NEWSPAPER

NOVEMBER 1, 1993

Business Insurance®

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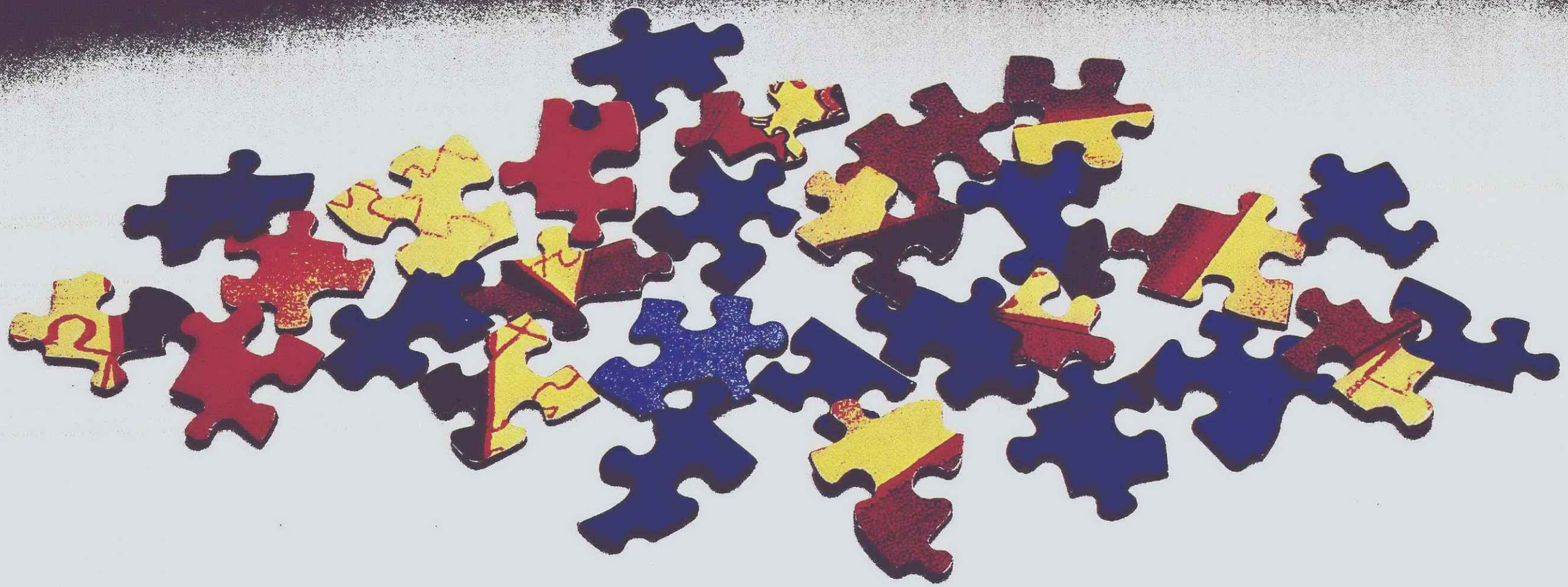

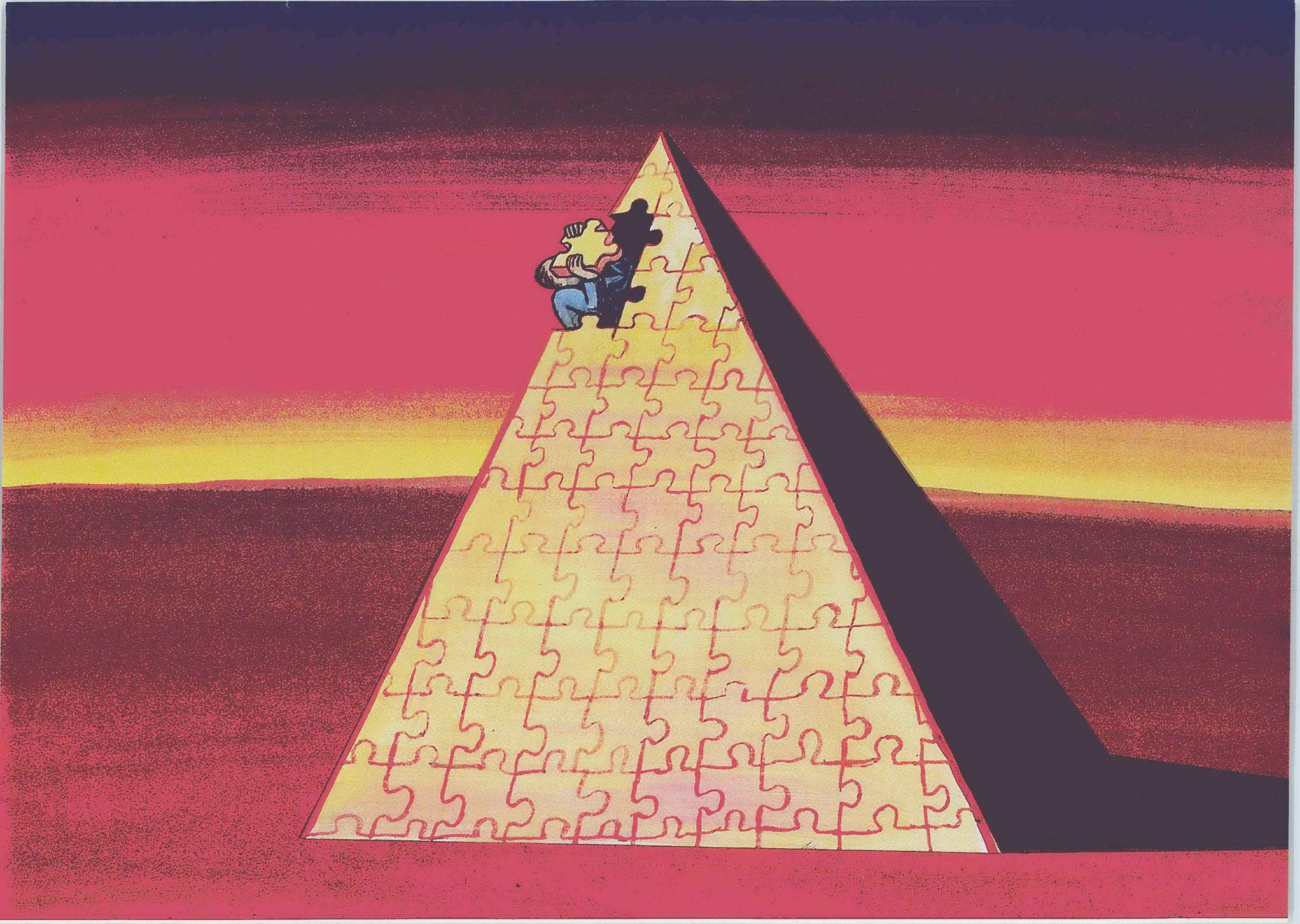

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Update

Property/casualty insurer ratings decline in general, S&P reports

NEW YORK—The financial condition of life/health insurers generally improved in 1992, but many property/casualty insurers struggled last year, suggest the ratings of more than 3,000 companies released last week by Standard & Poor's Corp.

Rating upgrades outnumbered downgrades by a 2-to-1 ratio for life/health insurers, while the reverse was true for property/casualty companies.

Of 1,144 active life insurers receiving S&P's claims-paying ability or qualified

Continued on next page

Fires devastate California

Insurers mobilizing to assist policyholders and avoid P.R. inferno

By JOANNE WOJCIK and LOUISE KERTESZ

LOS ANGELES—Insurers are mobilizing to assist policyholders as brush fires, still burning late last week, caused hundreds of millions of dollars in property damage.

Insurer efforts may help avoid a repeat of the criticism Insurance Commissioner John Garamendi and consumer groups leveled against the industry following the 1991 Oakland Hills fire.

But Mr. Garamendi wasted no time in taking the offensive Thursday morning—the day after a posh Laguna Beach neighborhood burned to the ground. He told local television viewers what they could do to avoid getting "burned" a second time when they file their insurance claims.

Mr. Garamendi even put in a plug for using freelance adjusters not affiliated with or hired by insur-

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AP/Wide World Photo

Fires continued to blaze throughout Southern California late last week.

Insurance issues top lawmakers' agenda in Florida

By SARA MARLEY

TALLAHASSEE—Florida legislators convene today to tackle two important insurance issues and one important public relations issue.

But, reform of the workers compensation system and a solution to the state's residential property insurance crisis will not be overshadowed by a juvenile criminal justice bill proposed to confront the recent spate of tourist killings, industry insiders say.

"Even though the Legislature is only in session for five days, there has been 10 months of work on the workers comp proposals," noted Andrew Martinez, Florida area legislative representative for Nationwide Insurance Co.

The establishment of a property catastrophe insurance fund has also been discussed for nearly a year since a special session was held on that topic last December.

The state's moratorium on non-renewals of homeowners policies, promulgated after Hurricane Andrew, will expire Nov. 14, and is putting pressure on lawmakers to approve a catastrophe fund, said Sam Miller, executive director of the industry-supported Florida Insurance News Service (*BI*, May 24).

"Without a (reform) package, there is fear that hundreds of thousands will lose their insurance within a year" and be forced into the existing homeowners joint underwriting association, Mr. Miller said. "The Legislature has to do something."

Not everyone shares their confidence.

"I feel that we have an increasingly busy agenda for a special legislative session," said Clinton J. Bailey, branch manager for Kemper National Insurance Cos. in Orlando. "It could impede any of the areas from getting the complete hearing they deserve."

But, Gov. Lawton Chiles' interest in both insurance-related issues will help to ensure they are considered carefully,

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Clinton stands his ground

Health reform bill includes few changes

By JERRY GEISEL

AP/Wide World Photo

President Clinton holds an abridged version of his 1,342-page health bill.

WASHINGTON—The 1,342-page health care reform measure President Clinton sent to Congress last week does not signal any change in the administration's basic strategy to overhaul the nation's health care system.

The chief complaint of many employers—that the Clinton package will make it difficult, if not impossible, for most companies to maintain their own health care plans instead of joining regional health care purchasing alliances—appears to have fallen on deaf ears: The administration still says employers must have a minimum of 5,000 workers to operate their own health care plans.

While there may be no bombshells in the 4½ pound bill, personally delivered Wednesday to Congress by the president and Hillary Rodham Clinton, it does include some changes from earlier drafts. Those changes include:

- The administration is putting an exact dollar limit on various federal subsidies. Those federal funds—to be funneled to state alliances—would be used, among other things, to subsidize premiums paid by small employers, defray costs of covering workers who retire before age 65 and cap health insurance premiums paid by employers at 7.9% of payroll.

If an alliance's costs exceed the federal subsidies, as many experts expect, Congress would have to find new ways of raising additional revenues.

While that could be done by decreasing the scope of the promised benefit package, much more likely alternatives include raising the 7.9% payroll cap on employer contributions or cutting back on early retiree health care subsidies.

"The message is that government is pulling back on subsidies" and in the long run that could cost employers more, said Henry Saveth, a principal with A. Foster Higgins & Co. Inc. in New

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Disney unit edits film to avoid tragedy

By CHRISTINE WOOLSEY

If it's true that life imitates art, can those who make "art" be held liable when real-life imitations end in tragedy?

Apparently not, but that didn't stop Walt Disney Co.'s Touchstone Pictures from deleting a scene from its college football drama, "The Program," following the deaths of two men and serious injuries to two others who apparently copied a reckless stunt from the movie.

In the scene, college football players show how tough they are by lying down in the middle of a busy highway at night in the midst of heavy traffic.

On Oct. 16, Michael A. Shingledecker Jr., 18, of Polk, Pa., was killed almost immediately when he and a friend were hit by a pickup truck while lying in the middle of a two-lane highway. His friend, Dean Bartlett, 17, was critically injured. Both had seen the movie.

In a similar accident Oct. 12, 24-year-old Marco Birkhimer was killed when he was struck by two cars while he lay prone in the middle of Route 206 in Bordentown, N.J.

Another teen-ager from Syosset, N.Y., remains in critical condition after being hit by a car while lying in the middle of a Long Island street.

"While the scene in the movie in no way advocates this irresponsible activity, it is impossible for us to ignore that someone may have recklessly chosen to imitate it," writer/director David S. Ward said in a joint statement released

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Update

P/C insurers ratings decline

Continued from previous page

solvency ratings, 157, or about 14%, received the lowest rating of Bq, or "vulnerable." This percentage was down from 18% of life insurers receiving this rating in 1991.

By contrast, 338, or 18%, of the 1,887 active property/casualty companies rated received a Bq rating, up from 14% in 1991.

S&P estimated that life companies with the "vulnerable" rating accounted for about $7.5 billion, or 2.5%, of industrywide 1992 life/health premiums of $306 billion, said Steven Dreyer, director-insurer solvency research. Property/casualty companies with the lowest rating accounted for about $14 billion, or 3.4%, of total property/casualty premiums of $411 billion.

New features of the S&P ratings include a "catastrophe exposure ratio" for property/casualty insurers, comparing net written property premiums in catastrophe-exposed states with policyholder surplus. Based on 1992 data, the ratio exceeded 100% for 148 insurers, exceeded 200% for 61 insurers and exceeded 500% for 13 companies.

Redlining bill headed to House

WASHINGTON—A congressional turf war on jurisdiction over the insurance industry ended in victory for House Energy and Commerce Committee Chairman John D. Dingell, D-Mich., and a partial victory for the insurance industry.

Rep. Dingell and House Banking Chairman Henry Gonzalez, D-Texas, both sought the right to respond to allegations of insurance industry "redlining," the illegal practice of restricting or denying coverage to individuals on a racial basis. Both committees approved competing anti-redlining bills (*BI*, Sept. 27; March 1).

After weeks of wrangling, the Energy and Commerce Committee won the right to review the Banking Committee proposal. That review resulted in removing all of the bill's language and substituting the text of a much more moderate bill sponsored by Rep. Cardiss Collins, D-Ill. The measure is expected to go before the House perhaps as early as next week.

National Union, GE settlement

FAIRFIELD, Conn.—National Union Fire Insurance Co. of Pittsburgh, Pa., will pay a $19.5 million settlement in a shareholder suit brought against directors and officers of General Electric Co.

A spokesman for Fairfield, Conn.-based GE said that National Union is the only insurer involved in the settlement and that no deductible applies to the settlement. The case stemmed from a GE shareholder's suit on behalf of all shareholders over allegations of defense contract fraud. The suit charged that GE officials breached their fiduciary duties by not overseeing the activities of a manager accused of funneling U.S. military aid to Israeli Gen. Rami Dotan in an attempt to get Israel to buy GE-made jet engines.

Neither GE nor the manager admitted any wrongdoing.

National Union, a unit of American International Group Inc., would neither confirm nor deny that it wrote the first $20 million of GE's D&O program.

Abeille Re gets capital boost

NEW YORK—The U.S. branch of Abeille Reassurances has received a $25 million capital contribution from Paris-based parent Groupe Victoire, pushing its capital and surplus to $100 million.

The contribution will help support an expansion of Abeille Re's U.S. casualty reinsurance business, which it has targeted for growth, said Senior Vp David Forrest. "To be accepted on most casualty accounts, you've got to have $100 million in most instances."

While the U.S. branch's business is now 75% to 80% property and 20% to 25% casualty, Mr. Forrest predicted the business will be closer to an even split by 1995.

The reinsurer is also pursuing a "core account" strategy, targeting selected ceding company clients for growth. Abeille Re's U.S. branch will draw up to 75% of its premium volume from a relatively small number of ceding insurers, according to Mr. Forrest, who said about 25 companies are now considered "core" clients.

Abeille Re's U.S. branch has an A- rating from A.M. Best Co.

Hospital liable for doctor's acts

SPRINGFIELD, Ill.—A hospital can be found vicariously liable for the negligence of a doctor who is an independent contractor, not a hospital employee, the Illinois Supreme Court has ruled.

The decision is consistent with a number of appellate court rulings that have found hospitals vicariously liable for the negligence of a physician who is an "apparent agent" of the hospital.

The Illinois case involved an emergency room physician who in 1981 discharged a patient suffering from chest pains. The patient later died of heart failure. The man's estate sued the doctor and the hospital for medical malpractice and wrongful death, but later settled with the physician.

In reversing and remanding lower court rulings in favor of the hospital, the justices acknowledged the business realities of a modern hospital, including that patients who seek medical care in emergency rooms assume that professionals working there are employees.

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Errors & omissions

• An item in the Oct. 18 Comings & Goings: Industry column incorrectly stated that Linda Howland will now oversee the daily operations of USA Health Network in Phoenix. Those duties have been assumed by Larry K. Hinson, who succeeded Ms. Howland.

Self-insured risk managers blast residual market loads

By JOANNE WOJCIK

THE *Business Insurance* WORKERS COMPENSATION CONFERENCE

SAN DIEGO—Employers that self-insure their workers compensation exposures should not be forced to subsidize companies that purchase coverage from the residual market, a group of self-insurance advocates contends.

"Where's my competitive advantage if I have to support" employers whose "loss record stinks" or who are forced into the residual market "because they are in such a high-risk category that no insurer will write them and still make a profit?" asked Arnold Davenport, vp of risk management at the Marriott Corp. in Bethesda, Md.

"The reason they're in there is because they won't or they can't pay their own way," asserted Mr. Davenport, the 1991 *Business Insurance* Risk Manager of the Year.

"It isn't fair to say to a self-insurer, 'You need to bear some of the burden of these people whose losses are so bad that they can't buy insurance or they're such a high risk they can't buy insurance,'" Mr. Davenport said during a panel discussion on financing alternatives for workers compensation at the *Business Insurance* Workers Compensation Conference, held Oct. 17-19 in San Diego.

"It's plain un-American!" he quipped.

Millie Workman, director of risk management for Memphis-based Belz Enterprises and the 1992 Risk Manager of the Year, agreed: "If we are trying to control our losses, I don't think it's fair to ask

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Retirement savings plans

Employees given more choice over investment options

By JUDY GREENWALD

Employers are giving employees greater control over their retirement savings plan assets.

Employees are being allowed to make more frequent transfers among various investment options in defined contribution plans and are being offered more options, finds a new survey by A. Foster Higgins & Co. Inc.

The survey also found that fewer employers are offering book value funds like guaranteed investment contracts, though GICs continue to attract more than half of all contributions when they are offered.

The popularity of synthetic and separate account GICs, though, seems to have leveled off.

Earlier this year, Foster Higgins surveyed about 700 employers with plans that covered 2.3 million participants. Assets of the plans totaled $146 billion.

Daily or unlimited fund transfers are rapidly catching on among sponsors. Some 28% now allow such transfers, up from only 13% in the 1992 survey. At the same time, the number of employers permitting only quarterly transfers fell to 41% from 49%, and those permitting only one or two transfers per year fell to 17% from 25%.

When participants are allowed to transfer funds frequently, companies "have got to be pretty careful (participants) don't overreact," said Brian Ternoey, one of the survey's authors. "It makes it

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Superfund called unfair

By DOUGLAS McLEOD

Liability system places unfair burden on firms: Study

The liability system imposed on corporations by the Superfund law is unfair, a new survey suggests.

The survey found surprising agreement among a broad-based group of respondents—ranging from chemical company executives to environmentalists—that Superfund's imposition of strict, retroactive and joint and several liability often places an unfair burden on companies.

Many would favor the government bearing a larger share of cleanup costs in some cases, according to the survey, which was conducted by the University of Pennsylvania's Wharton School and sponsored by Johnson & Higgins.

However, the survey also revealed attitudes—for example, a bias in favor of total vs. partial cleanups—that could lead to inefficient use of available resources.

Lawmakers who created the Su-

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IRI restructuring business

By SARA MARLEY

HARTFORD, Conn.—Industrial Risk Insurers will shed 40% of its accounts in 1994 as part of a new focus on large highly protected risks.

IRI will focus primarily on accounts that produce more than $100,000 in premium annually.

The accounts that will be eliminated only represent about 10% of IRI's premium base, IRI President Gail P. Norstrom Jr. said. IRI wrote $422 million in net premiums in 1992.

"This is not cost-cutting," said Mr. Norstrom, who was named IRI's president in September. "This is a redeployment to service our core business better."

As part of the restructuring, IRI will close 14 of its 25 offices and reduce its workforce of about 1,200 by 7.5%. That percentage is within IRI's normal attrition rate, Mr. Norstrom said.

IRI, an association of more than 40 insurance companies, began a strategic planning process at the beginning of this year. "We wanted to find out what we are good at doing and what we are not so good at doing," he said.

One of the first elements of the

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Inside

• The capital pouring into Bermuda will benefit commercial insurance buyers, this week's editorial says. **PAGE 8**

Employers are more actively managing their workers comp costs, Mary Possi says in Perspectives. **PAGE 51**

• Sturge Holdings and Kleinwort Benson Securities have shelved a proposed Lloyd's investment trust because the capacity may not be needed. **PAGE 79**

• Industrial insurers must offer risk management assistance, experts said at a Management Centre Europe conference. Conference coverage begins on **PAGE 79**

• The Clinton administration may still ease self-insurance requirements in its health reform plan, a Department of Health and Human Services official said at the Self-Insurance Institute of America conference. **PAGE 93**

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Reinsurance trends

Changes in market benefit reinsurers in U.S., Bermuda

'Flight to quality' tips the scales in the favor of largest brokers and reinsurers

By DOUGLAS McLEOD

Change may be the only constant in the reinsurance market, but the changes are coming faster and faster these days.

In a matter of months, the capacity crisis in the property catastrophe reinsurance market has attracted more than $4 billion in capital to new Bermuda-based catastrophe reinsurers.

While these new facilities will provide some relief, Jan. 1 catastrophe renewals are expected to be only slightly easier and not much cheaper than mid-year renewals.

The contractions within Lloyd's of London, meanwhile, are squeezing property and casualty reinsurance capacity, creating new opportunities for competitors in the United States, Bermuda and elsewhere.

Even after the historic vote last month to accept corporate capital, Lloyd's will have a tough time winning back property and casualty business it continues to lose, U.S. reinsurance sources say.

The market for financial reinsurance products has also slowed significantly as the accounting benefits of some products are wiped out. Reinsurance executives differ on how quickly demand for financial reinsurance will return.

As these and other factors add to the complexity of reinsurance, ceding companies have become more sophisticated and concerned about the financial strength of their reinsurers.

The long-discussed "flight to quality" has become a reality, and more business will continue flowing to fewer, larger reinsurers.

Reinsurance buyers are also demanding a wider array of more technical services from reinsurers and brokers, and more companies are investing in automation to improve service.

This trend, again favoring the largest, strongest companies, will likely contribute to a consolidation among reinsurance brokers.

Speculation about the impact of the new Bermuda catastrophe facilities is Topic A among reinsurers and brokers: While several of the facilities have described their business plans, many are waiting anxiously for underwriting to really begin.

Estimates of the capacity the facilities will add to the worldwide market for Jan. 1 renewals vary.

Paul Ingrey, president of Morristown, N.J.-based F&G Re, guessed that the facilities could provide almost $100 million in limits, bringing worldwide property cat capacity to just under $300 million from less than $200 million previously.

Philip W. Mitchell, chief executive of Towers Perrin Reinsurance in Philadelphia, pegged the likely total at about $50 million per program, at this early stage of the Bermuda market's development. This would bring total worldwide capacity to about $250 million.

While the added limits are welcome, the Bermuda reinsurers won't make up for the capacity lost at Lloyd's and other worldwide markets, and some large ceding insurers still won't be able to buy the limits they need, observed Joseph M. Fedor, executive vp with broker U.S. Re Corp. in New York.

Catastrophe capacity at Lloyd's alone has dropped to not much more than $50 million per program from between $90 million and

Continued on page 4

Path to Bermuda quickly becoming crowded

By JUDY GREENWALD

Any doubts about the viability of the Bermuda property catastrophe reinsurers is being quelled by the business flowing to the facilities.

The new players have been warmly welcomed by the reinsurance market, executives of the facilities say, dispelling any uncertainty about their long-term viability.

In fact, several facilities already are looking beyond cat coverage, anticipating eventually branching into such lines as aviation, marine and energy coverage.

"Everybody is beating a path to our door," said Donald Kramer, chairman of Tempest Re Ltd., one of the new facilities. Some are obviously testing to see what Tempest Re is willing to write, he said.

Mr. Kramer attributes inquiries about coverage not yet in its plan to the "discovery process," which has contributed to making life "very, very hectic."

"We can't handle the phones," said Larry Doyle, chief executive officer of Global Capital Reinsurance Ltd., another new facility. "We've got five lines, and we can't keep up with them."

"I think the response has been very good," said James Bryce, senior vp-underwriting for International Property Catastrophe Reinsurance Co. Ltd. "Obviously, there's been a shortage of capacity; that's well known."

Now, he said, the new property catastrophe reinsurers "are in a position to provide the capacity. If terms and conditions and the price are right, it's available again."

"It's at the best end of our

Continued on page 10

New facilities make brokers' jobs easier

But Bermuda boom too late to boost intermediaries' 1992 revenues

By SARA MARLEY

After a year of buzzing about the lack of property catastrophe reinsurance capacity, reinsurance brokers are making a beeline to Bermuda.

With some of the biggest names in both the insurance industry and the financial markets helping to form property cat reinsurers in Bermuda, intermediaries say their jobs are becoming easier. Cat coverage is easier to find and rates are beginning to stabilize.

"I think the Bermuda capacity is important and there is significant capital invested," commented Michael W. Cashman Sr., president and chief operating officer of E.W. Blanch Co. in Minneapolis. "Clearly some clients are concerned about past Bermuda markets and their staying power, but it's a different Bermuda today than in the past."

"The introduction of markets in Bermuda will accelerate the push to quality markets," said Philip W. Mitchell, managing director and chief operating officer of Towers Perrin Reinsurance in Philadelphia. "Based on their financials, all the Bermuda markets are seen as quality markets. The flight to quality on the cat side is to Bermuda," although there are also quality markets in the United States and London.

The flight to Bermuda doesn't necessarily require an airplane, however. Most of the business is being placed by originating brokers in the United States rather than by Bermuda intermediaries.

"Most of the Bermuda markets want to be as close to the ceding company as possible," he said.

The new Bermuda capacity did not emerge in time, though, to offer any help to reinsurance brokers' 1992 results. For the second year in a row, the 10 largest U.S.-based intermediaries recorded less than a 4% increase in aggregate gross revenues, compared with an 11% jump in 1990.

Four of the Top 10 intermediaries, however, saw their revenues grow at more than twice the 3.5% increase posted by the entire group.

Despite higher rates for many lines of reinsurance in 1992 and earlier this year, commissions have not necessarily risen commensurately, brokers report.

"There has been more pressure in the past six months on broker commissions than ever before," said James F. Dowd, chairman and chief executive officer of Willis Faber North America Inc. in New York. "With rates increasing dramatically, clients were fairly argumentative that brokerage should not increase because of the rates."

As a result, some intermediaries are charging fees rather than commissions for their services. For instance, Sedgwick Payne Co. is establishing an independent fee-for-service unit in 1994.

"Clients are looking for consultation in areas beyond placement of coverage," Mr. Dowd said.

"A lot of people think we're

Continued on page 29

10 largest U.S.-based reinsurance brokers

Estimated gross revenues are in millions

Company (Parent)	Gross revenues 1992	Gross revenues 1991	% chg.	Employees 1992	Employees 1991	% chg.	% Treaty 1992	% Treaty 1991
Guy Carpenter & Co. Inc. (Marsh & McLennan Cos. Inc.)	$284.0	$292.0	-2.7%	2,145	2,169	-1.1%	NA	NA
Sedgwick Payne Co.[1] (Sedgwick Group P.L.C.)	62.5	60.0[2]	4.2	425	430	-1.2	80	80
E.W. Blanch Co. (E.W. Blanch Holdings Inc.)	55.5	44.9[2]	23.6	329	277	18.8	99	99
Aon Reinsurance Agency Inc. (Aon Corp.)	45.0	38.0	18.4	182	168	8.3	97	95
Willcox Inc. (Johnson & Higgins)	38.0	34.7	9.5	210	206	1.9	99	99
Towers Perrin Reinsurance (Towers Perrin Co.)	37.0	35.0	5.7	197	197	–	92	92
Minet Re (North America) Inc.[3] (The St. Paul Cos. Inc.)	36.0	34.5	4.3	267	275	-2.9	NA	NA
Alexander Reinsurance Intermediaries Inc. (Alexander & Alexander Services Inc.)	27.2	26.4	3.0	137	150	-8.7	98	95
Willis Faber North America Inc. (Willis Corroon Group P.L.C.)	25.0	25.0	–	200	203	-1.5	95	95
John P. Woods Co. Inc. (Privately held)	16.0	14.5	10.3	55	51	7.8	100	100

[1] Formerly Sullivan Payne Co. and Crump Re [2] Restated [3] Includes Intere Intermediaries Inc., RFC Intermediaries Inc. and IOC Reinsurance Brokers Ltd. [4] Formerly G.L. Hodson & Son Inc.

Source: BI survey

GRAPHIC BY JOHN HALL

U.S. reinsurers

Continued from previous page

$125 million previously, he noted.

"The amount of capital put into Bermuda does not match the amount lost out of the London market," agreed Edmond F. Rondepierre, senior vp and general counsel with General Reinsurance Corp. in Stamford, Conn.

How the Bermuda companies will price their product is also of keen interest to market observers.

Most reinsurance executives doubt the facilities will create enough competition immediately to push down prices, though most also agree that the catastrophe reinsurance crisis has peaked and prices won't rise any more.

The Bermuda reinsurers "will help meet some of the demand and, as a result, prices will not go up but will remain at the lofty levels they're already at," Mr. Mitchell predicted.

Most programs will likely renew with little change in rates, and ceding companies without coastal exposures may see decreases of up to 5% in rate on line, Mr. Ingrey said.

"The real question is what happens in July when these (Bermuda reinsurers) have difficulty meeting their (premium volume) targets," he added.

Most observers don't expect the new catastrophe facilities to remain monoline companies for very long: Once these reinsurers find they can't write enough catastrophe business at the prices they want, most will expand into other lines of property and casualty reinsurance, observers predict.

"I don't see that any of the Bermuda reinsurers will be content to be specialized reinsurers," Mr. Fedor said.

"You can't write property catastrophe business forever," added John W. Smithson, chairman and president of PMA Reinsurance Corp. in Philadelphia. "I don't think they will stick to (catastrophe business only) for more than a year."

The formation of the Bermuda facilities is 'upsetting to Lloyd's and Lloyd's brokers because it's a serious competitive element. This Bermuda group is a force to be reckoned with. It's smart capital,' says Kirk Roeser of Gill & Roeser.

"It's upsetting to Lloyd's and Lloyd's brokers because it's a serious competitive element," Kirk Roeser, president of Gill & Roeser Inc. in New York, said of the Bermuda companies. "This Bermuda group is a force to be reckoned with. It's smart capital."

Dwindling capacity at Lloyd's in the wake of years of horrific losses has created new opportunities for reinsurers in Bermuda, the United States and elsewhere, according to reinsurance executives.

"The glamour of having Lloyd's as the lead reinsurer on your treaty is gone," said David Forrest, senior vp with the U.S. branch of Abeille Reassurances in New York.

"The 'world coming to London' stuff is starting to evaporate," Mr. Ingrey agreed.

Lloyd's has been very active reinsuring non-U.S. ceding companies—including companies in Latin America, Australia and the Far East—but it will have a tougher time holding on to U.S. business, said Edward B. Jobe, chairman and chief executive of American Re-Insurance Co. in Princeton, N.J.

"Lloyd's will survive, but I don't think for quite a while it's going to be the influence it was," Mr. Jobe said.

Along with catastrophe business, U.S. reinsurers are taking over other lines of business that Lloyd's had specialized in, including excess and surplus lines risks, and London reinsurers will have a hard time winning back this business, Mr. Smithson said.

"I don't think it will go back. The history of Lloyd's is that once they have lost a segment of their market, it tends not to go back," he said.

"They are going to have a very, very difficult time recovering their market position for U.S. business," Mr. Smithson said. "The days are gone when they are the market of first resort."

Meanwhile, the use of funded covers and other forms of financial reinsurance to fill out catastrophe programs has slowed markedly, observers agree.

One contributing factor may be the new Bermuda capacity. But the principal reason is the accounting restrictions on multiyear deals set by the Financial Accounting Standards Board.

Under a multi-year funded cover, a reinsurer places ceded premiums into a segregated account. A loss exceeding the amount in the fund creates a negative balance that the ceding company must repay with higher premiums or settlement adjustments, or—if the cover is canceled—with cancellation penalties.

At the urging of the Securities and Exchange Commission, FASB adopted a rule in July that requires ceding companies to report their obligations to reinsurers under multi-year retrospectively rated contracts as liabilities in their financial statements.

Payments due from reinsurers have to be reported as assets (*BI*, July 26).

"There were a number of abuses in the past, and some of the programs that no longer work probably shouldn't have worked in the first place," according to Mr. Jobe.

"If the reason to do this was to dress up the financial statement, that reason has gone away," Mr. Rondepierre said.

"It's a very small, diminishing number of people who are interested in these either as ceding or assuming companies," reported Towers Perrin Re's Mr. Mitchell reported.

"Buyers are reluctant" to commit to multiyear deals until the accounting implications are worked out, said Greg Leonard, president of Pegasus Advisors Inc., a Simsbury, Conn., financial reinsurance unit of Skandia America Corp.

Mr. Leonard said Pegasus has done about half the number of deals it had done last year at this time, with most of the lost business representing multiyear property reinsurance covers.

"It's a little harder to sell them

Continued on page 6

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"Never say never"

Some surplus lines insurance companies use underwriting policy to bog down producers in a bottomless quagmire of paperwork and procedure while underwriters try to figure out what to do with unique risks and specialty programs.

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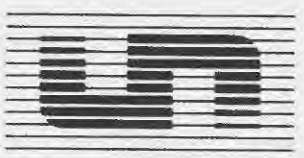

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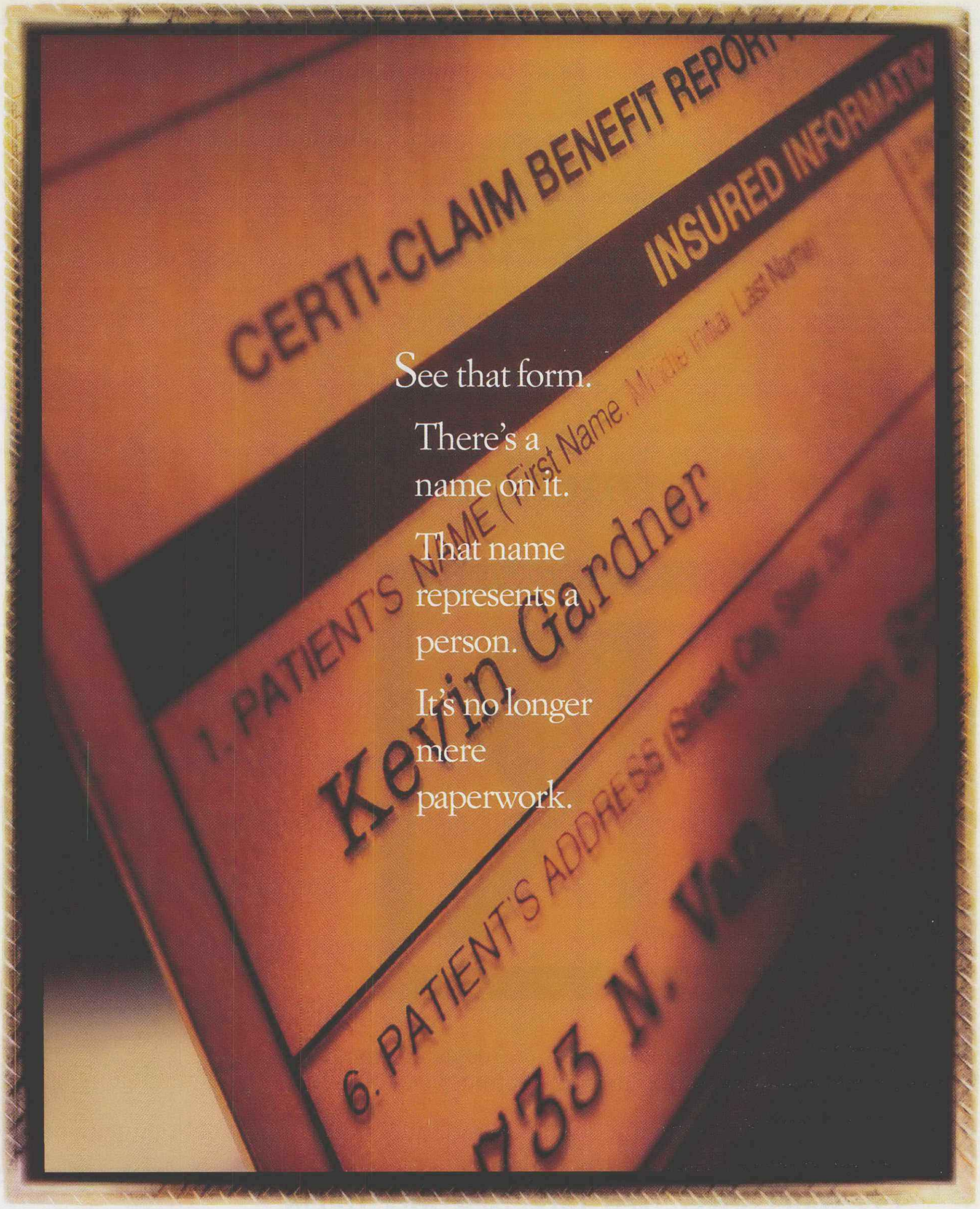

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U.S. reinsurers

Continued from page 4
now, but deals are being done," he added. "This business is not dead by any means."

Several others also expressed confidence in the financial reinsurance market's future.

Tal P. Piccione, U.S. Re's chairman and president, noted that new products are being developed to meet the tests of the new accounting rules. Capacity for these products will be more limited than that previously available for funded covers, since reinsurers will assume more risk, he added.

The financial reinsurance market has attracted creative people to develop its products, observed William E. Thiele, president and chief operating officer of North American Reinsurance Corp. in New York.

"Their opponents are bureaucrats. When you put bright, creative and entrepreneurial people up against bureaucrats, it's no contest," he said.

"Most of the participants in that market have had a pretty good year," Mr. Thiele said.

As reinsurance products have become more sophisticated, ceding insurers have become savvier and more attuned to the financial impact of reinsurance arrangements, market observers say.

"There is a trend away from product line protection to balance sheet protection," Mr. Leonard said, noting that he sees many more ceding company chief financial officers and chief actuaries involved in reinsurance placements than in the past.

Meanwhile, a number of trends will continue to favor the largest, best-capitalized reinsurers and brokers, producing consolidation in both groups.

Ceding insurers concerned about security continue moving their business to a smaller number of large reinsurers: The 10 largest U.S. reinsurers wrote 69% of the $12.6 billion net premiums reported by 59 companies to the Reinsurance Assn. of America in 1992 (*BI*, March 29).

'Fewer and bigger reinsurers is not a cliche anymore. It's a real life fact,' says John W. Smithson.

Capital and surplus of $100 million is considered minimum "table stakes" for reinsurers today, and $250 million to $500 million is desirable for a reinsurer writing casualty business, reinsurers and brokers say.

Where a ceding insurer might have dealt with up to 30 reinsurers to complete a casualty treaty in the not-too-distant past, it may now be dealing with between five and 15 reinsurers to get the same capacity, Mr. Smithson said.

"Fewer and bigger reinsurers is not a cliche anymore. It's a real life fact," he observed.

"The flight to quality is real," American Re's Mr. Jobe agreed.

In the past, large numbers of small, "following market" reinsurers together have been able to turn reinsurance markets, Mr. Jobe noted. As these reinsurers become less acceptable to ceding companies, their capacity is being replaced with more sophisticated companies and this in turn should create a more stable marketplace, he said.

Reinsurers' creditworthiness has become a more important issue as ceding companies enter multiyear contracts and want to assure themselves that their reinsurers will still be in business several years down the road, added Ajit Jain, president of the reinsurance division of Berkshire Hathaway Inc. in Stamford.

Buyers are also demanding a wider array of specialized services from direct-writing reinsurers and brokers.

American Re, for example, offers a variety of claims, litigation management and other services to ceding insurer clients, with the cost built into its premium, Mr. Jobe said.

The demand for better service has also led reinsurers and brokers to invest in automated systems to handle claims, billing, collection and other functions, he added.

"Processing will play a major part in who gets the business," Mr. Jobe predicted. "Here again, the small reinsurer is going to be at a disadvantage."

Automation—particularly of claims services—is "something we all have to really invest money in," Abeille Re's Mr. Forrest agreed. "The kiss of death is always if you are a late payer."

Brokers have also had to provide these expanded services with no additional compensation, and this trend will fuel consolidation among intermediaries.

Small and medium-sized brokers that can't handle the cost of servicing clients will fall by the wayside, said Mr. Piccione.

"The day of the mom and pop shop with one account" is fading, he observed.

Shrinking worldwide reinsurance premium volume is also putting the squeeze on brokers.

Total reinsurance volume has risen in recent quarters only because of skyrocketing catastrophe reinsurance prices, explained one reinsurance broker.

However, ceding insurers—notably medium-sized ones—have been retaining more of their risk, removing premium from the reinsurance market.

"The pie is not getting bigger. It is not a growth business," the broker said.

In fact, there isn't enough business to keep all of the reinsurance brokers in the market profitable: "There's too much competition. There are just too many brokers," the intermediary said.

Consolidation among reinsurers is also forcing brokers to change the way they deal in the marketplace, Mr. Smithson said: Brokers are no longer dealing with a "faceless crowd of reinsurers" but instead with a smaller number of reinsurers that have more clout in negotiations.

As a result, brokers have had to work harder to develop good relationships with reinsurers, he observed.

Still, no one believes that the world reinsurance marketplace will eventually be reduced to a handful of companies.

There is still a place for medium-sized reinsurers, though they will have to provide more than just capacity to justify their existence, Mr. Forrest said.

"The survival of medium-sized reinsurers is directly related to the value they bring to the table" in client service, Mr. Forrest said. "That is what is going to solidify our relationships with ceding companies." BI

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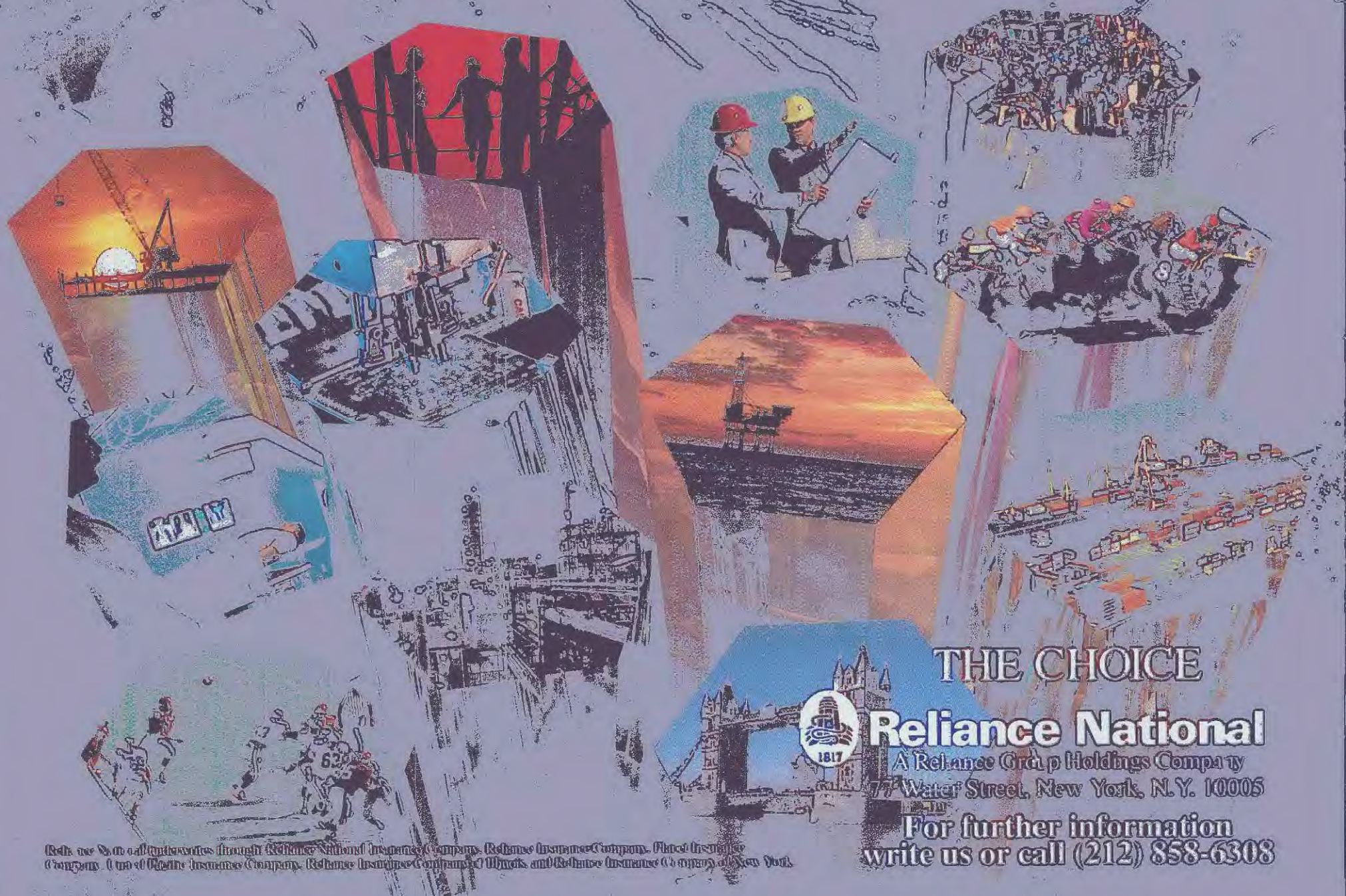

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Opinions

Benefits from Bermuda

THE HUGE AMOUNTS of capital that are flowing into Bermuda are frightening some in the reinsurance market, who fear that the new capital may stimulate a new round of rate competition at a time when reinsurers are finally charging adequate prices, at least for property risks.

Those fears are unwarranted.

The most important component of the insurance industry, apart from management talent, is capital. Without it, no insurance or reinsurance can be written. Even a slight shortage of capital can lead to an imbalanced marketplace, which penalizes buyers and, in the long run, hurts the sellers, too.

While the $4 billion in new capital that the new Bermuda property catastrophe reinsurers hope to raise likely will mean an end to price hikes for property cat coverage, we believe the management talent that the facilities have attracted will use that capital wisely and not undercut adequate rates.

Back in the late 1970s and early 1980s, a number of Bermuda captives made an aggressive push into the commercial insurance and reinsurance markets, only to land in runoff or liquidation a few years later. But one must remember that those insurers truly represented "innocent capacity." They willingly undercut rates in an attempt to garner premium volume and, by doing so, needlessly risked their capital.

We have a hard time believing the established, well-managed insurance industry players investing in the Bermuda facilities—well-known companies like General Re, Swiss Re, Aon, Marsh & McLennan, CNA, AIG and Johnson & Higgins, to name only some—will commit the same dumb mistakes.

Others are worried that the Bermuda facilities will branch into other lines of business once the supply of property cat cover matches the demand. So be it. Big chunks of reinsurance and retrocessional capacity will soon be needed if established insurers and reinsurers—

including many of those that are now bad-mouthing the Bermuda facilities—don't begin to increase liability rates on a rational basis.

The liability insurance market moves closer to a 1985-style capacity crunch each day that the price war for liability risks continues. When that occurs, insurance buyers—and primary insurers themselves—will be happy to know that there is additional capital in Bermuda ready to support liability programs.

While the insurance industry is becoming more dynamic and creative, it still is stodgy compared with other financial services sectors. The Bermuda facilities represent a new, exciting development in property/casualty insurance and reinsurance. If these reinsurers act responsibly, and there's little reason to think they won't, they can only benefit buyers of commercial insurance.

Letters

Start from scratch on health reform measure

To the editor: The cartoon accompanying the Sept. 27 editorial, "The Wrong Starting Point," was perfect: President Clinton is stuck in a tar pit (as were the original dinosaurs) and now he wants us to join him. No way!

You accurately explain that this reform package has several significant flaws, including:

- Its revenue assumptions are fantasy.
- Its cost assumptions are not realistic.
- It would lead to "gigantic bureaucracies and would not spawn competition."

Why don't we simply face the fact that this is not only a lousy package, it's also a lousy starting point. The last thing that we need is to let the government start controlling to a large degree 14% of our economy.

It appears to me that we have forgotten that America's overall quality of health care remains the finest in the world. We have instant access to care; our elderly are given the same care as younger patients; and our medical technology is the best. Let's not let this administration scare us into a solution that increases the role of government and reduces free enterprise.

Why not let each individual or head of household (the consumer) seek the best value for his or her money by using a refundable tax credit? Low-income Americans would receive a medical voucher to help them buy a plan. This method would keep the government's role to a minimum while providing the incentive for free enterprise to flourish in the health care industry.

Now this is a starting point that even Congress might not screw up.

Walter R. Curtner
President
Curtner Risk Management
Denver

True purpose of health insurance has become misunderstood

To the editor: One of my roles as a financial planner is to help individuals and businesses manage risk. In that regard, I have witnessed in the last two decades an alarming shift in expenditures away from retirement savings toward consumption of health care.

A recent International Revenue Service analysis of corporate income tax reveals a complete reversal of business expenditures. Ten years ago, 65% of business benefits expenditures were for retirement savings and 35% were for health care. Today, more than 65% is spent on health care and less than 35% is saved in retirement plans. This is alarming! Are we that sick?

The reason for this predicament is that the definition and expectations of health insurance have been confused, misrepresented and misunderstood. Insurance is for infrequent, catastrophic events—period.

If we designed health insurance programs based on the preceding definition, we would continuously purchase insurance coverage with ever-increasing deductibles as our ability to self-insure larger health care services manifested. Consequently, health insurance premiums would be lower and lower.

Obviously we have two problems in America: Health care costs are too high and savings rates are too low. To mandate national health insurance as a means to control costs is preposterous.

What is needed is legislation permitting more tax-deductible savings in IRAs, 401(k)s, pensions and profit-sharing plans, which could be accessed without penalty for legitimate health care expenses. This would permit consumers to purchase health insurance with larger deductibles ($2,000, $5,000, $10,000, etc.)

Consumers would have to spend their own money for health care just like they do for food, vacations, cars and housing. Most people are quite savvy on the purchases they make and it would not take them long to be proficient in health care purchases.

The collateral benefit is that long-term savings and capital accumulation would be enhanced. There would be a "personal" financial incentive in every medical care

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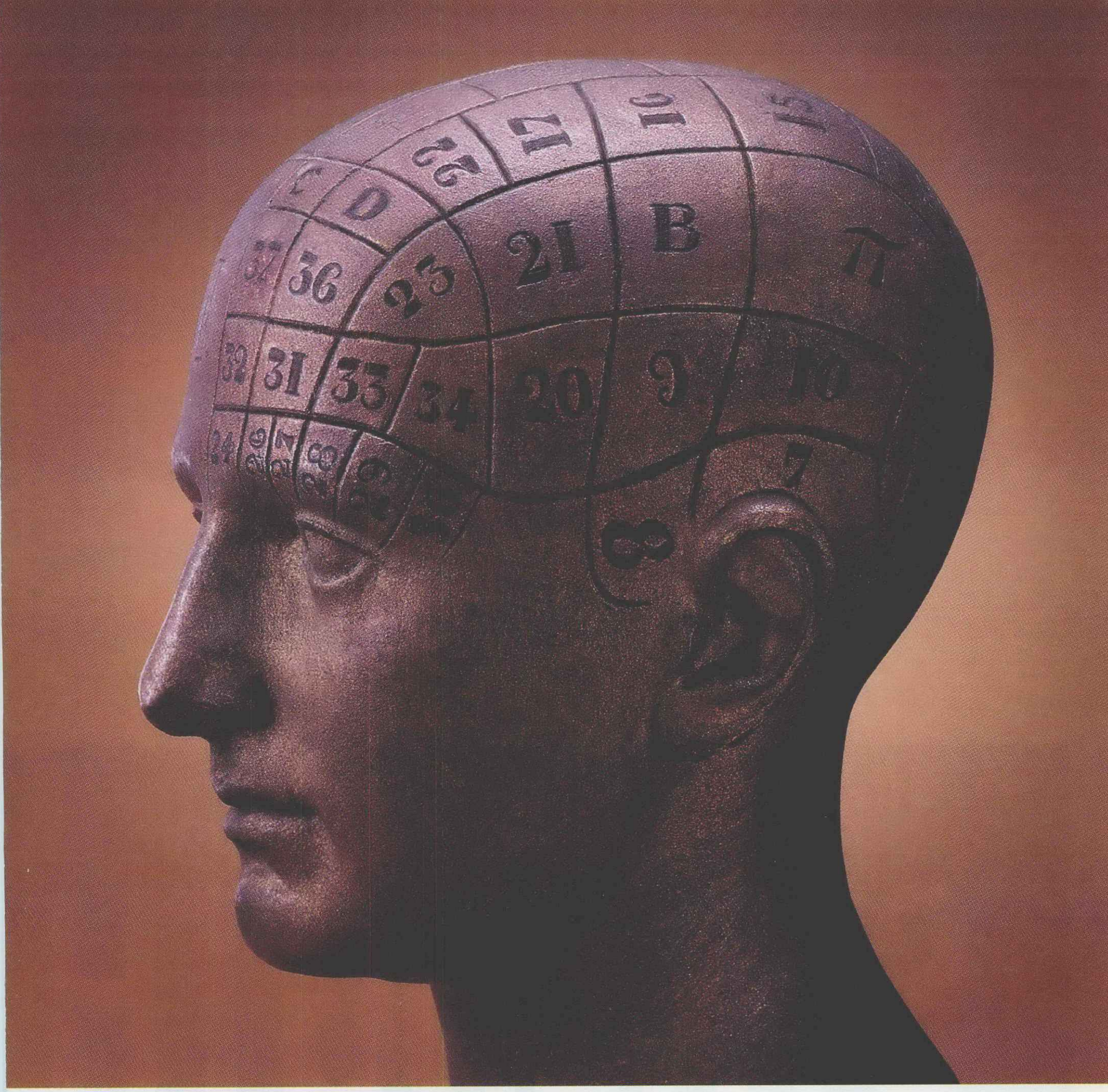

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Bermuda

Continued from page 3

expectations," Michael A. Butt, chairman and chief executive officer of Mid Ocean Reinsurance Co., said of the market's response to the reinsurer. The best brokers worldwide, as well as 360 clients, have shown their support for Mid Ocean, he said.

Mid Ocean, launched in November 1992 was the first of the Bermuda property cat facilities.

Clients targeted by Centre Cat Ltd. have been "very responsive," said Paul T. Hasse, chief executive officer.

Following are updates on the nine existing or planned Bermuda catastrophe facilities:

• **Mid Ocean Reinsurance Co. Ltd.** Mid Ocean, which began writing in November 1992 and generated about $246 million in premiums during its first nine months, now has about $738 million in capital and surplus, Mr. Butt said.

About 65% of its business has been "pure" property catastrophe reinsurance, with the remaining business in other areas like energy and excess aviation lines.

About 40% of its business is U.S.-originated, said Mr. Butt, who expects that to remain about the same, depending on primary rates in the United States and what happens in other parts of the world.

"We're comfortable with the balance of our book currently," both geographically and by line of business, said Mr. Butt. Mid Ocean will write up to $20 million per program for the "right" account, he noted.

"I think we view Mid Ocean now as having taken a significant place in the worldwide reinsurance market, and we intend to capitalize on that first year's success to reinforce our position throughout the world."

• **Partner Reinsurance Co. Ltd.** Partner Re, which lists Swiss Reinsurance Co. among its investors, anticipates $755 million in capital and surplus upon completion of its initial public offering, expected to close Thursday, said Graham D. Brice, president of International Risk Management (Bermuda) Ltd., whose ultimate parent is Swiss Re.

The facility's president and chief executive officer is Herbert Haag.

Continued on next page

Bermuda catastrophe reinsurance facilities

Capital & surplus and maximum capacity figures are in millions

Name/Major investors	Capital & surplus	First policy written	Projected 1994 premiums	Maximum capacity per program
Mid Ocean Reinsurance Co. Ltd. Marsh & McLennan Cos. Inc.; J.P. Morgan & Co.; EXEL Ltd.; others	$738	November 1992	N/A	$20
Partner Reinsurance Co. Ltd. Swiss Reinsurance Co.; Head Investors III; Head Partners; institutional investors	$755[1]	November 1993[1]	N/A	N/A
Tempest Reinsurance Co. Ltd. General Reinsurance Corp.; other institutional investors	$500	October 1993	$160	$10
LaSalle Re Ltd. Aon Corp; CNA Insurance Cos.; Corporate Partners fund	$300-$500[1]	December 1993[1]	$175-$250	$20
Global Capital Reinsurance Ltd. Goldman Sachs & Co.; Johnson & Higgins; Underwriters Re Corp.; others	$450	October 1993	N/A	$10
Centre Cat Ltd. Morgan Stanley Partners Fund; General Motors Corp. pension trusts; Zurich Re Centre Holdings; Centre Re Ltd.; AT&T pension fund; Chubb Corp.; Chemical Bank Venture Partners; Plymouth Rock Insurance Co.	$312	October 1993	N/A	$50-$75 per zone
International Property Catastrophe Reinsurance Co. Ltd. American International Group Inc.; General Re Corp.; Employers Reinsurance Corp.; others	$300[2]	June 1993	$100	$5 per contract/ $10 per program
Compass Re Ltd. SCOR S.A.; others	$300[1]	November 1993[1]	$150	$20
Renaissance Reinsurance Ltd. USF&G Corp.; Warburg, Pincus Investors L.P.; GE Investments; company management	$154/$300[3]	June 1993	N/A	$7.5

[1] Company goal [2] As of June 1993 [3] Current capital/company goal Source: Interviews with company officials

GRAPHIC BY KIM ROME

STRENGTH

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Continued from previous page
IRM provides management support.

Partner Re will write business worldwide, said Mr. Brice.

• **Tempest Reinsurance Co. Ltd.** Tempest Re, which anticipates writing about $160 million in premium in 1994, plans to be a monoline property catastrophe company, said Mr. Kramer. "At this point, we are just writing what we set out to write."

Geographically, it is hard to tell yet how the business will break down, said Mr. Kramer. Although he had projected a ratio of 55% non-U.S. to 45% U.S. business, "at the moment, our business is pretty much non-U.S.," he said.

However, only a few programs have been booked so far, and U.S. business is generally renewed as of Jan. 1, he noted.

"We limit our exposure in any given exposure zone," Mr. Kramer said. "A lot of how our mix will work out is based on what comes in to us and what we can do to balance our exposure."

• **LaSalle Re Co. Ltd.** LaSalle Re, which has a capital goal of between $300 million and $500 million, was formed by Aon Corp., CNA Insurance Cos. and Corporate Partners, a fund affiliated with Lazard Freres & Co., according to Lorey Hoffman, senior vp of Aon Risk Services and president of Aon Risk Consultants in Chicago.

The facility plans to start writing business beginning with Dec. 1 renewals, said Mr. Hoffman. LaSalle Re expects to write between $175 million and $250 million in its first year, with a maximum limit of $20 million per program.

LaSalle Re expects to write other forms of property reinsurance besides catastrophe, including some proportional business, "and we're investigating non-property business as well," said Mr. Hoffman. He said the non-property lines that the facility will write have not yet been determined. "The deciding factor will be a function of their profitability."

Mr. Hoffman said the company has been designed to "conceivably write any policy of insurance or reinsurance as the board and management decide."

Although its geographic breakdown has not yet been decided, "it would not be unrealistic" to expect LaSalle Re's property catastrophe business to be split 50-50 between U.S. and non-U.S. business, Mr. Hoffman said.

A chief executive officer has not yet been selected, said Mr. Hoffman. Aon will provide actuarial and administrative services and claims management in the United States, although a staff is also already working out of Bermuda, he said.

"One myth that we want to dispel is that this is in some sense a temporary company," said Mr. Hoffman. "This is not the case. This company is being designed to be a permanent player in the world reinsurance market. I think our clients for our company should realize when they're doing business with LaSalle, they're doing business with a company that is there for a long time."

• **Global Capital Reinsurance Ltd.** Global Capital Re expects to write $175 million in worldwide property catastrophe reinsurance business in its first year of operation, said Mr. Doyle.

The reinsurer is writing property per-risk business as well, he said. The book of business will be worldwide in scope, with about 50% coming from North America.

Global Capital also is considering expanding into marine underwriting, Mr. Doyle said.

"We just think we're in a great position with a very strong capital base, very low overhead and a favorable tax climate with no liabilities from the past that many of our competitors are faced with," he said. "We've got a significant competitive advantage in terms of the margins we can achieve on the business going forward."

Mr. Doyle said the new company is in no rush to get business onto its books, nor is it as interested in going public as it is in producing a good portfolio of business with a good spread of risk. He stops short, however, of ruling out a public offering at some point in the future.

• **Centre Cat Ltd.** Centre Cat will write property/catastrophe business exclusively, with U.S. business accounting for 50%-75% of its total volume, according to Mr. Hasse.

Centre Cat will provide both traditional and non-traditional reinsurance products. "We plan to focus on a relatively small number of clients," said Mr. Hasse. "We are looking for clients that are typically regionally concentrated, so we can essentially fit them into our zones."

Centre Cat is seeking to build long-term client relationships that are substantial both in the amount of exposure and the limits sought, he said.

"We are going to write on a global basis, and tend to build a globally balanced portfolio," he said.

The reinsurer is taking a "risk-based capital approach" to building its portfolio, and will allocate surplus across geographically zones, with a maximum capacity of $50 million-$75 million per geographical zone.

Centre Cat now has a staff of six, with another five or six employees to be added soon, said Mr. Hasse. Charles L. Kline is president of Centre Cat.

• **International Property Catastrophe Reinsurance Co. Ltd.** IPC had $300 million in capital and surplus as of June 30, when it began writing business, though that has since increased. Its 1994 premium volume will total at least $100 million, according to Mr. Bryce.

The facility's initial focus will be on property catastrophe and property per-risk reinsurance, although the facility is also looking at excess-of-loss marine and aviation business, said Mr. Bryce. After Jan. 1, 1994, it will probably also consider writing quota-share business.

IPC's business will be split approximately 50-50 between U.S. and non-U.S. risks, said Mr. Bryce. "The real key is construction of a portfolio on a balanced basis" and taking into account the surplus and premiums earned in the different zones, he said.

Mr. Bryce said IPC plans to write up to $5 million per contract and $10 million per program. Originally, its limits were $2.5 million and $5 million because of its midyear startup before hurricane season, he noted. Now, with the hurricane season behind it, limits have been increased, he said.

Joseph C.H. Johnson is president and CEO of IPC.

• **Compass Reinsurance Ltd.** Compass Re's capitalization is not yet complete, but the reinsurer is working toward a capital and surplus goal of $300 million and expects to begin writing business in mid-November, said Francois Bertrand, president and CEO. The facility's one identified investor is SCOR S.A., with Banque Paribas active in helping to raise capital.

The facility, which will write property catastrophe business exclusively, will offer a maximum of $20 million per program, with estimated 1994 volume of $150 million, said Mr. Bertrand. U.S. business is expected to constitute about 40% of the total, Mr. Bertrand said.

Some back office functions will be provided by Bermuda-based Commercial Risk Partners Ltd., which is largely owned by SCOR.

• **Renaissance Reinsurance Ltd.** According to the prospectus for an initial public offering issued by Renaissance Re's parent company, Renaissance Holdings Ltd., the reinsurer expects to raise $218.5 million in gross proceeds from the IPO, boosting capital and surplus to more than $300 million from $154 million.

According to an Oct. 6 filing with the Securities and Exchange Commission, the reinsurer has written $55.5 million in net premiums between June, when it began writing business, and Sept. 30. About 67% of its net premiums written were on U.S. business.

According to the filing, the facility's business strategy includes: focusing primarily on property catastrophe reinsurance and other short-tail business; maximizing return on capital by "applying disciplined underwriting techniques to write contracts only where the pricing is attractive relative to the risk involved"; and managing catastrophe exposure by writing a diversified worldwide book of business "and by using computer-based, geographic zone exposure management." BI

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London still a world leader in insurance

Observers confident changes will keep market on top

By STACY SHAPIRO

Major changes now taking place in the London market should ensure that it continues as the world's leading insurance market, despite a dramatic withdrawal of capacity.

Market leaders and stock analysts believe London will continue to lead many programs, like property catastrophe reinsurance, that traditionally have been led in London.

Despite skepticism in the U.S., confidence in the London market also is being boosted by new capital flowing into the market, particularly at Lloyd's of London, where more than 1 billion pounds ($1.49 billion) in new corporate capital is expected to be introduced next year.

The capital flowing into London may not match the $4 billion that the Bermuda catastrophe reinsurers attracted in the past year, but London market leaders are confident that the market's expertise will continue to attract ceding company clients. Although at least 33 companies and 142 Lloyd's syndicates have stopped writing business since 1990, the market still writes an estimated $20 billion to $25 billion in international premiums annually, about half of which is reinsurance.

"I think in five years' time London will still be a significant player," said Chris Hitchings, a stock analyst at UBS Ltd., which is sponsoring two trusts that will invest corporate capital in Lloyd's.

Reports that the London market is a shadow of its former self are not true, added Victor Blake, founder of the London Underwriting Centre, a recently opened reinsurance marketplace, and chairman of CNA International Reinsurance Co. Ltd. "Everything that comprised the London market is still here," he said. And, the number of companies that "have gone under compared to what's survived is minuscule."

While it is true that some clients' confidence has been battered by the withdrawal of so many underwriters from the London reinsurance market in recent years, "London's infrastructure has not disappeared."

Confidence should be boosted by corporate capital at Lloyd's, which will show that sophisticated investors still have faith in the world's oldest reinsurance market, he said.

While the London reinsurance market is much smaller, the worst of the contraction is over and the underwriters still in the market are there to stay, said Lloyd's catastrophe reinsurance underwriter Michael Harris.

Lloyd's capacity could "surprisingly" rise next year, Mr. Harris said, because of the introduction of corporate capital and changes in Lloyd's underwriting rules such as the introduction of members agency pooling arrangements (*BI,* Aug. 30). For example, Mr. Harris will be able to write 3 million pounds ($4.5 million) in premium as a member in 1994, compared with only 2.2 million pounds ($3.3 million) this year.

Mr. Harris' syndicate 947, which had capacity of 53 million pounds ($80.3 million at applicable exchange rates) this year, is expected to have a similar capacity in 1994, including about 14 million pounds ($19.9 million) of capacity from corporate members.

London is a much more organized market than last year and is easier to operate in, added Charles Bray, executive director of Willis Faber & Dumas Ltd., the reinsurance brokerage arm of Willis Corroon Group P.L.C. The market's consolidation was "painful," but it has made a better market, he said.

Ceding companies might shy away from London because of bad publicity, admitted John Coomber, chief executive of Swiss Reinsurance Co. (U.K.) Ltd. However, "I'm inclined to think that the product is still attractive enough for clients to see what London can offer, and London will still satisfy clients' needs."

Nearly all agree that it is difficult to determine the capacity that London offers for international insurance and reinsurance business. At least 33 London market companies ceased writing between 1991 and 1993, according to Standard & Poor's Insurance Rating Services. These include big names like Continental Reinsurance Corp. (U.K.) Ltd., English & American Insurance Co. Ltd., NW Reinsurance Corp. Ltd., Orion Insurance P.L.C. and NRG London Reinsurance Ltd.

At year-end 1991, the latest year for which figures are available, 131 London companies surveyed by S&P wrote 2.56 billion pounds ($4.81 billion at appropriate exchange rates) in net written insurance and reinsurance premiums, although these companies include 17 that are no longer writing.

