Revised Statutes 1989, Ch. 73, Par. 821. Proofs of Claims, together with supporting documents, if any, are to be filed with, and may be secured from, the Special Deputy Liquidator of Cooperative Health Plan, in Liquidation, 446 E. Ontario, Suite 700, Chicago, Illinois 60611. Filing shall occur upon the receipt of the Proof of Claim by the Liquidator. The Liquidator reserves the right to require such additional information with respect to any claim filed with him as he may deem necessary. The Liquidator further reserves any and all defenses available to Cooperative upon all filed claims. All Proofs of Claim must be duly sworn to before an Officer authorized to take oaths.

THE LAST DATES FOR THE FILING OF PROOFS OF CLAIM WITH THE LIQUIDATOR AND THE LIQUIDATION OF ALL CONTINGENT CLAIMS, IS SET FORTH ABOVE. NO PERSONS HAVING OR CLAIMING TO HAVE ANY CLAIMS AGAINST COOPERATIVE, OR ITS INSUREDS, SHALL PARTICIPATE IN ANY DISTRIBUTION OF THE ASSETS OF THE COMPANY, UNLESS SUCH CLAIMS ARE PROPERLY FILED, AND IN THE CASE OF CONTINGENT CLAIMS PROPERLY LIQUIDATED, WITH THE LIQUIDATOR ON OR BEFORE APRIL 1, 1991 AT 4:30 P.M., C.S.T.

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INTERNATIONAL

Pros, pitfalls in broker buyouts

By KATE McILWAINE

GOLD COAST, Australia—There are benefits and pitfalls to acquiring brokerages, panelists at the annual meeting of Australia's National Insurance Brokers Assn. say.

Responding to a question whether there is a place for small brokers in the current competitive insurance market, Peter Claringford, chairman of Melbourne-based broker OAMPS Group, answered in the negative.

Mr. Claringford, who moderated the panel, said his company acquired other brokerages because increased size offered increased security.

But, he noted that OAMPS will not acquire a firm unless its principal agrees to "stay on" with the company.

Another broker said merging

with a larger brokerage benefited his business.

John Clark, a director of Rowland Bull & Clark International Insurance Brokers in Sydney,

pointed out that merging his Clark Insurance Brokers Pty. Ltd. with Rowland Bull & Associates allowed his brokerage to achieve economies of scale and improve productivity.

According to Mr. Clark, average revenue per employee at a brokerage firm with 3.6 employees was \$54,000 Australian (\$42,012), while that figure rose to \$116,000 Australian (\$90,248) at a firm with 6.6 workers.

The most important thing in

merging brokerages is planning, Mr. Clark said. "You need to work out the relationships in the new identity to maximize the skills of those involved," he said.

Mr. Claringford suggested that the people in a firm that is bought or merged should be compatible with the new firm.

Sandy Ross, a director of Sydney-based broker J.M.D. Ross Insurance Brokers Pty. Ltd., agreed that partner selection should be a high priority.

"If you're not comfortable with the people, it won't work. No matter how good the deal looks," he said.

However, panelist Bob Elder, chairman and managing director of Sydney-based IPG Insurance Brokers Pty. Ltd., said brokers could "get carried away with trying to clone ourselves."

Mr. Elder suggested that acquiring a firm run by someone with fresh, different ideas could be valuable.

Another panelist discussed the virtues of partnerships between insurance companies and brokerages.

Bruce Howe, general manager of insurer Mercantile Mutual (Australia) Ltd., which has an interest in about 120 brokerages, said the advantage to an underwriter of such links are profitability and access to the marketplace.

"We're not involved in stripping business so they act like agents, while saying they are brokers," he stressed. "We earn our business, we don't demand it."

Regardless of some brokers' objections to insurers owning brokerages, Mr. Howe said the idea "was here to stay."

NAIB meeting attracts 912 to Gold Coast

GOLD COAST, Australia—The eighth annual convention of Australia's National Insurance Brokers Assn. attracted nearly 1,000 attendees to the Gold Coast of Queensland.

NIBA reported that 912 delegates and guests attended the meeting, representing a record 156 member brokerages.

The 1991 meeting will be held Oct. 20-23 at the Conrad Convention Centre & Jupiters Casino on the Gold Coast.

For more information, contact NIBA at 49 Agnes St., Jolimont, Melbourne, Australia; 643-650-6466; fax: 643-654-7038.

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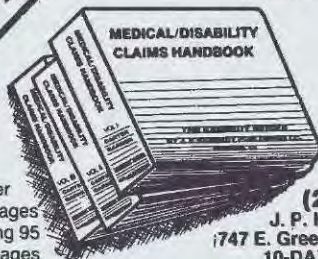
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GLOBAL BRIEFS

German brokers critical of Lloyd's strategy

FRANKFURT, Germany—Lloyd's of London, which opened a German office amid fanfare in 1989, is faring poorly in Germany because it lacks a clear market strategy and remains uninformed and unconcerned about local needs, German brokers complain.

"We'd expected Lloyd's to become a strong partner, willing to underwrite difficult business. But they're not very well-informed about the German market, said Christoph Keil, managing director of the Insurance Brokers' Assn. in Hamburg.

Lloyd's Frankfurt office now is revising what the brokers consider "unacceptable" guidelines for working with brokers. But discontent with the venerable British market still runs high among the brokers.

"The opinion in London seems to be you can literally organize difficult business with all its risks just by entering the German market with a premium volume of 140

billion deutsche marks (\$92.4 billion)," said Franz-Gunther von Gaertner, president of the brokers group.

That strategy, he said, has not paid off for Lloyd's, which opened its Frankfurt office last year confidently predicting substantial gains by 1992.

"The fact is the market is held securely by a large number of active German insurance companies with tightly managed field staffs. It's an illusion to believe that Lloyd's method (underwriting syndicates of independent business people) can survive on the German market," said Mr. von Gaertner.

At a recent press conference, German brokers advised Lloyd's to "adapt to the market and not expect the market to adapt to Lloyd's."

For example, to be successful in Germany, Lloyd's Frankfurt office must be given "power of attorney to underwrite policies," policies must be written in German and

disputes must be settled in German courts, said Geerd Ballauf, a broker with Jaspers Industrie Assekuranz in Hamburg. "Otherwise at least the larger brokers will do their business directly with London."

At their press briefing, the German brokers also praised some recent developments in European Community insurance regulation.

The European Community's Third Property Directive "broke down the last wall of national separatism," said Mr. von Gaertner. He added that the European Commission is in the process of creating a "genuine home market" in which an insurer "is only under the controlling supervision of his home country."

The commission's eventual goal is to "qualify insurance brokers as a permanent representative of foreign insurers, fulfilling requirements for establishing a business office," he said.

—By Don Lewis Kirk

Multinational market

LONDON—Royal Insurance Holdings P.L.C., a London-based multiline insurer, is forming a new subsidiary to specialize in underwriting worldwide insurance risks for multinational corporations.

"The objective in this company is to provide an improved service to this important and growing sector of the insurance market," the company said.

Royal has a network of offices and "risk-taking capability" around the world, and the new company will be organized to "enhance this service and provide support to multinational clients and their brokers," the statement explained.

Royal's marine business will be included within the new company.

The new company, which will begin operations in January, will be headquartered in London. It will have supporting offices in the

United States, Europe and Australia.

Tom Brown, currently a general manager with Royal U.K., will be managing director of the new company.

—By Carolyn Aldred

Loss adjuster

AUCKLAND, New Zealand—McLarens, the London-based international loss adjuster, is integrating five local New Zealand loss adjusting companies into its Auckland office.

Incorporated into the new McLarens company in New Zealand are Armitage and Associates Ltd.; B.J. Ellison Ltd.; Goddard and Associates Ltd.; Manning-Voyce and Associates Ltd. and Warner Johnson and Associates.

The operation will be located at Adjusters House, 77 Ponsonby Road, Auckland.

—By Carolyn Aldred

St. Paul reinsurance unit names president

James P. White has been named president and chief executive officer of St. Paul Reinsurance Management Corp. of New York.

Mr. White, a senior vp-corporate reinsurance for St. Paul Fire & Marine Insurance Co. since 1984, was named acting president after Paul F. Butler left the company in June.

Mr. White has been with St. Paul for 35 years.

Other reinsurance industry

Comings & goings: industry

changes:

Donald Wustrow named senior vp with Omni Re Services Inc. of Clark, N.J.

Enan & Co., a treaty reinsurance brokerage and investment advising firm in Burlingame, Calif., announced several changes. Edward C. Woodward promoted to execu-

tive vp from senior vp. Before joining Enan & Co. in 1988, Mr. Webster was an executive vp-claims with Pacific Compensation Insurance in San Bruno, Calif. Alys C. Yeh, who joined the firm as controller in 1989, named vp-finance. Marian C. Taylor, previously vp-reinsurance at Western Employers

Insurance Co., joined Enan & Co. as vp.

Agent/Broker

Steven D. Davis named senior vp and manager of new business development for Alexander & Alexander of California Inc., an Alexander & Alexander Inc. unit in San Francisco.

