NOVEMBER 4, 1991

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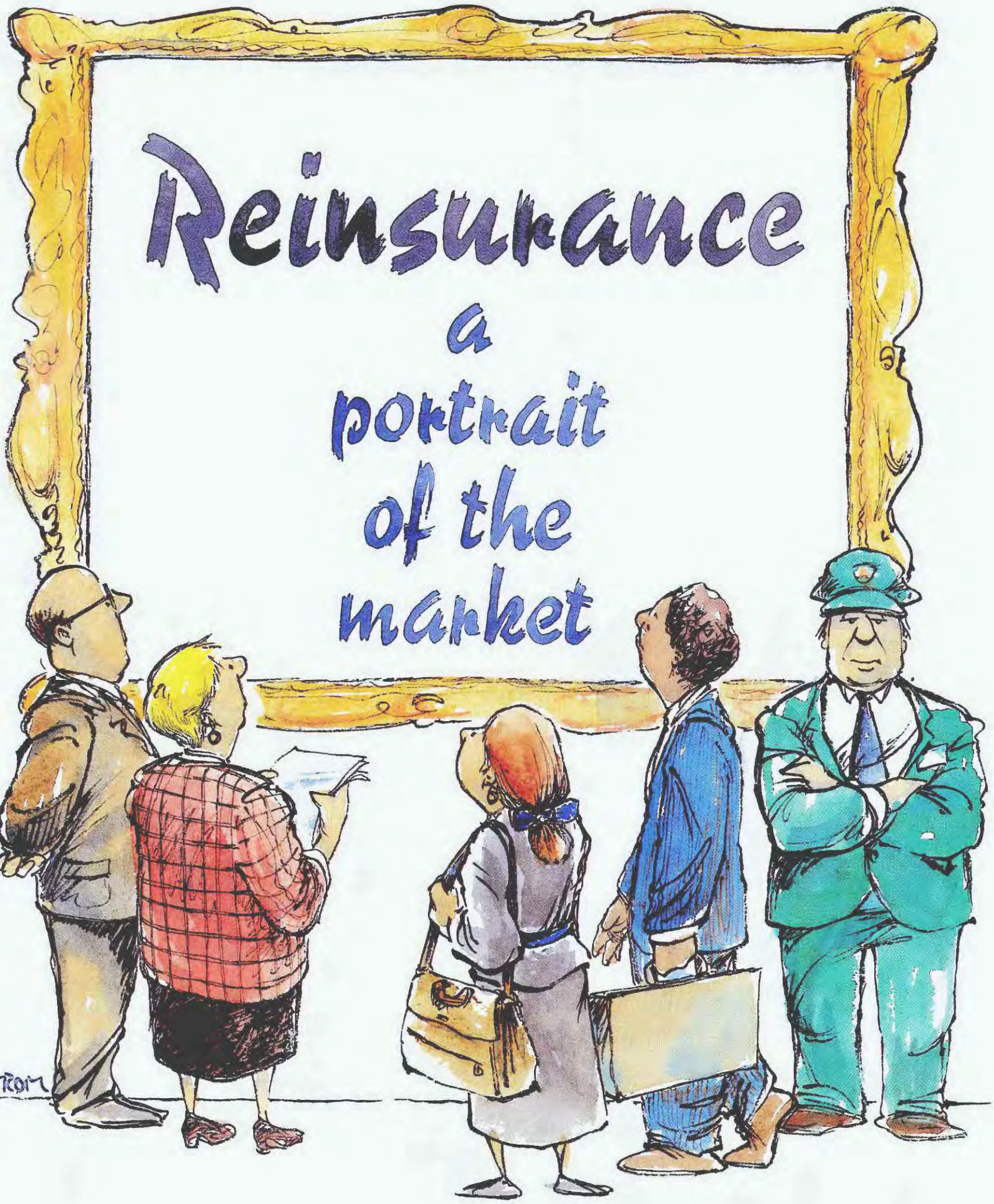

NEWSPAPER

Probe Beyond the Obvious

As the saying goes, things aren't always what they seem. Take reinsurance, for instance.

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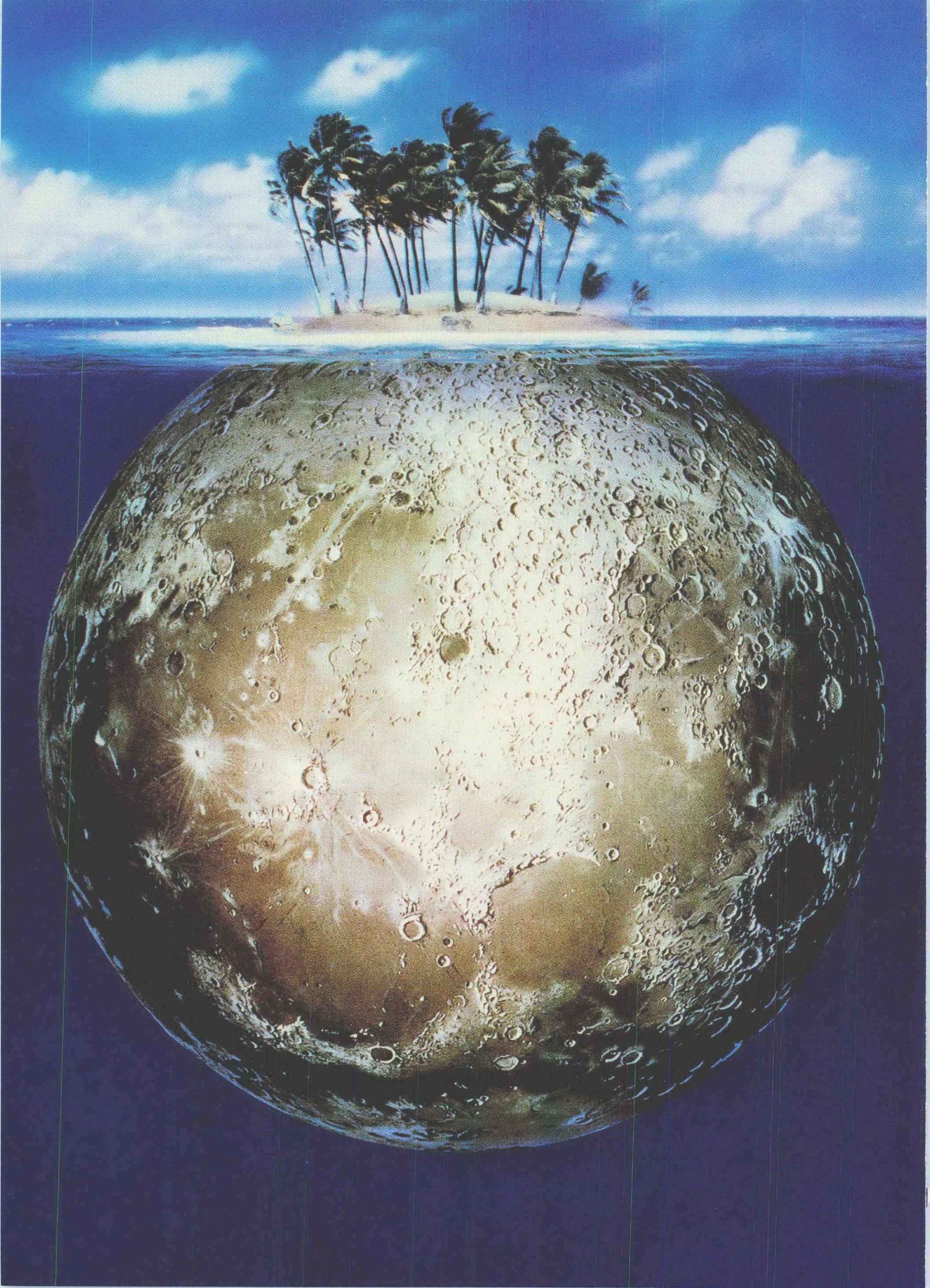

To See the Moon in a Grain of Sand

NOVEMBER 4, 1991

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Update

Insurers tallying up losses from huge East Coast storm

NEW YORK—Insurers late last week were assessing the damage caused by a storm that battered the East Coast Thursday, which some insurers and brokers say may have caused as much damage as Hurricane Bob.

However, no estimate of insured damage was available last week. The Property Claim Services division of the American Insurance Services Group in Rahway, N.J., assigned the storm Catastrophe No. 90, which means it caused at

Continued on next page

New health care reform strategy

Bills seek cost controls, not system overhaul

By MARK A. HOFMANN

WASHINGTON—Two health care reform measures recently introduced in Congress mark a shift to more targeted reform efforts from earlier attempts to introduce a sweeping universal health care plan.

The bills also are notable, particularly the House measure, in that they attempt to contain soaring health care costs and not just widen access.

For instance, the House bill would essentially cap the amounts that health care providers could charge individuals covered by employer-sponsored health care plans.

The bills carry added weight because they are sponsored by two of the more powerful lawmakers in Congress: Daniel Rostenkowski, D-Ill., chairman of the House Ways and Means Committee; and Lloyd Bentsen, D-Texas, chairman of the Senate Finance Committee.

The two bills—H.R. 3626, or "The Health Insurance Reform and Cost Control Act of 1991," and S. 1872, the "Better Access to Affordable Health Care Act of 1991"—were introduced late last month and are designed to make health insurance more available and affordable to small businesses, although the measures would affect all employers.

Until now, nearly all major health care reform bills, including an earlier proposal by Rep. Rostenkowski (*BI*, Aug. 19), attempted to ensure that coverage would be extended to most of the nation's 34 million uninsured.

Most of those proposals would require employers to offer health insurance or face new taxes. The measures also call for a new federal program to provide coverage for the poor and the unemployed.

Other legislators want to go even further. For example, Rep. Marty Russo, D-Ill., has called for a single-payer Canadian-style national health insurance program (*BI*, March 18).

By contrast, the Rostenkowski and Bentsen bills would neither require employers to provide coverage nor create a new federal health benefits program.

"There is a recognition that there is no consensus on comprehensive

Continued on page 116

Study finds gains in workers' rating of managed care

By MICHAEL SCHACHNER

Nine out of 10 employees enrolled in employer-sponsored managed health care plans are satisfied with the overall performance of their plans, while only 84% of employees in traditional indemnity plans are satisfied with their plans, a new survey says.

Employee benefit experts say the study supports the emerging belief that employee acceptance of managed care plans—like health maintenance organizations, preferred provider organizations and point-of-service plans—is reaching new heights.

As a result, employers will find it easier to implement managed care plans. Indeed, by the turn of the century, almost all employer-sponsored health care plans probably will have managed care features, consultants predict.

The survey, "Managed Care: The Employee Perspective," provides a "gratifying confirmation that employee satisfaction with managed care is edging ahead of overall satisfaction with true indemnity plans," said Ian B. Abernathy, a vp in the Washington, D.C., office of TPF&C, the actuarial and benefits consulting arm of Towers, Perrin, Forster & Crosby Inc.

Mr. Abernathy said the firm's survey of 1,000 employees at a wide range of companies with at least 750 workers should encourage employers to believe that "as long as they spend adequate time and energy properly communicating managed care plans, they no longer have to worry about employee satisfaction."

Other benefit experts agree that employee attitudes toward managed care are improving.

However, they are surprised that 90% of respondents expressed satisfaction with managed care.

"I would have expected 75% to 80% approval ratings," said Bill Gibson, senior health care consul-

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County is shielded from liability claims

Christo accident covered

By LOUISE KERTESZ

AP/Wide World Photo

1,760 umbrellas lined California's Tejon Pass.

BAKERSFIELD, Calif.—Officials of a California county say a hold harmless agreement will shield the county from liability in the death of a woman who was struck by a giant umbrella constructed on county land as part of a project by the artist Christo.

In addition, Christo purchased general liability coverage for the project, which names Kern County as an additional insured.

The $26 million environmental art project consisted of 1,760 yellow umbrellas deployed along an 18-mile stretch of California's Tejon Pass north of Los Angeles.

In a similar exhibit in Japan, 1,340 blue umbrellas were planted in rice paddies 75 miles north of Tokyo.

The 20-foot umbrellas, each weighing almost 500 pounds, were dismantled at both exhibits, last week, earlier than scheduled, out of respect for the woman who was killed.

Another tragedy occurred when a crane operator in Japan was electrocuted while dismantling that portion of the project, reported the broker who placed the coverage for the project.

In Kern County, Lori Keevil-Mathews, a Camarillo, Calif., insurance agent, was struck and killed Oct. 26 by a Christo umbrella that broke loose in high winds while she was viewing the project, according to the county sheriff's depart-

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IRS allows innovative profit-sharing plans

By JERRY GEISEL

WASHINGTON—The Internal Revenue Service is giving employers the green light to set up innovative profit-sharing plans that will allow companies to sharply increase the amount they contribute on behalf of older employees.

Some employee benefit consultants say the new plan structure could help employers enhance retirement benefits and attract older workers.

But the plans could also foster resentment among younger workers, since companies would be contributing much smaller amounts to the plans on their behalf compared with older workers.

The new plans, explicitly permitted in final IRS pension nondiscrimination regulations due to take effect in January, are known as age-weighted profit-sharing plans.

The plans are so named because employers can vary contributions based on employee age.

For example, a plan could be designed to allow employers to contribute more than 10 times more money for employees nearing retirement age than for employees in their 30s and still pass IRS nondiscrimination tests.

This approach represents a radical change. Traditionally, companies with profit-sharing plans contribute the same percentage of compensation for all participants, regardless of age.

Because age-weighted profit-sharing plans are defined contribution plans, employers would not be locked into providing specific benefits. Instead, they only agree to make contributions, which can vary annually based on the level of profits.

Age-weighted profit-sharing plans could foster resentment among younger workers.

In addition, proponents of age-weighted profit-sharing say the arrangements offer many of the advantages of defined benefit plans—in which benefit formulas also can be designed to provide a rapid accrual of benefits for older employees—without many of the disadvantages of defined benefit plans.

For example, like other defined contribution plans, age-weighted profit-sharing plans are not covered by the Pension Benefit Guaranty Corp.

As a result, the plans would be exempt from escalating PBGC premiums, which now range from $19 to $72 per plan participant annually, that employers with defined benefit plans must pay.

In addition, unlike defined benefit plans, actuarial valuations of age-weighted profit-sharing plans would not be required, which would reduce an employer's actuarial fees.

Employee benefit consultants say the new age-weighted profit sharing plans will be most attractive to small employers for a variety of reasons.

For example, a small firm may decide for competitive reasons that it needs to establish a pension pro-

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Update

Storm batters East Coast

Continued from previous page
least $5 million of insured damages.

Hurricane Bob, which battered New England in August, caused $780 million of insured damages (*BI*, Sept. 2, Aug. 26).

Most of the damage appears to be residential, brokers agree.

"On the commercial side, we've been fortunate," said Brian Whelton, a marine department vp with Sedgwick James North America in Boston. Mr. Whelton said pleasure craft and small lobster boats were hardest hit. Many fishing boats, tugs and barges stayed in port, escaping damage, he said.

And, much of the damage was caused by flooding rather than wind or other insurable perils, said Edward J. Buchwald, a Johnson & Higgins director in charge of the firm's Boston office. Standard property policies exclude flood losses. But, commercial policyholders can buy difference-in-conditions endorsements adding flood coverage, while homeowners can buy government-backed flood coverage.

According to early estimates, Nationwide Mutual Insurance Co. expects to be hit with $2.5 million of claims. Hurricane Bob caused $6.2 million in claims for Nationwide, a spokesman said.

Liberty Mutual Insurance Co. Friday had received about 150 flood claims, 60 auto claims and 50 wind-loss claims, totaling about $1.6 million in damages.

McCarran reform vote

WASHINGTON—House Judiciary Committee staffers indicate that a committee vote on a bill to overhaul the McCarran-Ferguson Act could come as soon as this month, insurance lobbyists say.

American Insurance Assn. lobbyists have been meeting for months with Judiciary Committee staffers to try to develop an alternative to H.R. 9, an antitrust reform bill introduced by Committee Chairman Jack Brooks, D-Texas (*BI*, June 17).

"No agreement is apparent," though meetings with staffers are continuing, said David Pratt, the AIA's vp of federal affairs.