Several major insurers and reinsurers in London have stopped writing or greatly reduced their volume of international business this year, including Munich Reinsurance Co.'s London unit, The Mercantile & General Reinsurance Co. P.L.C. and Royal Reinsurance Co. Ltd.

It is not certain how big the London company market writing international risks is today, said John Gardner, S&P's managing director in London. But, he believes these companies combined have no more than 1.75 billion pounds ($2.6 billion) in paid-up capital. "Certainly we feel results in 1993 will be significantly improved, so companies can build on their capital," he said. "Those who stay in the market will rebuild their strength."

Meanwhile, Lloyd's overall capacity has declined to 8.88 billion pounds ($13.45 billion) this year from 11.02 billion pounds ($20.6 billion) in 1988. Consolidations and shutdowns have reduced the number of syndicates this year to 228 from 370 five years ago.

But the use of Lloyd's capacity actually has increased, noted Mr. Bray. In 1992, Lloyd's wrote 8.64 billion pounds ($13.1 billion) in insurance and reinsurance premiums, or 86% of its capacity of 10.05 billion pounds ($15.31 billion), while in 1988 Lloyd's wrote only 5.05 billion pounds ($9.44 billion) of premium, only 46% of its capacity.

Mr. Bray estimates Lloyd's and the London company market together have the capacity to write between $25 billion and $30 billion in gross written premiums.

Mr. Hitchings estimates the total

Continued on page 16

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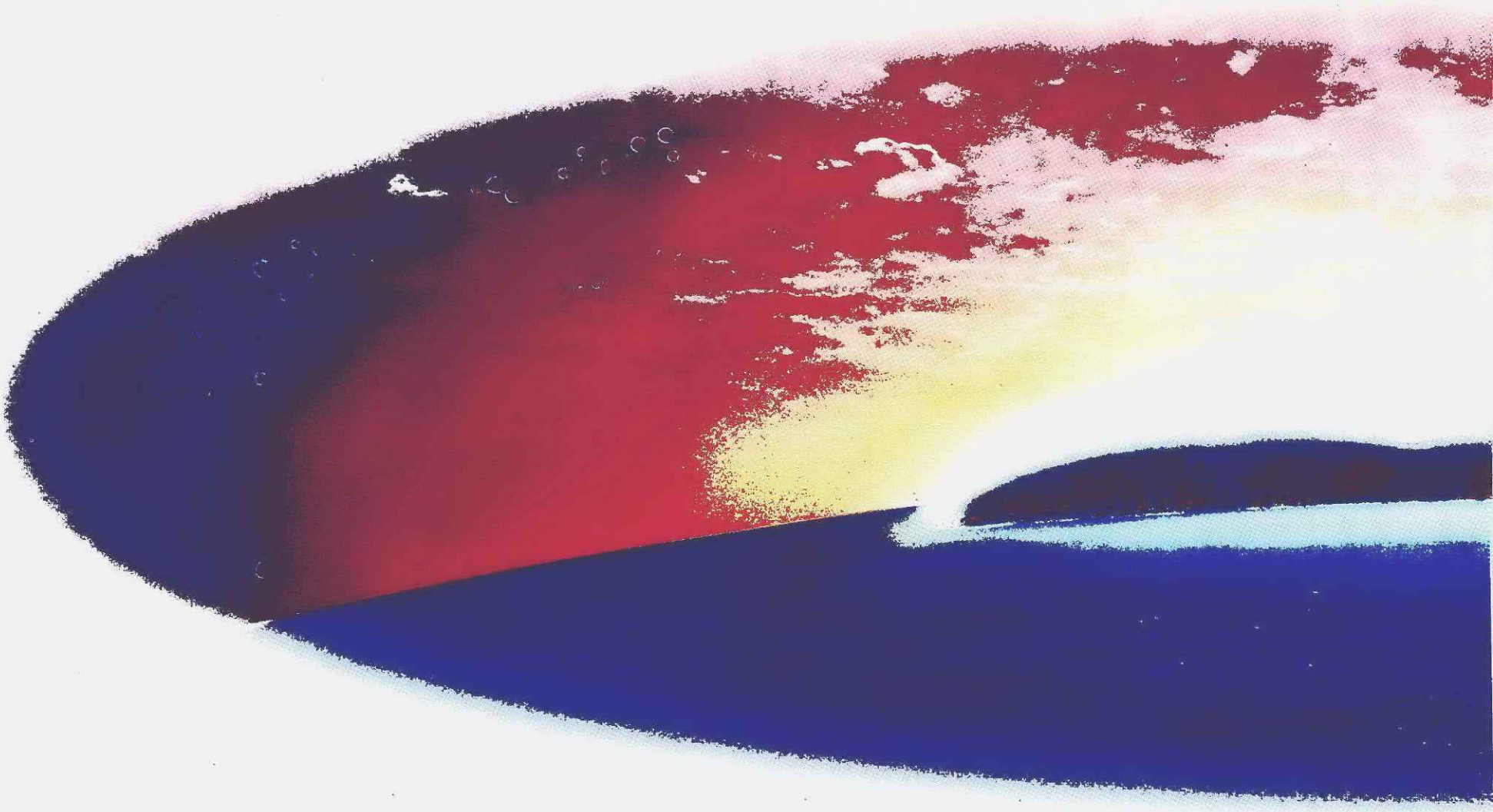
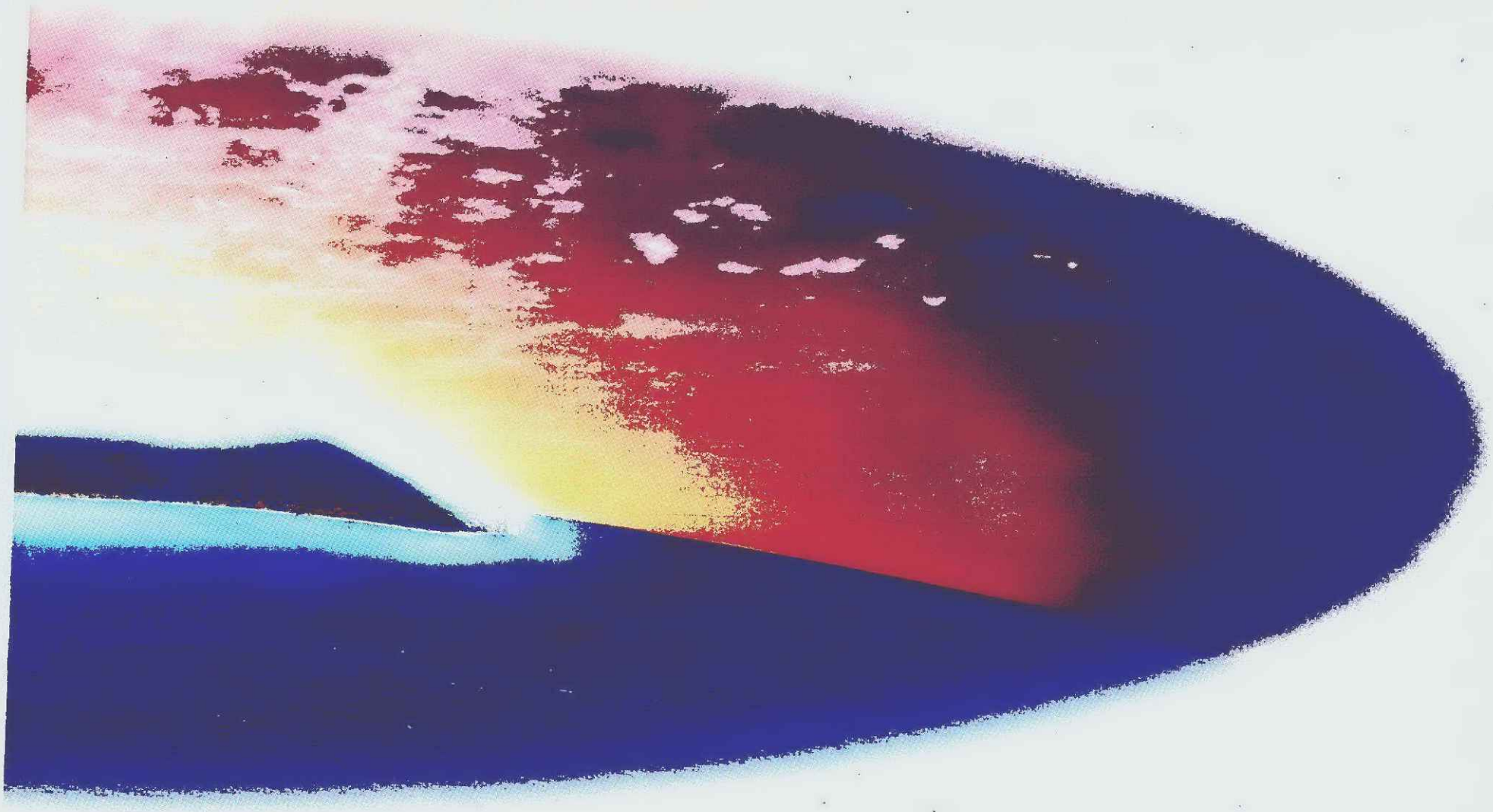


NEW WORLD EMERGES IN



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London reinsurers

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gross capacity of the London company market is 15 billion pounds ($22.35 billion), which he says is probably down from an estimated 18 billion to 20 billion pounds ($26.82 billion to $29.8 billion) in 1991.

Much of the contraction in the London market has been attributed to the demise of the London market excess-of-loss reinsurance spiral following massive losses from Hurricane Hugo in 1989 and the 1990 European windstorms. Hurricane Andrew played less of a role, since the LMX spiral virtually had disappeared by the time that storm struck in August 1992.

Today, the size of the London excess-of-loss retrocessional market is only about 15% of what it was in 1986-1987, said Jim Payne, vice chairman of Sedgwick Group P.L.C. Altogether, reinsurance capacity in the London market probably has been reduced by 40% in the last three years, he estimated.

But, the shrinkage of capacity has stopped in certain sectors of the London reinsurance market, like catastrophe coverage, he said.

Capacity for property catastrophe reinsurance is about the same for year-end 1993 renewals as it was a year ago, agreed a leading Lloyd's reinsurance underwriter.

"I expect as much capacity in London as last year" for U.S. property reinsurance programs, said Willis Corroon's Mr. Bray. However, it will be hard for U.S. insurers to increase the limits they buy in London compared with a year ago, he said.

London casualty reinsurance capacity, particularly for specialty lines like professional liability, also is readily available, Mr. Bray said.

Although London has lost many of its underwriters and some of its capacity, reinsurance market leaders see a bright outlook as more capital begins to flow into the market.

The British "composite" insurers—the major companies listed on the London Stock Exchange writing both life and non-life coverages—have raised 1.5 billion pounds ($2.24 billion) in capital in the past 12 months, said Mr. Hitchings in a recent UBS Ltd. report.

Much of the new capital has been raised, however, not to add new capacity, but to replenish capital that was lost due to underwriting losses and fluctuating exchange rates and to raise capital needed to support 10% to 50% increases in premium rates, he said.

To raise the composite insurers' solvency margin back to their 1989 levels would require another 4 billion pounds ($5.96 billion) in new capital, he said.

London market companies that are not listed on the stock exchange also are boosting their capital to meet clients' stringent security requirements. Brokerage executives agree that many clients are looking for reinsurers with minimum capitalization of $100 million.

S&P's Mr. Gardner maintains that many London companies are writing reinsurance business with capital and surplus of only 20 million pounds ($29.8 million), which he termed as "tiny."

However, Mr. Payne said there are fewer of these companies following the market shakeout.

And, Mr. Bray noted that London reinsurers like CNA International and Zurich Insurance Group's London operations have capital exceeding $100 million and meet security requirements.

Meanwhile, other companies are taking advantage of the hardening market in London to increase their presence or to start afresh.

For example, Liberty Mutual Insurance Co. (Massachusetts) Ltd. in June increased its capital to 100 million pounds ($149 million) from 15 million pounds ($22.4 million) and hired former Lloyd's Deputy Chairman Richard Hazell to serve as the company's chairman.

The company, which opened a new underwriting office Oct. 1 between the LUC building and Lloyd's and also rents an underwriting box at Lloyd's, plans to write about a dozen different lines of coverage, including property catastrophe reinsurance.

Liberty Mutual wants "to have an important part to play on contracts" and maybe serve as a lead underwriter on some coverages, particularly for U.S.-based clients whose programs had been led by Mr. Hazell's syndicate 199, said Managing Director Mark Bodkin, who had been U.S. property underwriter for the syndicate.

Liberty Mutual's new underwriters include Bruce Adams, who had been an underwriter for leading Lloyd's marine syndicate 206 managed by Sturge Marine Syndicate Management Ltd. before the syndicate was shut down earlier this year. He will write excess-of-loss reinsurance for London market clients.

Another former Sturge underwriter, Marcus Ringrose, will write jewelers block, fine arts, U.K. fire, political risk and other miscellaneous accounts for Liberty Mutual from the Lloyd's building.

Other Liberty Mutual underwriters include: David Oates, former aviation underwriter for syndicate 199; Jane Comerford, a former professional liability broker at Willis Corroon; and Simon Hazell, Richard Hazell's son and an international property underwriter. Richard Hazell and Mr. Bodkin will write energy/property accounts.

Another new player in the London market is Benfield Reinsurance Co., formed by The Benfield Group Ltd., a London broker.

Benfield Re hopes to be approved by the British Department of Trade and Industry by the end of November with capital of 50 million pounds ($74.5 million) raised by the owners of The Benfield Group, said Chairman Matthew Harding. The new company could write up to 100 million pounds of annual premiums.

Benfield Re, which is scheduled to begin writing by year end, will write non-proportional marine, non-marine and aviation accounts, Mr. Harding said. Three-quarters of its business could be produced by a sister company, Lloyd's broker Benfield Lovick & Reese & Co. Ltd.

The time is right to establish Benfield Re because "there's a great opportunity now with the structure and the rating of the business," he said. The company was formed in London rather than Bermuda "because London needs as much capacity as it can to maintain an influence in the reinsurance market."

At the same time, traditional players in London are regrouping to keep their spot in the world market.

Lloyd's will be the single largest beneficiary of the new capital flowing into the London market when about a dozen investment trusts begin generating corporate capital for Lloyd's next year. Now that Lloyd's members have given the final go-ahead to corporate capital (*BI,* Oct. 25), investment banks and stockbrokerages are rushing to the stock exchange to form trusts that are expected to inject more than 1 billion pounds into Lloyd's.

One such trust is Finsbury Underwriting Investment Trust P.L.C.,

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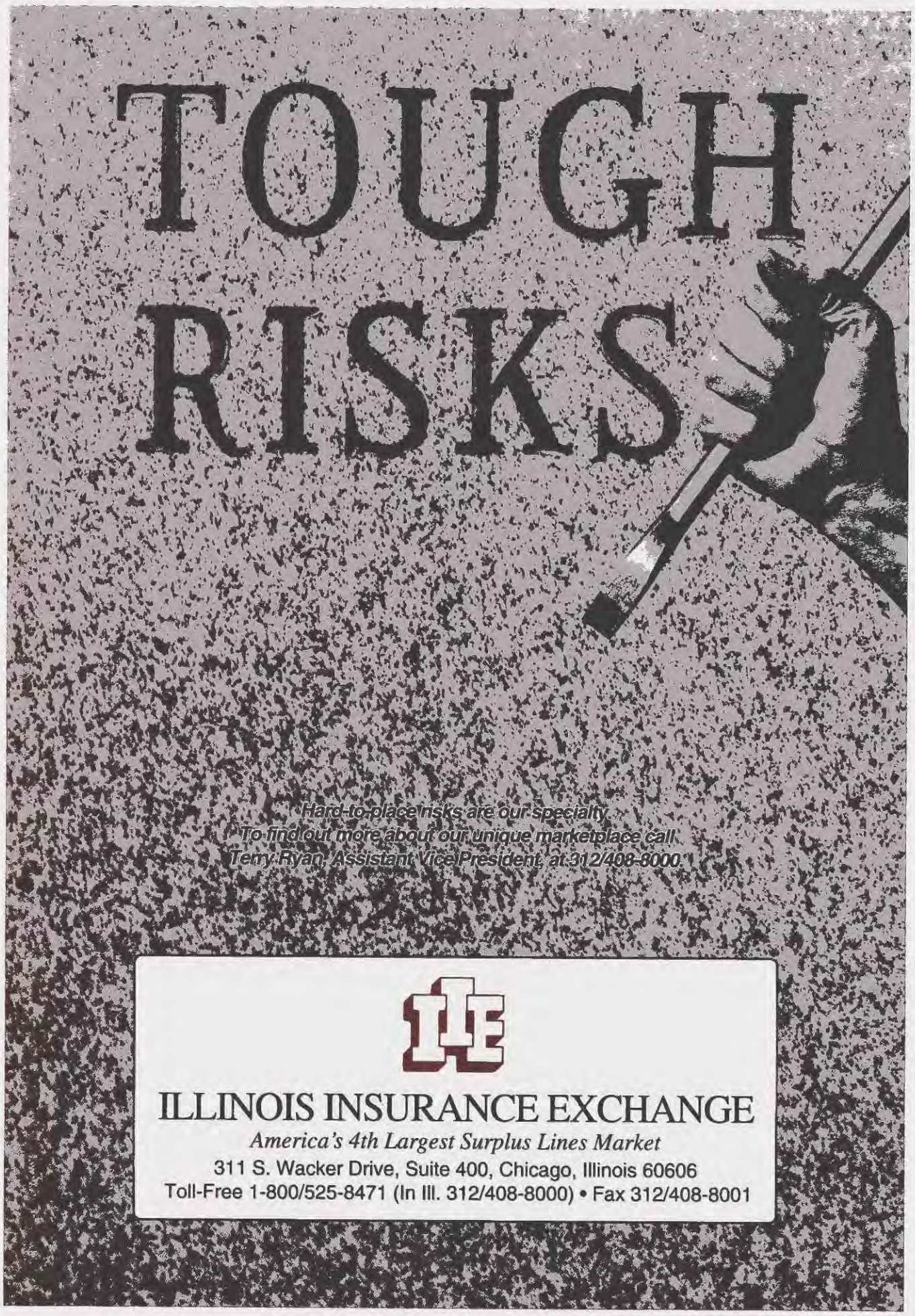

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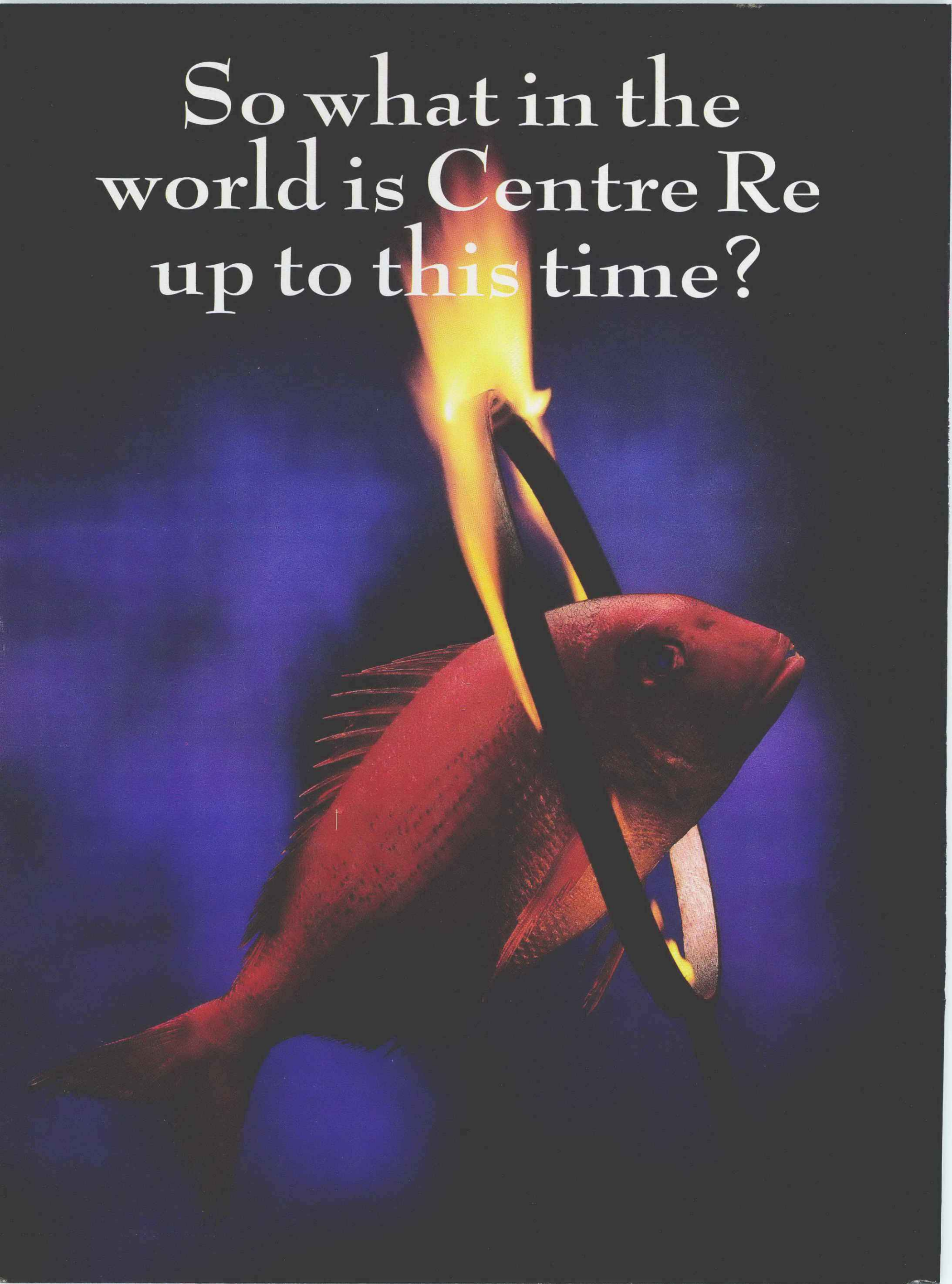

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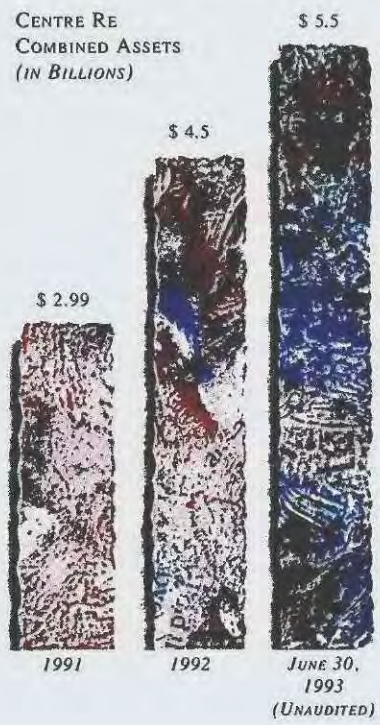

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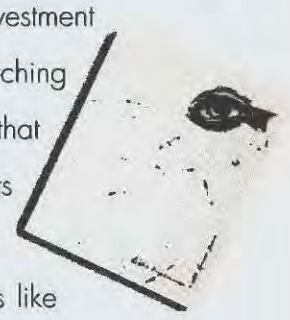

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London reinsurers

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sponsored by stockbrokers Rea Brothers Ltd. and UBS Ltd. FUIT, a limited liability investment company. FUIT hopes to raise 30 million pounds ($44.7 million) in capital to support a premium limit at Lloyd's of up to 50 million pounds ($74.5 million).

FUIT's underwriting activities will be managed by Wren Underwriting Agencies Ltd., one of Lloyd's most successful members agencies.

UBS also is sponsoring another corporate capital vehicle, HCG Lloyd's Investment Trust, in a joint venture with J.O. Hambro Ltd., Conning & Co. and Grimston Investments. The trust hopes to raise 100 million pounds in capital.

CLM Advisors, a Sedgwick subsidiary, hopes to raise 150 million pounds ($223.5 million) on behalf of CLM Insurance Fund, Sedgwick's corporate capital fund, said Mr. Payne. This would allow CLM to write up to 300 million pounds ($447 million) in premium volume.

These moves, however, mark just the beginning of corporate capital growth for Lloyd's, Mr. Hitchings said in a recent report. "We believe that individual names will remain a significant source of capital for Lloyd's, but within the next three to five years corporate capital could still be a 5 billion pound ($7.45 billion) market."

Mr. Hitchings also predicts that Lloyd's capacity will exceed the 9 billion pounds ($13.41 billion) forecast for 1995. "We would be surprised if Lloyd's capacity for 1995 is as low as 9 billion pounds and believe that, if it wants to, it could raise it to around 12 billion pounds ($17.88 billion)," he said.

If Lloyd's has growth potential, so may another London marketplace: the new London Underwriting Centre, which finally opened last month following a delay caused by a construction fire in August 1991.

While the LUC had leased 94% of its space before the fire, the delay in the building's opening and the contraction of the market in the meantime had reduced the occupancy rate to about 50% from 23 companies and seven related subsidiaries.

However, "we expect to get rid of it all" within three years, said an enthusiastic Mr. Blake, the LUC's founder, of the excess office space. "Now people can walk into the place and (sense) the buzz and broker excitement, which is exactly what we imagined."

The LUC will write about 2.5 billion pounds of gross premiums in 1994, about 80% of which will be reinsurance, he said. BI

London reinsurers foresee stable rates, little threat from Bermuda cat facilities

By STACY SHAPIRO

Rates for property catastrophe reinsurance in London will remain stable during upcoming year-end renewals as they did a year ago, London reinsurance executives predict.

The new influx of capacity in Bermuda coupled with ceding companies' reluctance to pay even higher premiums should mean that prices will remain relatively flat compared with year-end 1992 renewals, they say.

However, the high cost of cat coverage will continue to affect primary property programs. In particular, underwriters expect property deductibles to increase throughout the world, including in the United States.

London brokers and underwriters say it still is too soon to paint an accurate picture of the year-end renewal season until after the conclusion of the Baden-Baden reinsurance gathering and the National Assn. of Independent Insurers annual meeting.

Nevertheless, "we've already had a lot of rate increases and therefore we are seeing a flattening of the curve," said a leading property catastrophe reinsurance underwriter at Lloyd's of London.

Although prices may rise and terms may tighten for "hot spots" like Florida and California, rates for cat covers in other areas in the United States will likely remain stable, he said.

"Capacity and pricing will be pretty stable" during year-end reinsurance renewals, added Jim Payne, vice chairman of Sedgwick Group P.L.C. "I don't think the consumer will support an overall increase in reinsurance expense, and that will flatten pricing."

Since the London reinsurance market has been tightening for the past several years in terms of both pricing and contract conditions, it's already "a very healthy sector," Mr. Payne said.

Competition from the new Bermuda property cat reinsurers is not a major threat to the hardened market in London, the property cat underwriter noted. However, "if we doubled our prices, clients might go somewhere else."

The emerging Bermuda property catastrophe market could be "benevolent" if reinsurers there follow London's lead and provide additional capacity at the same terms and conditions, the underwriter said. But, the Bermuda reinsurers could become "destructive" if they begin to quote against London, he warned.

"Most of (the Bermuda underwriters) say they will follow our lead, which is OK," the underwriter said. "But if they chop 20% off the prices, that is threatening."

He predicts that much of the new Bermuda capital will be "short-term," especially if the wind blows hard during the final days of the hurricane season.

Mr. Payne noted that investors are now "fixated" on injecting new capital only into the property catastrophe reinsurance market. "Additional capital can be hugely disruptive when you're trying to put a market back together."

Nevertheless, London brokers will take advantage of the new market in Bermuda and will become the "principal suppliers" to the Bermuda cat facilities, he said, echoing other observers' views.

Although it's still too early to give accurate predictions, it is likely that ceding companies in the United Kingdom and continental European will see higher reinsurance rates than U.S. insurers, said Victor Blake, chairman

Continued on next page

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Balancing act for European reinsurers

By MARIA KIELMAS

Need to raise rates must be weighed against risk of clients going elsewhere

European reinsurers are trying to balance the need for higher rates and tougher conditions against the risk of forcing ceding companies to look elsewhere for capacity.

And as retrocessional capacity shrivels into oblivion, or becomes too expensive to buy, some European reinsurers are becoming net writers for the first time.

But the decision by some reinsurers to forego the expense of retrocessions contrasts with assertions from others that ceding companies must pay rate increases of up to 40% in some parts of the European markets. Reinsurers point to proportional business and commercial/industrial risks as areas targeted for rate increases in the near term.

Nevertheless, some executives are beginning to urge caution in how far they impose higher rates and tougher conditions on ceding companies, lest those cedants decide to carry their own risk or find capacity elsewhere, such as emerging Bermuda markets.

But Munich Reinsurance Co. contends that reinsurance rates for proportional treaties and large industrial risks are still below adequate levels. "If the original rates are inadequate, then the reinsurer must detach himself from the original rate level and agree to adequate reinsurance prices," said Fedor Nierhaus, a member of the board of Munich Re.

"There is justification in asking for adequate prices from our clients, especially when they are reinsuring only specific sections of their portfolio," he said.

Mr. Nierhaus noted that on average, industrial risks make up only about 4% to 5% of a multiline insurer's portfolio.

Adequate rates can be achieved through reducing ceding commissions or by requiring some level of loss participation on the part of cedants, he said.

"We will demand these changes, or we will decline the business. We think our clients will understand the need for adequate rates," Mr. Nierhaus said.

In the case of catastrophe reinsurance coverage, Munich Re also is demanding limits on the number of occurrences covered through proportional treaties. "The onus is now on the insured, who must make sure that he knows his own exposure and that he does not over-commit himself."

In addition to existing coverage restrictions on proportional treaties and the loss participation that is already in place, reinsurers increasingly will require cedants to pre-pay premiums or will demand at least a minimum deposit premium, said Pierre Champvillard, managing director of SCOR Reassurance, a unit of SCOR S.A. in Paris.

Swiss Reinsurance Co. is equally forthright about limiting coverage for cat losses in order to continue providing reinsurance capacity for other risks.

"We would like to agree on a cession limit, so that the ceding company can limit its accident or catastrophe exposure. If this exposure goes over the limit, then we would have to discuss it again," said Urs Winter, a member of group management at the group reinsurance division of Swiss Re in Zurich.

If ceding companies want to buy cat coverage in the future, they will have to bring more conventional business to their reinsurers,

Continued on next page

London reinsurers

Continued from previous page

of the London Underwriting Centre and chairman of CNA International Reinsurance Co. Ltd. "Certainly, one is seeing more interesting things out of Europe," he said, suggesting that's why U.S. business now comprises only 60% of CNA International's book, compared with 85% a few years ago.

Mr. Blake said he is not yet sure how the new Bermuda capacity will affect the overall reinsurance market. If the new capacity is used to fill high layers of cat programs to complement the traditional market, the Bermuda companies "will serve a valuable service," he said. However, he is concerned that even more capital will be drawn to Bermuda, forcing rates down.

New capacity means that a 'lot of cash in Bermuda banks will be doing nothing,' says Michael Harris.

Many London market players are concerned that the Bermuda reinsurers will begin writing retrocessional coverage and begin a new "spiral" like the excess-of-loss reinsurance spiral that devastated the London market.

Some Bermuda reinsurers are approaching Lloyd's underwriters to write retrocessions of their business, the London property catastrophe underwriter said. After being approached, however, the underwriter said he told the Bermudians to "take a walk."

Some in London are downright cynical about the new capacity.

Michael Harris, a Lloyd's property catastrophe underwriter, predicts that many ceding companies will shun the Bermuda companies and continue buying coverage in London. "It will mean that an awful lot of cash in Bermuda banks will be doing nothing," he said.

Meanwhile, Mr. Harris said he is seeing the effects of the tightened property cat market on primary property insurance programs. Even before year-end renewals begin, insurers are requiring higher deductibles from property insurance policyholders.

The new deductibles are reducing the ceding companies' property reinsurance costs, Mr. Harris noted. Some insurers are getting as much as a 40% reduction on their premiums because "the deductibles are worth a heck of a lot more than they were before." BI

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Continued from previous page
said Norbert Strohschen, chairman of the management board at Gerling Global Reinsurance Group in Cologne, Germany. "We can't just accept giving cat cover to companies that provide nothing else."

But reinsurers' demands for higher rates and tougher conditions could prove to be short-sighted and counterproductive, cautioned Christian Excoffier, managing director of AXA Reassurance Co. in Paris. "The XL market has found its level for the next two years if they remain free of catastrophes, but I think we must ease a little on the cost."

Higher reinsurance prices have been needed to pay for past catastrophes, he conceded. "If we continue to impose unjustifiable rates, we will not be doing it to our own benefit. The demand will dry up."

Swiss Re's Mr. Winter agreed that there is a limit to how far reinsurers can push up their rates, though they must receive an adequate price and profit margin for the risk they assume. He added, though, that the 30% to 40% rates on line for lower cat layers that have been discussed in the London market are higher than the level that would have been necessary to accommodate the losses from Hurricane Andrew.

SCOR's Mr. Champvillard concurred, noting that with rates of 30% to 40% on lower layers and predicted increases of 5% to 10% on renewals on top of increased deductibles, there will come a point when a ceding company that faces both a loss and a reinstatement premium decides that the cost of cat coverage is not worthwhile.

AXA's Mr. Excoffier said that in France, for example, one way to mitigate future cat losses would be to separate coverage for catastrophes, like storms, from other property losses under primary policies. At present, the storm coverage is an extension to the main property policy. By segregating these risks, it would be possible to calculate the reinsurance premium based on a ceding company's volume of storm coverage, and reinsurers would not have any excuse for limiting coverage for other perils, he said.

But such a solution would come up against the specific French problem of how to insure and reinsure windstorm-prone risks in French territories in the Caribbean like Guadeloupe and Martinique.

Primary insurers generally charge the same premiums for these risks as they charge for risks in France, even though there is a far greater natural catastrophe risk in the territories, especially from hurricanes and typhoons.

In addition to coping with less-than-adequate primary rates, reinsurers face a further capacity problem in the Caribbean. "Capacity for the Caribbean states is scarce because of the accumulation (of catastrophe exposures in the region) with the United States and the oil installations in the Gulf of Mexico," said Mr. Champvillard.

Primary insurers should apply much higher rates to the French Caribbean islands, he said. But such a move is unlikely, he added, because it would become a political matter.

Primary rates for commercial property risks are still too low in most of Europe, with the exception of the United Kingdom and very large industrial risks in Germany, reinsurers say.

These large risks in Germany, called *spitzenrisiken,* generally include risks such as those in the petrochemical and energy industries. Primary rates for these risks are set by an underwriting committee composed of the policyholder, insurers and reinsurers.

This quasi-cartel method of setting rates has been a controversial issue in Germany. But commercial property rates for large risks in Germany that are smaller than the *spitzenrisiken* still need to rise further, said Munich Re's Mr. Nierhaus.

SCOR's Mr. Champvillard thinks that on average, rate increases of 10% to 15% would be needed over the coming year in France, Germany, Spain, Scandinavia and Italy.

"On the whole, industrial fire is not adequately rated," he said.

Regarding Italian risks, European reinsurers have called for far heftier rate hikes, ranging between 40% and 50%.

But an Italian insurer says hikes of this magnitude could not be achieved.

Italian industrial risks should rise by about 30% to 40% when pressed, but this kind of increase would be difficult to implement in the Italian market, according to Benito Pagnanelli, deputy managing director of Assicurazioni Generali S.p.A. in Trieste. "This is a free market. There is nothing we can introduce in Italy on the lines of the *spitzenrisiken* in Germany. In the Italian market, we prefer to coinsure large risks and mitigate our exposure through coinsurance."

Meanwhile, the disappearance of retrocessional capacity means that Munich Re sees itself increasingly as a net writer, said Mr. Nierhaus. The reinsurance company has been forced to reduce capacity in certain areas, though it is "too early to quantify" the extent of the cuts, he said.

Gerling's Mr. Strohschen said that his company has limited the capacity it provides because of the shortage of retrocessional coverage and the high cost of what remains available. "But this will not go on forever because Bermuda may become more competitive," he said.

The retrocessional dearth has effectively made Swiss Re into a net writer, too, said Mr. Winter. But Swiss Re never bought large amounts of retrocessional coverage, so the current lack of capacity has only had a marginal effect.

In fact, Swiss Re is creating more capacity through its Bermuda-based affiliate, Partner Reinsurance Co. Ltd., which will write property catastrophe reinsurance (see story, page 3).

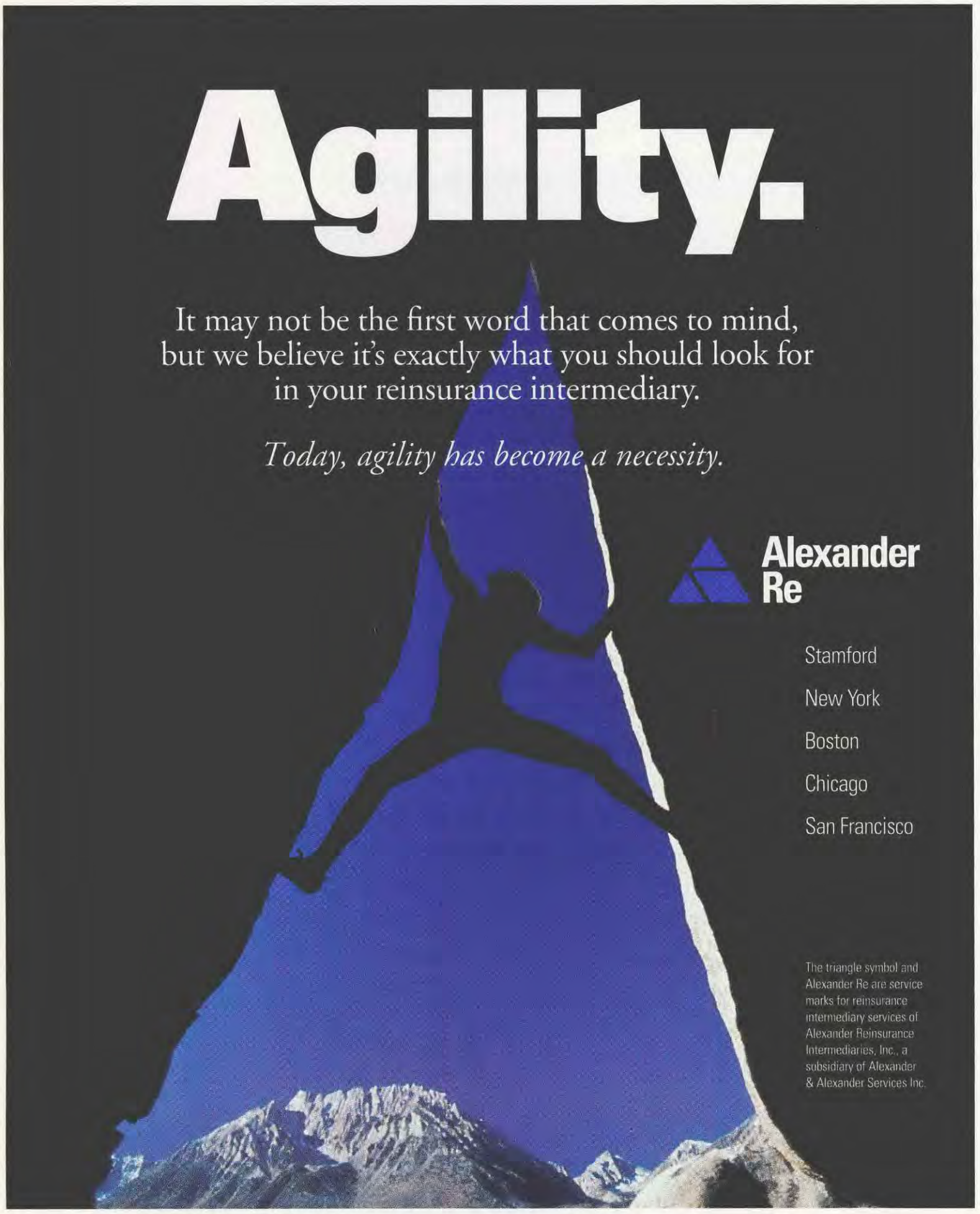
SCOR has done the same with its new Bermuda-based affiliate, Compass Re Ltd.

Both SCOR and Swiss Re reject the notion that their specialized Bermuda affiliates will eventually move into conventional reinsurance. "We cannot have 10% of a company which will be a direct competitor," said SCOR's Mr. Champvillard.

Other European reinsurers say that, eventually, the Bermuda facilities will be forced to move into the larger reinsurance market, such as writing proportional excess-of-loss treaties, because most will be unable to provide the returns promised to shareholders from simply writing niche catastrophe business. This might result in a softening of the European reinsurance markets.

Still others, such as Gerling's Mr. Strohschen, think that some of the Bermuda players could be out of the market within five years.

But even if the Bermuda capacity does filter into the conventional market in some way, the European reinsurers think that ceding companies in Europe are not very likely to switch from their current reinsurers to lesser players, even at a lower price. BI



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Financial reinsurers bounce back from accounting setbacks

FASB changes making financial reinsurance more traditional

By JUDY GREENWALD

The financial reinsurance market is beginning to get its bearings again following accounting and regulatory changes that could haven driven some financial reinsurers off the map.

After an initial period of turmoil and confusion, which still lingers to some degree, financial reinsurers are now developing products that meet new requirements resulting from these changes.

Earlier this year, the Financial Accounting Standards Board adopted regulations that curtail the accounting benefits of certain types of financial reinsurance and require, among other things, greater transfer of risk.

"I think we can rely on the creativity of the marketplace to attempt to create products that are in full compliance," said Tal P. Piccione, president and chief executive officer of U.S. Re Corp., a reinsurance intermediary.

"It certainly doesn't spell the end of finite risk insurance," said W. Dave Brining, senior vp and chief financial officer of Scandinavian Reinsurance Co. Ltd. in Bermuda, a financial reinsurer. "The motivations that existed prior to those changes in accounting are still there, so finite risk insurance is still responding to those," he explained.

However, "financial reinsurance transactions are less numerous now and will be less numerous in the future, and they'll be less clever in the future," said Alan Levin, senior vp of rating agency Standard & Poor's Corp. in New York. It will be "probably very difficult to repeat that kind of volume," he said.

Furthermore, financial reinsurance products will incorporate more risk.

"We've seen it happen to us, and we think that's the immediate impact: that a lot of this business will change. It will become a more traditional risk business," said Paul Malvasio, vp and chief financial officer of NAC Re Corp. in Greenwich, Conn.

"The fine line between traditional and financial reinsurance is becoming more and more blurred," said Glenn Hyman, assistant vp at CIGNA Reinsurance Property & Casualty in Philadelphia.

Two major developments have sent financial reinsurers and their clients scrambling.

FASB last December issued Financial Accounting Standard 113, which governs the reporting of insurance transactions by publicly traded insurers using generally accepted accounting principles.

Among other provisions, the new rules state that a contract will be considered reinsurance only if it transfers "significant insurance risk" to the reinsurer and if it is "reasonably possible" the reinsurer will suffer a "significant loss" under the contract (*BI,* Jan. 11).

FASB's Emerging Issues Task Force—at the Securities and Exchange Commission's urging—in March proposed a rule subsequently adopted by FASB that virtually eliminates the benefits of funded catastrophe covers (*BI,* July 26; April 5).

Under a typical multiyear funded cover, a reinsurer places premiums into a segregated fund. A loss exceeding the amount in the fund creates a negative balance that the ceding company is obligated to repay with increased premiums, settlement adjustments or, if the ceding company cancels the contract, cancellation penalties.

Under the new rule, which is known as EITF 93-6, obligations owed to reinsurers under multiyear contracts must be reported as liabilities by ceding companies, while reinsurers would have to report these obligations as assets.

Conversely, if a ceding company stands to make a profit under a multiyear contract because of good loss experience, that amount must be booked as an asset while the reinsurer reports it as a liability.

Requiring ceding companies to report the amounts owed to reinsurers as liabilities effectively means that funded cat covers can no longer be used to "smooth out" balance sheet volatility over a multiyear period.

Funded cat covers as we have known them are "dead and gone forever," commented Mr. Piccione.

Ajit Jain, president of the reinsurance division of Berkshire Hathaway Inc. in Stamford, Conn., which writes financial reinsurance products, said the company has moved to the "pure risk end of the spectrum" as well as pursued non-U.S. deals—for which the EITF rule on funded covers does not apply—"a little more aggressively."

Other reinsurers and intermediaries are busily devising new financial reinsurance products that attempt to protect ceding companies while still complying with FASB's requirements. There is no one type of product or approach being used, however. Instead, they are all highly individualized and often jealously guarded from competitors' scrutiny.

The one factor these products apparently all have in common is that they are closer to "traditional" reinsurance contracts in that they assume more significant levels of risk.

In addition, reinsurers continue to research the use of other financial instruments, like insurance futures and interest-rate swaps, which can be used as a hedge against the risk assumed by these more traditional contracts.

Overall, three major developments are occurring in response to the accounting changes, said Paul Ingrey, president of F&G Re Inc. in Morristown, N.J., a USF&G Corp. unit.

"There's been a tremendous knee-jerk reaction in some

Continued on page 28

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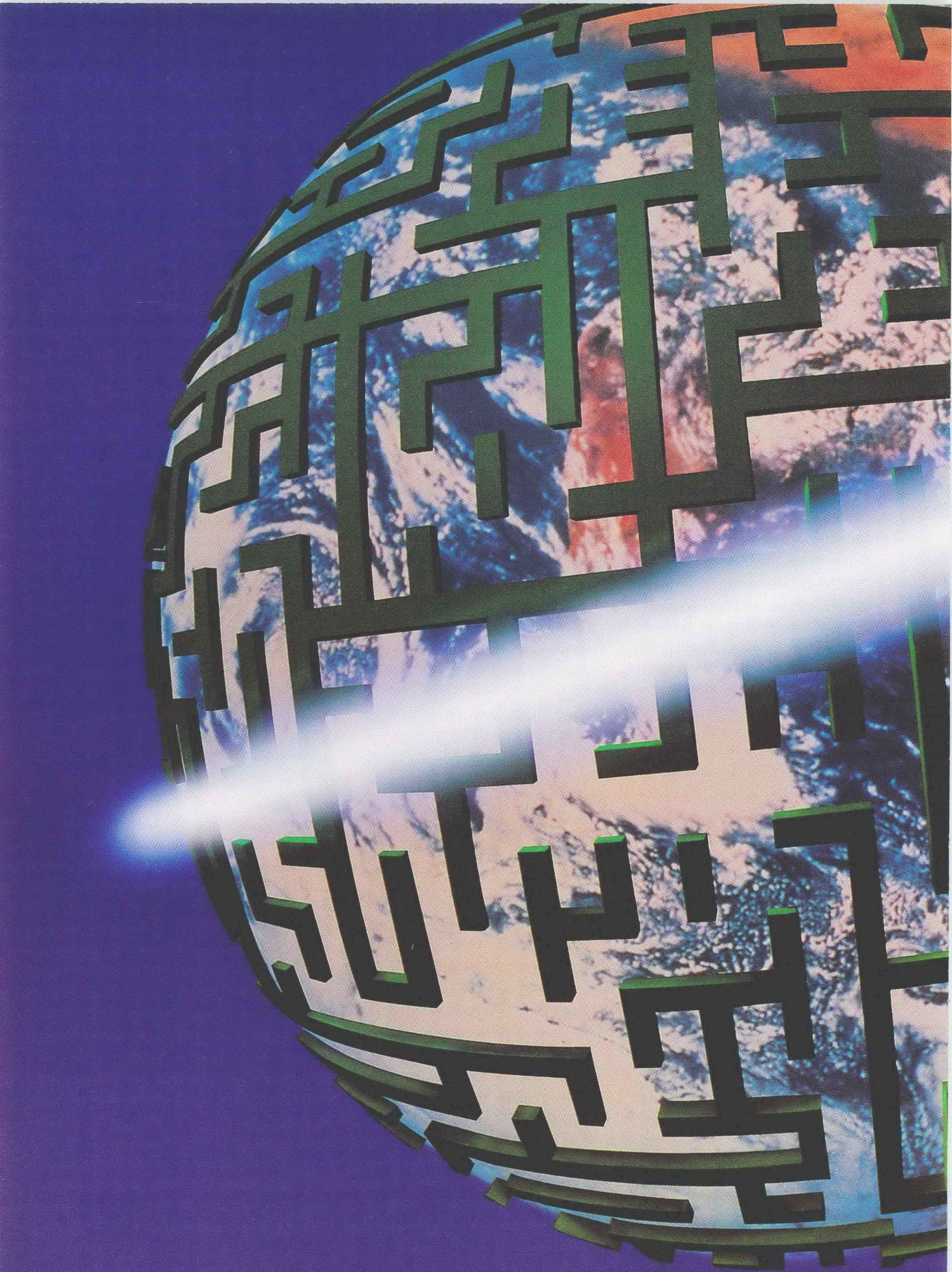

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Financial reinsurers

Continued from page 24

places" with regard to financial reinsurance or funded covers where ceding companies "just don't want to talk about it, period," he said. Some insurers have canceled their contracts midterm, while others have waited until the contract's anniversary and terminated it.

Others, said Mr. Ingrey, have become much more interested in prospective stop-loss contracts that include property catastrophe coverage.

Third, he said, "there are new contract forms being formed that the accountants are beginning to approve."

Some observers believe the financial reinsurance market can still be characterized as in turmoil.

"I'd say 'chaos' would be a good word, or 'very unsettled,'" said Robert N. Tremelling III, president of San Francisco-based Tretis Group Inc., a reinsurance intermediary.

"That's a reflection of the fact that the whole accounting profession seems to be unsettled on it still," he said. "There is no general theme and no general view as to what the accounting conventions are and how they should be approached. People just don't know what to do with it, even with traditional deals."

"The market is in a state of semi-paralysis, with everyone trying to figure out what to do," said Kirk Roeser, president of reinsurance intermediary Gill & Roeser Inc. in New York.

"There are a lot of companies that have come to realize that certain forms of reinsurance which have a bottom-line focus are useful and efficient, and so they're not going to walk away from it. But, they have to now consider how they can purchase reinsurance under the new rules without creating unending arguments" with their auditors, Mr. Roeser said.

Some say the paralysis in the marketplace is ending.

When it was first learned that the EITF would make its funded cover pronouncement, "it froze the market," said NAC Re's Mr. Malvasio, "and that existed even up until this quarter. Now, the market's really gearing up for Jan. 1. I'm not sure the market's still frozen."

"Now I think it's all engines ahead, really, in trying to come up with products that meet the requirements," agreed Roger J.B. Beach, president of Bermuda financial reinsurer Accord Re Ltd.

While there is "no question the directives have restricted various products that were out there before, at the same time I see new products coming in which are responding to or filling in holes that would otherwise exist," Mr. Beach said.

"Certainly, the more abusive contracts are behind us," said Mr. Malvasio. "There's going to be a lot more risk in these reinsurance contracts because these contractual features have got to change." However, the products will not be able to smooth out balance sheet problems as effectively, he added.

"We're seeing where the covers are now starting to be tailored with some true risk transfer" rather than being just a timing cover and banking arrangement, agreed Robert L. Osborne Jr., president of Arthur J. Gallagher Intermediaries Inc. in New York.

"They're developing into hybrid programs."

Financial reinsurance "allows an element of creativity that you don't see with the traditional insurance products, and until the various accounting boards come in and make other changes, I think there are opportunities to create a new creative product and structure it and tailor it to the individual client that needs it," Mr. Osborne said.

"Clearly, we're going to see more of an integration, or movement, if you will" as finite risk products blend with more traditional products, said Bruce Bunner, chairman of Centre Reinsurance Co. of New York.

"I think obviously there's going to be less emphasis on accounting results and more on the economic process itself," said Mr. Bunner, adding he sees a market where finite risk reinsurance "competes very favorably."

How various financial reinsurers cope with the new accounting rules varies from company to company.

"It's so new that I think people are working on their own approaches," said James N. Stanard, chairman, president and CEO of Renaissance Reinsurance Ltd., a Bermuda-based property catastrophe reinsurer. "They're mostly proprietary."

"There is a fair amount of jealousy existing now among various types of products people developed for key clients," said Accord Re's Mr. Beach. "It's not at this time appropriate to look for a range of generic products to be hawked around the market."

The move toward more traditional reinsurance products is likely to favor the larger reinsurers, said Michael Smith, an analyst with Lehman Bros. in New York. "Basically what the FASB did was to hand a big victory to the large reinsurance companies because what you are going to see is a shifting of demand away from financial reinsurance towards traditional reinsurance, but traditional reinsurance requires more risk-taking and therefore requires more capital."

Some point out that as financial reinsurance products move closer toward traditional reinsurance contracts, there sometimes is an understanding between the ceding company and the reinsurer that they will engage in a long-term relationship, even if the contract term is for only one year. By doing this, a reinsurer that must pay out a large loss early in the relationship with a ceding company has some assurance—even if it is only based on a handshake—that it is likely to recoup future premiums from the ceding company.

"There are some discussions or speculation that this will return reinsurance to perhaps what it was a little bit more like 15, 20, 25 years ago, when contract specifications were perhaps not as specific," said Frederick Kist, who heads Coopers & Lybrand's casualty actuarial and risk management consulting practice in Atlanta. "For example, a ceding company and reinsurer entered into a longer-term relationship that was understood to be there" though the contracts were written on an annual basis, he explained.

Accord Re's Mr. Beach commented: "Everyone wants to have a long-term relationship." But care must also be exercised that this "does not degenerate into the equivalent of oral side agreements" without the full disclosure

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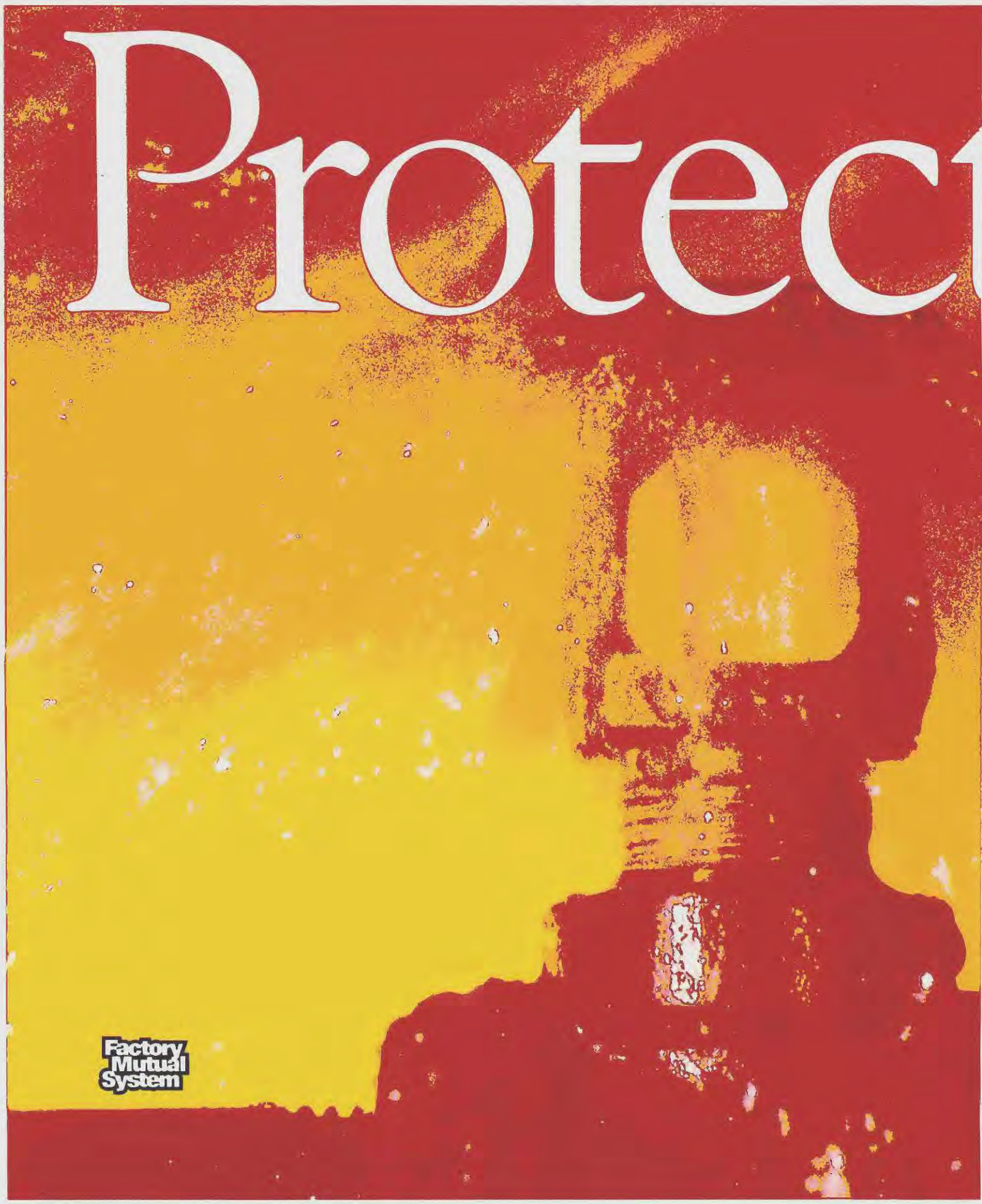

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that is required.

One new area that some reinsurers are beginning to look into is the use of different financial instruments to hedge potential losses from these more traditional reinsurance arrangements, said Alice D. Schroeder, an analyst with Paulsen, Dowling Securities Inc. in Boston and until just recently a FASB project manager.

"There's a lot of talk of using other types of financial products such as swaps, options, financial guarantees, other derivative securities, to try to either get the risk out of the contract or avoid having to make accruals," she said. "My sense is the product development is in the very early stages."

One approach using financial instruments, said Ms. Schroeder, would be having a reinsurance contract with a predicted cash flow in one direction and a financial instrument that would, in effect, hedge the reinsurance contract. If an event triggers the reinsurance contract, that same event would trigger the opposite financial impact on the hedging instrument. For instance, a reinsurer paying a loss on a contract could theoretically offset that by gains from a futures contract.

Driving this move, said Ms. Schroeder, is the idea that using other financial instruments can allow reinsurers to comply with reinsurance accounting rules.

There is still a question, she warned, as to whether such hedging would be permitted under FAS 113, which says all agreements must be linked with the reinsurance contract as a whole.

Richard L. Sandor, who heads Centre Re Financial Products in New York and is credited with developing financial futures, said Centre Re is conducting research and development in this area.

And Gill & Roeser's Mr. Roeser said his firm is working on developing a product within the next six months that will "key off" the futures market. "The nature of the product will basically be to support the catastrophe reinsurance and retrocessional marketplace," said Mr. Roeser.

"I think that those are things that a number of people are looking at," said Renaissance Re's Mr. Stanard. "We are looking at them, but I think at this point it's really just in the research stage."

Sam McCroskey, vp of the financial reinsurance division for reinsurance intermediary Willcox Inc. in New York, agreed that these probably are "good ideas waiting to be developed."

Meanwhile, not everyone is particularly anxious to comply with the new accounting rules, said Ms. Schroeder.

There is a tendency to "test the boundaries a little" on both FAS 113 and EITF 93-6 because neither presents a black-and-white situation as to what can or cannot be done, she noted. "There are shades of gray in between there."

"I believe what some (reinsurers) are looking to do is to try to offer the same thing they offered before but perhaps disguise it," said Dale Ogden, a senior manager with KPMG Peat Marwick in Los Angeles.

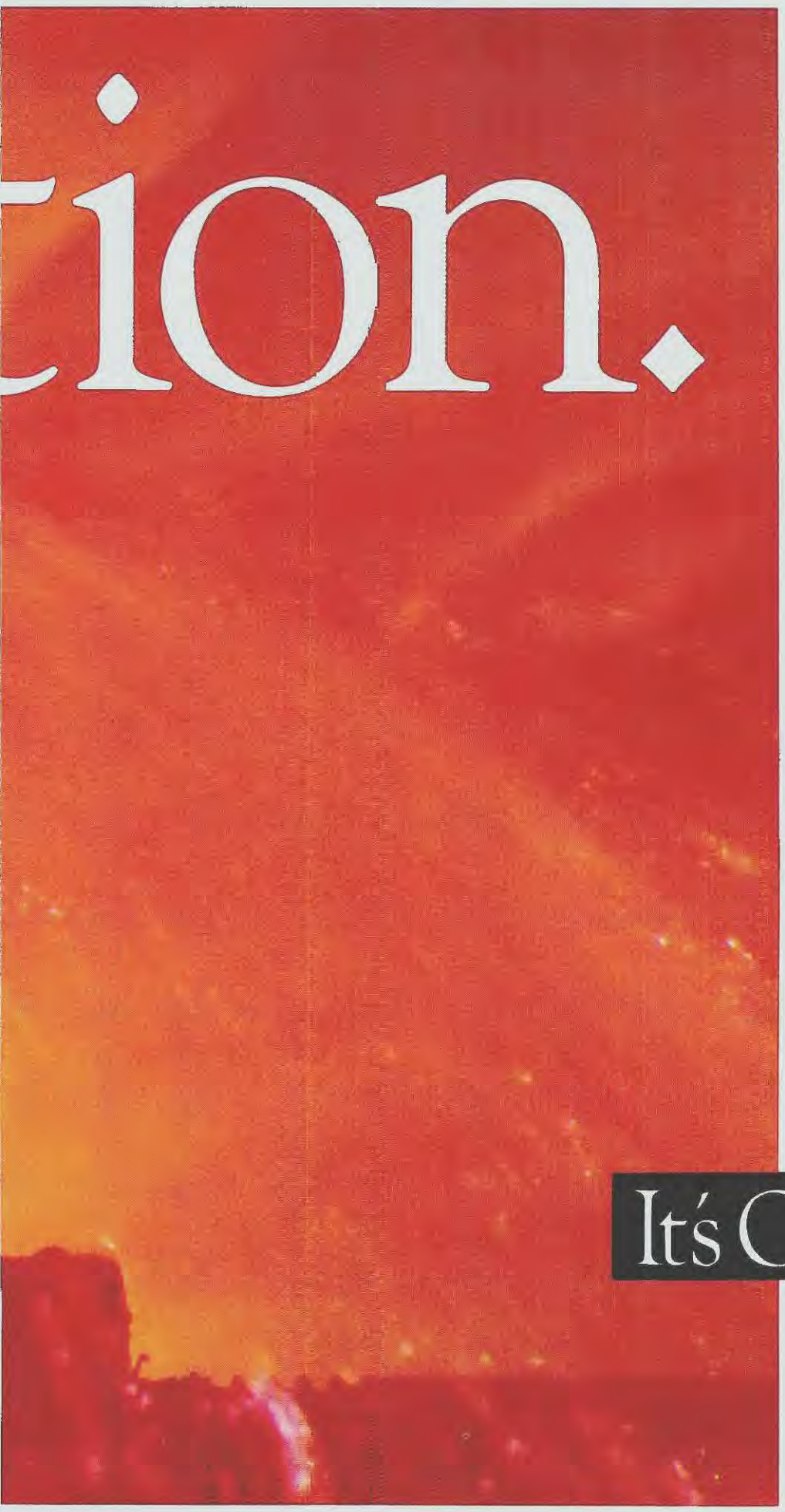
"I guess it creates sort of a little detective work sometimes to get through reinsurance contracts and figure out exactly the underlying economics of them," said Mr. Ogden, who did not identify the reinsurers using this tactic.

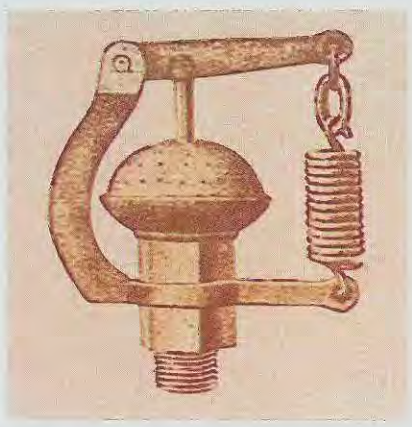
Others say, however, it would be unwise to try to defy or mislead the SEC. "It's suicidal and outrageous if they are going to do that, and certainly it makes no sense," said NAC Re's Mr. Malvasio.

Centre Re of New York's Mr. Bunner agreed. "I would think that would be very foolish" to write contracts that are deceptive or abusive and could create embarrassment a year or so down the line for both the reinsurer and the ceding company.

"I don't think it's wise because the SEC's been very vocal, certainly with respect to public companies. Clearly, as a result of 113 and 93-6 there's still a great deal of uncertainty in the marketplace.

"I think it's in everyone's interest and it's prudent to get the parties together—financial, ceding and accounting—early in the process, just so these things don't become questionable later on." BI





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Reinsurance brokers

Continued from page 3
making a killing," but gaps in ceding companies' reinsurance programs and higher retentions have kept broker commissions in check, one broker said.

The tight property cat market "was not a windfall. There was a lot more involved in placing reinsurance than ever before. It took more time, more trips, more leads," he pointed out. And, ceding companies are increasingly demanding expensive studies of their cat exposures.

Reinsurance intermediaries do not expect the new Bermuda capacity to have much of an effect on property cat rates immediately.

"The demand for capacity will rise to the supply available," said Robert F. O'Leary, president and chief operating officer of Willcox Inc. in New York. "It will not depress the rates for this year. It may stabilize rates for 1994."

The volume of new capacity will eventually cause cat cover prices to decline, Mr. Cashman said, though not during 1993 year-end renewals. "In 1994 we should see some impact. Price may replace capacity as the key issue in property catastrophe."

Bermuda markets will probably not have a big impact on pricing because they will follow the leads set by established reinsurers, said Daniel R. Colello, president and CEO of Intere Intermediaries Inc. and RFC Intermediaries Inc., two Minet Re (North America) Inc. units.

"In some cases (property cat rates) cannot go higher and still be attractive," said William R. Coleman, president and COO of Alexander Reinsurance Intermediaries Inc. in Stamford, Conn.

In fact, some ceding companies have elected not to purchase a layer or to only partially fill a layer of their cat cover, he said.

"In a few instances, companies financially able to have declined to buy based on price and kept the net exposure," Mr. Cashman said. But "in most cases, companies simply paid the price."

The shortage of property cat coverage could have positive long-term effects for the industry, according to Willis Faber's Mr. Dowd. "Most companies were left short and more at risk. It may make them more conservative."

And some ceding companies are showing that conservative attitude in their approach to the new Bermuda reinsurers.

"Ceding companies are looking at the new markets in Bermuda and asking more questions," Mr. Colello said. "The single most fre-

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Reinsurance brokers

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quent question I hear is, 'Is Bermuda here to stay?' "

"We are reviewing each Bermuda market thoroughly like any other reinsurer," said Mr. Mitchell. "Their financials look good, but they have no track record. We will monitor their internal operations and underwriting practices more than reinsurers in business for several years."

But most of the fears that the new Bermuda market may be here today, gone tomorrow are unfounded, brokers say.

"This is a business with low barriers to entry and rigid barriers to exit," Mr. Dowd said. "You can't close down and get back your investment. It takes a commitment for the long haul, although the initial owners may sell their shares."

"Buyers of reinsurance can't afford not to look at (Bermuda)," said Michael D. O'Halleran, chairman and president of Aon Risk Services Inc, which includes Aon Reinsurance Agency Inc. "The involvement is not to take away from London, but to complement it."

Intermediaries are uncertain whether the new Bermuda capacity will replace all that has been lost elsewhere, particularly in London.

One broker reported that the maximum property catastrophe capacity available in the broker market this year was $150 million, down from a high of $300 million in the mid-1980s.

As of Jan. 1, he expects that a ceding company could buy up to $210 million in property cat limits: $70 million from domestic insurers, $65 million from the Bermuda facilities, and $25 million each from Lloyd's of London, the London company market and international reinsurers.

"Placing property catastrophe is less difficult every day," Mr. Dowd said. "It's easier to provide for clients' needs, but the shortage is not over yet."

The corporate capital that is expected to flow into Lloyd's next year will replace some of the lost capacity, but not all of it, Mr. O'Halleran cautioned. "There will continue to be a significant shortfall in capacity for larger clients."