Frank B. Hall & Co. Inc. announced two promotions at sub-

diaries. Tom R. Moore, who joined Hall in 1989 after the New York brokerage acquired his agency, named chief executive officer of its San Antonio office. Donald C. Belken, who had also been chief executive, will continue to serve as chairman. And James E. Hazzard, who formerly was director of sales for A&A in Kansas City, Mo., joined Frank B. Hall of Connecticut Inc. as president.

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*includes pass-along

Risk Management: Market Report

Kicking off the new year, BI's annual Market Report on Risk Management will report how year-end renewals are shaping up for all types of commercial, property/casualty insurance and reinsurance.

This well-read issue will include comments from insurers, brokers, risk managers, stock analysts, the surplus lines market, as well as the London market and reinsurers.

Business Insurance
a publication of Crain Communications Inc.

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Issue:
December 17
Ad Closing:
December 4

Issue:
December 31
Ad Closing:
December 17

Issue:
January 7
Ad Closing:
December 20

Health care costs

Continued from page 1

employer expenditures for health care plans; payments by other private sources; Medicare payments; state and federal Medicaid expenditures; and payments by other public sources.

The study found that per-capita health care costs, including vision and dental care, increased 138.7% nationwide during the 1980s to an estimated \$2,425 in 1990, from \$1,016 in 1980.

In addition, if current trends remain unchanged, the study's authors predict that national per-capita health care costs will rise to \$5,515 in 2000, a 127.4% hike from the 1990 level.

Employers are paying more than their fair share of the health care cost increases, the study points out.

Employers' health care costs, which for the purposes of the study include employee premium contributions to employer-sponsored plans, increased 164% to \$174 billion in 1990, from \$66 billion in 1980, the report found.

At that rate, employers' health care bill—including employee contributions—would reach \$412.3 billion by the year 2000.

The survey did not break out employers' per-capita spending on health care.

However, consultant A. Foster Higgins & Co. Inc. reported that group health care costs nationwide—based on employer and employee contributions—averaged \$2,748 per employee in 1989 (*BI*, Jan. 29).

Overall, employer-sponsored health care plans will pay out an estimated \$174.1 billion in 1990, or 28.7% of the nation's total estimated health care bill of nearly \$606 billion, the study reports.

Following Massachusetts, the states that spend the most on health care per capita are: California, \$2,894; New York, \$2,818; Nevada, \$2,757; and Rhode Island, \$2,707 (see listing).

Following South Carolina, the states with the lowest per-capita health care expenses in 1990 are: Idaho, \$1,726; Mississippi, \$1,751; Wyoming, \$1,756; and Utah, \$1,784.

Several factors explain the variation in health care spending among states, said Ron Pollack, the Families USA Foundation's executive director.

Demographics can play a key role, especially the portion of the population composed of either women of child-bearing age or older people, he noted.

"Average age has a bearing on cost," agreed Larry Tucker, a Hewitt Associates partner in Santa Ana, Calif. Older people are more likely to use health care, Mr. Tucker remarked.

Physician practice patterns can also affect costs, experts say.

Use of inpatient care and surgical procedures varies greatly among regions.

And costs may be higher where there are less stringent utilization review or managed care guidelines.

For example, a higher Caesarian section rate than the national would drive up costs, explained Ed Freedman, managing director of national group practice for Lyndhurst, N.J.-based Alexander Consulting Group Inc., a unit of Alexander & Alexander Services Inc.

Mr. Tucker agreed that practice patterns contribute to varied costs. "We know a physician in New England will treat patients more conservatively and therefore more expensively" than will doctors in some other states, he said.

Longer hospital stays can also drive up costs, he pointed out.

The average inpatient stay in California is 5.5 to 5.8 days, compared with about six days in New York and six to 6.5 days in Massachusetts, according to Mr. Tucker.

Uniform practice patterns or guidelines could help curb the huge regional variations in standards of care and lower costs in some regions, experts also point out.

The number of doctors and hospitals in a state also influences per capita health care spending.

The survey authors note that the number and type of health care facilities and providers in a state "will cause individuals to travel into or out of a state to get health care."

Largely rural states may have lower costs simply because they have fewer hospitals and specialists, they note.

Consultants say that large numbers of doctors in an area generally means higher costs.

"It's the reverse of the traditional market system," explained Hewitt's Mr. Tucker.

Physicians who want to maintain their standards of living simply raise their rates when a new doctor moves into the market, he said.

He also points out that states with high volumes of primary care physicians also tend to have many higher-priced specialists.

The survey also reported that Arizona led the remainder of the states in health care inflation during the 1980s. Per-capita health care expenditures in Arizona rose 160.7% to \$2,211 in 1990, from \$848 in 1980.

Health care expenses in Arizona during the 1980s rose 15.9% faster than the national average inflation rate of 138.7%.

Other states with much higher than average increases in per-capita health care spending include Alaska, 157.2%; Florida, 152.3%; New Mexico, 152.2%; and Maine, 150%.

Three of the states with the largest increases—Arizona, Florida, New Mexico—are Sun Belt states with sizeable elderly populations, Mr. Pollock pointed out.

Per-capita health care costs rose most slowly in the 1980s in the District of Columbia, where expenditures rose 108.4% to \$2,585 in 1990, from \$1,241 in 1980.

The increase in the District of Columbia was 21.8% less than the national average increase.

The survey reveals, surprisingly, that health care inflation in states with high health care costs may not be as great as in states with lower health care costs.

For example, while New York and Rhode Island were among the states with the highest per capita spending, they recorded among the smallest increases in health costs during the 1980s, the study reports.

New York's expenditures rose 124.2% from 1980 to 1990, or 48th of the 50 states and the District of Columbia, while Rhode Island's costs rose 128.6%, ranking it 47th.

One reason for those relatively low rates of increase, note observers, may be state restrictions on medical fees.

"New York has had a very active

State health spending

Here is a list of estimated 1990 per-capita health care expenditures for individual states as calculated by the Families USA Foundation in connection with Citizen Action.

Massachusetts.....	\$3,031	Washington.....	\$2,311
California.....	\$2,894	Alabama.....	\$2,286
New York.....	\$2,818	Delaware.....	\$2,268
Nevada.....	\$2,757	Tennessee.....	\$2,262
Rhode Island.....	\$2,707	New Jersey.....	\$2,224
Connecticut.....	\$2,699	Arizona.....	\$2,211
North Dakota.....	\$2,661	Indiana.....	\$2,201
Illinois.....	\$2,619	Texas.....	\$2,192
District of Columbia.....	\$2,586	Louisiana.....	\$2,185
Michigan.....	\$2,569	Maine.....	\$2,175
Missouri.....	\$2,568	Oklahoma.....	\$2,139
Kansas.....	\$2,548	West Virginia.....	\$2,088
Pennsylvania.....	\$2,563	Virginia.....	\$2,076
Ohio.....	\$2,493	Georgia.....	\$2,072
Minnesota.....	\$2,480	Montana.....	\$2,059
Hawaii.....	\$2,469	New Hampshire.....	\$1,981
Nebraska.....	\$2,452	Vermont.....	\$1,956
Wisconsin.....	\$2,449	Arkansas.....	\$1,944
Maryland.....	\$2,436	Kentucky.....	\$1,875
Florida.....	\$2,427	North Carolina.....	\$1,833
National average.....	\$2,425	New Mexico.....	\$1,792
Colorado.....	\$2,415	Utah.....	\$1,784
Alaska.....	\$2,367	Wyoming.....	\$1,756
Iowa.....	\$2,351	Mississippi.....	\$1,751
South Dakota.....	\$2,322	Idaho.....	\$1,726
Oregon.....	\$2,312	South Carolina.....	\$1,689

regulatory apparatus," noted Marsha Gold, director of research and analysis for the Group Health Assn. of America Inc. in Washington, D.C.

Other states in which health care costs rose much more slowly than the national average in the 1980s include Wisconsin, 123.2%; and Minnesota, 123.4%.

The study reports that the percentage of total health care expenditures financed by employer-sponsored plans varies greatly by state from the national average of 28.7%.

For instance, employers in Connecticut paid 37.5% of the state's health care expenditures this year, the highest in the nation.

Other states in which employers pay a much higher than average share of health care expenses include Minnesota, 36.9%; Utah, 35.5%; New Hampshire, 35.4%; and Nebraska, 34.6%.

Employers in Mississippi contribute the lowest share of overall health care costs: 18.3%. Other states in which employers pay a much lower than average share of total health care expenses include West Virginia, 18.6%; Arkansas, 19.0%; Louisiana, 19.1%; and Florida, 19.8%.

The survey also reports that an estimated 13.1% of Americans—or 31.8 million people—currently do not have health insurance, up from 10.8% of the population—or 24.5 million people—in 1980.

New Mexico has the largest percentage share of uninsured Americans: 22.8%. Other states with larger than average numbers of uninsured individuals include: Arkansas 21.8%; Texas, 21.4%; Florida, 18.4%; and Oklahoma, 18%.