The Brooks bill, strongly opposed by the insurance industry, would remove insurers' exemptions from federal antitrust laws on price-fixing, monopolization, allocation of territories by market rivals and tying the sale of one product to another.

Insurers have said that vague wording in the Brooks bill throws into doubt whether insurers or advisory organizations would be allowed to jointly trend loss data or adjust historical loss data to reflect inflation and other future trends.

Pension funding bill introduced

WASHINGTON—Stopgap legislation introduced in the House last week would require employers in bankruptcy to continue making contributions to defined benefit pension plans.

The bill, introduced by Rep. Richard Schulze, R-Pa., would require companies in bankruptcy to contribute enough to allow pension plans to cover projected benefits and expenses for six months.

The measure, H.R. 3676, is considered a stopgap. Comprehensive legislation to be introduced later this month is expected to deal with companies' obligations to fund their pension plans while in bankruptcy, as well as the the Pension Benefit Guaranty Corp.'s status as a creditor.

The stopgap measure would blunt a part of a recent federal court ruling that LTV Corp. of Dallas, which has been operating under bankruptcy protection since 1986, did not have to fund its pension plans while in bankruptcy (*BI*, Sept. 23).

Unless LTV makes new contributions, one of its big plans—the Jones & Laughlin Hourly Plan, which has about $1.5 billion of unfunded benefits—will run out of money at the end of November.

About $13 million a month is needed to keep the plan alive, the PBGC says. Federal law requires the PBGC to terminate plans that cannot pay benefits when due.

Bramson jumps bail

TRENTON, N.J.—An arrest warrant has been issued for Martin Bramson, an insurer executive who jumped bail Oct. 26 after being indicted on federal fraud, conspiracy and money laundering charges.

Mr. Bramson was indicted in September along with two others on charges stemming from his allegedly fraudulent operation of Preferred Indemnity Insurance Co. of Old Bridge, N.J., and Trans-Pacific Insurance Co. (F.S.M.) of Micronesia (*BI*, Sept. 16).

Mr. Bramson had been released on bail and ordered to wear an electronic monitoring bracelet. But, he removed the bracelet and fled last month after learning that federal prosecutors were moving to revoke his bond, authorities say.

Prosecutors learned that Mr. Bramson had violated a condition of his bail by attempting to move $500,000 from a bank account in Anguilla to an account in Micronesia, confirmed Assistant U.S. Attorney Kimberly A. McFadden in Newark.

Separately, Trans-Pacific President Martin Jano was arrested by Micronesia authorities on Oct. 14 and charged with conspiracy and attempting to receive stolen property. The charges stem from Trans-Pacific's attempt to move $725,000 from a trust account protecting U.S. medical malpractice policyholders to an offshore account.

OSHA levies $10 million fine

WASHINGTON—Two Northbrook, Ill.-based companies have agreed to pay a record $10 million fine to the Occupational Safety and Health Administration for workplace safety violations that contributed to a fatal explosion at a Sterlington, La., chemical plant last spring.

IMC Fertilizer Inc. owned and staffed ANGUS Chemical Co.'s nitroparaffin production unit—the largest in the world—at the time of the May 1 explosion (*BI*, May 6).

The blast killed eight IMC Fertilizer employees and injured 112 people, including 70 area residents.

According to OSHA, the companies had not taken numerous required safety precautions at the plant.

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Study sees big savings from national health care

By CHRISTINE WOOLSEY

WASHINGTON—U.S. employers would save nearly $3 trillion over a decade if the United States adopted a Canadian-style national health care system that would cut health care spending to Canadian levels, according to a new study.

Even if the United States realized only the administrative savings associated with a one-payer, publicly financed approach, employers would still save nearly $2.5 trillion over a decade, the study concluded.

And, if health care spending were not cut but growth were held to the rate of growth in gross national product, employers would save about $2.2 trillion over 10 years, according to the study by the Economic & Social Research Institute, a non-profit research organization in Reston, Va.

The study applies a range of assumptions about the United States' ability to reduce the amount spent on health care. Reducing physician fees, utilization of services, use of technology and intensity of care is essential to instituting a Canadian-style national health care system that cuts spending to Canadian levels.

But, the report points out that there would be tradeoffs in changing the health care financing system.

"Within the economy, various groups would be affected in very different ways—some would 'win' some would 'lose,' " the author note.

And, some groups would face a double-edged sword.

A national health plan similar to Canada's would give all Americans equal access to basic medical care. However, tight controls on spending could deter future development and availability of medical technology.

Health care costs for consumers and businesses that currently provide their workers with health insurance would shrink, the study says. Those savings, however, would be partially offset by corpo

Continued on page 11

Execs say market turn could be violent change

By MICHAEL BRADFORD

DALLAS—The next hard market will deliver a powerful punch, though it probably will not belt risk managers as hard as the last tight market did, several insurance industry executives predict.

When the market turns, "I believe that it will change violently," said J. Patrick Gallagher Jr., president and chief operating officer of broker Arthur J. Gallagher & Co. of Itasca, Ill.

"My concern is that we've resided in a slow trough for so long that any change, when it comes, is going to be very hurtful," said Dean Johnson, president and chief executive officer of Protection Mutual Insurance Co. of Park Ridge, Ill.

Messrs. Gallagher and Johnson were panelists during a session at the 1991 Fall Seminar sponsored last week by the Dallas-Fort Worth Chapter of the Risk & Insurance Management Society Inc.

While both stopped short of predicting that the next market turn will be as dramatic as the one that sent prices soaring in the mid-1980s, they agreed that the next hardening will be very uncomfortable for risk managers.

"My guess is you will see a relatively violent change in the market," when the supply of available capacity dwindles to a point that demand creates a dramatic increase in price, Mr. Gallagher said

Insurers will be paying more fo reinsurance, which means thei products will be priced to make u for those costs, he said.

Mr. Gallagher predicts that th market will harden within the nex 18 months.

Meanwhile, Mr. Johnson said, " am not predicting that we ar going back to the type of marke change that we had in 1984, an frankly I pray that we don't g back to that kind of market.

"The last thing that I want, and think most of my colleagues want is the kind of change that we ha in October 1984," he said.

But the longer the insurance in

Continued on page 11

Pension contracts may lose policyholder status

Judge mulls GIC claims

By JOANNE WOJCIK

LOS ANGELES—Pension plans that purchased guaranteed investment contracts from Executive Life Insurance Co. may lose their preferred policyholder status, according to the judge presiding over Executive Life's sale and conservatorship.

The judge now is considering whether municipalities that invested the proceeds of bond issues in Executive Life GICs should be given the preferred status of policyholders in the rehabilitation or should be treated as unsecured general creditors.

During a trial on the status of muni-GIC holders, Los Angeles Superior Judge Kurt Lewin said he could rule that neither the muni-GICs nor contracts bought by pension plans are insurance products, thus relegating both classes of GIC holders to general creditor status.

However, Judge Lewin also said he could agree with the California Insurance Department that the muni-GIC holders are unsecured creditors, while the pension plans that purchased GICs are policyholders.

Either decision would only serv to further delay the rehabilitatio of Executive Life, because the mu nicipalities would probably appea either decision, the judge acknow ledged.

"The court of appeal will ulti mately decide this case," he pre dicted.

In addition, Judge Lewin, wh also has been overseeing Execu tive Life's conservatorship, said h also may rule that both muni-GIC and pension GICs are insuranc

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Inside

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- New Texas insurance reforms are not expected to take much of a bite out of insurers and policyholders, observers say. **PAGE 80**
- After its first full year in operation, questions remain about the National Practitioner Data Bank, says one expert during the American Society for Healthcare Risk Management conference. **PAGE 89**
- Stock analysts Myron Picoult says financial reinsurance is being used to take balance sheet items off the balance sheet. **PAGE 118**

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Spotlight report

Reinsurance

U.S. reinsurers glumly report overall market is not firming

Isolated rate hikes not sparking trend

By JUDY GREENWALD

U.S. reinsurers still are grimly playing what has now become the same old song: the blues.

Except for isolated pockets of rate firming, the U.S. reinsurance market remains soft, with rates for year-end renewals expected to either remain level or even decline slightly.

Any turn in the market is at least another year away, experts say.

Any turn in the market is at least another year away, experts say.

The portions of the market that are hardening—catastrophe business and aviation and marine reinsurance—are not yet spilling over into the general market.

And, the $1.2 billion in insured losses from last month's fire in Oakland, Calif., will not be materially felt outside the catastrophe market (*BI*, Oct. 28).

Some observers do believe, though, that capacity problems in the London reinsurance market could ultimately lead to a more dominant role for the U.S. reinsurance market (see story, page 18).

Meanwhile, as the U.S. reinsurance market stagnates, capital is neither entering nor leaving the business. Instead, it is changing hands, as companies, like CIGNA Corp., attempt to sell their reinsurance divisions to others (*BI*, Oct. 14).

Observers attribute such divestitures to two related factors:

- A move by companies that are not professional reinsurers away from the reinsurance business, concentrating instead on less capital-intensive areas they know best.
- A "flight to quality" by reinsurance buyers, which has resulted in a move to larger reinsurers on the presumption that they are more likely to be around to pay claims.

But the big news in the U.S. reinsurance market is no news: Reinsurers expect no change in the overall market soon.

"Frankly, we're operating at this point in time as if this is as good as it's going to get," said Steven J. Bensinger, president and chief operating officer of Skandia America Reinsurance Corp. in New York.

Skandia is trying to manage its business to obtain reasonable returns in the current marketplace, which is fairly unresponsive to the forces of change, he said. But the reinsurer is operating on the assumption that there will not be any imminent turn in the market "but, rather, this is the way it's going to be."

The business simply cannot be run, he added, "on a wish and a prayer."

Others agree the market remains stagnant.

"It's doing nothing," said Michael G. Fitt, chairman, president and chief executive officer of Employers Reinsurance Corp. in Kansas City, Mo. "Generally, it's a very unexciting and somewhat depressing marketplace, really."

"I don't see it as having changed at all in the last quarter," said Paul Hawksworth, president and chief executive officer of Mercantile & General Reinsurance Co. in Morristown, N.J.

"The same old problems are with us. The process hasn't even begun," he said.

"The market for the moment is stagnant," agreed

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European reinsurers determined to raise rates following years of losses
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Supply and demand for financial reinsurance are booming
Page 24

Alternative facilities no longer shunned by reinsurance market
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Top intermediaries post revenue gains

New business, not higher rates, responsible for growth

By LORI BLOCK

The nation's largest reinsurance intermediaries are increasing their revenues by developing new sources of business, not because of any general improvement in the rates charged by reinsurers or an increased demand for reinsurance.

Brokerage executives point out that they are increasingly beefing up the services that they offer to their ceding company clients. In addition, they attribute some of their growth to an increase in business from alternative risk financing mechanisms, like captives and risk retention groups.

Furthermore, these gains have often been accompanied by increased efficiency, as the leading intermediaries boosted revenues while reducing their workforce.

But overall, the brokers are not expecting much change in their traditional reinsurance business. For 1991 and 1992, the intermediaries are, by and large, predicting gains on par with those posted in 1990.

"We're very much like our parent company, in that we're not sitting around waiting for the market to change," explained Ronald J. Taylor, chairman of G.L. Hodson & Son Inc. of New Hyde Park, N.Y., a unit of Willis Corroon P.L.C.

"We're taking the stance the market may never change. Nobody knows when things are going to improve," he said.

"You look at the total universe of reinsurance. It's certainly not expanding," added Stephen L. Lunsford, senior executive vp and chief operating officer of Aon Reinsurance Agency Inc. in Chicago, an Aon Corp. subsidiary.

Still, nine of the 10 largest U.S. reinsurance intermediaries ranked by *Business Insurance* increased their revenues in 1990.

Based on figures provided by some of the brokerages and *BI* estimates of the other brokers' revenues, the Top 10 intermediaries' revenues rose 11% in 1990 to $591.1 million, up from $533 million in 1989.

This performance reverses a three-year pattern of declining or stagnant revenues among the leading intermediaries. For instance, the Top 10's combined revenues dropped a slight 0.67% to $533 million in 1989 from $536.3 million the previous year (*BI*, Nov. 12, 1990).

Leading the charge in 1990 was Aon Reinsurance Agency, whose revenues increased 24.5% last year to $34 million from $27.3 million in 1989. That boosted the brokerage two notches to tie for fifth place in the latest *BI* rankings with TPF&C Reinsurance.

In fact, a few of Aon Reinsurance Agency's competitors actually credited the intermediary with having the hottest hand in the reinsurance brokerage business.

E.W. Blanch Co. also made great strides, boosting its revenues roughly 20% last year to an estimated $56.6 million from $47.2 million in 1989. It supplants Sullivan Payne Co. as the nation's second-largest intermediary.

However, while nearly all of the Top 10 reinsurance brokers recorded revenue gains in 1990, the overall performance of the industry surprised most brokerage executives. While they could cite their own individual gains, most believed their performance was the exception to the rule.

"Overall, I'd be surprised if, in totality, there was much growth," said Michael O'Halleran, chairman and chief executive officer of Aon Risk Services, the immediate parent of Aon Reinsurance Agency.

"I would have thought that, overall, (revenues) remained the same," observed William R. Coleman, executive vp and chief operating officer of Alexander Reinsurance Intermediaries Inc. in Stamford, Conn., the Alexander & Alexander Services Inc. unit formerly known as Thomas A. Greene & Co. Inc.

Willis T. King Jr., chairman and chief executive officer of Wilcox Inc. in New York, Johnson & Higgins' reinsurance brokerage unit, does believe the reinsurance brokerage business made a general rebound in 1990, though even he thought "it was a real mixed bag of results."

Growth "did not happen across the board," agreed Philip W. Mitchell, managing director and chief executive officer of TPF&C Reinsurance, a division of Towers, Perrin, Forster & Crosby Inc. of New York.

"Some (brokers) went up, some went down. The ones that had the growth were the more progressive brokers, not necessarily the larger ones," Mr. Mitchell said. "However, I do think that the larger firms, very

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10 largest reinsurance brokers

Estimated gross revenues are in millions

Company (Parent)	Gross Revenues 1990	Gross Revenues 1989	% chg.	Employees 1990	Employees 1989	% chg.	% Treaty 1990	% Treaty 1989
Guy Carpenter & Co. Inc. (Marsh & McLennan Cos. Inc.)	$275.8[1]	$248.7[1]	10.9%	2153[1]	2117[1]	1.7%	NA	NA
E.W. Blanch Co. (Limited Partnership)	56.6	47.2	20.0	297	301	–1.3	99	99
Sullivan Payne Co. (Sedgwick Group P.L.C.)	52.0	50.0	4.0	390	410	–4.9	90	90
Wilcox Inc. (Johnson & Higgins)	42.0	39.2	7.1	203	199	2.0	99	99
Aon Reinsurance Agency Inc. (Aon Corp.)	34.0	27.3	24.5	172	132	30.3	94	97
TPF&C Reinsurance (Towers, Perrin, Forster & Crosby Inc.)	34.0	30.0	13.3	210	254	–17.3	90	80
Minet Re (North America) Inc.[2] (The St. Paul Cos. Inc.)	33.0	30.0[3]	10.0	292	290	0.7	NA	NA
Alexander Reinsurance Intermediaries Inc.[4] (Alexander & Alexander Services Inc.)	25.2	22.1	14.0	170	187	–9.1	96	96
G.L. Hodson & Son Inc. (Willis Corroon P.L.C.)	23.5	23.0	2.2	190	201	–5.5	91	91
John P. Woods Co. Inc. (Privately Held)	15.1	15.5	–2.6	52	50	4.0	100	100

[1] Combined figures for Guy Carpenter & Co. Inc. and C.T. Bowring Reinsurance Ltd, which merged in August 1990 [2] Composed of Intere Intermediaries Inc., RFC Intermediaries Inc. and ICC Reinsurance Brokers Ltd. [3] Figure does not include ICC revenues [4] Formerly Thomas A. Greene & Co. Inc.

Source: BI survey

GRAPHIC BY JOHN HALL

Spotlight report

U.S. reinsurers

Continued from previous page

Jeremy Wallis, president and chief executive officer of English & American Insurance Corp. in Chatham, N.J.