Still, Sedgwick Payne Co. expects the new Bermuda capacity "to fill the shortfall of capacity in London and other areas," said Salvatore D. Zaffino, president and CEO.

"Generally speaking, the domestic market has absorbed London capacity in most areas except for property catastrophe placements. Of course reduction in property catastrophe capacity is not a unique phenomenon to the London market but rather is an industry issue," he said.

The arrival of corporate capital at Lloyd's will mean renewed interest and "polishing of Lloyd's slightly tarnished image," Mr. Dowd said.

"As a company, we are not abandoning London," said Stephen L. Lunsford, president and COO of Aon Reinsurance Agency Inc. "We view Bermuda as supplementary."

"London is a smaller factor. It's a reduced, leaner, more focused market," Blanch's Mr. Cashman said.

Bermuda isn't the only market that is picking up the slack from Lloyd's. Several U.S. reinsurers have also taken steps to increase their capitalization in order to attract more business.

"Domestic capital has also been very important," said Mr. Coleman of Alexander Re, noting that domestic broker markets have introduced more than $1 billion in new capital.

Mr. Dowd says he is "equally excited" about the increased capitalization of U.S. broker-market insurers as he is about the formation of the Bermuda companies. "The capacity forming onshore for property cat is unprecedented."

Brokers point out that U.S. broker-market reinsurers must shore up their capital to compete against the huge direct writers in the face of the "flight to quality."

The quest for quality has lead to fewer, but larger, players in the reinsurance marketplace.

"Five years ago there were 20 reinsurers on an account," Aon's Mr. O'Halleran agreed. "Today it is five to eight reinsurers with stronger capital bases."

"The broker market has shrunk in numbers, but it is still adding additional capacity," Willcox's Mr. O'Leary said.

"There is significant strength in the broker market and it's getting stronger," Mr. Cashman said. "All of the billions created in the past 12 to 18 months has been done in the broker market."

Size and quality are not synonymous, though, Mr. Zaffino of Sedgwick Payne points out.

"Certainly, buyers are looking to subscribe their protections with larger and financially sound reinsurers," he asserted. "However, depending on the class of business, surplus of between $100 million and $250 million is readily accepted in today's marketplace."

Beyond size, ceding companies are also looking at quality of assets and experience of management, Mr. Mitchell said.

Ceding companies also are increasingly using both direct-writing and broker markets on their programs, intermediaries said.

The flight to quality is a bigger factor for longer-tail casualty risks than for property cat covers. "There are strong markets to support (treaties) in the broker market, particularly in casualty," Mr. Coleman said.

"We still see our clients favoring the broker market as generally being more responsive to their needs and more flexible on terms and conditions," Mr. Zaffino said. "We believe these factors, combined with the market insight, creativity and advocacy role of the broker, overshadow the theoretical size advantage of dealing with a large direct writer."

Client concerns about broker-market reinsurers largely are service-related, "particularly the broker markets' ability to keep up with the technology developed by the direct writers," Mr. Zaffino noted.

While new windows are opening in Bermuda, the Financial Accounting Standards Board appears to be closing the door on many forms of financial reinsurance in the United States, especially funded catastrophe covers (see story, page 24).

"Direct funded covers are dead," said Minet Re's Mr. Colello, adding "I don't think FASB is finished. They might keep changing the guidelines. I think (funded covers) are a moving target for FASB."

However, the FASB rule that effectively bars funded covers is a "very temporary setback," which

Continued on next page

Sunday Afternoon Workers' Comp

Access the Alternatives with

Continued from previous page
will force intermediaries to find innovative approaches, Mr. O'Halleran said. The solution will probably include a blend of traditional and alternative risk financing, he added.

"Unlike some, we don't believe financial products are dead," added Willis T. King Jr., chairman and CEO of Willcox. "They have to be restructured to transfer more risk to the reinsurers."

The new rules will not affect many ceding companies because these insurers approached financial reinsurance cautiously, some brokers said.

However, brokers continue to explore alternatives with true transfer of risk.

One alternative product that became popular in 1992 and 1993 is "market loss" coverage in which reinsurance coverage for an individual ceding company is triggered if the cost of a single catastrophe exceeds a preset industry-wide amount, Mr. Colello said.

"We have to find a way to get a significant amount of property catastrophe exposures out of the insurance/reinsurance world and into a financial mechanism," Towers Perrin's Mr. Mitchell said. Catastrophe insurance futures could be an option, he added (see story, page 37).

"It is clear that pure financial reinsurance will no longer serve as an acceptable reinsurance vehicle," Mr. Zaffino said. "The key to the viability of these placements is the ability of the broker to work effectively with both the ceding company and regulators to ensure the acceptability of the final reinsurance product.

Following are profiles of the 10 largest U.S.-based reinsurance brokers:

Guy Carpenter & Co. Inc.

Gross revenues at Guy Carpenter & Co. Inc. declined slightly in 1992, falling 2.7% to an estimated $284 million in 1992. Carpenter, though, still outranks the next largest U.S.-based reinsurance intermediary by more than $200 million in revenues.

Carpenter's revenues include revenues from London-based C.T. Bowring & Co., whose executives report to Guy Carpenter officials in New York.

In its 1992 annual report, parent Marsh & McLennan Cos. Inc. attributes the revenue decrease to inflated 1991 results due to compensation stemming from its work in the establishment of Centre Reinsurance Holding Ltd.

On a pro-forma basis, Carpenter's revenues would have increased about 2% in 1992, according to the annual report.

New York-based Carpenter made a major acquisition last year when it bought Paul Napolitan Inc. from American International Group Inc. (*BI*, Oct. 5, 1992).

The number of employees at Carpenter declined 1.1% to 2,145 worldwide during 1992.

Carpenter's revenues per employee decreased by 1.7% in 1992 to $132,401 per employee.

Guy Carpenter became a licensed reinsurance intermediary in California and Minnesota over the past year. Previously licensed only in New York, the company is also seeking a license in Texas.

Carpenter does not release financial information. Company officials declined to be interviewed.

Sedgwick Payne Co.

The name Sedgwick Payne Co. is new to the *BI* ranking of leading reinsurance intermediaries, but the companies comprising the new entity are not.

The former Sullivan Payne Co changed its name to reflect its affiliation with parent company Sedgwick Group P.L.C. The brokerage also has combined forces with Crump Re, Sedgwick's facultative reinsurance brokerage unit in North America.

The combined companies generated an estimated $62.5 million in gross revenues in 1992, maintaining Seattle-based Sedgwick Payne's No. 2 spot in the *BI* ranking. That's an increase of 4.2% from $60 million in 1991.

Crump Re alone reported gross revenues of $9.4 million in 1991 (*BI* Oct. 26, 1992).

Estimated premium volume for both companies increased to $1.25 billion in 1992 from $1.2 billion in 1991.

Roger Espe, former president and CEO of Sullivan Payne, is chairman of Sedgwick Payne, while Crump Re Chairman and CEO Salvatore D. Zaffino has become president and CEO of Sedgwick Payne.

In other management changes Jerry Browning is the new president of Crump Re and Charlie Higham has been named senior vp and chief operating officer of the combined operations.

Lewis Hale, former COO and executive vp of Sullivan Payne, will become president of a new fee-for-service company focusing on collection and runoff services to be launched Jan. 1.

"We have continued to emphasize developing products and services that go beyond the scope of traditional reinsurance broking," Mr Zaffino said.

Sedgwick Payne has formed an executive sales team to focus on geographic regions. Victor Arneil will cover the West Coast and Canada, Mr. Espe the Midwest and Mr Zaffino the East Coast.

In particular, "much more emphasis will be placed on companies in the Northeast," Mr. Zaffino said.

Sedgwick Payne has opened a new office in Minneapolis, headed by Terry Russell. A regional treaty operation has been added to the existing facultative office in Atlanta.

"Due to the demand for facultative reinsurance, I expect the split to be 75% treaty and 25% facultative in 1993, compared to an 80/20 split in 1992," Mr. Zaffino said.

About 35% of Sedgwick Payne's book of business by number of accounts is based overseas while about 15% of Sedgwick's U.S. business is placed internationally. The Canadian portfolio is placed mostly with Canadian reinsurers.

"The London market and a few major European companies continue to provide important reinsurance support for our clients," Mr Zaffino said.

E.W. Blanch Co.

E.W. Blanch Co. produced impressive results in 1992, increasing both gross revenues and premium volume by about 25%, the steepest hikes among the Top 10 brokers in 1992.

Gross revenues rose 23.6% to $55.5 million from $44.9 million. Premium volume rose 27.3% to $1.4 billion from $1.1 billion in 1991.

President and COO Michael W. Cashman Sr. attributed the growth simply to "new business" from new clients lured from both other brokers and direct-writing reinsurers.

Stock analysts are predicting double-digit growth again in 1993. "We expect a very good year," said Mr. Cashman.

Formerly a limited partnership, Blanch made an initial public stock

Continued on next page

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offering in May 1993, raising $27.8 million (*BI,* May 10). The IPO has had a positive impact on the company, Mr. Cashman said. With significant management and employee ownership, the IPO serves as an incentive for Blanch's workforce, he noted. "Currently, 70% of our employees are stockholders," he said.

Blanch originally offered 4.3 million shares at an initial price of $18.50 per share. As of Oct. 22, the stock was trading at $23.50 per share.

Chairman and CEO E.W. Blanch sold 38% of his 3.8 million shares, reducing his stake to 16.6%. Mr. Cashman retained his 1.7 million shares, which equals a 12.3% stake.

Blanch directors and officers held about 36.6% of the outstanding shares at the time of the offering.

New business production and selective acquisitions are on Blanch's agenda for coming years, Mr. Cashman said.

The intermediary will pursue more national accounts through its National Sales Team formed this year.

Blanch has also hired several producers from competitors, including two former Sullivan Payne executive vps. Barbara Bufkin was named executive vp of national sales in Dallas, while Michael Wybar is an executive vp in the southern region based in Dallas.

Also from Sullivan Payne is John Kramer, named senior vp in the Philadelphia office.

Peter Niggeman, formerly of Guy Carpenter, has been named executive vp in the Western region based in San Francisco. Steve Korducki, formerly of Booke & Co., is senior vp of the financial unit in Minneapolis.

Blanch increased its staff by 19% in 1992 to 329. The staff now numbers about 340, Mr. Cashman said.

Aon Reinsurance Agency Inc.

Aon Reinsurance Agency Inc. continued its trend of steady growth in 1992, increasing revenues 18.4% to an estimated $45 million.

But that's all going to change by the end of this year.

Aon Corp. is consolidating all of its international reinsurance brokering operations into a new entity, Aon Re Worldwide. The result will be the second-largest U.S.-based reinsurance intermediary with approximately $140 million in gross revenues, company officials say.

About half of that business will be produced in the United States, said Michael D. O'Halleran, chairman and president of Aon Risk Services Inc., who has been named chairman and CEO of Aon Re Worldwide.

Aon Re's 1993 results also will reflect $18 million in reinsurance commissions that Reliance Group Holdings Inc. guaranteed Aon Re annually when Aon Corp. acquired broker Frank B. Hall & Co. Inc. last year.

While Aon Re's size will more than double after the consolidation, the Chicago-based intermediary will continue to be a specialist reinsurance broker, Mr. O'Halleran stressed.

"Quality produces quantity, not vice-versa," he said. "We emphasize that we never grow just to get growth. We do it within our resources."

And, the intermediary's electronic processing system will grow with it, said Stephen L. Lunsford, president and COO of Aon Re.

"We will be a leaner and meaner operation," Mr. O'Halleran said. "With electronic exchange of data, we will improve the quality of service. We will be able to orchestrate our resources."

International operations will share the domestic strategy of focusing on ceding companies that are reinsurance-dependent, not just price-driven commodity buyers, he said.

Although facultative reinsurance declined as a percentage of Aon Re's total premium volume in 1992 to 3% from 5%, "we are bullish on facultative," Mr. O'Halleran said. "We are structured to become more of a direct facultative market."

Willcox Inc.

Willcox Inc. Reinsurance Intermediaries nearly doubled its 1991 growth by increasing its revenues by 9.5% last year to an estimated $38 million.

The New York-based unit of Johnson & Higgins is "going higher tech," said Willis T. King Jr., chairman and CEO. "We're putting a lot of time and effort into better computer modeling."

In addition to analysis of windstorm, earthquake and tornado exposures, Willcox is also assisting clients in pricing their products appropriately and in diversifying their books of business.

The international book of business will be more significant at Willcox in the future, pointed out Robert F. O'Leary, president and COO. Most of the brokerage's international business is handled out of its Philadelphia office.

In addition, Willcox is expanding into the Midwest market with a new office in Indianapolis.

About 15% of Willcox's clients are based outside the United States, while about 25% of its business is placed in the international market.

Willcox hired Lawrence P. Johnsen from Prudential Reinsurance Co. as senior vp in charge of legal, claims and contract operations.

Martin Kelly and Sara Moore joined Willcox from Bayliss & Co. as chief actuary and vp in Philadelphia, respectively.

Towers Perrin Reinsurance

Towers Perrin Reinsurance increased revenues 5.7% in 1992 to $37 million, while premium volume increased 4.8% to $550 million.

The intermediary's most important new product is reinsurance for managed care companies like health maintenance and preferred provider organizations, said Philip W. Mitchell, managing director and chief operating officer.

Philadelphia-based Towers Perrin made a move into accident and health reinsurance about two years ago, and that led naturally to the managed care product, he said.

In designing programs for managed care plans, Towers Perrin brokers work in conjunction with Towers Perrin health and welfare plan consultants.

"Between the expertise of reinsurance and health and welfare consulting, this area could be dynamite," Mr. Mitchell said, predicting that the business could increase 20% to 40% in two years.

Jeff Gilmore manages the managed care and accident/health business out of the broker's San Francisco office.

"Innovation through integration" is Towers Perrin's battle cry in other areas, Mr. Mitchell said.

"We are focusing much more on the broader needs of our clients," Mr. Mitchell said. "Our focus is on integrating services vs. selling reinsurance only. It's a totally different approach."

For example, the intermediary

Continued on page 36

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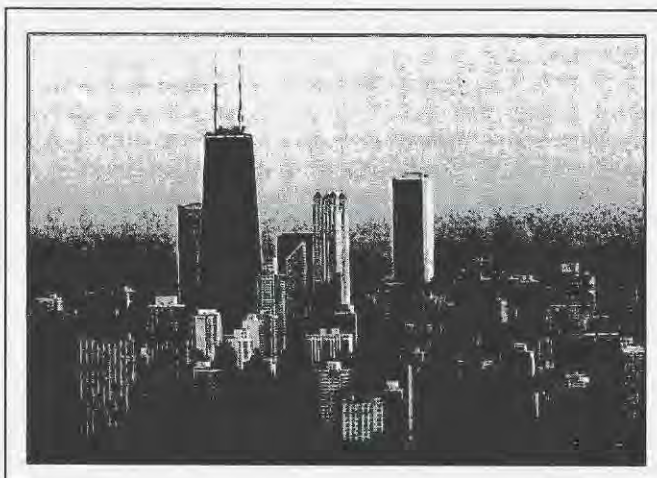

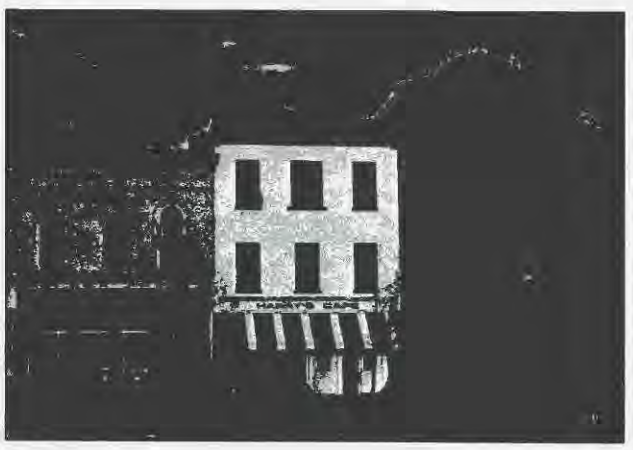

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helps place reinsurance for alternative risk facilities with the help of Tillinghast, Towers Perrin's risk management consulting arm.

Only about 3% of Towers Perrin's clients are based outside the United States, but 35% of its business is placed outside the domestic marketplace. That figure is down slightly due to the contraction in capacity in London, Mr. Mitchell said.

Senior Vp Jacobus J. Van de Graaf earlier this year was named COO, a newly created position.

Minet Re (North America) Inc.

Minet Re (North America) Inc., which consists of Intere Intermediaries Inc., RFC Intermediaries Inc. and IOC Reinsurance Brokers Ltd., produced an estimated $36 million in gross revenues in 1992, a 4.3% increase over 1991.

Estimated premium volume stayed flat at Intere and RFC, which wrote $486 million and $120 million respectively.

Toronto-based IOC saw premium volume increase 15.6% to an estimated $52 million.

"We are becoming more service-oriented. We want to be the full-service broker in the marketplace," said Daniel R. Colello, president and CEO of Intere and RFC.

The Minet Re units can provide runoff and structured settlement services, for example.

Also, while a few competitors are pulling out of facultative reinsurance brokering, Minet Re is strengthening its facultative commitment, Mr. Colello said.

"You need facultative to compete with the direct writers," he noted.

Atlanta-based RFC does business exclusively on a facultative basis, while Intere, headquartered in New York, places only treaty business.

Accident and health continues to be a large line of business for Minet Re, while surety was a big 1992 growth area, Mr. Colello said.

The international department, which constituted about 15% of total brokerage revenues, could grow to 20%, Mr. Colello said. About 15% of Minet Re's business is placed outside the United States.

Alexander Reinsurance Intermediaries Inc.

Gross revenues and premium volume both increased 3% in 1992 at Alexander Reinsurance Intermediaries Inc.

"We continue to do what we do best," said William R. Coleman, president and COO of the Alexander & Alexander Services Inc. unit in Stamford, Conn.

That includes brokering traditional casualty reinsurance products, surety and accident and health, Mr. Coleman said.

However, Alexander Re has pulled out of the casualty facultative market, following its withdrawal a year ago from property facultative business.

"We just did not see that over the long period facultative business offered a chance for reasonable financial return," Mr. Coleman said. "The movement is toward direct (writers) with established distribution systems. There was a limited market for us to put business into."

Instead, resources have been shifted to the formation of a new alternative risk and program unit to handle difficult-to-place casualty business like pollution, medical malpractice and trucking risks.

The amount of business placed by Alexander Re outside the United States fell to below 20% in 1992 and continues to decline, Mr. Coleman said. Almost all of Alexander Re's clients are U.S.-based.

In personnel changes, George de Menocal and Bryan McCahill were promoted to senior vps.

Willis Faber North America Inc.

Changing the broker's name to Willis Faber North America Inc. from G.L. Hodson & Son Inc. is only the beginning of changes at the Willis Corroon Group P.L.C. unit, says Chairman and CEO James F. Dowd.

By affiliating itself more closely with its parent company, the U.S. reinsurance intermediary wants to achieve the same success its sister companies have, Mr. Dowd said.

"We recognize that the Willis Corroon Group is underrepresented in the U.S. reinsurance broker market," Mr. Dowd said. "Willis Corroon in most markets is No. 2, 3 or 4. G.L. Hodson didn't carry the same market penetration.

"The group is committed to increasing its U.S. presence and moving the market share to the range we are used to being in."

Willis Faber North America, based in New York, will grow through improving the quality of service; improving employee recruiting and training; new product development; acquisitions; and working more closely with Willis Corroon retail brokers to spot reinsurance brokering opportunities, Mr. Dowd said.

The brokerage has placed more emphasis on surety business over the past two years and has grown in marine, aviation, international and financial reinsurance.

All facultative operations have been consolidated in Atlanta, and Mr. Dowd expects this line of business to grow by 5% to 10% per year.

Over the past year, Willis Faber has made several personnel changes.

Mr. Dowd, who was previously chairman and CEO of Skandia America Group, joined the company in February, replacing Stephen A. Crane, who is now chairman of Willis Corroon's strategic development group.

Paul D. Hawksworth, who recently retired as president and CEO of Mercantile & General Reinsurance Co. of America, was named vice chairman last month.

Other appointments include: John R. Cashin, executive vp and director of marketing; Ronald Stanziale, senior vp and chief financial officer; Frank Lyons, senior vp-marine; Orin Falk, vp; and David Mott, vp-surety business.

John P. Woods Co. Inc.

John P. Woods Co. Inc. reported a 10.3% gain in gross revenues to $16 million in 1992. Premium volume was up 25% to $500.5 million.

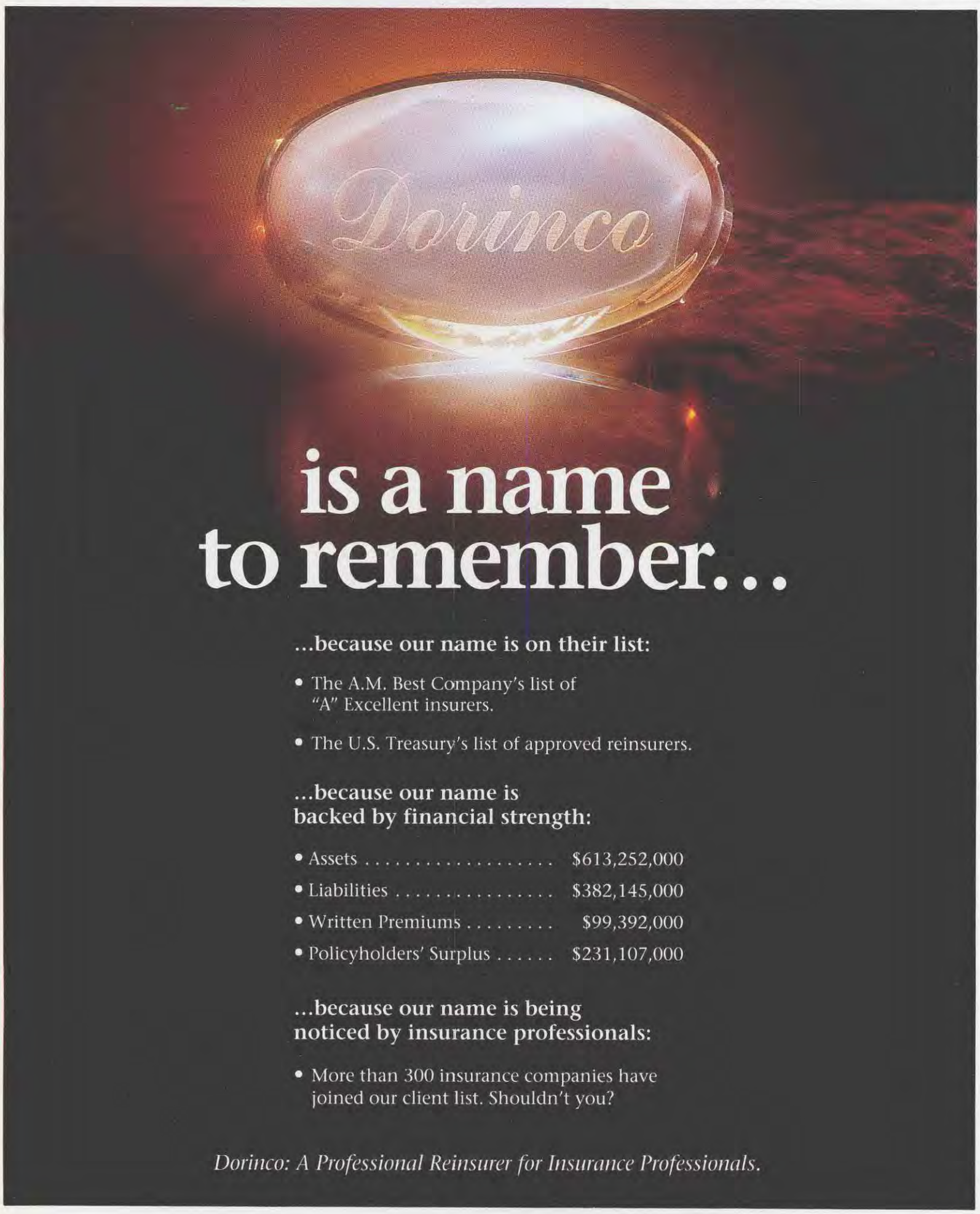
The revenue growth reversed two consecutive years of revenue declines of 4% and 2.6%, respectively.

Woods, a New York-based treaty intermediary, is licensed as a reinsurance intermediary in New York and has applications pending in Pennsylvania and South Carolina.

As in previous years, Woods boasted an impressive revenue per employee figure of $290,909, the highest among the Top 10 intermediaries. Woods added four employees to reach 55.

Woods added three new employees since last year. Roderick Thaler joined the intermediary as a senior vp from Guy Carpenter; John Di Blanda as vp and CFO from Centre Re; and Eleanor Overath, former casualty underwriter for Prudential Re, joined the broker as vp.

Woods officials were not available to be interviewed. BI



At present, interest is lacking in insurance futures

By JUDY GREENWALD

Concept is difficult, but many still see growth potential as tool to hedge risk

Insurance futures still hold more promise than practicality as a risk financing tool.

Despite increasing trading volume for the Chicago Board of Trade's Eastern catastrophe insurance options contract, insurance futures have not taken off.

A total of 2,097 Eastern catastrophe options had been traded through Oct. 22. At $25,000 per contract, this translates into total volume of $52.4 million.

While many insurance executives believe futures and options can be used by both buyers and reinsurers to hedge their risks, they say that many are ignoring futures simply because the concept is very difficult to understand.

Furthermore, although New York and California have joined Illinois in allowing insurers to trade the contracts, accounting questions remain about whether the contracts can offset underwriting losses.

Still, some predict that insurance futures may eventually be among the products used to fill the gap left by funded catastrophe covers (see story, page 24).

Introduced last December, the catastrophe futures contracts are designed to provide insurers with a hedge against underwriting losses caused by catastrophes.

Futures contracts are agreements to buy or sell a commodity or financial instrument at a particular price on a stipulated future date. Options, by contrast, let buyers choose whether or not to exercise the option to buy or sell the commodity or instrument by the exercise date.

Since July or August, almost all trading has been in the CBOT's Eastern Catastrophe Insurance options contracts rather than futures contracts, said Morton Lane, chairman of the CBOT Special Task Force on Insurance Trading and Marketing Strategies.

He explained how the options work by noting trading is based on a "loss ratio," which is defined as losses within a defined period compared with premiums within that same period. The index goes from zero percent to 200%.

For example, an insurer could buy an option that the loss ratio will fall within the 40%-60% spread. If losses fall within this spread, the insurer would exercise the option and then sell the contract at a profit, which would compensate the insurer for its underlying losses.

If the loss ratio does not fall within the 40%-60% spread, the option is worthless.

Mr. Lane noted, however, that relatively few insurers—whom he did not identify—have traded the contracts to date, though insurers do account for about 40% to 50% of the volume.

"There's an underwhelming amount of interest," said Kirk Roeser, president of reinsurance intermediary Gill & Roeser in New York. "I think that's attributable to the fact that it's an alien concept still for many insurance companies and reinsurance companies, and it's still very complicated. I think its long-term potential, however, is very significant. It can be an effective tool in special applications.

"I think where it's going to first start showing up is with reinsurers employing it to provide better reinsurance products to their customers, so the learning curve is on the reinsurance side. It could take years," he said.

Meanwhile, Mr. Roeser noted that his company is now working on developing a financial reinsurance product that will incorporate the use of insurance futures.

"I haven't heard anything from any companies wanting to use them. I think it's a real shame," commented Alan R. Levin, senior vp for Standard & Poor's Corp. in New York. While futures can be used to hedge the catastrophe risk, many insurers must trade the contracts if they are to be fully developed and operate efficiently, said Mr. Levin.

"It's not going to be the answer to save the world, but it's certainly going to be an element in dealing with catastrophe risk and with the growth of insured values," said Mr. Levin.

Everyone learned from Hurricane Andrew that catastrophe risk "is greater than a lot of people perceived, and with that growth, the ability of the reinsurance marketplace alone to handle and syndicate that risk is somewhat limited," said Mr. Levin.

Confusion over how catastrophe futures work and the lack of regulatory approvals "are two elements that have inhibited the growth of the product, but no matter how it's accounted for, it's still a good product. It still has value to the insurance industry," Mr. Levin said.

"It's going to be a long, long time before anybody takes a measurable step into that market," said Michael Smith, an analyst with Lehman Bros. in New York. The market "lacks one element that's critical to a viable futures market, and that is it lacks a viable selling hedge," he said, explaining that while there likely are many buyers for the contracts, there are few that would want to sell the contracts.

That "does not make for a viable futures market," he said.

Roger J.B. Beach, president of Bermuda financial reinsurer Accord Re Ltd., agreed.

"People who understand are trying to buy and not sell at this stage," he said. "It just doesn't seem to be jelling at the moment from what we hear."

"I was more optimistic six to eight months ago," said Ajit Jain, president of the reinsurance division of Berkshire Hathaway Inc. "The amount of activity is so small that while intellectually you can certainly feel there is a product out there, buyers' resistance is such I'm not sure when you'll see

Continued on next page

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Catastrophe futures

Continued from previous page
meaningful volumes out there."

"I would say right now it's very much of a concept type of thing as opposed to something people might truly be interested in," said Robert N. Tremelling III, president of the San Francisco-based Tretis Group Inc., a reinsurance intermediary. "It's a financial mechanism, but people don't really understand finance."

Jonathan Lewis, assistant vp and fixed-income portfolio manager for Skandia Investment Management Inc. in New York, pointed out, however, that it "is important to note the tenacity of the CBOT."

The CBOT has been developing insurance futures for years, and many thought the exchange would have thrown in the towel by now. However, the CBOT is standing behind the concept, which is "comforting for those who wish the contract well and probably bodes well for the future," said Mr. Lewis.

Meanwhile, one factor that could affect the growth of insurance futures is the amount of capital that has flowed into the Bermuda catastrophe reinsurers, Mr. Lewis said.

The fledgling facilities could hurt the futures contracts if they drive down the cost of cat coverage, making futures trading less attractive.

But as long as catastrophe reinsurance prices remain firm, the Bermuda facilities create a positive potential for the contracts since the new facilities might hedge their own risk by trading futures, he said.

The CBOT's Morton Lane believes insurance futures will experience slow, steady growth, which would be accelerated if a catastrophe occurs and a company demonstrated that it used the futures market to protect its bottom line.

"I think what we're seeing is a bunch of radical, unanticipated changes, and how they shake out plus or minus for the futures contract is too early to tell," Mr. Lewis said.

Meanwhile, Mr. Lane remains confident of the futures' eventual success. While volume is obviously much slower than for the CBOT's other contracts, "it may be in line with the rate at which some of those started when they were new contracts," said Mr. Lane.

Time and awareness are needed before the contracts can take off, he said.

"In other words, I'm not sure that everybody understands these contracts. They are very different from the contracts that we've traded up until now, so we have to educate two communities. We have to educate the futures community to the nuances of the insurance market, and we have to educate the insurance market to the prices and nuances of the futures market," Mr. Lane said.

"That's a big job, and as with all those big jobs, there will be pioneers on either side of that divide who will make experiments, make profits, do good hedging, and word of their success will spread to others and the crowd will grow."

Mr. Lane added, "It's not only the users who have to understand this. The regulators have to understand that this is a proxy for reinsurance, and therefore can be used as a hedge against reinsurance.

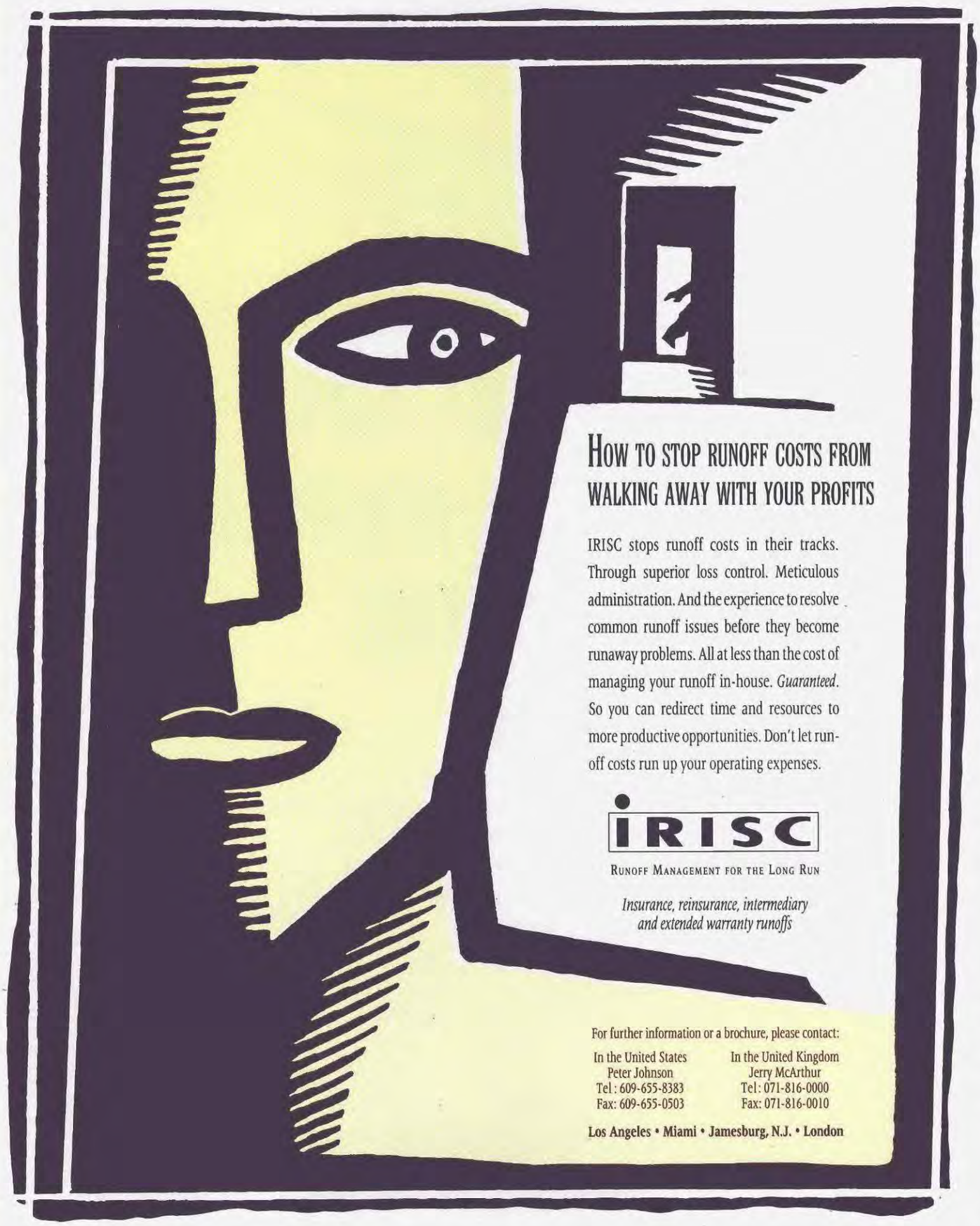
"That day will come. It will take time," he said, pointing to a similar scenario that evolved for the now-successful U.S. Treasury bill futures.

Mr. Lane said he believes insurance futures will experience slow, steady growth, though that growth would be accelerated if a catastrophe occurs and a company demonstrated that it used the futures market to protect its bottom line.

Also still optimistic about insurance futures is Richard Sandor, now head of New York-based Centre Financial Products, who is credited with developing financial futures, including insurance futures. "I remain very optimistic for any number of reasons," which include the approval to trade futures from the California and New York departments, he said.

"We're finding more and more people interested in it, and the learning curve is going well," he said, noting the CBOT plans to hold a seminar on futures in Bermuda and recently held one in London.

Meanwhile, a spokeswoman for the London International Financial Futures Exchange, said insurance futures are "something that LIFFE is considering, but for a variety of reasons it is quite a long way off." She said she had "absolutely no idea" when they would be introduced. BI



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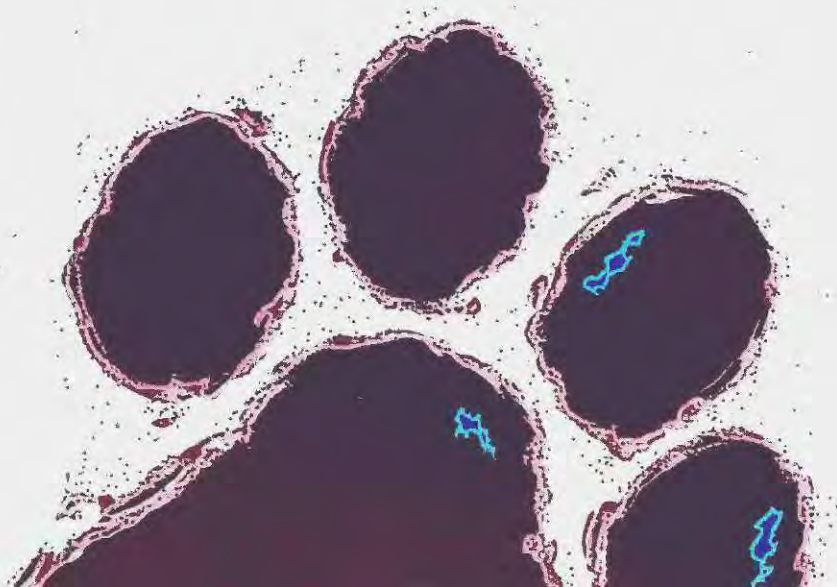

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Business Insurance directory of reinsurance brokers

A

Agnew International Inc.

14 Washington Road, Building 6, Princeton Junction, N.J. 08550; 609-799-7373; fax: 609-799-2265

	1992	1991
Premium volume	$5,850,000	$4,250,000
% Treaty	10%	NA
% Facultative	90%	NA
Gross revenues	$550,000	NA
Total employees	8	NA

Founded: 1976.
Specialties: International business.
Licensed in: New York.
Officers: Patrick Agnew, president; W. James Cook, vp; Ruth Poveda, assistant vp.
Contact: Patrick Agnew.

Alexander Howden North America Inc.

200 Northcreek, Suite 800, 3715 Northside Parkway N.W., Atlanta, Ga. 30327; 404-240-5200; fax: 404-240-5393

Founded: 1993.
Parent: Alexander & Alexander Services Inc.
Branch offices: New York.
Specialties: Large casualty facultative accounts, global/multinational property accounts, construction risks, property/casualty programs.
Licensed in: California, New York.
Conducts business: Nationwide.
Officers: Randolph Roppelt, senior vp; Joe Filardo, vp-property; Kevin Kennedy, vp-casualty.
Contact: Randolph Roppelt, 212-612-3803.

Alexander Reinsurance Intermediaries Inc.

1 Landmark Square, Suite 2100, Stamford, Conn. 06901; 203-359-6969; fax: 203-967-4768

	1992	1991
Premium volume	$505,000,000	$490,000,000
% Treaty	98%	95%
% Facultative	2%	5%
Gross revenues	$27,200,000	$26,400,000
Total employees	137	150
Treaty	127	136
Facultative	10	14

Founded: 1980.
Parent: Alexander & Alexander Services Inc.
Branch offices: Boston, Chicago, New York, San Francisco.
Specialties: All property and casualty working, catastrophe, clash, contingency with separate life, accident and health and surety division.
Licensed in: Illinois, New York, Texas.
Conducts business: Nationwide.
Officers: Ronald A. Iles, chairman/CEO; William R. Coleman, president/COO; Robert T. Mobyed, executive vp; John T. Roby, senior vp/CFO.
Contact: William R. Coleman.
Membership: Brokers & Reinsurance Markets Assn.

AM-RE Brokers Inc.

685 College Road E., Princeton, N.J. 08543-5212; 609-243-4900; fax: 609-243-4940

	1992	1991
Premium volume	$297,000,000	$208,000,000
% Treaty	99%	95%
% Facultative	1%	5%
Gross revenues	$10,155,000	$14,442,000
Total employees	44	48
Treaty	44	45
Facultative	0	3

Founded: 1985.
Parent: American Re-Insurance Co.
Licensed in: New York.
Conducts business: Nationwide.
Officers: E.B. Jobe, chairman/CEO; Paul H. Inderbitzin, president/director; Mahmoud M. Abdallah, executive vp/managing director; Donald F. Merkel, William Godfrey, Robert Henry, senior vps; John Varca, senior vp/actuary.

American Intermediaries Inc.

200 S. Los Robles Ave., Suite 230, Pasadena, Calif. 91101-2431; 818-449-0904; fax: 818-449-3831

	1992	1991
Premium volume	NA	NA
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	4	7
Treaty	4	7

Founded: 1984.
Branch offices: San Francisco.
Specialties: All lines of reinsurance.
Licensed in: California, New York.
Conducts business: Nationwide.
Officers: W.J. Buettner, president; Nora B. Smith, executive vp.

Andrew Edwards & Co. Inc.

100 Crossways Park Drive W., Suite 406, Woodbury, N.Y. 11797; 516-364-3700; fax: 516-364-3791

	1992	1991
Premium volume	$55,000,000	$70,000,000
% Treaty	100%	100%
Gross revenues	$650,000	$800,000
Total employees	6	8
Treaty	6	8

Founded: 1977.
Parent: AANA Holding Corp.
Specialties: Non-standard private passenger auto umbrella/excess liability, property risks, miscellaneous liability and niche program business.
Licensed in: New York.
Conducts business: Nationwide.
Officers: Edward J. Mallozzi, chairman/president/CEO; Andrew P. Burger, assistant vp.
Contact: Andrew P. Burger.

Aon Reinsurance Agency Inc.

123 N. Wacker Drive, Chicago, Ill. 60606; 312-781-7900; fax: 312-781-7901

	1992	1991
Premium volume	NA	NA
% Treaty	97%	95%
% Facultative	3%	5%
Gross revenues*	$45,000,000	$38,000,000
Total employees	182	168
Treaty	170	157
Facultative	12	11

* *BI* estimates.
Founded: 1945.
Parent: Aon Corp.
Branch offices: Hoboken, N.J.; Philadelphia; San Francisco; Seattle.
Subsidiaries: Aon Re Inc., New York.
Conducts business in: Nationwide.
Officers: Paul R. Davies, chairman/CEO; W. Eugene Taylor, vice chairman; Stephen L. Lunsford, president/COO.
Contact: Michael O'Halleran, 312-701-3065 or Joan Steel, 312-701-3016.
Membership: Brokers & Reinsurance Markets Assn.

Armrisk Corp.

1 Executive Drive, P.O. Box 1383, Fort Lee, N.J. 07024; 201-592-7100; fax: 201-592-7859

	1992	1991
Premium volume	$165,000,000	$151,000,000
% Treaty	90%	88%
% Facultative	10%	12%
Gross revenues	NA	NA
Total employees	9	9
Treaty	6	6
Facultative	3	3

Founded: 1988.
Parent: International Risk Management Group.
Branch offices: New York.
Affiliates: European Risk Management (Brokers) Ltd., Weybridge, U.K.; International Risk Brokers Ltd., Hamilton, Bermuda.
Specialties: All property and casualty lines including workers compensation and alternative risk market programs.
Licensed in: New York.
Conducts business: Nationwide.
Officers: D. Jay Carbine, president; Peter V. LeResche, senior vp; Terrence J. Reilly Jr., vp-facultative.
Contact: D. Jay Carbine.

Associated Intermediaries Inc.

P.O. Box 1260, Flowery Branch, Ga. 30542; 404-976-4009; fax: 404-967-2804

	1992	1991
Premium volume	$7,500,000	$6,000,000
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	5	5
Treaty	4	4

Founded: 1982.
Parent: Associated Reinsurance Management Corp.

Continued on page 42

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Continued from page 40

Branch offices: Waynesville, N.C.
Specialties: Accident and health, medical specific and aggregate stop loss, excess workers compensation, aviation workers compensation.
Licensed in: New York.
Conducts business in: District of Columbia, Florida, Georgia, Illinois, Indiana, Kentucky, Maryland, Massachusetts, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia.
Officers: Alph H. Browne, president; Diana D. Browne, corporate secretary.
Contact: Alph H. Browne.

Atlantic Security Ltd.

Windsor Place, 18 Queen St., Hamilton HM 11, Bermuda; 809-295-5425; fax: 809-295-5444

	1992	1991
Premium volume	$6,400,000	$5,700,000
% Treaty	40%	20%
% Facultative	60%	80%
Gross revenues	NA	NA
Total employees	10	10
Treaty	1	1
Facultative	1	1

Founded: 1974.
Parent: ASL Holdings Ltd.
Specialties: Ski area liability, workers compensation for captives/rent-a-captives.
Licensed in: Bermuda.
Conducts business: Nationwide.
Officers: Colin James, president; Hal Forkush, chairman.

Atrium Corp.

200 Park Ave., 16th Floor, New York, N.Y. 10166; 212-973-5072; fax: 212-973-5083

	1992	1991
Premium volume	$760,000,000	$1.3 billion
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	33	34
Treaty	33	34

Founded: 1983.
Parent: Swiss Re Group.
Branch offices: Westport, Conn.
Specialties: Financial reinsurance, surplus relief, finite risk reinsurance, financial guarantee reinsurance.
Licensed in: New York.
Conducts business: Worldwide.
Officers: Jay A. Novik, president; Heidi E. Hutter, Owen Whitby, executive vps; Peter A. Gentile, Stephen F. Patterson, Bruce P. Reich, senior vps; Joan M. deLemps, Steven R. Fallon, Margaret E. Seiter, vps.
Contact: Jay A. Novik, 212-973-5072 or Heidi E. Hutter, 212-973-5066.

B

BEP International

1140 Blvd. de Maisonneuve ouest, Bureau 1200, Montreal, Quebec H3A 1M8, Canada; 514-288-1133; fax: 514-288-0840

	1992	1991
Premium volume	$519,000,000	$440,000,000
% Treaty	98%	98%
% Facultative	2%	2%

Continued on page 44

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How to use directory of reinsurance brokers

Information in the eleventh annual directory of reinsurance intermediaries was gathered from responses to questionnaires sent to companies by *Business Insurance.* The directory is published as an editorial service; there is no charge to be included.

Following the **name** and **address** of the company, financial and operational information for 1992 and 1991 is given, including the **premium volume** related to reinsurance, **percent of treaty** and **facultative** business (as a percent of reinsurance premium volume), and **gross revenues** related to reinsurance. The number of total **employees** and those assigned to treaty and facultative reinsurance are also given.

Next, the year **founded** and **parent** company (if any) are noted, as well as locations of **branch offices** and **subsidiaries** brokering reinsurance. **Acquisitions** in 1992 and so far in 1993 follow. Particular types of risks a company specializes in brokering reinsurance for are noted under **specialties.**

States in which the company is **licensed** and where it **conducts business** as a reinsurance intermediary are next. Principal **officers** and a **contact** for readers seeking more information complete the listings.

When a company is newly founded or did not provide financial information it is noted in the listings as NA (not available).

Although every effort is made to obtain complete and accurate information, *Business Insurance* is unable to verify all information listed.

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Spotlight report

Continued from page 42

	1992	1991
Gross revenues	NA	NA
Total employees	137	141
Treaty	131	133
Facultative	6	8

Founded: 1960.
Parent: Sodarcan Inc.
Branch offices: Jersey City, N.J.; Seattle; Montreal; Toronto.
Specialties: Workers compensation, surety, marine, aviation, professional liability, accident and health, life, finite risks.
Licensed in: New York.
Conducts business in: New Jersey; Washington; Ontario and Quebec, Canada.
Officers: Raymond Gilbert, chairman/CEO; Robert W. Bailey, Peter M. Bennett, Peter V. Dale, Christopher J. Robey, executive vps; Rene Lapierre, senior vp; Robert Limoges, senior vp-finance/administration.
Contact: Robert Limoges.

BRI International Agency Inc.

156 William St., New York, N.Y. 10038; 212-233-7171; fax: 212-513-1859

	1992	1991
Premium volume	$2,423,000	$1,755,000
% Treaty	99%	99%
% Facultative	1%	1%
Gross revenues	NA	NA
Total employees	6	6
Treaty	5	5
Facultative	1	1

Founded: 1981.
Parent: Underwriters Financial Group.
Licensed in: New York.
Conducts business: Nationwide.
Officers: Bruno Rumignani, president; Burton Matfus, secretary/treasurer; Howard Miller, Joseph Zweig, Mark Bailine, vps.
Contact: Joseph Zweig.

Adrian Baker Reinsurance Intermediaries Inc.

34 N. Meramec Ave., St. Louis, Mo. 63105; 314-721-1372; fax: 314-721-1290

	1992	1991
Premium volume	$30,000,000	$30,000,000
% Treaty	70%	70%
% Facultative	30%	30%
Gross revenues	NA	NA
Total employees	5	10
Treaty	4	7
Facultative	1	3

Founded: 1974.
Parent: Great Rivers Holding Co.
Specialties: Accident and health, workers compensation, carve-out, medical, aviation, property, life.
Licensed in: Missouri, New York.
Conducts business: Worldwide.
Officers: Adrian N. Baker II, president; Charles V. Basuino, vp/treasurer.
Contact: Charles V. Basuino.

Bates Turner Inc.

5200 Metcalf, P.O. Box 2959, Overland Park, Kan. 66201; 913-676-5920; fax: 913-676-5940

	1992	1991
Premium volume	$228,000,000	$262,000,000
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	23	20
Treaty	23	20

Founded: 1982.
Parent: Employers Reinsurance Corp.
Licensed in: Kansas, New York, Texas.
Conducts business: Nationwide.
Officers: Thomas S. Case, chairman/CEO; Michael E. Fisher, president/COO; James C. Blanton III, vp; E. Wilson Wyant, second vp; John R. Klag, Kathy A. Sandberg, assistant vps; Lee L. Smith, accounting manager.
Contact: Michael E. Fisher.

E.W. Blanch Co.

3500 W. 80th St., Minneapolis, Minn. 55431; 612-835-3310; fax: 612-896-4646

	1992	1991
Premium volume	$1.4 billion	$1.11 billion
% Treaty	99%	99%
% Facultative	1%	1%
Gross revenues*	$55,488,000	$44,908,000
Total employees	329	277
Treaty	325	272
Facultative	4	5

* 1991 revenue figure has been restated.
Founded: 1957.
Branch offices: Atlanta; Boston; Burlingame, Menlo Park and San Francisco, Calif.; Chicago; Dallas; New York; Philadelphia; Copenhagen, Denmark.
Acquisitions: Enan & Co., Burlingame, Calif.
Specialties: Life, accident and health, professional liability, retrocession, risk retention group, program business.
Licensed in: California, Illinois, Minnesota, New York, Texas.
Conducts business: Nationwide.
Officers: E.W. Blanch Jr., CEO/chairman; Michael W. Cashman Sr., president/COO; Chris L. Walker, Frank S. Wilkinson, executive vps; Tom S. Nelson, senior vp/CFO.
Membership: Brokers & Reinsurance Markets Assn.

Bott & Associates Ltd.

Sterling House, Wesley St., P.O. Box HM 1087, Hamilton HM 05, Bermuda; 809-292-6564; fax: 809-292-5796

	1992	1991
Premium volume	$8,700,000	NA
% Treaty	98%	NA
% Facultative	2%	NA
Gross revenues	NA	NA
Total employees	11	10
Treaty	3	2

Founded: 1979.
Specialties: Captive reinsurance-finite risk, excess property and casualty, captive management/underwriting agent.
Licensed in: Bermuda.
Conducts business in: Bermuda.
Officers: Michael F. Bott, president; Roy V. Bray, executive vp; Scott W. Nickerson, CFO.
Contact: Roy V. Bray.

Burridge Storey & Co. Inc.

481 Clubhouse Circle, Roselle, Ill. 60172; 708-551-1900; fax: 708-551-1917

	1992	1991
Premium volume	NA	NA
% Treaty	98%	98%
% Facultative	2%	2%
Gross revenues	NA	NA
Total employees	6	4
Treaty	6	4

Founded: 1989.
Parent: Farmers Mutual Hail Insurance Co. of Iowa.
Licensed in: Illinois, New York.
Conducts business: Nationwide.
Officers: John H. Burridge, president; Geoffrey F. Storey, executive vp.

C

Guy Carpenter & Co.

2 World Trade Center, New York, N.Y. 10048; 212-323-1000; fax: 212-313-4970

	1992	1991
Premium volume	NA	NA
Gross revenues*	$284,000,000	$292,000,000
Total employees	2,145	2,169

* *BI* estimate.
Founded: 1923.
Parent: Marsh & McLennan Cos. Inc.
Branch offices: Hartford, Conn.; Mineapolis; San Francisco.
Subsidiaries: Agencia General de Reaseguros, Madrid, Spain; Balis & Co. Inc., Philadelphia; Carpenter Bowring Ltd., London; Carpenter Bowring Pty. Ltd., Melbourne and Sydney, Australia; Guy Carpenter & Co. Inc., Seoul, Korea; Guy Carpenter & Co. A/S, Copenhagen, Denmark; Guy Carpenter & Co. (Asia) Ltd., Hong Kong; Guy Carpenter & Co. (Canada) Ltd., Toronto; Guy Carpenter & Co. S.A., Brussels, Belgium; Guy Carpenter & Co. (Stockholm) AB, Stockholm, Sweden; Guy Carpenter & Cia. S.A.-Correduria de Reaseguros, Madrid, Spain; Gradmann & Holler-Guy Carpenter GmbH, Munich, Germany; Paul Napolitan Inc., New York; Sellon Associates Inc., White Plains, N.Y.; Union Francaise de Reassurances, Paris.
Acquisitions: Paul Napolitan Inc.
Licensed in: California, New York.
Conducts business: Nationwide.
Officers: Richard H. Blum, chairman/CEO/managing director; G.H.C. Wakefield, president/managing director; Clement S. Dwyer Jr., executive vp/managing director; Brandon W. Sweitzer, executive vp/managing director; Gabriele J. Troiano, managing director.
Contact: Gabriele J. Troiano.
Membership: Brokers & Reinsurance Markets Assn.

Herbert Clough Inc.

P.O. Box 10216, 695 E. Main St., Stamford, Conn. 06904; 203-357-8883; fax: 203-328-6408

	1992	1991
Premium volume	$551,057,374	$368,330,033
% Treaty	99%	98%
% Facultative	1%	2%
Gross revenues	$11,580,972	$9,158,396
Total employees	52	53
Treaty	49	50
Facultative	3	3

Founded: 1926.
Parent: General Reinsurance Corp.
Specialties: Property and casualty occurrence, excess business, financial reinsurance, accident and health, aviation

Continued on next page

How can a reinsurer protect your tail

In 1982, there were 129 reinsurers reporting results to the Reinsurance Association of America. In the decade since, insolvencies, cutbacks and consolidations have reduced that number to 54 and it's still heading down. Opportunistic business practices cost the shortsighted companies their business.

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Continued from previous page
and marine, workers comp, professional liability.
Licensed in: New York.
Conducts business: Nationwide.
Officers: Alistair D. Johnston, president; Lawrence C. Magnant Jr., vp-brokerage/operations; Kathleen M. McCormick, second vp-retrocessions.
Contact: Alistair D. Johnston, 203-328-6609.

John B. Collins Associates Inc.
8500 Normandale Lake Blvd., Minneapolis, Minn. 55437; 612-820-0012; fax: 612-820-2700

	1992	1991
Premium volume	$212,200,000	$104,400,000
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	26	15
Treaty	26	15

Founded: 1987.
Branch offices: East Granby, Conn.; Marshall, Minn.; Whitefish, Mont.
Specialties: Property, casualty, life, accident and health, crop.
Licensed in: California, Delaware, Illinois, Minnesota, New York.
Conducts business: Nationwide.
Officers: John B. Collins, James A. Brost, Daniel J. Burke, Gregory L. Brettingen, principals; Timothy J. Pawlik, senior vp.
Contact: Gregory L. Brettingen.

Cooper Gay Steele & Co. Ltd.
120 Wall St., 22nd Floor, New York, N.Y. 10005; 212-248-1150; fax: 212-248-1181

	1992	1991
Premium volume	$18,500,000	$14,500,000
% Treaty	10%	10%
% Facultative	90%	90%
Gross revenues	NA	NA
Total employees	17	17
Treaty	3	3
Facultative	8	6

Founded: 1988.
Parent: Cooper Gay (Holdings) Ltd.
Specialties: Worldwide/multinational business for property, including technical lines, casualty, marine and energy, and aerospace.
Licensed in: New York.
Conducts business: Nationwide, Puerto Rico and overseas.
Officers: David A. Gay, chairman; R. Patrick Steele, president; Michael R. Jones, Martin E. Shaw, James Kininmonth, directors; Nigel Hooper, secretary/treasurer; Toby C.D. Esser, vp/director; Stephen S. Brewer, vp; Peter Gorman, assistant vp/controller; Jeremy Goodman, assistant vp.
Contact: R. Patrick Steele.

Cravens & Co. Inc.
555 California St., Suite 3333, San Francisco, Calif. 94101; 415-433-6161; fax: 415-433-1434

	1992	1991
Premium volume	NA	NA
Gross revenues	NA	NA
Total employees	15	15
Treaty	12	12

Founded: 1978.
Specialties: Treaty reinsurance, property and casualty.
Licensed in: California, New York.
Conducts business: Nationwide.
Officers: Hartley D. Cravens, president; James R. Leffler, Michael D. Reynolds, senior vps; Carol C. Cravens, vp; Kenneth R. Davis, treasurer.

R.D. Croak & Associates
1670 Fenpark Drive, Fenton, Mo. 63026; 314-349-1234; fax: 314-349-3169

	1992	1991
Premium volume	$37,000,000	$35,000,000
% Treaty	95%	95%
% Facultative	5%	5%
Gross revenues	$598,192	$556,027
Total employees	6	6
Treaty	5	5
Facultative	1	1

Founded: 1977.
Specialties: Credit life and disability, gap, involuntary unemployment insurance, product guarantee, workers comp, impaired risk ordinary life, used car garage liability.
Licensed in: Illinois, New York.
Conducts business: Nationwide.
Officers: Richard D. Croak, chairman; R. Banks Croak, president; Michael A. Gardner, assistant vp.
Contact: Michael A. Gardner.

Crump Re
See Sedgwick Payne Co./Crump Re listing.

Cypress Creek Intermediaries Inc.
300 International Parkway, Suite 190, Heathrow, Fla. 32746; 407-333-9002; fax: 407-333-9105

	1992	1991
Premium volume	$32,000,000	$35,000,000
% Treaty	100%	100%
Gross revenues	$310,000	$300,000
Total employees	4	4
Treaty	2	2

Founded: 1984.
Specialties: Agricultural/agri-business, including crop hail and animal mortality, accident and health, medical stop loss/excess treaties, property catastrophe excess/per risk treaties.
Licensed in: Florida, New York, Pennsylvania.
Conducts business: Nationwide, Canada and Europe.
Officers: Michael T. Pyle, president; Andrew T. Pyle, Laurie Langston, assistant vps; Peggy B. Pyle, vp.
Contact: Michael T. Pyle.

D

Delaney Offices Inc.
215 Elberon Ave., Allenhurst, N.J. 07711; 908-517-0612; fax: 908-531-0977

	1992	1991
Premium volume	NA	NA
% Treaty	90%	90%
% Facultative	10%	10%
Gross revenues	NA	NA
Total employees	6	10
Treaty	6	NA

Founded: 1954.
Specialties: Property, casualty, aviation, marine and life.
Licensed in: New York.
Conducts business: Worldwide.
Officers: William F. Delaney Jr.

E

EWI Re Inc.
70 Pine St., 60th Floor, New York, N.Y. 10270; 212-248-3980; fax: 212-248-3981

	1992	1991
Premium volume	NA	NA
% Treaty	98%	99%
% Facultative	2%	1%
Gross revenues	NA	NA
Total employees	10	9
Treaty	8	7
Facultative	0.1	0.1

Founded: 1988.
Specialties: Treaty reinsurance.
Licensed in: New York.
Conducts business: Nationwide.
Officers: James C. Epstein, president; Vaughn V.R. Harris, Vernon W. Ismen, vps; Jorge I. Cardona, vp/controller.

F

Falcon Re-Insurance Intermediaries Inc.
790 E. Colorado Blvd., 9th Floor, Pasadena, Calif. 91101; 818-796-1152; fax: 818-792-5035

	1992	1991
Premium volume	$7,000,000	NA
% Treaty	100%	NA
Gross revenues	NA	NA
Total employees	3	NA
Treaty	2	NA

Founded: 1991.
Parent: Condor Services Inc..
Specialties: Casualty, marine, surety, finite risk.
Licensed in: New York.
Conducts business: Nationwide.
Officers: K. Mark Russ III, president; Zondra L. Hendrix, CFO.
Contact: K. Mark Russ III.

Financial Reinsurance Inc.
140 S. Atlantic Ave., Ormond Beach, Fla. 32176; 904-677-4453; fax: 904-673-1630

	1992	1991
Premium volume	$17,642,892	$13,821,226
% Treaty	91%	93%
% Facultative	9%	7%

Continued on next page

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Continued from previous page

	1992	1991
Gross revenues	NA	NA
Total employees	5	5
Treaty	4	4
Facultative	1	1

Founded: 1960.
Parent: Ormond Re Group Inc.
Subsidiaries: W.J. Burt & Associates Inc., New York.
Specialties: Crop hail.
Licensed in: Florida, New York.
Conducts business: Nationwide.
Officers: W. Lockwood Burt, president; John B. Deiner, executive vp; A.L. DiPardo, senior vp-claims; William T. Long, senior vp/controller-reinsurance accounting; David W. Cramer, treasurer.
Contact: John B. Deiner.

First Reinsurance Intermediaries Corp.

55 John St., New York, N.Y. 10038; 212-608-8270; fax: 212-619-0480

	1992	1991
Premium volume	$50,000,000	$50,000,000
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	5	5
Treaty	5	5

Founded: 1983.
Parent: Risk Distribution Services Inc.
Licensed in: New York.
Conducts business in: Maryland, New Jersey, New York, Pennsylvania.
Officers: Stephen M. Edwards, president; Paul G. Curtis, vp; Roger J.B. Beach, director.
Contact: Stephen M. Edwards.

H.S. Fox Corp.

8222 Douglas Ave., Suite 400, Dallas, Texas 75225; 214-369-2211; fax: 214-369-8380

	1992	1991
Premium volume	$275,000,000	$260,000,000
% Treaty	100%	100%
Gross revenues	$6,500,000	$6,200,000
Total employees	26	27
Treaty	26	27

Founded: 1985.
Specialties: Special-type health risks, professional liability.
Licensed in: New York, Texas.
Conducts business in: New York, Texas.
Officers: Donald M. Fox, president; Robert C. Henderson, Alan R. Sheppard, executive vps; Donald C. Blackburn, Larry L. Collins, Robert M. Hodge, senior vps; Kathy Kidwell Brandon, Robert F. McGarry, Anne Marie Roberts, C. Douglas Westbrook, vps.
Contact: Donald C. Blackburn.

C.L. Frates Reinsurance Intermediary Inc.

2 Greenwich Plaza, Greenwich, Conn. 06830; 203-622-4433; fax: 203-622-0777

	1992	1991
Premium volume	$26,000,000	$23,000,000
% Treaty	100%	100%
Gross revenues	$1,211,000	$1,016,000
Total employees	4	4
Treaty	4	4

Founded: 1986.
Specialties: Casualty and professional liability, fidelity, excess workers compensation.
Licensed in: New York.
Conducts business: Nationwide.
Officers: Albert P. Amato, senior vp.

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G

Arthur J. Gallagher Intermediaries Inc.

111 John St., Suite 800, New York, N.Y. 10038; 212-732-9855; fax: 212-619-7957

	1992	1991
Premium volume	$30,700,000	$25,750,000
% Treaty	16%	18%
% Facultative	84%	82%
Gross revenues	NA	NA
Total employees	19	22
Treaty	3	3
Facultative	16	18

Founded: 1987.
Parent: Arthur J. Gallagher & Co.
Branch offices: Treaty Reinsurance Division, New York.
Specialties: Facultative property, casualty, programs and financial/finite; treaty reinsurance, including domestic credit, export credit, marine, property and political risk on a global basis.
Licensed in: New York.
Conducts business: Nationwide.
Officers: Robert L. Osborne Jr., president; Randall S. Jensen, Edward Santos, executive vps; Joe DeChristofaro, Ted Levandowski, Kevin Denike, vps; John M. O'Reilly, Steven Kinniry, assistant vps; Peter Blume, assistant secretary.
Contact: Robert L. Osborne Jr., 212-732-9855, or Edward Santos, 212-791-2700.

Arthur J. Gallagher Intermediaries (Bermuda) Ltd.

P.O. Box HM 2000, Hamilton HM HX, Bermuda; 809-292-4654; fax: 809-292-8231

	1992	1991
Premium volume	$8,000,000	$7,000,000
% Treaty	5%	5%
% Facultative	95%	95%
Gross revenues	NA	NA
Total employees	7	5
Treaty	1	1
Facultative	6	4

Founded: 1972.
Parent: Arthur J. Gallagher & Co.
Specialties: Reinsurance of self-insurance mechanisms, including financial and finite risk reinsurance.
Licensed in: Bermuda.