All told, 42% of the Americans without health insurance live in the South, the study found.

The jurisdiction with the smallest percentage of uninsured people is

Connecticut, where only 5.8% of the population is uninsured. Other states with small percentages of uninsured individuals include: Minnesota, 6.6%; Rhode Island, 7.2%; Massachusetts, 7.3%; and North Dakota, 7.5%.

State economic conditions and industry make-up, among other things, can influence the number of people without insurance, the study points out. Industrial states with powerful labor unions, for instance, may have much fewer uninsured people than the national average. And states with many small service firms may have more uninsured because those companies often do not offer group health benefits.

The study's authors also cite the rapidly rising cost of health insurance for small employers as a major reason for the increasing number of uninsured Americans, but benefit consultants are not pinning the blame on insurers.

"The insurance industry, last I heard, is not a socialistic arm of the federal government," said Mr. Freedman of Alexander Consulting.

According to Phyllis Torda, director of health policy at Families USA Foundation, another report to be released later this month will give "some ideas where we think significant (health care) savings could come from."

Among those recommendations will be "rate controls" achieved by "eliminating unnecessary medical procedures," Ms. Torda said.

The foundation, according to Ms. Torda, also favors cutting "the administrative costs associated with the use of 1,500 different insurance companies."

For a free copy of "Rising Health Costs in America," write Families USA Foundation, 1334 G St. N.W., Washington, D.C. 20005.

Health cost increases

Here are the increases by state in total per-capita health care spending between 1980 and 1990, as calculated by the Families USA Foundation in connection with Citizen Action.

Arizona.....	160.7%	Montana.....	139.7%
Alaska.....	157.2%	Texas.....	139.7%
Florida.....	152.3%	Illinois.....	139.6%
New Mexico.....	152.2%	Indiana.....	139.4%
Maine.....	150.0%	South Carolina.....	139.2%
North Dakota.....	149.7%	New Jersey.....	139.2%
Washington.....	148.7%	National average.....	138.7%
Missouri.....	148.6%	Tennessee.....	137.7%
Hawaii.....	148.5%	North Carolina.....	137.1%
Nevada.....	148.5%	Iowa.....	136.6%
Pennsylvania.....	148.3%	Delaware.....	136.3%
West Virginia.....	147.6%	Oklahoma.....	136.2%
Alabama.....	147.4%	Massachusetts.....	136.0%
Wyoming.....	146.1%	Connecticut.....	135.2%
Oregon.....	146.0%	Georgia.....	134.7%
South Dakota.....	144.0%	Michigan.....	134.3%
California.....	143.9%	Maryland.....	134.1%
Idaho.....	143.9%	Kentucky.....	132.5%
New Hampshire.....	143.6%	Louisiana.....	132.4%
Colorado.....	142.5%	Mississippi.....	130.6%
Nebraska.....	141.4%	Arkansas.....	130.4%
Kansas.....	141.1%	Rhode Island.....	128.6%
Utah.....	140.8%	New York.....	124.2%
Virginia.....	140.5%	Minnesota.....	123.4%
Vermont.....	140.1%	Wisconsin.....	123.2%
Ohio.....	140.0%	District of Columbia.....	108.4%

Universal Studios fire

Continued from page 1

carrying helicopters, brought the fire under control in about three hours.

Two vaults holding the Universal film library were unharmed. The multimillion-dollar collection is a key element in the proposed \$8 billion acquisition of MCA by Japan's Matsushita Electrical Industrial Co.

Los Angeles County sheriffs have arrested Michael J. Huston, a Universal security guard on suspicion of arson. Last Friday he was being held in lieu of \$1 million bail.

MCA has at least \$100 million in property insurance, with a \$10 million primary layer and excess layers of \$40 million excess of \$10 million and \$50 million excess of \$50 million, insurance sources say.

Participants in the lower layers of

the program include units of American International Group Inc., CNA Financial Corp. and London underwriters, insurance sources say.

Spokesmen for AIG and CNA declined to comment.

A spokesman for Aetna Life & Casualty Co. confirmed that Aetna writes a small part of both the \$40 million excess of \$10 million and the \$50 million excess of \$50 million layers.

Fireman's Fund Insurance Co. provides \$5 million in property coverage as part of the \$50 million excess of \$50 million layer, a spokesman confirmed. He added that the Navato, Calif.-based insurer does not expect losses to be severe enough to tap its coverage.

The MCA spokeswoman and of-

ficials of Marsh & McLennan Inc., MCA's broker, declined to comment.

In addition to MCA's coverage, individual film production companies typically maintain production package policies.

These packages usually carry limits equal to the film's budget and cover revenue lost from filming delays caused by illness or death of a director or cast member; faulty or damaged film; film processing errors; damage to props, wardrobes or equipment; and losses from other production-related mishaps.

Production has been halted temporarily on "Oscar," a comedy starring Mr. Stallone, that was being filmed on Universal's Brownstone Street, a production company spokeswoman said.

The film's distributor is Touchstone Pictures, a unit of The Walt Disney Co.

Fire destroyed the film's entire wardrobe, its prop and camera trucks, several production trailers and 21 antique cars the movie company had rented for the production, the spokeswoman said.

Transamerica Insurance Co. of Woodland Hills, Calif., wrote a package policy for "Oscar," according to one insurance source who asked not to be identified.

Transamerica also writes production packages for Universal, the source said.

A Transamerica spokesman confirmed the company insures several production companies that were doing work at the studio. The in-

surer expects to pay \$1 million to \$2 million in fire-related claims under entertainment package policies, he said.

However, the spokesman would not provide details of what productions it insures, or how many. He noted that claims in excess of \$3 million will be covered by Transamerica's reinsurers.

He said that late last week, Transamerica officials were meeting with some of the affected productions to try to get "back on track" as fast as possible.

Another insurance source described the fire as an unusual loss, given the fact that most movies today are filmed on location.

"Not many studios have back lots any more," he said.

LUI insurers

Continued from page 1

of arrangement, the insurers will not need to be liquidated, said Mr. Bird. Most creditors, he added, prefer a scheme of arrangement to a liquidation.

However, the court order allows creditors to ask that the winding-up hearing be advanced to Dec. 19 if they are unhappy with the administrators' plans.

The four insolvent companies, known as the KELM companies, are: Kingscroft Insurance Co. Ltd., El Paso Insurance Co. Ltd. and Lime Street Insurance Co. Ltd., all in London, and Mutual Reinsurance Co. Ltd. in Bermuda.

All four formerly were direct participants on the Weavers line slip, writing about half the slip from 1983 into early 1986 and reducing steadily to 15.7% in 1988. More recently, they reinsured Walbrook Insurance Co. Ltd., the slip's leading insurer.

LUI, which owns both Weavers and Walbrook, purchased El Paso in 1987 and the other three KELM companies in 1988, two of which were then known as Louisville Insurance Co. Ltd. (Lime Street) and Kraft Insurance Co. (Kingscroft).

The suspension of claims payments by the four insurers in March prompted Walbrook to stop underwriting and led to the collapse of the Weavers' line slip, which was the leading facility in London for U.S. liability business (BI, April 2).

According to court papers, the assets of the KELM companies totaled 258.3 million pounds (\$415.9 million) as of Dec. 31. Estimated liabilities of 351.1 million pounds (\$565.3 million) created a deficit of 92.8 million pounds (\$149.4 million).

Taking into account other factors, the insurers' combined deficit for unsecured claims is about 40% of assets, or about 100 million pounds, said Mr. Bird.

The scheme of arrangement will be based on the KELM companies' finances as of Oct. 31, said Mr. Bird.

A scheme of arrangement under British law is a "compromise or arrangement" between a company and its creditors. It becomes legally binding on creditors if the plan is approved by a certain number of creditors and a court, explained Andrew Wilkinson, a lawyer with the London law firm of Clifford Chance.

The scheme must be approved by creditors present and voting at the meeting—in person or by proxy—representing 75% or more of the value of all claims and a majority in number.

After the court sanctions the scheme, "there is no need for further court involvement," Mr. Wilkinson noted.

And "since the law does not say what must go into the scheme, it is possible to tailor the scheme to fit

the particular circumstances of the insolvency," said Mr. Wilkinson, noting that such a procedure offers a flexible method of dealing with company insolvencies.

Schemes of arrangements can ensure much faster claims payments for policyholders than liquidations, said Mr. Wilkinson, who has been involved in several insurance schemes of arrangement.

Liquidations of long-tail insurers or reinsurers are "fraught with particular problems" that schemes of arrangement can alleviate, according to Mr. Wilkinson.

For example, in a liquidation, "until substantially all the liabilities of the insolvent reinsurer have been determined, the liquidator is unlikely to be able to pay any interim dividend to creditors who have notified paid losses," said Mr. Wilkinson, adding that the determination of liabilities can "take years."

The estimation of claims, including incurred-but-not-reported claims, "is a matter of great complexity and may prove contentious," particularly when the insurers wrote long-tail liability business and had many policyholders, he noted.