"I don't think we're going to see a lot of change in rates and conditions at year-end, unfortunately," said N. David Thompson, president and chief executive officer of North American Reinsurance Corp./Swiss Reinsurance Co. in New York.

"I would say with the exception of certain selective areas, the general trend continues to be flat or modestly down," said James Roberts, president and chief operating officer of Re Capital Reinsurance Corp. in Stamford, Conn.

"It looks like we're headed for another soft season in January," said Michael Frinquelli, an analyst with Salomon Brothers in New York. If one looks at reinsurer results, "they aren't doing badly."

U.S. reinsurers surveyed by the Reinsurance Assn. of America posted a combined ratio of 106.4% for the first half, an improvement from 107.2% for the comparable period a year ago, while the 20 largest reinsurers based on net reinsurance premiums written reported a 104.7% combined ratio compared with 107.4% for 1990's first half (*BI,* Sept. 16).

"It's tough to make a case" as to why there would be a market hardening in January in light of these results, Mr. Frinquelli said.

Paul Ingrey, president of F&G Re Inc. in Morristown, N.J., a USF&G Corp. unit, agreed that the U.S. reinsurance market is "still relatively good."

"People aren't doing stupid things," he said. More business is being written on an excess-of-loss basis, which means reinsurers are less tied to primary pricing than they would be if they were writing proportional business. Thus, the primary market still "has a significant effect on us, but not an overwhelming effect," Mr. Ingrey said.

"I think we're going to be seeing a fairly soft market, including erosion of prices, pretty much across the board, except for those situations that are dependent on Lloyd's," said Ajit Jain, president of the reinsurance division of Berkshire Hathaway Inc. in New York.

Reinsurers with excess capital would like to maintain a certain amount of premium volume, he said. As a result, "people will compete on whatever basis they can," he added.

"I think it's going to be just as soft as it's been," said Steve Tirney, senior vp at PMA Reinsurance Corp. in Philadelphia. There is "still some downward pressure on prices and terms and conditions, and I think we'll just see more of the same for January renewals."

However, "I don't think the bottom's going to fall out of the market because I don't think it can drop much further," he added.

"It's like waiting for something to happen," commented Bard E. Bunaes, chairman and chief executive officer of Constitution Reinsurance Corp. in New York.

"Hopefully, (rates) will be better than they were last year, but I'm not about to get carried away," commented Myron Picoult, managing director and senior insurance analyst at Oppenheimer & Co. in New York. Mr. Picoult added he hopes rates outside the catastrophe market at least hold their own.

While overall the U.S. reinsurance market remains soft, rates are rising in some pockets.

F&G Re's Mr. Ingrey noted rates essentially are up in four areas: property catastrophe, retrocessional catastrophe, marine and aviation.

"Prices are up tremendously in all four areas," said Mr. Ingrey. Retrocessional catastrophe rates, for instance, are increasing a minimum of 200%.

Much of the action is centered in the property catastrophe arena. That business makes up about 10% of the entire U.S. reinsurance market, estimated Jack Snyder, senior vp at A.M. Best Co. in Oldwick, N.J.

William R. Coleman, executive vp and chief executive officer of Alexander Reinsurance Intermediaries Inc. in New York, said he sees "significant increases for nationwide companies and smaller increases for regional companies" looking for property catastrophe protection.

"There will be significant gaps throughout major programs of nationwide companies. The demand for the property catastrophe product is two or three times the capacity provided by financially secure markets," Mr. Coleman said.

"I would not be surprised if rates increased 10% to 50%, depending on the type of business," said Philip W. Mitchell, managing director and chief executive officer of broker TPF&C Reinsurance in Philadelphia. "The ones that are most susceptible (to the high increases). . .are the layers on the top end, because the reinsurer is looking for a certain minimum of premiums for the liability he puts out."

"Higher layers will take bigger increases," Mr. Mitchell added.

"I think the property catastrophe rates have started to move already all through '91," said Tom Gallagher, senior vp at Prudential Reinsurance Corp. in Newark, N.J. Rate hikes will depend on whether the ceding company has exposures in a catastrophe-prone zone, he said.

However, while reinsurers are focusing on the catastrophe portion of the market, last month's Oakland fire will not have a significant effect on the overall reinsurance market.

F. Cedrick McCurley, president of American States Insurance Co. in Indianapolis, said: "I don't think the incident will be felt on a wide-range basis in the general market."

Clearly, it will have a negative effect on the property catastrophe market, he said.

"I don't see an overreaction to it but it's going to cause further tightening" of the market, said Mr. McCurley, adding that London will be picking up a big part of it.

"It's big enough to have an impact, but not a major one," said Phillip Marcel, chairman of Continental Reinsurance Group in London. "It's not a Hugo," he said, referring to the 1989 hurricane that caused $4.2 billion in insured damage in the United States alone.

"I think it'll have a relatively small effect" on the overall market, said Michael Smith, a securities analyst with the Shearson Lehman Brothers unit of Shearson Lehman Hutton Inc. in New York.

"This is a very large loss, but it's in a very condensed, concentrated area. It's not like a hurricane that has blown up the East Cost" and hit various insurers based on their market share in a particular state, he said.

Instead, there will be a small number of insurers holding a large proportion of that area's business, said Mr. Smith. This means the losses will quickly enter the catastrophe reinsurance market.

"I think London's going to find it's on much more of this than it's expecting," he said, adding that he does not believe the loss will have a major effect on U.S. reinsurers.

Pru Re's Mr. Gallagher said he is not sure of the impact of the Oakland fire. It will "take awhile before we finally learn what the loss is to the industry."

The hardening of the catastrophe

Continued on page

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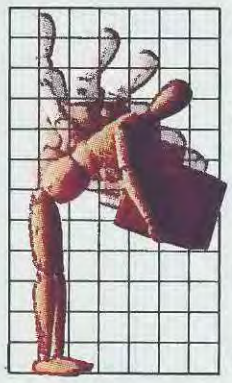

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U.S. reinsurers

Continued from page 4

market, as well as rate increases in the marine and aviation markets, eventually could have an effect on the U.S. market, some experts say.

Mr. Smith believes these pockets of rate hikes "could be an early sign of a broader-based turn in pricing." If there is further tightening in the London market, he said, "I think that would really spread to the United States."

"I think eventually it's going to have to spill over to some degree," said Pru Re's Mr. Gallagher. Whether that will occur in 1992, Mr. Gallagher could not say, except that it will be "another tough, challenging year."

Some say the capacity problems in the London market could cause more insurers and reinsurers to eventually turn to the U.S. reinsurance market for capacity.

Mark Mosca, vp and manager of the treaty department at NAC Re Corp. in Greenwich, Conn., said one question is how reinsurers that look to Lloyd's for retrocessional support respond to the capacity crisis in London.

"There's obviously an increase in lack of comfort and an increase in the level of doubt" about dealing with Lloyd's and the entire London market, Mr. Mosca said. As a result, he suspects many companies will be looking for alternatives to Lloyd's, including the U.S. market. "That may be good news for U.S. reinsurers."

Steven H. Newman, chairman, president and chief executive officer of Underwriters Reinsurance Co. of Woodland Hills, Calif., said that when ceding companies realize that the Lloyd's capacity they had previously depended upon is no longer there, they will have to make adjustments.

The only other major sources of capacity are Europe and the United States, he noted. "I think everybody who buys is doing his best to build bridges" and test the capacity and capabilities of these markets, said Mr. Newman.

And U.S. reinsurers have certain advantages over their European counterparts, Mr. Newman noted. For one, U.S. primary insurers that use admitted paper reduce their regulatory problems. Furthermore, international reinsurers "seem to be more associated with slow payment of recoverable payments," he said, noting that this is at least the perception, if not the reality (see story, page 15).

"I think the U.S. is certainly a very logical choice" for ceding companies looking for new capacity, said Berkshire Hathaway's Mr. Jain.

George Roberts, president of Reliance Reinsurance Management Inc. in Philadelphia, said that "my guess is that there will be some movement" to the domestic reinsurance market for property catastrophe coverage, because prices are so high overseas.

But the domestic market does not have the capacity to support a major share of Lloyd's book of business, said Mr. Roberts. He said he believes the shift in the market will be toward funding-type covers and away from risk business, rather than to one set of underwriters from another.

While there may be a movement of business to the United States from the capacity-starved London marketplace, reinsurance executives also point to a "flight to quality" among ceding companies.

This movement of business to better-capitalized reinsurers in part has triggered the consolidation of capital in the U.S. reinsurance industry.

Activity at North American/Swiss Re, for instance, is up, and Mr. Thompson attributes it to the search by ceding companies for quality reinsurance. "People are concerned about long-term relationships, and this is going to benefit some companies," he said.

Edwin M. Millette, executive vp of Transamerica Reinsurance Co. in Stamford, Conn., said he also has observed a flight to quality among reinsurance buyers.

"I believe that we will continue to see security issues as a No. 1 item," with Transamerica Re obtaining a larger amount of new business than in the past because of ceding companies' security concerns, he explained.

For instance, Mr. Millette said that Transamerica Re is seeing more business as a result of National Assn. of Insurance Commissioners' rules denying credit for reinsurance written by foreign underwriters that cannot supply appropriate letters of credit. "I'm anticipating that we're going to be picking up additional opportunities with clients" because of these rules, he said.

Mr. Millette noted where once there could be 20 to 30 reinsurers participating on one program, the tendency now is to have fewer and fewer reinsurers participating in a casualty program, both because of the security issue and the expense.

"There truly is a flight to quality," agreed James R. Fisher, senior vp and comptroller with American Re-Insurance Co. in Princeton, N.J. Mr. Fisher attributed ceding companies' concerns to fallout from the insolvencies of thrifts and life insurance companies, as well as to increased awareness of the issues of reinsurance security and collectibility.

It is becoming very difficult for the smaller players in the reinsurance market to compete and survive, Mr. Fisher noted.

Edmond Rondepierre, senior vp and general counsel at General Re Corp. in Stamford, Conn., said that the flight to quality is nothing new. "We've been seeing that for 10 years."

Mr. Rondepierre pointed to a General Re advertising campaign of several years ago whose slogan was, "It's 1984; do you know where your reinsurance is?"

Cedants are looking for reinsurers that will be around for the long term, said Pru Re's Mr. Gallagher.

Estimates of the amount of capital a reinsurer now needs to attract business range from $100 million to $250 million, he said, noting "it's a moving target" with that target moving quicker and quicker to the $250 million range.

But Underwriters Re's Mr. Newman cautioned against confusing quality with size.

"I don't happen to agree with the philosophy" that bigger is necessarily better, he said. While a certain minimum size is required for a reinsurer to be a viable player, "quality management is a much more important factor," he said.

Meanwhile, observers say a turn in the overall U.S. reinsurance market could be as far as two years away, if not longer, though many also express frustration over their inability to know with any certainty when change will occur.

"I've given up trying to pinpoint an exact date," said Mr. Bensinger. It could be late 1992 or 1993, he said, adding, "it's dependent on the confluence of so many factors."

"I've given up trying to personally predict" a market turn, he said.

The market will turn "when people feel enough pain," said Robert M. Huggins, president and chief executive officer of Belvedere America Reinsurance Co. in New York. "We're projecting '93 or later."

The broad reinsurance market will not show signs of hardening until 1993 or 1994, said M&G Re's Mr. Hawskworth. "It'll be '93

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Opinions

Toughen rules for slow payers

INSURERS AND THEIR policyholders should welcome tougher rules on taking credit for overdue reinsurance to be imposed by the National Assn. of Insurance Commissioners.

The rules will give insurers more leverage in promptly collecting payments from their reinsurers and will give policyholders more comfort that their insurers are as financially strong as they say they are.

The NAIC began clamping down on ceding companies' ability to take credit for reinsurance in 1989. Out of concern that insurers were claiming recoverables that might never be paid, the NAIC began requiring ceding insurers to take a charge against surplus for a portion of authorized reinsurance recoverables more than 90 days past due and not in dispute (see story, page 15).

This requirement has allowed regulators and insurers to get a rough idea of the size of the overdue reinsurance problem and has prodded ceding companies to try to collect more quickly on their reinsurance claims.

However, questions still remain on whether there are too many loopholes in the requirement, allowing insurers to avoid reporting some overdue balances and the resulting penalties.

For example, reinsurance balances in dispute currently can be excluded from the penalty calculation. While there are legitimate reasons for this exclusion, its effect has been to reduce substantially the amount of overdue reinsurance on which many large property/casualty insurers actually pay penalties.

The loopholes—and the NAIC's imposition of a 20% rather than a 100% penalty—appear to have been conscious decisions by regulators concerned that imposing too strict and sweeping a penalty would have had a devastating effect on the industry's surplus.

Now, having found the surplus impact less than devastating, regulators are moving to tighten the rules.

The NAIC's blanks committee in September adopted a new rule that will extend the penalty beyond overdue authorized balances to encompass overdue unauthorized reinsurance, as well.

Currently, ceding insurers can take credit in their financial statements for unauthorized reinsurance only if it is backed by letters of credit, trust funds or other forms of security.

Under the new rules, even secured unauthorized balances would be subject to a penalty if they are more than 90 days past due, not in dispute and the ceding insurer fails to draw on the LOCs or trust funds.

Although the insurance industry opposes this rule—complaining that drawing down on an LOC or trust fund would damage relationships between ceding companies and reinsurers—the NAIC is correctly standing fast.

It is unreasonable to assume that collecting from overseas reinsurers can take 90 to 180 days or more. Checks from overseas reinsurers are not sent surface mail or via a bottle tossed in the sea, as some ceding companies might reasonably conclude from the tardy payment record of some companies.

Brokers have the resources to collect more quickly and should do so for their clients. The warning that failure to pay on time will result in a drawdown on an LOC or trust fund should certainly speed payments by unauthorized reinsurers.

We also endorse a proposal under NAIC consideration that would shift some of the penalty for late reinsurance balances to the reinsurers themselves. The plan would make reinsurers contractually liable to pay interest to ceding insurers on overdue balances.

None of these rules is onerous to efficient reinsurers able and willing to pay valid claims. These reinsurers and their clients should welcome the discipline the rules aim to impose on reinsurers that would behave otherwise.

Letters

'Power of democracy' escapes commissioner

To the editor: In a Sept. 9 article, "Agency Halts Rate Rollbacks," California Insurance Commissioner John Garamendi was quoted as saying, "like the plotters of the botched Kremlin coup, the industry and its lawyers can't seem to understand and appreciate the power of democracy. Their relentless and cynical attempt to thwart a legitimate vote of the people of California in favor of Proposition 103 will fail. They will be forced to pay up—with interest."

To the contrary, Mr. Garamendi's remarks cause me to wonder if it is he who can't seem to understand and appreciate the power of democracy, at least insofar as it has been practiced in the United States. Apparently, our commissioner chooses to ignore the rules and principles that have been established in our systems of jurisprudence for the enforcement *and* protection of rights. Are not the insurance companies, on behalf of their individual stockholders, or policyholders in the case of mutual companies, exercising their right of due process of law as provided by the Constitution? Would not the officers and directors be subject to claims brought by stockholders should those officers and directors not seek legal remedy to reverse a potentially unconstitutional regulation, the results of which may reduce the value of their investment?

Mr. Garamendi's selection of the words "forced to pay up" is also quite interesting. In a democratic form of government, the term "force" is not generally thought of except in terms of protecting individual rights.

It is not the insurance industry and its lawyers who do not understand and appreciate the power of democracy. Mr. Garamendi's remarks, however, create a strong suspicion that he, like the Kremlin plotters, would impose his (the voters') will upon others without due process, which of course is not a part of our democratic tradition nor constitutionally legal.

I urge the commissioner to stop the political pandering and use his considerable intelligence and skill in contributing to a solution of the complex problems facing both the insurance consumer and provider.