Continued on page 54

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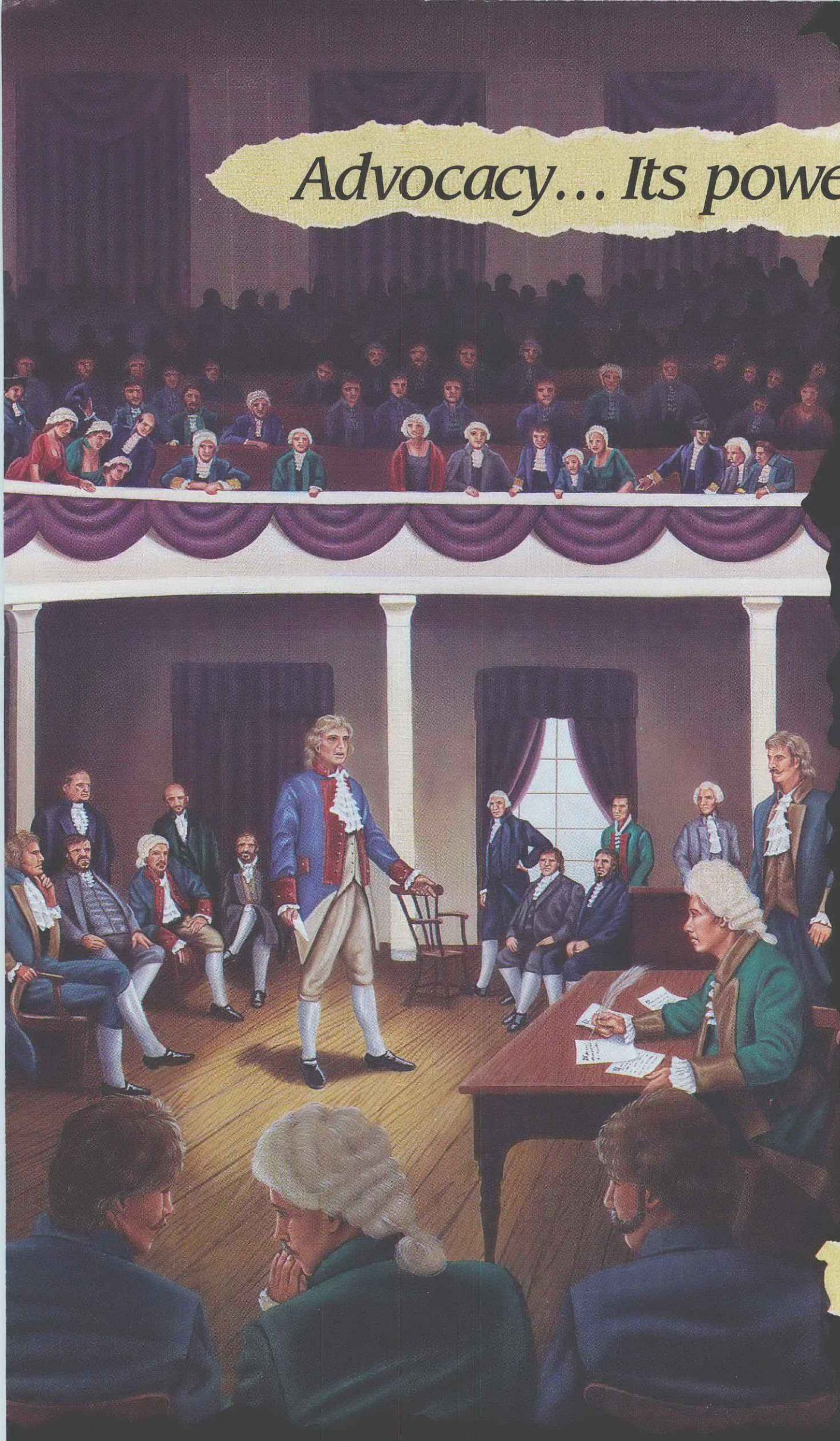

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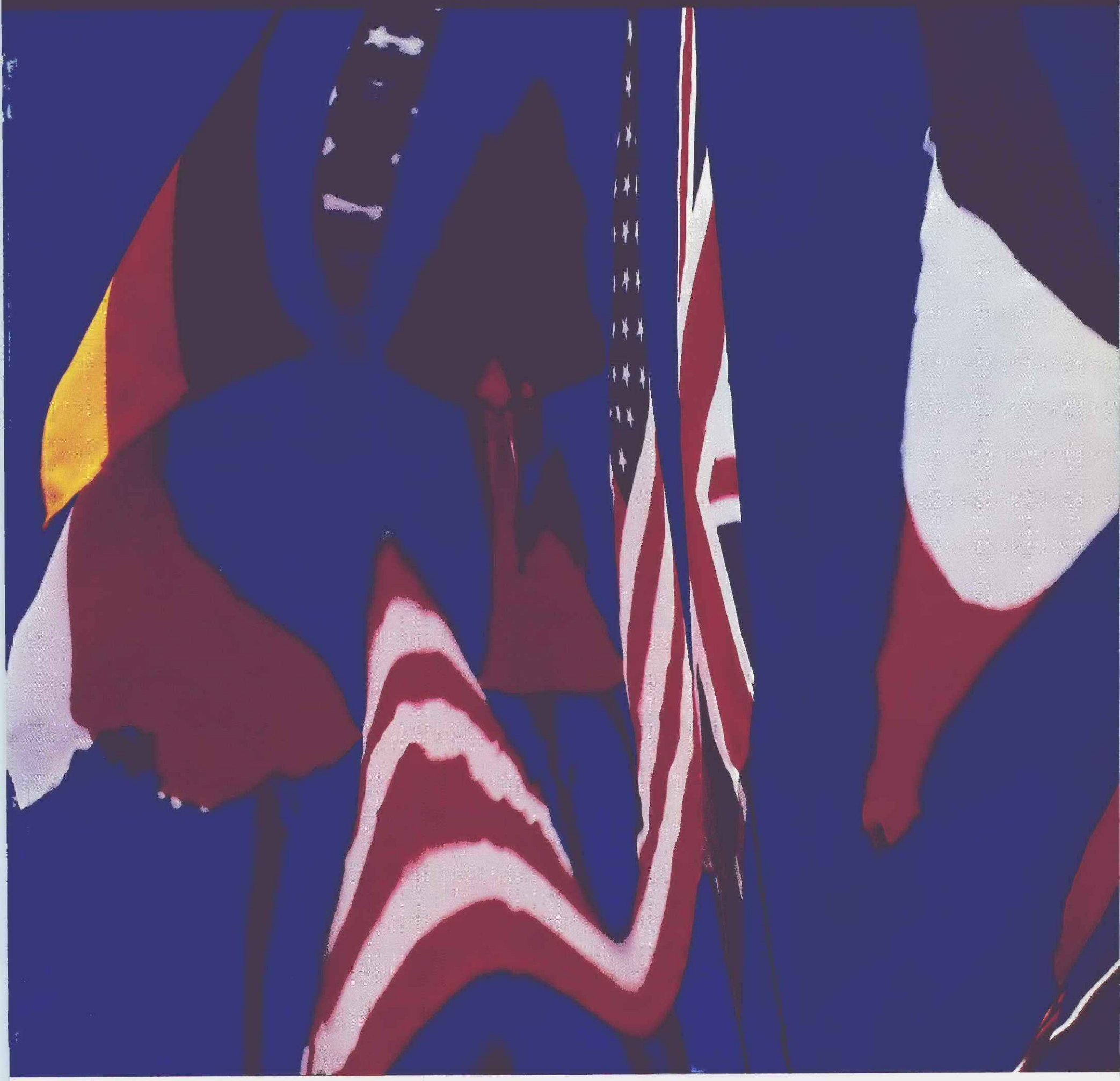

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Workers comp

Continued from previous page
genuinely cares about the employee's return to work. The result of such an approach is an employee who is more motivated to get back on the job—and less likely to turn to an attorney for support and guidance.

While the need for early referral and management is not news to the rehabilitation and case management community—and has been proven time and time again in accident and group health care—this approach has not yet become a standard mode of operation in workers compensation. Many workers comp claims are not reported to the insurer or employer for weeks, even months—and a lot more time can pass before cases that need medical management receive it, if they receive it at all.

The result? Less-than-optimal cost savings and medical outcomes.

This lackadaisical approach needs to change if we are at all serious about holding down the nation's $62 billion annual workers comp tab. The minute a worker injury occurs, the clock should start ticking, because what might seem like an uncomplicated repetitive-motion injury or minor back strain at the time of injury can quickly turn into something more serious. These injuries can translate into weeks, even months off the job. With each passing day, the associated costs of medical treatment snowball.

We need to start now to make early identification, assessment and management a standard component of the workers comp claims management process.

For those companies that are ready to make such a commitment, there are a number of innovative products available that can manage a workers comp claim early and effectively using the same range of medical management techniques that have proven so effective in accident and group health care.

These "early assessment" services incorporate medical expertise and resources to identify worker injuries and associated medical needs as early as possible, monitor the progress of cases by telephone and recommend other health care management services that may be needed. In addition to maintaining or even enhancing quality medical care, this approach can play a major role in reducing medical costs.

Industry experience shows that the largest portion of medical treatment and expense occurs early in the claims process. By using an early assessment service, or "gatekeeper," at the earliest possible point of a claim, you can determine the type of treatment and management that will produce the most effective outcome, both medically and cost-wise.

Sometimes, on-site case management will be necessary. For less serious cases or those in the acute phase, telephone support and management may be adequate. Regardless of the mode of management, companies can prevent unnecessary medical care and costs, and make sure what's being done is appropriate based on firmly established medical criteria.

In addition, by being involved in the case early, companies can channel patients to a network provider, if appropriate. Channeling not only ensures the appropriate specialist is provided, but it enables the payer to take advantage of any discounts negotiated in advance with the provider.

Building an early assessment program

What are the essential elements of a successful early assessment program?

With research showing that return-to-work rates drop dramatically the later a case is referred, early first report of injury is essential. This can be done via phone, fax, mail or electronic means.

Once you've developed the proper internal procedures to ensure a first report of injury is made within a few days, you need a process for assessing each claim. Will the case need full or limited case management? Is the physician following acceptable treatment protocol? Does the employer have return-to-work options? These are critical questions that must be answered up front.

The major stumbling blocks to effective early assessment of claims have traditionally been inadequate tools and medical expertise applied to cases up front. Claims adjusters have not had, and still do not have, the proper tools to make medical decisions, nor can they be expected to be medical experts. Plus, with caseloads soaring in recent years, the adjuster's job has become even more difficult.

Early assessment works best when done by medical professionals with the proper tools, which may mean seeking an independent third party to assess each claim at the first report of injury. This approach has been working in accident and group health insurance for many years, and it can work equally well in the workers comp arena—if all parties agree to work as a team in achieving optimal cost savings and quality of care.

When choosing an early assessment vendor, there are several key areas to consider:

- Medical expertise. A number of companies promote criteria-based software packages for early assessment as a total solution. While decision support tools are an important part of the early assessment process, they are only part of the equation. On-line medical criteria are simply guidelines.

Each case is different, and key medical decisions need to be made based on individual patients' needs. The human factor can't be overlooked if cost reduction and quality outcomes are equal goals.

- Integrated service. Another area to consider is the vendor's ability to provide not only the early assessment service but the actual health care management services that may be required.

For example, because of the nature of workers compensation claims, an overwhelming portion—about 90 percent—of workers comp costs result from the use of outpatient services. Yet, outpatient treatment of workers comp cases rarely undergoes utilization review to ensure the treatment is appropriate and performed in the right setting with the right frequency, intensity and duration.

A vendor that can seamlessly move from assessing a case to performing utilization reviews of inpatient or outpatient treatments to providing case management services and bill reviews will be better able to control and manage cases effectively. Such a one-stop arrangement ensures that once intervention level has been matched with case severity, the range of health care management techniques can be applied quickly and consistently—and that clear communication is maintained throughout the process.

Early assessment in workers compensation has arrived. But, early assessment alone is not a solution to the workers compensation dilemma.

This approach must work in tandem with a range of cost-containment measures—many of which have already been put into law at the state level: medical fee schedules, limitation of physician choice, utilization management, bill review and hospital fee limits.

Only by integrating all of these techniques will managed care achieve its potential in reducing workers compensation costs and ensuring that injured workers receive the best possible treatment for a speedy return to productivity. BI

Mary Possi is director of property/casualty product management for Intracorp in Berwyn, Pa.

Pension benefit offset by workers comp

An employer's offset of an employee's disability pension by the amount of workers compensation benefits was not arbitrary and capricious, according to the 6th U.S. Circuit Court of Appeals.

Caylos Johnson was employed by the Eaton Corp. for 20 years and was a participant in the company pension plan. He retired from employment in December 1982 due to his disabling occupational lung disease.

In 1983, he began receiving $395 per month in disability pension benefits under the plan. Mr. Johnson then filed a petition for workers compensation benefits. In 1985, Eaton agreed to pay him approximately $1,100 per month in such benefits. Eaton was reimbursed for the payments it made to Mr. Johnson, in excess of the statutory deductible of $12,500, from the Michigan Silicosis & Dust Disease Fund. Eaton notified Mr. Johnson that his workers compensation benefits would completely offset his monthly $395 disability pension benefits pursuant to an Eaton pension plan provision. Mr. Johnson challenged the denial of his disability pension benefits in an action under the Employee Retirement Insurance Security Act. The trial court ruled for Eaton.

On appeal. Mr. Johnson argued that Eaton should not be credited with the entirety of the workers compensation payments since, under the Michigan statutory scheme, Eaton was reimbursed for making those payments to Mr. Johnson.

Legal Briefs

But the appellate court concluded that the Eaton pension plan committee did not act capriciously in deciding that the phrase "at the expense of" in the plan deduction provision, referred only to "premiums" rather than "benefits." The trial court decision was affirmed.

Johnson vs. Eaton Corp., 6th U.S. Circuit Court of Appeals, Aug. 3, 1992 (*BI*/02/July-$10).

Comp payments due even after dismissal

A worker discharged for misconduct may not be deprived of the permanent total compensation for which the worker would otherwise be eligible under the Workers Compensation Act, according to the Supreme Court of Minnesota.

Larry L. Boryca, was employed by Marvin Lumber & Cedar Co. from 1984 through 1989. During his employment he sustained two compensable low back injuries, the first in 1986 and the second in 1987. Marvin Lumber paid various workers compensation benefits. Following the second injury, Mr. Boryca continued to have low back problems and in 1988 he underwent spinal fusion surgery. Further testing showed that the fusion had failed. In 1989, Mr. Boryca was authorized to return to work with significant restrictions. He accepted an offer of light duty work. Subsequently his doctor felt he was incapable of any employment.

In 1989, Mr. Boryca filed a claim for temporary benefits. A few days later, he made three threatening phone calls to his employees at his company and to employees of the insurer concerning his disputed claim. As a result of this conduct, his employment with Marvin Lumber was terminated. Thereafter, Mr. Boryca filed a claim for permanent total compensation. The Workers Compensation Court of Appeals denied him benefits finding that his discharge from employment resulted in the forfeiture of all compensation.

The state supreme court concluded that a provision in the workers compensation law denying benefits to an employee who fails to accept a job applied only to temporary total disability rather than permanent total disability situations. Thus the court held that the law did not deprive a worker discharged for misconduct of permanent total compensation for which he would otherwise be eligible.

Boryca vs. Marvin Lumber & Cedar, Supreme Court of Minnesota, Aug. 7, 1992 (*BI*/04/July-$10). BI

These abstracts were prepared by Mayo H. Stiegler. Copies of these decisions are available by sending a $10 check payable to Mayo H. Stiegler, to Business Insurance, *740 N. Rush St., Chicago, Ill. 60611-2590. List the number for each opinion.*

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- Ensuring maximum productivity by returning workers to the job quickly
- Fair and accurate claims payment
- Management of disputed claims
- Management of cases in litigation
- Risk management analysis

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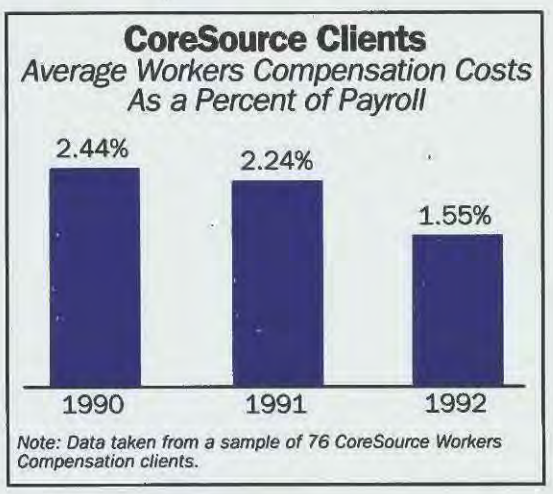

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Continued from page 46

Conducts business: Nationwide.
Officers: David J. McManus, president; Peter J. Mullen, vp-production; Wayne L. Brown, vp-brokering.
Contact: Peter J. Mullen.
Membership: Brokers & Reinsurance Markets Assn.

Gill & Roeser Inc.

535 Fifth Ave., New York, N.Y. 10017
212-972-4880; fax: 212-972-4885

	1992	1991
Premium volume	NA	NA
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	11	11
Treaty	11	11

Founded: 1933.
Specialties: Finite risk, spread loss and traditional reinsurance.
Licensed in: New York.
Conducts business: Nationwide.
Officers: Ardian Gill, chairman; Kirk Roeser, president; Steven Bolland, David Koegel, senior vps; Julian Hayter.
Contact: Robert Kaufman, 212-302-2080.

Greig Fester Inc.

1 Liberty Plaza, 165 Broadway, New York, N.Y. 10006; 212-227-1600; fax: 212-227-0500

	1992	1991
Premium volume	$85,000,000	NA
% Treaty	87.5%	NA
% Facultative	12.5%	NA
Gross revenues	$4,500,000	NA
Total employees	32	NA
Treaty	27	NA
Facultative	5	NA

Founded: 1981.
Parent: Greig Fester Group Ltd.
Branch offices: Minneapolis.
Specialties: Property, casualty, crop and agricultural, marine.
Licensed in: New York.
Conducts business: Nationwide.
Officers: Michael Simmonds, chairman/president; Tim J. Poeton, Drew Beauchamp, executive vps; William K. Brewer, Joseph R. Curcio, senior vps; Patrick J. Denzer, vp/manager-Minneapolis.
Contact: Tim J. Poeton.
Membership: Brokers & Reinsurance Markets Assn.

Griffiths & Wanklyn Reinsurance Brokers Ltd.

Craig Appin House, Wesley St., P.O. Box HM 658, Hamilton HM CX, Bermuda; 809-295-1639; fax: 809-295-1638

	1992	1991
Premium volume	$12,500,000	$10,000,000
% Treaty	80%	80%
% Facultative	20%	20%
Gross revenues	NA	NA
Total employees	3	3

Founded: 1986.
Parent: Griffiths & Wanklyn Management Ltd.
Subsidiaries: Underwriters Service Co. Inc., High Point, N.C.
Specialties: Captive or self-insurance related casualty excess reinsurance with an emphasis on professional indemnity, malpractice, workers compensation and property catastrophe reinsurance.
Licensed in: Bermuda.
Conducts business in: Florida, Missouri, Oklahoma, Bermuda.
Officers: Julian M. Griffiths, William A. Wanklyn, directors.
Contact: William A. Wanklyn.

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H

H&H Re-Insurance Brokers Ltd.

Chevron House, 11 Church St., Hamilton HM 11, Bermuda; 809-295-3342; fax: 809-295-4065

	1992	1991
Premium volume	$10,500,000	$9,500,000
% Treaty	90%	90%
% Facultative	10%	10%
Gross revenues	NA	NA
Total employees	6	6
Treaty	3	NA
Facultative	3	NA

Founded: 1977.
Specialties: Captive, financial and commercial reinsurance.
Licensed in: Bermuda.
Conducts business in: Bermuda.
Officers: Simon C. Everett, president; W.H. Outerbridge, David Harris, vps.
Contact: W.H. Outerbridge.

Heddington Brokers Ltd.

P.O. Box HM 1187, Hamilton HM EX, Bermuda; 809-295-3063; fax: 809-292-3548

	1992	1991
Premium volume	NA	NA
% Treaty	5%	5%
% Facultative	95%	95%
Gross revenues	NA	NA
Total employees	19	18

Founded: 1981.
Parent: Heddington Insurance Ltd. and Willis Corroon P.L.C.
Subsidiaries: Willis Corroon Heddington Ltd., London.
Specialties: International reinsurance.
Licensed in: Bermuda.
Conducts business in: Bermuda.
Officers: R. C. Golden, president/CEO; J.D. Ryan, senior vp; M.G. Randall, senior vp-casualty; H.C. Scully, vp-casualty.
Membership: Brokers & Reinsurance Markets Assn.

Holbom Agency Corp.

90 John St., New York, N.Y. 10038; 212-267-0224; fax: 212-964-0919

	1992	1991
Premium volume	NA	NA
% Treaty	100%	100%

Continued on page 56

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MAILING ADDRESS: SUITE #653, 48 PAR-LA-VILLE ROAD, HAMILTON, HM11, BERMUDA

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Spotlight report

Continued from page 54

	1992	1991
Gross revenues	NA	NA
Total employees	49	40
Treaty	49	40

Founded: 1920.
Specialties: Property and casualty.
Licensed in: New York.
Conducts business: Nationwide.
Officers: John N. Gilbert Jr., president; James A. Cathcart III, executive vp; Joseph N. Gaffney, senior vp.
Contact: Michael S. White, vp.
Membership: Brokers & Reinsurance Markets Assn.

I

IOC Reinsurance Brokers Ltd.

67 Yonge St., Suite 902, Toronto, Ontario M5E 1J8, 416-863-6665; fax: 416-863-3961

	1992	1991
Premium volume	$52,000,000	$45,000,000
% Treaty	92.5%	90.0%
% Facultative	7.5%	10.0%
Gross revenues	NA	NA
Total employees	17	14
Treaty	14	8
Facultative	3	2

Founded: 1980.
Parent: Minet Re North America.
Conducts business in: Canada, Caribbean, Latin America.
Officers: Bob Inksater, Joe O'Connell, directors.
Contact: Michael Dodd, vp-finance/administration.

Independent Brokers Ltd.

20 Reid St., P.O. Box HM 2070, Hamilton HM HX, Bermuda; 809-295-1646; fax: 809-292-8062

	1992	1991
Premium volume	$3,500,000	$3,100,000
% Treaty	52%	43%
% Facultative	48%	57%
Gross revenues	$140,000	$124,000
Total employees	7	7
Treaty	2	2
Facultative	2	2

Founded: 1984.
Parent: Independent Management Group Ltd..
Specialties: Medical malpractice, excess liability, property catastrophe.
Licensed in: Bermuda.
Conducts business in: Bermuda.
Officers: Peter J.N. Strons, president.

Industrial Re-International Inc.

One Wall Street Court, Suite 403, New York, N.Y. 10005; 212-425-4683; fax: 212-425-4340

	1992	1991
Premium volume	$8,100,000	$6,500,000
% Treaty	40%	10%
% Facultative	60%	90%
Gross revenues	NA	NA
Total employees	8	8
Treaty	3	2
Facultative	2	3

Founded: 1987.
Licensed in: New York.
Conducts business in: New York.
Officers: Rene Gutierrez, president; Richard Durett, Christopher Guzman, directors; Francisco Padilla, CFO.

Innovative Reinsurance Group Inc.

One Penn Square W., Suite 700, Philadelphia, Pa. 19102; 215-564-1511; fax: 215-564-1235

	1992	1991
Premium volume	NA	NA
Gross revenues	NA	NA
Total employees*	10	NA
Treaty*	10	NA

** 1993 figures.*
Founded: 1993.
Specialties: Accident and health, including medical, disability, accidental death and dismemberment and group life.
Conducts business: Nationwide.
Officers: Thomas F. Conners, president; Stuart B. Grodanz, Christopher J. Pfeifer, vps.

Insurance Agency Programs Inc.

59 John St., New York, N.Y. 10038; 212-227-1300; fax: 212-349-1651

	1992	1991
Premium volume	NA	NA
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	5	2
Treaty	4	2

Founded: 1991.
Specialties: Property and casualty treaty reinsurance.
Licensed in: California, Florida, New York.
Conducts business: Nationwide.
Officers: Andrew Barile, president.

Intere Intermediaries Inc.

199 Water St., New York, N.Y. 10038; 212-809-3900; fax: 212-514-5959

	1992	1991
Premium volume	$486,000,000	$486,000,000
% Treaty	100%	100%
Total employees	172	175
Treaty	172	175

Founded: 1919.
Parent: Minet Re North America Inc.
Branch offices: Atlanta; Dallas; Itasca, Ill.; Philadelphia; San Francisco; Topsfield, Mass.
Subsidiaries: Intere (Bermuda) Ltd., Hamilton, Bermuda.
Acquisitions: Bell Nicholson Henderson (U.S.A.) Inc., New York.
Specialties: Domestic and international property and casualty, marine, aviation, life and accident and health.
Licensed in: California, Georgia, Illinois, New York, Pennsylvania, Texas.
Conducts business in: California, Georgia, Illinois, Massachusetts, New York, Pennsylvania, Texas.
Officers: Daniel R. Colello, president/CEO/COO; Wallace E. Winter, vice chairman; Michael G. Woll, senior executive vp/chief administrative officer; Thomas F. McGrath III, senior executive vp; Albert J. Devon Jr., Kenneth R. Fewell, Brian S. Keegan, executive vps; Robert J. Hedges, president-Intere (Bermuda) Ltd.
Contact: Daniel R. Colello.
Membership: Brokers & Reinsurance Markets Assn.

International Risk Brokers Ltd.

Belvedere Building, Pitts Bay Road, P.O. Box HM 660, Hamilton HM CX, Bermuda; 809-295-0713; fax: 809-295-1712

Founded: 1993.
Parent: International Risk Management Group Ltd.
Specialties: Finite risk reinsurance, property catastrophe, captive reinsurance.
Licensed in: Bermuda.
Conducts business in: Bermuda.
Officers: Arthur H Deters, president; John G. Walsh, senior vp.
Contact: John G. Walsh.

J

JBW & Co. Inc.

1450-C Enea Circle, Suite 690, Concord, Calif. 94520; 510-680-8060; fax: 510-680-1421

	1992	1991
Premium volume	$78,000,000	$27,700,000
% Treaty	100%	100%
Gross revenues	$2,200,000	$1,400,000
Total employees	23	24
Treaty	22	24

Founded: 1980.
Parent: Concord General Corp.
Branch offices: Dallas; East Meadow, N.Y.; Newark, Ohio.
Specialties: General property (including catastrophe) and liability, non-standard auto liability and physical damage, some professional liability classes; commercial auto, some accident and health and medical.
Licensed in: California, New York.
Conducts business: Nationwide.
Officers: Jeff Beresford-Wood, chairman; Roland Roth, president; Tom Thie, Phil Russo, executive vps; Peter Norton, John Broadnax, Ed Lukco, Don Nixon, Phil Cawley, senior vps.
Contact: Peter O. Norton.

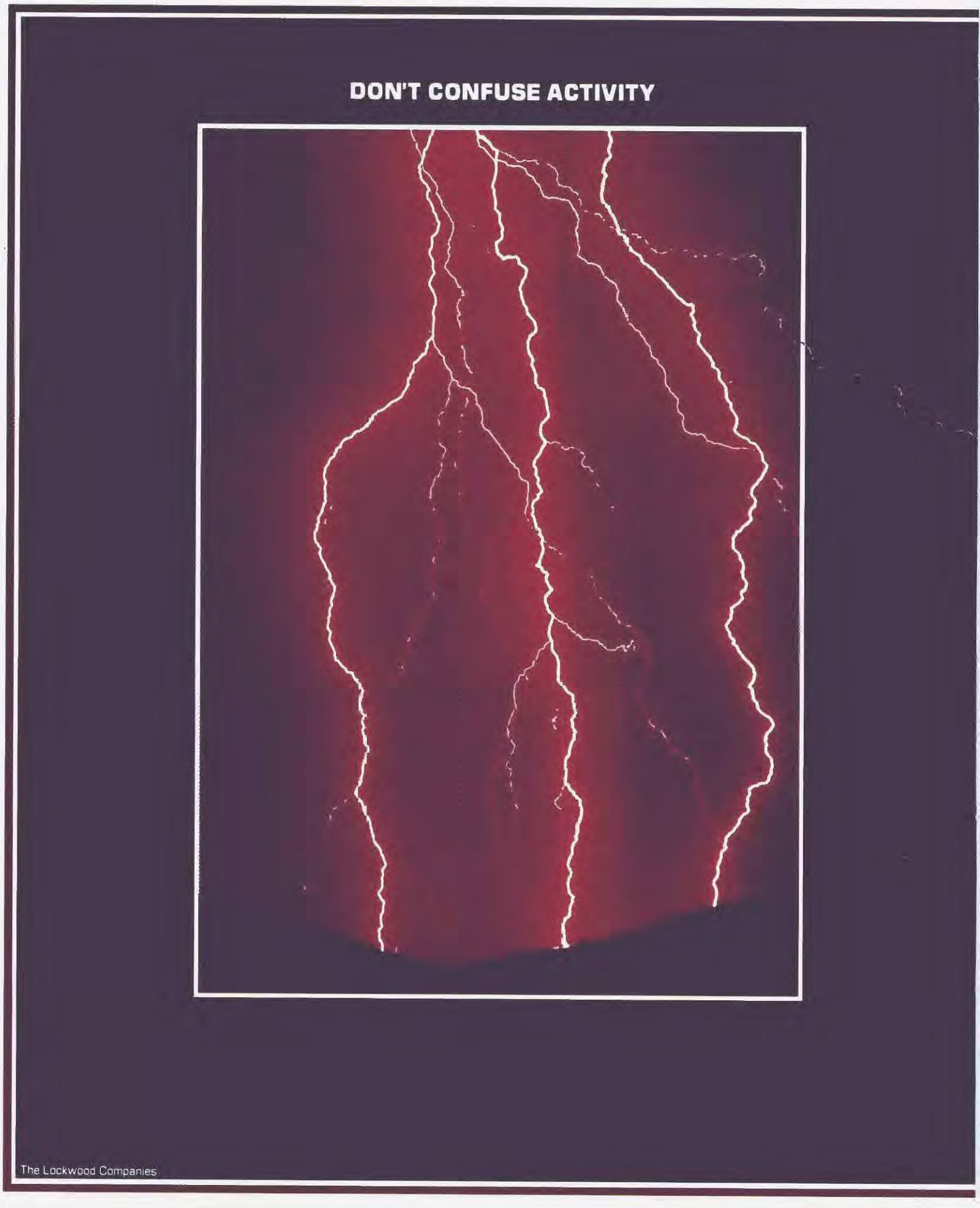
Johnson & Higgins Intermediaries

P.O. Box HM 68, Victoria Hall, Victoria St., Hamilton HM HX, Bermuda; 809-292-1552; fax: 809-292-2091

	1992	1991
Premium volume	NA	NA
Gross revenues	NA	NA
Total employees	24	21
Treaty	1	NA
Facultative	1	NA

Founded: 1978.
Parent: Johnson & Higgins.

Continued on next page



Continued from previous page

Specialties: Direct offshore alternative market excess liability, directors and officers, professional and fiduciary liability, facultative reinsurance and captive orientated reinsurance programs, financial reinsurance and derivative products, catastrophe reinsurance.
Licensed in: Bermuda.
Conducts business: Worldwide.
Officers: Brian R. Hall, chairman; L. John Goldberg, senior vp/manager; Cathy Lord, Sheila Nicoll, Tony Hay, Mike Cobb, Joanne Gosling, vps.

J.B. Johnson Intermediary Inc.

1776 Woodstead Court, Suite 228, P.O. Box 8508, The Woodlands, Texas 77387; 713-292-4023; fax: 713-292-1106

	1992	1991
Premium volume	**$20,000,000**	$25,000,000
% Treaty	**100%**	100%
Gross revenues	**NA**	NA
Total employees	**4**	4
Treaty	**4**	4

Founded: 1979.
Specialties: Life, accident and health, occupational accident, self-funded.
Licensed in: New York, Texas.
Conducts business in: Arizona, Florida, Kentucky, Louisiana, Minnesota, New Jersey, New Mexico, Oklahoma, Pennsylvania, Texas, Utah.
Officers: Joel B. Johnson II, president; Molly K. Johnson, secretary/treasurer.
Contact: Joel B. Johnson II.

K

J.L. Kelley Inc.

784 Franklin Ave., Franklin Lakes, N.J. 07417; 201-891-7920; fax: 201-891-6956

	1992	1991
Premium volume	**$88,000,000**	$93,000,000
% Treaty	**99%**	92%
% Facultative	**1%**	8%
Gross revenues	**NA**	NA

Founded: 1975.
Parent: Kelley Holdings Inc.
Specialties: Special risk casualty and property, including professional liabilities, accident and health and life.
Licensed in: Minnesota, New York.
Conducts business: Nationwide.
Officers: Joseph L. Kelley, chairman; David Gilligan, president/CEO; James Bishopp, senior vp; Edward J. Kelley, senior vp/general counsel.

Kirkway International Ltd.

Belvedere Building, Pitts Bay Road, P.O. Box HM2340, Hamilton HM JX, Bermuda; 809-292-7569; fax: 809-292-3299

	1992	1991
Premium volume	**NA**	NA
Gross revenues	**NA**	NA
Total employees	**2**	2
Treaty	**2**	2

Founded: 1982.
Specialties: Property and casualty treaty reinsurance, including captive, financial/finite, self insured workers compensation, surety, low level casualty, Bermuda market property catastrophe.
Licensed in: Bermuda.
Conducts business in: Bermuda.
Officers: Michael Woodroffe, president.

L

Le Blanc de Nicolay U.S. Inc.

140 E. 45th St., New York, N.Y. 10017; 212-972-7090; fax: 212-687-4852

	1992	1991
Premium volume	**$55,000,000**	$45,000,000
% Treaty	**100%**	100%
Gross revenues	**$854,705**	$811,958
Total employees	**9**	7
Treaty	**9**	7

Founded: 1986.
Parent: Le Blanc de Nicolay Reassurance.
Specialties: Property and casualty; life, accident and health; credit and financial risks; international risks; marine and aviation.
Licensed in: New York.
Conducts business: Worldwide.
Officers: Gilles Lorans, president; Frank McCranie, executive vp; William H. Asay, vp; Ryoko Mochizuki, assistant vp; Xanthe Kalids, assistant secretary

W.J. Lehrke Co.

6600 France Ave. S., Edina, Minn. 55435; 612-920-1667; fax: 612-920-2039

	1992	1991
Premium volume	**NA**	NA
% Treaty	**98%**	98%
% Facultative	**2%**	2%
Gross revenues	**NA**	NA
Total employees	**10**	10
Treaty	**4**	4
Facultative	**2**	2

Founded: 1973.
Specialties: Variable retention excess of loss reinsurance, catastrophe or loss ratio excess of loss reinsurance.
Licensed in: Minnesota, New York.
Conducts business in: Iowa, Kansas, Michigan, Minnesota, Ohio.
Officers: Thomas A. Lehrke, president; S.D. Sorensen, vp; Matk Noack, assistant vp; W.J. Lehrke, secretary.

Lincoln National Intermediaries

1 Reinsurance Place, 1700 Magnavox Way, P.O. Box 7808, Fort Wayne, Ind. 46801-7808; 219-455-3290; fax: 219-455-1200

	1992	1991
Premium volume	**NA**	NA
% Facultative	**100%**	100%
Gross revenues	**$5,147,224**	$5,646,830
Total employees	**27**	27
Facultative	**27**	27

Founded: 1982.
Parent: Lincoln National Corp.
Specialties: Financial reinsurance.
Licensed in: New York.
Conducts business: Nationwide.
Officers: Kenneth J. Clark, president; Louis D. Fisher, Thomas E. Skillman, vps.
Contact: Kenneth J. Clark.

Edward Lloyd Ltd.

100 Merrick Road, Suite 510 W., Rockville Centre, N.Y. 11570; 516-763-9320; fax: 516-763-6722

	1992	1991
Premium volume	**$5,000,000**	$7,000,000
% Treaty	**5%**	5%
% Facultative	**95%**	95%
Gross revenues	**$500,000**	$500,000
Total employees	**4**	3

Founded: 1983.
Parent: Lowndes Lambert Group.
Specialties: International/global and reverse flow reinsurance.
Licensed in: New York.
Conducts business: Worldwide.
Officers: John Mannix, president; Rambha A. Shukla, vp.

Stephen J. Lockwood & Co.

401 Edgewater Place, Wakefield, Mass. 01880; 617-245-4559; fax: 617-245-0052

	1992	1991
Premium volume	**$83,000,000**	$87,000,000
% Treaty	**97%**	97%
% Facultative	**3%**	3%
Gross revenues	**NA**	NA
Total employees	**11**	11

Founded: 1977.
Parent: LDG Management Co. Inc.
Branch offices: New York.
Specialties: Occupational accident, aviation, workers compensation carve out, specific and aggregate medical stop loss, special risk accident and health.
Licensed in: Illinois, Massachusetts, New York.
Conducts business: Worldwide.
Officers: Stephen J. Lockwood, president; Carolyn A. Kirwin, Robert E. LaPorta, Donald V. Reilly, senior vps; Jerilynn M. Ross, vp; Denise MacNevin, assistant vp.
Contact: Jerilynn M. Ross.

M

M.I.M. Inc.

P.O. Box 260148, Highlands Ranch, Colo. 80126-0148; 303-791-8370; fax: 303-791-8372

	1992	1991
Premium volume	**$2,100,000**	NA
% Treaty	**85%**	NA
% Facultative	**15%**	NA
Gross revenues	**$250,000**	NA
Total employees	**3**	NA
Treaty	**2**	NA
Facultative	**1**	NA

Continued on next page

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Continued from previous page

Founded: 1992.
Specialties: Alternative risk programs for groups and corporate risk of product liability, professional liability and workers compensation.
Licensed in: Colorado, Florida, Nebraska, New Mexico, New York, North Carolina.
Conducts business in: Colorado, Florida, Georgia, Mississippi, New Mexico, New York, North Carolina, Texas.
Officers: Anne O. Morgan, president; C. Fred Morgan, secretary/treasurer; John M. Morgan, assistant vp/assistant secretary.
Contact: C. Fred Morgan.

Manhattan Intermediaries Inc.

45 John St., New York, N.Y. 10038; 212-608-1849; fax: 212-406-9186

	1992	1991
Premium volume	NA	NA
Gross revenues	NA	NA
Total employees	1	1
Treaty	1	1

Founded: 1989.
Specialties: International, surety, credit and financial guaranty.
Licensed in: New York.
Conducts business in: New York.
Officers: Rachel Treichler, president.

Meadowbrook Intermediaries Inc.

144 E. 44th St., Third Floor, New York, N.Y. 10017; 212-297-1800; fax: 212-297-1802

	1992	1991
Premium volume	$3,500,000	$2,700,000
% Treaty	100%	100%
Gross revenues	$650,000	$507,000
Total employees	5	5
Treaty	5	5

Founded: 1985.
Parent: Meadowbrook Insurance Group.
Specialties: Alternative risk, including professional liability, product liability, municipal liability.
Licensed in: New York.
Conducts business: Nationwide.
Officers: Joseph Fahys, president; Tansukh Maru, Laura M. Segal, assistant vps.
Contact: Joseph Fahys.

N

National Intermediaries Inc.

777 Long Ridge Road, Stamford, Conn. 06904; 203-329-7700; fax: 203-329-9027

	1992	1991
Premium volume	NA	NA
% Treaty	99%	99%
% Facultative	1%	1%
Gross revenues	NA	NA
Total employees	8	7

Founded: 1976.
Parent: National Reinsurance Corp.
Licensed in: New York.
Conducts business: Nationwide.
Officers: Robert Eager, president; Carl Zuanelli, executive vp; James Brautigam, vp; Renee Walter, assistant secretary.
Contact: Carl Zuanelli.

Northern States Intermediaries Inc.

206 S. Main St., Stowe, Vt. 05672; 802-244-8607; fax: 802-253-6986

	1992	1991
Premium volume	$1,700,000	$1,450,000
% Treaty	30%	25%
% Facultative	70%	75%
Gross revenues	NA	NA
Total employees	2	2

Founded: 1989.
Parent: Northern States Management Inc.
Specialties: Workers compensation, general liability, medical malpractice, professional liability.
Licensed in: New York.
Conducts business: Nationwide.
Officers: John J. Middleton, president; C.D. Jones, secretary/treasurer.
Contact: John J. Middleton.
Membership: Brokers & Reinsurance Markets Assn.

P

PWS Holdings P.L.C.

52-26 Minories, London EC3N 1JJ, England; 44-71-480-6622; fax: 44-71-702-1689

	1992	1991
Premium volume	$479,000,000	$450,000,000
% Treaty	8%	12%
% Facultative	92%	88%
Gross revenues	$29,900,000	$32,500,000
Total employees	283	276
Treaty	20	20
Facultative	60	60

Founded: 1964.
Branch offices: New York; Copenhagen, Denmark; Guernsey, U.K.; Hamilton, Bermuda; Singapore; Warsaw, Poland.
Subsidiaries: Burns-Crosson Ltd.; Dunas A.G.; PWS Asia Pacific; PWS Energy; PWS International; PWS International Poland S.A.; PWS Life & Pensions; PWS North America; PWS Overseas Holdings; PWS South Africa PTY.; PWS USA Inc.; Thurgood, Farmer & Hackett.
Acquisitions: Burns-Crosson Ltd., U.K.
Specialties: International and U.S. domestic property and casualty, international property and casualty treaty, accident and health-facultative and treaty, international and domestic energy, aviation excess of loss, directors and officers, financial, Canadian binders and marine insurance services.
Licensed in: New York.
Conducts business: Nationwide.
Officers: C.E. Aman III, director/vp-PWS (USA) Inc.; P.J. English, group managing director-London; Kevin Hubbard, international director-London.
Contact: U.S.: Charles E. Aman III, 212-791-9350. London: Peter J. English or Kevin Hubbard, 44-71-480-6622.

Park International Ltd.

P.O. Box HM 2064, Hamilton HM HX, Bermuda; 809-295-7396; fax: 809-295-6052

	1992	1991
Premium volume	$10,000,000	NA
% Treaty	100%	NA
Gross revenues	$200,000	NA
Total employees	4	NA
Treaty	4	NA

Founded: 1973; began brokering reinsurance in 1992.
Parent: Mutual Risk Management Ltd.
Specialties: Wholesale reinsurance brokering in all Bermuda markets, including catastrophe reinsurance facilities.
Licensed in: Bermuda.
Conducts business in: Bermuda.
Officers: Paul Scope, president; Stephen Dean, Nan Pollock Griffiths, vps.
Contact: Stephen Dean.

Pearson & Georgi International Inc.

117 Washington St., Hoboken, N.J. 07030; 201-656-0800; fax: 201-656-3412

	1992	1991
Premium volume	$80,000,000	$87,000,000
% Treaty	50%	90%
% Facultative	50%	10%
Gross revenues	$1,800,000	$2,000,000
Total employees	22	28
Treaty	11	24
Facultative	11	4

Founded: 1979.
Parent: Pearson & Georgi Holdings Inc.
Branch offices: Athens, Greece.
Specialties: Marine, aviation, property and casualty, life, accident and health.
Licensed in: New Jersey.
Conducts business: Worldwide.
Officers: F.H. Pearson, chairman; E.G. Georgi, president/CEO; R.A. Agatep, executive vp; A. Tasciyan, vp; G. Petropoulos, managing director-Pearson & Georgi (Europe) Ltd.

Donald B. Peat & Associates Inc.

2201 Cantu Court, Suite 200, Sarasota, Fla. 34232; 813-379-9122; fax: 813-379-6167

	1992	1991
Premium volume	$7,500,000	NA
% Treaty	100%	NA
Gross revenues	NA	NA
Total employees	4	4
Treaty	2	2

Founded: 1992.
Parent: Donald B. Peat & Associates Inc.
Specialties: Property, casualty, life, accident and health.

Continued on page 60

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520 Eagleview Blvd., P.O. Box 636, Exton, PA 19341. Or call (800) ECS-1414 (In PA (215) 458-0570), FAX (215) 458-8667.

These programs are underwritten by Planet Insurance Company, Philadelphia, PA, a member of the Reliance Insurance Group. 93-11-PRL-11/1 *© 1993*
**Not available in all states at this time.*

Continued from page 58

Licensed in: Florida, New York, Pennsylvania.
Conducts business: Nationwide.
Officers: Donald B. Peat, president.

Pegasus Advisors Inc.

86 Hopmeadow St., P.O. Box 393, Simsbury, Conn. 06070; 203-651-0641; fax: 203-658-5470

	1992	1991
Premium volume	NA	NA
% Treaty	100%	100%
Gross revenues	$1,464,000	$1,509,600
Total employees	5	5
Treaty	5	5

Founded: 1989.
Parent: Medical Brokers Inc.
Specialties: Non-traditional reinsurance coverages, including partially funded covers, finite risk covers and blended covers.
Licensed in: New York.
Conducts business: Nationwide.
Officers: Gregory E. Leonard, president/CEO; Lawrence G. Frank, vp; Joseph Abbott, assistant vp.
Contact: Rose Komanetsky.

Peglar & Associates Inc.

1150 Summer St., Stamford, Conn. 06905; 203-325-0863; fax: 203-359-2658

	1992	1991
Premium volume	NA	NA
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	15	15
Treaty	15	15

Founded: 1986.
Branch offices: Philadelphia.
Specialties: Property and casualty treaty reinsurance.
Licensed in: New York.
Conducts business in: California, Colorado, Connecticut, Florida, Georgia, Illinois, Massachusetts, Missouri, New Jersey, New Mexico, New York, Pennsylvania, Texas.
Officers: Robb K. Peglar, president/CEO; Charles A. Morton, secretary/treasurer/CFO; Michael J. Moran, George F. Baumann, vps.
Contact: Meredith B. DiLeo, director-administrative services.

Preferred Reinsurance Intermediaries Inc.

14 Monckton Blvd., Columbia, S.C. 29206; 803-790-4800; fax: 803-790-4825

	1992	1991
Premium volume	$83,000,000	$72,000,000
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	21	21
Treaty	21	21

Founded: 1983.
Branch offices: Port Washington, N.Y.; Woodland Hills, Calif.
Licensed in: California, Florida, New York.
Conducts business: Nationwide.
Officers: Robert H. Sanders, president; Karen N. Basso, senior vp; David L. Coulter, Kevin M. Elmore, S. Oliver Hines, Robert P. Hodson, Veritha W. Lee, vps; Florence E. Wayne, treaty marketing representative.
Contact: Charles Perry.

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Q

QSX Re (North America) Inc.

1812 Front St., Scotch Plains, N.J. 07076-1103; 908-322-2630; fax: 908-322-4975

	1992	1991
Premium volume	NA	NA
% Treaty	60%	NA
% Facultative	40%	NA
Gross revenues	NA	NA
Total employees	4	NA

Founded: 1991.
Parent: QSX European Reinsurance Intermediaries B.V.
Branch offices: Netherlands.
Specialties: Commercial property, domestic and international facultative and treaty.
Licensed in: New York.
Conducts business: Nationwide.
Officers: Willem P. Schuil, managing director-QSX Re Europe; Juergen Brendel, president.

R

REC Intermediaries Inc.

1117 Perimeter Center West, Atlanta, Ga. 30338; 404-392-9541; fax: 404-393-1541

	1992	1991
Premium volume	$120,000,000	$120,000,000
% Facultative	100%	100%
Gross revenues	NA	NA
Total employees	78	85
Facultative	78	85

Founded: 1972.
Parent: Minet Re North America Inc.
Branch offices: Dallas; Hartford, Conn.; Itasca, Ill.; Los Angeles; New York; Philadelphia; San Francisco.
Specialties: Domestic, international and global facultative reinsurance.
Licensed in: California, Georgia, Illinois, New York, Pennsylvania, Texas.
Conducts business in: California, Connecticut, Georgia, Illinois, Minnesota, New York, Pennsylvania, Texas.
Officers: Daniel R. Colello, president/CEO; Michael G. Woll, senior vp-chief administrative officer; Robert L. Mendes, senior vp-general counsel; Charles M. Caporale, senior vp-treasurer; Ronald C. Fazio, secretary; Kenneth R. Fewell, executive vp; Albert J. Devon Jr., Thomas F. McGrath III, Nicholas Mesogiones, Robert Mikalouskas, senior vps.
Contact: Kenneth R. Fewell.

Re Advisory Services Inc.

1 Morningside Drive N., Westport, Conn. 06880; 203-222-8776; fax: 203-226-1881

	1992	1991
Premium volume	$14,000,000	$700,000
% Treaty	100%	NA
Gross revenues	NA	NA
Total employees	7	NA
Treaty	7	NA

Founded: 1991.
Specialties: Medical malpractice, environmental, municipal liability lines, special situation property catastrophe business, reinsurance consulting and intermediary services.
Licensed in: Connecticut, New York.
Conducts business: Nationwide.
Officers: Peter B. Scanlan, president; Roland M. Pike, Geoffrey A. Axt, vps; James J. Cincotta, assistant vp; Jeanne C. Kehoe, secretary.
Contact: Teri Richards.

Re/Insurance Brokers Inc.

100 Brookwood Place, Suite 605, Birmingham, Ala.; 205-871-4949; fax: 205-871-4950

	1992	1991
Premium volume	$9,020,000	$10,226,500
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	2	2
Treaty	2	2

Founded: 1990.
Specialties: Professional liability, airline pilot disability reinsurance, directors and officers, accident and health, excess workers compensation.
Conducts business: Nationwide.
Officers: Dale Busby, president.

Reinsurance Brokers Co.

3545 N. I-10 Service Road, Metairie, La. 70002; 504-455-4545; fax: 504-455-9449

	1992	1991
Premium volume	$2,500,000	$3,000,000
% Facultative	100%	100%
Gross revenues	$90,000	$100,000
Total employees	3	3
Facultative	3	3

Founded: 1982.

Continued on next page

Continued from previous page

Parent: Hilb, Rogal & Hamilton Co.
Specialties: Property, casualty, marine, aviation, international.
Licensed in: Louisiana.
Conducts business: Nationwide, Bermuda and Europe.
Officers: J. William Sherar, president; William G. Sherar, Virginia M. Baber, vps.

ReSOURCE Intermediary Group Ltd.

200 Berwyn Park, Suite 110, Berwyn, Pa. 19312; 215-647-9500; fax: 215-647-4329

	1992	1991
Premium volume	$184,512,000	$142,760,000
% Treaty	100%	100%
Gross revenues	$2,185,017	$1,971,041
Total employees	26	24
Treaty	17	16

Founded: 1987.
Acquisitions: Summit National Life Insurance Co., EBL Life Insurance Co., The Fidelity General Life Insurance Co., SNL Reality Corp.
Specialties: Life, health, property and casualty reinsurance.
Licensed in: New York, Pennsylvania.
Conducts business: Nationwide.
Officers: Larry E. Fondren, president; Alan D. Rudolph, vp; Gerard Scarpati, vp/controller; Karyl J. Wittlinger, vp/secretary/treasurer.
Contact: Larry E. Fondren.

S

John D. Sayer & Co.

Princeton Pike Corporate Center, 1009 Lenox Drive, P.O. Box 6400, Lawrenceville, N.J. 08648-0400; 609-896-0555; fax: 609-896-2666

	1992	1991
Premium volume	$140,000,000	$100,000,000
% Treaty	100%	100%
Gross revenues	$6,200,000	$4,700,000
Total employees	25	17
Treaty	25	17

Founded: 1979.
Parent: JIB Group P.L.C.
Specialties: Surety, accident and health, medical, marine and aviation, workers compensation, automatic facultative.
Licensed in: New York.
Conducts business: Nationwide.
Officers: John D. Sayer, president; John S. Yeuroukis, executive vp; John E. Januszewski Jr., vp/controller; Joseph A. Zaffarese, Demerest S. Newman, Richard Moody, senior vps; Richard Stary, vp; Jeanne Sundberg, vp-administration.

Sedgwick Payne Co./ Crump Re

1501 Fourth Ave., Suite 1400, Seattle, Wash. 98101; 206-223-1200; fax: 206-625-6926

	1992	1991
Premium volume	$1.25 billion	$1.20 billion
% Treaty	80%	80%
% Facultative	20%	20%
Gross revenues*	$62,500,000	$60,000,000
Total employees	425	430
Treaty	300	305
Facultative	125	125

* *BI* estimates.
Founded: 1928.
Parent: Sedgwick Group P.L.C.
Branch offices: Atlanta; Chicago; Dallas; Hartford, Conn.; Los Angeles; Minneapolis; New York; Philadelphia; San Francisco; Vancouver and Toronto, Canada.
Specialties: All major lines of reinsurance and most specialty categories; facultative specialist in property and casualty, international program business and financial reinsurance.
Licensed in: California, Illinois, Minnesota, New York, Texas.
Conducts business: Nationwide.
Officers: Salvatore D. Zaffino, president/CEO; Roger Espe, charman; Jerry Browning, president-Crump Re.
Contact: Salvatore D. Zaffino, 203-727-9727.
Membership: Brokers & Reinsurance Markets Assn.

Smyth, Sanford & Gerard (C.C. King & Co.)

135 William St., New York, N.Y. 10038; 212-374-1323; fax: 212-587-4170

	1992	1991
Premium volume	$42,500,000	$30,000,000
% Treaty	35%	37%
% Facultative	65%	63%
Gross revenues	NA	NA
Total employees	20	16
Treaty	6	6
Facultative	14	7

Founded: 1987.
Branch offices: Coral Gables, Fla.
Specialties: Engineering, machinery breakdown; technical property lines, international.
Licensed in: Florida, New York.
Conducts business in: Florida, New York.
Officers: Douglas L. King, president; Carl J. Casale, Thomas C. Chiappa, senior vps; Geraldine Froget, executive vp-Florida; Eugene R. Melski, senior vp-Florida.
Contact: Douglas L. King.

Specialty Reinsurance Intermediaries Inc.

600 Unicorn Park Drive, Woburn, Mass. 01801; 617-938-7100; fax: 617-938-0996

	1992	1991
Premium volume	NA	NA
Gross revenues	NA	NA
Total employees	3	NA
Treaty	1.5	NA
Facultative	1.5	NA

Founded: 1991.
Specialties: Personal accident, occupational accident, sports/entertainment, contingency.
Licensed in: New York.
Conducts business in: Massachusetts.
Officers: Edward A. Dipple, chairman/CEO; Candace J. Hallett, president; Kimberly A. Collins, treasurer.
Contact: Candace J. Hallett or Kimberly A. Collins.

Sterling Universal Ltd.

4 King St. W., Toronto, Ontario M5H 1B6, Canada; 416-364-7231; fax: 416-364-6826

	1992	1991
Premium volume	$225,000,000	$205,000,000
% Treaty	97%	98%
% Facultative	3%	2%
Gross revenues	$13,000,000	$11,000,000
Total employees	85	82
Treaty	28	26
Facultative	2	2

Founded: 1940.
Parent: Alexander & Alexander.
Branch offices: Montreal.
Licensed in: New York, Canada (all provinces), Jamaica.
Conducts business in: Antigua, Barbados, Bermuda, Canada, Jamaica, Panama, Puerto Rico, Trinidad & Tobago and all English speaking islands.
Officers: Bent Sorensen, president; Malcolm Thorn, executive vp; John D. Holmes, senior vp/secretary; Pierre Asselin, senior vp/branch manager-Quebec; Gerd Crutcher, Robert McLean, Michael Mulville, Paul Mittertreiner, David Warrer., senior vps.
Contact: Bent Sorensen.

G.J. Sullivan Co.

800 W. Sixth St., Los Angeles, Calif. 90017; 213-626-1000; fax: 213-622-5921

	1992	1991
Premium volume	$278,000,000	$257,000,000
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	53	50
Treaty	53	50

Founded: 1980.
Parent: Gerald J. Sullivan & Associates.
Branch offices: Atlanta; Seattle; Stamford, Conn.
Subsidiaries: G.J. Sullivan Co. Ltd., Toronto.
Specialties: Surety, professional liability, workers compensation, finite and financial.
Licensed in: New York.
Conducts business: Nationwide and Canada.
Officers: Gerald J. Sullivan, chairman/CEO; Ronald J. Taylor, president/COO; J.F. Sullivan Jr., vice chairman.
Contact: Ronald J. Taylor, 203-363-5000.

T

THB Intermediaries Inc.

3333 Wilshire Blvd., Suite 711, Los Angeles, Calif. 90010; 213-388-6630; fax: 213-388-9117

	1992	1991
Premium volume	$24,500,000	$28,500,000
% Facultative	100%	100%
Gross revenues	$2,000,949	$2,147,000
Total employees	22	22
Facultative	22	22

Founded: 1984.
Parent: Near North National Group.
Branch offices: Chicago, New York.
Licensed in: New York.
Conducts business: Nationwide.
Officers: V.H Thompson, CEO; L.S. Parks, senior vp-Los Angeles; D. DiClemente, senior vp-New York; W. Ullmann, senior vp-Chicago; L.A. Miles, vp/CFO; C. Taylor vp-claims.
Contact: Richard DiClemente, 212-558-6630 or Vic Thompson, (213) 388-6630.

Tanenbaum-Harber Reinsurance Intermediaries Inc.

320 W. 57th St., New York, N.Y. 10019; 212-603-0362; fax: 212-582-6256

	1992	1991
Premium volume	$48,000,000	$42,000,000
% Treaty	98%	95%
% Facultative	2%	5%
Gross revenues	$1,744,000	$883,000
Total employees	6	7
Treaty	6	7

Founded: 1986.
Parent: Tannenbaum Harber Co. Inc.
Specialties: Property, casualty, life and health; includes reinsurance for small companies, risk retention groups, specialized casualty products and managed care.
Licensed in: New York.
Conducts business: Nationwide.
Officers: Walter L. Harris, chairman; Ronnie Ellen Raymond, president; Juan Carlos Maldonado, controller.
Contact: Ronnie Ellen Raymond.

Totsch Enterprises Inc.

8303 W. Higgins Road, Suite 500, Chicago, Ill. 60631; 312-380-8040; fax: 312-380-8054

	1992	1991
Premium volume	NA	NA
% Treaty	97%	95%
% Facultative	3%	5%
Gross revenues	NA	NA
Total employees	6	5
Treaty	5	4.5
Facultative	1	0.5

Founded: 1978.
Specialties: Property, casualty, crop.
Licensed in: New York.
Conducts business: Nationwide and Canada.

Continued on next page

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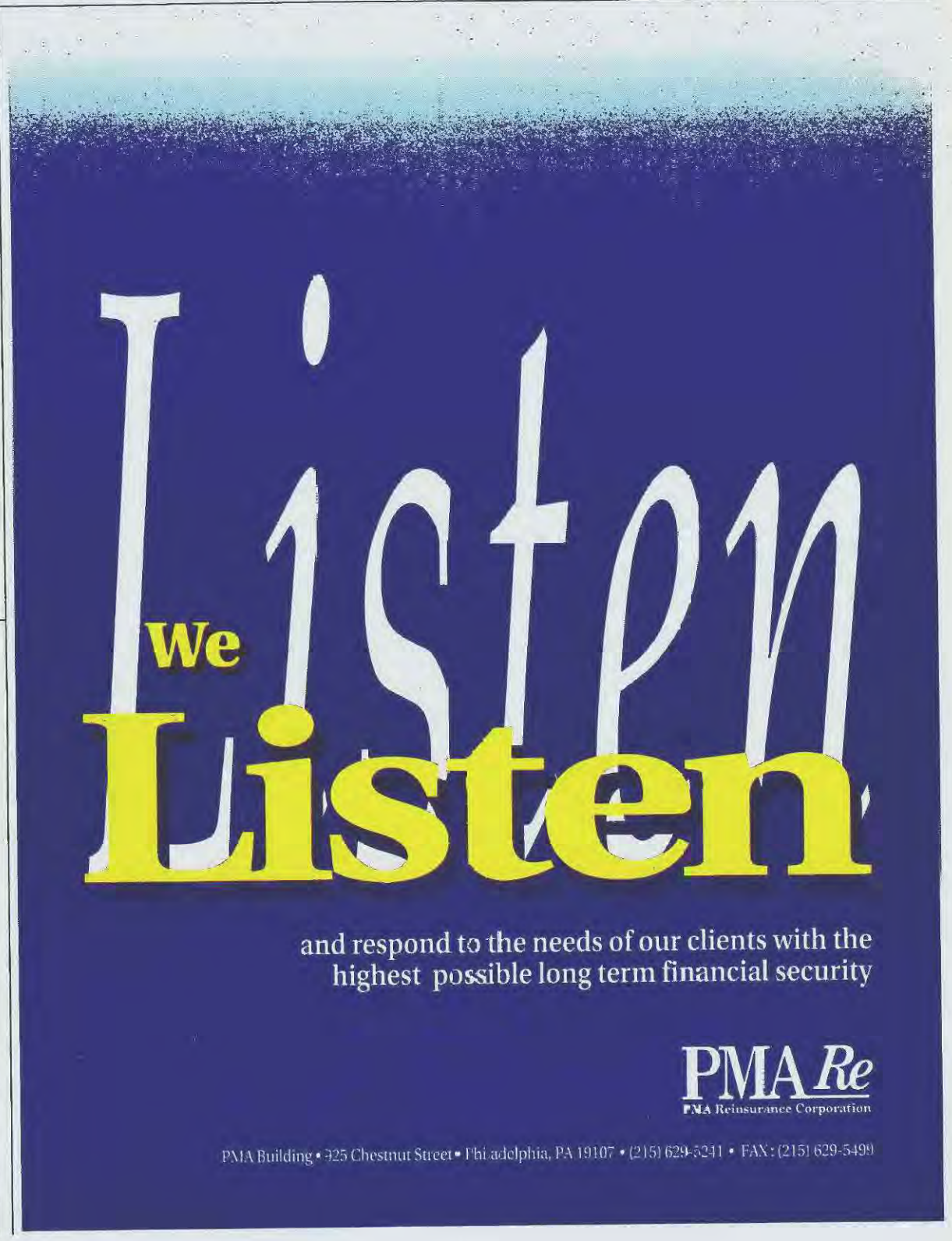
CityPlace II, 185 Asylum Street, Hartford, CT 06103



Continued from previous page

Officers: Marvin D. Totsch, president; Mary Ellen Totsch, secretary/treasurer; Robert L. Totsch, William E. Totsch, vps.

Towers Perrin Reinsurance

1735 Market St., Mellon Bank Center, Philadelphia, Pa. 19103; 215-963-7700; fax: 215-963-7873

	1992	1991
Premium volume	$550,000,000	$525,000,000
% Treaty	92%	92%
% Facultative	8%	8%
Gross revenues	$37,000,000	$35,000,000
Total employees	197	197
Treaty	90	90
Facultative	10	10

Founded: 1934.
Parent: Towers Perrin.
Branch offices: Hartford and Stamford, Conn.; Los Angeles and San Francisco, Calif.
Specialties: Accident and health, managed care, professional liability.

Licensed in: California, New York.
Conducts business: Nationwide.
Officers: Philip W. Mitchell, managing director/CEO; Jacobus J. Van de Graaf, senior vp/COO; William H. Eyre Jr., Christopher T. Brockett, Patrick J. McFadden, Edwin W. Raynolds, senior vps; Mary K. O'Gorman, vp.
Contact: Philip W. Mitchell.
Membership: Brokers & Reinsurance Markets Assn.

Tretis Group Inc.

101 Spear St., Suite 200, San Francisco, Calif. 94105; 415-495-3555; fax: 415-495-6735

	1992	1991
Premium volume	NA	$80,000,000
% Treaty	100%	100%
Gross revenues	NA	$3,972,000
Total employees	20	26
Treaty	20	26

Founded: 1986.
Specialties: Property, casualty, finite financial risk, life, workers compensation.

Licensed in: California, New York.
Conducts business: Nationwide.
Officers: Robert N. Tremelling II, president; John M. Peeke-Vout, Mitch Young, Urban Koagedal, directors.
Contact: John M. Peeke-Vout.

Triangle Reinsurance Intermediaries Ltd.

The Phoenix Building, 2 Reid St., Hamilton HM 11, Bermuda, 809-295-3973; fax: 809-295-3982

	1992	1991
Premium volume	NA	NA
Gross revenues	NA	NA
Total employees	2	NA

Founded: 1993.
Parent: Triangle Holdings Ltd.
Specialties: Accessing Bermuda reinsurers for risks, including property catastrophe reinsurance/per risk excess, captive reinsurance, financial reinsurance/finite risk.
Licensed in: Bermuda.
Conducts business in: Bermuda.
Officers: Thomas W.M. Masters, president; Giles B. North, executive vp.
Contact: Thomas Masters.

U

URTS Reinsurance Intermediaries Inc.

2021 Union Ave., Suite 1110, Montreal, Quebec H3A 259, Canada; 514-284-9326; fax: 514-284-3112

	1992	1991
Premium volume	$10,000,000	$10,000,000
% Treaty	80%	85%
% Facultative	20%	15%
Gross revenues	NA	NA
Total employees	7	8
Treaty	5	5
Facultative	2	3

Founded: 1979.
Parent: The David Group of Cos.
Licensed in: Canada.
Conducts business in: Quebec.
Officers: Raymond David, president; Joseph Lanzo, general manager.
Contact: Joseph Lanzo.

U.S. Re Corp.

99 Park Ave., New York, N.Y. 10016; 212-808-5500; fax: 212-808-5206

	1992	1991
Premium volume	NA	NA
% Treaty	100%	99%
% Facultative	0%	1%
Gross revenues	NA	NA
Total employees	25	19

Founded: 1987.
Parent: U.S. Re Cos. Inc.
Branch offices: Atlanta, Dallas.
Licensed in: California, New York.
Conducts business: Nationwide.
Officers: Tal P. Piccione-president/CEO; Joseph M. Fedor, executive vp; Loic R. Humphreys, Brian R. McGuire, Richard D. Wallace, Grant Fraser, Robert Deboer, James B. Wynn, senior vps; Richard Davies, vp.
Membership: Brokers & Reinsurance Markets Assn.

V

D.W. Van Dyke & Co. of Connecticut Inc.

95 Rowayton Ave., Rowayton, Conn. 06853; 203-855-0499; fax: 302-852-6776

	1992	1991
Premium volume	$1.5 billion	$500,000,000
% Treaty	98%	95%
% Facultative	2%	5%
Gross revenues	NA	NA
Total employees	20	17
Treaty	19	16
Facultative	1	1

Founded: 1978.

Continued on next page

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Continued from previous page

Parent: DDR Holdings Inc.

Specialties: Workers compensation carve-out, surplus relief, capital risk transfer, individual life coinsurance and yearly renewable term life, excess and pro-rata on special risk, accidental death and dismemberment, group life, group long-term disability, individual long-term disability, fully insured medical, high-deductible medical, self-insured medical expense, provider excess, occupational accident, 24-hour medical, catastrophe accident, abnormal mortality stop-loss.

Licensed in: California, New York, Texas.

Conducts business: Worldwide.

Officers: Donald W. Van Dyke II, CEO/chairman; Donald K. Drelich, president/COO; Robert A. Welke, Christopher Koehler, Jeffery M. Jackson, senior vps; Frederick J. Miller Jr., vp; Lauren M. Kennedy, vp/comptroller; Kimberly A. Kulesh, assistant vp.

Contact: Donald W. Van Dyke II.

Vermont Insurance Management Inc.

P.O. Box 306, Montpelier, Vt. 05601; 802-229-5042; fax: 809-229-6280

	1992	1991
Premium volume	$7,800,000	$5,300,000
% Treaty	61%	64%
% Facultative	39%	36%
Gross revenues	NA	NA
Total employees	24	19
Treaty	2	2
Facultative	2	2

Founded: 1980.

Parent: USA Risk Group.

Branch offices: Sarasota, Fla.

Specialties: Captive insurance, risk retention group and alternative market business.

Licensed in: Vermont.

Conducts business: Nationwide.

Officers: H. Lincoln Miller Jr., Michael T. Rogers, G. Wayne Harris.

Contact: Michael T. Rogers.

W

Westport Reinsurance Intermediaries Inc.

205 Highway 9, Freehold, N.J. 07731; 908-431-2406; fax: 908-431-3543

	1992	1991
Premium volume	$12,500,000	$8,000,000
% Treaty	100%	100%
Gross revenues	$350,000	$200,000
Total employees	4	4
Treaty	4	4

Founded: 1991.

Specialties: Accident and health, property and casualty.

Licensed in: New York.

Conducts business: Nationwide.

Officers: Brian Harrigan, president; Kenneth H. French, executive vp; John Brophy, vp; Sharon Brophy, secretary/treasurer.

Contact: Kenneth H. French.

Willcox Inc. Reinsurance Intermediaries

130 John St., New York, N.Y. 10038; 212-952-0650; fax: 212-952-0295

	1992	1991
Premium volume	NA	NA
% Treaty	99%	99%
% Facultative	1%	1%
Gross revenues*	$38,000,000	$34,700,000
Total employees	210	206
Treaty	206	204
Facultative	4	2

* *BI* estimate.

Founded: 1894.

Parent: Johnson & Higgins.

Branch offices: Indianapolis, Los Angeles, Philadelphia, San Francisco, London.

Subsidiaries: Willcox Intermediaries Ltd., London.

Specialties: Treaty property and casualty reinsurance, including marine, aviation, fidelity, surety, financial reinsurance, accident and health, life and international.

Licensed in: California, New York.

Conducts business: Nationwide.

Officers: Willis T. King Jr., chairman/CEO; Robert F. O'Leary, president/COO; Thomas E. Hancock, executive vp; Charles Griffin, Emmett Henry, Lawrence Johnsen, John Rienman, Timothy Rivers, Francis Sickler, Thomas Wafer, senior vps.

Contact: Lawrence P. Johnsen.

Membership: Brokers & Reinsurance Markets Assn.

Willis Corroon/Advanced Risk Management Services

26 Century Blvd., Nashville, Tenn. 37214; 615-872-3200; fax: 615-872-3333

	1992	1991
Premium volume	$38,433,345	$36,033,059
% Treaty	100%	100%
Gross revenues	$2,490,571	$2,412,145
Total employees	9	8
Treaty	9	8

Founded: 1976.

Parent: Willis Corroon P.L.C.

Specialties: Medical malpractice.

Licensed in: Florida, Kentucky.

Conducts business in: Georgia, Kansas, Kentucky, Ohio, Tennessee, Texas, Utah, Wisconsin.

Officers: Manny D. Buzzell, vice chairman-Willis Corroon/ARMS; E. Dow Walker Jr., senior vp-Willis Corroon/ARMS.

Contact: Manny D. Buzzell or E. Dow Walker Jr.

Membership: Brokers & Reinsurance Markets Assn.

Willis Corroon (Bermuda) Ltd.