Mr. Bird estimates that the KELM companies wrote coverage for about 100,000 policyholders. Weavers introduced its claims-made form in November 1985, so much of the business written by the four companies when they were major participants on the line slip was written on an occurrence basis.

The scheme of arrangement proposed for the KELM companies will allow payments to be made to creditors as the claims are agreed upon, increasing cash flow to the claimants, said Mr. Bird.

A specified percentage of every agreed-upon claim would be paid out initially. The initial percentage set will be a "conservative" level to ensure funds will be available to meet future claims, said Mr. Bird.

While claimants at first would receive only a percentage of what they are owed, a promissory note would entitle them to future payments if the level of claims payment is later increased, said Mr. Bird. If the payout percentage is increased, creditors paid at the initial rate would receive interest on any future payments, Mr. Bird said.

For example, if the scheme paid out 50 cents on the dollar for every claim agreed in the first year and this payout was increased to 60 cents three years later, creditors that received payments in the first year would be entitled to further payments of 10 cents on the dollar for every agreed-upon claim plus interest, said Mr. Bird.

Updated financial figures for the KELM companies still must be assessed before a level of initial payout can be established, he said.

The initial payout level must en-

sure there will be sufficient funds to meet future claims, he pointed out.

For example, if the insurers' deficit stands at about 40% of assets, the initial payout would likely be less than 60% of current claims to allow for any adverse claims development.

A group of representative creditors approved the plan in principle at an informal meeting in New York last month, said Mr. Bird, adding, however, that details still must be worked out.

Determining the initial percentage payout will require some negotiation, he predicted. Creditors expecting a large amount of future claims but few known claims probably will favor a more modest initial payment than creditors with a high amount of current claims, Mr. Bird noted.

Meanwhile, planned commutation talks between Walbrook and its policyholders have been put on hold until the KELM scheme of arrangement is sorted out, said Mr. Bird.

LUI's administrators announced in July that Walbrook would seek to commute policies with policyholders on a voluntary basis to strengthen the insurer's financial position (BI, July 30).

Several major policyholders already have volunteered to commute their policies, sources say.

However, many of Walbrook's policyholders also are policyholders of the KELM companies.

Therefore, some policyholders may wish to commute with all of the LUI insurance subsidiaries simultaneously, said Mr. Bird, noting that commutations with the KELM companies cannot take place until the scheme of arrangement is finalized.

Meanwhile, some creditors argue that a scheme of arrangement also should be implemented for Walbrook.

Mr. Bird said, however, that there is no need for a scheme of arrangement for Walbrook since the insurer is technically solvent and its directors hope to improve its financial position with a commutation strategy.

"Walbrook is still paying claims. What will existing claimants say if we propose to put the company into a scheme?" he asked.

Others point out that Walbrook's surplus position is extremely thin.

Walbrook's net liabilities totaled 460.2 million pounds (\$742.8 million at the appropriate exchange rate) as of Dec. 31, while assets totaled only 465.4 million pounds (\$751.2 million). That left it 25.8 million pounds (\$41.6 million) short of the British Department of Trade and Industry minimum solvency margin (BI, Nov. 5).

"Solvency is a gray issue and Walbrook is a company balancing on a knife edge. There's such uncertainty that Walbrook should be put into a scheme of arrangement," said one London broker. ■

awarded \$1.5 million.

At trial, the parties disputed how fast Mr. Sadlier was driving and whether his seat belt protected him adequately. Mr. Sadlier contends he was traveling 25 mph and the seat belt failed. Toyota argued Mr. Sadlier was traveling at least 40 mph and that the belt worked properly. ■

Douglas West, vp and general counsel-products for the Toyota Motor Sales U.S.A. Inc. unit in Torrance.

A federal jury in Michigan last week awarded \$6 million to Cliff Sadlier, a Bloomfield Hills, Mich., man seriously injured when his Toyota 4Runner truck hit a tree in 1988. His wife, Joanne, was

companies and workers comp. The law would, among other things, roll rates back 25% and reduce benefits under the state's wage-loss system (BI, July 2).

The Florida AFL-CIO challenged the constitutionality of the law.

A court order leaves the reforms in effect until after an expected appeal by State Attorney General Bob Butterworth or until the Legislature puts the work comp and trade measures in separate laws.

The workers comp portion of the

law "wasn't declared unconstitutional," noted Mary Ann Stiles, a Tampa lawyer with Stiles, Allen & Taylor. Ms. Stiles, who served on the Workers Compensation Oversight Board—which developed recommendations for overhauling the workers comp system—said she expects the attorney general to challenge the ruling in Florida Supreme Court.

If an appeal is not heard by February, the Legislature is expected to pass two new laws, she said. ■

Update

Centre Re activates U.S. unit

Continued from page 2

Centre Re, founded in 1987, underwrites financial reinsurance products that include underwriting risk, which the company calls "finite risk reinsurance." Policies have been issued by units domiciled in Bermuda and Barbados. The New York-licensed unit has been inactive since it was licensed in 1988 (BI, April 30).

"One of the specific areas in which the New York company will participate is distressed company situations in which regulators play a large role in the purchase of reinsurance and resolution of financial distress," said Mr. Gluckstern. "We believe regulators may feel more comfortable dealing with a licensed U.S. insurer."

Centre Re, with capital of more than \$280 million, is privately owned. Its principal investors include Zurich Insurance Co., Kemper Reinsurance Co. and Morgan Capital Corp.

Property damage cover trigger

SAN FRANCISCO—A property insurer on a risk when a slow-developing property loss manifests itself is solely responsible for indemnifying the insured, the California Supreme Court has ruled.

In adopting the manifestation trigger for property coverage in *Prudential-LMI Commercial Insurance vs. The Superior Court of San Diego County*, the court resolved the issue of which of a policyholder's many property insurers must cover progressive property damage discovered after many years.

Some attorneys believe this ruling may influence courts nationwide hearing liability coverage disputes in third-party property damage cases, such as those over coverage for the cost of cleaning up toxic waste sites.

Insurers "may find this case foretells what the California Supreme Court will decide on the higher-stakes pollution cases," said Mark Nissenbaum of Bishop, Barry, Howe, Haney & Ryder in San Francisco.

The Nov. 1 ruling reversed an appellate court decision denying coverage to the owner of an apartment building who discovered a crack in the foundation.

Moseley retires from USF&G

BALTIMORE—Jack Moseley, chairman, president and chief executive officer of USF&G Corp., will retire early, and directors voted to slash dividends and approve a massive cost-cutting program.

The USF&G board has selected a successor to Mr. Moseley and expects to announce its choice within a few weeks, a spokeswoman said. Mr. Moseley, 59, is retiring for personal reasons, the spokeswoman said.

A spokesman for The Home Insurance Co. denied that Home President James J. Meenaghan will succeed Mr. Moseley.

Directors also cut the company's dividend 66% to 25 cents a share and approved a \$75 million cost-cutting program. USF&G shares closed at \$10.63 last Thursday, off 65% from the 52-week high.

USF&G posted a consolidated third-quarter net loss of \$15 million, down from a \$17 million loss in third-quarter 1989. Its consolidated net income for the first nine months of 1990 was \$41 million, compared with \$15 million for that period in 1989.

In addition, Standard & Poor's Insurance Rating Services has placed USF&G insurance units' double-A rating for its claims paying ability on its CreditWatch with negative implications. Also placed on Creditwatch were USF&G Corp.'s single A ratings for its senior unsecured debt and preferred stock and its A-1 commercial paper rating.

Among reasons cited were the firm's third-quarter earnings report and recent management changes, including Mr. Moseley's resignation.

X.L. opens in Dublin

DUBLIN, Ireland—X.L. Europe Insurance is open, offering excess liability coverage up to \$100 million excess of a minimum attachment point of \$15 million.

Bermuda-based X.L. Insurance Co. Ltd. formed the affiliate in Dublin with \$100 million in capital to offer admitted coverage in Europe. X.L. Europe, which opened earlier this month, also provides up to \$50 million in errors and omissions coverage excess of a minimum attachment point of \$25 million, and up to \$25 million in directors and officers coverage excess of a minimum attachment point of \$20 million.

X.L. Europe will retain 25% of business written and cede 75% to X.L. in Bermuda.

Briefly noted

President Bush last week signed into law deficit reduction legislation that will raise employers' benefit costs by billions of dollars (BI, Nov. 5). . . CSX Transportation Inc. of Jacksonville, Fla., says insurance will cover a portion of the \$16 million settlement it reached last week with about 30,000 victims who were either injured by or evacuated after a July 1986 train derailment (BI, July 28, 1986). The settlement came just two days before Montgomery County Court Judge John Kessler issued a directed verdict for two other defendants in the case: Union Tank Car Co. of Chicago, which manufactured the train cars, and Albright & Wilson of Americas Co. of Richmond, Va., which shipped hazardous phosphors. . . A U.S. District Court judge has ruled that about 4,000 individual partners of three Big Six accounting firms would be liable for any damage awards exceeding available insurance to American Continental Corp. bondholders who lost about \$250 million in the firm's collapse. The partners involved are with Ernst & Young; Arthur Andersen & Co.; and Deloitte & Touche (BI, June 25). . . The Missouri Court of Appeals has ordered Columbia Casualty Co. to pay about \$1 million, including interest, to American Insurance Co., a unit of Fireman's Fund Insurance Co. that covered claims Columbia Casualty refused to pay following the 1981 Kansas City Hyatt Regency Skywalk collapse. The appeals court also rejected Columbia's argument that the hotel's owner, a unit of Hallmark Cards Inc., improperly used insurance proceeds from the hotel's designers and builders to pay claims of rescue workers that Columbia Casualty had refused to cover.