Jim Galloway
Senior Vp
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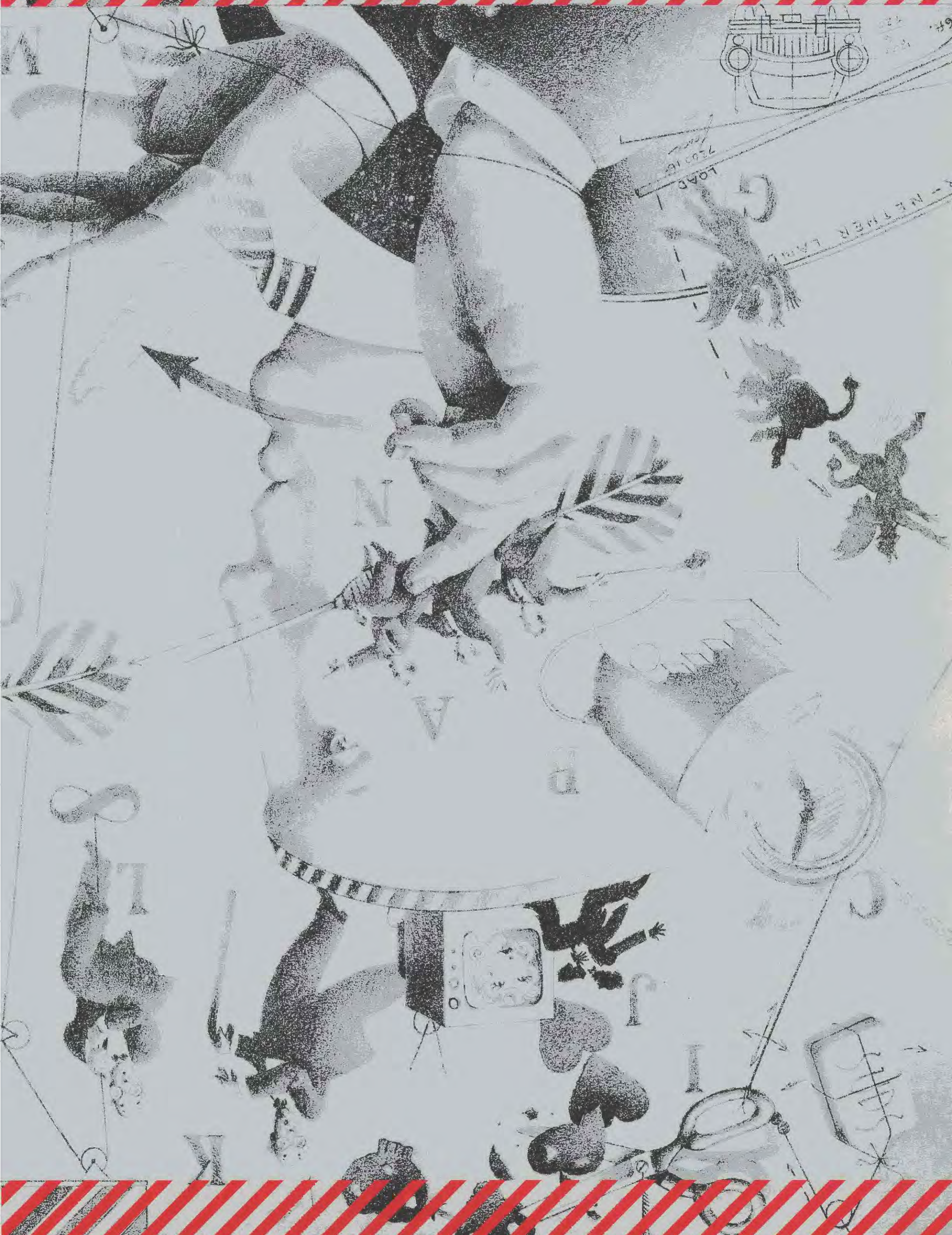

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U.S. reinsurers

Continued from page 6

probably and '94 when the effects of a change in the (primary) insurance market get reflected through the reinsurance business."

Constitution Re's Mr. Bunaes said also it will be 1993 or 1994 before the market turns. "There hasn't been enough blood flowing in the street yet."

"I'm still pessimistic about" a turn in the market, said NAC Re's Mr. Mosca. "I still think we could be in for as long as another two years" of low rates.

"It's not inconceivable; obviously, it could turn sooner," he added. "The fundamental question is how long can companies postpone their recognition of deteriorating results."

Mr. Mosca warned that if the next hard market results in a sharp, dramatic upturn in prices and in a shortage of capacity, not only will all sorts of political and regulatory pressures come to bear on the insurance industry, but there will be a further loss of business to the alternative risk financing market as well.

"The industry as a marketplace does not seem able to control that behavior," he observed.

"I really do not have a good guess" on when the reinsurance market will tighten, said North American/Swiss Re's Mr. Thompson. "I think that we have a while to go yet," though, because investments are still performing strongly, he said.

The market will not turn until the industry's cash flow turns negative or returns on investment become unacceptably low from investors' and owners' point of view, said Mr. Thompson. "It is so dependent on external events that nobody can predict" when the market will turn.

Mr. Thompson said he does not believe the market turn, when it does occur, will be sharp. "I think memories are too long to make that mistake again." ■

Sun sets on treaty clauses

Expiration of 'sunset clauses' may complicate renewals

By JUDY GREENWALD

The expiration of "sunset clauses" in past reinsurance contracts could complicate year-end reinsurance renewals.

During the hard market of the mid-1980s, many treaties included sunset clauses, which phase out coverage for claims filed five years after the treaty expired.

This year, many ceding companies for the first time must deal with the expiration of these clauses.

With the clauses' expiration, some ceding companies will not have protection for claims stemming from the 1985 underwriting year, noted Steve Tirney, senior vp at PMA Reinsurance Corp. in Philadelphia.

"I think there's going to be a lot of talk about what to do about the future," he said. "A lot of these are coming due."

Insurers will look either to purchase "sunrise" clauses, which would grant coverage for claims that would not be covered because of the expiration of sunset clauses, or else seek to fold coverage for these risks into their current reinsurance programs, Mr. Tirney said.

"That'll be a term or a condition of a '92 renewal," he said.

Philip W. Mitchell, managing director and chief executive officer of broker TPF&C Reinsurance in Philadelphia, pointed out that "there's very definitely a market for extending coverage, but they'll have to pay a premium. In the cases I've seen, premiums have been reasonable."

Willis T. King Jr., chairman and chief executive officer of reinsurance intermediary Wilcox Inc. in New York, said that "there are several options" for reinsurers with expiring sunset clauses, including extending coverage at renewal time. "The overall softness of the market is making it a relatively easy problem to address."

William R. Coleman, executive vp and chief executive officer of Alexander Reinsurance Intermediaries Inc. in New York, said: "We are not involved in very many treaties that have sunset clauses. However, where we are, we are working out alternatives with both existing markets and replacement markets.

"This is definitely an issue that can be addressed" with the appropriate premium, he said.

"It's something that must be dealt with," said John N. Gilbert Jr., president of Holborn Agency Corp. in New York, though "I don't think it's going to be a significant increase in cost. I think the reinsurers are all acting very responsibly."

Others, however, cautioned that sunrise clauses or comparable coverage can be expensive.

Sunrise clauses "are being requested," said Bard E. Bunaes, chairman and chief executive officer of Constitution Reinsurance Corp. in New York.

Mr. Bunaes added, however, that he has received only one request for sunrise coverage and that he turned it down. He anticipates more such requests, though.

If the price is right, the buyers will get the coverage they seek, he said, though he cautioned that they must be willing to pay that price.

A. Edward Gschwind, president and chief executive officer of American Royal Reinsurance Co. in New York, said he did not know if the price would be right for many ceding companies.

"I don't see that as a very successful prospect," he said. "I don't believe that the buyers are willing to pay the appropriate price for that liberalization."

Ceding companies "accepted that gap (in coverage) back when they accepted the sunset clause. Nothing's changed."

Albert P. Amato, senior vp of New York-based C.L. Frates Reinsurance Intermediary Inc., said that "we're seeing interest in the sunrises," though he said the issue is still being negotiated.

While Mr. Amato said he did not know what the price of sunrise clauses would be, he said if they are expensive, "we won't buy it."

"There's going to be a price, no doubt, for folding in and adding coverage," which will depend on the individual ceding company and its exposures, said Tom Gallagher, senior vp at Prudential Reinsurance Corp. in Newark, N.J.

"It will not be added for nothing, but in fact I expect some companies may be pushing to have it included at no charge and take advantage of the general marketplace conditions," he said.

Pru Re is not willing to provide this additional coverage for free, Mr. Gallagher said. While Pru Re is willing to consider the coverage, it will assess an "appropriate charge" for the additional exposure. "It's only fair we should get some value for the risk we're adding."

But Salvatore D. Zaffino, chairman and chief executive officer of intermediary Crump Re Inc. in Hartford, Conn., said sunrise clauses will not be a big issue during year-end renewals. "I think there's been an awful lot of renegotiation on these the past several years." ■

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Spotlight report

Reinsurer capital seen changing hands

By JUDY GREENWALD

While the U.S. reinsurance market remains in the doldrums, the level of capital in the industry is holding steady.

Capital is flowing neither into nor out of the market—it is shifting, observers say.

"I'm not sure that it's coming or going so much as moving around," said Michael G. Fitt, chairman, president and chief executive officer of Employers Reinsurance Co. in Overland Park, Kan.

Observers say part of this change is attributable to a "flight to quality" by ceding companies and their perception that larger reinsurers are more likely than their smaller counterparts to be able to pay claims in the future (see story, page 3).

In addition, there's a growing reluctance by parent companies to remain in a capital-intensive business like reinsurance that is not at the core of their operations.

One example of how capital is shifting in the market is CIGNA Corp.'s recent announcement that it is considering selling its property and casualty reinsurance division (*BI*, Oct. 14).

In addition, NWNL Cos. Inc. plans to sell a 50% stake in its reinsurance operation, Stamford, Conn.-based Chartwell Reinsurance Co.

There have been some abortive attempts to change ownership as well.

Crum & Forster Inc. recently said it has indefinitely postponed an initial public offering of Constitution Re Corp., a holding company for C&F subsidiary Constitution Reinsurance Corp., because of market conditions.

"It is likely the IPO will be renewed, reinstituted when the market conditions improve," said Bard E. Bunaes, Constitution Re's president and chief executive officer.

And negotiations for American Royal Reinsurance Co. in New York ended in July after its owner, Royal Insurance P.L.C., and General Reinsurance Corp. could not agree on a price, said A. Edward Gschwind, American Royal's president and chief executive officer.

Some parent companies are trying to sell their reinsurance operations partially because "the parent company needs capital and they're looking to divest where they don't have a strong focus in that business," Mr. Fitt said.

Mr. Bunaes noted that Constitution Re's parent, Crum & Forster, has decided to focus on the business "they know best."

A similar situation exists at NWNL. John G. Turner, chairman and president of Chartwell and chief executive officer of Northwestern National Life Insurance Co. in Minneapolis, said NWNL is not interested in selling the entire Chartwell operation, but in raising additional capital.

"You need $100 million in capital to be effective or a viable participant" in the reinsurance market and Chartwell now has just $50 million, said Mr. Turner.

But he said NWNL is also unwilling to boost Chartwell's capital itself.

"We have a number of good businesses competing for our capital resources," Mr. Turner said. Because property/casualty reinsurance is not a core business for NWNL, "we can't see our way clear to bringing the capital level up to $100 million, so we have been searching for partners to facilitate that increase in capital."

He said NWNL is close to consummating a deal.

Michael Smith, vp and securities analyst with Lehman Bros. in New York, attributed CIGNA's decision to sell its property/casualty reinsurance operation to similar reasons.

CIGNA's decision to sell the reinsurance unit is "rather fascinating" because "it does not look like all that bad a company," Mr. Smith said, adding that he also is puzzled by CIGNA's decision to sell at the market's trough, rather than at its peak.

"I think CIGNA decided they just can't make enough money in reinsurance" and really do not know the business well, he said. So, CIGNA decided to sell the operation and put the money in a business it understands a little bit better, Mr. Smith concluded.

Pointing to both CIGNA and Crum & Forster, Robert J. Osborne Jr., executive vp of New York-based Arthur J. Gallagher Intermediaries Inc., said: "What you're seeing is some of the major insurance companies trying to get back to their core business.

"There's capital available to purchase these companies at the right price," Mr. Osborne said, referring to the CIGNA and Crum & Forster units. The nature of both parent companies is to obtain a better return on equity by selling operations not performing up to expectations.

In any case, in light of the soft market, the reinsurance industry understandably holds little appeal to new sources of capital.

"I think you'll find a fair amount of change in ownership, if you will, but no additional new capital" because the market is already overcapitalized and returns are inadequate, said Ajit Jain, president of the reinsurance division of Berkshire Hathaway Inc. in New York.

"There's too much capital" now, agreed Steven J. Bensinger, president and chief operating officer of Skandia American Reinsurance Corp. in New York, who predicts significant consolidation in both reinsurance and primary insurance over the next two to five years. "I think some capital has to disappear and be redeployed elsewhere."

"We expect to see consolidation for the next couple of years," said Jeremy Wallis, president and chief executive officer of English & American Insurance Co. of America in Chatham, N.J.

"I think certainly there'll be fewer people around a year from now and two years from now. Nobody has actually stopped writing, but companies are being sold and business amalgamated with an existing carrier," with little overall change in the level of capital.

English & American was New Zealand Reinsurance Co. of America until earlier this year, when it was sold by General Accident Fire & Life Assurance Corp. P.L.C. to a consortium led by London-based English & American Group P.L.C.

Mr. Wallis said that while the change has not affected the reinsurer's operation, "now we have somebody who wants to be in the business, which is good." ■

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'Late payer' penalties to get tougher

NAIC proposal to extend sanctions to unauthorized reinsurance recoverables

By DOUGLAS McLEOD

NEW YORK—Just as ceding insurers were becoming accustomed to accounting rules that penalize them for certain overdue reinsurance balances, the rules are about to get tougher.

Since 1989, ceding insurers have had to take a charge against surplus for a portion of authorized reinsurance recoverables more than 90 days past due and not in dispute.

Industry officials and regulators generally agree the rules have been helpful, allowing them to get a rough idea of the size of the overdue reinsurance problem and prodding ceding companies to speed up recovery efforts.

Some observers, though, are uncertain about the extent to which loopholes in the rules have allowed insurers to avoid reporting overdue balances and the resulting penalties.

Total penalties reported by property/casualty insurers last year dropped to $382 million from $543 million in 1989 and represented only a fraction of industrywide surplus in both years.

However, just as ceding insurers and regulators are growing accustomed to the complex demands of the first set of rules, the National Assn. of Insurance Commissioners is in the process of approving new rules that will further tighten reinsurance penalties.

The new rules are set to go into effect for 1992 statutory financial statements. They will extend the penalty provision in a slightly different form to cover certain unauthorized reinsurance balances that are overdue.

Currently, ceding insurers can take credit in their financial statements for unauthorized reinsurance only if it is backed by letters of credit, trust funds or other forms of security.

Under the new rules, even secured unauthorized balances would be subject to a penalty if they are more than 90 days past due, not in dispute and the ceding insurer fails to draw on the LOCs or trust funds.

Insurance industry officials protested this rule, arguing it could damage their relationships with reinsurers by forcing them to choose between drawing down on LOCs or taking a charge against surplus.

However, an NAIC committee adopted the changes in September, and the rules are expected to be approved shortly by the group's executive committee and the NAIC as a whole.

Meanwhile, the group also is considering a proposal that would shift some of the penalty for late reinsurance balances to the reinsurers themselves.

The plan, supported by Crum & Forster Inc., would make reinsurers contractually liable to pay interest to ceding insurers on overdue balances.

"Ceding insurers have said, 'You're directing this penalty at the wrong institution,' " observed Robert Solitro, director of the New Hampshire Insurance Department's examination division.

NAIC officials are expected to take up the idea at their winter meeting next month.

The gradually tightening rules on overdue reinsurance grew out of mounting concerns in the late 1980s about how much of the insurance industry's reinsurance might prove uncollectible.

Much of the problem stemmed from the soft market of the late 1970s and early 1980s, in which fierce competition was fueled by cheap, plentiful reinsurance. The huge losses that resulted pushed many reinsurers into insolvency and left others financially weak.