P.O. Box HM 1995, Hamilton HM HX, Bermuda; 809-295-1272; fax: 809-295-4143

	1992	1991
Premium volume	NA	NA
% Facultative	100%	100%
Gross revenues	NA	NA

Founded: 1983.

Parent: Willis Faber International Ltd.

Specialties: International reinsurance.

Licensed in: Bermuda.

Conducts business in: Bermuda.

Officers: R.C. Golden, president/CEO; J.D. Ryan, executive vp; M.G. Randall, senior vp-casualty; H.C. Scully, assistant vp-casualty.

Willis Faber North America Inc.*

Wall Street Plaza, New York, N.Y. 10005; 212-344-7600; fax: 212-344-4646

	1992	1991
Premium volume	$500,000,000	$442,000,000
% Treaty	95%	95%
% Facultative	5%	5%
Gross revenues	$25,000,000	$25,000,000
Total employees	200	203

* Formerly G.L. Hodson & Son.

Founded: 1924.

Parent: Willis Corroon Group.

Branch offices: Atlanta; Burlington, N.C.; Los Angeles; Minneapolis; San Francisco; London.

Subsidiaries: Reinsurance Alternatives, Minneapolis.

Specialties: Surety, marine and aviation, life and accident, professional liability, transportation.

Licensed in: California, Minnesota, New York, Texas.

Conducts business: Nationwide.

Officers: James F. Dowd, chairman/CEO; Horace Johnson, Richard E. Swager, executive vps; John R. Cashin, executive vp-marketing; Robert Hykes, Robert Hestwood, Edward G. Johnson, senior vps; Ronald Stanziale, senior vp/CFO.

Contact: John R. Cashin.

Membership: Brokers & Reinsurance Markets Assn.

John P. Woods Co. Inc.

90 William St., New York, N.Y. 10038; 212-785-2500; fax: 212-269-4138

	1992	1991
Premium volume	$500,500,000	$400,500,000
% Treaty	100%	100%
Gross revenues	$16,000,000	$14,523,032
Total employees	55	51
Treaty	55	51

Founded: 1978.

Specialties: Property and casualty, life, accident and health.

Licensed in: New York.

Conducts business: Nationwide.

Officers: John P. Woods, president; Roderick P. Thaler, executive vp; Josephine A. Hoey, secretary/senior executive vp-administration; John N. DiBlanda, vp/CFO; Charles M. Wade, Thomas J. Tartaro, executive vps; Ellsworth P. Whiteman, senior vp.

Contact: Josephine A. Hoey.

Worldwide Intermediaries Inc.

30 Broad St., New York, N.Y. 10004; 212-509-6210; fax: 212-509-6652

Founded: 1993.

Specialties: Domestic and international; treaty and facultative property and casualty, life, accident and health.

Licensed in: New York.

Conducts business: Nationwide.

Officers: Orlando L. Marini, chairman; Jose M. Mallen, vice chairman/COO; Ralph Luna, president/CEO; Joseph Corelli, senior vp; Elizabeth Agurto, Carole Carlson, vps; Magdalena Barragan, assistant vp.

Contact: Ralph Luna.

Y

H.E. Yerkes & Associates

127 John St., New York, N.Y. 10038; 212-344-1707; fax: 212-422-8473

	1992	1991
Premium volume	$33,573,750	$31,975,000
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	5	5
Treaty	5	5

Founded: 1979.

Specialties: Ocean marine, offshore, energy risks.

Licensed in: New York.

Conducts business in: New York.

Officers: Harry E. Yerkes III, president; Ann R. Kaplan, vp.

Contact: Ann R. Kaplan.

Z

George G. Zimmerman & Co. Inc.

5 Cold Hill Road S., P.O. Box 372, Mendham, N.J. 07945; 201-543-3250; fax: 201-543-2947

	1992	1991
Premium volume	$50,000,000	$113,000,000
% Treaty	100%	95%
% Facultative	0%	5%
Gross revenues	$1,535,301	$3,800,000
Total employees	24	27
Treaty	24	26
Facultative	0	1

Founded: 1980.

Branch offices: Sarasota, Fla.; Upland, Calif.

Subsidiaries: U.S. Cap Insurance Co. Ltd., Tortola, British Virgin Islands.

Acquisitions: Global Accident Line Slip Inc.

Specialties: Life, accident and health including workers compensation carve-out, nursing home care, professional athletes, college athletes, student accident cover.

Licensed in: New York.

Conducts business in: 45 states.

Officers: George G. Zimmerman chairman/president/CEO; Eugene J. Shiller, president-Global Accident Line Slip Inc.; Charles J. Sharkey, executive vp-operations; Richard D. Boorman, Peggy J. Marron, assistant vps; Thomas D. Kinney, vp/controller.

Contact: Peggy J. Marron. BI

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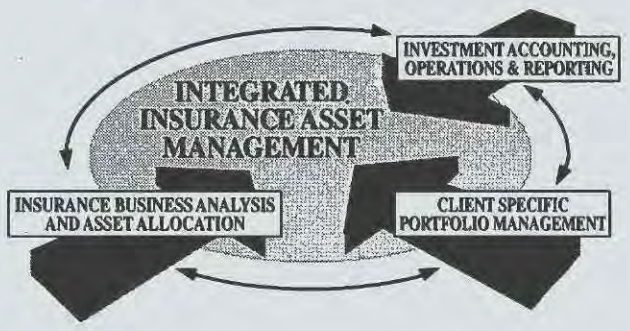

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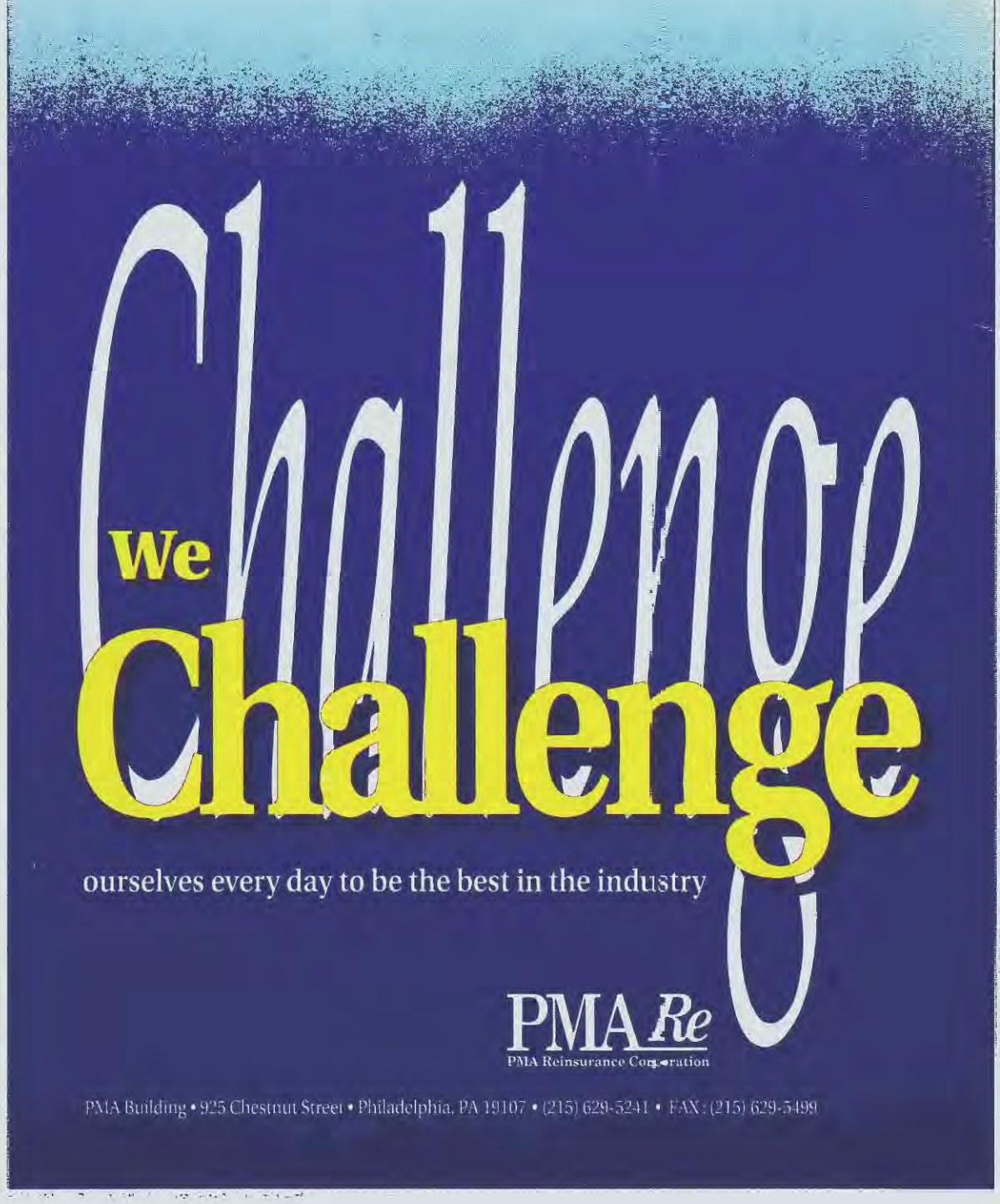

Runoff specialists see profits in industry's losses

By GAVIN SOUTER

Firms tout services as insurers withdraw from markets

One company's loss is frequently another's gain in the insurance and reinsurance industry.

And as more insurers are withdrawing from markets, the runoff industry is poised to enter a boom period, runoff experts say.

Runoff specialists claim that their expertise in claims administration and reinsurance recovery work takes an unwanted burden from insurers and liquidators.

But not all insurers and reinsurers want to be relieved of the burden. For one thing, runoffs can generate needed income, and in-house runoffs remain the biggest competition to the outside providers.

The runoff business has expanded significantly over the past few years, said Francoise Gelot of Optimum Risk Research (International) Ltd. in Guernsey.

And the trend has accelerated sharply in recent months as more and more international insurers and reinsurers have indicated that they will not be renewing policies during year-end renewals, Ms. Gelot said.

Opportunities also arise for runoff specialists when companies close subsidiaries or pull out of certain areas of business.

When this happens, the runoff specialist becomes the claims handling and accounting office of the insurer, said Charles Carter, vp at Integrated Runoff Insurance Services Corp. a joint venture between Aon Corp. and Centre Reinsurance Holdings Ltd. based in Jamesburg, N.J.

"We assess the claims operation of the client and assume the responsibility of managing those claims to extinction. Then we deal with reinsurance and retrocessional recoveries, accounting and special reporting requirements," he said.

In the United States, runoff services companies can only conduct runoffs for companies that voluntarily pull out of the market. Runoffs for insurers and reinsurers that go into liquidation are handled by state insurance departments.

In Britain, the responsibility for running off companies that go into liquidation is passed on to the liquidators. The liquidators are free to appoint a third party to handle the runoff, said Jaime Archibald, vp at Trinity Square Services Inc., a runoff specialist in New York.

TSS handles the runoff for a few liquidated insurers in Britain, but often the liquidators handle the runoff themselves, he said.

For example, the runoff of the insurers on the H.S. Weavers (Underwriting) Agencies Ltd. line slip and the runoff of English & American Insurance Co. P.L.C. are being conducted by their respective liquidators through schemes of arrangement, Mr. Archibald said.

Rates for runoff services are set in various ways. A runoff specialist might determine how many claims are likely to arise, assess how many people it will need to administer the claims and then calculate the expenses it will incur, Mr. Carter said. "Also we can do it on a claim-by-claim basis with a flat fee of something under $100 per claim."

The duration of the runoff varies tremendously. On average, they last between eight and 10 years. However, one runoff IRISC currently is working on—Constellation Reinsurance Corp.—is likely to last 15 to 20 years, Mr. Carter said.

Constellation Re is a property/casualty reinsurer that went into liquidation in 1986, but was removed from liquidation following a loss portfolio transfer by Centre Re. The company was put into runoff last year (*BI,* Nov. 9, 1992).

Long-tail casualty claims often take many years to be filed, but property claims can also take several years to appear.

"If a company goes into runoff, then property claims can go on for five or six years. For example, we are still dealing with claims from Hurricane Alicia" in 1983, Mr. Archibald said.

TSS bases its service charges on its payroll for conducting a run-off, he said.

"We act as the office of the insurer so we base our fees on payroll. . .we do not base them on collection or liabilities," Mr. Archibald said.

In return for paying the fees, the clients obtain the services of dedicated runoff experts who, unlike many of an insurer's own staff, are not looking for another job, he said.

Insurers and reinsurers that go into runoff or have accounts or subsidiaries in runoff are often ill-equipped to handle the runoff, Mr. Archibald asserted.

"When companies go into runoff, they tend to lose their best people, so as a third party we can come in and offer expertise in claims handling which the company no longer has," he said.

Runoffs can frequently test the mettle of all involved. An insurer, for instance, may have pollution and asbestos problems that they do not know how to handle.

"We try to help the companies understand and deal with the problems," said Ms. Gelot, who advises several insurers and reinsurers in continental Europe.

There is less litigation for companies in runoff to deal with on the continent, she said.

"The continental market is not so litigious per se as North America and the London market. If they have information on how and why a reinsurance treaty must respond, then they will honor the treaty," Ms. Gelot said.

But the "how and why" is not always clear, so European runoffs are often as complex as those in other markets, she said.

Insurers and reinsurers in continental Europe also lack information on the North American and London markets, Ms. Gelot said. Claims collections and overdue balances from North American and London reinsurers are areas where the continental insurers are likely to need advice, she noted.

In particular, collecting claims from underwriting agencies and pools can be a tortuous experience, she said.

Continued on next page

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Continued from previous page

"Often there is a multiplicity of insurers and brokers, and contacts have to made with many parties that are not principals, and often you have principals that are in dispute with agents and brokers," Ms. Gelot said.

This leads to difficulties in collecting reinsurance payments and the problem is compounded because companies frequently do not know who owns the agencies, she said.

Continental European insurers generally prefer to handle their own runoffs. If necessary, they will hire consultants to advise them how to handle it, said Edith Daunay, managing director of the Run-Off Club, a runoff service in Paris.

"In France, for example, it is difficult for a company to give its runoff to another company because they want to keep any problems they have to themselves," she said.

In London, there are many opportunities to take on the runoff of defunct companies. But, despite the number of Lloyd's of London syndicates going into runoff, outside consultants have difficulty obtaining new business from that market.

For example, TSS handles 23 insurance company runoffs in Britain but no Lloyd's syndicate runoffs, said Mark Shepherd, marketing manager of TSS in London.

"Managing agencies generally are suffering from poor profit commissions at the moment so they keep the runoffs in-house as they are a source of income for them," he said.

However, this set-up could change as Lloyd's pressures agencies to handle their runoffs more effectively, Mr. Shepherd said.

Also, Lloyd's has indicated that it will contract out for runoff services under its plan to centrally run off pre-1986 liabilities, he said.

"The time for runoff to develop in Lloyd's is over the next few years and Lloyd's will place an emphasis on technical excellence," Mr. Shepherd said.

Runoff specialists have had more success in attracting insurance and reinsurance company clients, but in this area, too, their main competition is from companies that handle their own runoffs.

Some companies choose to run off only some of their own accounts whereas others say that they have the expertise to handle all of their runoffs.

"We look at it on a case-by-case basis," said Rick Hinckley, senior vp and financial controller for CIGNA Property & Casualty Insurance Co. in Philadelphia.

For example, if the company withdraws from a particular line of business in only one particular state, it still has the infrastructure to handle the claims so there is no point in contracting out the runoff, he said.

However, if CIGNA pulled out of a line of business in all states, it might make sense to use a runoff company to take over the claims administration, Mr. Hinckley said.

"Most of the time, the runoff stays in house. You try to think of an internal solution first and if you come up with one, you use it," he said.

Mercantile & General Reinsurance Co. P.L.C. runs off its old accounts itself, said John Engestrom, managing director of M&G Re in London.

"We feel that we have more expertise to deal with the accounts than anybody on the outside," he said.

Even if the company closed down a subsidiary in another country, it would still handle the runoff itself and repatriate the business after a few years, Mr. Engestrom said. BI

Reinsurers competing for captive business

Buyers considering reinsurance to lower their net liability retentions

By JOANNE WOJCIK

The reinsurance market continues to be a buyer's market for alternative risk financing mechanisms.

While pricing of property catastrophe reinsurance is soaring, reinsurance for nearly all casualty lines—including professional liability, product liability and even workers compensation—remains competitive.

And because of that competitive pricing, many captives, which have traditionally retained larger amounts of risk than standard insurers, are toying with the idea of buying reinsurance in the lower working layers.

But some market observers fear that the new accreditation process established by the National Assn. of Insurance Commissioners could put a damper on the market by making it harder for risk retention groups in Vermont to obtain reinsurance (*BI*, June 28)

"As the market for casualty reinsurance becomes more competitive, reinsurers that write it are looking for new markets," said David Rademaker, vp at E.W. Blanch Co., a reinsurance intermediary in Minneapolis.

"I think the market for captives generally is very competitive. There's a lot of capacity, though it leans more toward the casualty side. On the property side, the catastrophe market is difficult, and pricing is up. But all insurance companies are facing that problem," he said.

"We have seen absolutely no tightening in the marketplace," said G. Roger Greiner, president of Genesis Underwriting Management Co., a General Re Corp. unit in Stamford, Conn. "If anything, it's even a little more competitive with IPOs and new venture capital supporting newly created entities...that commence their business operations with no prior liabilities."

Risk managers comparing their Oct. 1 renewals at a recent conference in Hawaii said they were still seeing reinsurance price decreases on the liability side, according to Greg Myers, senior vp at Becher & Carlson, a captive manager based in Woodland Hills, Calif.

"But on the property side, most people had seen big increases," he said. "It's tough to get property reinsurance, especially in catastrophe situations."

Indeed, one Tillinghast client seeking property reinsurance had to increase its retention to several million dollars from "a few thousand so they could keep their increase at 100%," said Paul Pinckney, a vp for the risk management consultant in Irvine, Calif. Still, "there's more capacity available that's targeted to captive insurers than there has been in the past."

"There are about as many players now as there were at the bottom of the last soft market," observed Craig Johnson, vp of the alternative risk department at SCOR Reinsurance Co. in New York.

While the extended soft market may have slowed the number of captives forming, "there's been an increase in the utilization of existing captives," which in turn has whet captives' appetite for reinsurance, according to Ken LeStrange, executive vp at Am-Re Managers in Princeton, N.J., a unit of American Re-Insurance Co.

And those captives that are shopping for reinsurance are more interested in traditional risk transfer than in financial reinsurance arrangements, he said.

"There are particular accounts that are choosing to use finite risk, but for the most part, there is no new activity in the finite risk arena," he said.

Because of the increased capacity available, some captives are even considering purchasing reinsurance in the lower layers to reduce their net retentions, "just to see how low the reinsurers will price the layer," said SCOR Re's Mr. Johnson.

Captives tend to retain more risk than traditional insurers, explained Mr. Rademaker. Most group captives, such as risk retention groups, buy reinsurance at lower working levels than do single-parent captives, which tend to buy larger limits at higher levels, he said.

But some captives—whether single-parent or group—may find that purchasing reinsurance at today's low prices may be more advantageous than retaining a large amount of risk, he said.

Between 35 and 40 reinsurers will write coverage for alternative facilities, market observers say. Among the major markets specifically wooing captive and other alternative market business are:

• American Re, which will provide up to $10 million in casualty reinsurance capacity and $35 million in property capacity.

The reinsurer sticks primarily to an excess-of-loss approach in general liability, workers comp, auto liability and property lines. It also will consider reinsuring captives that write E&O, D&O and other professional liability lines, including medical malpractice.

• Genesis Underwriting Management can provide limits of up to $10 million for either property or casualty risks. In addition, the reinsurer will provide either reinsurance or excess insurance for workers compensation up to statutory limits.

The company has seen significant growth in its program business, which includes homogeneous groups of policyholders in facilities like risk retention groups and pools. However, as more and more self-insurers become comfortable with assuming risk, they are taking larger retentions, which diminishes their appetite for reinsurance, said Mr. Greiner.

Genesis wrote $120 million in premiums in the alternative market in 1993, about the same as in 1992.

• Discover Reinsurance Co., a division of Transamerica Reinsurance Co. in Farmington, Conn., which market observers generally describe as the most aggressive competitor for captive business.

The reinsurer provides up to $5 million in capacity in most casualty lines, including workers compensation, but does not write professional liability reinsurance.

Discover Re is accessed primarily via retail or wholesale brokers.

• Munich American Reinsurance Co. in New York will write both casualty and property reinsurance for captives, providing casualty limits of $5 million.

Its alternative markets department is accessed via broker or non-insurance company contacts, like captive managers, and generally likes to be a lead-layer player.

Munich American Re has access to fronting paper through arrangements with primary insurers.

• National Reinsurance Corp. in Stamford, Conn., will write reinsurance in the working layers of all casualty captive programs and is particularly interested in risk retention groups.

Up to $5 million in capacity is available for workers compensa-

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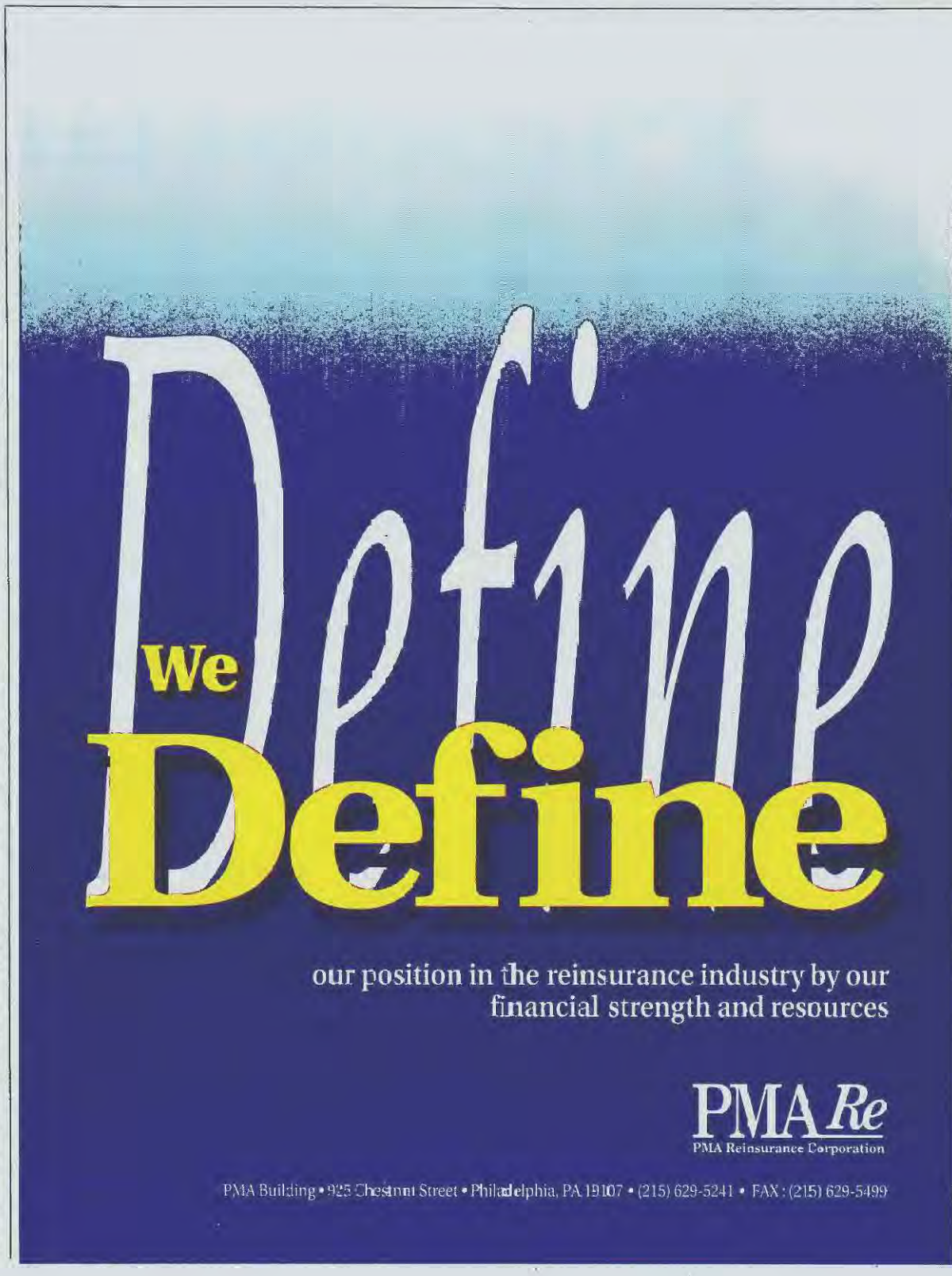

Alternative risks

Continued from previous page
tion, heavy products and other liability lines.

National Re is not a broker market, but it will accept business from captive managers and brokers without paying commissions.

• North American Reinsurance Corp. in New York will consider all casualty lines, including auto and professional liability, but not workers comp.

A unit of Swiss Reinsurance Co., which generally likes to be in the catastrophe layers, North American Re prefers the lower layers, providing up to $5 million in capacity.

• SCOR Re's alternative risk department will write limits of up to $5 million in casualty reinsurance and excess workers comp insurance, but it can obtain higher limits if a captive needs it.

The coverage is mostly excess-of-loss written on either a treaty or facultative basis.

While SCOR Re has an admitted insurer licensed in 32 states that can issue policies on its behalf, the reinsurer is not interested in getting into the primary insurance business, according to Mr. Johnson.

"We prefer to reinsure someone else's paper," he said.

• Transatlantic Reinsurance Co. prefers the tougher lines of business, particularly those seeking finite risk insurance.

The reinsurer can provide up to $5 million in capacity, though it will usually not write more than $2 million.

• Bermuda-based Sphere Drake Underwriting Management Ltd. is specifically targeting captives with $2 million in capacity and, like Discover Re, is "very aggressive" from a pricing standpoint, observers say.

• Reliance Re can provide up to $1 million capacity in casualty lines, $10 million in property, though it prefers to be in the first $1 million layer.

The subsidiary of Philadelphia-based Reliance Insurance Co. will write difficult casualty lines. Its preferred lines are police and public entity liability and environmental liability.

• Prudential Reinsurance Corp. prefers low excess layers, such as the first million or $1 million excess of $1 million layer, providing $1 million to $2 million in capacity.

The Newark, N.J.-based reinsurer, which has access to fronting paper in 27 states, will write general liability and auto lines, but no medical malpractice or pollution liability.

For now, most of the property catastrophe reinsurance coverage that traditionally has been written by the London market is coming from Bermuda, where Discover Re and others have set up new facilities.

• Transamerica Re will write almost all casualty lines but environmental, including directors & officers liability, errors & omissions and medical malpractice liability.

Accessed through both brokers and reinsurance intermediaries, the reinsurer prefers to be in the first $2 million layer.

• Bermuda-based Centre Reinsurance Co. is the leading market for finite risk insurance for captives. Centre Re provides hundreds of millions in capacity for professional liability, product liability, auto liability, general liability and workers comp, related to the premium a captive can pay.

The reinsurer is accessed via brokers and intermediaries.

• X.L. Insurance Co. Ltd. in Bermuda will provide up to $100 million excess of $25 million in reinsurance for captives that serve as excess liability programs for their parent companies.

• Broker Alexander Howden Ltd. launched an exclusive liability reinsurance facility last month specifically targeting captives. Called Alternative Reinsurance For Captives, or ARC, the facility is subscribed to by Swiss Re, Zurich Insurance Co., American Re, General Reinsurance Corp., among others.

ARC will provide reinsurance excess of the working layers in limits up to $25 million. Additional capacity is available in certain circumstances.

In addition to these sources of reinsurance coverage, the London market, including Lloyd's of London, remains a competitor, especially for professional liability risks, market observers say.

And last month's vote to permit corporate capital will likely increase the market's capacity for captives seeking reinsurance (*BI*, Oct. 25).

"When the lake goes up, all the boats float higher," quipped Tillinghast's Mr. Pinckney.

But for now, most of the property catastrophe reinsurance coverage that traditionally has been written by the London market is coming from Bermuda, where Discover Re and others have set up new facilities (see story, page 3).

While reinsurers generally are embracing captives as their new customers, replacing traditional insurers that are retaining larger net lines, some fear the tide may turn if some domestic domiciles, such as Vermont, fail to receive NAIC accreditation.

Vermont has not yet been accredited because it treats risk retention groups the same as captives and not as insurers, which is what the NAIC wants, according to Tillinghast's Mr. Pinckney.

"This may make it harder for those RRGs to get reinsurance," he said. "Reinsurance companies may only seek to do business (with captives domiciled) in accredited states," and only 22 states so far have received the NAIC's seal of approval.

But Becher & Carlson's Mr. Myers hasn't heard any rumblings that the NAIC accreditation process will affect reinsurance availability for captives.

"I don't think the reinsurers in the near future are going to be placing much weight on the NAIC accreditation" since many viable captive domiciles like Bermuda "are not, and will never be, accredited," he said.

SCOR Re's Mr. Johnson agreed: "Whether or not Vermont receives the NAIC's blessing is not going to change my opinion of how viable a captive insurance company is." BI

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What's right.

Self-insurance

Continued from page 2

us to bear the burden of the people who aren't doing it."

But, "it's not just the terrible risks; there are some good risks who are just forced into this pool," pointed out John Kessock Jr., chairman of Commonwealth Risk Services Inc. in Philadelphia, which designs alternative financing programs, including rent-a-captive arrangements.

For example, in Massachusetts the "assigned risk pool has gotten out of control because the preferred risks have gone self-insured," forcing many employers that do not have the financial wherewithal to self-fund into the residual market, he said.

Ms. Workman, who uses a large-deductible plan to finance most of Belz Enterprises' workers comp exposures, admitted that she was forced to purchase workers comp insurance from the residual market to cover the company's Massachusetts hotels.

"But I only have 30 claims a year in Massachusetts, so I wasn't contributing to the problem," she said. And, this year, Belz Enterprises has again returned to the voluntary market.

In fact, many state regulators are now permitting the sale of large-deductible plans to deter many would-be self-insurers, according to Mr. Kessock.

Many states fear that if they didn't allow those with large deductible plans to pay smaller residual market charges, based on the smaller premium charged for these plans, "then everybody would become self-insured," he said.

That's "not a bad solution," Mr. Davenport interjected.

While Mr. Kessock agreed with Mr. Davenport that it's good business for companies to look for ways to reduce their residual market loads, he also said that it serves to reduce the number of employers over which to spread the residual market burden.

The panelists were unabashed advocates of self-insurance.

Mr. Davenport self-insures Marriott's workers comp risks in states in which self-insurance is allowed or is financially feasible, and uses a Hawaii-domiciled captive insurer to finance workers comp exposures in other states.

"I believe that self-insurance is the purest, most cost-effective way to handle your claims, if you are able to do it that way," Mr. Davenport said. He recommends self-insurance for employers with at least $500,000 in annual work comp premiums.

Beyond reducing administrative costs that can add as much as 25% to workers comp costs, self-insurance has many cash-flow advantages, he said.

"You can, by controlling your own dollars and paying them out over a period of up to 15 years or more, keep all that money until it's time to pay it out. You can look at it as an investment or as lessening the cost of borrowing," he said.

Ms. Workman considered self-funding Belz's workers comp program, but its small, widely dispersed workforce and "unusual" corporate structure—the company is family owned with each of its hotels controlled by a different investment partnership—made self-insurance unworkable.

Instead, Ms. Workman purchased a large deductible policy beginning in 1991 that has enabled the company to exert better control over the workers comp losses within its deductible while enhancing cash flow. While the deductible was originally set at $100,000 per claim, it has since been increased to $250,000.

The large deductible plan "didn't eliminate all of the friction costs" of an insured program, but "it gave me control, which is what I really wanted, and (the program) became loss-sensitive," she explained.

Mr. Kessock pointed out the advantages of rent-a-captive programs, which were introduced in 1979 and which provide policyholders with nearly all of the benefits of a captive insurer, including underwriting profit and investment income, without set-up and legal charges. "It's just one more vehicle to finance these risks," he said.

Commonwealth provides employers that use its rent-a-captive programs with a fronting insurer, Legion Insurance Co., that it acquired in 1987.

The company also can design multistate alternative risk financing programs that combine self-insurance, captive and large deductible programs, said Mr. Kessock, noting that employers should choose the alternative risk financing method that bests suits their needs.

The fourth panelist, Vince Sanguinet, executive director of the Inland Empire Schools Insurance Authority in San Bernardino, Calif., extolled the advantages of self-insurance pools for public entities.

The Inland Empire pool finances self-insured retentions on behalf of its members, which buy excess coverage above the SIR.

Because many of the state's smaller school districts do not have the financial ability to self-insure, the fund gives them an opportunity to pool their risks with much larger entities, Mr. Sanguinet explained. The pool's member school districts range in size from as few as 90 students to as many as 650,000.

Mr. Sanguinet favors the pooling approach because it enables school districts to "take a much, much larger role in loss control. In addition, the pool is composed of homogeneous risks, he said.

While the panelists all heartily advocated self-insuring workers comp risks, they all looked askance at a proposal in the Clinton administration's health care reform plan that would assess surcharges on employers that opt out of regional purchasing alliances and self-insure their health care benefits.

Under the Clinton health reform proposal, employers that self-insure will be assessed a penalty for taking "all your good, healthy employees out of the system" explained Kathryn J. McIntyre, *Business Insurance* vp, publisher and editorial director, who moderated the discussion.

"By the time you pay your surcharge and form your own alliance, that 7.9% of payroll sounds better and better all the time," said Mr. Sanguinet. Under the Clinton plan, employers are projected to pay no more than 7.9% of payroll for health care benefits if they join regional health care alliances.

Mr. Davenport agreed: "Depending on how punitive that is, I don't know whether. . .it's worth paying to continue" to self-insure health care benefits.

But, employers that buy into the Clinton plan stand to lose control over their claims, observed Ms. Workman. "We've worked so hard to get our hands around it, they're going to have a hard time prying our fingers off," she said. BI

Videos help reduce comp fraud

Tape of that leap into a convertible crimps a worker's disability claim

By MEG FLETCHER

SAN DIEGO—The right picture can be worth more than a thousand words—and claims dollars—if it comes from a video surveillance expert who finds evidence of workers compensation insurance fraud.

THE Business Insurance WORKERS COMPENSATION CONFERENCE

Getting videotaped proof of a "disabled" workers comp claimant jet skiing, roofing a house or leaping into an open convertible—without opening the door—can help a risk manager limit the lost wages paid out on a suspicious claim.

"What this service is really about is settling claims," explained Bill Kizorek, president of InPhoto Surveillance of Naperville, Ill.

"The majority of claims involving strenuous physical activity on tape will settle prior to trial, especially if the adjuster or attorney is an effective negotiator," Mr. Kizorek said. A good negotiator will show only a few still photos from the videotape during negotiations to prevent the claimant from tailoring his injuries to match what was recorded, he suggested.

"The most significant value of the tape is that it brings the claimant into a more settlement-thinking frame of mind," he added.

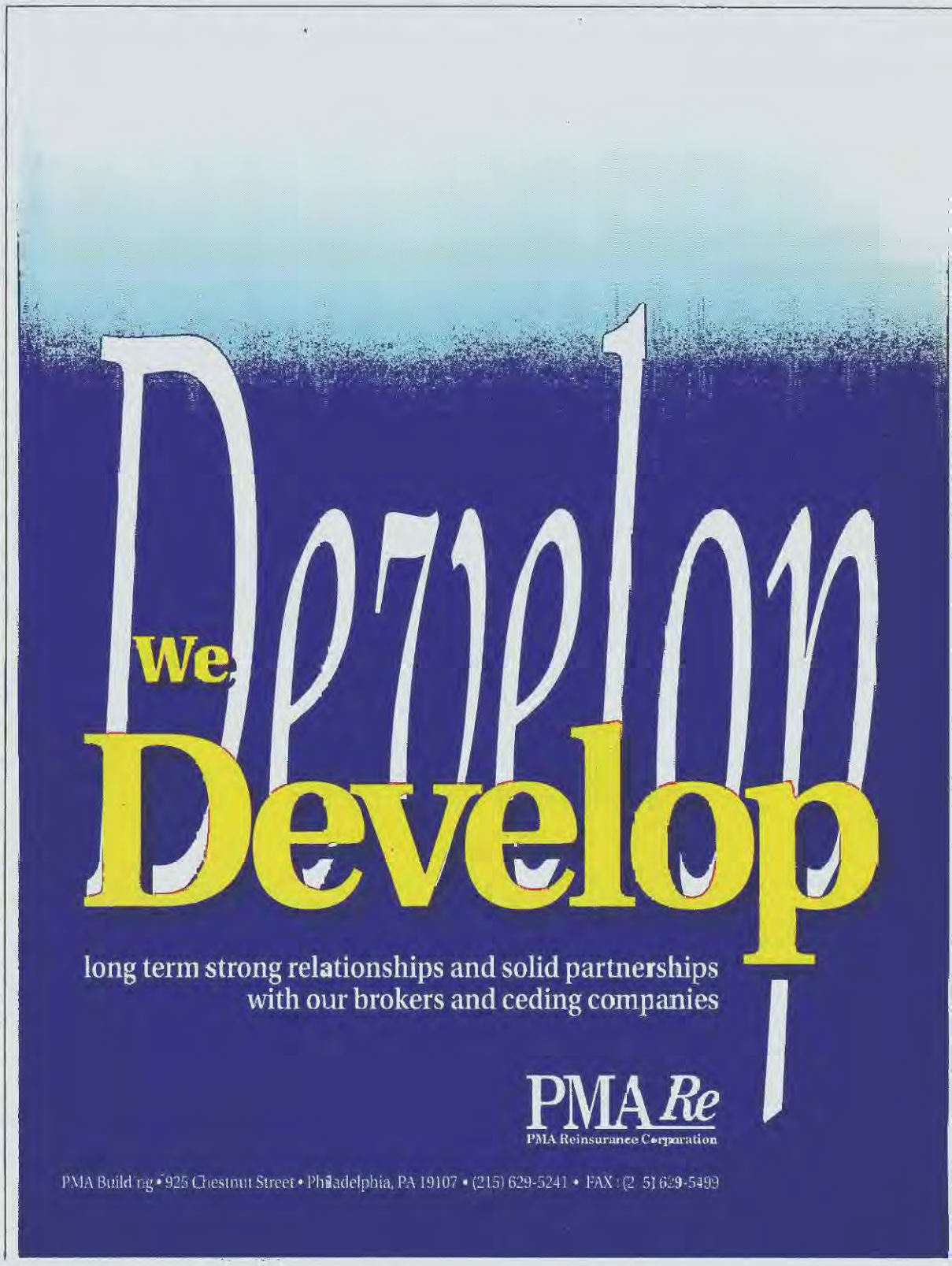
During a luncheon speech at the *Business Insurance* Workers Compensation Conference in San Diego last month, Mr. Kizorek identified some of the "red flags" that should make risk managers suspicious of a possible malingerer:

- The claimant appears to have made a full recovery and there is no present organic basis for his or her disability.
- The disability is beyond that normally associated with the claimed injury and compensation demands are excessive.
- Doctors strongly disagree about whether the claimant is disabled.
- The claimant has a history of malingering, the injury coincides with layoffs or plant closings, or he or she is in line for early retirement.
- The claimant has a history of self-employment or is a tradesman, like a carpenter or electrician, who might work a side job for cash.
- The claimant is hard to reach because he has moved far away and receives his mail at a post office box and will not divulge his home address. Or, if an address can be obtained, the claimant is never home to answer the phone or a caller is always told he or she is "sleeping and cannot be disturbed."
- Leads from co-workers reveal the claimant is active in sports or other work.
- Rehabilitation reports show the claimant is suntanned, muscular, with calluses on his hands and perhaps grease under his fingernails.

In choosing a surveillance company, a risk manager should consider the quality of the firm's videotapes.

The risk manager also should discuss the investigator's methods, which should exclude harassment or tricks like flattening a tire of the claimant's car so the claimant has to change it, he said.

Mr. Kizorek said his firm charges about $1,000 per day for surveillance work, though other firms' fees can range from $500 to more than $1,000. BI



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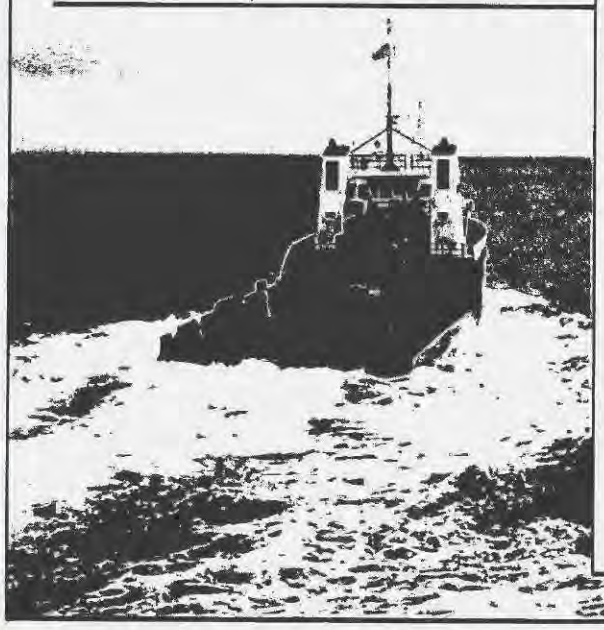

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Selecting the right workers comp TPA

Goals of firms must be compatible

By JOANNE WOJCIK

SAN DIEGO—Risk managers who are building a workers compensation claims administration team should select a third-party administrator with a claims-paying approach consistent with the employer's management philosophy, experts advise.

THE Business Insurance WORKERS COMPENSATION CONFERENCE

A conflict may arise if the TPA aggressively resists claims and an employer's corporate culture is to be "very supportive" of employees, warns Carl Shogren, vp of Crawford Risk Management Services in Atlanta.

The TPA also should have the capability of offering services beyond claims payment, according to Susan M. Werner, director of risk management at Hardee's Food Systems Inc. in Rocky Mount, N.C.

"In the 1990s, especially, we're very focused on information systems, health management systems, risk control capabilities, catastrophe staff and educational facilities," she pointed out.

Mr. Shogren and Ms. Werner made their recommendations during a session on evaluating and selecting a TPA at the *Business Insurance* Workers Compensation Conference, which was held Oct. 17-19 in San Diego.

Before putting a TPA contract out for bid, risk managers should develop a qualifications questionnaire or "TPA wish list," with specific needs prioritized, Ms. Werner recommended.

For example, when Hardee's was looking for a TPA, one of its top priorities was to find a provider with sufficient branch offices to service the fast-food company's more than 1,200 retail outlets.

The request for proposal should reflect the organization's objectives, according to Mr. Shogren. The employer may want to reduce total incurred losses by a particular percentage or improve its loss allocation system.

"Ask the TPA how it would support or help accomplish those objectives," he said. This question should elicit responses such as creating a litigation team that would make greater use of alternative dispute resolution, he said.

Ms. Werner also suggests that risk managers consider a TPA's other service capabilities.

For example, the TPA should provide both internal claims reporting services and a computerized risk management information system, she said.

"By accessing your own claims data base, you're able to do historical evaluation and trending, and really enhance your whole risk control program," she said.

To better manage workers compensation costs, TPAs also should offer employers health management services like utilization review, medical bill audits, total case management and access to health maintenance organization and/or preferred provider organization networks, Ms. Werner said.

"The claims administration function is primary. But once that claim is reported, it's up to the TPA and the client, the risk manager, to do everything possible to contain the cost of that loss," she said.

Hardee's saves more than $1 million each year from the claims auditing service alone, she said.

Risk control is another important consideration, according to Ms. Werner.

"Your third-party administrator should work with you in the design, the implementation and the execution of your safety program," she said.

For example, Hardee's used its TPA in the early 1980s to arrange for specific floor-tile testing to determine which type of tile had the most slip-resistant surface for use in its restaurants.

Hardee's also has used its TPA to analyze the jobs in its meat-processing facilities to reduce the incidence of repetitive motion injuries such as carpal tunnel syndrome, according to Ms. Werner.

The TPA's catastrophe planning staff can help an employer develop and manage safety programs for such sudden workplace threats as explosion, toxic releases and natural disasters such as hurricanes and earthquakes, she said.

"Educational facilities are also very important when you're identifying and evaluating your third-party administrator," Ms. Werner said. "That third-party administrator should have a classroom network so that your people can be trained and to assure that their own staff people are kept current on changes in the industry.

"There should also be an avenue for you to address very special issue training," like noise-level testing in the work environment, she added.

Finally, Ms. Werner advised risk managers to call their counterparts in other companies to get their input before making a selection.

"Talk to other people and find out who they're using and how it's working," she said. "Their reference is going to be the best sign-off you have on the decision."

Risk managers also should speak to former customers of the TPA to get their negative impressions, Mr. Shogren interjected.

Risk managers also should visit the TPA's field office personnel and senior management to ensure that the TPA fits into the employer's management culture.

And, once a risk manager has selected a TPA, he or she should remember that they alone control the effectiveness of the program, Mr. Shogren and Ms. Werner said.

"As a risk manager, realize your bargaining power. You are in the driver's seat of your program. Your third-party administrator is purely a service-related organization. They have got to perform up to your standards, fit into your organization's design. And, if the third-party administrator doesn't have the flexibility to make those adaptations, you're not going to have a successful program," Ms. Werner said.

"We are beholden to you," Mr. Shogren agreed. "You have the ultimate hammer in terms of hiring us, firing us and controlling our destiny.

"It is an investment, and you should look for a return on that investment rather than thinking of it as an expense." BI

Ergonomics proves worth: Experts

By JOANNE WOJCIK

SAN DIEGO—Employers can significantly reduce injury and illness rates by using ergonomics to create a safe and comfortable workplace.

THE Business Insurance WORKERS COMPENSATION CONFERENCE

Managers must abandon the belief that they can train individuals to overcome a poorly designed workplace, asserts Michelle M. Robertson, an assistant professor in ergonomics at the University of Southern California's Institute of Safety and Systems Management in Los Angeles.

"A lot of times we'll design something and just throw it back to the training department or the human resources department which will say, 'We'll overcome that poor chair design. Don't worry. We'll train them to sit on their knees instead of being able to adjust it,' " she said.

While initially it may seem easier and less expensive to force employees to use poorly designed work stations and equipment, it is more cost-effective in the long run to "bend metal, not humans," she said.

At least 60% of workers compensation costs have an ergonomic component, estimated Steven C. Turner, a safety consultant with M&M Protection Consultants, a division of Marsh & McLennan Inc. in Los Angeles.

A relatively new science, ergonomics already is reducing work-related illness and injuries by as much as 30%, according to Ms. Robertson.

Ergonomics also has indirect cost benefits: It can increase productivity by as much as 15% in offices by creating a safe, comfortable and easy-to-use environment that increases morale.

Poorly designed workplaces, by contrast, can increase the incidence of back strains and sprains as well as such cumulative trauma disorders as carpal tunnel syndrome and tendinitis.

Before Pacific Bell instituted its ergonomics program in 1991, 60% of its injuries were attributable to back strains and the rest were attributable to repetitive motion illnesses, recalled Marie Robinson, an ergonomic specialist for the company in Tustin, Calif.

The telecommunications company was spending approximately $53 million annually for workers compensation benefits paid on behalf of 53,000 employees, 30,000 of whom operate video display terminals, Ms. Robinson said.

Indeed, of all occupations, data entry operators are the second most likely to develop carpal tunnel syndrome. Their risks are four times higher than those of the butchers and meat cutters who have traditionally been prone to the disease, according to Neal Taslitz, president of the BackCare Corp., a computer ergonomics resource center.

Personal computer users are susceptible to other work-related ailments as well.

In a study of health complaints by members of the Communication Workers of America conducted by the University of Wisconsin's Industrial Engineering Department, 92% said they suffered from headaches, 79% from back pain and 51% from sore wrists. The total number of complaints increased the longer the individuals worked.

Rather than asking "why are these claims occurring now and why didn't we hear of them 10 years ago?," employers should be asking "what is the potential for future claims?" he said.

Almost all employers will likely be required to make ergonomic changes at some time to accommodate employees who file claims under the Americans with Disabilities Act, he predicted.

At Pacific Bell, an $18 million ergonomics program helped head off the threat of claims under the Americans with Disabilities Act and cut workers compensation claims by 33%, Ms. Robinson said.

Pacific Bell is still evaluating that program and modifying it where necessary. The company—which provides education and training, brochures and interfocal length eyeglasses for VDT users—currently is conducting a keyboard study in conjunction with USC. It also is comparing its results with other companies.

"Continually look for improvements in your program, be preventive...and take a systematic approach looking at the psychosocial issues as well as the medical," Ms. Robinson advises.

Not all companies are that progressive. Many, said M&M's Mr. Turner, are waiting for the Occupational Safety & Health Administration to issue standards before they implement ergonomic changes.

"If you're one of those companies, my best advice to you is don't. There's really no need to wait for OSHA," he admonished.

"You really need to manage the problem and not look for a regulatory reason," because "while you wait, thousands of workers are falling victim to cumulative trauma disorders," he said.

"Ergonomics makes good business sense," especially at companies that have adopted continuous quality improvement programs that reflect a proactive management style, Mr. Turner said.

While many employers think ergonomics is like 'trying to get your arms around smoke," it's not, Mr. Turner insisted. "It's a science, and you need to approach it like a science in a systematic manner. You need to be able to analyze it and quantify the problems and then use that data to apply specific solutions."

Ms. Robertson moderated the discussion. BI

Management style a factor in comp claims: Risk exec

By JOANNE WOJCIK

SAN DIEGO—Is a working environment in which employees are respected and treated with fairness and compassion less likely to foster the injuries that arise from a negative environment?

THE Business Insurance WORKERS COMPENSATION CONFERENCE

Are employees who work for an employer that cares about them less likely to use or abuse the workers compensation system?

The answer to both questions is yes, said a risk manager who delivered a keynote address during the *Business Insurance* Workers Compensation Conference Oct. 17-19 in San Diego.

The real culprit driving excessive workers comp costs is the traditional American management system, which promotes an "us vs. them" work environment, said Brent Winans, vp-risk management at Concord Services Inc., a diversified corporation based in Denver.

Enlightened management practices may be the real solution to the workers comp problem. But it's difficult for risk managers "to march in to top management and tell them that the real problem is the way they run the company and treat its employees," Mr. Winans said.

Instead, he acknowledged, "It's a lot easier to go back home with a new first-aid training program."

Still, risk managers can run their own departments in a way that reflects enlightened management principles.

"As risk managers, we can use our unique positions to show genuine, active concern for many people who are hurting, and that will make a difference," he said.

During his luncheon speech, Mr. Winans also shared a few tips for improving workers comp loss experience:

• A risk manager can reduce his or her company's workers comp insurance experience modification factor if incorrect reserves are contested at the right time.

Insurers must report to the National Council on Compensation Insurance a policy's loss experience within 18 months of the policy's inception date, and then annually for up to five years if changes occur in incurred losses, Mr. Winans explained.

That information, which is updated annually, is used to figure an employer's experience modification factor, he said.

But, it is difficult for companies to change that information, even if both the insurer and the employer later agree that the stated reserves are out of line.

"The NCCI only makes changes if there were clerical errors and in one or two other rare situations," he said.

If the reserves, which are made by the insurer or self-insured employer at the time a workers comp claim is filed, are incorrect, the employer's experience modification factor could be higher than it should be.

The solution is to sit down with adjusters before the 18-month mark to make sure that any questionable reserves are corrected, he said.

• Risk managers can use the NCCI's "Scopes" manual, an exhaustive reference that defines job classifications, to lower workers comp premiums.

For example, an offset printing firm that used the Scopes manual to reclassify its automated platemakers as "clerical" workers received a refund for back premiums equal to half its total annual workers comp premium, Mr. Winans said.

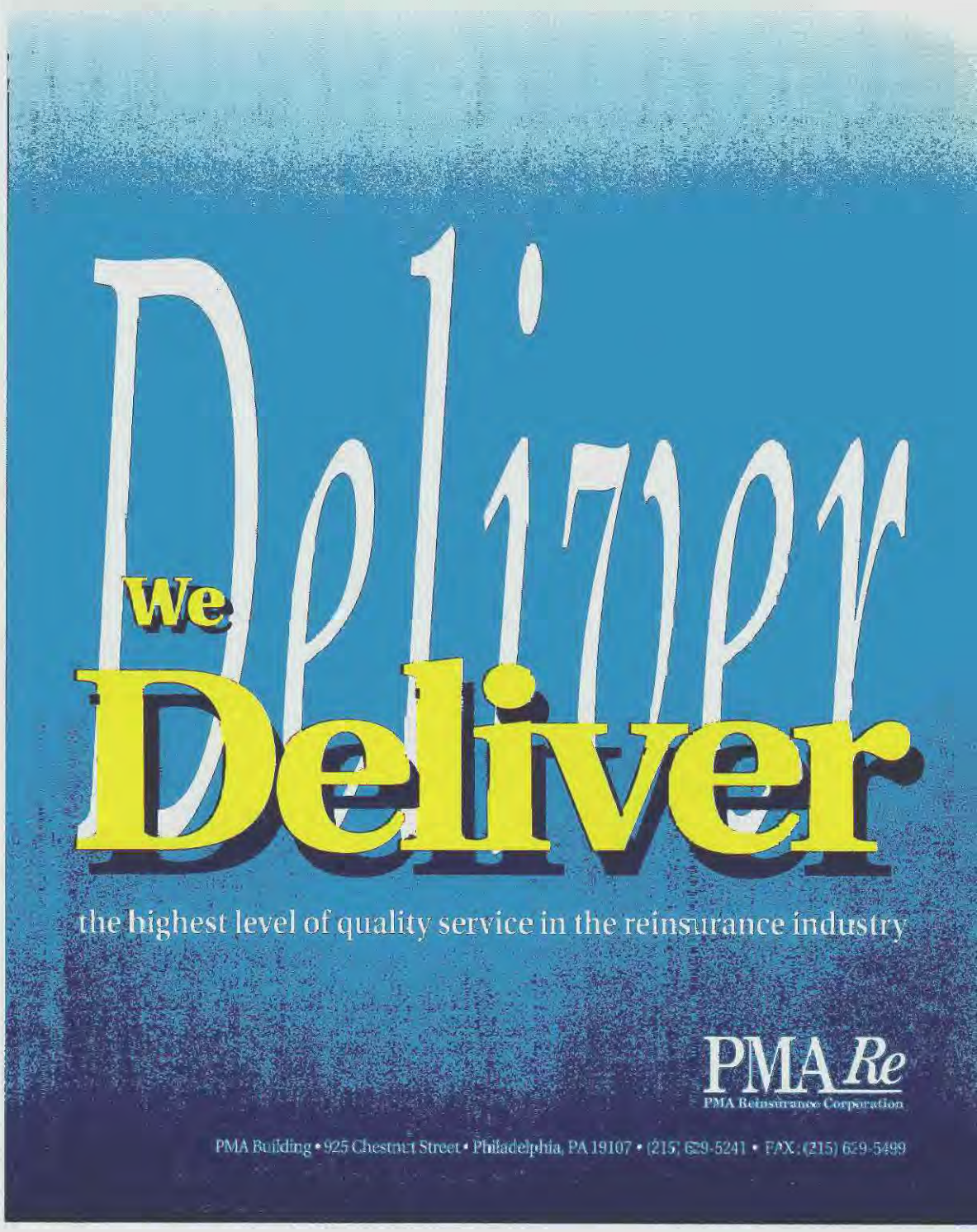
• It's worth paying for objective advice.

"We cannot expect someone who makes a living selling insurance or TPA or pool management services to give us objective advice on whether we should use their products or services to solve our workers comp problems," Mr. Winans said. That's a lot like "following free advice on hen house security given by the Red Fox Alarm Co.," he quipped.

Instead, risk managers should pay for independent advice from an independent risk management consultant when it is needed.

• First-aid training can give almost any loss-control program a shot in the arm.

Studies have shown that accident frequency rates can drop 20% to 40% for employers that train all of their employees in first aid, Mr. Winans said. BI



Controlling workers comp costs, claims

Case management still a risk management favorite

By LOUISE KERTESZ

SAN DIEGO—Case management is still a tool of choice for controlling workers compensation claims costs, experts agree.

THE Business Insurance WORKERS COMPENSATION CONFERENCE

Case management "offers the greatest payback for the investment made," asserted Peter C. Madeja, vp at General Rehabilitation Services Inc. in Wayne, Pa., one of a panel of experts who addressed case management at the *Business Insurance* Workers Compensation Conference last month.

In explaining how to integrate case management into a workers comp program, Mr. Madeja outlined how workers comp claims administration has evolved from "routine" claims handling 10 years ago to today's complex claims administration environment.

First, the basis for workers comp claims has been greatly expanded, he said. For example, in 1983 the idea of stress claims made many a claims administrator chuckle, but now the volume of stress claims is "staggering," he said.

Secondly, medical costs have been boosted by greater medical knowledge—involving more tools used in diagnosis, treatment and healing—without a parallel increase in early return to work. In fact, recuperation time has increased, he pointed out.

Litigiousness has also increased, making it difficult to manage a claim once it has been placed in the legal arena, Mr. Madeja observed.

The changing economy—with more and more companies laying off workers—has created "a climate more ripe for claims," Mr. Madeja added.

And, finally, the technological revolution in the workplace has resulted in an increase in injuries like carpal tunnel syndrome.

In this complicated claims environment, it is too late to assign case management firm to a problem claim 20 months after it is filed, Mr. Madeja warned. Under that scenario, a claims administrator may well decide that case management is ineffective.

Yet "a high percentage of cases" the could benefit from case management do not receive case management until it is too late.

It is far better to "establish and maintain a formalized case management program" that will ensure the timely intervention of case management into a claim, he suggested.

Four points could be considered in determining when a claim should be subjected to case management, Mr. Madeja said:

• A time threshold. For example, case management should be applied when an employee with a back injury has been out for three weeks.

• A dollar threshold. A predetermined amount in incurred medical bills should flag the claim as a possible cash drain.

• Cases that a company has identified as "most problematic in your experience," such as lumbar strain. These can be tracked by diagnosis code.

• Determinations made by a claims administrator after reviewing claimants' files. This "heavily used," subjective method is grounded in a partnership between the claims administrator and the case management company, Mr. Madeja explained.

Early intervention with case management is the key to lower workers comp costs, agreed Michael S. Larson, director of sales and marketing-workers compensation/casualty services at United HealthCare Corp. in Minnetonka, Minn., who also spoke at the session.

United HealthCare is an HMO that provides case management services to workers comp clients.

"Typically," case management is applied 120 days after a claim is made, which is too late, Mr. Larson said.

The "trigger signals" that indicate the need for case management include:

• More than seven lost workdays.

• Any catastrophic injury, such as an injury to the spinal cord.

• Surgery requiring hospitalization.

• And, anything that "doesn't smell right," Mr. Larson said.

To measure the effectiveness of a case management program, "You must have a good handle on your overall disability situation," Mr. Madeja pointed out. Many large employers still do not have data on important factors like the average length of disability among their injured workers.

Employers should also compile data on the average cost of indemnity claims, the number of open indemnity claims and the average total workers comp costs as a percentage of payroll, he said.

Using industry averages as benchmarks, employers should then set targets for improvement in those areas, Mr. Madeja said.

What is most important is that employers send a message to injured workers "that we're concerned about them," said David B. Pivarnik, manager-occupational health and safety at Cleveland-based manufacturer TRW Inc.

Case management can foster this "team approach" to overcoming an injury, he said.

At TRW, employees are given pamphlets explaining case management at general meetings of employees, Mr. Pivarnik said.

Injured workers receive a brochure that explains case management in greater depth, and a nurse may visit the injured worker in the hospital or at home to further explain the case management approach, he said.

In two years, TRW's case management program has resulted in a 35% reduction in the number of indemnity cases, he said.

"We also see excellent results in reducing litigation by keeping (employees) in our family, so to speak," Mr. Pivarnik said.

Once case management is introduced into a workers comp program, litigation is reduced within six to nine months, Mr. Madeja said. BI

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Plans to integrate work comp care with health reforms spark concern

By MEG FLETCHER

SAN DIEGO—Proposals to reduce workers compensation medical costs by combining workers compensation and group health care systems are creating more questions than answers.

THE Business Insurance WORKERS COMPENSATION CONFERENCE

Unresolved issues include the impact of President Clinton's health reform proposal on provider incentives, the quality of medical care and cost containment.

Representatives of an insurer trade organization, a national managed care organization and a California labor union discussed these issues at the *Business Insurance* Workers Compensation Conference last month in San Diego.

Thus far, the Clinton administration has formally recommended only "integration" of workers comp medical care, leaving separate the risk financing system that is designed to reward safe employers with lower premiums (*BI*, Sept. 20).

Under the plan, workers comp would still be a state-based system and insurers and self-insured employers would still pay for the cost of workers comp medical care, said James M. Burcke, editor of *Business Insurance*, who moderated the discussion.

However, the proposal would override choice-of-provider laws that now give preference, depending upon the state, to either injured employees or insurers/employers.

The proposal calls for an injured worker to receive non-emergency care for work-related injuries through the same qualified health plans in which he or she is enrolled for other medical services. Those plans would be set up by regional health care alliances or by companies with more than 5,000 employees. Emergency care could be sought from any provider.

Each health plan would be required to offer specialized care for workplace injuries, either directly or through contracts with other providers. In addition, each health plan also would have on staff a workers comp case manager to coordinate treatment and rehabilitation of injured workers with the workers comp insurer or self-insured employer, to encourage rapid return to work.

The administration does, however, call for creating a commission "to study the feasibility and appropriateness" of transferring the financial responsibility for medical benefits under workers comp—and under automobile insurance—to the overall health care system from workers comp—and auto—insurers. The commission is to report its findings by July 1, 1995.

"We certainly are happy that we have been able to convince the administration to at least give a stay of execution to what we refer to as a coordinated approach," said Keith T. Bateman, vp-policy development for the commercial lines division of the Alliance of American Insurers in Schaumburg, Ill.

The Alliance, though, still has several concerns about such an approach.

"The whole idea of shifting the responsibility from the employer to the health plan is a major shortcoming," Mr. Bateman said.

Requiring each health plan to arrange in advance for qualified workers comp providers could become a matter of form over substance, he said.

Also, health plans would have few incentives to see that an injured worker receives the best possible medical treatment, since they are not at financial risk if they fail and medical treatment is prolonged, Mr. Bateman noted.

'Workers compensation has not been an effective system,' says Harry M. Neer.

In addition, "there could be substantial room for cost shifting" by the health plans to workers comp cases, depending upon plan reimbursement mechanisms, which may include fee schedules, he said.

"The major concern we have is where the Clinton administration is going," Mr. Bateman said. The Alliance believes that administration officials do not accept the importance of managing disability to control wage loss benefits.

The commission studying the issue will be predisposed to recommend full merger of workers comp with the overall health care system, Mr. Bateman predicted. While it is uncertain how far that could go, indications are it may be broader than merely merging workers comp medical care and its financing mechanism, perhaps also encompassing lost-wage benefits, too, he said.

From a provider's perspective, "workers compensation has not been an effective system," said Harry M. Neer, president and chief operating officer of USA Health Network Co. Inc., a national managed care organization based in Houston.

For example, ongoing state reforms have led to a wide variety of state-specific fee schedules that make it a headache to try to coordinate managed care programs for multistate employers, he said. The Clinton plan would be creating more problems for providers if it doesn't deal with this type of existing problem, he said.

A labor representative also pans the current workers comp system, but for different reasons.

"Workers comp has been a cash cow for providers and insurers in this state, who pass the costs on to employers," said Thomas E. Rankin, research and legislative director of the California Labor Federation/AFL-CIO in San Francisco.

Meanwhile, workers are still receiving inadequate benefits in states like California, though the cost of medical benefits has increased 18% annually, Mr. Rankin said. Workers also face "medical insecurity" if their employer does not provide health insurance, which provides an incentive for them to seek workers comp coverage for non-work-related injuries.

Mr. Rankin said he considers it "a disgrace" that the United States does not have a national health insurance program.

He said he favors the Clinton plan because it would allow employees to choose physicians to treat their work-related injury as long as they are associated with the same health plan the employee previously picked for general medical care. That arrangement should result in less friction and should ultimately reduce costs, he said.

Also, labor is hoping that the quality of medical care under the Clinton plan would be good, Mr. Rankin said.

The other two panelists are more doubtful.

The Alliance's Mr. Bateman is concerned that health plans would not have a financial incentive to provide aggressive—and sometimes costly—treatment for a workers comp injury so the employee can return to work as early as possible, thereby reducing lost wage costs. "The person who has the incentive is the employer, not the health plan," he said.

"Disability is a very complex thing," he said. Returning an injured employee to work has to be "a partnership," between the provider, workers and employer.

USA HealthNet's Mr. Neer emphasized that a managed care company and the employer are best able to choose the most appropriate provider for a workers comp claimant. "Most group health providers are lousy workers comp doctors," he said.

The AFL-CIO's Mr. Rankin said he would be more sympathetic with the other panelists' concerns if employers currently did much about returning injured workers to their jobs. He expects progress on this front to be made only with the help of the Americans with Disabilities Act.

There has been fault on all sides in the past, though progress is being made now, said Mr. Neer.

The ability of the Clinton plan to control costs is dependent on many things, the panelists say.

Based on history, Mr. Neer said that providers would still have an opportunity to "rewire around" any rules the administration creates to enhance their income.

It's best if the marketplace is allowed to work out the arrangements rather than having them dictated, Mr. Bateman said. BI

Meeting draws 240 to address comp problems

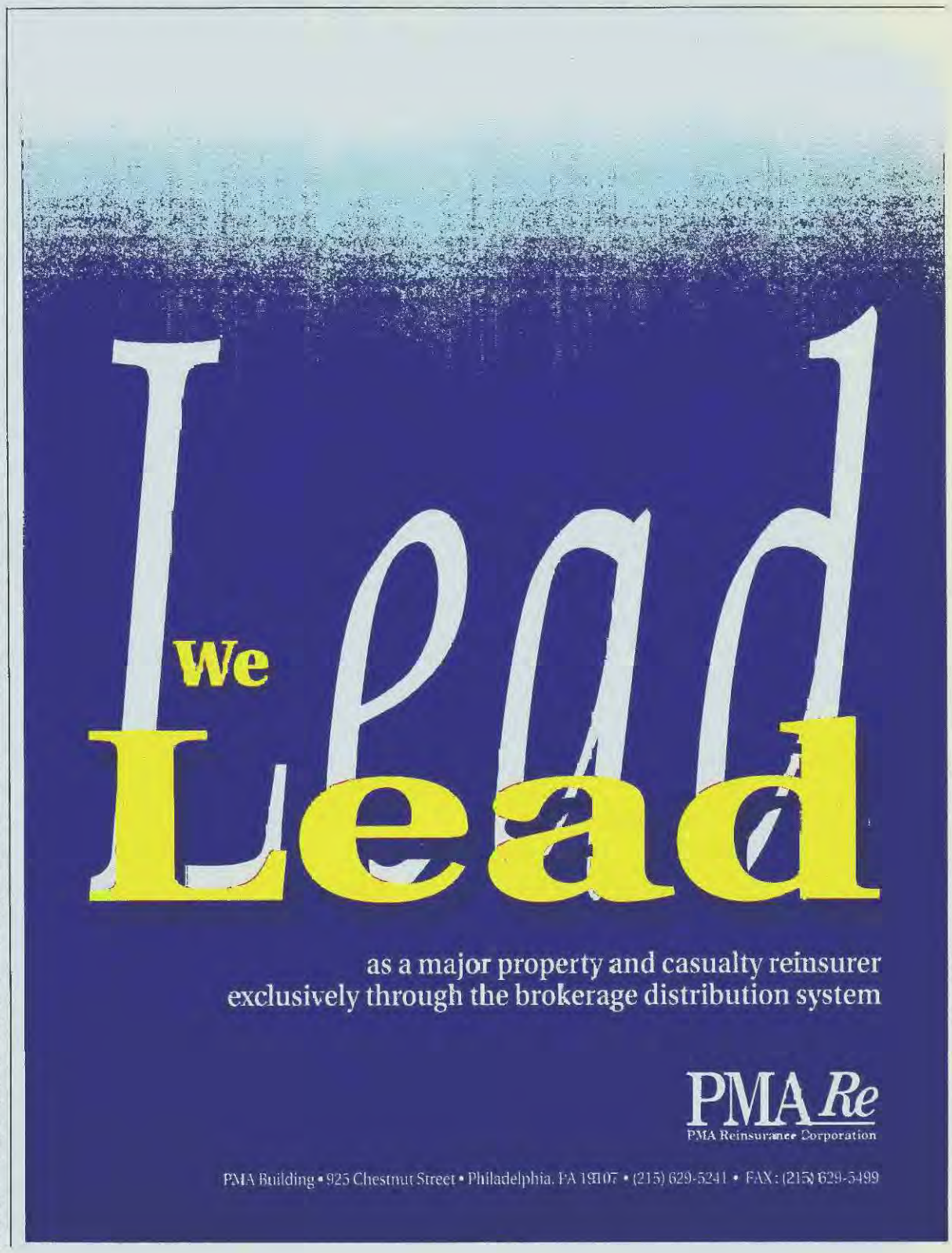
SAN DIEGO—Leading workers compensation experts shared their perspectives on ways to reduce workers comp problems and costs at the recent *Business Insurance* Workers Compensation Conference.