Toyota to appeal award in seat belt case

TORRANCE, Calif.—Toyota Motor Corp. says it plans to appeal a \$7.5 million jury award in a product liability suit in which the plaintiff claimed a seat belt in a Toyota truck did not function properly in an accident.

If upheld, the award would fall under the company's \$10 million self-insured retention, said

Florida work comp law retained—for now

TALLAHASSEE, Fla.—Florida's sweeping workers compensation reforms will temporarily remain in effect even though a state court judge has ruled the law containing the reforms is unconstitutional because it deals with more than one subject.

Judge J. Lewis Hall Jr. ruled last week that the Comprehensive Economic Development Act of 1990 is unconstitutional because it contains provisions concerning both international trade by Florida

EIL coverage denial

Continued from page 1

"Most liabilities, including all negligence, arise as a result of acts consciously or deliberately done," the California Manufacturers Assn. said in an amicus curiae brief it filed in the case.

Denying coverage when intentional acts cause unintentional damage creates coverage that "is more illusion than protection," the CMA said.

"What the insurance industry is attempting to do in this and countless other cases is to reduce or eliminate coverage when volitional acts cause damage without regard to whether the damage was expected or intended," the CMA continued. "This reduces insurance to a nub."

In this case, Masonite operated a wood preserving plant in Cloverdale, Calif. Regular operations at the plant produced hazardous chemicals that Masonite placed in an unlined pond on its property during the 1970s.

In 1983, the California Regional Water Quality Control Board discovered there was soil and water contamination at the site and ordered Masonite to clean the site. No estimates of the cleanup costs have been disclosed.

Masonite then requested indemnification under the EIL policy it had purchased covering a 12-month period in 1982 and 1983.

The policy provided liability limits of \$20 million, but only \$2 million per year was available for pollution cleanups on the policyholder's own property.

When Great American denied coverage for the pollution cleanup, Masonite sued the insurer in state court in California, arguing that the policy language provided coverage when intentional acts cause unintentional damage.

A trial court jury in August 1987 found there was no coverage. Masonite appealed the instructions given to the jury, which precluded the jury from finding that there was coverage for intentional acts that cause unintentional damage.

The appellate court affirmed the jury instructions based on its examination of specific language in the Great American EIL policy.

The policy provided coverage for pollution "arising out of and in the course of the insured's operations" providing that the pollution is "gradual and fortuitous and neither expected nor intended by the insured."

"By a straightforward reading of the policy language, the phrase 'gradual and fortuitous and neither expected nor intended' modifies... the acts producing the damage,"

said the court in its Oct. 19 ruling.

"The relevant phrase in the instant policy modifies the cause of the damage rather than the damage itself," the court ruled.

The appellate court said it recognized that its interpretation of Masonite's EIL policy "severely limits the coverage provided by the policy," but it said it found the policy language unambiguous.

However, in dicta—that portion of the opinion not essential to the court's holding—the court indicated that a different reasoning might apply under a CGL policy.

The policyholder's contention that there would be coverage if the policyholder intended the act causing the harm but did not intend the harm itself "might have merit" under a CGL policy, the court said.

The court distinguished CGL coverage from EIL coverage by noting that the CGL policy provides coverage specifically for "accidents," which other California courts have interpreted to include unintended damage.

'Most liabilities, including all negligence, arise as a result of acts consciously or deliberately done,' the CMA points out.

In contrast, the EIL policy provides coverage for "environmental liability," which the appellate court interpreted to encompass both the damage and the act causing the damage.

"We would have collected under a CGL policy," said Masonite attorney Ms. Mayfield.

Masonite has filed a motion for reconsideration of part of the decision.

In addition, the company currently is negotiating for recovery with its CGL insurer, which it would not identify.

The California appellate court's ruling sends a warning to policyholders that they must read their insurance policies very carefully, said Great American attorney Ray L. Wong of Hancock, Rothert & Bunshoft in San Francisco.

"Policyholders have to do more than just look at the title of the policy," said Mr. Wong, noting that the title of an EIL policy suggests there would be coverage for most types of environmental damage.

"Policyholders need to understand an insurance policy is a contract and, like all contracts, policyholders must read all the terms

and conditions," he said.

It is unlikely a policyholder buying EIL coverage today would face the same policy conditions that Masonite faced in 1982.

Policies written by Exton, Pa.-based Environmental Compliance Services Inc., the exclusive managing general agent for pollution coverage for Reliance National Insurance Co., a subsidiary of Reliance Group Holdings Inc. of New York, do not contain specific language requiring that the acts causing damage be fortuitous or unexpected and unintended, according to William Kronenberg, ECS president and chief executive officer.

But, such a requirement "is implied in the policy," he said, noting that all policies of insurance are designed to provide coverage only for unintended losses.

Two ECS policies would be applicable to a policyholder whose processes create hazardous chemicals.

Under the pollution liability policy, coverage for pollution cleanups on a policyholder's own property are excluded. This policy only provides third-party liability coverage.

In addition, ECS offers a separate policy that provides coverage specifically for cleanups on a policyholder's own property. While this policy does not contain language specifying that the pollution must be unexpected or unintended, this is implied in the policy, according to Mr. Kronenberg.

However, if a company, like Masonite, placed chemicals into a lined pond, this procedure had been approved by ECS and this site was written into the policy, there would be coverage years later if it was discovered that the pond had caused groundwater contamination, he said.

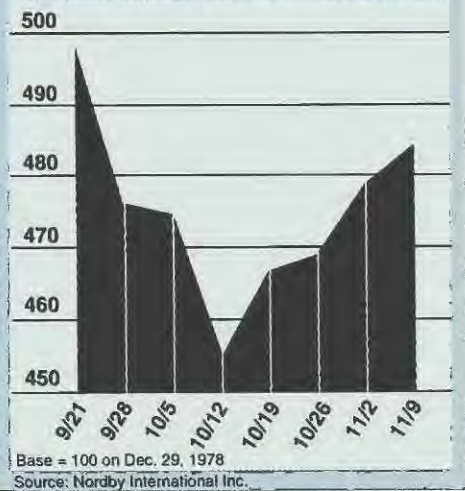
Under this scenario, where a policyholder intentionally disposes of chemicals in a manner considered safe at the time but later found to cause unintentional pollution, there would be coverage, said Mr. Kronenberg.

Coverage written by American International Group Inc., the other leading underwriter of EIL insurance, also does not cover on-site cleanups (BI, Oct. 5). AIG officials did not return phone calls requesting comments for this article.

Today, American Financial, through its subsidiary Agricultural Excess & Surplus Insurance Co., writes coverage only for underground and above-ground storage tanks. The insurer no longer offers a broad EIL policy like that offered in 1982.

Masonite Corp. vs. Great American Surplus Lines Insurance Co., et al., California Court of Appeal 1st Appellate District, No. A04110.

BI Insurance Index



Insurance industry stocks continued an upward trend last week as the *Business Insurance Index* rose 5.7 points to 484.5 on Nov. 9, from 478.8 on Nov. 2. Advancing issues for the week were led by AmBase Corp., up 30.1%; HMO America Inc., up 27.5%; and Continental Corp., up 17.7%. Declining issues for the week followed Frank B. Hall, down 18.2%; Fremont General Corp., down 15.1%; and USF&G Corp., down 10.9%. The most active issue for the week was Kemper Corp., with 3.7 million shares traded. The *BI Index* was up 1.2% for the week; the Standard & Poor's 500 climbed 0.6%; the Dow Jones 30 Industrials were down 0.1%; and the New York Stock Exchange Composite rose 0.7%.