The size of the problem, though, was difficult to pin down: Statutory financial statements revealed little about which of a ceding company's reinsurers were proving difficult to collect from and how much of the reported recoverables was overdue.

The NAIC responded, after months of debate, with what became known as the "90-day rule" for aging reinsurance balances due from authorized reinsurers.

The rule, effective with 1989 statutory statements, requires ceding insurers to report in Schedule F the amount of paid losses recoverable from each reinsurer that are current, 30 to 90 days overdue, 90 to 180 days overdue and more than 180 days late.

A "trigger" test is then used to identify slow-paying reinsurers.

A reinsurer is considered a slow payer if paid loss recoverables more than 90 days overdue amount to more than 20% of all paid losses recoverable from that reinsurer plus payments the ceding company has received from the reinsurer within the previous 90 days.

For reinsurers who are more than 90 days late on some payments but don't meet the definition of a slow payer, the rule requires ceding insurers to take a charge against surplus equal to 20% of the undisputed paid loss recoverables more than 90 days overdue.

For reinsurers that are tagged as slow payers, the rule imposes a penalty on the ceding company equal to 20% of all undisputed balances, including paid, unpaid and incurred-but-not-reported losses, unearned premiums and allocated loss adjustment expenses recoverable, less any funds held by the ceding insurer as security or other credits.

The results of the new rule vary widely from one property/casualty group to another, with CIGNA

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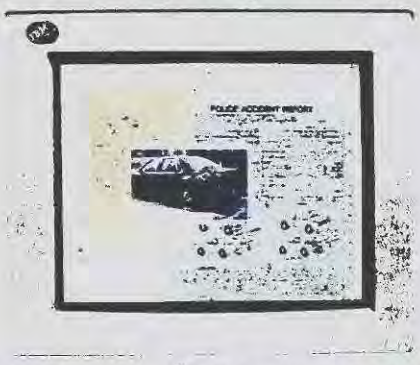

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Penalties

Continued from previous page

Corp., Crum & Forster, Continental Corp., CNA Financial Corp., Allstate Insurance Co., Hartford Group Inc. and American International Group Inc. among those reporting the largest penalties last year (see chart).

Still, these penalties—and the overdue balances on which they were based—amounted to only a small fraction of the groups' total reinsurance recoverables and their capital and surplus.

Overall, U.S. property/casualty insurers reported penalties totaling $382 million in 1990, down from $543 million in 1989. These totals represented less than 1% of industrywide surplus in each year, according to NAIC figures.

Observers are uncertain how much of the drop in total penalties last year reflected an actual improvement in reinsurance collections and how much reflected ceding companies' growing expertise in using loopholes to get around the penalties.

"I think it's a combination of the two," said Edmond F. Rondepierre, senior vp and general counsel of General Reinsurance Corp in Stamford, Conn.

While most observers agree the rule has helped speed up reinsurance collection efforts, some say loopholes in the 90-day rule still allow insurers to avoid reporting some balances as overdue.

For example, the rule allows reinsurance balances in dispute to be excluded from the penalty calculation. For many large property/casualty insurers, this provision has substantially reduced the amount of overdue reinsurance they actually have to take a penalty on.

Crum & Forster's United States Fire Insurance Co. unit, for instance, reported $100.9 million in authorized reinsurance balances more than 90 days past due in its 1990 annual statement. However, only $44 million of this amount was undisputed and, therefore, subject to penalty.

Another loophole, observers point out, involves defining when a reinsurance balance becomes payable and, thus, when it is 90 days past due. The rule provides that paid loss recoverables are due pursuant to the terms of the reinsurance contract on the date of execution. If no terms are specified, payments are deemed to be due within 30 days after proof of loss is provided to the reinsurer.

Ceding insurers can extend the payment period simply by asking reinsurers if they have all the information they need to complete a proof of loss filing. If the answer is no, as ceding insurers expect it would be, the loss is not officially payable yet and the 90-day clock hasn't started running, General Re's Mr. Rondepierre noted.

"A lot of people have figured out how to use the loopholes," he observed.

"As many fingers and toes as you've got, that's how many ways they will dig up to get around this," said Myron M. Picoult, managing director and senior insurance analyst with Oppenheimer & Co. in New York. "There's still a lot of crap on the balance sheets."

Even with the 90-day rule, gauging the size of the unrecoverable reinsurance problem is further complicated by ceding companies that simply remove problem reinsurers from their Schedule F and set up reserves for potentially uncollectible balances, added Shaun P. Flynn, a vp with Standard & Poor's Corp. in New York.

These write-offs may not be reflected anywhere in the insurers' statutory statements and may or may not be adequate to cover the potential liabilities, he said.

"The companies are doing all sorts of things to get around it," Mr. Flynn observed of the 90-day rule, saying it hasn't been very effective in defining the unrecoverable problem.

"It's a nice try. What's the answer? I don't know," he said.

Several observers agreed that the loopholes in the 90-day rule were left there intentionally by regulators concerned that imposing too strict and sweeping a penalty would have had a devastating effect on the insurance industry's surplus.

"Are there loopholes? Yes, but it's probably good for some companies that there were," said Steven Bolland, senior vp with intermediary Gill & Roeser Inc. in New York.

The biggest uncollectible reinsurance problems have resulted from the collapse of authorized reinsurers, says Continental's Mr. Gibson. 'As I recall, Mission was licensed and accepted, and we wrote off more on that than on anything else.'

Having found the surplus impact less than devastating, regulators are now moving to tighten the rules by applying them also to overdue unauthorized reinsurance balances.

The new rule, adopted by the NAIC's blanks committee in September, will require insurers to take a 20% penalty on unauthorized reinsurance balances that are more than 90 days overdue and not in dispute.

Unlike the authorized reinsurance provisions, though, the penalty will apply only to paid loss recoverables and will not include a trigger mechanism that targets slow payers or brings unpaid and IBNR losses, unearned premiums and loss adjustment expenses into the penalty calculation, Mr. Solitro explained.

Because unsecured unauthorized balances are already subject to a 100% penalty—no credit is allowed for this reinsurance—the new rule will apply only to balances backed by LOCs, trust funds or other security.

In calculating the penalty, though, the new rule will also deny credit for this security unless ceding insurers actually draw on the LOCs or other funds.

This provision will also apply to authorized reinsurance balances secured by LOCs or funds withheld, though authorized balances are far less commonly backed up by security than unauthorized balances.

"The intent was to put authorized and unauthorized on the same basis" as far as collateral goes, Mr. Solitro said.

Insurance industry officials protested the drawdown requirement, arguing that it will interfere with ceding insurers' ongoing relationships with reinsurers.

While collecting from overseas reinsurers can take far longer than 180 days—particularly when several brokers are involved—many ceding companies fully expect to eventually collect overdue balances and say they don't need to draw down on LOCs or other funds.

Particularly with international reinsurance, "we often find ourselves with receivables on the books for some time before we get any money," said William S. Gibson, vp and director of government and public affairs for Continental Corp. in New York.

If these reinsurers have a track record of eventually—though belatedly—paying losses, there is no reason to force ceding insurers to choose between drawing on collateral or taking a penalty, Mr. Gibson said.

The biggest uncollectible reinsurance problems to date have resulted from the collapse of authorized reinsurers like Mission Insurance Co., rather than from unauthorized companies, he added.

"As I recall, Mission was licensed and accepted, and we wrote off more on that than on anything else," he observed.

"If an insurance company has an ongoing relationship with a reinsurer, it doesn't want to draw down LOCs," said Philip Schwartz, vp with the American Insurance Assn. in Washington, D.C., which opposed the new rule. "Drawing down LOCs will only disrupt the process."

An LOC is "there to be drawn on if it's needed, just like a mortgage on a house. If somebody misses a couple payments, you don't foreclose," Mr. Schwartz observed.

The AIA had proposed alternatives to the rule, one of which would have allowed credit for collateral in cased in which the ceding company was still doing business with a reinsurer, Mr. Schwartz said.

'My guess is that the vast majority of (LOCs) were negotiated with the bank with the understanding that they would not be drawn on. Very few of them are intended to be routine LOCs,' General Re's Mr. Rondepierre says.

However, the AIA proposals were rejected by the NAIC blanks committee.

"If people have these LOCs up and are not drawing them down, they are just using them as window-dressing," asserted James M. Shamberger, senior vp with the Reinsurance Assn. of America in Washington, D.C., which supported the new rule.

"I would rather have the cash in hand. You can't spend a relationship," pointed out Edward Kelley, the NAIC's senior reinsurance manager in Kansas City, Mo.

"If it's a relationship that was going to be (disrupted by a drawdown), then maybe it's a relationship that shouldn't be maintained," added Oppenheimer's Mr. Picoult.

General Re's Mr. Rondepierre—who also supports the new rule—noted that many LOCs are put up largely for regulatory purposes and were never intended to be used. Reinsurers putting up the LOCs may pay a lower rate to their banks with the understanding that the instruments won't actually be drawn down, he said.

"Our argument is that some LOCs that are clean and unconditional on their face in fact are not," Mr. Rondepierre said. "My guess is that the vast majority of them were negotiated with the bank with the understanding that they would not be drawn on. Very few of them are intended to be routine LOCs."

If banks are now forced to honor these LOCs, they will demand more money from reinsurers for the instruments, and reinsurers will pass the costs along to ceding companies, he predicted.

One question facing ceding companies is whether the cost in money and goodwill of drawing down LOCs outweighs the charge against surplus they will suffer by not drawing on the collateral.

Industry and regulatory observers are uncertain how many ceding insurers will choose to take the penalties rather than draw on collateral. They are also uncertain how big the total unauthorized reinsurance penalties will be in addition to the authorized penalties already imposed.

The NAIC has not run any tests to predict the impact on insurance industry surplus of the new unauthorized penalty, according to Mr. Solitro.

The unauthorized reinsurance penalties "will vary considerably from case to case depending on the mix of authorized and unauthorized recoverables from any given company," the NAIC's Mr. Kelley said.

The decision whether to draw on collateral or take the penalty, meanwhile, "is a case of management philosophy more than anything else," he said. "It's a subjective judgment the company's management is making."

Some ceding insurers, while opposing the new rules, expect the impact to be minor.

"We do not believe the impact on CIGNA is going to be very large at all," predicted Senior Vp Donald Nibouar, noting that CIGNA's unauthorized recoverables are heavily collateralized and that 20% of the amount more than 90 days overdue is a "reasonably small" number.

Mr. Nibouar also suggested that the rule will not prompt CIGNA to undertake wholesale drawdowns of reinsurance collateral.

"I would think we will not significantly change our current practice of drawing down LOCs," he said. ■

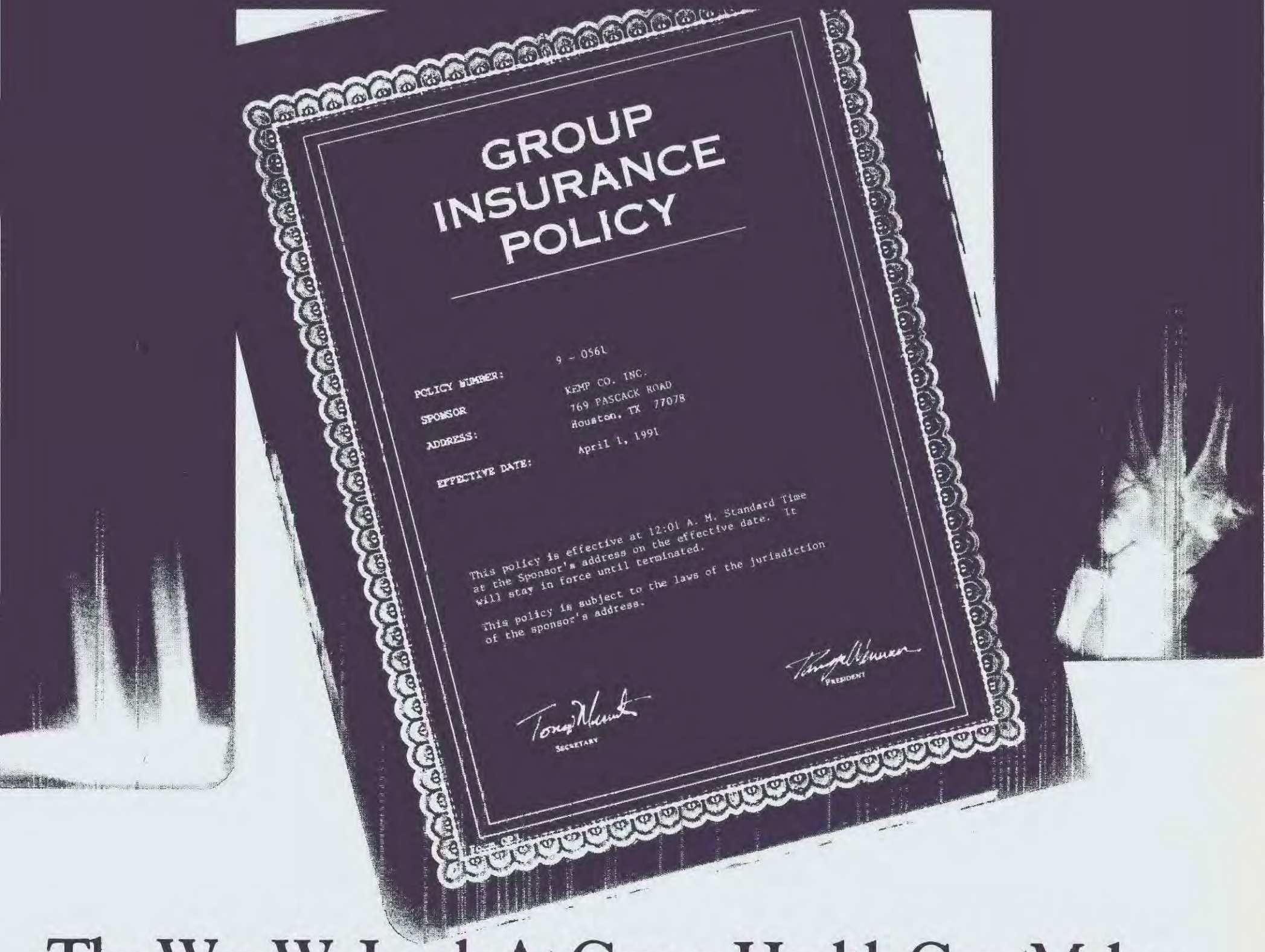
1990 penalties for overdue authorized reinsurance

All amounts in thousands

Insurance group	Penalty	Overdue authorized reinsurance[1]	Total reinsurance recoverable[2]	Capital and surplus	Net premiums written
CIGNA	$82,391	$411,955	$3,858,745	$1,605,826	$4,171,298
Crum & Forster	70,341	351,704	3,067,956	1,264,516	2,965,713
Continental	20,386	101,931	2,285,613	1,801,771	3,645,381
CNA	17,058	85,289	1,448,720	3,146,871	6,423,493
Allstate Ins. Co.[3]	16,887	84,434	761,776	4,710,311	14,023,965
Hartford	11,917	59,585	3,760,313	2,738,594	5,074,892
AIG	11,737	58,686	7,142,404	5,192,388	9,023,998
Home	8,991	44,953	1,036,922	786,354	1,923,621
Argonaut	7,439	37,194	119,420	390,135	419,038
General Re	6,481	32,405	386,267	2,901,535	2,065,003
Royal	4,996	24,982	603,827	822,955	1,835,103
Nationwide	3,426	17,128	2,661,616	3,125,225	5,777,038
Aetna	3,115	15,574	2,018,805	4,562,455	6,475,198
Chubb	2,645	13,226	855,050	1,404,696	2,889,046
Transamerica	1,114	5,570	545,785	767,047	1,746,262
St.Paul	960	4,799	968,255	1,466,736	2,900,948
Reliance	669	3,344	715,448	846,440	1,428,591
Old Republic	629	3,145	1,050,895	574,967	689,639
Allianz[4]	598	2,992	173,482	122,902	155,656
Fremont	375	1,873	167,929	207,447	402,618
Travelers	335	1,676	3,238,032	3,720,421	4,397,214
Sentry	169	845	118,519	663,987	1,135,193
Fireman's Fund	156	779	1,504,104	1,420,474	2,727,764
Kemper	94	470	1,454,671	1,466,721	2,997,562
Liberty Mutual	66	329	2,759,273	6,479,821	2,570,287

1 May include paid and unpaid losses, unearned premiums, incurred-but-not-reported losses and loss adjustment expenses 2 Includes paid and unpaid losses and unearned premiums; does not include IBNR or loss adjustment expenses 3 Figures for Allstate Insurance Co. only 4 Does not include Fireman's Fund
Source: *BI* survey

GRAPHIC BY KIMBERLY MART



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Spotlight report

London market shake-out intensifies

By GAVIN SOUTER

LONDON—Pressure on soft insurance rates will intensify during year-end renewals in the London market as reinsurance rates soar and capacity shrinks, brokers and underwriters predict.