The Oct. 17-19 meeting was sponsored by *BI* in conjunction with IBF Conferences, a division of International Business Forum Inc. of Uniondale, N.Y.

A capacity crowd of 240 attendees heard panelists and speakers discuss innovative solutions to problems, including those posed by audience members.

Discussion of issues spilled over into receptions and luncheons during the conference, which was held at the Loews Coronado Bay Hotel in Coronado, near San Diego.

Planning is already under way for the second annual conference, which is scheduled for next October in San Diego. For more information, contact IBF Conferences, 50 Charles Lindbergh Blvd., Suite 400, Uniondale, N.Y. 11553; 516-229-2375.



Cracking down on comp fraud

Insurers developing deterrents but call for stronger laws

By LOUISE KERTESZ

SAN DIEGO—Despite continuing blatant wrongdoing, insurers are making inroads against the fraud and abuse that riddle the workers compensation system.

THE Business Insurance WORKERS COMPENSATION CONFERENCE

That assessment came from a panel of experts in a wide-ranging discussion of workers comp fraud at the recent *Business Insurance* Workers Compensation Conference.

For every outrageously fraudulent claim that is uncovered, much fraud goes undetected, said J. William Strickland, manager of the special investigations unit at Liberty Mutual Insurance Co. in Orange, Calif.

Among the outrageous examples of fraud that panelists have encountered:

• A worker at a printing company had filed "an obvious phony claim" for a back injury but was out on disability, said Steve Snyder, vp of claims at Fremont Compensation Insurance Group in Glendale, Calif., one of the panelists.

The worker told a bank employee that he had his own printing company. He was subsequently videotaped carrying heavy equipment.

Fremont has videotapes of applicants dancing and sweeping. These same employees come to workers comp hearings wearing cervical collars, Mr. Snyder observed.

• A psychiatrist billed San Francisco-based Industrial Indemnity Co. $270 an hour for "psychiatric consultation" for stress claimants. Investigators ultimately found out that the consultation consisted of playing relaxation music tapes, said Gregory L. Johnson, a principal at William M. Mercer Inc. in San Francisco, another panelist.

The California Medical Board was notified, and the psychiatrist was "closed down," Mr. Johnson said.

The cost of workers comp fraud in California is conservatively estimated at 20% of claims costs, said Fremont's Mr. Snyder.

And for every dollar of outright fraud, other types of abuse rack up $8 to $10 in costs to the system, Mr. Johnson said.

Fremont's reputation for being tough on fraud has helped it cut workers comp claims costs, Mr. Snyder said. An advertising campaign launched last year features a full-page ad carrying the message, "We're going after you." In addition, about 700 billboards throughout California advertise that the insurer seeks to put those who commit workers comp fraud behind bars.

"To us, it's a major deterrent," Mr. Snyder said.

"It benefits the entire industry," agreed Mr. Strickland, who added that Liberty Mutual is also running an anti-fraud campaign.

Though fraudulent stress claims are a big problem in California, soft-tissue claims are still the major cost driver and the area of greatest abuse, Mr. Johnson said.

As stress mills are shut down, "look for an increase in the number of pain clinics," he said.

"Subjective claims are almost impossible to disprove," said Mr. Strickland.

Meanwhile, a new California law requiring a claimant to show that the workplace is the predominant cause of stress has yet to be tested, "but by and large it will help" control fraudulent claims, he said (*BI*, Aug. 30).

Mr. Johnson cautioned that the law "gives the most credibility to the initial treating doctor." If he or she "is inclined" to see stress as a cause for various ailments, the law "may not help at all."

Yet, because the law limits stress claims and post-termination claims, it is "a real reform and tends to bring California to the level of other states" in this area, he added.

Turning to how individual states fight fraud, Mr. Snyder observed that Oregon's SAIF Corp., the state workers comp fund, provides a good example of how to fight fraud. SAIF will fight a fraudulent claim even though the cost of the litigation is greater than the cost of the claim. "They have prosecuted people for $200 or $500 claims," he said.

"You basically can't have a threshold" below which you will not fight a claim you believe to be fraudulent, he asserted.

"Legislative teeth is really the issue. Very few states have anti-fraud laws," Mr. Strickland pointed out. Arizona law, for instance, does not prevent capping—the practice, now illegal in California, of having agents of doctors and lawyers solicit workers comp claimants in unemployment lines or elsewhere.

Massachusetts and Oregon are leaders among the states in fighting fraud, Mr. Snyder said.

On the other hand, as states crack down on fraud within their boundaries, it moves to other states. For example, California workers comp fraud mills are "splitting up their operations," doing the medical-legal evaluations in California and the billing in Texas, he said.

"We're not going to kill it. . .but force it to change its complexion," Mr. Snyder said.

In Massachusetts, "an extremely effective tool" in fighting fraud is the requirement that applicants must declare every six months under penalty of perjury that they are not collecting any money besides their disability payment, Mr. Strickland said.

That declaration alone, used in conjunction with surveillance, can help fraud prosecution, he said.

The panelists outlined some warning signs an employer should watch for when attempting to detect workers comp fraud.

Profiles of medical providers will reveal potential fraud if they show excessive or inappropriate testing, Mr. Johnson said.

Employers should also watch for medical reports produced by word processors, a sign that an attorney rather than a doctor wrote the report, and numerous referrals to certain medical providers by the same attorneys, he said.

Employers should also be aware that many fraudulent health care providers are operating without a license, Mr. Snyder added.

As for applicant fraud, watch for "subjective injuries that never seem to heal," Mr. Strickland said. An employee who disappears and "resurfaces with a post office box address" is also suspect, he added.

Employers should remember the word "HELP," Mr. Strickland suggested. "Know who you are 'Hiring.' 'Educate' your employees about fraud and the penalties of conviction. 'Listen' and follow up on suspicions of fraud and employ 'preventive measures,' " such as videotaping employees doing their jobs before a layoff, to combat post-termination claims. Exit interviews are also useful as a preventive measure, he said.

Educating workers about the cost of fraud is crucial, said Mr. Snyder, who explained that recent surveys show that one out of three workers believe it is not wrong to accept more money from an insurer than they are owed. "This was never related to how much it costs the employer," he said.

Workers must be educated that "fraud eventually will cost jobs," he stated.

Law enforcement agencies are now cooperating "much better" with insurers and employers in combating fraud, Mr. Snyder said. "Early on, it was very difficult," since insurers put cases together, but there was no funding to prosecute them. "Funding has grown dramatically," he said.

Employers can hedge the problem of a bad-faith action by helping provide clear, well-documented cases of fraud. "If you're convinced this is a fraud case, pursue it," Mr. Strickland urged.

In addition, "We want the employer at the deposition and at trial," where an employer's presence is a key to successful prosecution, Mr. Snyder said.

The panel was moderated by Joanne Wojcik, *BI*'s Los Angeles bureau chief. BI

Quality claims handling

Unhappy with TPA? Self-administer, risk manager says

By LOUISE KERTESZ

SAN DIEGO—"They paid *that* claim? They set *that* reserve? They didn't even *call* us?"

THE Business Insurance WORKERS COMPENSATION CONFERENCE

If an employer is making those comments about the third-party administrator handling its workers compensation claims, that's a sign it is unhappy with its TPA and it is time to consider self-administration, a risk manager says.

But the company's risk management staff must be prepared for hard work and "constant communication with management" to demonstrate the benefits of self-administering workers comp claims, says Arnold L. Davenport, vp of risk management at Marriott Corp., who spoke at the recent *Business Insurance* Workers Compensation Conference.

Mr. Davenport, who was *Business Insurance*'s Risk Manager of the Year in 1991, said his comments were primarily directed at smaller companies that may be unsure how to proceed in self-administering workers comp claims.

Once there is no more TPA to blame for problems in claims handling, "the enemy becomes us—or your career," he quipped.

The "root reason" to self-administer is to improve claims handling quality, according to Mr. Davenport. "If you have any other root reason, do not self-administer. . .because it's a suicide mission," he warned.

For example, a company that self-administers should not expect to save a lot of money in administrative expenses. A TPA can save money in this area because of the high volume of claims it handles, he said.

Any savings in administrative expenses reaped through self-administration must be used to upgrade quality, he urged. That is because it is through better quality that self-administering really cuts costs, because better quality leads to reductions in losses, Mr. Davenport explained.

A self-administered program gains credibility with top management because "we show them every year that the quality they're getting" can't be obtained from an outside vendor, he said.

It is "very hard to find" an excellent outside claims administrator, though an exceptional TPA can cut losses by 15% compared with a poor TPA, Mr. Davenport pointed out.

And self-administering can cut losses another 5% beyond that, he contends.

So the potential total cost savings of a self-administered program is 20%, according to Mr. Davenport.

Quality improves with self-administration, he said. Because companies can pay more than a TPA, they

Continued on next page

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Continued from previous page
can attract and keep more qualified personnel, and those employees will have smaller caseloads than those at TPAs, he explained.

A company's own staff will also conduct better investigations of claims. For example, most TPAs in Los Angeles do not conduct their own claims investigations and will charge a company extra to have another vendor conduct them, he said.

There also will be better communication and cooperation among claims handling staff members "because you're dealing with your own people," Mr. Davenport said.

And a company's own claims handlers will be more familiar than a TPA with situations that employees cite as the basis of their workers comp claims. "We've saved thousands and thousands of dollars because our people knew we did certain things in our hotels," he explained.

Quality also is improved through a "consistent philosophy" when a company self-administers its workers comp claims. "You can't implement a cultural philosophy through a TPA," Mr. Davenport asserted.

And, while some employees have "no problem with milking money from insurance companies," they will drop the "insurance company mentality" when they are talking to employees from their own firm and getting a claim check from their own firm, he said.

"Litigation plummeted" to about 7% from 15% of claims once Marriott began self-administering its own claims 10 years ago, Mr. Davenport said. "We made sure everyone knew this was Marriott money."

Meanwhile, Marriott's legal representation also improved, Mr. Davenport pointed out. Once a company self-administers, it becomes "a real client" to an attorney. The attorney may have previously focused on his or her relationship with the TPA, which is a potential source of more business.

Self-administration also puts a company in control of the reserves set aside for workers comp claims. No more will a self-insured company have to say reserves "are screwing up the (work comp) ratings, they're out of control."

But, Mr. Davenport warned, care must be taken to establish proper reserves. Otherwise, regulators might come in and declare that the company has to pour an additional million dollars into reserves within a week. "The right reserves are not the lowest reserves," he said.

The responsibility for establishing proper reserves is one of the pitfalls of self-administration, Mr. Davenport said.

Another is the challenge to the claims administration staff's credibility. "All of a sudden, it's *you* that's setting the high reserves. You're in danger of becoming *them*."

To avoid becoming the enemy, the claims administration staff should immediately set up a program of communication with top management to let them know why certain reserves are being set, he said.

Another pitfall is that unless top management is educated beforehand, they will view the claims operation "the same as any operation" in the company when it comes to a decision to cut 10% of staff.

When Marriott management cut its claims staff at one point, it "created absolute havoc," Mr. Davenport recalled. He documented what the cuts cost the company for an eight-month period—in inadequate reserves and delayed claim action—and the positions were reinstated.

That's where a TPA has an advantage, Mr. Davenport pointed out. "They don't lay off during *your* company's hard times."

Presenting models for companies considering self-administering, Mr. Davenport said that for a department with two administrators and a clerk, the minimum claims per month to make self-administration worthwhile would be 50 to 72, or between 600-864 claims per year.

The lifetime cost of those claims would amount to $232,800, Mr. Davenport said.

Meanwhile, the annual operating expense of self-administering would be $204,964, plus a start-up cost of $15,887, he said.

"If you have any doubt (about whether to self-administer), certainly work through the models.... My advice after 10 years is to go for it," Mr. Davenport said. BI

Cutting work comp costs

A detailed identification of problems yields the best solutions

By MEG FLETCHER

SAN DIEGO—Successful strategies for cutting workers compensation costs can be as varied as the types of employers that implement them.

THE Business Insurance WORKERS COMPENSATION CONFERENCE

Case studies offered by construction giant Bechtel Corp., The Walt Disney Co. and Mervyn's department stores all show that detailed identification of specific problems is the first step to solving them.

Discussion of their workers comp experiences at the recent *Business Insurance* Workers Compensation Conference also highlighted a new opportunity in California for some employers to collectively bargain with their unions to create their own unique workers comp systems, similar to a program available in Massachusetts. This option is now available only to construction trade unions, though employers in other California industries are seeking legislative approval to broaden its use, speakers say.

Bechtel Construction Co. implemented a successful workers comp cost-cutting strategy in Massachusetts last year that was based on 1991 reforms that allow employers to negotiate alternative workers comp benefits with workers, said Thomas W. Manley, labor relations supervisor for the San Francisco-based unit of Bechtel Corp.

Although the company provides workers comp benefits above the minimum levels set by state law, it has cut lost-time injury costs and appears to be curbing medical costs through an employer/union-chosen preferred provider organization (*BI*, May 31).

In addition, Bechtel's agreement was designed to resolve disputes more quickly by use of a company ombudsman, mediator and arbitrator. However, the new system worked so well that no disputes got beyond the ombudsman stage at the construction site in Massachusetts where the program was first implemented, Mr. Manley said. Similar agreements are in use or planned for other construction sites, he added.

A key component of Bechtel's new arrangement was a statewide PPO, explained Lucy Gallagher, assistant vp at Alexander & Alexander of California Inc., who spends most of her time working on behalf of Bechtel units.

Medical specialists, who had previously refused to take on workers comp cases because of system-related problems like litigation disputes, were encouraged to participate because of several of the program's features. For example, Bechtel was willing to pay providers more than the state's medical fee schedule allowed. In addition, a "patient advocate" helped coordinate a worker's treatment and return to work.

New approaches to an old goal—safety—is helping The Walt Disney Co. cut its workers comp costs at Walt Disney World resort in Orlando, Fla.

Disney launched a comprehensive program in June to educate managers and the resort's 38,000 employees—known as "cast members"—about the need for a specific commitment to safety and loss control, said Sue Rye, director of risk management services at the resort.

Workers comp costs for the self-insured and self-administered resort totaled $35 million in 1992, despite the implementation of a variety of cost containment measures, including in-house rehabilitation, light duty jobs, on-site physical therapy, preferred provider discounts and medical cost management systems.

Part of the problem was that corporate responsibility for safety had been reorganized since 1984, responsibilities shifted and reinforcement ebbed, she said.

Another problem was that managers' perception of unsafe working conditions lagged behind employees, according to a Disney survey.

The risk management division's goal was to ensure and maintain a safe and healthy environment for cast members and guests. It did that by addressing root causes of problems, defining responsibilities and demanding accountability from different sectors of the company such as resorts, parks and administration/support. The risk management division's role was to act as a consultant, foster communication and coordinate data flow.

The business impact of refocusing the company's energies to valuing human resources and expanding the company's health and safety culture will decrease claim costs, reduce expenses and raise profit margins, Ms. Rye predicted.

The company's $35 million in direct workers comp costs were accompanied by about $70 million in indirect costs, such as replacing and training staff, she said.

"Safety is really a four letter word: CARE (Concern And Responsibility for Everyone)," the Walt Disney World campaign emphasizes. Helping to convey that message are plastic-coated wallet cards that list telephone numbers workers can call with safety-related problems.

As part of the program, operating divisions are encouraged to develop light-duty jobs on each shift. One of the most effective programs has recuperating workers recycling products, she said.

Since the campaign began, there has been a 10% reduction in incidents and a 20% reduction in direct costs, Ms. Rye said.

Developing a workers comp cost-cutting strategy for Mervyn's, a 300-store retail chain operating in 15 states, was difficult because it meant undoing some "right-sizing" changes that hurt rather than helped the company, said Michelle Patton, director of risk management for the Hayward, Calif.-based chain.

One change had essentially eliminated the departments that received large boxes of merchandise from manufacturers. As a result, the stores' retail staff of primarily middle-aged women had to individually haul merchandise to restock their shelves, she said. "There were real significant injuries," especially to backs and knees, Ms. Patton recalled.

Solving the problems first required spending money to reinstate the receiving departments and pay more for prompt medical care of injured workers, she said.

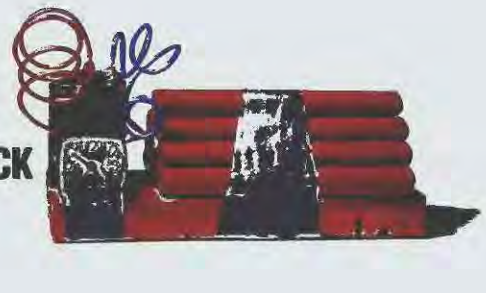
Also, protocols and procedures for medical treatment and light-duty work were developed to get injured employees to "turn off Oprah," said Ms. Patton. Those and other programs significantly cut employees' vocational rehabilitation costs in California, she said.

Injured workers also were asked to fill out a confidential questionnaire about the quality of care they received from a preferred provider network, which should help maintain quality.

A cornerstone of the company's program is improving communication and cooperation with its claims administrator, Ms. Patton said. For example, claims adjusters are asked to spend two days a month in a store so they can better understand operations and become acquainted with workers.

Mervyn's also established a charge-back system this year to make individual stores more aware of their workers comp costs, though the amount that can be charged back is capped, she said. BI

carrier takes a big hit TICK.....TICK.....TICK.....TICK



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American Excess Insurance Association

Letters

Continued from page 8

purchase decision.

We must break our dependence on insurance and permit the marketplace to set the level of prices for health care in an environment of the least insurance possible, retaining only truly catastrophic coverage.

John J. Iannantuono
Treasurer
Indicon Inc.
Allentown, Pa.

Incremental reform is best approach

To the editor: We are embarking on a very long, heated debate in this nation about the need for, the merits of and the methods of health care reform. I have several concerns about whether those at the forefront of the debate have considered short-term partial solutions to some of the most vexing and troubling situations in health care today.

The insurance industry deserves a strong slap for bringing about at least some of the so-called "crisis" conditions that exist. Selective underwriting by health insurers—coupled with extremely weak, extremely political insurance regulators in 50 states—has led to many thousands of people being unable to purchase health insurance at any cost, no matter what deductibles they were willing to accept. This is because insurers acted much like a cartel during the 1980s when they adopted policy provisions excluding coverage for pre-existing conditions. Even worse, since the mid-1980s, many health insurers decided they really didn't want to take on risk at all, avoiding huge numbers of individuals in certain businesses and professions and with certain types of health conditions, because of potentially serious future illnesses.

My understanding of state regulation is that regulators have jurisdiction over rate setting and policy provisions, as well as many other matters. If state insurance regulators wanted to, they could agree among themselves (under the auspices of the National Assn. of Insurance Commissioners) about the need to do away with these pre-existing conditions exclusions and this selective underwriting process. And if they so agreed that they should require underwriters to "take all comers, henceforth," virtually overnight they could force the industry to change its most destructive practices.

Regulators have governing power over specific policy provisions and underwriting procedures. This would not require months or years of debate or legislative battles to accomplish.

And yet such a move in every state would go a long way, almost instantly, toward rectifying a deplorable situation. Regulators may be frightened of taking such action, however. The federal government, without any enabling legislation, could act as the catalyst and guiding force for such action by state regulators, through the offices of the Federal Insurance Commissioner.

As a second step, the state insurance commissioners could impose a rule in each state that requires insurers to use community-rating procedures for rate setting. This could also be accomplished overnight, with little fanfare but very positive results.

President Clinton would make a valuable contribution by looking to the relatively straightforward first steps that can be taken to improve the system. In this way, he might be able to avoid a polarizing, divisive battle sure to precede any total overhaul of the health insurance and health care delivery system.

I'd like to see some easy, incremental steps taken to improve things before we destroy the system that has taken 60 years to build, even with all its warts.

Susan J. Alt
President
The Business Word
Englewood, Colo.

■ *Susan Alt was editor of* Business Insurance *from 1976 to 1980.*

Managed care not new in Iowa

To the editor: I was surprised to read some of the comments in "Iowa Community Planting the Seeds of Managed Care" (*BI*, Aug. 2). This article contained information that was, at least from our perspective, inaccurate.

The second paragraph of the article stated, "...employees and medical care providers in Cedar Rapids are setting out to manage care where no managed care exists."

You might be interested to know that Heritage National Healthplan, which is one of the nation's largest multistate HMOs—and the largest HMO in Iowa, with more than 115,000 subscribers—has been operating in Cedar Rapids since 1986. We have had contracts with the local physician organization (Eastern Iowa Health Care) and with both local hospitals, constituting an excellent delivery system for our managed care enrollees.

Considering that we have more than 10% of the community's population, it's hard for me to agree with the article's assertion that most Cedar Rapids residents don't understand what an HMO is or does.

We are well aware of the Cedar Rapids Community Leadership Council and have actively worked with them. We thought, however, that you might appreciate a little perspective on the efforts of Heritage as well.

Robert J. Combs
Director of Corporate Communications
Deere & Co.
Moline, Ill.

■ *Heritage National Health Plan is a subsidiary of Deere & Co.'s health care subsidiary, John Deere Health Care Inc.*

Racial stereotype a flaw in article

To the editor: I was dismayed by Barbara Stewart's use of a racial stereotype to make a point in her otherwise insightful article on the risk management profession, "An Uncertain Future" (*BI*, Aug. 30).

It is surprising that the portrayal of Native Americans as savages is still an acceptable topic, even in the 1990s.

Apart from the flaw, the piece could have made excellent background reading for a course in risk management or perhaps resource material for college students contemplating a career in the field.

Ms. Stewart and her editors at *BI* have instead presented insurance and risk management professionals with yet another public relations problem.

David J. Miller
Erie, Pa.

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Deadline for entries nears

Risk Manager of the Year nominations due by Nov. 19

The deadline for nominations for the 1994 *Business Insurance* Risk Manager of the Year award is quickly approaching.

Completed nominations must be submitted no later than Nov. 19.

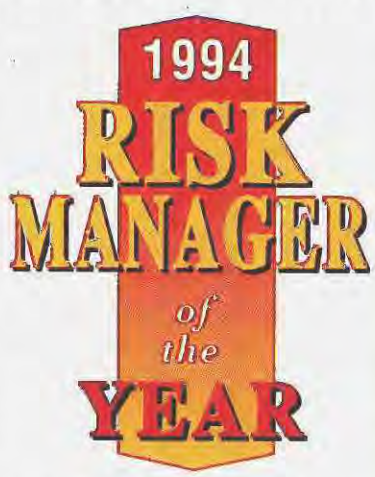
"The clock is ticking, but there still is time to nominate a genuinely talented risk manager," noted *Business Insurance* Editor James M. Burcke. "However, you must request a nominating packet immediately in order to begin work on the nomination."

Business Insurance created the Risk Manager of the Year award in 1977 on its 10th anniversary of its publication to recognize outstanding achievements in the risk management profession.

The Risk Management Honor Roll was created in 1981 to recognize outstanding achievements in risk management in different employment categories.

Ten independent judges will score each of the candidates on 10 criteria (see box). The candidate with the highest score is named Risk Manger of the Year. Then, the remaining nominees are separated by employment category:

- Corporations exceeding $300 million in sales.
- Corporations with sales of less than $300 million.
- Government entities.
- Tax-exempt or non-profit entities.
- Financial institutions.
- Self-insurance funds and pools.



The highest-scoring candidate in each of the employment categories not represented by the Risk Manager of the Year are then named to the Risk Management Honor Roll, subject to the judges' discretion. As many as five risk managers can be named to the Risk Management Honor Roll.

The 1994 Risk Manager of the Year and members of the Risk Management Honor Roll will be announced in the April 18, 1994, issue of *Business Insurance,* which will coincide with the annual Risk & Insurance Management Society Inc. conference in New Orleans.

A candidate need not handle risk management functions full-time to be nominated, but he or she must be a full-time employee of the organization for which he or she directs the risk management program. Risk managers from around the world are eligible.

A candidate can be nominated by anyone familiar with his or her work.

For instance, an employee or a group of employees may nominate the organization's risk manager. A broker, insurer, consultant or some other service supplier can nominate a client. And, a risk manager can nominate a colleague.

In addition to the completed nominating forms outlining the candidate's accomplishments, each nomination must include a letter from the sponsor nominating the candidate and a letter of endorsement by any executive of the candidate's organization, who can be the candidate's superior or any other higher-ranking official. The letter must certify the accuracy of the nomination.

All entries are held in the strictest confidence with only the honorees' names announced.

"A great amount of information is required for a winning entry," Mr. Burcke noted. "Next week is probably too late to start the nomination process."

The judges for the 1994 competition are:

- David G. Adler, risk manager of The Portman Cos. of Atlanta. Mr. Adler was named to the 1993 Risk Management Honor Roll, representing small companies.
- Norman A. Baglini, president of the American Institute for Chartered Property & Casualty Underwriters and the Insurance Institute of America in Malvern, Pa. Mr. Baglini is serving of the panel of judges for a second year, representing the insurance academic community.
- Thomas E. Bell Sr., director of risk management for the Middle Cities Risk Management Trust in East Lansing, Mich. Mr. Bell was named to the 1993 Risk Management Honor Roll, representing self-insurance pools.
- Peter S. Christie, chairman and chief executive officer of Minet Group P.L.C. in London. Mr. Christie is serving on the panel for the first time, representing global insurance brokers.
- June Dickinson, vp/risk manager at SunTrust Banks Inc. in Atlanta. Ms. Dickinson was named to the 1993 Risk Management Honor Roll, representing financial institutions.
- Richard C. Heydinger, director of risk management services for Hallmark Cards Inc. in Kansas City, Mo., and the 1993 Risk Manager of the Year.
- David Hoskins, president of Andreini & Co. of San Mateo, Calif. Mr. Hoskins is serving as a judge for the first time, representing regional insurance agents and brokers.
- Robert A. Mulderig, CEO of Mutual Risk Management Ltd. of Bermuda. Mr. Mulderig also is serving on the panel for the first time, representing stock insurance companies.
- William D. O'Connell, partner and national director of business insurance consulting for Deloitte & Touche in Dallas. Mr. O'Connell is serving as a judge for a second year, representing risk management consultants.
- James I. Taylor, president of Pennsylvania National Insurance Cos. in Harrisburg, Pa. Mr. Taylor, who also is serving on the panel for a second year, represents mutual insurance companies.

Nomination forms and instructions can be obtained from Karen Brown, *Business Insurance,* 740 N. Rush St., Chicago, Illinois 60611-2590; 312-649-5319; fax: 312-280-3174. BI

Ten criteria are used to score the nominations submitted for the *Business Insurance* Risk Manager of the Year Award and Risk Management Honor Roll.

The 10 independent judges of the nominations score each candidate according to how well he or she:

- Established and implemented an effective risk management program within the organization.
- Tackled and solved one or more major problems for his or her organization.
- Innovatively applies the diverse tools of risk management and insurance.
- Creatively and effectively uses the insurance markets to structure an insurance program that serves the needs of the organization.
- Established a workable intelligence system inside and outside the organization, culminating in a flow of information about events and activities that affect the organization's risk management and insurance.
- Skillfully performs the functions of management in the overall organization and within the risk management/insurance department.
- Achieves the most effective program at the optimum cost over the long term.
- Developed technical expertise in any or all of the broad categories included within risk management, leading to a better managerial grasp of the operations aspects of the job.
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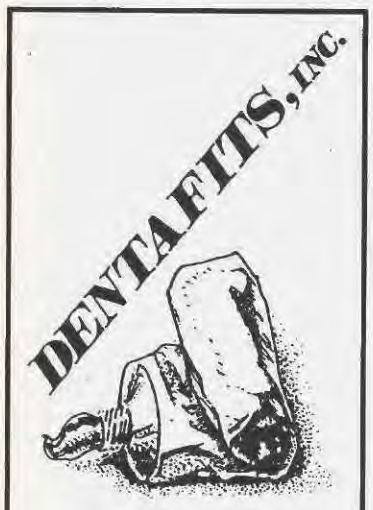

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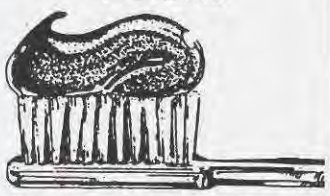

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Agent/Broker Topics

A monthly editorial section sent exclusively to agents and brokers

Insurers enlist agents to fight in the war on insurance fraud

Seminars offer training in crime detection and prevention

By CHRISTINE WOOLSEY

If all of the claims fraud occurring in the United States were incorporated, the company's revenues would rank it in the top 25 of the Fortune 500 companies and would be considered a growth industry.

Estimates of the costs of external insurance fraud suggest that it is the second-largest economic crime in America, exceeded only by tax evasion.

Insurance industry estimates indicate that fraud drives up premiums by 8%, costing consumers more than $17 billion annually.

The insurance industry is well-aware of the damage that deceit and double-dealing do to its bottom line, and some insurers are making moves to get agents involved in the front-line battle to sidetrack the swindlers.

A handful of companies are inviting agents—both claims representatives and producers—to seminars designed to heighten their fraud awareness. The message is something akin to Uncle Sam pointing his finger and saying, "We want you." Only this time, insurers want their agents to join the war against fraudulent insurance claims.

Enlisting agents to serve as the first barrier against dishonest claimants is just common sense, insurers say.

"We insure the (risks), but the insureds are really the agents' customers," said Rob Rucier, vp of underwriting for Philadelphia-based General Accident Insurance Co. of America, which is sending a packet of information on insurance fraud—including the facts listed above—to its 3,400 agents nationwide.

The agent "is the one who gets a feel for the individuals" requesting coverage, Mr. Rucier pointed out. "Some agents have a sixth sense; they can tell whether the insured's answers are honest or not."

General Accident recently hosted a meeting for its New York-area agents to raise their awareness about fraud and to demonstrate the company's commitment to fraud detection.

"It was rather refreshing to see," said George A. Marchetti, vp of George Marchetti Brokerage Inc. in Brooklyn, N.Y., who attended the meeting. "They are enlightening their company personnel and agencies that there is a major problem with property insurance fraud."

Royal Insurance Co. of Charlotte, N.C., recently held a fraud seminar for some of its Midwest agents. "Agents aren't as involved as they should be," said Kenneth Goodnight, manager of Royal's special investigations program. "But a number of our special investigation unit investigators and managers have gone to agents' offices and conducted awareness programs, and they are interested."

Some states, like California, are now requiring insurers to establish special investigative units or contract with such units to stamp out insurance fraud.

"We've had a special investigation unit (for internal purposes) since about 1981, but last year we put together a Special Claims Services division, which investigates fraud for insurance companies, brokers and self-insured employers without their own resources," said Rowena Bishop, director of the special investigation unit of Novato, Calif.-based Fireman's Fund Insurance Co.

The company created the unit in response to S.B. 953, a law passed by the California Legislature in July 1992 that mandates that insurers establish such units.

Fireman's Fund has conducted fraud-fighting programs for five insurance companies and some self-insured employers and is now reaching out to brokers and producers, Ms. Bishop said.

Agents and brokers have to rely on insurers for these services because most of them do not have in-house anti-fraud programs.

"No broker I know of has a full-time fraud department," said Kavin Smith, vp and marketing manager for Palmer & Cay/Carswell Inc. in Savannah, Ga. "It's only been in the last two or three years that insurance companies have been pushing their anti-fraud services. But I applaud their efforts. And, I can discuss those services up front with insureds as a value-added service."

During the fraud-awareness seminars, insurance company investigators typically tell agents how the insurer's special investigation unit operates, what types of fraud are most prevalent and what agents can do

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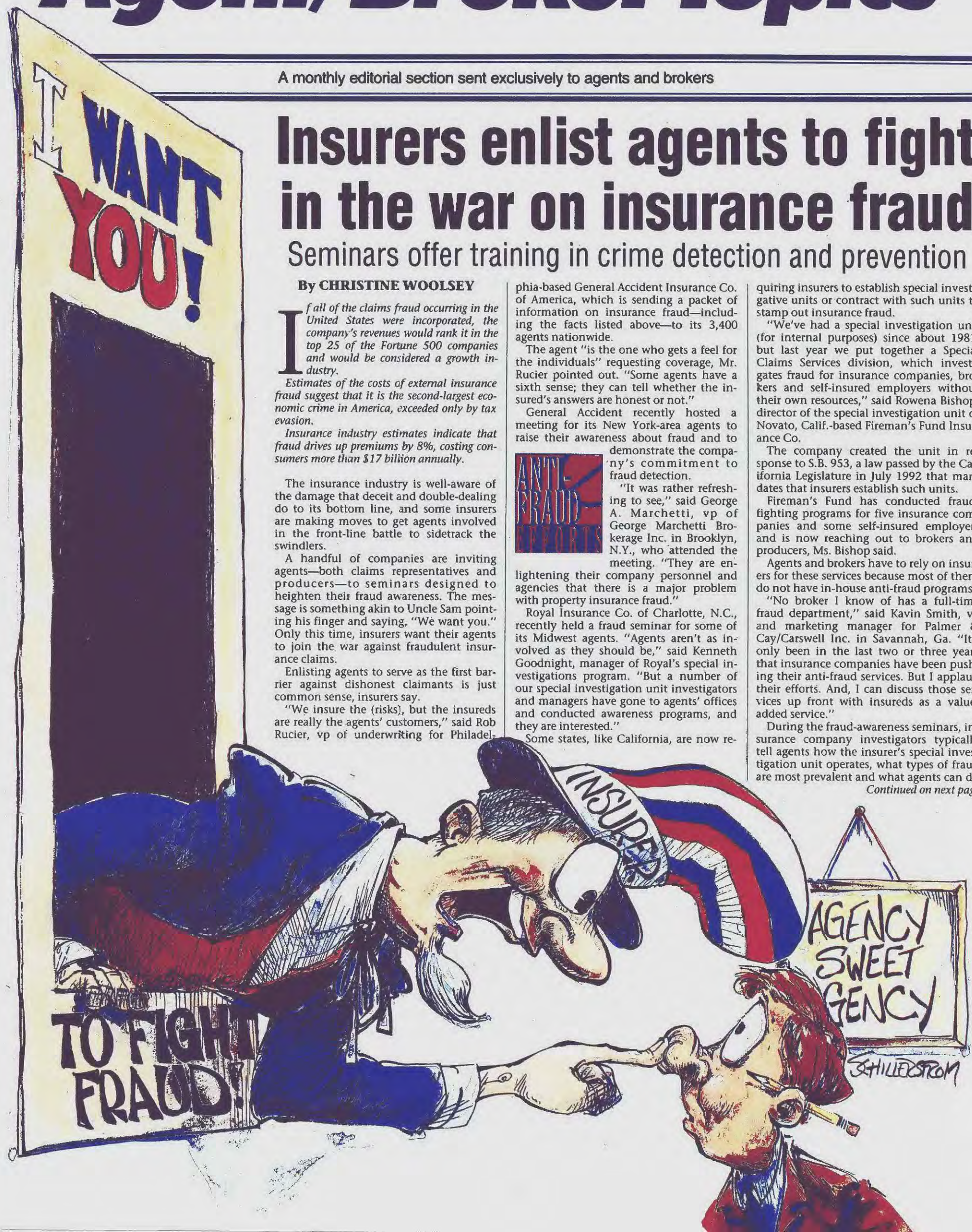


Fraud war

Continued from page 76B

is affected, too, given its relationship with the insurer. Agents are really direct representatives of the insurance companies they place business with, and in most cases, an agent has binding authority and check-writing authority up to a certain amount.

"An agency has a stronger marriage with the insurer" than brokers do, Mr. Marchetti said. "And part of that responsibility is to look out for the company."

In return, agents that write good business and make money for the insurer get a chance to share in the insurer's profits. These agreements are an incentive for agents to tackle insurance fraud.

"The industry is playing up fraud more and more. We realize it has a major impact on our loss ratios and profits, and now agents realize it impacts their bottom lines," Mr. Rucier said.

"We should all care because when a fraudulent claim is paid, everyone across the board pays as a result—even the person who files the fraudulent claims," said Janice Warda, a claims manager with Meeker-Magner Co., a Des Plaines, Ill.-based agency. Those who file fraudulent claims pay for their deceit through higher premiums.

"I object to an insured who beats us or beats the insurance company, because he beats everyone along the line," said Tom Meany, president of Edward E. Hall & Co., a New York-based agency. BI

Enlisting agents to fight fraud

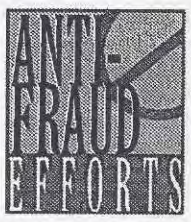
California insurer teaching agents to spot, stop comp fraud

By NANCY P. JOHNSON

Fremont Compensation Insurance Co. is spreading the word to agents on how to help customers identify and stop workers compensation fraud.

Glendale, Calif.-based Fremont, which is on a self-declared mission to eradicate workers comp fraud, is sending its fraud investigations unit personnel to speak to business groups on insurance fraud.

Last year, the fraud unit made 22 presentations to more than 1,500 people in California, and so far this year it has made 23 presentations to 1,800 people in the state.



Fremont has plenty to tell agents about the fight against fraud, said Mary Lou Misrahy, senior vp-marketing, customer services and loss control.

Fremont recently beefed up its fraud investigations unit by hiring Michael Stock, a former deputy district attorney from Riverside County, Calif.

"Having an ex-D.A. on board is really helping us crack big cases, like medical mills," said Ms. Misrahy, who brings to the job an insurance background that involves workers comp claims and loss control.

Fremont's presentations—which frequently are held at the request of local district attorneys—focus on telling agents, producers, policyholders and other interested parties how workers comp fraud can be detected, and how the battle against fraud is faring in California.

Insurers are winning the fight against insurance fraud, Ms. Misrahy commented, noting that Fremont alone has helped bring about 40 workers comp criminal complaints and 18 convictions so far this year.

And, there have been notable changes in state law regarding workers comp insurance fraud, she said.

For example, California law was changed in July to prevent those who have pleaded guilty to workers comp fraud from continuing to collect workers comp benefits (*BI*, July 26).

And, Fremont mounted a successful campaign that led state lawmakers to require newspaper advertisements that encourage people to file workers comp claims to include a warning that fraudulent claims are illegal (*BI*, Feb. 3, 1992).

The seminars are designed to show audience members how their efforts can directly contribute to successful convictions, Ms. Misrahy said.

For example, Ms. Misrahy said she tells agents about real-life workers comp fraud cases and how they came to light. Also, she describes the process of bringing a suspected fraud artist to trial, "because the criminal area is so different from the administrative area."

Also, Ms. Misrahy reminds agents and policyholders not to delay notifying the insurer about suspected fraud, because the adjuster has only 90 days to either deny or accept the claim. After that, the claim is deemed compensable.

The seminars also advise agents and policyholders on how to use Fremont's anti-fraud marketing tools, like posters, videos and payroll enclosures.

"These are good selling tools for agents," Ms. Misrahy said.

Fremont offers a toll-free hot line to its fraud unit, which agents and policyholders may use to report suspected fraud.

Fremont also sends agents and policyholders a market force bulletin that lists recent arrests and convictions on insurance fraud. And, she said, the insurer sends agencies a monthly newsletter that includes loss runs, plus a column on insurance fraud news and a legislative update.

Audience members at the seminars enjoy hearing about convictions resulting from tougher fraud laws in California, Ms. Misrahy said.

Agents and clients are interested in knowing that these recently passed laws already have put offenders behind bars, she pointed out.

For more information, contact Mary Lou Misrahy at 818-549-4560. BI

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Agent/Broker Topics

Claim for stolen painting ends dealer's fraud career

By NANCY P. JOHNSON

Life imitates art, even in the world of insurance scams.

Just ask Jack Shaoul, antiques dealer and small-time moviemaker—and now a convicted insurance fraud artist.

In 1991, Mr. Shaoul was hosting a party in the loft above his Manhattan antiques shop. That night, he asked his brother-in-law to bring several pieces of fine art from Mr. Shaoul's home to the party for potential buyers to see.

The brother-in-law, who said he brought several vases and a painting to the party in a station wagon, got into an argument with the building's doorman. The police were called, and the painting and vases were stolen in the commotion.

Mr. Shaoul reported the loss to Novato, Calif.-based Fireman's Fund Insurance Co., which had written a homeowners policy for his Long Island home. The coverage has limits of $1.2 million for the building and $605,000 for its contents, plus numerous scheduled personal fine arts items valued at almost $1 million.

One of the stolen items was a painting titled "Pirate's Cove," by the 19th century American artist Albert Pinkham Ryder. Although the painting was not on the insurance schedule, he claimed it was valued at $1 million, thus exposing the insurer for the full $605,000 contents limit of the policy as well as $111,000 in payments for the scheduled vases.

Fireman's Fund thought the claim was fishy: A valuable painting was left unattended in a station wagon; a thief broke into the car while police were present; and the policyholder hadn't bought the piece of art but rather had traded other artwork for it.

In addition, art experts said paintings by Ryder don't sell for more than $50,000, even though Mr. Shaoul produced a letter from a prospective buyer who offered to buy the painting for $850,000.

Soon, the story began to unravel. First, one of Mr. Shaoul's assistants told an attorney for Fireman's Fund that the painting was a forgery and still in Mr. Shaoul's possession, and the letter from the prospective buyer was fake.

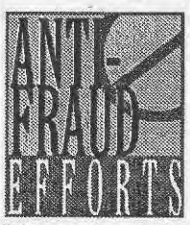
Next, Mr. Shaoul contacted Fireman's Fund to report that all of the stolen items had been recovered and that he was withdrawing his claim. He said that two people simply walked into his shop and returned the works.

Then, Fireman's Fund learned that the FBI also was interested in Mr. Shaoul's activities. In fact, Mr. Shaoul and several of his family members were being prosecuted in federal court for selling phony Tiffany lamps and for painting copies of famous art works and then selling them as originals.

Mr. Shaoul was convicted in August for mail fraud—because his claim was mailed in. He could receive a four-year jail term.

This foiled fraud is the result of the combined efforts of many people: Fireman's Fund's special investigative unit, the FBI, personnel from federal court, and art experts, said JoAn Smith, property line manager for Fireman's Fund in Avon, Conn.

"It is really nice to win one—to see the final result of your labor," she said.



Mr. Shaoul's conviction may put a crimp in his antiques dealer career, but he still has his movie-making to fall back on. After all, his movie "Golddigger" is about an antiques dealer who gets involved in an art insurance fraud scheme. BI

Insurance agent hits a home run

Little League teams give inner city kids a chance to play ball and stay out of trouble

By DEBORAH SHALOWITZ

Crack. Cabrini-Green. Lots of teen-agers hanging out.

Sounds like a potentially dangerous situation.

Not always, though.

The crack is the sound of a baseball bat hitting a ball. Cabrini-Green is a gritty Chicago Housing Authority low-income housing project across the street from two baseball diamonds where Little League games are played. And the teen-agers are standing ready at their positions in the field or are cheering on their team.

All this because of an insurance agent who had an idea that if inner-city kids played Little League in the summer, it could keep them out of some dangerous situations on the streets.

Bob Muzikowski, an agent in Chicago for Northwestern Mutual Life Insurance Co., decided to start the Near North Little League after jogging one August evening in 1990 past an empty field near Cabrini-Green, one of the nation's most notorious housing projects.

Although crime at the Cabrini-Green complex is dropping, residents there still routinely dodge bullets from gang members and are victimized by armed robberies.

Mr. Muzikowski sent about 50 friends and clients a bat in a long-stem rose box and invited them to a meeting. The enclosed card was signed only "Batman."

About 40 people showed up at the meeting, 30 of whom eventually donated money or sponsored

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a team.

Mr. Muzikowski applied to the Little League Baseball Inc. headquarters in Williamsport, Pa., for a league charter.

The charter, which costs $15, makes the league a non-profit organization.

In 1991, 18 teams of boys ages nine through 15 competed in the Near North Little League, each of which was sponsored by a different corporation or institution.

'There's this incredible myth that you have to have been from there (the housing projects) to help these people, but that's just a myth,' says Bob Muzikowski. In fact, all that's needed is 'to have a heart for these kids,' he says.

Team names reflected both the sponsor and an African tribe, such as the Northwestern Mutual Life Pygmies, sponsored by Mr. Muzikowski and some friends, and the Morgan Stanley Mau Mau.

Corporate sponsorship in 1991 cost $1,000, which was spent on bats, balls, gloves and uniforms.

The league has a permit from the Chicago Park District to use Carson Field across from the housing project.

The league buys liability insurance through the Little League organization and volunteers coach each team.

Each coach spends two evenings each week and one Saturday every other week with the team for 20 weeks during the season and meets with the team once a week during off-season for other programs and outings.

Two years after its formation, the Near North Little League has grown to 32 teams, including eight for girls.

Sponsorship now costs $1,500, which not only outfits the team but also allows each team to spend at least one week each summer at a Midwest camp.

Some of the corporate sponsors also are sending the kids on their teams to private schools. Scholarship money donated by corporations is matched dollar-for-dollar by the Near North Little League.

Except for the team sponsored by Mr. Muzikowski, who has been a Northwestern Mutual agent for 10 years, there are no other teams affiliated with insurance companies or agents.

Mr. Muzikowski, who is married and is expecting his fourth child, was recognized as one of former President George Bush's 1,000 points of light.

However, he was not always such a do-gooder.

"I've been on the other side of it," he said. "I've been a beer-drinking, woman-chasing" guy.

After being jailed for 45 days in February 1983 for an assault charge stemming from a barroom brawl, Mr. Muzikowski decided to turn his life around, he said. He quit drinking and became a devout Christian.

"There's this incredible myth that you have to have been from there (the housing projects) to help these people," Mr. Muzikowski said. But that's just a myth, he stated. In fact, all that's needed is "to have a heart for these kids."

Mr. Muzikowski, who at 36 years old also serves as president of Chicago-based Benefit Planning Inc., a company that designs and administers benefit plans, seems to have a heart that works overtime.

In the past two years he has started two other inner-city Little Leagues: One is adjacent to another Chicago-area housing project and another is in east Harlem, not far from Columbia University in Manhattan, where Mr. Muzikowski received a bachelor's degree in political science and a master's degree in business administration.

The newest Chicago league had eight teams last summer while the new Harlem league had 20 teams.

As good as Mr. Muzikowski's intentions are, the results are "not perfect," he pointed out.

While many parents and other members of the Cabrini Green community have lent their support to the league, some racial tensions have surfaced and turned off some of the white coaches in the league, he said.

And despite the clean fun and teachings of discipline and responsibility that the leagues offer the kids, nothing can make up for absent parents and the violence the kids live with on a daily basis in the housing projects, according to Mr. Muzikowski.

Nonetheless, Mr. Muzikowski remains committed to the leagues. In addition to expanding them, he is trying to raise money for lights for one of the fields in Chicago so the kids can play night games.

"We're kind of making it up as we go along," Mr. Muzikowski said of the expanding leagues and programs associated with the leagues.

There are 2.7 million children between six years old and 18 years old on 180,000 Little League teams in 75 countries.

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Agent/Broker Topics

For insurance agents, time really is money: Study

Agents not spending enough time generating sales, report finds

By SALLY ROBERTS

Agents are not focusing most of their efforts on the activities that most require their expertise: attracting and writing new business, according to a recent study.

On average, agents devote only 50% of their time to these activities, the study found.

Yet, the amount of time producers spend on sales affects the amount of commissions earned for an agency, which ultimately affects the agency's profitability.

This lack of attention to the sales process is prompting observers to recommend that agency owners consider two alternatives: Either create a new sales system or sales center that relieves the producers of some account servicing duties, or rethink the way that the producers are compensated.

More than one-third of the average non-owner producer's time is devoted to renewing existing accounts and making changes on current policies, according to The Academy of Producer Insurance Studies Inc., an Austin, Texas-based research firm that conducted the study. The study is based on surveys completed by more than 800 agents at seminars held since 1992.

Another 12% of the average producer's time is spent on managerial and other duties.

This leaves only about half of a producer's time for obtaining new business.

"If agencies can't get sales people out selling 65% to 75% of the time, the agency isn't going to grow," warns Mona M. Carpenter, president of Marketing Systems Ltd., a consulting firm in Carrollton, Texas.

Agencies must realize that producers can't "be all things to all people," Ms. Carpenter said. For example, if someone purchases a computer from an electronics store and the equipment later requires some service or repair, those repairs are more likely to be handled by a computer technician rather than the original salesperson. The same scenario should apply to insurance agencies: sales and service must be separate, she said.

Producers could spend more time on sales if customer service representatives worked on generating leads, checking expiration dates and performing renewal work, said Jim Cuprisin, project director for The Academy of Producer Insurance Studies.

In addition, the way a producer is compensated could also affect the amount of time spent on sales, Mr. Cuprisin said.

The most popular form of compensation for non-owner producers is salary plus commission, the study found. Producers working on this arrangement spend only 50% of their time on sales activities, whereas 36% of their time is spent on service activity and 12% on management activity, the study indicates.

On the other hand, producers who are compensated by a draw against commissions—income based on expected commission earnings, in which the agency pays the producer any amount exceeding the draw, and the producer pays the agency any amount under the draw—spend 61% of their time on sales activities, 35% on service activities and 4% on management activities, the study said.

Producers compensated this way have an "added pressure to make sure they are ahead" of the draw, Mr. Cuprisin said.

Ideally, producers should devote 65% to 70% of their time to new business activities and about 20% of their time to service activities, he said.

Like producers on a draw, producers compensated by straight commission spend 60% of their time on sales, 35% on service activities and 4% on management activities, the study said.

These producers have more of an incentive to push for new business, he said. However, these compensation arrangements may be too difficult for inexperienced agents.

"Even so, some agencies with pretty experienced producers still pay salary plus commission," he noted.

Agency owners compensating their producers this way "should consider adjusting the producer's salary and raising the commission rates to provide incentives to produce more," Mr. Cuprisin said.

Not surprisingly, agents compensated on straight salary spend only 35% of their time on sales, 45% on service and 16% on management, the study said.

Despite the apparent negative effect on the sales effort, salary plus commission is the most popular compensation package among the producers that responded to the study.

According to the study, 35% of non-owner producers receive salary plus commission as their compensation, 25% receive straight commission, 24% receive straight salary, 15% receive a draw against their commission and 1% receive another form of compensation.

On the other hand, 35% of principal producers receive straight salary, 30% receive salary plus commission, 23% receive straight commission, 10% receive a draw against commission, and 2% receive another form of compensation.

Because principals have part ownership of the agency, they compensate themselves for time spent in production and management, the study suggested.

The study also found:

- Non-owner producers on straight commission make the highest average compensation, at $67,000. Producers with a draw get an average of $57,000, producers who receive salary and commission get $51,000, and producers on straight salary make $46,000.
- Non-owner producers on straight commission, in addition to producers with a draw against commission, produce the most in commission revenues—an average of $182,000. Producers with a straight salary produce an average of $175,000 in commissions, and agents who receive salary plus commission produce the lowest average commission revenues—$120,000.
- On average, an agency spends 8.6% of total revenues on benefits.
- Education assistance is the

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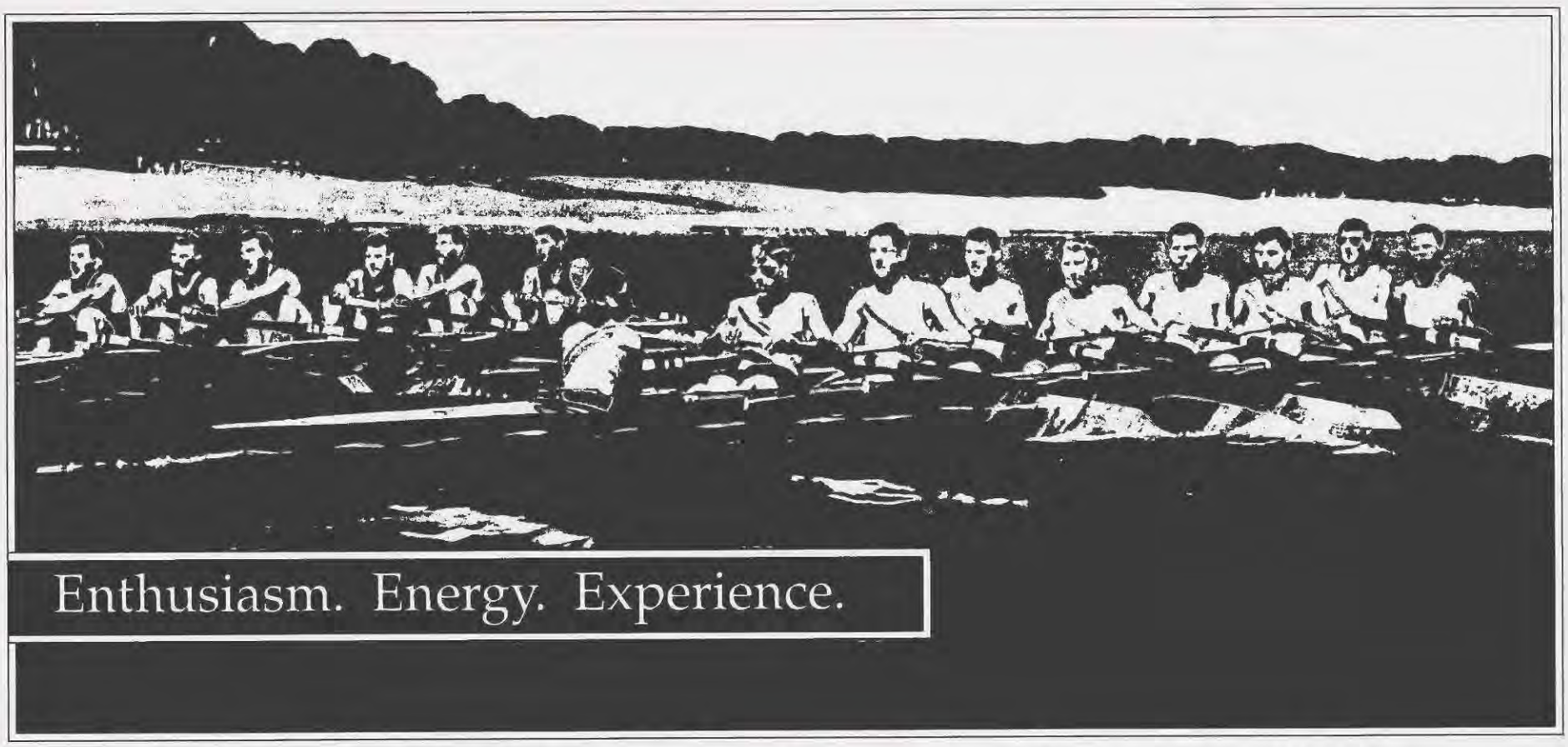

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Continued from previous page

most commonly offered benefit, given to 81% of non-owner producers. Seventy-eight percent of non-owner producers receive health insurance, about 70% receive life insurance, and about 60% receive disability insurance.

• Principal producers, on average, receive a few more benefits than non-owner producers. Besides educational expenses and insurance, nearly half of the principals have company cars, compared with 21% of non-owner producers. Nearly half of the producers also have agency-sponsored club memberships, compared with about 25% of non-owner producers.

• Nearly 60% of the producers surveyed receive a bonus. However, the bonuses are determined in several ways. For example, 25% of the non-owner producers receive bonuses based on total commission, 30% receive bonuses based on agency profits, and 29% receive bonuses based on production in excess of some goal.

More principal producers receive a bonus than non-owner producers. Of the 66% who receive bonuses, 57% are based on agency profits. Because principals usually have some management duties within the agency, their bonuses are frequently based on agency profitability results and are a function of their selling and management skills, the study said. Only 18% of the principals' bonuses are determined by prior commission levels, and 13% are for achieving an arbitrary goal.

In addition to salary, commission and bonuses, other compensation factors, including agency ownership, equity in the book of business and non-piracy agreements, can impact producer retention.

According to the study, 38% of the producers surveyed are principals—in other words, have some ownership of their agencies. Generally, agency ownership is determined by the producer's tenure and experience. For example, the study said that only 9% of the producers with three years or less of sales experience have some agency ownership, compared with 61% of the producers who have at least 16 years' experience.

Eighteen percent of the non-owner producers are given equity in their book of business as soon as they start producing new business. The equity varies from 100% interest to a small percentage.

Nearly 15% of non-owner producers receive ownership in their book of business through a vesting plan, which gives producers a percentage equity after a number of years. Only 9% of non-owner producers have the option to buy part of their book from the agency.

On the other hand, 61% of the non-owner producers and 56% of the principal producers have either a non-piracy or non-compete agreement, which require producers to agree at the time of hire not to solicit the agency's clients should he or she leave the agency.

While such agreements do not have much effect on attracting new producers, they may help in producer retention, the study pointed out. Not being able to take their accounts is a disincentive to leaving the agency.

•

Copies of "Producer Compensation: A Dollars and Sense Guide," can be obtained for $27.50 from The Academy of Producer Insurance Studies Inc., 3630 North Hills Drive, P.O. Box 27027, Austin, Texas 78755-1027; 800-526-2777.

ABT Briefs

Delphi to acquire Insurnet Inc.

ROLLING MEADOWS, Ill.—Delphi Information Systems Inc. has signed a letter of intent to acquire Insurnet Inc., an agency management system subsidiary of The Continental Insurance Co.

Delphi, a Rolling Meadows, Ill.-based agency automation company, will pay Continental $5 million in convertible preferred stock, $500,000 in shares of Delphi and $1.5 million in non-interest bearing notes over a period of at least four years.

The acquisition of Insurnet is expected to be completed during the fourth quarter.

Insurnet, with headquarters in Emeryville, Calif., reported revenues of approximately $14 million in 1992.

Delphi reported revenues of $51.6 million for its fiscal year ending in March.

Agent groups split

SAN FRANCISCO—A recent decision by the Professional Insurance Agents of California to develop its own public affairs lobbying program is raising concerns with the Insurance Agents & Brokers Legislative Council.

Due to the decision, PIA of California will no longer be an active member of ABL, an 18-year-old agent and broker lobbying group with headquarters in San Francisco.

Agents and brokers will not benefit from competing associations and dueling lobbyists in Sacramento, explained David Garcia, commercial lines manager for the legislative council.

However, PIA of California believes that the new program will complement the ABL coalition and the two groups can work together on issues of common interest.

"I'm skeptical," Mr. Garcia said. " But who knows?"

Polk & Sullivan

NASHVILLE, Tenn.—Polk & Sullivan Group has bought back the assets and accounts of its agency from Sedgwick Group P.L.C.

Sedgwick Group acquired Polk & Sullivan in 1986. It is an insurance, bonding and employee benefits agency with headquarters in Nashville, Tenn.

APT adds members

NEW PROVIDENCE, N.J.—Trinity Universal Insurance Cos. of Dallas, and its affiliate, Los Angeles-based Financial Indemnity Co., have become members of the Alliance for Productive Technology Inc.

The Providence, N.J.-based alliance, formed in January 1992, sells software products that permit single entry, multi-company interface between agencies and insurers.

With the addition of Trinity and Financial Indemnity, the alliance now has 50 participating insurers, agencies and vendors. BI

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Agent/Broker Topics

Naming broker in litigation over pollution coverage a nuisance, attorneys say

By SARA MARLEY

Polluters thinking of naming their insurance brokers as defendants in Superfund coverage litigation might want to consider the recent experience of Chemplex Co.

By bringing Alexander & Alexander Services Inc. into its environmental liability coverage dispute against numerous insurers, Chemplex accomplished little—little, that is, beyond rousing the ire of Iowa District Court Judge John A. Nahra.

Chemplex, which is no longer operating, was a joint venture formed in the 1960s by ACC Chemical Co. and Getty Chemical Co.

The Environmental Protection Agency had ordered Chemplex to clean up groundwater and soil contamination at the company's former plant site in Clinton, Iowa. Chemplex subsequently sued its insurers for coverage of its cleanup costs.

In dismissing the company's claim against the brokerage, Judge Nahra called the case "a colossal waste of judicial resources" and "the most over-tried and unduly protracted litigation ever experienced by the court."

Brokerages are rarely, if ever, named in coverage lawsuits.

"Suing the broker along with the insurance companies is not common in environmental or other coverage litigation," said Herbert J. Lustig, a partner with Lustig & Brown in Buffalo, N.Y. "Sophisticated insurance buyers, recognizing that they have their own risk managers and/or in-house insurance departments, most often utilize brokers to locate markets and provide what the insured requests."

Suing the broker "is a double-edged sword," added Lustig & Brown partner David H. Paige, who represented A&A. "Brokers like to be on the side of their customers if they can. It's like suing your right hand."

Brokers are often witnesses in coverage litigation, said insurer attorney Thomas Brunner of Wiley Rein & Fielding in Washington. But, he added,"I'm not aware of any instances in which brokers have been included" as defendants.

Buyers' relationships with brokers differ from the relationships with insurers, which are primarily contractual in nature.

"When you sue an insurance company, the dispute is limited to the contract of insurance," Mr. Paige said. "Here you're looking at a 25-year relationship."

A&A was named in the Iowa suit because R.B. Jones & Sons Inc., a Chicago broker A&A acquired more than a decade ago, provided insurance services to Chemplex in the 1960s. Chemplex added A&A to the suit only three months before trial, though its suit had been pending against the insurers for three years.

Ultimately, Chemplex won $19 million from the insurers, about 10% of the amount it had asked jurors to award. The case is being appealed.

In bringing its broker into the action, Chemplex attorneys argued that A&A had breached a written contract set out in a 1965 letter sent from Robert A. Braddock of R.B. Jones to John C. Denton, the first president of Chemplex. The attorneys argued that Chemplex did not have adequate coverage because the A&A unit did not advise the company properly.

The court found that the letter did not constitute a written contract, but Chemplex and A&A did have an oral contract and that A&A upheld the terms of that contract.

The oral contract required A&A to provide the following services to Chemplex:

- Search out all available insurance markets.
- Work with a Chemplex insurance coordinator to assemble risk information.
- Analyze, test and report to Chemplex about available insurance and its costs.
- Negotiate with insurance companies when necessary or in the interests of Chemplex when requested to do so by Chemplex.
- Provide claims-handling services to Chemplex when requested.

"The evidence establishes the fact that A&A fully completed its duties as set forth above," Judge Nahra wrote in his Sept. 30 decision.

In fact, a Chemplex employee in charge of insurance testified that he felt "hounded" by A&A's frequent correspondence, much of which recommended purchasing additional insurance and pointed out uncovered exposures.

Chemplex also attempted to establish that A&A was responsible for filing its claims and alleged that A&A breached its fiduciary duty.

"There is no credible evidence that (A&A) had the duty of deciding for plaintiffs the type and amount of insurance to be provided," Judge Nahra wrote. "This responsibility remained solely with Chemplex."

Chemplex's attorney declined to comment, except to say the company has not yet decided whether to appeal the ruling.

•

ACC Chemical Co. et al. vs. Alexander & Alexander Services Inc., Iowa District Court for Clinton County, Iowa; No. CL 16034.

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Helen Feely Millett a pioneer among female agents

Top seller focused on untapped niche: Women

By CHRISTINE WOOLSEY

It's not unusual for a top-selling agent to win a Man of the Year award for surpassing every other agent's insurance sales. It's not even that unusual for an agent to win the award twice.

But it is unusual when the "Man of the Year" is named Helen.

Helen Feely Millett, who died last month at the age of 91, was a pioneer among women insurance agents during an era when there were few women in the field.

Ms. Millett made quite an impression working for Penn Mutual Insurance Co. in Minneapolis. She began selling insurance for the company in 1949, retired at the age of 65, but continued to serve her clients and provide new prospects to other Penn Mutual agents well into her 80s, according to her daughter, Sally Millett Rau of Bellevue, Neb.

"She liked all the people she dealt with. She was their insurance agent, but she wound up becoming best friends with half of her clients," Ms. Rau recalled.

In fact, she was responsible for recruiting at least one person into her chosen profession.

"My mother-in-law was Helen's best friend in college and they kept in contact throughout their lives," said Myron Setzler, retired manager of the Penn Mutual agency in Minneapolis at which Ms. Millett worked.

Mr. Setzler was dissatisfied with his job as a buyer at Land O'Lakes Creameries. "My mother-in-law used to talk about Helen all the time. So Helen suggested I come to talk to her and she sold me on the merits of going into insurance sales. She pointed out that insurance was a hard business but that easy jobs didn't pay much."

She also sold him on the idea of being his own boss. "At Land O'Lakes, I felt everyone was deciding my future but me. But in this business you are paid by performance. And, ultimately I could decide when to work and when not to work," Mr. Setzler said.

In February 1958, Mr. Setzler joined the Penn Mutual agency where Ms. Millett worked. "Seven years later, after the general agent passed away, I went into management training and I took over the agency."

Ms. Millett retired from the agency a few years later, but Mr. Setzler credits her for getting him on the right career track. "She said, 'You don't have much security except what you build for yourself.' And, looking back, I see that."

Ms. Millett was born in Farmington, Minn. She graduated from the University of Minnesota in 1924 and taught high school English for four years. She and her husband moved to St. Paul in 1933. When her marriage ended in divorce, she faced the challenge of raising and supporting three daughters.

"When she first went into the business"—in 1949—"she had no car; she rode a streetcar, which is a pretty tough way to start out in this business," remarked Mr. Setzler.

Ms. Millett was one of a small handful of female insurance agents during the 1950s, and she found a natural market niche.

"Mother specialized in selling to women, which was an untapped market at that time," Ms. Rau said. "She primarily sold retirement income insurance to women in a day when no one worried about what women did when they retired." Her clients were primarily schoolteachers and nurses.

There were only two other women in the office at that time, Mr. Setzler recalled. "In those days, if you had one lady in the agency, that was considered one too many. It was considered a man's world," he said.

He remembers Ms. Millett as "impeccably dressed, a beautiful woman, precise in her work, who had a lot of integrity. She also explained things well, probably because she was a teacher. She was very intelligent, and she quickly caught on to new concepts and ideas. And, if she didn't understand, she'd call you up and ask you to explain it again."

Ms. Millett also was eager to get additional information. "She would question beyond what most people would question. She didn't always need to know something; she just wanted to know it. Sometimes she'd call me up with some technical question and I would have to find out more about the subject myself," Mr. Setzler recalled.

In 1961, Ms. Millett was chosen chairwoman of the Women Leaders Round Table, a group of insurance saleswomen from Canada, Puerto Rico, the United States and the West Indies.

Ms. Millett's retirement in 1967 "was kind of a joke," her daughter said. "She said she was retiring, but she never really quit at all. She just meant she wouldn't look for new prospects."

Besides her daughter Sally, Ms. Millett is survived by: daughters Kate Millett of New York and Mallory Millett Danaher of Beverly Hills, Calif.; five grandchildren; and five great-grandchildren. BI

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Agent/Broker Topics

Agents urged to help shape health reform

By DEBORAH SHALOWITZ

The enactment of a federal health care reform law would not be an end in itself, but the beginning of a new era, rich with opportunities for agents and brokers, says the chairman of a major financial services company.