British Issues

Nov. 8 Companies	Price pence	P/E	Div. pence	Yield %	1 Week	
					High	Low
Comm Union	452	20.6	28.7	6.3	455	445
Genl Accident	443	13.4	33.4	7.5	448	443
Gdn Royal Exch	177	15.5	15.3	8.6	177	175
Royal	361	19.7	34.0	9.4	367	361
Sun Alliance	301	10.9	16.7	5.5	310	301
Brokers						
Bradstock	222	15.5	10.0	4.5	222	217
CE Heath	432	12.7	34.5	8.0	432	422
Hogg Group	153	10.1	9.7	6.3	153	153
Lloyd Thompson	274	18.3	10.0	3.6	275	274
PWS Holdings	76	11.6	3.3	4.3	76	72
Sedgwick Grp	210	15.8	16.0	7.6	215	210
Steel Brl Jones	245	14.6	14.7	6.0	247	245
Willis Coroon	232	17.2	16.0	6.9	232	224

Source: Philip Olsen, Insurance Industry Specialist
London

BI Industry Stock Report

NOV. 5, 1990 THROUGH NOV. 9, 1990

BROKERS													BROKERS												
		Price	% change	Year to Date % change	Annual High	Low	Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value		Price	% change	Year to Date % change	Annual High	Low	Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value	
Alexander & Alexander	NYS	20.38	3.82	-35.32	34.00	16.13	299	1.00	4.91	17	9.18	2.22	Lawrence Insurance Group	ASE	6.88	1.85	-3.51	9.13	6.50	3	0.36	5.24	11	4.40	1.56
Corroon & Black	NYS	32.50	0.00	-15.03	41.00	0.13	0	1.36	4.18	16	12.73	2.55	Liberty Corp.	NYS	40.00	-3.32	-5.88	50.25	35.00	36	0.92	2.30	9	31.82	1.26
Gallagher Arthur J. & Co.	NYS	21.25	4.29	-14.14	25.88	19.75	20	0.60	2.82	16	5.33	3.99	Lincoln National	NYS	34.88	1.09	-42.83	62.88	30.75	574	2.60	7.46	7	49.19	0.71
Frank B. Hall	NYS	2.25	-18.18	-25.00	4.25	2.25	88	0.00	0.00	-3	-2.80	-0.80	NAC Re Corp.	OTC	31.75	4.10	-12.41	41.00	25.50	57	0.20	0.63	14	22.81	1.39
Hib, Rogal & Hamilton	OTC	12.75	3.03	-31.54	20.63	11.25	73	0.36	2.82	17	4.60	2.77	Navigators Group	OTC	24.75	0.00	-10.00	33.75	24.75	1	0.00	0.00	9	15.22	1.63
Marsh & McLennan	NYS	72.00	0.70	-7.69	87.00	59.75	610	2.60	3.61	17	10.56	6.82	Nobel Insurance LTD.	OTC	2.88	15.00	43.75	3.75	1.50	34	0.00	0.00	-8	7.76	0.37
Poe & Associates	OTC	8.00	-5.88	-39.62	13.00	7.75	1	0.40	5.00	11	1.93	4.15	NWNL Companies	OTC	16.38	11.02	-58.54	44.13	11.75	783	1.32	8.06	3	37.50	0.44
BROKERS	AVERAGE		-1.7	-24.1					3.3	13			Ohio Casualty Corp.	OTC	38.00	15.15	-20.42	51.50	26.75	676	2.32	6.11	10	33.30	1.14
CONGLOMERATES & HOLDING COMPANIES													Old Republic Int'l	NYS	21.75	6.75	-15.12	27.63	19.00	38	0.76	3.49	5	30.70	0.71
Berkley W.R. Corp.	OTC	32.50	-2.26	-21.92	46.50	28.50	112	0.44	1.35	9	25.06	1.30	Orion Capital Corp.	NYS	13.75	-1.79	-40.86	25.38	13.00	29	0.92	6.69	4	19.72	0.70
Berkshire Hathaway Inc.	NYS	5925.00	0.85	-31.30	8900.00	5675.00	1	0.00	0.00	-19	2869.00	2.07	Phoenix RE Corp.	OTC	7.00	0.00	-46.15	15.50	5.00	12	0.20	2.86	-8	12.99	0.54
ITT (Hartford Group)	NYS	46.75	4.76	-21.92	61.38	40.25	716	1.72	3.88	6	56.33	0.83	Protective Life Corp.	OTC	12.63	0.00	-11.40	15.00	10.25	17	0.76	6.02	7	14.54	0.87
Sears (Allstate)	NYS	25.75	0.49	-33.55	41.88	22.00	2737	2.00	7.77	8	37.75	0.68	Provident Life	OTC	15.25	5.17	-41.06	30.13	12.00	797	0.92	6.03	4	23.24	0.66
CONGLOMERATES	AVERAGE		1.0	-27.2					3.2	1			Re Capital Corp.	ASE	12.00	-3.03	-17.24	15.25	11.50	3	0.00	0.00	9	14.43	0.83
INSURERS/REINSURERS													RLI Insurance Corp.	NYS	11.13	4.71	25.35	14.75	8.25	6	0.44	3.96	5	12.42	0.90
Aetna Life & Casualty	NYS	34.88	6.49	-39.87	62.00	29.00	2215	2.76	7.91	6	58.11	0.60	St. Paul Companies	OTC	58.25	6.39	-2.92	63.50	47.00	967	2.40	4.12	7	43.47	1.34
Amber Corp.	NYS	0.81	30.08	-93.56	14.00	0.31	1396	0.00	0.00	0	29.08	0.03	SAFECO Corp.	OTC	29.25	4.93	-26.42	42.38	25.13	1096	1.36	4.65	8	24.87	1.18
American General	NYS	28.50	-0.44	-12.98	50.63	23.50	1254	3.20	11.23	6	34.68	0.82	SCOR U.S. Corp.	NYS	9.75	14.71	-31.58	14.50	8.38	12	0.20	2.05	14	10.61	0.92
American Heritage	NYS	19.75	-1.25	-30.70	24.63	19.63	0	1.00	5.06	9	22.60	0.87	Seibels Bruce Group	OTC	5.00	11.11	-54.02	11.75	4.25	44	0.36	7.20	-1	13.75	0.36
American Indemnity/Fin'l	OTC	3.63	-3.33	-54.69	8.75	3.38	9	0.08	2.21	-2	17.38	0.21	Selective Ins. Group	OTC	13.75	5.77	-28.10	20.25	12.75	78	1.04	7.56	5	15.72	0.87
American International	NYS	70.75	5.79	-16.17	89.63	57.00	2002	0.44	0.62	10	41.92	1.69	Statesman Group Inc.	OTC	1.44	0.00	-47.71	3.31	1.25	59	0.04	2.78	2	4.19	0.34
Aon Corp.	NYS	30.75	0.41	-27.43	43.25	26.75	366	1.52	4.94	8	19.62	1.57	Tokio Marine & Fire	OTC	44.25	-4.58	-41.29	78.13	34.50	17	0.26	0.59	26	70.93	0.62
Argonaut Group	OTC	57.13	0.22	-17.06	78.00	53.00	30	1.60	2.80	7	36.83	1.55	Torchmark Corp.	NYS	45.13	1.98	-21.18	58.75	38.00	220	1.40	3.10	10	13.23	3.41
AVEMCO Corp.	NYS	21.38	-2.29	-12.31	30.13	21.13	12	0.44	2.06	14	9.52	2.25	Transamerica	NYS	30.75	9.82	-31.09	46.00	23.25	450	1.96	6.37	8	34.63	0.89
Baldwin & Lyons Inc.	OTC	18.25	0.00	-15.12	24.00	18.25	2	0.28	1.53	7	20.80	0.88	Travelers Corp.	NYS	14.75	6.31	-60.00	40.25	11.50	2149	1.60	10.85	-8	44.85	
Belvedere Corp.	ASE	1.88	-6.25	-65.91	5.63	1.75	18	0.04	2.13	-3	8.03	0.23	Twinkl Group Inc.	OTC	19.25	-1.28	-21.03	26.88	16.25	175	0.48	2.49	8	16.91	1.14
Chandler Insurance	OTC	5.63	0.00	-52.13	13.25	4.50	153	0.00	0.00	3	9.53	0.59	United Fire & Casualty	OTC	33.00	-1.49	0.00	35.00	28.75	2	1.20	3.84	7	22.56	1.46
Chubb Corp.	NYS	45.38	2.54	-52.67	51.38	34.63	2044	1.32	2.91	8	55.49	0.82	USF&G Corp.	NYS	11.25	-10.89	-62.03	30.63	10.63	3403	1.00	8.89	7	22.87	0.49
CIGNA Corp.	NYS	37.00	0.00	-38.59	66.75	33.25	1073	3.04	8.22	11	66.84	0.56	UNUM Corp.	NYS	40.50	4.52	-15.18	57.13	32.13	644	0.80	1.98	8	31.20	1.30
CNA Financial Corp.	NYS	55.13	0.46	-44.88	108.75	49.50	115	0.00	0.00	10	54.87	1.00	USLI Corp.	NYS	26.88	3.37	-40.61	47.00	23.25	162	1.48	5.51	6	54.34	0.49
Continental Corp.	NYS	22.50	17.65	-28.29	34.63	15.75	1380	2.60	11.56	8	41.36	0.54	Washington National	NYS	12.63	-9.01	-55.31	28.75	12.25	72	1.08	8.55	53	32.90	0.38
Durham Corp.	OTC	26.00	-1.89	-15.45	34.25	23.00	5	0.92	3.54	12	26.32	0.99	USLICO Corp.	NYS	15.63	-6.72	-34.21	24.50	15.00	15	1.00	6.40	6	27.73	0.56
Fund American Corp.	NYS	45.38	0.83	28.72	51.88	29.00	206	0.68	1.50	113	32.74	1.39	Zenith National Ins.	NYS	10.25	2.50	-45.33	19.38	9.88	80	0.88	8.59	7	13.81	0.74
Fremont General Corp.	OTC	13.38	-15.08	-33.54	22.50	10.13	346	0.80	5.98	4	19.09	0.70	INSURERS/REINSURERS	AVERAGE		2.4	-29.0				4.4	10.7			
Frontier Insurance Group	NYS	20.00	-1.23	8.11	36.00	14.13	44	0.00	0.00	8	7.29	2.74	HEALTH MAINTENANCE ORGANIZATIONS												
General RE Corp.	NYS	82.88	2.00	-7.92	93.13	69.00	163	1.52	1.83	12	29.04	2.85	FHP International	OTC	12.00	-7.69	-43.53	26.38	9.75	612	0.00	0.00	10	3.54	3.39
Hanover Insurance Co.	OTC	21.50	0.00	-29.51	32.25	21.00	53	0.44	2.05	10	32.03	0.67	HMO America Inc.	OTC	6.38	27.50	-17.74	8.13	4.25	135	0.00	0.00	8	1.12	5.69
Harleysville Group	OTC	18.25	12.31	-33.64	27.38	13.50	71	0.64	3.51	6	18.94	0.96	Pacificare Health Sys.	OTC	14.75	-1.67	-43.27	29.13	12.00	60	0.00	0.00	11	6.35	2.32
Hartford Steam Boiler	NYS	47.50	4.68	-12.44	62.13	43.50	96	1.80	3.79	12	18.94	2.51	Safeguard Health Enter.	OTC	4.13	-5.71	-51.47	9.50	4.00	20	0.00	0.00	9	2.99	1.38
Kansas City Life Ins.	OTC	30.25	0.00	-15.68	36.50	30.00	4	1.12	3.70	7	39.22	0.77	Sierra Health Services	ASE	9.00	2.86	1.41	9.75	5.50	149	0.00	0.00	113	0.62	14.52
Kemper Corp.	NYS	17.88	-6.54	-62.17	51.00	17.13	3715	0.92	5.15	64	29.97	0.60	United Healthcare Corp.	OTC	17.25	-4.17	40.82	20.13	7.88	890	0.12	0.70	18	0.34	50.74
													United Medical Corp.	ASE	6.63	-1.85	10.42	11.38	6.00	1	0.20	3.02	9	5.70	1.16
													U.S. Healthcare	OTC	22.00	-0.56	54.39	23.25	9.63	0	0.36	1.64	19	3.07	7.17
													HMOs	AVERAGE		1.1	-6.1				0.7	25			
													ALL COMPANIES	AVERAGE		1.8	-25.3				3.7	12			