Lloyd's of London syndicates are closing or merging daily, while reinsurance companies are pulling out of the London market as parent companies withdraw support from London subsidiaries in what is being seen as the biggest shake-out the market has seen in years.

And reinsurers' hopes for a catastrophe-free 1991 were dashed last month as reinsures began to tally billions of dollars in losses from the fire in the Oakland hills and the typhoons in Japan (*BI*, Oct. 28; Oct. 7).

The two losses have helped further delay an already late London reinsurance renewal season as underwriters assess their exposure to these catastrophes before they issue renewal quotes.

The end result will be an exceptionally late and arduous reinsurance renewal as brokers search for catastrophe and retrocessional capacity and try to set up new programs to meet the demands of the changing market.

"It's going to be sleeping bags in the office time," one broker quipped. And underwriters will be up bright and early to meet the demand, he said.

However, there will be fewer underwriters to visit, both at Lloyd's and in the London company market, as the London reinsurance market restructures.

At least 60 Lloyd's syndicates have merged or gone into runoff this year, and more closures are expected.

The capacity of the syndicates now in runoff totals more than 380 million pounds ($643.7 million at current exchange rates), one source says, while the overall capacity of the merged syndicates is nearly 700 million pounds ($1.18 billion). However, in many cases, the mergers will not lead to a reduction in overall capacity.

The total number of syndicates that will merge or close will remain in doubt over the next few weeks until Lloyd's determines how many members will meet solvency requirements. However, Lloyd's executives expect the market's 1992 capacity to fall by 10% to about 10 billion pounds ($16.9 billion at current exchange rates) from 11.1 billion pounds ($21.42 billion at year-end 1990 exchange rates) in 1991 (*BI*, Sept. 2).

Many of the merged or closed syndicates have been forced out of the market due to the combination of losses and lack of support from members, said Peter Roundell, chairman and managing director of Leslie & Godwin Reinsurance Ltd.

"If you lose 30% to 35% of your capacity and you have a nasty tail in your past years, you have a problem because you are not getting the cash flow needed to support the syndicate," he explained.

Members agents are withdrawing their support from some syndicates for a variety of reasons, according to Mr. Roundell.

"Sometimes they may not have confidence in a particular underwriter. Other times they may not like the way a syndicate is managed or the type of account it underwrites. Or, it could be a combination of all three," he said.

Underwriting agency H.G. Chester & Co. Ltd. last month was forced to seek support from rival agency Hayter Brockbank (U.K.) Ltd. to ensure its survival. Hayter Brockbank will be lending management support to H.G. Chester's syndicates 65 and 640 in return for the option to take over H.G. Chester within the next nine months.

Syndicate 65 has 1991 capacity of 76.2 million pounds ($147.1 million), of which about 25% was devoted to excess-of-loss reinsurance business. Syndicate 640 has 1991 capacity of 8.6 million pounds ($16.6 million).

The most recent large victim of members agencies' withdrawal of support is syndicate 367, managed by F.L.P. Secretan & Co. Ltd.

Secretan announced last month that the syndicate, one of the oldest at Lloyd's, would leave its 1989 year open and that its 1992 capacity would be cut to 42 million pounds ($71.1 million), compared with 101 million ($194.9 million) in 1991 and a high of 149 million ($280.1 million at applicable exchange rates) in 1988 (*BI*, Oct. 14).

The open account and the reduction in capacity were due to uncertainty over the size of future claims from U.S. pollution and asbestos risks, said Peter Edwards, Secretan's chief executive.

Two weeks later, Secretan announced that syndicate 367's 1992 capacity would be further cut to 25 million pounds ($42.4 million), which makes underwriting unviable. Thus, the syndicate is being run off.

Other large syndicates withdrawing from the market include syndicate 290, managed by Gooda Walker Ltd., which had a 1991 capacity of 36.3 million pounds ($70.1 million).

Like many excess-of-loss syndicates, it sustained huge losses from the chain of natural catastrophes in the late 1980s and 1990.

Excess-of-loss syndicate 321, managed by Gresham Underwriting Agencies Ltd., will be placed into runoff at the end of 1991. The syndicate has 1991 capacity of 33.6 million pounds ($64.8 million).

Syndicate 321 sustained a loss of 3.1 million pounds ($6 million) for its 1988 year due to catastrophe losses, and it is expected to produce a more modest loss when its 1989 results are announced next year.

But it is not just Lloyd's syndicates that are being forced out of the market. Since last November, 12 London market companies have been placed in runoff: Albion Insurance Co. Ltd.; Atlantic Mutual Insurance Co.'s London unit; Bryanston Insurance Co. Ltd.; CIGNA Reinsurance Co. (U.K.) Ltd.; East West Insurance Co. Ltd.; Fremont Insurance Co (U.K.) Ltd.; Icarom P.L.C.; Norden Insurance Co. Ltd.; Royal London & General Insurance Co. Ltd.; Sampo Insurance Co. (U.K.) Ltd.; and Yasuda Fire & Marine Insurance Co. of Europe Ltd., all of which wrote non-marine business. In addition, London & Aachen Munich Marine Insurance Co. Ltd., a marine reinsurer, is in runoff.

There also are several companies that have continued underwriting but have stopped underwriting excess-of-loss business as a result of huge losses and what they deem to be insufficient rates.

For example, Pohjola Insurance Co. (U.K.) Ltd. stopped writing London market excess-of-loss business, though it continues to write facultative reinsurance, international business and a small amount of treaty business.

Meanwhile, remaining companies and Lloyd's syndicates are uncertain about the capacity they will offer next year.

"We are expecting a reduction in capacity from both syndicates and companies, but nobody really knows what that reduction will be yet," said Brian Rothwell, commercial director at broker E.W. Payne Cos. Ltd.

Some London market companies, which are often subsidiaries of larger insurers, still are not certain how much capital their parents will commit to London operations, he said.

CIGNA Re (U.K.) was the most significant company to withdraw. Before it announced its exit in November of 1990, it wrote annual net premiums of 50 million pounds ($84.7 million), a large amount of which was LMX business.

But most of the companies and syndicates that have merged or are in runoff wrote between 4 million pounds and 25 million pounds ($6.8 million and ($42.4 million) of premium annually.

Most syndicates and companies with large capacities still are in the market, but a change in underwriting strategy is emerging.

For example, syndicate 206, managed by Sturge Marine Syndicate Management Ltd., will write a more balanced excess-of-loss account, said underwriter Bruce Adams.

About one-third of the syndicate's 166 million pounds ($320.4 million)

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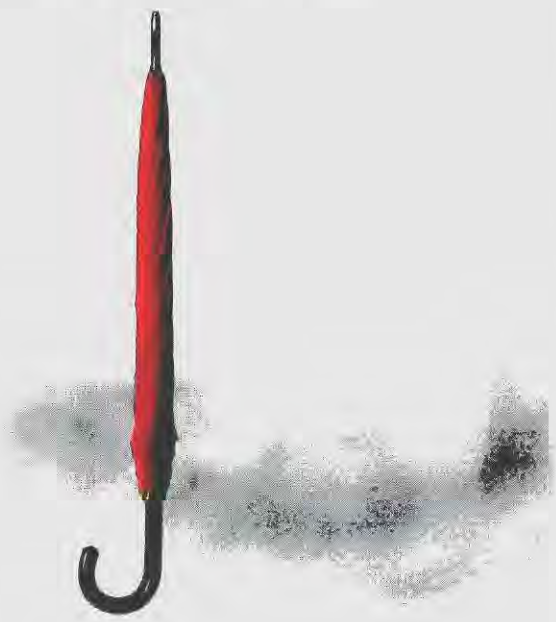

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of 1991 capacity is devoted to excess-of-loss business, and this proportion will continue into next year when the syndicate's capacity is expected to shrink, he said.

"There are some good opportunities in the excess-of-loss market because the reduction in capacity last year assisted in pushing the rates up," Mr. Adams said.

Some excess-of-loss rates increased by as much as 600% during last year's renewals (*BI*, Jan. 7).

However, the syndicate 206 account will change in structure to produce a more balanced book of business, he said.

Risks will be separated by areas of the world and by type of disaster so that man-made and natural catastrophes can be considered separately, Mr. Adams said.

"We want to achieve a balanced book of business and get away from the situation where one loss can ruin an entire account," Mr. Adams said.

Other large syndicates are increasing their direct capacity—as compared to reinsurance capacity—in anticipation of increased direct rates in the marine market.

For example, syndicate 40, managed by Murray Lawrence & Partners, is increasing its capacity to 100 million pounds ($169.4 million) next year from 60 million pounds ($115.8 million) in 1991.

About 60% of the syndicate's business now is excess-of-loss reinsurance. But, underwriter Anthony Bartlett expects direct rates to rise next year across the board, so the extra capacity will be focused on the direct market.

Direct rates are expected to improve next year, agreed Stephen Merrett, underwriter of syndicate 418, managed by Merrett Underwriting Agency Management Ltd.

Syndicate 418's capacity will remain in excess of 200 million pounds ($338.3 million) in 1992, Mr. Merrett said. Its 1991 capacity was 220.2 million ($425 million). None of the syndicate's direct capacity will be channeled into the reinsurance market, he said.

But despite the increase in interest in direct business and the restructuring of the excess-of-loss market, there is still some LMX capacity available, according to Simon Barnes, non-marine manager at Alexander Howden Reinsurance Brokers Ltd.

"The problem is getting people to pay the prices," he said.

On top of the price increases last year, which took rates to 20% rate on line, LMX prices rose to 25% rate on line in April. That level will at least be sustained in the coming renewal season, he said.

There still is substantial capacity in the reinsurance market, but nobody is sure what types of coverage this capacity will be devoted to, Leslie & Godwin's Mr. Roundell said.

Also bringing pressure to bear on rates will be the losses suffered from the recent typhoons in Japan and the fire in the Oakland hills.

It is still too early to say how large the losses from Typhoons 17 and 19, which hit Japan in September (*BI*, Oct. 7), will be, but recent estimates place the insured loss at between $1.6 billion and $2 billion, sources say.

Japanese insurers, though, are "massively underreinsured," said one Lloyd's underwriter.

The Japanese market carries a total of $1.2 billion in catastrophe reinsurance, and 40% of that loss may be paid in London, he said.

"It's the biggest loss suffered in Japan and it should push reinsurance rates up," said Mr. Rothwell of E.W. Payne.

"You are almost certain to see increases at the Japanese renewal next April, but it is far too early to say by how much," Mr. Barnes said.

The American Insurance Services Group estimates that insured losses from the Oakland fire could reach $1.2 billion, but some say the loss could go higher (*BI*, Oct. 28). About 35% of the loss is expected to fall on London reinsurers, one source said.

The combination of losses will ensure that the 50% increase on U.S. catastrophe reinsurance rates that London underwriters want to enforce during upcoming renewals will be achieved, said Richard Trubshaw, underwriter for Lloyd's syndicates managed by Harvey Bowring & Others. ■

European reinsurers bent on raising rates

By CAROLYN ALDRED

BADEN-BADEN, Germany—European reinsurers seem increasingly determined that the days of low rates are numbered.

Several years of disastrous underwriting losses in most major European countries, including the United Kingdom, Germany and France, are taking their toll and shareholders deserve better results, reinsurance executives claim.

At their annual gathering in the German spa town of Baden-Baden, reinsurers spoke frankly and seriously of the need to raise rates.

However, executives admit that competition for good international business and the fight for European market share, in particular, remain strong.

As a result, significant rate hikes may still not materialize this upcoming renewal season for most types of reinsurance despite continuing rate hikes for retrocessional and catastrophe coverage, reinsurers predict.

"People were depressed," said Bengt Kastengren, senior adviser for Skandia International Insurance Corp. in Stockholm, Sweden, summing up the mood in Baden-Baden. "They realize things are not going well. Results are poor, there is too much competition and the rates are too low. Everyone thinks that it should change."

"The mood in the market is very much that there should be a hardening" of rates, agreed David Roe, managing director of Liberty Mutual Insurance Co. (Mass.) Ltd. in London.

However, "the desire for market share is still strong," he added, predicting there will be a delay in rate increases until next year "when the whole market will harden."

The picture in Europe "is not very encouraging. It is difficult to find a territory which has produced good results," said Chris Burbidge, director of non-marine underwriting for Terra Nova Insurance Co. Ltd. in London. "The French results are particularly bad, the German industrial fire results are still poor and Italy is very bad.

"I wouldn't have thought that people can run with 25% underwriting losses forever," he said, adding, though, that "the desire for market share is still there and any rate rises will depend largely on the attitude taken by the large professional reinsurance companies."

However, reinsurers expressed a strong determination to raise rates while talking with ceding companies at Baden-Baden.

"The mood was sincere. We had very frank, very open discussions with our clients explaining that things cannot go on with the existing rating levels and current market losses," said Christian Baumguertel, a member of the board of directors of Gerling-Konzern Allgemeine Versicherungs-A.G. in Cologne, Germany.

"Rate rises are necessary to fulfill our duty as reinsurers. The discussions I had were very clear and open. There was a determined mood prevailing," he said.

Widely regarded as the season's most important pre-renewal meeting, the conference in Baden-Baden allows reinsurance, insurance and brokerage executives to conduct more detailed and technical discussions than, for example, at the Rendez-Vous de Septembre in Monte Carlo (*BI*, Sept. 23).

Although several executives pointed out that less actual business was conducted during this year's Baden-Baden meeting than in prior years, the Oct. 21-25 gathering gave reinsurers an opportunity to discuss their troubles.

"A lot of buyers were quite sur-

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Baden-Baden

Continued from previous page
prised" at the resolve of reinsurers to increase rates, said Richard Harffey, non-marine treaty underwriting manager for London-based Eagle Star Insurance Co. Ltd.

"As a result, not much business was written and a lot of people have gone away (from Baden-Baden) to have a rethink. They didn't realize how tough reinsurers were going to be," he said.

Mr. Harffey predicts that the upcoming renewal season will see decreases in ceding commissions of "significantly more than 2.5%" and major tightening in terms of coverage, like increased retention levels.

If these changes do not take place, many reinsurers are "prepared to cut their underwriting accounts dramatically," he said, adding that several major European insurers have reduced the volume of reinsurance they write.

The resolution being shown by reinsurers has been triggered by reinsurers' terrible results, not the tightening of the retrocessional market, Mr. Harffey said.

"I think a lot of reinsurers and direct insurers are a lot more pessimistic as to industrial and commercial lines business," Mr. Baumguertel summed up.

"The pressure to improve rates has become more obvious and powerful than earlier this year," he said, adding that there is "a change in attitude to introduce the necessary rating levels to cover the changing risk environment, especially for industrial fire risks."

Indeed, Mr. Baumguertel believes the German market is already turning following a record number of large industrial fire losses. "We have to achieve a rating level equivalent to our loss experience.

"At least the German market has turned and maybe the U.K. market is turning, although the French may need another year," said Mr. Baumgeurtal.

"Europe, and Germany in particular, has had an enormous frequency of very costly losses in recent years," he said, pointing out that competition fueled by the liberation of the European insurance market has meant that insurers and reinsurers were unable to raise rates in recent years to match the rising loss experience.

However, increased demand for coverage, particularly for business interruption coverage following several huge industrial losses, together with a continuing squeeze of capacity in the retrocessional market is reducing reinsurance capacity, he pointed out.