And over the next year it behooves insurers, agents and employers to become involved in shaping the law that will usher in that new era, he said.

"I believe that about this time next year we'll have a new federal law" enacting some kind of health care reform, predicted G. David Hurd, chairman and chief executive officer of The Principal Financial Group in Des Moines, Iowa.

The changes will present insurance agents with opportunities for the future, he told attendees at the Chicago and Northeastern Illinois Assn. of Health Underwriters' eighth annual symposium, held in suburban Wheeling last month.

"Comprehensive health care reform has been elevated to be the nation's highest domestic priority," Mr. Hurd stated. "In a general way, we're rather glad to see that the Clinton administration is moving" on the health care issue.

"Over time, we do need comprehensive health care reform in the United States."

A federal health care reform law "simply starts a decade of change." There will be transitions, phase-ins and mistakes in the law that will have to be remedied, he explained.

"It would be very misguided to try to adopt a plan that would force out" employers and insurance agents from the health insurance system, Mr. Hurd cautioned.

"Agents are an important part of this system," he said. An agent is "an adviser to the employer and the employee" and is "an interpreter of complexity."

Of the two goals of health care reform—cost containment and universal coverage—expanding coverage is "the more concrete and doable," Mr. Hurd said. "Only government can cause this to happen, but enacting cradle-to-grave coverage is not going to be an easy thing to accomplish."

Furthermore, the goal is costly.

"I'm skeptical" about the administration's cost estimates, Mr. Hurd said in an interview following the speech. "Health care costs. . .have not been predictable in the past. The chances that we can make really accurate estimates for seven to eight years from now" are not high.

While health care reform might be able to eliminate some inefficiency, "we ought not bank on savings in advance," he recommended.

Mr. Hurd, who also is chairman of the Health Insurance Assn. of America in Washington, said the organization is "pleased that the administration's plan appears to a degree to be private-sector-based." However, the HIAA is "in sharp disagreement" with certain aspects of the plan.

For example, employers should not be forced to join purchasing alliances, he said. "We favor trying these purchasing pools on a voluntary basis."

Mr. Hurd also stated that global health care spending budgets "will drive away capital needed to keep changing the system."

"The country needs a lot more capital put into this system, not a lot less," he added.

And, the Clinton plan is not the only health care reform proposal on the table, Mr. Hurd noted. Several other plans are being developed in Congress (*BI*, Oct. 11).

There will be "elements that you like and elements that you don't like" in each plan, Mr. Hurd said. However, "none of us can lobby 40 or 50 issues." Mr. Hurd advised agents to pick out a few issues that are most important to them and concentrate on lobbying for those.

"It's our obligation and your obligation to stay in this game and have an impact," he stated. "There's a strong possibility here for a win-win solution."

"Having a series of continuing contacts with your members of Congress is in your interests and in the nation's interest," Mr. Hurd said. "Be building a dialogue that will continue for months and months to come."

Mr. Hurd predicted that "lobbying will come to a crescendo in the spring, summer and fall of next year."

The federal arena is not the only arena in which health care reform is being played out, he said.

There are "three rivers of change flowing right now on health care reform": employer action, state-level actions and federal actions, he said. "Each of these rivers is flowing bank-full, and they're joining together in 1993 and 1994 and they're flowing out of their banks."

"Whether or not the federal government takes action, the other two rivers are going to continue to flow," he predicted. BI

Health underwriters gather at symposium

WHEELING, Ill.—Approximately 625 people attended the Chicago and Northeastern Illinois Assn. of Health Underwriters' eighth annual symposium.

Agents, brokers and small business employers gathered to hear experts discuss proposed health care reforms.

Speakers included: G. David Hurd, chairman and chief executive officer of The Principal Financial Group in Des Moines, Iowa, and chairman of the Health Insurance Assn. of America; William Wetzel, second vp at Protective Life Insurance Corp. in Birmingham, Ala., and president of the National Assn. of Health Underwriters; and Wally Hillard, CEO of American Medical Security in Green Bay, Wis.

For information on next year's symposium, contact Larry Brodsky, Larry Brodsky Agency, 865 Wilmette Road, Unit I, Palatine, Ill. 60067; 708-991-8040.

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Savings plans

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that much more important to give them some sort of education, not just the power to move their money around."

Most employees don't want daily transfers to take advantage of market peaks, said Mr. Ternoey, who heads Foster Higgins' investment services group. "They just want to have the comfort of knowing if they want to bail out, they can."

While this is in some ways encouraging, Mr. Ternoey said, employees could still bail out at the wrong time if there was a big market correction. "So there's a real two-edged sword there."

Participant choice increased in the past year by several other measures. More plans—78%—let participants direct the investment of all of their funds up from 70% in 1992. And, those participants who could direct some or all of their contributions had more investment options: 4.8 on average, compared with 4.2 in 1992 and 4.0 in 1991.

Among investment options, common stock equity funds increased a bit in popularity: They are now offered by 88% of the plan sponsors, compared with 82% last year. But the greatest growth came in balanced funds—funds that invest in both stocks and bonds to obtain the highest return consistent with a low-risk strategy—which are now offered by 57% of plan sponsors, up from 39% in 1992.

Book value funds, like GICs or comparable bank deposit agreement, were offered by only 56% of sponsors in 1993, down from 64% a year earlier.

Among those plans offering a GIC fund, however, GICs accounted for 53% of total employee contributions at year-end 1992, down only slightly from 54% a year earlier.

"Although a lot of plan sponsors have been moving away from pure book value funds, there's still quite a bit of participant money in those funds,"said Mr. Ternoey. "Participants still seem satisfied with them."

The survey also found that the more investment options offered to participants, the less money is invested in any one option. When just two options are offered, however, and one of them is a GIC fund, an average of 72% of plan assets are invested the GIC. This drops to 45%, though, when six investment options are offered.

The 211 survey respondents with GIC/bank deposit account funds had assets amounting to more than $30 billion, or about a fifth of the entire U.S. GIC market.

During 1993, estimated withdrawals from GICs for these plans are expected to outpace deposits by $5.1 billion to $1.7 billion. Retirements, terminations, and growing use of equity funds and other investments are expected to account for that difference, Foster Higgins said.

Employees seem to be looking harder at options like balanced funds and equity funds, said Mr. Ternoey. "I sense that people are getting smarter. They're learning more about these funds."

Year-end average rates of return on GICs fell to a three-year low of 7.53% in 1992. Size was a factor. Funds of at least $250 million in assets generated a return of 8%, while funds with less than $10 million reported only 7.21% for the year.

As rates fell, participants left GIC funds. Some 44% of the respondents said participant use of GIC funds decreased in 1992 compared with 1991. Another 38% said there was no change, and only 17% reported an increase.

Only 9% said they expect to see an increase in GIC use in 1993.

Most plan sponsors—52%—now require their GIC contracts to allow participants to transfer funds to competing investment options, like money market funds. Only 44% did so in 1992.

Meanwhile, the use of alternative GICs, such as synthetic and separate account products, has leveled off.

A synthetic GIC consists of a wrapper provided by a financial institution that guarantees the book value of an underlying portfolio of securities.

The percentage of plans using these alternatives had jumped to 15% in 1992 from 2% in 1991 but fell to 12% in 1993.

"The idea has just sort of run its course," said Mr. Ternoey.

Designed to protect sponsors by investing assets in funds separate from the issuer's other assets, the alternatives also offer lower rates. Plan sponsors, Foster Higgins said, are "apparently less willing to sacrifice return for safety."

Most plan sponsors—71%—reported using quality standards in choosing GIC issuers, but only 42% have standards pertaining to the diversification of funds. This increases to 74% among sponsors with GIC assets of at least $50 million, however.

The survey also investigated plan design. Among key findings were:

- Only 28% of plan sponsors had to make adjustments to pass the average deferral percentage non-discrimination test in the most recent plan year. Last plan year, 55% had to make adjustments.

This could be either because sponsors may be learning to better cope with the testing requirements or because, having made adjustments last year, they do not need to make them again, Foster Higgins said.

- An average of 73% of eligible employees participate in company savings plans. This varies by industry, ranging from 55% of employees in the health services industry to 85% at utilities.
- Participants contribute 6.1% of pay to savings plans on average, which includes both pretax and aftertax contributions.
- Sixty-three percent of the plan sponsors surveyed set age and/or service requirements for making elective deferrals to savings plans.
- Eighty-three percent of sponsors match employee contributions to savings plans. The most common matching percentage is 50% of employee contribution, which is the level set by 35% of the sponsors surveyed.
- Eighty-eight percent of employers permit employees to make hardship withdrawals, while 70% have a loan provision.
- Seventy-nine percent of plan sponsors have made changes in plan design over the past two years, with the most common changes being liberalizations, such as adding investment options, increasing the employer match or adding a loan feature.
- Two-thirds of plan sponsors say employees see the savings plan as a retirement vehicle, while 26% say it is viewed as a savings account.
- When asked where they place their emphasis in helping employees in investment decision-making, 77% responded "describing investment options available," while 48% stressed educating employees on basic investment concepts and 36% said helping employees define investment objectives.
- Summary plan descriptions and enrollment brochures are used by 79% of employers to inform and educate employees about investment issues, while 57% use company newsletters and benefit brochures, and 48% provide personalized statements with illustrations or individual projections of investment growth.

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Copies of the "Survey on Employee Savings Plans 1993" are available for $100 by contacting Anne Marie Harte at A. Foster Higgins & Co. Inc., 125 Broad St., New York, N.Y. 10004; 212-574-9025.

IN THE HIGH COURT OF THE REPUBLIC OF SINGAPORE — NO 1016 OF 1993

IN THE MATTER OF
ICS REINSURANCE PRIVATE LIMITED
- and -
IN THE MATTER OF SECTION 210 OF THE SINGAPORE COMPANIES ACT
- and -

IN THE HIGH COURT OF JUSTICE OF ENGLAND AND WALES, CHANCERY DIVISION — NO 008942 OF 1993

IN THE MATTER OF
ICS REINSURANCE PRIVATE LIMITED
- and -
IN THE MATTER OF SECTION 425 OF THE COMPANIES ACT OF ENGLAND AND WALES

NOTICE IS HEREBY GIVEN that by Orders dated 13 and 15 October 1993 respectively made in the above matters in the High Court of the Republic of Singapore and the High Court of Justice of England and Wales (hereinafter called "the Courts"), the Courts have directed that the following separate meetings of the Scheme Creditors (as defined in the Scheme of Arrangement hereinafter mentioned) for the purpose of considering, and if thought fit, approving a Scheme of Arrangement ("the Scheme") proposed to be made between ICS Reinsurance Private Limited (hereinafter called "the Company") and their Scheme Creditors hereinafter mentioned namely:

1. The Scheme Creditors with Singaporean Preferential Debts of the Company.
2. The Scheme Creditors of the Singapore Insurance Fund of the Company.
3. The Scheme Creditors of the Offshore Insurance Fund of the Company.

Such meetings will be held as follows:

1. In the case of the Scheme Creditors with Singaporean Preferential Debts or who are Scheme Creditors of the Singaporean Insurance Fund at The Function Room, 137 Cecil Street, #13-00 ICS Building, Singapore 0106 on 10 December 1993:
   (a) Scheme Creditors of the Singapore Insurance fund of the Company at 11:00 am;
   (b) Scheme Creditors with Singaporean Preferential Debts of the Company at 11:15 am or as soon thereafter as the Scheme Creditors' (Singapore Insurance Fund) Meeting has been concluded.
2. In the case of the Scheme Creditors of the Offshore Insurance Fund at The Great Hall, Chartered Insurance Institute, 20 Aldermanbury Square, London EC2V 7HY, U.K. on 14 December 1993 at 11:00 am.

Each Scheme Creditor may vote in person at the relevant Meeting or they may appoint another person, whether a Scheme Creditor or not, as their proxy to attend and vote in their place.

It is requested that the forms appointing proxies be lodged with the Secretary of the Company at its registered office situated at 137 Cecil Street, ICS Building, Singapore 0106, not less than 7 days before the time appointed for the relevant Meeting.

A copy of the said Scheme of Arrangement, the statement required to be furnished pursuant to Section 211 of the Singapore Companies, Act and Section 426 of the English Companies Act, notice calling for this meeting, form of proxy and other documents can be obtained from the registered office of the Company and at the offices of its solicitors listed below. The Company has posted a set of these documents to all its known creditors at their last known address. If you are or may be a creditor of the company and have not received the above mentioned documents by 6 November 1993 you are requested to inform the Secretary of the Company in writing at its registered office (or fax No. 65-224 6016) of your name and address and a copy of the documents will be forwarded to you.

By the said Orders, the courts have appointed Philip John Singer or failing him, Christopher John Hughes or failing them, Lock Sai Hung to act as Chairman at the said Meeting and have directed the Chairman to report the results thereof to the Courts.

The Scheme will be subject to the approval of the Courts.

Dated this 25 day of October 1993.

Cooma Lau & Loh
9 Battery Road #17-08
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CAPITAL RE

Industrial insurers

Continued from previous page

from external environmental sources require expanding the mix of risk-management devices," Mr. Nowak noted.

"It is a fact that the frequency and extent of large losses have increased to an alarming degree in the industrial insurance business. The area of natural catastrophic losses cannot be excluded here, in that these events have increased significantly," he said.

In addition, the public's reaction to even small losses, their increasing aversion to technology and a "sharpened awareness of potential risks" has had an effect on commercial insurance, according to Mr. Nowak.

"It is expected of insurers and industry that they anticipate risks and their possible effects, and incorporate this knowledge in measures and instruments to not only meet the technological challenge, but also the demands of a sensitized public on corporate responsibility for protecting the environment," he explained.

While insurers feel able to provide only limited coverage for environmental exposures, they could provide valuable risk management services to industry, explained Klaus Martin, head of risk management services for Bavarian Reinsurance A.G. in Munich, Germany.

In response to increasing public pressure and legislation, "companies are attempting to solve complex and difficult tasks with respect to environmental protection," he said. "Insuring these risks can no longer remain the only method of overcoming this problem. Careful, comprehensive risk management must be created, and insurers are offering companies extensive support and services to do this."

The "insurance industry has a very important role to play in helping their clients along the path to excellence in managing environmental risks," agreed William de Talance, director of environment in the health and safety division of Marsh & McLennan Europe in Paris.

Insurers should look to extend the HPR concept to include environmental risks, define standards for environmental management and protection systems, and accept risk assessments for regulatory purposes, as well as offering insurance solutions.

Meanwhile, insurers must maintain a dialogue with the public and play an increasingly public part in risk management, said Gordon C. Stewart, president of the Insurance Information Institute in New York.

"The public knows very little about risk management and insurance, but the public has very strong views on risk management and insurance," he told conference delegates.

As the public's perception of risk heightens, more and more corporate time and expenditure will be devoted to addressing the public's concerns about safety, noted Mr. Stewart.

Meanwhile, the reinsurance industry could offer a valuable risk management service for insurers, said John Arpel, managing director of SCOR (U.K.) Reinsurance Co. Ltd. in London.

"In my opinion, insurers require a risk management service, and that is the service I consider reinsurers are equipped to offer insurers," he said during a panel session. BI

Insurance industry in 'crisis'

Capacity shortages, recession contributing to problems in Europe

By CAROLYN ALDRED

BERLIN—Commercial insurance rates in Europe are increasing dramatically, capacity is disappearing, and terms are tightening as insurers and reinsurers fight to recover after years of underwriting losses.

The perilous state of Europe's commercial and industrial insurance market was discussed by numerous speakers at the 23rd International Insurance and Risk Management Conference, held in Berlin last month and sponsored by Management Centre Europe.

The mood of crisis at the conference was echoed by external events as 180 insurance, reinsurance and risk management executives from all over Europe gathered in Berlin just days after tanks rolled into the center of Moscow to defeat rebel Parliamentarians.

In addition, Berlin still is suffering severe post-reunification depression and was mourning the recent defeat of its bid to host the Olympic Games in 2000.

The European "insurance industry is going through a crisis," said Benedetto Salaroli, joint conference chairman and chairman of SGR S.p.A., the insurance and risk management subsidiary of automobile manufacturer Fiat S.p.A. in Turin, Italy.

Risk managers face "a shortage in property insurance capacity, especially in restrictions in pollution covers," said Johann Thinnhof, joint conference chairman and vp of international business for Swiss Reinsurance Co. in Zurich, Switzerland.

"All this is coupled with one of the severest economic recessions of the century," he added.

"The large commercial lines insurance industry in Europe is in ill health," agreed Wayne Halvorsen, general manager of Kemper S.A. in Brussels, Belgium, who cited deteriorating reinsurer results, including the problems at Lloyd's of London, big rate increases for commercial property insurance in Germany and poor results of commercial lines insurers in general.

"Industrial insurance is undergoing fundamental changes," said Dietmar Nowak, member of the board of Gerling-Konzern Allgemeine Versicherungs A.G. in Cologne, Germany.

"It is a fact that many insurers and reinsurers are partially or completely withdrawing from industrial business. Some do so as a conscious

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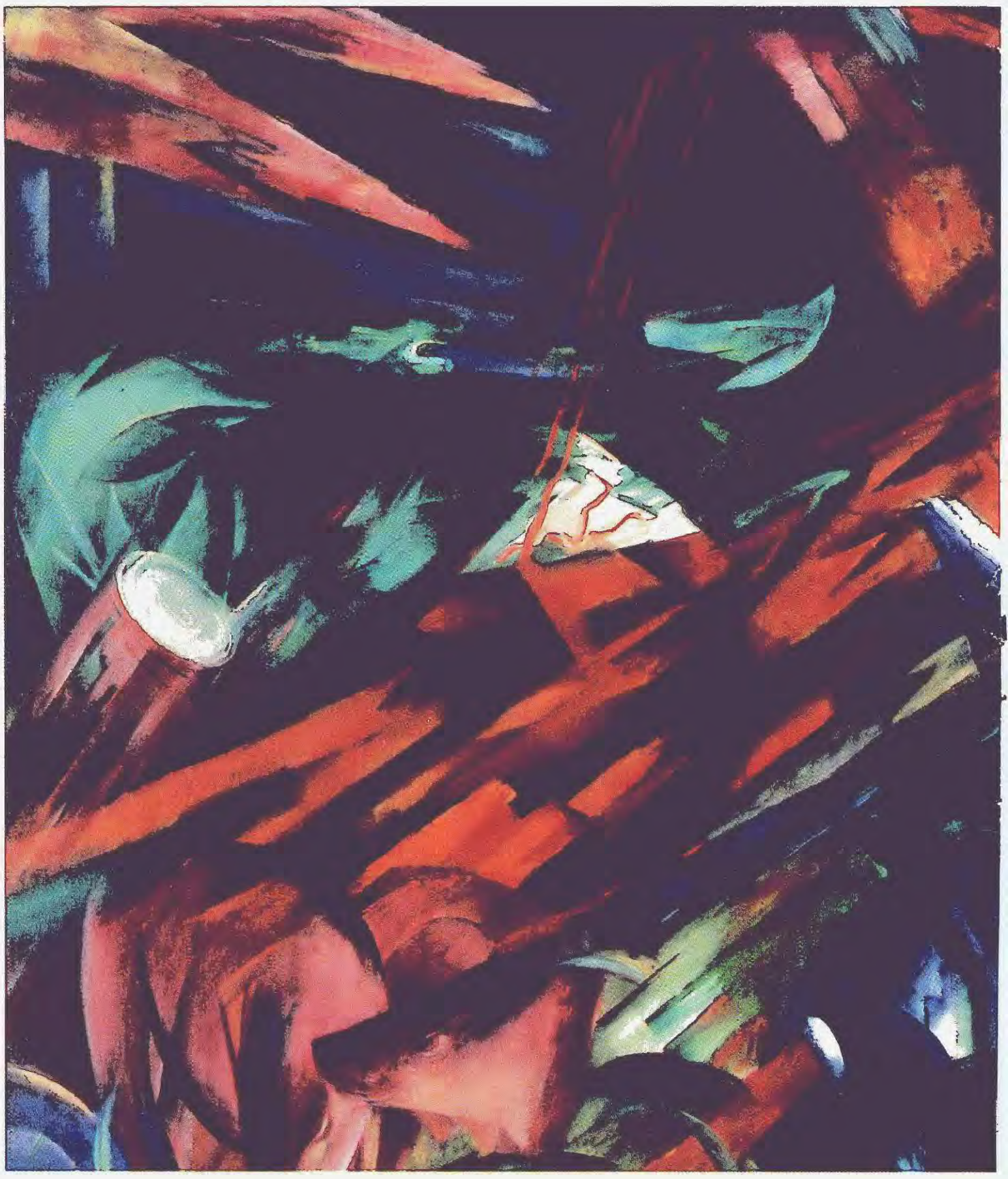


INTERNATIONAL

Continued from previous page
business decision, while others have no alternative," he said.

"Why is it that many insurers are, in colloquial terms, 'throwing in the towel?' The answer is obvious: Industrial insurance is at present not lucrative. It is, in fact, particularly unprofitable now, if not dangerous," Mr. Nowak said.

In many ways, the tightening insurance market has been accelerated by a massive withdrawal by reinsurers in the European market, speakers agreed.

The volume of reinsurance capacity lost in London since 1990 totals 1.3 billion pounds ($1.92 billion at the current exchange rate), according to Edwin V. Meyer, director of Sedgwick (Deutschland) GmbH in Cologne, Germany.

The "driving force" behind the contraction in industrial insurance in Europe is the reinsurer, he pointed out.

"Reinsurers are voting with their feet" and leaving the market because they "see no opportunities for profit in the near future," echoed John Arpel, managing director of SCOR (U.K.) Reinsurance Co. Ltd in London.

This in turn is squeezing the amount of capacity available in the direct market. Mr. Arpel estimated that, worldwide, non-life insurance capacity has fallen by 25% in recent years.

There are "many examples of companies withdrawing from the market or in serious financial problems. Capacity is shrinking," agreed Albert Guntli, senior vp of the international division of Winterthur Swiss Insurance Co. Ltd. of Winterthur, Switzerland.

"The results of reinsurers have deteriorated rapidly. Major claims have increased massively in recent years," he pointed out.

'Reinsurers are voting with their feet" and leaving the market, says John Arpel of SCOR U.K.

Now, "reinsurers are reducing capacity and demanding higher premiums, stricter conditions and reduced commissions. Therefore, the primary underwriters have to pass this pressure onto policyholders," said Mr. Guntli.

Estimates of rate increases in the European primary property and casualty insurance market given by speakers and attendees varied from 20% to 200%, with some of the stiffest increases seen in the German commercial lines market.

The state of the market is also prompting increasing concerns about the financial security of insurers and reinsurers.

"Reinsurer solvency is now a problem, with many insurers having to bear unpaid reinsurance claims," Mr. Guntli said.

Sedgwick's Mr. Meyer also noted that "security is a major concern to brokers," adding that Sedgwick is approving fewer insurers for its clients' programs than it did a few years ago.

"It's of paramount importance that financial security of insurers is established. (Security) is becoming increasingly important," he said.

Some speakers raised concerns about the increasing concentration of power among insurers and a possible reduction in competition due to more and more smaller companies being squeezed out of the industrial insurance market.

"Now that many small actors have been forced out of the industrial business, what happens next?" asked Kemper's Mr. Halvorsen.

"For the moment, even the biggest (industrial insurers) are feeling the pinch as reinsurers tighten the screws on capacity and commissions. In most of Europe, commercial lines premium plus investment income is insufficient to cover losses and expenses," Mr. Halvorsen said.

"The question today is only how that bottom-line loss will be divided up between insurers and reinsurers. Although this is unpleasant for the big companies, they have the depth to endure it due to their larger, profitable personal lines, auto and life business. For many smaller players, of course, this was more a question of survival," he said.

As a result of this consolidation, and with the old border protections abolished in the European Community, "big insurers and reinsurers appear to be concentrating their power," Mr. Halvorsen observed.

"When today's big powers finally arrive at a deal, the buyer of insurance may find his premium bill somewhat higher," he added.

Although tariffs in Europe are no longer officially allowed, "their replacement may already have arrived in the form of understandings between big insurers and reinsurers," said Mr. Halvorsen, warning that the "small companies and producers are leaving the market and a decreasing number of big companies, brokers and reinsurers remain."

Many speakers argued that the turmoil in the market was created by the insurance industry itself.

"In places like Germany, some industrial property insurance rates are doubling and beyond, as the old-fashioned insurers and reinsurers try to redress overnight the situation they themselves created through 20 years of irresponsible price wars," said Mr. Halvorsen.

"It's insurance underwriters who bear responsibility themselves. In the past, insurers have accepted risks they shouldn't have accepted at the prices they did," agreed Winterthur's Mr. Guntli.

"Insurers and reinsurers have to use the word 'no.' They are now saying 'no' more frequently than in the past," he said.

"Certainly, none of us on the inside are surprised at the sick state of our industry," said Mr. Halvorsen.

"Anybody who's been around for a while has observed the continual deterioration in price levels, with just a slight leveling off in the mid-'80s and only now something that might become a recovery," he said.

"I've been working in the (industrial) sector in Europe for 21 years and have seen little other than declines in prices over that entire time. Unfortunately for insurers, these decreases haven't been matched by reductions in claims," Mr. Halvorsen said.

"The serious losses from the past were doubtless caused by too low premiums; something certainly must be done in that respect," said Gerling's Mr. Nowak.

However, "to meet the challenges of the future we must do more than address the issue of premium. Extrapolating from the loss history of the past few years, it is questionable whether premiums can correct the clearly negative trend. That is theoretically possible; however, it is questionable whether industry can and will bear the necessary level of premium," he warned. BI

Changing nature of risks

Industry execs see world becoming increasingly complex

By CAROLYN ALDRED

BERLIN—Economic recession, technological advances, and climatic and demographic changes all are making risk management increasingly complex and difficult for modern corporations.

The changing nature of risk was a recurring theme during the 23rd International Insurance and Risk Management Conference, sponsored in Berlin last month by Management Centre Europe.

In recent years, "the pace of change has increased. Technological changes, environmental changes, changing market demands. All are changing," observed Alan Buckle, a partner in the London office of KPMG Peat Marwick.

Benedetto Saloroli, chairman of SGR S.p.A., which is the insurance and risk management department of Group Fiat in Turin, Italy, agreed that the current business climate is making life increasingly difficult for risk managers.

"In my long career, I have witnessed quite a few positive and negative business cycles, which are characteristic of the activity we all carry out. I am sorry to admit, however, that I have never gone through a period quite so critical and difficult as the one we are now experiencing," Mr. Saloroli said.

"The factors that have contributed in leading us all to this point are more than one. Among them we can list legislation, mass media, technical and technological evolution, the increasing sophistication of industrial processes, human behavior in general," he said.

"Industrial risks have changed quantitatively and qualitatively, and it is clear that the dynamic of change toward more complex, greater and increasingly unmanageable exposures will continue," said Dietmar Nowak, a member of the board at Gerling Konzern Allgemeine Versicherungs A.G. in Cologne.

According to Mr. Nowak, the challenges facing risk managers include: increasing internationalization of markets; growing complexity of production and the simultaneous concentration of insured sites and values; growing influence of environmental groups; increasing technological specialization; and increased consumer protection.

The modern corporation "is swimming in a sea literally infested with hungry sharks waiting for the slightest human weakness to move in," said Piero Sierra, managing director and general manager of Pirelli S.p.A. in Milan, Italy.

According to Mr. Sierra, those "sharks" include: product liability; consumer protection laws; job safety; white-collar crime; terrorism; security leaks; insider trading; investor lawsuits; deferred benefits; environmental risks; exchange rate fluctuations; fires; floods; and revolutions.

"One could go on for hours and keep finding new reasons for anxiety. Managing all of this has become an enormous burden to corporations," he said.

"At Pirelli, we have recognized this and have set up a group risk management function which warns operations of incumbent risks in all locations worldwide and gives guidelines and procedures to prevent them," Mr. Sierra said.

"The problem is that nowadays, worldwide operating functions are so interrelated that you cannot stay on top of everything," he added.

The nature of risk is such that it will always continue to change and new risks evolve, said James Conerty, manager of risk and insurance management for International Business Machines Corp. in Armonk, N.Y.

"One hundred years ago, who would have anticipated danger from radioactive contamination, pollution and airplane accidents?" he asked. "Everything changes, and with change there is always risk. Some changes bring about known risks while others bring on risks that no one could foresee."

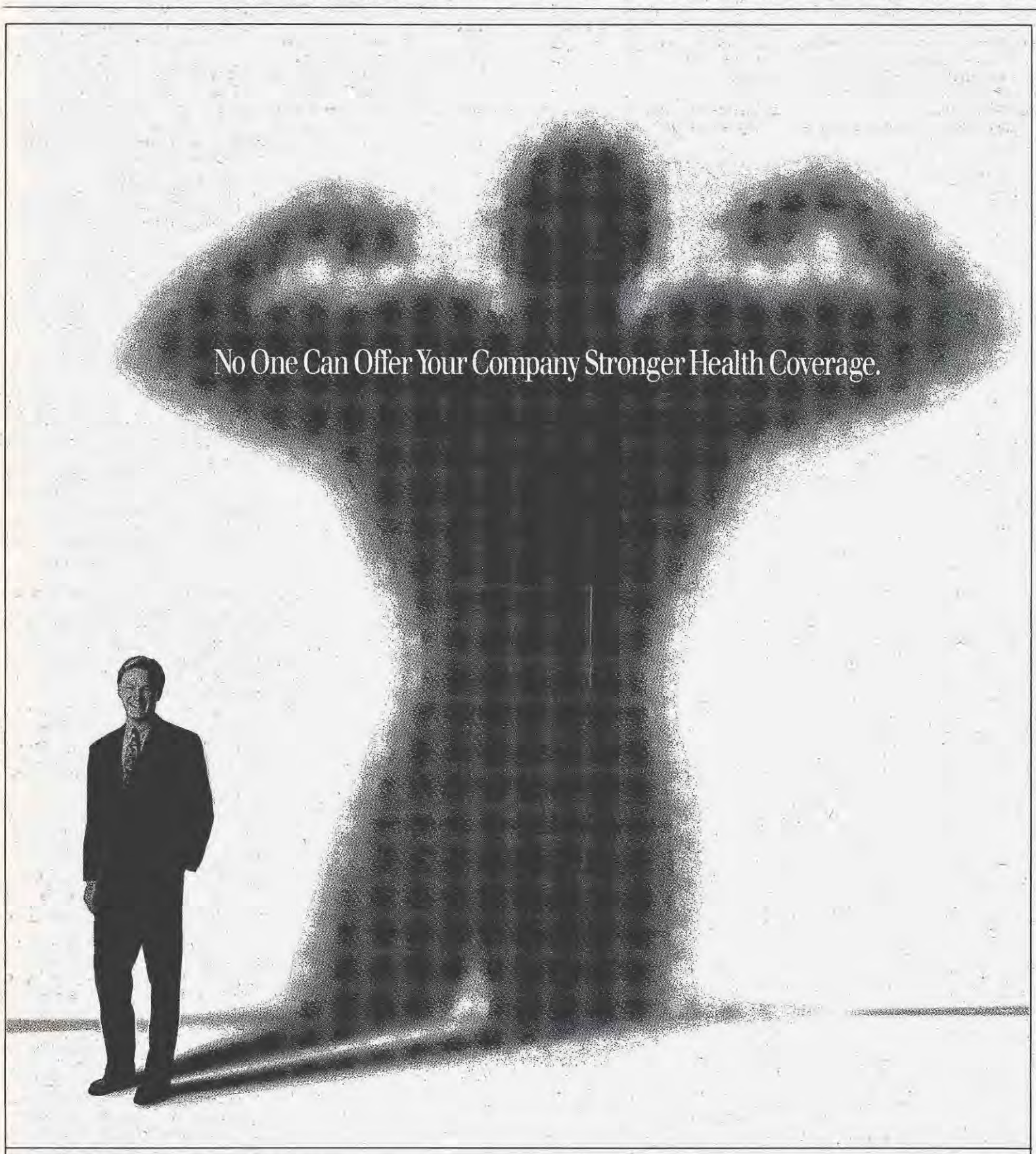
Meanwhile, corporations and their insurers must contend with an increased public awareness of risk, said Gordon C. Stewart, president of the Insurance Information Institute in New York.

"Risk has been substantially reduced this century. People are safer now than they have been since the birth of mankind. However, the public's tolerance of risk is going down," he said.

"The intolerance for risk rises the more wealthy a country becomes. There is an increasing demand that someone takes responsibility for risk. The consequence of this is apparent in the U.S. liability system," Mr. Stewart explained.

The public perception of risk is also changing in Europe, said Muriel Fontugne, director of risk and insurance for EuroDisney in Viller-la-Vallee, France.

"We are paying careful attention to fast-changing consumer attitude in Europe. Europe is importing U.S. lawyers and all consumer products are being targeted." she said. BI



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Opportunities await in Eastern Europe

But gaining a foothold there takes endurance and effort

By CAROLYN ALDRED

BERLIN—Opportunities and obstacles abound for business expansion in the former Soviet Bloc, a panel of speakers agree.

However, it is important to remember that each country now operates independently and each should be treated individually, the speakers pointed out at the 23rd International Insurance and Risk Management Conference, sponsored in Berlin last month by Management Centre Europe.

A special evening session entitled "Focus on Central and Eastern Europe" was staged jointly by MCE and broker Sedgwick Group P.L.C.

"There is huge opportunity in Eastern Europe" for the insurance industry to "develop a risk-aware and user-friendly society," said Adrian Platt, a Sedgwick director responsible for the broker's Eastern European operations.

For example, while insurance premiums represent 9.67% of gross domestic product in the United Kingdom and 5.75% of GDP in Germany, in the former Soviet Union insurance premiums represent only 2.94% of GDP.

The percentage of GDP currently spent on insurance is even lower in the Czech Republic, 2.92%; Hungary, 1.91%; Poland, 1.16%; and Romania, 0.91%, said Mr. Platt.

"The premium income development could be massive," he said.

But much work and long-term development is needed in these emerging markets, the speakers agreed.

According to Mr. Platt, Western companies could help establish "regulatory and legal structures, East/West understanding and support, an appreciation of how to improve risk, and adequate investment and resources."

But companies planning to invest in the former Communist Bloc must appreciate that each state is different, the speakers warned.

"The countries have differences in their socio-economic and legal structures," noted Karoly Bard, a partner in Eorsi & Tarsai, a law firm based in Budapest, Hungary.

The countries of Eastern and Central Europe "are very sensitive about their cultural and ethnic differences. One cannot treat them as a consolidated unit," said Richard Benedick, an adviser for the Ost-WestWirtschafts Akademie in Berlin, an organization sponsored by the United Nations. In addition, fundamental cultural differences exist between the Eastern European countries and the industrialized world, according to Mr. Benedick.

Although the level of education, particularly in scientific and technological fields, is very high in many of the former Soviet countries, there "is a lack of entrepreneurship and initiative and a lack of training facilities for modern management," he noted.

Although the level of education is very high in many of the former Soviet bloc countries, there 'is a lack of entrepreneurship and initiative and a lack of training facilities for modern management,' says consultant Richard Benedick.

Other obstacles facing Western businesses in Eastern Europe include the difficulty of buying property in many of these countries, underdeveloped banking and legal systems, and currency and political instability, Mr. Benedick pointed out.

However, "compared to most countries in the developing world, the (former Soviet Union) offers unique opportunities especially in the medium and long term," he concluded, adding that they are "high risks but offer a potential for high returns."

Bengt Westergren, president of American International Group Inc.'s Central and Eastern Europe Division in Vienna, Austria, agreed that these countries offer "no quick profits but tremendous opportunities in the long term."

There are regulatory problems with laws still to be developed, tax regimes still changing and currency problems, he said. In fact, he added, "currencies exist and then disappear."

In addition, "human resources are a major problem." said Mr. Westergren. "It is difficult to find people with an insurance background and an appreciation of capitalism." He added that the most problematic area for recruiting staff is in sales and marketing, which "need a different mentality" than that which has prevailed under Communism.

However, AIG will continue to expand in the former Communist Bloc, he said, noting that the insurer must "follow our clients and service them."

Already AIG has operations in Hungary, Estonia, Latvia, Poland and the Czech Republic, as well as a representative office in Moscow. Plans are in hand to set up new offices in Russia, Romania, Slovenia, Bulgaria and Kazhakstan, he said.

The degree to which foreign insurance and brokering operations have already expanded into Eastern Europe was well-illustrated by two of the panelists.

Until 1991, Prague-based Ceska Pojistovna was one of only two insurers in Czechoslovakia, said Peter Zaruba, a director of the state-owned insurer.

As a result of new insurance legislation introduced in 1991, "we are now competing with a growing number of insurers," said Mr. Zaruba. Currently, 13 insurance companies operate in the Czech Republic alone, he said.

Similarly, 11 of the 13 largest insurance companies in Hungary are foreign insurers, said Mr. Bard of Eorsi.

Even more staggering is the growth of brokerage activities in Hungary, he said. "The broker is a new institution in Hungary. Before 1990, we had no brokers; now we have 130 brokers," he said.

However, a sudden influx of new companies can create considerable problems for existing state-owned insurers in Eastern Europe, noted Mr. Zaruba.

"We have big problems with the loss of experienced personnel to foreign companies coming into the market," he noted. BI

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IN THE HIGH COURT OF THE REPUBLIC OF SINGAPORE — NO 1015 OF 1993

IN THE MATTER OF
RMCA REINSURANCE LIMITED
- and -
IN THE MATTER OF SECTION 210 OF THE SINGAPORE COMPANIES ACT
- and -

IN THE HIGH COURT OF JUSTICE OF ENGLAND AND WALES, CHANCERY DIVISION — NO 008941 OF 1993

IN THE MATTER OF
RMCA REINSURANCE LIMITED
- and -
IN THE MATTER OF SECTION 425 OF THE COMPANIES ACT OF ENGLAND AND WALES

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2. The Scheme Creditors of the Singapore Insurance Fund of the Company.
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   (b) Scheme Creditors with Singaporean Preferential Debts of the Company at 10:45 am or as soon thereafter as the Scheme Creditors' (Singapore Insurance Fund) Meeting has been concluded.
2. In the case of the Scheme Creditors of the Offshore Insurance Fund at The Great Hall, Chartered Insurance Institute, 20 Aldermanbury Square, London EC2V 7HY, U.K. on 14 December 1993 at 10:30 am.

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The Scheme will be subject to the approval of the Courts.

Dated this 25 day of October 1993.

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9 Battery Road #17-08
Straits Trading Building
Singapore 0104

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6-8 Bouverie Street
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INTERNATIONAL

Exclusions for terrorism grow

Even with Pool Re, U.K. businesses unable to afford coverage

By CAROLYN ALDRED

BERLIN—Insurers and the British government are struggling to provide adequate protection for U.K. businesses faced with a growing threat of terrorist attack.

As the Irish Republican Army continues to plant bombs in an attempt to disrupt commercial activity in the United Kingdom, particularly in London, commercial insurance coverage for terrorist sabotage is vanishing rapidly, according to Anthony P. Benson, head of group risk management for Guinness P.L.C. in London.

Mr. Benson spoke at last month's 23rd International Insurance and Risk Management Conference in Berlin, sponsored by Management Centre Europe.

Mr. Benson and John Arpel, managing director of SCOR (U.K.) Reinsurance Co. Ltd. in London, presented a workshop on U.K. terrorism insurance.

Following a massive 800 million pound ($1.18 billion) property loss caused by an IRA bomb planted in the heart of London's financial center (*BI,* May 3), U.K. insurers introduced an exclusion into commercial property policies for damage caused by terrorist activities.

Now the insurance industry also is considering excluding acts of terrorism from liability policies as well as property coverage, Mr. Arpel warned.

Insurers may exclude terrorist-caused damage from liability policies, says John Arpel.

Despite the establishment of Pool Re—a government-backed reinsurance pool for property losses caused by terrorism—rates are increasing to such an extent that many businesses are refusing to buy the coverage, the speakers said.

"Two-thirds of industrial companies are walking away from the situation," one conference delegate said.

Pool Re was set up by the British government and insurance industry, in response to a massive contraction in reinsurance capacity following the IRA attack on the Commercial Union P.L.C. head office in London (*BI,* April 20, 1992).

"Toward the end of last year, reinsurers made it clear that reinsurance (for terrorist damage) would cost a lot of money," said Mr. Arpel.

Under the new system, insurers provide a limited amount of property coverage against terrorism. Pool Re provides coverage above this limit by collecting premiums based on a tariff set by the insurer. If Pool Re has inadequate funds for a loss, it can collect an additional 10% in funds by imposing a levy on insurers. Any loss above this will then be paid by the government, Mr. Arpel explained during the session.

However, continuing IRA bomb attacks on Britain quickly prompted an actuarial report to government suggesting that Pool Re dramatically increase rates, Mr. Arpel said. But "new tariff increases of up to 300% have produced too heavy a burden on companies obliged to buy the cover," he added.

As a result, many companies will refuse to buy the additional cover, thus leaving those businesses most at risk to pay huge—and probably unaffordable—premiums, attendees agreed.

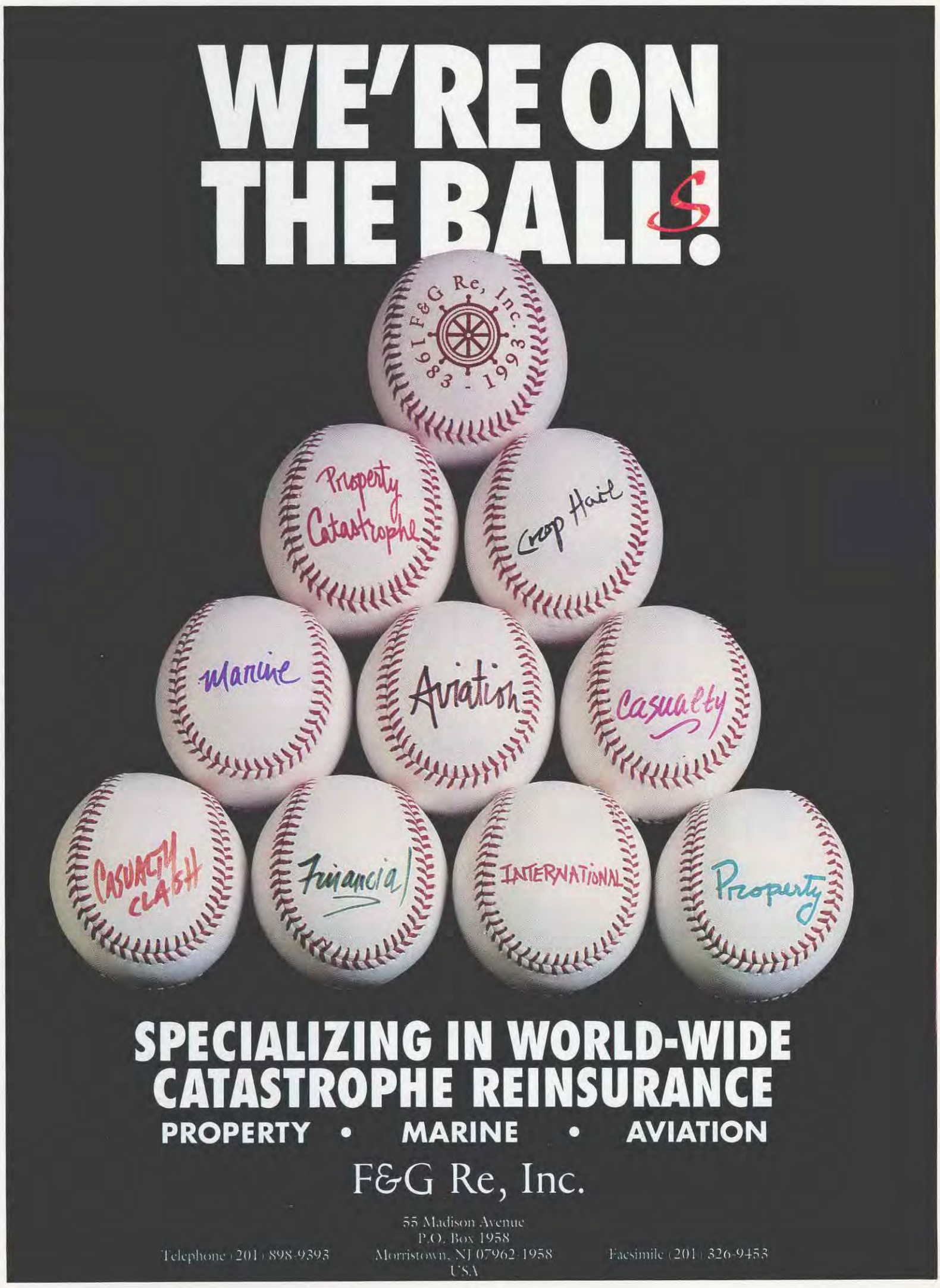
The insurance industry, businesses and the government have to "ask how the potential cost of terrorism should be spread. The problem is that 80% of the risk is confined to an area of the U.K. probably only two miles-by-two miles large," said Mr. Arpel, referring to the City of London, as the city's financial district is known. "Should 80% of the premium be levied to those businesses in the City of London?"

Pool Re is proving to be an inadequate rescue raft strung up in haste and resulting from inadequate communication between the insurance industry and the government, according to Mr. Benson.

Before Pool Re was established, the government realized that it was economically essential for businesses operating in central London to be protected against terrorist acts, but the insurance and reinsurance industry were no longer prepared to assume the risk without government backing, Mr. Benson noted.

"I find something very unhealthy and ambiguous about the insurance industry asking for help from government in providing insurance cover. The insurance industry never wants any government involvement in profitable business," he said.

Meanwhile, the industry is in danger of alienating its customers by removing coverage every time it becomes unprofitable, he said. BI



INTERNATIONAL

Risk management a key ingredient in cash-flow push

By ALINE SULLIVAN

BRIGHTON, England—The role of risk managers in helping to maintain corporate cash flow is increasingly appreciated by senior management, two risk managers note.

"The new focus on cash flow by senior financial management provides an excellent opportunity for risk managers to grab the spotlight," said Michael J. Walsh, vp and treasurer of Saint-Gobain Corp., the North American subsidiary of French glass manufacturer Compagnie de Saint Gobain.

Martin R. Fessey, manager-sales and customer service for U.K. operations at Arkwright International, a unit of Arkwright Mutual Insurance Co., said one of the problems risk managers traditionally face in establishing higher visibility and stronger working relationships with senior management has been the difficulty in quantifying risk management decisions.

But speakers at the Fifth Annual Arkwright International Symposium agreed that is changing dramatically in the 1990s, thanks to a new awareness by corporate management of the importance of cash flow.

The symposium, held at the Grand Hotel in Brighton, England, attracted more than 100 attendees, representing about 80 U.S. and European companies.

The high-profile mergers and acquisitions of the 1980s, together with a corporate emphasis on earnings per share, have been replaced by a new interest in cash flow at companies worldwide, said Mr. Walsh. As corporate resources are pinched by slow economic growth and global competition, managements are eager to reduce debts and expenditures and streamline their operations.

"The concept of cash flow is going far beyond accounting and financial controls," said Mr. Walsh. "Its broader connotations will reach into every aspect of a corporation's activities and culture in the years ahead. This is the stage on which risk management can play a leading role."

James J. Conerty, manager of risk and insurance management at International Business Machines Corp. in Armonk, N.Y., cited the example of his own company, which has been forced by recent operating losses to focus more on maximizing cash flow than ever before.

In response, the company's risk management department has dramatically increased the amount of risk it retains, and it expects to retain even more risk in the near future, he said.

"Many departments have now had to view their operations somewhat differently in the light of current cash constraints," Mr. Conerty said. "Risk and insurance management now looks at all our processes from the standpoint of either helping to maximize the return on cash flow or minimizing the negative impact on cash flow which can be caused by anticipated and unanticipated losses."

Arkwright's Mr. Fessey noted that risk managers need to present information that can be analyzed from a financial perspective and that can enable management at different levels in a company to view risk management decisions in the same manner that they consider any other business decision.

Risk managers will be able to improve awareness of cash-flow issues and raise their own profiles among senior executives by focusing on several key points, said Mr. Walsh. These include:

• Explaining to top managers the implications of the company's operations in emerging markets on its cash flow.

Continued on next page

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Cash flow

Continued from previous page

• Reviewing the company's exposure to environmental risks and its disaster planning program with a view to implementing cash-flow-friendly funding mechanisms. Companies need to lower costs and streamline operations without endangering plant safety. The risk manager must point out any hidden costs behind restructuring plans.

• Examining medical and disability plans administered by the employee benefits department and workers compensation programs administered by the risk management department to determine if there are some cost reduction techniques that could be shared. BI

Employer's recipe cut comp costs

By ALINE SULLIVAN

BRIGHTON, England—An active program of managing workers compensation costs has saved General Mills Restaurants Inc. more than $25 million since 1990.

D. Dale Petersen, manager of employee health benefits at the Orlando, Fla.-based restaurant company, said that the frequency and cost of workplace accidents were increasing dramatically before the company reviewed its risk management policy three years ago.

"In 1988, we were doing what most were doing—buying coverage and ignoring the problem," said Mr. Petersen. "We viewed workers compensation as the cost of doing business."

Mr. Petersen spoke at the Fifth Annual Arkwright International Symposium, held in Brighton and sponsored by Arkwright Mutual Insurance Co.

Soaring workers comp costs convinced the restaurant company's management that it was necessary to analyze the source of the problem. Mr. Petersen found a number of reasons for the restaurant company's inflated workers comp costs, including:

• Medical inflation of up to 20% each year.

• Changes in employee demographics caused by higher divorce rates and a growing proportion of older employees, which made workers more likely to file workers comp claims.

• Increasing litigation. Litigation costs comprised about 20% of the company's overall workers comp costs.

In addition to these problems, Mr. Petersen found that other factors, like decreased employee morale, declining customer satisfaction and administrative paperwork, could cost the company as much as 10 times the actual accident costs.

Still, "One fact was very clear," he said. "If we reduced claims, we would reduce costs. This became our mission."

Meetings with all levels of General Mills Restaurants' employees helped management share its findings and determine its next course of action: the development of a sophisticated risk management system.

General Mills Restaurants now has in place a virtually paperless system that provides the risk manager with accident details from the moment a claim is filed.

The next step was to reallocate workers compensation claims from the corporate level to individual operating units based on loss experience. The company previously had absorbed workers comp costs and allocated them equally among all locations.

'One fact was very clear,' says D. Dale Petersen. 'If we reduced claims, we would reduce costs.'

"Naturally there was no motivation, other than a moral disdain for suffering, for managers to control the cost of risk," said Mr. Petersen of the former system.

The new cost allocation program triggered a strong negative reaction after it was implemented, he recalled. "Managers accustomed to bearing no responsibility for workers compensation blamed their workers, the laws, treating doctors, the physical condition of their restaurant and about anything else they could think of," he said.

But eventually, local managers developed a keen eye for workplace safety improvements and employees reacted with appreciation and increased productivity, he said.

Other changes made by the company to combat rising workers comp costs included making safety training a high priority, ensuring that employees were properly equipped to perform their tasks safely and implementing a safety incentive program that could earn employees extra money if accidents remained below a certain level.

General Mills Restaurants also reviewed that way it managed workers comp claims, said Mr. Petersen. "Our focus immediately after an injury has changed from one of benign neglect to one of immediate care and concern," he said. This motivates employees to return to work as soon as possible.

Another step has been to position the company in a leadership role in workers comp reform efforts, said Mr. Petersen. "We have actively engaged in coalitions and lobbying efforts which have led to significant reforms in several states. These reforms will lessen our liability exposure by millions of dollars," he said.

"The final step in managing workers' compensation is to evaluate the results of your program," Mr. Petersen pointed out. "Over $25 million has been saved since 1990. Current costs per operating week are lower than they have been since 1987. Accidents per employee are down over 30%," he said. BI

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June 13	June 1
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November 14	November 2

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INTERNATIONAL

Risk management can be difference between profit, loss

BRIGHTON, England—Risk management actions could be responsible for 5% or more of a company's pretax profit or loss, a risk manager says.

There are few functions in a company that have the potential to impact the profit and loss account like risk management, says Elizabeth R. Taylor, group risk manager of Ipswich, England-based Harrisons & Crossfield P.L.C.

However, few risk managers are treated within their organizations as representing a function with much leverage, she said during the Fifth Annual Arkwright International Symposium, held in Brighton and sponsored by Arkwright Mutual Insurance Co.

"Risk managers must sell their techniques as hard as any management philosophy has ever been sold," said Ms. Taylor, who also is chairwoman of the Assn. of Insurance & Risk Managers in Industry & Commerce, a U.K. risk management organization. "Too many of us have no knowledge of the corporate mind or objective and too many of us ignore the basic responsibility to continually evaluate the critical risk to the organization," she said.

Risk managers must regularly contribute and evaluate corporate strategy, Ms. Taylor said. "Your strategy on risk management should mirror the corporate strategy. If it does not, then something is wrong."

'Your strategy on risk management should mirror the corporate strategy,' says Elizabeth Taylor.

Buying large amounts of insurance under the guise of creating predictability stifles vitality and growth within an organization because funding risk in this manner consumes too much corporate capital, Ms. Taylor remarked.

Risk managers must look at the cash management strategy of the business and identify the critical factors involved, said Ms. Taylor. Otherwise, risk managers will lose opportunities for their employer to improve profits and will relegate themselves to the sidelines of the company's business decision making process.

Another example of where risk management can affect business decision making is in the area of information systems. It is important to train information technology managers in risk management techniques and to plan for possible problems with the company's information systems, Ms. Taylor said.

Other methods that risk managers can use to bring about change in their organization, she said, include:

- Stressing the importance of risk management to operating, on-site management.
- Using "cost of risk" models.
- Comparing results of risk management programs with those of other organizations.
- Using risk management information systems to monitor trends of losses and near misses.
- Monitoring risk control expenditures and advertising the "payback" to top executives based on reduction in loss costs and total cost of risk.
- Setting up risk analysis surveys.
- Continually keeping up with the business to monitor exposure to catastrophe risk.

—By Aline Sullivan

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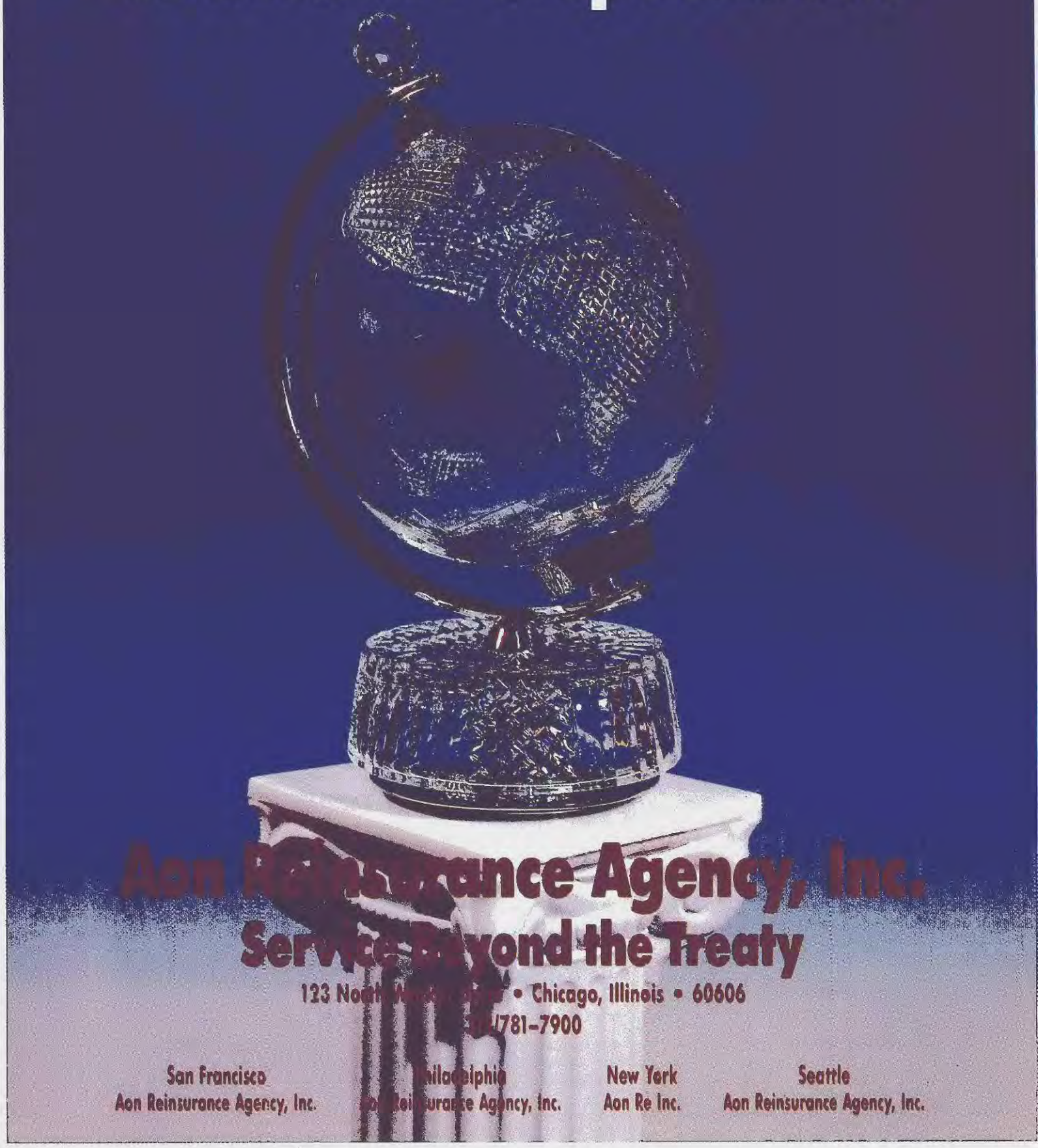

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Corporate capital

Continued from page 79

Underwriters must feel comfortable with the size of their syndicates in terms of controlling it, and they do not like to be forced into a situation of writing business for the sake of it. Too much uncontrolled capacity would simply weaken the rates, and we are very anxious not to see that," he said.

Six trusts, which together aim to raise about 850 million pounds ($1.26 billion), had released prospectuses as of late last week.

Another half-dozen trusts, together seeking about 300 million pounds ($444.2 million), are expected to follow suit over the next couple of weeks. An additional four, seeking 260 million pounds ($384.9 million), have announced their intent to launch, but they have not published a prospectus.

Up to 15 more such vehicles are believed to be waiting in the wings.

Among the new vehicles is Lutine Capital Corp., a joint venture of Donaldson, Lufkin & Jenrette Securities Corp., Phoenix Securities Ltd. and Anton Members Agency Ltd. Lutine Capital is the first corporate vehicle aiming to raise money in the United States. A registration statement filed with the Securities and Exchange Commission on Tuesday indicates that Lutine hopes to raise $300 million through 12.5 million newly issued common shares.

Lloyd's has refused to put a direct cap on the amount of capacity that new corporate capital can bring to the market.

Estimates of the amount of capacity that traditional names will provide for 1994 have shot up in recent weeks from a worst-case projection of 6 billion pounds ($8.88 billion) to as high as between 7.5 billion and 8.5 billion pounds ($11.10 billion and $12.58 billion).

In addition to greater member confidence, some of this increase is due to the introduction of members agents pooling arrangements. Under Lloyd's new rules for 1994, individual members with more than 250,000 pounds ($369,625) in capital who join a MAPA will be able to underwrite up to four times their capital in capacity. Previously, members could write premiums totaling just over three times their capital.

If managing agents are willing and able to accept all this capacity from traditional names, the market could boast 11.32 billion pounds ($16.76 billion) in capacity or more next year, well above earlier projections (*BI*, Aug. 30).

Despite the refusal to cap the amount of corporate capital for 1994, Lloyd's top brass hopes to avoid instability that could arise from expanding too rapidly.

Chairman David Rowland stated in Lloyd's business plan released in April that the ideal range for total 1994 capacity would be 8.5 billion pounds to 9.5 billion pounds ($12.58 billion to $14.06 billion), with a long-term target of 10 billion pounds to 12 billion pounds ($14.80 billion to $17.77 billion) by 1997 (*BI*, May 3).

The Council of Lloyd's is reportedly considering some form of capacity control mechanism.

"There is a tremendous scramble for capacity, and it's our top four (syndicates) that are in demand. We have been turning away corporate capital for three weeks now," commented Paul Archard, managing director of managing agency Murray Lawrence & Partners Ltd.

Mr. Archard pointed to one key reason why the scramble to join the market may be so intense. Lloyd's has said that members who joined the market in 1994 or earlier will have priority over new members in deciding whether to increase their stamp capacity—or investment—on a particular syndicate.

The ability to link up with a top members agent is seen by many of the investment trusts as the only way to ensure that sufficient capacity can be attracted.

Some market participants believe that many of the smaller trusts, and even the bigger ones that have not yet established links with agents, will lose out in the "scramble."

"What is fairly evident is that certain syndicates are just not going to be able to provide capacity to everyone who wants it in the market. Therefore, there will be a difference (between) the attractiveness of certain vehicles with links to agents and those vehicles not already linked up," said Charles Phillips, director of corporate finance at NatWest Markets Corporate Finance Ltd.

"I suspect a good proportion of the trusts will find it difficult to raise the money. At the end of the day, investors will only 'close' when they have a clear understanding that the money is safely placed."

NatWest Markets is the sponsor of Angerstein Underwriting Trust P.L.C., which aims to raise 75 million pounds ($111 million) of capital and will use independent members agent Stace Barr as its Lloyd's adviser.

Through Stace Barr, Angerstein has already been promised 100 million in capacity ($148 million) on syndicates and expects to reach its 150 million pound capacity ($222 million) target comfortably.

"Without Stace Barr it would have been very difficult," added Mr. Phillips.

"It is clearly unlikely that 20-plus vehicles will get off the ground. I suspect some won't get off the ground not because they cannot raise the money in the markets but because they cannot get the required firm commitment from managing agents for 1994," said David A.C. Reid Scott, managing partner at Phoenix Securities Ltd., a Lutine Capital cosponsor.

Lutine Capital will have little trouble accessing managing agents because Donaldson, Lufkin & Jenrette plans to buy its partner in the deal—Anton Members Agency Ltd.—once the public offering for the investment trust closes.

"We already have signed contracts with 49 syndicates amounting to some 216 million pounds of capacity ($319.8 million), and through discussions with a few others we have some decent expressions of intent. . . .This is an insurance business, not an investment portfolio, and will be managed as an insurance business. We will acquire Anton, and it will be the core of Lutine going forward," a DLJ spokesman said.

The trusts that have links with managing agents deny, however, that there will be conflicts of in-

Continued on next page

1993~1994

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INTERNATIONAL

Continued from previous page
terest in allocating capacity.

"Some members agents may find themselves under pressure from their managing agents to support their syndicates to the detriment of the investors, but that won't happen on ours or any of the bigger ones. We, and most of the others, will adopt very strict rules, and the two companies are entirely separate anyway," said Stephen Drake, director of Murray Lawrence Members Agency Ltd.

MLMA will act as Lloyd's adviser to Masthead Insurance Underwriting P.L.C., an investment trust sponsored by Hambros Bank Ltd. Masthead intends to raise up to 50 million pounds ($74 million) of capital in a public offering to underwrite up to 100 million pounds ($148 million) of business.

Noble & Co. Ltd., an Edinburgh, Scotland-based merchant bank, plans to raise 30 million pounds ($44.4 million) of capital through the launch of Premium Trust P.L.C. in conjunction with stockbroker Greig Middleton & Co. Ltd., fund manager Martin Currie Investment Management Ltd. and Wellington Members Agency Ltd. Chief Executive Timothy Noble does not deny the trust will use its links with Wellington, a combined members and managing agency, to attract investors.

Wellington syndicates will take up to 25% of Premium Trust's planned 60 million underwriting ($88.8 million) capacity next year, Mr. Noble estimates.

"Wellington has longstanding arrangements with other managing agents, which allow them access to the capacity which is currently not so easy to obtain. That is why we have gone for 30 million pounds capital to get 60 million pounds underwriting capacity. Anything above that and we would be going for quantity and not quality," said Mr. Noble.

"1994 looks like it will be a good year for insurance with good rates. It really is a case of wanting to fill your boots with as much capacity as you can. And if you cannot fill your boots (with quality capacity), then you should raise less capital," he said.

Along with a growing body of opinion in the market, Mr. Noble said he hopes Lloyd's can introduce some form of pricing mechanism to more efficiently channel the allocation of capacity in the future. "At the moment, it can be a bit like being on a golf club waiting list," he said. BI

LONDON

Continued from page 79
However, he noted that an acquisition of Nelson Hurst or any other U.K. broker by Price Forbes would have been difficult because the South African government still is keen to stem capital flow out of the troubled republic.

Mr. Heinamann noted the United Kingdom lay in Price Forbes' "comfort zone," partly because "the language is very similar." But he has no "delusions of grandeur" about expanding into the United States. "Europe is not so saturated, and there is room for the sort of services we provide," he added.

The deal with Price Forbes comes as Nelson Hurst prepares for a public stock offering announced last week. The share offering is expected to raise between 60 million and 70 million pounds ($88.8 million and $103.6 million) over the next six months.

"The Price Forbes deal is expansion without a major investment, but you can only do so much of that. We do want to continue to grow," Mr. Woodward said.

Much of the expansion will be in Latin America and Southeast Asia where Nelson Hurst is a major force, especially in professional liability insurance, he said.

Nelson Hurst reported 1992 revenues of 31.3 million pounds ($47.4 million at the appropriate exchange rate). Lloyd's business in 1992 accounted for 30% of Nelson Hurst's commissions and 25% of its premium volume.

P&I club reduces call

Members of the U.K. P&I Club, the biggest protection and indemnity club, are being let off the hook from paying any increase for the 1994 policy year.

The club has also opted to reduce its supplementary call for 1992 to 25% from 40%. "The substantial increase in advance call rates for 1992, combined with better-than-expected claims experience," has allowed the reduction in the supplementary call.

The "cumulative effect of substantial general increases," including the 1993 increase, has reduced the need for another call this year.

The club's overall financial position also has improved. In February, total funds were estimated at $862 million against claims of $921 million. As of Aug. 20, estimated and forecast claims totaled $1.03 billion against total funds of $1.04 billion, including the 25% supplementary call.

But the good news for members did not extend to claims. Club directors explained that claims still are increasing across the industry, and directors therefore will not put a permanent brake on general or supplementary increases.

"Claims are running at much the same level as for the 1991 year, although the extraordinary increase in reinsurance costs for 1992 means total anticipated outgoings are higher. . . .The 1994 decision was reached despite an assumed increase in the level of claims."

Sphere Drake IPO

The U.S. Securities and Exchange Commission has declared effective the registration of 8.4 million shares by London market international insurer and reinsurer Sphere Drake Holdings Ltd. The shares are registered at a price of $21 each, and the company is offering 7.25 million shares at that price. The remaining 1.15 million shares are held by "certain selling shareholders," according to Sphere Drake's announcement.

Sphere Drake expects to use $132.4 million of the proceeds to boost the capital of its insurance subsidiaries and plans to increase business to take advantage of rising rates in the London property/casualty insurance and reinsurance markets. The remaining cash will be used to redeem 3 million pounds ($4.44 million) of outstanding preference shares and for "general corporate purposes," the announcement said. BI

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Risk/Employee Benefits:
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Sub-total 28,112

Associations 385
Government, unions and Educational Institutions 1,075

Commercial Consumers

Sub-total 29,572

Insurance Agents and Brokers 8,714
Insurance Companies .. 7,981
Accountants, Actuaries, Attorneys & Consultants 3,532
Adjusters, Appraisers, TPA's, Captive Managers & Health Care Providers 1,936
Others Allied to the Field 1,081

TOTAL 52,816

* Source Business/Occupational breakdown of qualified circulation, May 31, 1993 issue, as submitted to BPA for June 1993 BPA Publisher's Statement.

BUSINESS INSURANCE
upcoming issues:

Issue:	**Nov. 22**	Specialty Risks	Classified Close:	**Nov. 16 - noon**
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NCCI works against workers: AFL-CIO

By MEG FLETCHER

WASHINGTON—The nation's largest labor federation is blasting the National Council on Compensation Insurance, contending that its "lobbying" role is hurting injured workers.