Elections

Continued from page 2

ommendation that insurers should be allowed "a target return on equity of between 11.2% and 19%" when future rates are determined.

However, Ms. Gillespie disagreed with the judge in ruling that insurers must roll back their rates and issue refunds to policyholders under Proposition 103's insurance "charge" rollback provision if they exceeded a benchmark 11.2% rate of return on their combined business between November 1988 and November 1989 (BI, June 18).

"Under my leadership, the department will unequivocally regulate insurance companies and enforce the law. This will be a refreshing change for the Department of Insurance," he said.

Robert Vagley, president of the American Insurance Assn., rejected Mr. Garamendi's assertion that he will "fully implement Proposition 103."

"What's there to enforce?" Mr. Vagley asked. "You can't repeal the laws of economics. Much of Proposition 103 has been dissipated by court rulings."

Some observers are concerned about the former senator's lack of insurance expertise.

J. Dale Debber, president and chief executive officer of Data Control Corp., a Tarzana, Calif.-based electronic data base that publishes workers compensation experience modifiers, is particularly concerned about how the new commissioner will regulate workers compensation insurers.

"The work comp laws need reform, and any changes implemented without knowledge of the system can be harmful," Mr. Debber said.

Most insurer organizations, though, are taking a wait-and-see approach to Mr. Garamendi's election.

The AIA's Mr. Vagley said Mr. Garamendi "is not the first insurance commissioner elected without industry experience. The depart-

servers say.

Arizonans by a 78%-to-21% margin rejected Proposition 201, which was modeled after Proposition 103.

Proposition 201 would have required insurers in Arizona to roll back auto insurance rates to 20% below Nov. 1, 1989, levels. It also would have established a prior approval system for all lines of property/casualty and life/health insurance underwritten in Arizona (BI, Oct. 8).

The initiative's defeat signaled that "voters realized that Proposition 201 wouldn't have stabilized rates," commented Jim Frederikson, executive director of the Arizona Insurance Information Assn. in Phoenix.

"In fact, based on the California experience, it probably would have increased them," he quipped.

"The people of Arizona deserve great credit for rejecting Proposition 201's false promises and demanding real solutions to the problem of rising automobile insurance costs," said the AIA's Mr. Vagley.

"The idea that arbitrary rate rollbacks hold the answer has now been thoroughly discredited—first in the courts in California and in Nevada, and yesterday by the voters of Arizona," Mr. Vagley said.

About 17 months after the California Supreme Court's decision overturning Proposition 103's rate exemption provision, the 9th U.S. Circuit Court of Appeals in San Francisco ruled in September that a Nevada automobile insurance "charge" rollback law enacted by the Legislature last year was unconstitutional because it granted insurers relief only when threatened by insolvency (BI, Oct. 1; July 3).

"Arizonans told us at the voting booth that the answer to auto insurance reform was not apparent in the initiative propositions they were asked to consider," said Franklin W. Nutter, president of the Alliance of American Insurers based in Schaumburg, Ill.

Mr. Garamendi 'is not the first insurance commissioner elected without industry experience. The (California) department won't suffer,' says Robert Vagley, president of the American Insurance Assn.

ment won't suffer."

The ballot initiatives California voters rejected were:

- Proposition 128, better known as "Big Green," which would have given industries five years to eliminate use of 19 pesticides known to cause cancer or birth defects.

- Manufacturers also would have five years to produce evidence of safety for 36 suspected carcinogens.

The measure would have required businesses to lower emissions of gases contributing to global warming and to implement oil spill prevention and contingency plans. It also would have created a statewide environmental advocate to implement the measure and enforce all state laws relating to environmental research and public health.

- Proposition 124, which would have permitted public hospital districts to join with physicians to set up prepaid health care plans in rural areas, similar to those formed by private hospitals. The state constitution now prohibits stock ownership by local governments.

States in which election results also will have an impact on the insurance industry are:

Arizona

California's experience with Proposition 103 was the main reason that a similar measure on the Arizona ballot failed last week, ob-

Texas

Democratic Gov.-elect Ann Richards told a cheering crowd in her victory speech on election night

that Texans are ready for a governor who will "do something about their insurance rates."

Ms. Richards, currently the state treasurer, brought up the insurance issue late in her heated campaign with Republican oilman Clayton Williams. She picked up 50% of the vote, compared to 47% for Mr. Williams, after trailing in polls for most of the campaign.

During the campaign, Ms. Richards called for changes in the way insurance rates are set by the Texas State Board of Insurance. She complained that the board sets rates based on data supplied by insurers.

She also suggested that Texas officials investigate the high cost of health insurance in the state.

"We'll wait and see how her campaign rhetoric translates into legislative action and appointments," said Ernest Stromberger, executive director of the Independent Insurance Agents of Texas, which supported Ms. Richards.

"She is basically for lower rates. Well, everybody's for that," Mr. Stromberger observed.

He said he hopes "the discussion turns on the cause of rate increases," such as rising medical and auto repair costs.

Connecticut

In the Connecticut governor's race—a key issue of which was workers compensation reform—Lowell P. Weicker Jr., a former Republican U.S. senator turned independent, captured 41% of the vote over Republican U.S. Rep. John Rowland and Democratic U.S. Rep. Bruce Morrison.

Mr. Weicker will examine why workers comp premiums in Connecticut are among the nation's highest, a spokeswoman said. "It's part of what's driving business out of the state."

The new governor also will look at how to improve slow and inefficient workers comp claims processing, the spokeswoman said.

Florida

Republican Insurance Commissioner and Treasurer Tom Gallagher was re-elected, defeating state Sen. George Stuart, D-Orlando, who had vowed to take steps that would lead to lower insurance premiums.

Mr. Gallagher, who picked up 57.2% of the vote, was first elected commissioner in 1988, replacing Bill Gunter, who did not seek re-election. Mr. Gunter instead made an unsuccessful bid for the U.S. Senate.

In the sometimes bitter campaign, Mr. Stuart charged that Mr. Gallagher favors the insurance industry over consumers.

Mr. Stuart also proposed forbidding insurers from recovering some business costs through premiums and creating an independent consumer advocate to push for lower rates.

According to Mr. Gallagher, though, rising medical and automobile repair costs were the major causes of rising insurance rates. He argued that unless those costs can be controlled, lowering rates would cause financial problems for insurers.