Meanwhile, the recent explosion of a hydrogen tank owned by Heraeus Holding Gmbh of Hanau, Germany (see story, page 99), is expected to cost insurers about 400 million deutsche marks ($237.3 million) and could be the "last drop to fill the cup," Mr. Baumguertel.

"The (property reinsurance) market (in Europe) is underrated by about 25% to 30% and this is what we are working to overcome," he said.

And, Mr. Baumguertel believes his views are accepted by ceding companies.

"There is a mood among the big five or six insurance players (in Germany) to change the situation and bring about the rating levels considered necessary," he said.

Executives from Munich Reinsurance Co., the world's largest professional reinsurer, also believe that German insurers share reinsurers' determination to increase rates, a spokesman said.

"In view of the (recent) big losses, the German direct insurers seem to be willing to do something to improve German industrial insurance business and they seem to be taking the situation seriously," the Munich Re spokesman said.

Meanwhile, the recent Japanese typhoons that could cost insurers up to $2 billion enforce the necessity to increase rates, he added (see story, page 18).

However, other executives who attended the Baden-Baden meeting believe continuing competition is stifling reinsurers' ability to hike rates and tighten terms.

"The reinsurers all realize that, within five years, half of them will not be there, but they all think their company is fine and it's the others that will disappear. As a result everyone is wanting to keep up market share," said Mr. Kastengren.

"The problem with the reinsurance market is that direct companies are getting bigger and bigger and need less reinsurance, so the reinsurers' bread-and-butter business is declining and they are left with the catastrophe cover to write," said Mr. Kastengren.

Mr. Kastengren, who is 67 and retired the week following the Baden-Baden meeting to form Tilia Reinsurance Consultants in Stockholm, described the mood in Baden-Baden during his 15th conference as "depressing."

"These days less business is exchanged during Baden-Baden," he noted, adding there is little point in exchanging loss-making business.

But, in a lighter vein, he noted that at least the "weather was OK. It didn't rain and that's important when you have to walk so far between hotels."

For many executives, Baden-Baden is a valuable opportunity to gauge the mood of the market and pick up information, even if little business is conducted.

In particular, "for London underwriters, it's an information-gathering event rather than a business meeting," said Terra Nova's Mr. Burbidge.

Although Terra Nova officials have attended Baden-Baden for the last five years, it was Mr. Burbidge's first meeting. "We have opened an office in Brussels to strengthen our connections with continental Europe," he said.

However, Terra Nova, which has traditionally held strong ties with the United States, plans to expand its European business gradually.

Underwriting experience in Europe generally is very poor at the moment, he said. However, he believes the contraction in the retrocessional and catastrophe reinsurance market will continue and eventually force a turn in the overall reinsurance market.

"Hopefully it's the bottom (of the cycle), but how long we will bump along the bottom remains to be seen," he noted.

"The French reinsurers were impressed last year that the catastrophe reinsurance rate increases applied to U.K. composite (multiline) insurers stuck, so maybe they will be tougher on their insurers."

Mr. Burbidge predicts the catastrophe reinsurance market will be "very tight" during upcoming renewals, including "very substantial rate increases since hardly a territory in the world has been without a significant loss" in recent years.

"This record of major losses worldwide has resulted in a unwillingness by reinsurers to risk their money at whatever price," he said.

Meanwhile, companies, which threatened to stop buying catastrophe cover a year or two ago if prices were hiked, now realize they cannot risk going bare.

As a result, increased demand for catastrophe coverage, combined with decreased capacity, will eventually force rate increases throughout the reinsurance market, Mr. Burbidge predicted.

But despite a growing air of expectancy and determination among European reinsurers, do not expect a change in the overall market this year, predicted Liberty Mutual's Mr. Roe.

"I think it will be renewals 'as was,' " he said, pointing out he left Baden-Baden with no evidence of imminent rate increases. ■

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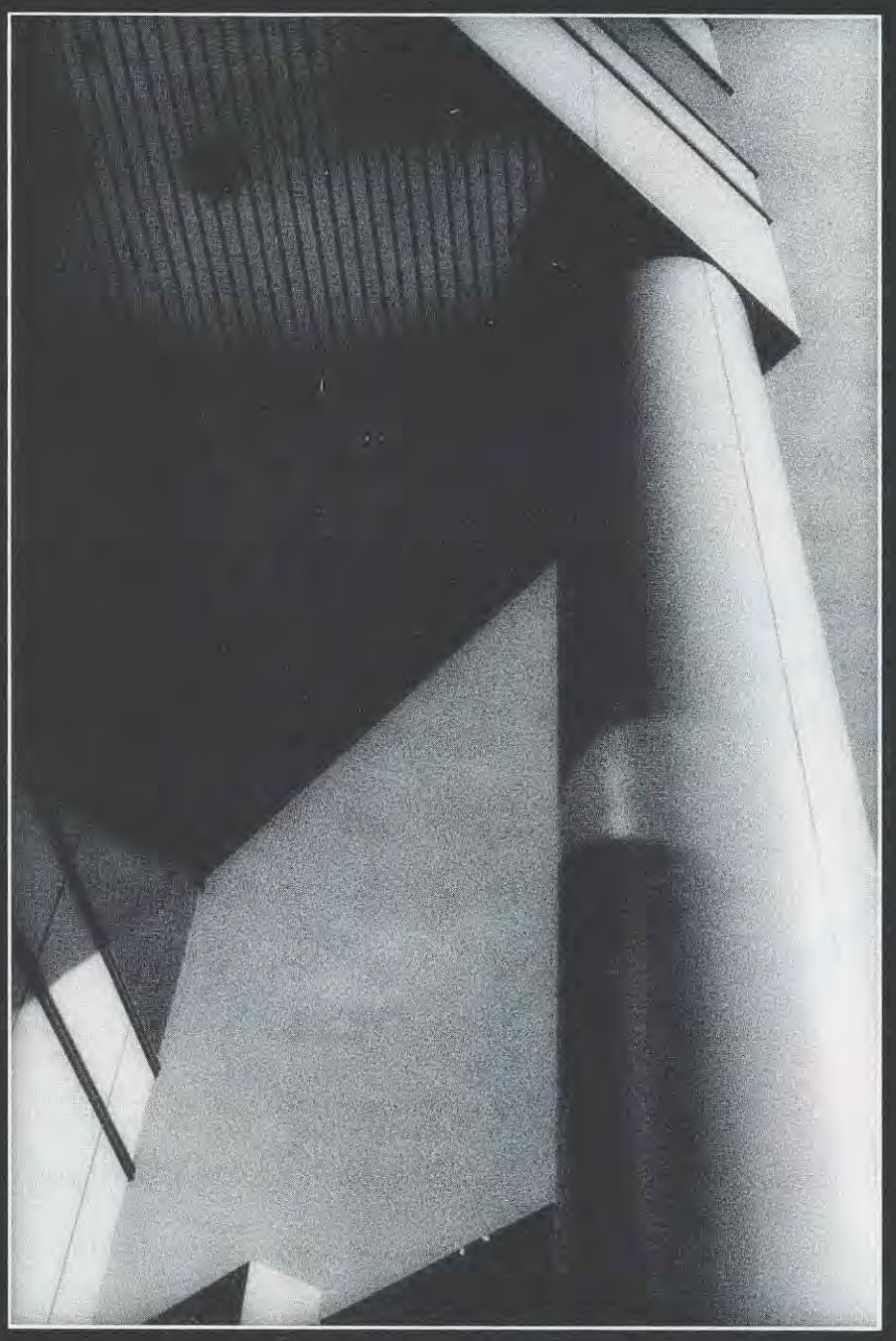

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Spotlight report

Reinsurer execs predict capacity crunch

By STACY SHAPIRO

MONTE CARLO, Monaco—A harsh reinsurance renewal season is in the cards for some types of risks, reinsurance executives predict.

Reinsurance for aviation, energy and other coverages that require high limits will cost much more now that "innocent" capacity has left the market, they say.

Also, rates for catastrophe coverage will rise due to the drastic contraction in the London market, the executives told a packed audience for the "Reinsurance Round-Up," a panel discussion held during the Risk Management Forum. That meeting, held last month in Monte Carlo, was co-sponsored by the European Assn. of Risk Managers and the Risk & Insurance Management Society Inc. (*BI*, Oct. 28).

These types of coverage will be available from major continental European reinsurers but only at a higher price, they said.

Moderator Markus Kiry, corporate insurance manager for CIBA-GEIGY Ltd. in Basel, Switzerland, asked the panel of speakers: "Is there a capacity crunch looming right around the corner and, if so, in which lines?"

For energy-related risks, "I am certain that we have just begun what will probably be an extremely difficult renewal season into 1991 and 1992," said Richard J.W. Titley, chairman of broker Sedgwick Energy Ltd. in London.

The petrochemical industry has suffered "extensive claims, huge claims, claims never foreseen from an onshore and offshore perspective," Mr. Titley told the audience. These include "direct losses, indirect losses, business interruption, property losses—all combined from major incidents" like the $1.4 billion Piper Alpha oil platform disaster in 1988 (*BI*, July 11, 1988) and the $1.3 billion Phillips Petroleum Corp. fire in Pasadena, Texas, in 1989 (*BI*, Oct. 30, 1989).

The losses also came at a time when the market was competing for business, offering more capacity at lower prices, he said.

"On the one hand, the buyer for the last five years or so has enjoyed almost unlimited capacity," he said. "We have placed as a company huge risks and we have never had until recent months any kind of problem completing those risks wherever they were in the world.

"On the other hand, pricing has been equally competitive, as we all know, and has become in the last five years fairly static, if not in a downward trend," he said.

"I suppose you can now ask the professional insurer and reinsurer, 'Have they become too competitive?' " Mr. Titley observed.

The massive losses on top of competitive underwriting have resulted in a severe reduction in capacity that will drive up insurance and reinsurance rates, he said.

"We have indications now that the 'innocent capacity' is beginning to leave the table," he said. "I believe that insurers and reinsurers are beginning to smell blood in terms of what they might or might not do—in terms of increasing those rating levels."

Mr. Titley wonders whether the lack of capacity that the energy field is facing this renewal season, especially for large offshore energy risks, is "the forerunner" of a lack of capacity for risks in other lines. However, he said to all insurers and reinsurers present, "please don't try to increase the rates in one year to a level you might think is economic."

If history repeats itself, the oil industry may set up a captive to cover what can't be insured by commercial underwriters, like it did following energy-related losses in 1966. Those losses, and the lack of capacity, led the industry to set up OIL Insurance Ltd. in Bermuda to fund energy-related liability insurance, Mr. Titley said.

He also noted that financial reinsurance may play a part in providing additional capacity in this "crunch situation."

Several financial reinsurers agree that some of their products can help fill the void left in the catastrophe reinsurance market (see story, page 24).

Meanwhile, Wilhelm Zeller, a member of the board of Cologne Reinsurance Co. of Cologne, Germany, told the audience that the current shortage of catastrophe reinsurance capacity can be traced to the demise of the London excess-of-loss reinsurance, or LMX, marketplace.

He explained that an insurer obtains capacity in excess of its net retention by buying reinsurance coverage from one or more reinsurers. Those reinsurers in turn obtain their capacity in excess of their net retention from one or more retrocessionaires. "Where do the retrocessionaires get their capacity from?" asked Mr. Zeller. "This is the root of the problem. . . .They just ship the risks around among themselves. One reinsures the other so that there is artificial capacity at unbelievable amounts."

This passing of risks from one retrocessionaire to another in a spiral effect, while done legitimately, creates "artificial" capacity, which particularly occurred in the LMX market, said Mr. Zeller.

For example, a medium-sized Lloyd's of London aviation syndicate until recently could easily offer $50 million of capacity on an aviation liability program that had a limit of $1 billion or more, said Mr. Zeller.

"That kind of capacity, $50 million, meant that the net retention of the syndicate was often $5,000 or $10,000," with the remainder ceded to reinsurers and retrocessionaires, said Mr. Zeller. "No kidding. This was the name of the game which has come to an end, gone bankrupt."

The huge capacity crunch in the LMX market will have an effect on many types of risks that similarly required huge limits of capacity, said Mr. Zeller.

"The areas where this makes itself felt very seriously is first in the aviation field," he said. This "artificial capacity" has driven rates down for larger limits, so that for every $100 of premium paid for an aviation risk in 1986, $15 was paid in 1990 for the same risk, according to Mr. Zeller.

Insurance buyers may be upset because aviation rates are increasing 250% to 400% over 1990 levels, but that means that the underwriter is now only receiving $60 of that $100, he said.

The loss of the LMX market is also being felt in the energy market, where the Piper Alpha loss demonstrated the spiral's effect, Mr. Zeller said. The $1.4 billion original loss created $11 billion in claims notifications at Lloyd's alone (*BI*, Sept. 2).

"This innocent capacity—al-

Continued on next page

Sunday Afternoon Workers' Comp

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though those people are very professional in their field—has come to an end," Mr. Zeller said. "So what happens now? The serious, genuine capacity comes to work. Companies like ours commit big net amounts to the aviation business, the property catastrophe business, the energy business, etc. Because after this capacity crunch rates are high, rates are attractive and they merit putting up big net amounts (of capacity) at work," he said.

But one thing is certain, Mr. Zeller said: The professional, established reinsurer will withdraw that net capacity once the rates go down again.

"So far, this scarce capacity only makes itself felt in a few exceptional areas. It has not yet reached the ordinary property/casualty business. Maybe it never will. But in the aviation, energy, etc., business, I hope that the LMX spiral will have gone, at least for the next decade," he said.

Meanwhile, Swiss Reinsurance Co. has conducted a study comparing 1990 premiums vs. catastrophe loss costs worldwide, said Hans-Kaspar Zulauf, senior vp for Swiss Re in Zurich. From this, Swiss Re has estimated that maximum possible loss cost for certain classes of risk, he said.

Based on this study, Mr. Zulauf noted that in aviation, the premium is two to three times less than it should be, given its exposure to catastrophes. But the premium-to-exposure ratio for industrial risks is "more realistic" and only about 50% less than it should be, said Mr. Zulauf.

"Within these industry cycles we are always talking premiums going up and premiums going down," he said. "But what I think we have to do in the future is first of all provide longer-term capacity."

Mr. Zulauf suggests that reinsurers should provide contracts of three to five years on a net basis. The reinsurers would keep the premiums for the duration of the contract, but negotiate any new coverages or additional risks on an annual basis with the client, he said.

"That is my thinking for a more stable solution—and cost-effective solution—in the future. . . .We should more and more try to come up with scenarios on how to handle catastrophic risks and try to find the right price for these risks," said Mr. Zulauf. "In this catastrophic risk area it is far more important that the market provide a long-term state of capacity."

During a question and answer period, a member of the audience asked the panel whether excess-of-loss reinsurance would be available next year for large property construction risks.

Swiss Re's Mr. Zulauf said that property catastrophe coverage would generally be available on a proportional basis next year, though reinsurers like Swiss Re could write excess-of-loss coverage for a proper premium.

Another delegate asked the two reinsurers on the panel whether they would provide any additional LMX capacity next year to fill the void left in the London market.

Mr. Zeller of Cologne Re reiterated that LMX capacity was artificial capacity, adding that a lot of reinsurers could provide "real" capacity for the right price. "These days it's more attractive to provide more capacity because the rates are right," he said.

However, "the artificial capacity won't be replaced," he said.

Asked about the future for reinsurers, Swiss Re's Mr. Zulauf told the audience that reinsurers would like to play a more important role in insurance renewals for large policyholders.

"The reinsurer is in a good position to play an increasingly important role in the management and financing of major risks of the biggest multinational corporations," Mr. Zulauf said. Swiss Re would like to become "involved in negotiations and discussions with such multinational clients and their brokers or professional advisers."

"We would like to bring capacity and know-how to the front where it is needed and where we also have control of it," he said.

However, Mr. Zeller disagreed that reinsurers should play a more direct role in placing insurance contracts.

"I must say that I disagree to some extent for a number of reasons," he said. "It's not only the reinsurers who provide the capacity, but the insurers, too, which provide net retained capacity. At least 50% or more of business written by an insurance company is retained in a net account and has never reached the level of a reinsurer."