In a recent letter to officials of state affiliates and other unions, a national AFL-CIO official criticized the insurer-supported NCCI for assuming "an active role encouraging state legislators and governors to adopt 'partisan' anti-worker reforms to state workers compensation laws."

James Ellenberger, assistant director for the AFL-CIO's Department of Occupational Health and Safety, also suggested that state AFL-CIO affiliates try to eliminate or reduce the NCCI's ratemaking and data collection responsibilities in most states.

After indirectly learning of the letter, NCCI President William D. Hager responded to what he called a "mischaracterization" of the NCCI's efforts. "The elected officials are the reformers; we are an information resource," he wrote to Mr. Ellenberger.

The NCCI plans to continue producing on request "unbiased, actuarially sound analyses of proposed and enacted law changes" for states, Mr. Hager said. It also will work to promote safety, eliminate abuses in premium payments and claims handling, and encourage improvements in residual market operations, he said.

He urged Mr. Ellenberger to work with the NCCI to improve state workers comp systems.

Mr. Ellenberger is not alone in his campaign against insurer rating and statistical organizations.

His letter stirred up "a hornet's nest" that has been developing over the last few years, remarked Brenda Trolin, program director for labor and insurance issues for the National Conference of State Legislatures in Denver.

"States will be increasingly exploring options to find alternatives to insurer-financed rating organizations," she predicted.

A growing chorus of regulators and legislators are questioning the public perception, credibility and public accountability of insurer-funded rating organizations.

Some argue that the public lacks confidence in the accuracy of the organizations' data because it is developed by insurers and is too oriented toward ratemaking to help regulators analyze other types of issues.

Such concerns prompted Texas to contract with an independent statistical agent that does the same work as the insurer-supported Texas Statistical Assn. (*BI*, Sept. 6).

"I think it's time for statistical agents to be separate from the insurance industry," said Nebraska Insurance Director William McCartney, though he conceded that a small-population state like his probably could not follow in Texas' footsteps.

The NCSL's Ms. Trolin said whether states can take over statistical duties depends on whether states can overcome impediments like the complex nature of collecting and reporting data and the need for highly trained personnel.

She agreed the potentially high cost a small state could face could be an impediment, though the establishment of multistate regional organizations might be a solution to that problem.

Mr. Ellenberger said: "Public policy makers, regulators and employers as well as workers and their union must have confidence in the facts and figures collected and used by NCCI and other rating organizations to price workers compensation insurance and to give us important information about the frequency, nature and source of occupational injuries and illnesses.

"This trust and faith has been violated and abused by the NCCI and it is time to insist on corrective action," he said.

In his letter, Mr. Ellenberger suggested a variety of activities that may be appropriate, depending upon the jurisdiction:

- Unions could work with friendly legislators and/or governors to establish independent, state-controlled ratemaking organizations.
- If it's not possible to create independent state rating bureaus, states could pursue a variety of other options such as opening up ratemaking functions to competitive bidding by companies not owned by insurers.
- Ratemaking organizations and/or statistical agents should be banned from attempting to influence or to lobby on legislation or regulations affecting workers comp systems. Violators could have their service contracts terminated.
- States could create an Office of Public Insurance Counsel, like the one established in Texas, to represent consumers in insurance matters.
- States could require independent audits of all NCCI filings, funded by assessments on insurers.
- Unions could monitor and publicize NCCI activities in individual states that "are not healthy for injured workers," like the promulgation of "extreme anti-worker reforms" from Arkansas, Colorado and Connecticut.
- Unions could attempt to generate support from employers since they "write the checks for the outrageous rate increases, get thrown into the assigned risk pool even when their experience has been good, and are 'used' in the NCCI's efforts to pad insurer profits."

Mary Griffin, insurance counsel with Consumers Union in Washington, one of those groups, noted that "it's very hard (for the NCCI) to draw the line between technical assistance and lobbying."

Mr. Ellenberger said he has received a "positive response" to his letter from state labor organizations.

AFL-CIO spokesmen from New York and Pennsylvania were both strongly supportive of his general aims and felt his criticisms applied to the rating organizations that operate in their respective states. The NCCI does not operate in either of those states.

The NCCI is the sole statistical

Continued on next page

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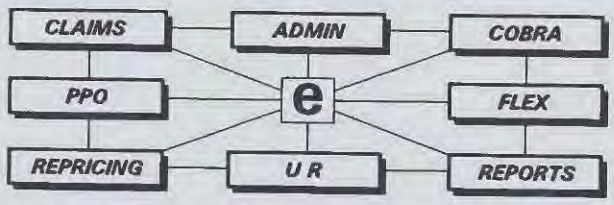

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GM's unfunded pension benefits to grow

DETROIT—General Motors Corp. is promising union workers enriched pension benefits under a new three-year contract, even though the automaker's unfunded pension liability is among the nation's largest.

Now estimated at $19 billion, GM's total pension liability could grow to as much as $25 billion under the pact tentatively agreed on last week with the United Auto Workers union.

In 1991, the latest year for which figures are available, GM's unfunded pension liability was $11.8 billion.

Not that GM will likely ever have to fulfill the entire $25 billion. Low interest rates, which have kept GM's unfunded liability high, will probably rise sometime in the next couple of years, which would slash the liability tremendously, explained John Casesa, an auto industry analyst with Wortheim Schroeder Inc. in New York.

"It's not an ideal contract, but I don't think it's a disaster," Mr. Casesa said.

Last week, the union's 400-member GM National Negotiating Council approved the deal, and GM's 240,000 UAW employees are expected to ratify the contract later this month.

Except for some provisions affecting workers who have been laid off and workers at specific GM plants, the contract is virtually identical to one the union recently negotiated with Ford Motor Co. (*BI*, Sept. 27).

Under the contract, the monthly multiplier used to calculate defined benefit plan pension benefits will increase 13% to $34.70 per month per year of credited service, up from $30.70. And the monthly pension benefit for workers who retire with 30 years of service but before age 62 will be increased by 12.8% to $2,030 from $1,800.

"We are concerned that pension benefits, including any increases, be funded," said a Pension Benefit Guaranty Corp. spokeswoman.

Increased pension benefits will not immediately be guaranteed by the pension agency, the spokeswoman noted. If the basic pension benefits are amended and the plan is terminated within five years of the amendments, the PBGC guarantees to pay the greater of either 20% of the increase or $20 per month per pensioner for each year since the increase.

Asked whether GM would be able to fully fund the richer benefits, a company spokesman replied: "We have a plan in place to be fully funded by the end of the decade and the tentative agreement with the UAW doesn't change that plan."

Among other things, the tentative contract also maintains all current health care plans with no copayments or deductibles paid by UAW members.

—By Deborah Shalowitz

NCCI

Continued from previous page

agent in 31 states and the District of Columbia and provides related services to about half the other states.

For its part, the NCCI now plans to actively look for indications that states are following up on Mr. Ellenberger's suggestions, said Chapin Clark, the NCCI's senior vp for rates and external affairs.

Mr. Clark and other insurer representatives noted, however, that state regulators already have substantial authority over the agencies and can ask for changes in their practices.

And, the NCCI's credibility was validated by a 1991 NAIC study that found that the NCCI handled data properly and that its actuarial methods did not produce unreasonable results, he said. If anything, the NCCI's methods understated the need for rate hikes during the three-year period studied, he said.

The report did recommend several minor changes now being made.

To reduce the influence of insurance companies, the NCCI and other organizations are limiting insurers' role in decision making and adding public members to their boards.

Also, the NCCI is meeting the requests of an increasing number of states that it file only trended loss cost information with rate requests, without building in profit factors.

However, "every state has to decide what is right for it" when deciding the responsibilities of statistical organizations, Mr. Clark said.

He cautioned supporters of state-run data collection agencies, like those operating in the six states with exclusive state workers comp funds, to beware of political interference in data handling. "Politics and data objectivity don't always marry up well," Mr. Clark said.

"Objectivity is better with checks and balances rather than a single state-dominated system," he said.

The general issue of seeking alternative statistical agents also concerns ISO. "We believe that experimentation with less rigorous, less expert alternatives to statistical agents like the Insurance Services Office is an expensive and risky choice," an ISO spokesman said.

Economies of scale, as well as insurance expertise needed to correctly collect, check, compile and interpret data, would be missing, he said. BI

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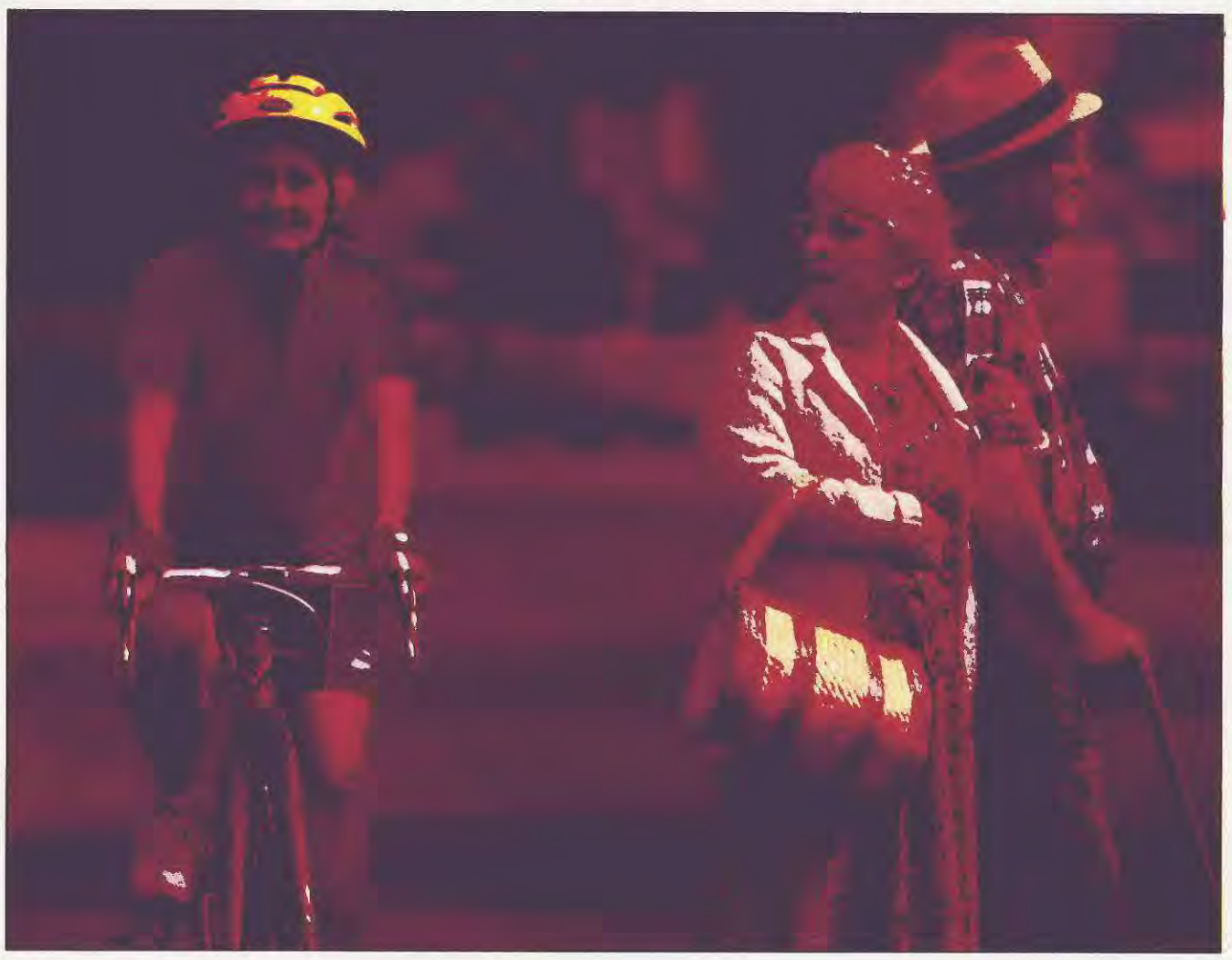

Anybody who thinks the older-age market consists solely of grey-haired people in rocking chairs needs to take another look. Plenty of today's 70-year-olds prefer scuba diving to checkers. And they don't even *own* a pair of orthopedic shoes.

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Health care reform

Continued from page 1

York.

• All health maintenance organizations would have to offer a point-of-service option in which employees could receive services outside the HMO's provider network, albeit with higher levels of employee cost-sharing (see story, page 93).

• The date that states would have to adopt programs to guarantee universal coverage would be delayed one year until 1998.

• The maximum size company that could qualify for a subsidy that would cap premiums at 3.5% of payroll would be increased to 75 employees from 50.

• The estimated average cost of the standard benefit package has been raised. The administration now estimates the package would cost $1,932 for individual coverage and $4,360 for family coverage.

While that's up from the previous estimate of $1,800 and $4,200 respectively, health care actuaries say the latest estimates still understate—by about 15%—the true cost of providing the benefits specified by the administration.

Aside from specific changes, the legislation fills in many details that were not provided in the 239-page outline of the plan leaked in September.

Some of those details include:

• All flexible benefit programs that pertain to health benefits—including flexible spending accounts; premium conversion plans in which employees use pretax dollars to pay premiums; and full-fledged cafeteria plans—would be eliminated.

Benefit experts earlier thought there was a slight chance that full-fledged flex plans would be exempt from the proposal that health care benefits no longer could be part of flexible arrangements authorized under Section 125 of the Internal Revenue Code.

The ban on offering health care benefits through a flex plan would take effect on Jan. 1, 1997.

• The legislation would require employers to give taxable cash rebates to some employees if the employer agreed to pay more than the minimum 80% of the premium charged by the average-priced health plan offered by an alliance.

If an employer paid a higher percentage, it would have to give a cash rebate to employees selecting lower-cost plans.

For example, if the cost of an average-priced plan was $2,000 for individual coverage, the Clinton proposal would require the employer to pay $1,600, or 80% of the premium. If the employer paid 100% of the premium, it would have to give employees selecting a plan costing only $1,600 a $400 cash rebate.

Tom Butterworth, a consultant with Hewitt Associates in Rowayton, Conn., says this provision would give employees an element of choice: opting for a more expensive plan or selecting a lower-cost plan and collecting cash.

But employer lobbying groups say employees, especially those covered by collective bargaining agreements, would pressure companies to pay the entire premium since the extra employer contribution would be excluded from employees' taxable income.

• The government would pay 80% of health care premiums for workers who retire between ages 55 and 64; the administration had previously floated a trial balloon that it might only subsidize 70% of the cost.

This provision, which would transfer tens of billions of dollars in early retiree health care obligations from employers to the government, was clarified in several other ways.

The subsidy would not apply to individual retirees earning more than $100,000 and couples earning more than $125,000. The subsidy would be phased out starting with individual retirees earning at least $90,000 and couples with annual incomes of $115,000.

The legislation also specifies that employers would have to return to the government a small portion of the windfall they would receive under this provision.

Under this provision, employers generally would have to return 50% of their savings over a three-year period beginning in 1998. After 2000, the employer would pocket the entire savings.

"We're still talking about a huge pot of savings," said Frank McArdle, a consultant with Hewitt Associates in Washington.

While the early retiree provision will cheer employers with retiree health plans, the administration's refusal to lower the minimum number of workers required for a company to opt out of a health alliance is a defeat for medium-size and small employers. Since the outline of the plan was leaked, employer groups have lobbied hard for relaxation of the 5,000-employee threshold.

This high threshold would result in "monster" alliances, diminishing the buying clout of employers outside the alliances, said Sean Sullivan, president of the National Business Coalition on Health in Washington.

"It would be impossible for employers, even the largest ones, to get providers to pay attention to them," agreed Rick Smith, director of health care policy at the Assn. of Private Pension & Welfare Plans in Washington.

In addition, the administration is standing by its proposal that employers opting out of the alliances pay a special tax equal to 1% of payroll. Some benefit groups had hoped the administration would ease this burden.

The bill makes few changes to the proposal in the September draft to "coordinate" workers compensation medical benefits with the overall health care system (*BI*, Sept. 20).

However, the legislation includes the establishment of a 15-member commission to study the feasibility and appropriateness of transferring the financial responsibility for workers compensation medical benefits to the new health plan.

Insurers and others were relieved that the bill, though, did not go as far as an Oct. 8 administration document, that said workers comp medical benefits could be integrated into the new health care system in two steps by first integrating delivery systems, then "in the long run, a federal commission will develop a detailed strategy to fully integrate the financing of workers compensation benefits."

In his address to Congress, President Clinton said he was willing to compromise on aspects of his proposal, but that the final health care package must provide "comprehensive health care security for all Americans, or the endeavor will not have been worth the effort."

Five weeks have passed since the outline of the administration plan was leaked and the actual presentation of the legislation. That delay, in the view of some, has dearly cost the administration, as critics have used the hiatus to attack the proposal.

"Clearly, the delay has hurt Clinton. A number of congressmen have commented that the President lost momentum," said Ken Feltman, executive director of the Employers Council on Flexible Compensation in Washington.

The delay also gave authors of rival reform bills, like Rep. Jim Cooper, D-Tenn., time to gather support for their proposals.

Indeed, Rep. Cooper, who would require employers to offer, but not pay for coverage, says his bill has garnered so much support "that it is scaring people half to death at the White House."

Still, while the administration may have lost momentum, that loss is not irreversible, some say.

"The administration lost momentum, but that can be quickly made up," said Sylvester Schieber, director of The Wyatt Co.'s Research and Information Center in Washington. BI

Clinton HMO proposal raises concerns

A new provision in the Clinton administration's health care plan that would provide consumers greater flexibility in choosing physicians would weaken the managed care concept underpinning health care reform, health maintenance organization executives say.

The administration's reform legislation, unlike an earlier draft of the plan made public in September, would require HMOs to offer point-of-service plans.

The provision would allow HMO enrollees to obtain primary care, prenatal care and case management services, in addition to more specialized services, from non-network providers. The legislation doesn't explain what case management would encompass, and HMO executives said they were bewildered by the wording.

Under the proposal, HMOs could not impose any coinsurance requirements or deductibles on enrollees who obtain non-specialty care from non-network providers. For specialty care obtained outside the network, HMOs could require a coinsurance requirement equal to 20% of the charge that area physicians would be allowed to bill patients enrolled in fee-for-service plans. HMOs would pay the remainder.

Many HMOs that now offer POS plans impose deductibles and a 30% coinsurance requirement for out-of-network care, said Candace Schaller, director of policy for the Group Health Assn. of America, an HMO trade group in Washington.

"The way this has been structured is different than the way POS plans are structured," she said of the Clinton proposal.

The Clinton plan would allow HMOs to charge higher premiums for POS products, but it does not spell out how much higher.

HMO executives are most troubled by quality-of-care questions they say the new provision raises.

The provision creates an incentive for enrollees to obtain out-of-network care because enrollees would not be penalized in many instances, the executives argue. "If you put a lot of major services into a POS with no deductibles and coinsurance, you're obviously putting in a lot of incentives for people to go out-of-network," explained Robert J. Erickson, senior vp with Kaiser Foundation Health Plan Inc. of Oakland, Calif.

As a result, HMOs' ability to prevent unnecessary and excessive care would be curbed.

"It allows a lot of guys who are practicing on the edge of good medicine to continue practicing," said Dr. Lee N. Newcomer, vp-health service operations for United HealthCare Corp. of Minneapolis.

"What troubles me most is the inability to be accountable for the quality of health care our members would be receiving," said Richard Lipeles, executive vp of PacifiCare Health Systems of Cypress, Calif.

—By Dave Lenckus

Hope for self-insurers

Changes to aid self-insurers still possible in Clinton plan

By MICHAEL SCHACHNER

BOSTON—President Clinton's new health care bill may not be the administration's last word on self-insurance.

As it was introduced in Congress last week, the bill leaves little room for most companies to self-insure, but ultimately the proposal may be revamped to allow many firms to keep self-insuring, said Victor Zonana, an assistant deputy secretary in the Department of Health and Human Services.

Right now the administration is locked in a "great debate" over how self-insurance will fit into a reformed system, he said.

Acknowledging that requiring employers with fewer than 5,000 employees to join health alliances is a "threat to self-insurance as you know it," Mr. Zonana said officials from President Clinton on down are still listening to arguments and alternatives.

At the recent the Self-Insurance Institute of America conference, he tried to soothe an angry and nervous audience.

"We understand that the 5,000-employee minimum is not popular with this audience. You have made that very clear, and that number is not set in stone. Five thousand is not the last word, especially if you continue to persuade us that it's inappropriate."

But 5,000 was not the first word either. Mr. Zonana pointed out that administration health planners started out higher and were unlikely to go as low as the several hundred favored in business circles.

"The principle behind 5,000 is to build pools that sufficiently spread risk. That's why this number was chosen and why we don't want to go to 100 or even 500," Mr. Zonana said.

Regardless of what size companies are allowed to self-insure, he assured benefit managers and third-party administrators that they would play a role in the reformed health system. "You will not be forced out of work," he said, without specifying what role TPAs that service small to midsize self-insured companies would perform.

After attempting to assuage the fears of most SIIA members, Mr. Zonana went on to say that the new system will provide choice and will stress prevention.

"Now, many people have only one choice of coverage. We plan to offer fee-for-service, HMOs and PPOs. And, prevention of illness will be a high priority. We all know that preventable illness is a main reason why health care costs are up. Our hope is that universal primary care will prevent needless sickness and heartbreak," he said.

Turning to financing, Mr. Zonana said even he was surprised to see that the Clinton plan could cover 37 million currently uninsured Americans without raising income tax rates.

"But when you see the numbers, you'll understand it better," he promised, explaining that it will be financed entirely by Medicare savings, employer and employee premiums, and payments from those currently uninsured.

"Small businesses, many of which cannot afford to buy health insurance, will benefit tremendously through subsidies," he added.

One questioner asked why the president appeared committed to overhauling a system that, the questioner said, was ailing in only limited areas.

What President Clinton is proposing is not a total revamping, countered Mr. Zonana. "We're trying to build on what exists now. We're trying to get some-

Continued on next page

Nearly 2,000 gather at SIIA conference

BOSTON—With a theme of "One if by Mandate...Two if by Choice," between 1,750 and 2,000 people affiliated with the self-insurance industry gathered in Boston Oct. 20-22 for the 13th annual Self-Insurance Institute of America conference.

The underlying message at this year's conference was that the Clinton administration's health reform proposal seriously jeopardizes the future of self-insurance and the industries that serve self-insurers.

During several general sessions, speakers from all facets of the health care and workers compensation industries urged self-insurers, reinsurers and third-party administrators to band together to persuade Congress and President Clinton not to enact a health care reform plan that would limit the role of self-insurance.

Meanwhile, about 145 exhibitors displayed their wares at this year's conference.

The SIIA will hold its 1994 conference Oct. 5-8 at the Hyatt Regency Hotel in Chicago.

For more information, contact the SIIA at P.O. Box 15466, Santa Ana, Calif. 92705; 714-261-2553; fax: 714-261-2594.

For information about the Coalition to Preserve Self-Insurance, call 800-870-8070.

Self-insurance

Continued from previous page
where between pure managed competition and a single-payer plan. We want to reform medical malpractice and improve networks in rural areas. We think we can do this," he said.

Presenting a leading alternative to the president's bill was Laura Steeves, legislative assistant for Sen. John Danforth, R-Mo., a member of the Senate Republican Health Care Task Force.

That group's reform proposal centers on "keeping the private sector's role vital," she said.

"I think there is a lot of skepticism about the government's eventual role in health care reform. Therefore, we must scrutinize all proposals so that when one is finally put into place, it's actually workable," she said.

"While we seek universal coverage and cost containment, we're more reliant on the private sector to accomplish this." For example, the Republican plan would rely on "employer innovation and the realization that we can't do everything for everybody," she said.

Specifically, employers would have to offer a standard benefits package, "not one developed by Congress but one designed by an appointed benefits commission."

"Once this package is agreed upon, everyone will have to offer it," Ms. Steeves said, adding that the package will have cost-containment incentives built into it.

But, while the GOP plan would require individuals to buy cover age through employers, it would not require employer contributions.

"Having employers pay 80% of average weighted premiums as the Clinton plan calls for leaves no incentive to control costs internally, because the employer won't benefit. While we don't like the idea of an employer mandate to begin with, something has to be there so we can eliminate the cost-shifting that's occurring due to uncompensated care," she said.

Ms. Steeves also expressed concern that employer contributions under the Clinton plan would be capped at 7.9% of payroll. "Under this scenario, if health care costs grow faster than payroll, which has been occurring in every year, you run the risk of the government having to come in and subsidize employers." BI

Florida bills

Continued from page 1
said Ed Litton, vp of government affairs and risk management at Kash N' Karry Food Stores in Tampa.

Mr. Litton is helping to organize a lobbying trip next week to Tallahassee for 50 to 75 members of the Florida chapter of the Risk & Insurance Management Society Inc. "We're just going to walk the halls," said Mr. Litton, who regularly lobbies the Legislature on behalf of Kash N' Karry. "Sheer numbers impress (the lawmakers), particularly groups of constituents. They take them more seriously than just one or two."

Susan Wood, risk coordinator at Collier Enterprises, a Naples, Fla.-based real estate development and agribusiness company, will be part of the RIMS delegation. "I can't sit back and complain about what they're doing in Tallahassee if I'm not in Tallahassee doing something about it. I consider it part of my job."

Regulators, too, are doing their best to keep the pressure on legislators to focus on insurance issues.

Insurance Commissioner Tom Gallagher has tied workers comp rate changes to the outcome of the reform efforts.

The proposed reforms now before the Legislature justify a 19.5% rate reduction, Mr. Gallagher said. If the Legislature passes reforms that would lead to even greater savings, rates will be adjusted again.

Mr. Gallagher already has approved, pending passage of a workers comp reform bill, an average 14.4% decrease for employers in the voluntary market and an 18.4% increase in the assigned risk pool. And, the residual market increase would be eliminated if the Legislature creates a workers comp JUA to replace the residual market, as Mr. Gallagher and others have proposed.

If no reforms are passed, Mr. Gallagher will order a 6% rate increase for the voluntary market and a 47% increase for the assigned risk pool.

The National Council on Compensation Insurance had requested a 13.8% increase for the voluntary market and a 57.7% increase for the assigned risk plan.

In all, four workers comp reform packages have been proposed, but they share many key elements.

The proposals are "75% identical," Mr. Miller said. Areas of agreement include the use of managed care in workers comp, elimination of "doctor-shopping" and reducing the residual market loadings.

Aspects of Mr. Gallagher's workers comp proposal include:

- Providing all workers comp medical services through health maintenance organizations by March 1, 1995. Pilot projects will also be conducted to permit 24-hour coverage.
- Adopting a single provider reimbursement manual.
- Eliminating work hardening, pain management and weight-loss clinics from workers comp coverage.
- Reducing attorneys' fees and mandating mediation.
- Establishing a workers comp appeals commission.
- Classifying workers comp fraud as an offense under the state's Racketeer-Influenced and Corrupt Organizations act.

One of the most controversial elements of all of the proposals calls for the creation of the workers comp JUA, which would be self-funded as far as possible but ultimately subsidized by "all insuring entities," including self-insured employers and pools.

'Sheer numbers impress (lawmakers), particularly groups of constituents,' says Ed Litton.

"The current allocation of the assigned risk deficits is the sole responsibility of the commercial insurers in the Florida voluntary market," Kemper's Mr. Bailey said. "The assessments have reached the point that commercial insurers cannot afford to write the amount of business we have written in the past. With the decline in market share, insurers can't continue to absorb the weight of the assigned risk pool."

Large, individually self-insured companies could not practically be included in such a scheme, Mr. Bailey conceded. So, the ideal solution would be a residual market with actuarially sound rates paid by policyholders, he added.

Self-insured employers vehemently oppose paying a share of the residual market burden.

"Because our members have joint and several liability, they take on far more burden than their counterparts in the open insurance market," said Mike Reid, president of the Florida Assn. of Self-Insurance and vp and director of marketing at Florida Administrators Inc., a North Palm Beach-based third-party administrator.

The association is also against transferring the oversight of self-insured companies to the Department of Insurance from the Department of Labor.

"We are not insurance companies," Mr. Reid said. "Insurance by its nature involves transfer of risk. We keep the risk ourselves."

However, the FASI would be open to the establishment of an independent guaranty fund for workers comp self-insurers, he said.

Meanwhile, the House Insurance Committee last week released its version of a bill to address the state's property insurance crisis.

The proposal would activate a commercial lines JUA to provide master policies for condominiums and apartment buildings through July 1, 1996. The JUA must be activated by legislative action, because the Florida surplus lines industry has blocked Mr. Gallagher's efforts to do it by decree.

Not included in the package is a provision that would allow the Insurance Department to force an insurer seeking to withdraw from the residential property market to pull out of all other lines.

The House committee endorses restricting cancellations or nonrenewals to 5% of an insurer's total statewide number of insured homes per year for three years. Previous proposals limited nonrenewals to only 5% of the homes insured in districts to be drawn by the Insurance Department.

That would have effectively extended the moratorium on non-renewals, noted FINS' Mr. Miller.

With the other items on the agenda, some fear the Legislature may do that anyway.

That move would "artificially suppress the actions some companies have to take or not be around," Mr. Martinez said.

The current catastrophe insurance fund proposal has little in common with one unveiled by a coalition of insurers earlier this year (*BI*, Aug. 23)

Under the House proposal, the fund would reinsure 75% of hurricane claims paid by an insurer if hurricane losses in a given year exceed twice the property premiums written by the company the previous year.

The fund would be financed by assessments on property insurers.

Under the insurer-supported cat fund proposal, policyholders would pay a premium surcharge to finance a fund that would pay 30% of all hurricane claims beginning July 1, 1994. That percentage would rise to 50% by Jan. 1, 1998.

Despite the differences, the proposed cat fund "could still be very helpful in stabilizing the market and attracting new companies to the state," Mr. Martinez said. "It isn't what we had hoped for, but it's far better than doing nothing." BI

Update

Hospital liable for doctor's acts

Continued from page 2
The justices cited a Wisconsin Supreme Court decision that "a patient who is unaware that the person providing treatment is not the employee or agent of the hospital should have a right to look to the hospital in seeking compensation for any negligence in providing emergency room care."

However, the Illinois Supreme Court also held that "if a patient knows, or should have known, that the treating physician is an independent contractor, then the hospital will not be liable."

Anti-discrimination rule barred

AUSTIN—A Texas court has thrown out a rule adopted by the Texas Board of Insurance that makes it illegal for insurers to set rates that have the "purpose or effect of discriminating."

The decision, handed down Friday by a Travis County District Court judge, declares the rule void and permanently enjoins the board from enforcing the rule.

The so-called anti-discrimination rule was passed Aug. 31 in the waning days of the board's rulemaking authority. State Farm Group, along with three insurer organizations and 12 insurers, filed suit Sept. 27 to block enforcement of the rule (*BI*, Sept. 27).

Insurers had argued that the rule—which would allow consumers to sue insurers if they perceive discriminatory treatment—would subject insurers to countless lawsuits. And, they argued that the rule would prevent insurers from serving niche markets.

The Texas Department of Insurance has not decided if it will appeal.

AIG earnings increase

NEW YORK—For the second straight quarter, earnings rose substantially at American International Group Inc. despite big losses in its derivatives division.

AIG reported last week that third-quarter net income increased 33.1% to $451.1 million. That came despite a pretax charge of $90 million for losses at AIG Financial Products Corp., which specializes in derivatives—financial instruments with a value based on the value of other financial instruments, like interest rate futures.

During the second quarter, AIG took a $125 million charge related to AIGFP, but earnings still increased 14.8% from 1992 to $481.6 million.

"We believe our recent changes (in management at AIGFP) have strengthened the company for the long term. . . .We believe no further significant charges will be necessary in future periods," the company said in a statement.

Briefly noted

Ronald W. Forrest announced he will retire Jan. 1 from Alexander & Alexander Services Inc. He last week relinquished his duties as chairman and chief executive officer of retail broker Alexander & Alexander Inc. Lawrence E. Burk, global managing director-business development, will assume those responsibilities. Mr. Forrest will serve as a senior vp of A&A Services until year-end. . . .Catastrophes caused an estimated $755 million in **insured property damage** during the third quarter of 1993, according to the Property Claim Services division of the American Insurance Services Group. Through September, insurers have sustained about $4.8 billion in catastrophe-related losses, making 1993 the third-highest year on record in terms of property claims paid, PCS says. . . .Bermuda-based **Mutual Risk Management Ltd.** has completed a previously announced three-for-two split of its common stock, effective for shareholders of record as of Sept. 30. . . .In an initial public offering, **PartnerRe Holdings Ltd.** priced 32.5 million common shares of stock at $20 per share. PartnerRe is the parent of Partner Reinsurance Co. Ltd., a Bermuda-based property catastrophe reinsurer owned primarily by Swiss Reinsurance Co. and John Head & Partners L.P. (see story, page 3). Proceeds of the sale will be allocated to Partner Reinsurance's capital. . . .U.S. District Court Judge Lowell Reed last week ruled that the proposed class-action **asbestos personal injury settlement** between the Center for Claims Resolution and three key plaintiffs' attorneys is fair and that class members can begin receiving details of the settlement (*BI*, Jan. 25). . . .E.I. du Pont de Nemours & Co. Inc. will appeal a pair of Florida jury verdicts awarding an exotic-flower grower and a tomato farmer more than $3 million for damages caused by the company's **Benlate DF fungicide.** The state court verdicts, issued a day apart last week, bring the number of federal and state court Benlate rulings against Du Pont to four, with damages totaling nearly $17 million. . . .Joe L. Stinnette has been named president and chief executive officer of Novato, Calif.-based **Fireman's Fund Insurance Co.** Mr. Stinnette succeeds Herbert Hansmeyer, who recently was named to the board of management of parent Allianz A.G. in Munich. Mr. Stinnette was most recently chief administrative officer. Mr. Hansmeyer will continue as Fireman's Fund's chairman. . . .Ruling in a suit by a Reuters editor, a U.K. High Court judge last week effectively denied the existence of **repetitive strain injuries,** concluding that the man's injuries were more likely caused by pressure from colleagues and an inferiority complex. . . .Insurance industry consumer activist **J. Robert Hunter** will be sworn in as Texas insurance commissioner Wednesday. Kathleen O'Reilly, former executive director of the Consumer Federation of America, was named interim counsel and policy director of the National Insurance Consumer Organization following Mr. Hunter's resignation. . . .Reps. Dan Rostenkowski, D-Ill., and William Ford, D-Mich., introduced legislation, H.R. 3396, last week to shore up the financial base of the **Pension Benefit Guaranty Corp.** by boosting premiums paid to the agency by employers with underfunded plans and accelerating employer contributions to underfunded plans.

Superfund study

Continued from page 2

perfund law, officially known as the Comprehensive Environmental Response, Compensation and Liability Act of 1980, "felt the public was so outraged (by pollution) that basic concepts of fairness could be discarded," said Dennis Connolly, a J&H senior vp.

"That perception is, at least now, wrong. It may always have been wrong," he said. "The public has a much more reasonable attitude than. . .they were given credit for."

The survey, published in the journal Risk Analysis, included 433 respondents, among them: 60 chief executives of oil and chemical companies; 57 economists; 94 environmentalists; 29 experts on hazardous waste policy; 89 judges; and 104 legislators.

The survey tested respondents' attitudes toward Superfund's strict liability, retroactive liability and joint and several liability standards by posing a number of hypothetical cases and asking how the respondents would allocate cleanup costs to corporations and the government.

Respondents were asked, for example, how they would treat a company that failed to follow existing government standards for waste disposal vs. a company that disposed of waste before standards were in place and believed the waste to be harmless.

Among other things, the survey found that:

- Only 18% of the respondents imposed strict liability, requiring a company to pay 100% of cleanup costs regardless of the facts of each hypothetical case. Even among solely the environmentalist respondents, only 21% imposed strict liability.

By contrast, 71% of the respondents imposed partial liability, with a company's liability reduced by its compliance with government standards, use of best available pollution control technology or other precautions not legally required.

- When two companies were involved in a hypothetical cleanup, most respondents allocated costs based on the proportion of waste each company deposited rather than company size. But, if the amount of waste each deposited was unknown, most respondents assigned a larger share of costs to the larger company.
- If one of the companies has gone out of business and can't pay its share, most respondents assigned all or part of that share to the government rather than the second company.
- Only 26% of the sample subscribed to the joint and several liability doctrine by assigning all of the costs to the surviving company.
- Many of the respondents showed a "zero-risk" bias in hypothetical cases involving cancer deaths attributed to pollution, preferring total cleanup of one site even when more lives could be saved by using the same money on partial cleanups at two sites.

This finding suggests "a psychological basis" for Superfund's "inefficient" strategy of requiring complete cleanups, the survey found.

"We have to do a better job of educating people on how to overcome this bias so their decisions are more rational," Mr. Connolly observed.

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Copies of the survey are available from Doris Sumpter, Corporate Communications, Johnson & Higgins, 125 Broad St., New York, N.Y. 10004; (212) 574-7026.

IRI reorganization

Continued from page 2

plan was implemented in July, when IRI informed brokers it would run off high-hazard oil and petrochemical risks as of Dec. 1. Those classes of business have caused IRI a higher level of losses in recent years than weather-related losses, Mr. Norstrom said.

IRI has also changed underwriting terms and conditions for public utilities, though it would not discuss them.

Difficulty in obtaining property catastrophe reinsurance had little to do with the changes at IRI, Mr. Norstrom said.

"We have such a large retainer that our main job is to make a profit on our own pen," he said. "If IRI underwrites well and services well, our reinsurers profit as well."

The business plan took into account a modestly firming property insurance market in 1994, Mr. Norstrom said.

Increasing competition from IRI member companies was also not a factor, he said.

Under the IRI's new plan, loss prevention will be split from underwriting into separate technical service centers.

"Our loss-prevention organization has two clients," Mr. Norstrom said. "The first is the risk manager and broker looking for help in quantifying the risk and looking for solutions. The second is the plant manager or engineer looking for the best advice to prevent losses.

"Often there is not a great deal of linkage between the risk manager and the people running the factories," he explained.

Account executives, who work with risk managers and brokers, will be given greater authority in the reorganization.

"On the underwriting side, we have been rather hierarchical," Mr. Norstrom said. "We had three regions with a military-style organization."

Account executives, loss-prevention engineers and underwriters will continue to work together, Mr. Norstrom stressed.

The new structure is "designed to foster an atmosphere of teamwork rather than an 'us vs. them' mentality," he noted.

And, underwriters have been given guidelines on identifying smaller accounts with growth potential.

"We want to find the next General Motors, Motorola or Eli Lilly," Mr. Norstrom said. "We want to develop an HPR relationship early with growing modern companies with innovative and desirable products."

Effective March 1, 1994, IRI will be divided into eight areas.

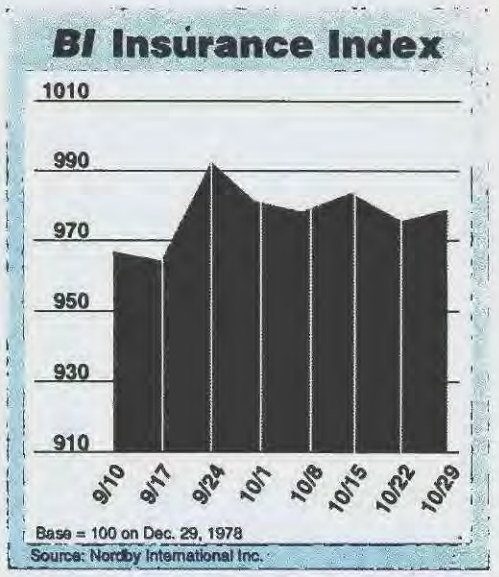
The home office in Hartford will also be the headquarters for the global special risk division, which handles international business, diversified manufacturing business with significant chemical exposure, utilities and paper and pulp business.

IRI will also have seven geographic regions with headquarters in Atlanta, Chicago, Dallas, Hartford, New York, Philadelphia and San Francisco. Satellite offices will be located in Boston, Charlotte, Cleveland and Los Angeles.

Management changes are preceding the organizational ones.

Harry Coor has been promoted to executive vp in charge of all underwriting operations. Marshall N. Swann has been named senior vp overseeing the seven geographic regions.

Frank S. Teterus has been named vp in charge of global special risk. Mark Tschiegg is now vp with responsibility for the technical service centers. BI



Insurance stocks rebounded last week, as the *Business Insurance* Index gained 4.0 points to 979.0 Oct. 29 from 975.0 on Oct. 22. Advancing issues for the week were led by: Seibels Bruce Group, up 20.0%; Provident Life, up 12.3%; and US Facilities Corp., up 12.2%. Declining issues for the week followed: Gainsco Inc., down 16.5%; Guaranty National Corp., down 11.5%; and Statesman Group Inc., down 10.5%. The most active issue was U.S. Healthcare, 5.7 million shares traded. The *BI* Index edged up 0.4%; the Dow Jones 30 Industrials increased 0.9%; the NYSE Composite rose 0.9%; and the Standard & Poor's 500 gained 1.0%.

British Issues

Oct. 28 Companies	Price pence	P/E	Div. pence	Yield %	1 week High—Low pence	pence
Comml Union	648	N/M	29.8	4.6	648—641	
Genl Accident	719	N/M	33.8	4.7	719—706	
Gdn Royal Exch	215	N/M	9.0	4.2	219—213	
Royal	320	N/M	8.0	2.5	320—314	
Sun Alliance	371	N/M	17.8	4.8	381—371	
Brokers						
Bradstock	137	16.1	6.4	4.7	137—135	
CE Heath	408	19.6	20.0	4.9	408—406	
Hogg Group	166	18.4*	10.4	6.3	167—165	
JIB Group	175	17.2	9.5	5.4	175—175	
Lloyd Thmpson	301	20.3	8.4	2.8	301—295	
Lowndes Lmbrt	431	15.7	16.8	3.9	431—429	
PWS Holdings	70	10.4	5.0	7.1	70—67	
Sedgwick Grp	184	22.1	7.5	4.1	184—182	
Steel Brl Jones	152	N/M	15.0	9.9	152—151	
Willis Corroon	212	19.8	8.3	3.9	220—211	

Source: Philip Olsen, London * Estimated

BI Industry Stock Report

OCT. 25, 1993 THROUGH OCT. 29, 1993

BROKERS

		Price	Weekly % change	Year to date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt./Bk. value
Acordia Inc.	NYS	24.88	1.02	15.70	27.63	17.38	116	0.44	1.77	14	9.57	2.60
Alexander & Alexander	NYS	20.63	5.77	-22.17	28.88	18.75	301	1.00	4.85	22	5.02	4.11
E.W. Blanch Holdings Inc.	NYS	22.50	-3.23	N.A.	23.50	16.50	26	0.00	0.00	28	3.60	6.25
Gallagher Arthur J. & Co.	NYS	37.00	6.47	30.97	37.38	25.50	132	0.00	0.00	19	6.26	5.91
Hilb, Rogal & Hamilton	NYS	12.25	-2.97	-21.60	16.88	11.38	104	0.44	3.59	19	2.73	4.49
Marsh & McLennan	NYS	81.50	-2.10	-10.81	97.63	81.50	759	2.68	3.29	18	15.03	5.42
Poe & Brown	OTC	20.00	1.91	19.40	21.25	13.50	27	0.40	2.00	34	2.60	7.69
BROKERS	AVERAGE	1.0	1.9				2.2	22				

INSURERS/REINSURERS

		Price	Weekly % change	Year to date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt./Bk. value
ACE Ltd.	NYS	32.50	-3.70	N.A.	36.00	25.50	313	0.40	1.23	8	25.37	1.28
Acceptance Insurance Cos.	NYS	14.50	-1.69	50.65	15.63	8.25	79	0.00	0.00	16	9.11	1.59
AEGON N.V.	NYS	51.75	1.47	24.32	51.75	40.38	49	1.22	2.36	10	32.78	1.58
Aetna Life & Casualty	NYS	65.75	5.20	41.40	65.75	41.75	1008	2.76	4.20	36	65.43	1.00
Allied Group Inc.	OTC	29.50	-1.67	39.37	32.75	18.16	538	0.52	1.76	9	10.45	2.82
Allmerica Prop. & Casualty	NYS	59.88	3.90	18.56	62.50	47.00	137	0.44	0.73	5	46.94	1.28
Allstate Corp.	NYS	31.38	-5.28	N.A.	34.25	27.13	1663	0.72	2.29	15	12.26	2.56
American General	NYS	29.38	-3.69	3.07	36.50	25.31	2229	1.08	3.68	12	21.31	1.38
American Heritage Life Ins.	NYS	19.75	-0.63	-2.07	25.34	18.50	100	0.60	3.04	13	12.44	1.59
American Indemnity/Fin'l	OTC	13.50	-6.90	125.00	16.25	5.75	57	0.12	0.89	4	16.18	0.83
American International	NYS	90.00	0.14	16.38	100.25	71.75	4451	0.40	0.44	16	40.25	2.24
American RE Corp.	NYS	28.88	-5.33	-21.96	41.75	28.63	718	0.00	0.00	23	6.67	4.33
Aon Corp.	NYS	52.00	-2.58	-3.70	58.50	47.75	526	1.80	3.46	17	31.79	1.64
Argonaut Group	OTC	33.00	-0.75	8.20	35.50	27.50	67	1.00	3.03	11	25.52	1.29
AVEMCO Corp.	NYS	20.75	2.47	-11.23	25.50	16.75	18	0.44	2.12	17	7.75	2.68
Baldwin & Lyons Inc.	OTC	44.00	1.73	20.55	45.00	32.00	3	0.60	1.36	11	34.75	1.27
Berkley W.R. Corp.	OTC	38.75	-0.32	-9.88	50.50	36.75	110	0.40	1.03	15	26.31	1.47
Berkshire Hathaway Inc.	NYS	17200.00	-1.43	46.38	17800.00	9375.00	1	0.00	0.00	-	7742.67	2.22
Chandler Insurance	OTC	4.13	-2.94	-13.16	5.25	3.50	5	0.00	0.00	16	8.87	0.47
Chubb Corp.	NYS	82.13	0.46	-7.59	96.38	79.50	1236	1.72	2.09	19	45.65	1.80
CIGNA Corp.	NYS	67.13	4.07	14.50	68.00	50.38	850	3.04	4.53	11	79.82	0.84
CNA Financial Corp.	NYS	83.00	0.76	-15.31	102.88	82.13	69	0.00	0.00	-10	75.07	1.11
Continental Corp.	NYS	32.63	5.24	21.40	34.63	24.38	919	0.00	0.00	18	34.73	0.94
EXEL Ltd.	NYS	45.13	-3.99	-4.50	52.25	42.00	486	1.20	2.66	7	29.54	1.53
Fremont General Corp.	NYS	26.38	0.96	-23.55	28.75	16.84	291	0.72	2.73	9	19.81	1.33
Frontier Insurance Group	NYS	50.00	3.09	14.94	50.00	31.81	26	0.60	1.20	17	14.78	3.38
Gainsco Inc.	ASE	10.13	-16.49	-28.32	17.69	9.66	660	0.04	0.40	13	3.27	3.10
General RE Corp.	NYS	115.75	-0.75	0.00	133.38	107.25	773	1.88	1.62	16	49.90	2.32
Guaranty National Corp.	NYS	21.25	-11.46	7.59	24.75	16.63	32	0.48	2.26	12	10.44	2.04
Harleysville Group	OTC	26.50	-1.85	-6.19	32.75	22.63	208	0.64	2.42	16	18.35	1.44
Hartford Steam Boiler	NYS	48.13	3.22	-16.67	59.88	43.75	205	2.12	4.41	56	18.03	2.67
HCC Insurance Holdings	OTC	32.50	0.00	60.49	33.75	14.75	116	0.00	0.00	29	10.12	3.21
ITT (Hartford Group)	NYS	93.13	0.00	29.34	94.75	64.75	836	1.96	2.10	-	55.03	1.69
Kemper Corp.	NYS	38.00	-1.62	28.27	43.00	21.63	632	0.92	2.42	-7	33.69	1.13
Lawrence Insurance Group	ASE	5.13	-2.38	-40.58	9.00	4.00	1	0.16	3.12	-	4.17	1.23
Liberty Corp.	NYS	26.38	-8.66	-6.64	34.75	25.00	276	0.56	2.12	10	20.00	1.32
Lincoln National	NYS	45.50	-3.96	-37.78	48.25	33.13	714	1.52	3.34	11	31.41	1.45
Markel Corp.	OTC	39.75	1.27	27.20	40.50	27.75	35	0.00	0.00	12	20.21	1.97
Mid Ocean Ltd.	OTC	29.00	-2.11	N.A.	34.75	25.00	1647	0.00	0.00	24	20.24	1.43
Mutual Risk Mgmt. Ltd.	NYS	30.38	4.74	12.50	30.66	21.16	124	0.28	0.92	24	11.39	2.67
NAC Re Corp.	OTC	30.75	-3.91	-24.07	44.75	29.25	1357	0.16	0.52	17	17.23	1.78
National Re Corp.	NYS	33.38	3.49	12.66	39.63	27.00	189	0.12	0.36	10	14.18	2.35
Navigators Group	OTC	38.75	7.64	19.23	38.75	28.50	6	0.00	0.00	27	16.99	2.28
Nobel Insurance LTD.	OTC	6.75	0.00	14.89	8.25	4.50	59	0.00	0.00	3	6.84	0.99
NWNL Companies	NYS	34.00	-2.51	33.66	38.75	18.81	421	0.80	2.35	14	21.65	1.57
Ohio Casualty Corp.	OTC	64.75	-3.72	2.57	72.00	59.25	151	2.84	4.39	12	45.85	1.41
Old Republic Int'l	NYS	24.50	-1.01	-1.51	27.63	21.50	249	0.44	1.80	8	21.06	1.16
Orion Capital Corp.	NYS	42.50	-3.95	20.14	46.88	29.81	51	0.88	2.07	9	24.32	1.75
Phoenix RE Corp.	OTC	34.25	-2.14	117.46	38.25	12.75	264	0.20	0.58	-	11.88	2.88
Provident Life	NYS	30.75	12.33	7.89	31.50	24.75	298	1.04	3.38	12	30.72	1.00
Re Capital Corp.	OTC	14.50	-4.92	-12.12	16.63	13.25	21	0.28	1.93	21	14.76	0.98
Reliance Group Holdings	NYS	9.25	-5.13	51.02	10.38	4.88	621	0.32	3.46	3	2.99	3.09
RLI Corp.	NYS	25.00	0.50	1.01	28.63	22.50	19	0.56	2.24	12	18.62	1.34
St. Paul Companies	NYS	93.75	-1.32	21.75	98.00	67.88	749	2.80	2.99	-43	52.24	1.79
SAFECO Corp.	OTC	58.00	-5.69	2.20	66.75	54.75	2949	1.80	3.10	11	38.95	1.49
SCOR U.S. Corp.	NYS	15.25	-1.61	-12.86	20.75	14.88	41	0.32	2.10	-	14.69	1.04
Seibels Bruce Group	OTC	1.50	20.00	-20.00	2.50	0.31	256	0.00	0.00	0	1.90	0.79
Selective Ins. Group	OTC	30.75	0.41	39.77	31.00	20.50	92	1.12	3.64	23	22.92	1.34
Sphere Drake Holdings	OTC	18.13	-2.68	N.A.	21.63	18.13	155	0.00	0.00	-	N.A.	N.A.
Statesman Group Inc.	OTC	13.88	-10.48	15.63	16.50	8.50	869	0.20	1.44	6	8.65	1.60
TIG Holdings	NYS	23.88	-7.28	N.A.	28.00	22.88	752	0.20	0.84	-8	17.14	1.39
Tokio Marine & Fire	OTC	61.50	2.29	28.13	67.00	43.25	2	0.37	0.60	-	57.72	1.07
Torchmark Corp.	NYS	46.38	-7.71	-18.28	64.75	45.00	1735	1.12	2.42	13	15.15	3.06
Transatlantic Holdings	NYS	52.88	-0.70	-5.79	61.50	49.00	93	0.28	0.53	17	24.57	2.15
Travelers Corp.	NYS	35.25	0.00	29.36	38.88	22.38	3956	1.60	4.54	-9	31.77	1.11
Trenwick Group Inc.	OTC	42.00	-2.89	3.07	49.75	37.25	137	0.88	2.10	13	26.00	1.62
United Fire & Casualty	OTC	37.75	2.03	-9.04	43.00	34.75	2	1.00	2.65	-	28.96	1.30
Unitrin	OTC	45.00	-0.28	5.26	46.75	36.25	250	1.40	3.11	15	37.69	1.19
UNUM Corp.	NYS	51.50	-1.67	-2.83	60.13	46.00	1816	0.80	1.55	13	21.25	2.42
US Facilities Corp.	OTC	13.75	12.24	37.50	13.75	6.50	279	0.00	0.00	16	10.48	1.31
USF&G Corp.	NYS	13.63	-0.91	10.10	19.63	11.13	1314	0.20	1.47	-	9.63	1.41
USLICO Corp.	NYS	17.63	0.00	-2.08	20.00	15.00	82	0.24	1.36	-5	23.61	0.75
USLIFE Corp.	NYS	42.13	-6.39	16.21	45.75	31.66	188	1.24	2.94	12	39.48	1.07
Washington National	NYS	23.50	-4.08	2.17	28.00	21.63	258	1.08	4.60	11	28.84	0.81
Zenith National Ins.	NYS	26.25	-2.78	32.91	29.25	16.50	36	1.00	3.81	17	15.82	1.66
Zurich Reinsurance Centr.	NYS	31.00	-1.59	N.A.	36.38	30.00	136	0.00	0.00	-	23.99	1.29
INSURERS/REINSURERS	AVERAGE	-1.0	11.1				1.9	10.3				

HEALTH MAINTENANCE ORGANIZATIONS

		Price	Weekly % change	Year to date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt./Bk. value
FHP International	OTC	19.50	-2.50	-2.50	30.00	16.75	1225	0.00	0.00	15	9.50	2.05
Pacificare Health Sys.	OTC	31.75	1.60	-37.75	57.50	25.50	122	0.00	0.00	15	3.90	8.14
Safeguard Health Enter.	OTC	10.25	-1.20	5.13	12.25	7.75	24	0.00	0.00	12	5.04	2.03
Sierra Health Services	ASE	16.38	-3.68	-24.28	22.00	11.50	453	0.00	0.00	13	1.73	9.47
TakeCare Inc.	OTC	44.75	7.83	0.56	50.25	25.75	268	0.00	0.00	16	13.84	3.23
United Healthcare Corp.	NYS	69.88	4.68	22.86	70.63	40.00	983	0.03	0.04	35	9.45	7.39
U.S. Healthcare	OTC	46.38	6.61	3.92	59.75	36.75	5747	0.64	1.38	19	5.21	8.90
Wellpoint Health Networks	NYS	27.63	5.74	N.A.	39.75	23.00	603	0.00	0.00	16		-
HMOs	AVERAGE	2.4	-6.0				0.2	16				
ALL COMPANIES	AVERAGE	0.8	2.3				2.0	14				

System design: Nordby International Inc.

California fires

Continued from page 1

ers. These adjusters, which claim they can obtain bigger payouts from insurers in exchange for a commission, are the bane of property insurers.

Mr. Garamendi also reminded policyholders of new claims-handling regulations implemented last year that require insurers to provide claims forms within 15 days of notice of a claim and payment 40 days after that.

"We know he's running for governor," remarked one insurance industry source.

While no total damage estimates were available late last week, Orange County authorities pegged structural damage from the Laguna Beach blaze alone at about $270 million.

Insured losses for that fire may be closer to $225 million, said one insurance company official. He said his company's claims will probably average about $750,000 per home in the Laguna Beach area.

The Property Claims Services division of the American Insurance Services Group Inc. has not yet assigned a catastrophe number to the firestorm.

Insurers last week could provide little information on how many of their policyholders' homes had been damaged.

A total of 17 brushfires had swept through eight Southern California counties last week, blackening more than 140,000 acres of brush and destroying or damaging as many as 700 homes.

Miraculously, no deaths have been reported, but as of Friday morning 84 people were injured, including 67 firefighters.

State Farm Group—which, with a 25.7% market share, writes the largest volume of homeowners coverage in Southern California—was among those first on the scene, sending three people, including its public relations officer, from its Bloomington, Ill., home office.

SAFECO Corp. ran a ZIP code check of its policyholders in the Los Angeles area, then telephoned policyholders "to ask if they are OK" and to provide assistance in filing claims, a company spokeswoman said.

Liberty Mutual Insurance Co. last week had already advanced money to a policyholder and was providing assistance to victims in the form of clothing, food, toiletries and other items.

Fireman's Fund Insurance Co. sent 12 adjusters to Laguna Beach while the flames still smoldered and was prepared to send as many as 25.

Chubb Corp. reactivated the computerized catastrophe center it set up—but didn't use—for Hurricane Emily to better track fire claims.

Many other insurers, like the Automobile Club of Southern California Interinsurance Exchange, sent advisories over news wires asking the media to inform the public about where to call to file claims.

"Your help is greatly appreciated in communicating with the victims of this disaster," the insurer urged.

The auto club even promised to help locate the insurance representatives of fire victims it did not insure.

"The industry is mobilizing itself quickly, because we realize our image and performance are measured by our catastrophe response," said Patricia Lombard, executive director of the Western Insurance Information Service in Los Angeles, a unit of the Insurance Information Institute. WIIS held a press conference Thursday.

After the Oakland Hills fire, Mr. Garamendi charged that insurers, among other things, delayed claims payments, misrepresented the value of so-called "replacement cost" policies and forced policyholders to undergo a nightmarish claims adjustment process.

Subsequently, at least six insurers agreed to cover all Oakland Hills fire losses regardless of policy limits. As a result, insured damage from the Oct. 20, 1991, Oakland Hills fire, which destroyed more than 3,000 homes, hit $1.7 billion, up from initial industry estimates of $1.2 billion (*BI*, Oct. 28, 1991).

Since then, "insurers have learned that we didn't say enough, soon enough, clearly enough," said James A. Snyder, president of the Personal Insurance Federation, an insurer association, in hearings called by Commissioner Garamendi in May 1992.

But attorneys already are predicting a repeat of litigation over replacement cost policies, which could increase insurer payouts substantially.

In response to an appeal by California Gov. Pete Wilson, President Clinton declared five counties in Southern California disaster areas: Los Angeles, Orange, Riverside, San Diego and Ventura.

With no rain forecast for the next seven days, "the probability for additional devastation remains high," Gov. Wilson said.

About 15,000 California firefighters were battling the flames, with assistance from the National Guard and the U.S. Marine Corps.

Weather reports for Friday evening predicted a resurgence of the hot, dry Santa Ana winds that fanned last week's fires.

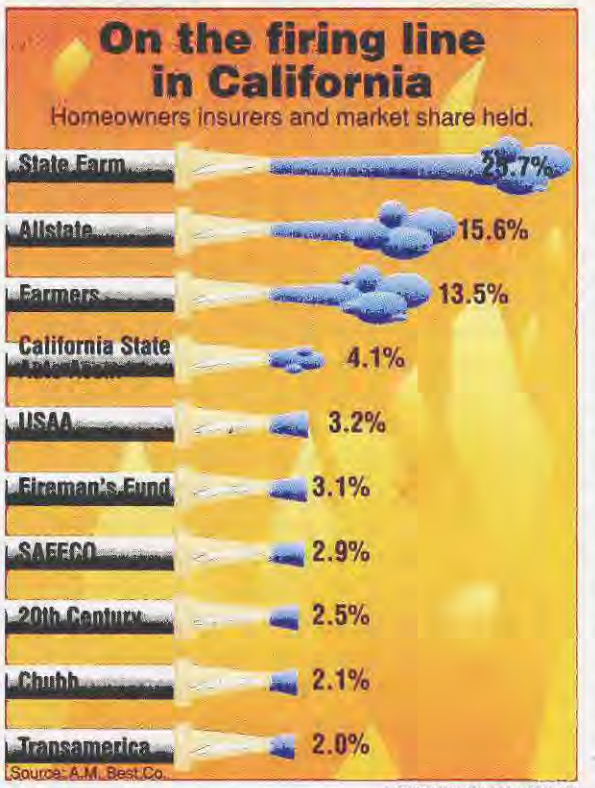
Arson was suspected in at least four of the fires.

A fifth fire that burned 6,000 acres and destroyed at least 90 structures in Altadena was allegedly started by a hapless transient to warm himself.

Some of the other 12 fires were triggered by flying embers.

As of Friday morning, 10 fires were still burning, including: the Ortega Fire near the Ortega Highway in the Cleveland National Forest in south Orange County. That fire burned more than 8,000 acres and destroyed 25 structures; and the Greenmeadow/Malibu fire, which burned 35,000 acres and more than 70 structures.

Among early damage reports:



GRAPHIC BY CHRIS ROY

• Southern California Edison estimated at least $1.4 million in equipment damage and work crew pay, which is expected to rise.

• The transmitter for Ventura County radio station KNJO, valued at tens of thousands of dollars, was destroyed when the wood roof on its cinder-block housing collapsed in flames. The station is covered by Fireman's Fund for property and business interruption damages.

All of the major insurers writing homeowners coverage in Southern California are likely to receive claims. But, Chubb and Fireman's Fund could post the biggest dollar losses because they specialize in the high-end real estate market, according to industry sources.

Many of the homes in Laguna Beach and the Santa Monica Mountains above Malibu are valued in excess of $1 million.

The firestorm could be the first disaster to hit the new property catastrophe reinsurers in Bermuda, though the scope of losses is unknown.

"It's too early for us to say what we think the impact of this is," said Henry Keeling, senior vp for Mid Ocean Reinsurance Co. Ltd. "There isn't enough information at this stage to make an assessment."

"At this point, it's too early to tell," echoed a spokesman for cat facility Renaissance Reinsurance Ltd. BI

For the Record

Texas health reforms target small groups

AUSTIN—The Texas Board of Insurance has proposed more than 200 pages of rules and policy language to implement H.B. 2055, the Small Employer Health Insurance Availability Act of 1993, which was passed in June.

The proposed rules would: require health insurers to offer three standardized health plans in Texas; mandate renewability of coverage; limit pre-existing conditions exclusions; enhance portability; guarantee continuity of coverage; and prohibit exclusion of any specific individuals.

The proposed rules also would create a purchasing cooperative through which small employers may obtain health coverage and would allow small employers to form private non-profit purchasing cooperatives.

The rules would apply to health benefit plans covering employers with three to 50 eligible employees and that already pay for all or part of their health coverage.

A hearing will be held Nov. 18 in Austin for public comment on the rules. The insurance board and the new commissioner, J. Robert Hunter, must approve the rules before they become law.

Rules must be in place by Jan. 1, 1994, when H.B. 2055 becomes effective (*BI*, Aug. 16).

Hartford Steam Boiler to layoff 7.3% of staff

HARTFORD, Conn.—The Hartford Steam Boiler Inspection & Insurance Co. has announced an operating loss of $26.7 million for the third-quarter of 1993 and said it will reduce its staff by 7.3%.

The specialty insurer is taking a $20 million charge related to the restructuring of insurance and engineering services operations, the planned layoffs and office realignment. The remainder of the loss comes from poor loss experience, said Wilson Wilde, the insurer's chairman and chief executive officer.

Hartford Steam Boiler also strengthened its reserves by $19 million.

Three hundred of the insurer's 4,100 employees worldwide will be laid off.

Pension plan changes not discriminatory: Court

CHICAGO—An employer that amended its pension plan twice to exclude benefits for a certain employee is not guilty of discrimination under ERISA, a federal appeals court has ruled.

In *Lane McGath vs. Auto-Body North Shore Inc.*, the 7th U.S. Circuit Court of Appeals on Oct. 18 upheld a district court's decision that the owners of an auto body shop had the right to amend the company pension plan.

The employee, Lane McGath, joined Auto-Body in 1983, when he was 49. At the time, the company pension plan had four eligibility requirements: completion of one year of service; minimum age of 21 years; age at hire younger than 50; and no union membership providing retirement plans.

The owners, Louis and Anna Mae Babbini, amended the plan one year later to require three years of service. But, on Sept. 30, 1986—one day before Mr. McGath was eligible to enter the plan—the owners changed the plan again to limit participation to those who "meet the eligibility requirements as of Sept. 30, 1986," thus excluding him permanently.

He filed suit in district court, charging discrimination and breach of fiduciary duty under the Employee Retirement Income Security Act of 1974.

At trial, the owners admitted amending the plan because they believed his entry would make the plan unaffordable.

The appeals court noted that a claim of discrimination under Section 510 of ERISA requires a discriminatory change in the employer-employee relationship—like dismissal or harassment—not merely a change in the pension plan. The court also noted the employer "has a right to change a plan's terms." In addition, the court found the owners did not breach their fiduciary duties under ERISA, saying they were acting as administrators, not fiduciaries.

Statutory ERISA claim subject to arbitration

PHILADELPHIA—Claims of statutory violations of the Employee Retirement Income Security Act of 1974 can be subject to arbitration under the Federal Arbitration Act, an appeals court has ruled.

In its Oct. 15 decision in *Eli Pritzker et al vs. Merrill Lynch, Pierce, Fenner & Smith Inc.*, the 3rd U.S. Circuit Court of Appeals partially reversed its 1985 decision that statutory ERISA claims are exempt from arbitration agreements. The court noted that such claims are subject to arbitration under the FAA only when the parties have executed a valid arbitration agreement encompassing the claims at issue.

The case was brought by trustees of a pension plan who sued a stock brokerage firm, alleging that investment counselors breached their fiduciary duties by making unauthorized investment purchases for the plan.

Plan sponsors should note that courts are now tending to hold plan sponsors to their signed arbitration agreements, said Thomas Paravola, a partner at Burke, Warren & MacKay in Chicago.

Client privilege denied in insurance case

WASHINGTON—Communications between an insurer and its policyholder are not privileged information under federal law, the U.S. Court of Appeals for the District of Columbia has ruled.

The Oct. 5 decision in *Linde Thomson Langworthy Kohn & Van Dyke P.C. vs. Resolution Trust Corp.* arose from a lawsuit filed after a law firm representing a savings and loan refused to turn over records concerning malpractice liability insurance to the Resolution Trust Corp., asserting a policyholder-insurer privilege.

A U.S. District Court issued an order enforcing the subpoena, denying the firm's assertion of a policyholder-insurer privilege under either state or federal law. The firm had argued that in Missouri, the state where the thrift was based, many of the policyholder-insurer communications would be insulated from production under the attorney-client privilege.

But the appellate court found that no federal court has ever recognized a general policyholder-insurer privilege, even though the federal rules of evidence mandate the application of state privileges in civil actions where state law supplies the rule of decision.

"The nature of the subpoena enforcement proceeding. . .rests soundly in federal law, and federal law of privilege governs any restrictions on the subpoena's scope," the court said.

Information in brief

Rollins Hudig Hall International Inc. recently acquired Ramos Rosado Y Asociados Agente de Seguros S.A. de C.V., a commercial insurance broker headquartered in Mexico City with additional offices in Cancun, Tijuana, Guadalajara, Juarez and Monterrey. . . .On a voice vote, the Senate last week passed legislation, S. 1312, to make clear that **former pension plan participants** who became covered under an annuity policy purchased from an insurance company after their employer terminated their pension plan, retain the right to sue their employer for fiduciary breaches relating to the purchase of the annuities. . . .Fairlawn, Ohio-based **GenCorp Inc.** will take a one-time after-tax charge of between $170 million and $195 million in the first quarter to recognize its Financial Accounting Standard 106 obligations. GenCorp cut down what it had projected would be a $280 million to $385 million FAS 106 charge by shifting more medical costs to retirees, said a spokeswoman. . . . Mark A. Poulsen, former president of Cleveland-based Corporate Benefits Administrators & Consultants Inc., pleaded guilty to charges of **embezzling from the benefit plan** of Cleveland Machine Controls Inc. and issuing that company fraudulent certificates of deposit. BI

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