Kansas

Republican Deputy Insurance Commissioner Ron Todd won a narrow victory over state Sen. Paul Feleciano, D-Wichita, in the race to succeed retiring Insurance Commissioner Fletcher Bell.

But Democrats gained control of the House of Representatives, which could lead to liberalization of Kansas workers comp law, according to an AIA spokeswoman.

Mr. Todd, a Republican endorsed by Commissioner Bell in both the primary and general elections, defeated Sen. Feleciano with 50.3% of the vote.

Sen. Feleciano, who will retain his Senate seat, criticized the In-

surance Department for not sufficiently looking out for consumers' interests.

Sen. Feleciano is a former life insurance agent. He currently operates a truck stop near Wichita.

Because voters—angered by a property tax increase—swept many well-known Republican representatives as well as incumbent Republican Gov. Mike Hayden out of office, "suddenly, Kansas will be a hotter state for workers compensation" law changes, predicted Lori Callahan, a Topeka attorney and legislative counsel to the AIA.

For example, Ms. Callahan said, the workers comp law, last revised in 1987, now allows employers to choose physicians for injured workers.

Georgia

Democrat Tim Ryles, who promised to lower automobile insurance rates, edged out Republican Billy Lovett in the race for insurance commissioner with about 51%

'Arizonans told us at the voting booth that the answer to auto insurance reform was not apparent in the initiative propositions they were asked to consider,' says Franklin W. Nutter, president of the Alliance of American Insurers.

of the vote.

Mr. Ryles, 49, political and media director with the Communications Workers of America, defeated incumbent Insurance Commissioner Warren D. Evans in the Democratic primary runoff in August.

Mr. Lovett, 45, is a member of Georgia's Public Service Commission.

In addition, a referendum that would limit public entities' liability left undecided after a federal judge ordered state officials not to release the vote count.

The referendum contained contradictory language.

One sentence told voters the referendum would possibly make state agencies, departments, officers and employees liable for claims stemming from the negligent performance or non-performance of their official functions.

But the next sentence said those parties shall not be liable for performance or non-performance of their duties unless they act with malice or intent to cause injury.

The referendum also "authorizes the General Assembly to waive the state's sovereign immunity from suit by enacting a State Tort Claims Act."

In his ruling delaying release of the vote, U.S. District Judge J. Owen Forrester noted that the Georgia constitution already waives sovereign immunity for public entities in cases in which they have liability insurance, and allows awards against public entities up to the limits of the coverage.

"The ballot language will lead the average voter to believe that there is currently no provision for suit or for waiver of sovereign immunity and that the passage of the proposed constitutional amendment can only increase the state's liability to citizens," Judge Forrester said.

The judge said the results of the vote will not be made public until he makes a final decision.

Local media reported that the referendum passed with about 53% of the vote.

Oklahoma

Oklahoma Insurance Commissioner Gerald Grimes, who ran unopposed, was elected to his fourth full term.

The Democrat was first appointed to the post in 1975 following the death of Commissioner Joe B. Hunt. He won his first election

in 1978.

Mr. Grimes said he heads into his new term facing challenges similar to those in other states: rising health care costs and insurer insolvency concerns.

Oregon

Insurance Director Theodore R. Kulongoski announced before last week's gubernatorial election that he will leave his post Jan. 1.

Mr. Kulongoski was appointed during the administration of Democratic Gov. Neil Goldschmidt, who did not seek re-election.

Voters elected Secretary of State Barbara Roberts, a Democrat, as governor over state Attorney General David Frohnmayer, a Republican.

Washington

In Seattle, 58.2% of the voters rejected an initiative that would have repealed city policies that extended health care benefits to unmarried domestic partners of city

employees.

Initiative 35 would have repealed policies enacted last May 1 and that extended the benefits to about 360 domestic partners of city employees and to the partners' children.

The partners of city employees have the option of receiving fully paid coverage from either the city's indemnity plan or from one of two health maintenance organizations (BI, May 14).

Montana

Seventy-five percent of the voters rejected a proposed constitutional amendment to eliminate all state taxes and replace them with a 1% charge on all financial transactions, including the sale of insurance.

Under Initiative 55, the 1% fee would have applied to "the gross value of every business and financial transaction conducted wholly or partially within the state."

The 1% charge would have applied to transactions by insurers, brokers and other businesses related to the insurance industry, according to a spokesman for the Montana State Auditor's Office in Helena.

How the charge was to be collected was to be left to the state's Legislature.

North Dakota

North Dakota voted rejected by nearly 9-to-1 a ballot initiative that would have allowed an insurance agent to rebate "all or any portion of the insurance agent's commission to the insured, as negotiated between the agent and the insured."

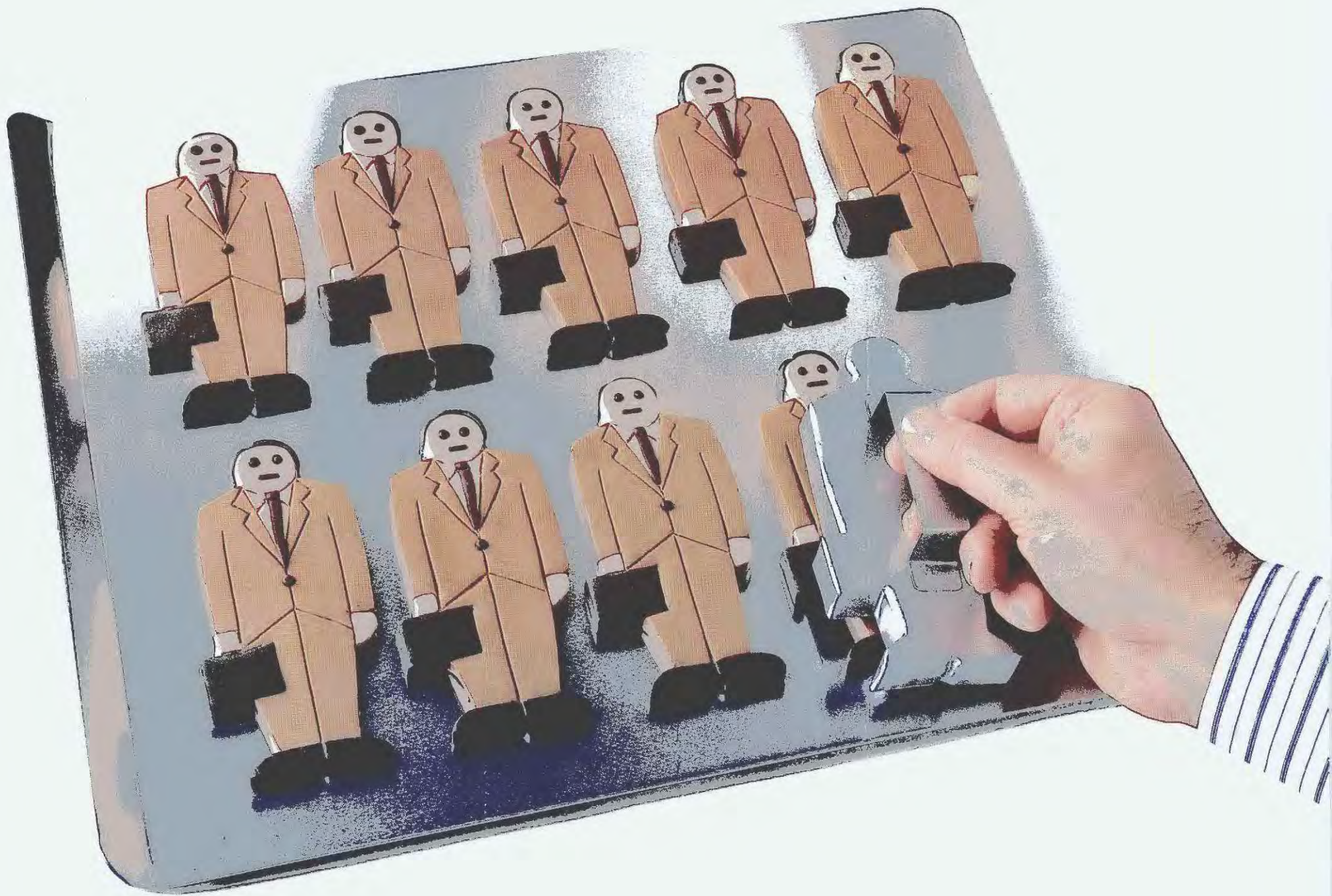
Anti-rebating measures, among other things, are designed to prevent agents from unfairly discriminating against clients by selective use of rebates.

The laws also are designed to eliminate the need for agents to seek larger commissions from insurers to make up for the rebates. Paying larger commissions could undermine insurers' financial stability.

However, some contend that anti-rebating laws reduce competition among agents that could lead to lower insurance prices for consumers.

Also contributing to this report were Associate Editors Mark A. Hofmann, Colleen Johnson and Meg Fletcher in Chicago and Louise Kertesz in Los Angeles.

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