"If we eliminate the insurer from this game and we create incentives for the insurance buyers to deal directly with the reinsurers, then we would of course eliminate all the capacity being provided by the direct insurers," he said.

If reinsurers were to bypass only those insurers that hardly retain any risk, then Mr. Zeller said he is in agreement that reinsurers should become involved in negotiations. "We don't need any fronting," he said.

But, he stressed, "we should be interested in maintaining insurer capacity. The reinsurer is not equipped to do the professional insurer's job," Mr. Zeller said. "He's not equipped to do policies and endorsements. He's not equipped for collecting premiums, settling hundreds of thousands of losses every year. The reinsurer by design needs another party to do that on his behalf and he pays him for that. Everything else would create a monstrous expense at the reinsurer's level."

Mr. Zulauf explained that he does not think that the reinsurer and insurer's role has to change for mid-sized commercial accounts, where experienced insurers already play a key role.

However, "I see the reinsurer as being a real help based on his know-how dealing with the big multinational risks," said Mr. Zulauf. "I would like to change this role from traditional reinsurer as provider of capacity and know-how for big multinational risks."

Mr. Zulauf said he would be "very glad" to be a "partner" in such negotiations for multinational insurance programs. "I would like to become a partner, not a reinsurer providing some capacity behind insurance companies," he said.

Sedgwick's Mr. Titley, meanwhile, felt left out. "I have to say, listening as we just have done to my two learned colleagues, one begins to wonder if there's a place for a broker or intermediary in this whole scene at all," he interjected. "From my perspective there is no doubt that there is a position for an intermediary.

"The whole question of partnership needs to be examined. The insured, intermediary and insurer or reinsurer are like three legs of a milking stool. Without one of the legs the stool will surely collapse," said Mr. Titley. "Thus I would firmly advocate a relationship between all parties that would develop into a partnership, developed on (trust) so there are no surprises."

An intermediary also is in a much better position to administer and negotiate tailor-made insurance programs, Mr. Titley added. "In my view, there is absolutely no doubt that there are functions for the intermediary or broker to carry out." ■

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Pace quickens in financial reinsurance

By JUDY GREENWALD

The financial reinsurance market is hopping.

More competitors are getting into the business just as insurance buyers are becoming more aware of how financial reinsurance can help their bottom lines.

Growth also is being spurred by the application of financial reinsurance products to help fill the gap left by vanishing capacity in the London catastrophe reinsurance market.

And, pushed by regulatory and accounting pressures, financial reinsurance itself is changing, becoming more of a blended product that incorporates a more significant amount of underwriting risk with timing risk.

Definitions of financial reinsurance vary, but it is essentially any reinsurance transaction in which anticipated investment income is an acknowledged component of underwriting and the reinsurer's ultimate liability is capped.

Other factors common to these contracts are that they generally are non-cancelable by the reinsurer but subject to commutation by the policyholder.

While some financial reinsurance products incorporate little or no underwriting risk, others incorporate significant amounts.

The policies can be prospective, focusing on future losses, or retrospective, removing past liabilities from a cedant's balance sheet.

There is great interest in writing financial reinsurance these days.

"There's a big surge in both the demand and the supply of (financial) reinsurance," said Ajit Jain, president of the reinsurance division of Berkshire Hathaway Inc., a major financial reinsurer.

Among the new entrants in the field will be a new Bermuda-based financial guarantee reinsurer, which SCOR S.A. of Paris and others intend to set up next year with $100 million in capital (*BI*, Sept. 23).

Others also have expressed interest in participating in the market.

"There will certainly be more players" and more competition in the business, said Mark Mosca, vp and manager of the treaty department at NAC Re Corp. in Greenwich, Conn., which writes financial reinsurance.

"It's a pretty plausible endeavor to raise funds for," said Dave Koegel, vp at reinsurance intermediary Gill & Roeser Inc. of New York. Investors know a company's plan, what they are getting into and the best and worst possible return on capital, he explained.

"There's still a lot of competition out there for the financial reinsurance product," said Steven J. Bensinger, president and chief operating officer of Skandia America Reinsurance Corp. in New York.

Two years ago, Michael G. Fitt, chairman, president and chief executive officer of Employers Reinsurance Corp. of Overland Park, Kan., said he had no interest in writing financial reinsurance (*BI*, Nov. 6, 1989).

But he has since changed his stance. "We have done some," he said. "It was clear that there was a marketplace for certain financial risk products out there."

Employers Re writes "banking-type risks with reinsurance overtones" that help insurers' balance sheets and let them produce more business, Mr. Fitt explained. The reinsurer works only with clients for which it writes other business.

Reliance Reinsurance Management Inc. in Philadelphia, a unit of Reliance Group Holdings Inc., recently hired a senior vp to oversee customized reinsurance products, including financial reinsurance.

"We're anticipating a long-term need for financial-type products," although their structure will change in response to regulatory and accounting concerns, said George Roberts, its president.

Mr. Roberts said he could not estimate how much financial reinsurance Reliance will write. "It's so much a function of one or two significant programs," and whether they are reported as reinsurance transactions or advance deposits, he said. Reliance intends to write a wide variety of existing products, as well as customize others, he said.

Among other reinsurers that write some financial reinsurance are General Re Corp. and Prudential Reinsurance Co.

Edmond Rondepierre, senior vp and general counsel at Gen Re in Stamford, Conn., said: "We are doing a number of deals other people would describe as funding arrangements."

Also, he said, "we do financially-oriented transactions, but we see to it (that) they include both timing and underwriting risk."

Tom Gallagher, senior vp at Pru Re in Newark, N.J., said: "We've always been interested in providing clients with the full scope of reinsurance products." Pru Re has been working with selected long-term clients to develop long-term strategies in this area, he said.

But, he added, "It's an extremely competitive market out there for financial reinsurance, and we're not writing that much at all."

Some expect companies may leave the financial reinsurance business once the market hardens.

"I would say that you will see a flowback to more traditional business on the basis that it is then more profitable," said Dave Holman, a partner with Ernst & Young in Stamford, Conn.

"I would be surprised if they didn't leave," agreed Steven M. Gluckstern, president and chief executive officer of Centre Reinsurance Holdings Ltd., Bermuda's largest financial reinsurer which writes finite risk products.

Continued on page 26

AVIATION PRODUCTS LIABILITY

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Financial reinsurers

Continued from page 24

"It's a business we engage in only in times when there's not much else to do," acknowledged Steven H. Newman, chairman, president and chief executive officer of Underwriters Reinsurance Co. of Woodland Hills, Calif.

"It represents less than one-third of our business," he said. "We never did much, and I would say we're not doing any more than we did before."

"There are a number of players who are in the marketplace today who write it as a sideline," said Heidi Hutter, a senior vp with Atrium Corp. of New York, a financial reinsurance underwriting management unit of North American Reinsurance Corp. "I would expect they would not be so active in the marketplace when it hardens," she said.

Jonathan S. Roberts, vp of the Clarendon Insurance Group Inc. in New York, which writes financial reinsurance as well as other reinsurance lines, agreed. "As the market hardens, there'll be a pullback of both financial and traditional capacity," he predicted.

Meanwhile, some observers say they do not anticipate many new competitors entering the market.

"I think it's going to be a slow process," because capital is probably adequate now, said Robert N. Tremelling II, president of the Tretis Group Inc., a reinsurance intermediary based in San Francisco.

Also, there is an "amazingly small number of people" who know what they are doing in the financial reinsurance market, he said.

Jens Juul, president and chief executive officer of Scandinavian Reinsurance Co. Ltd., a Bermuda-based financial reinsurer, agreed: "I think it's very limited because of the few experts in the world, and it's also an increasingly capital-intensive business, so it's a high entry level for people.

"I also think financial reinsurance as a specialized field is getting more complex, as well, which will also make it more difficult for new entrants," he said.

"I would say the market is pretty close to being full," said John Houldsworth, general manager of Cologne Re (Dublin) Ltd. in Dublin, Ireland, which writes financial reinsurance. There may be room for one or two additional companies, but "there isn't much more coming."

Observers are divided, however, about whether capacity and competition in the market have become excessive.

"Competition is there, and I think that even though there is an increasing number of so-called financial or finite risk reinsurers, the market need is growing as well," Scandinavian's Mr. Juul said.

Although margins are slimmer, "it's a growing market," he said.

And, there is not too much competition, according to Mr. Juul. "Certainly not compared to the traditional reinsurance business."

"I think there's probably an adequate amount of competition," said Mr. Tremelling of Tretis. "I don't think it's really as bad as the traditional market."

"Generally, I don't think there's too much capital," said James D. Thomas, chief financial officer for Independence Insurance Co. Ltd., a Bermuda-based financial reinsurer. "It's almost to be expected," he added. "It's a far more sensible way for people to buy reinsurance, and more capital will come in as people realize that."

The market is not overcapitalized, agreed Robert J. Osborne Jr., executive vp of New York-based Arthur J. Gallagher Intermediaries Inc. "I think it's an area that is still developing," he said. "I would not say it's severe competition in that class. I would think moderate at best."

Others, however, expressed concern about the level of competition and capacity.

Mr. Roberts noted that the margins in the business today are "very, very low" compared with the "rather egregious" margins financial reinsurers enjoyed several years ago, before they began to incorporate risk transfer into their products. Competition has also played a part in reducing margins, he noted.

"I think there's a good chance the industry will go through a phase of overcapacity," said Berkshire Hathaway's Mr. Jain.

"Marginal" competitors may leave once the market hardens, said Mr. Jain. But if the market stays soft, these companies will look at financial reinsurance as an opportunity to write business and to use their excess capital. Sheer competitive pressures could lead to a serious erosion of the segment's profitability, he warned.

While there is not too much capital right now, there will be shortly if the trend continues, warned Salvatore D. Zaffino, chairman and chief executive officer of intermediary Crump Re Inc. in Hartford, Conn. "It's a new product, and an awful lot of people are coming to that area right now."

Larry E. Fondren, president of ReSOURCE Intermediary Group, a reinsurance intermediary based in Berwyn, Pa., believes "there's quite a lot of capacity now."

While each deal is unique to itself, "there's plenty more capacity than needed," Mr. Fondren said.

"There's more capacity looking for the deal than there are deals," agreed Peter Murphy, vp-marketing for Enan & Co., a reinsurance intermediary in Burlingame, Calif.

The market has too much capacity to write time-and-distance policies, according to Cologne Re's Mr. Houldsworth. "That's absolutely saturated, really."

Time-and-distance policies guarantee ceding companies specific payments at specific times in the future based on the initial premium paid and the investment returns expected by the reinsurer.

While these products are popular with Lloyd's of London syndicates, they are not considered reinsurance by U.S. regulators, because the reinsurer is not obligated to pay claims any more quickly than provided for under the contract, regardless of the ceding company's underlying loss development.

While consolidation is expected among conventional reinsurers, it is not among financial reinsurers.

One recent exception is the purchase of financial reinsurer Pinnacle Reinsurance Co. Ltd. by Centre Re (*BI*, Sept. 23).

Centre Re plans to pay $63.7 million for the business of Pinnacle, which is owned by Lloyd's of London broker C.E. Heath P.L.C. The two are expected to be fully integrated by 1992's first quarter.

Mr. Gluckstern said the deal was motivated by the desire to write a larger share of the time-and-distance market for London underwriters and the chance to acquire added expertise through Pinnacle's team of financial reinsurance underwriters, marketing specialists and reinsurers.

But Mr. Gluckstern and others say the Centre Re-Pinnacle deal does not portend a trend.

"We're always on the lookout for blocks of business," Mr. Gluckstern said. Centre Re heard Pinnacle was available and pursued it, he said. But, he added, there are not many books of business like it.

"This was a company that was for sale and had a very, very excellent penetration of the London time-and-distance marketplace,

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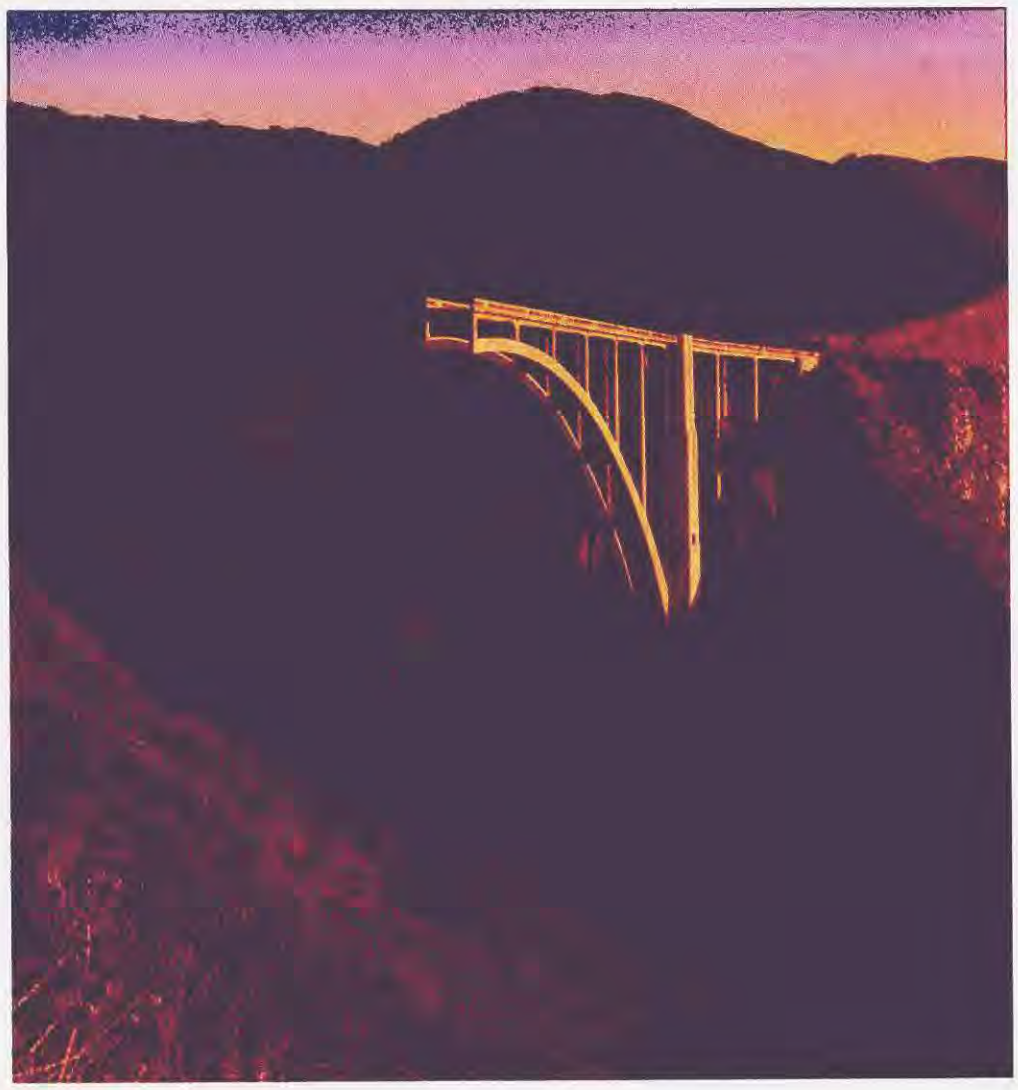

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Continued from previous page
and gave Centre Re just that, so I don't particularly see it as a harbinger," agreed NAC Re's Mr. Mosca.

"It's not an easy transaction" to buy and sell financial reinsurers, said Kirk Roeser, president of Gill & Roeser. "I don't think you'll see a spate of them, frankly."

Mr. Roeser added that buying a financial reinsurer is more like buying a life insurer than a property/casualty insurer, because their investment portfolios are comparable.

"You're looking at the assets and how they stack up against the liabilities in terms of duration and quality of assets. It's a special type of acquisition," he said.

Bermuda is expected to remain a stronghold for financial reinsurance, despite increased scrutiny by U.S. regulators and accountants of offshore reinsurers. Bermuda is an attractive domicile because insurers can discount their loss reserves for regulatory purposes and, except for U.S.-controlled corporations, business is conducted tax-free. There also is a significant amount of capacity already there.

John Burville, a consultant and principal with the Tillinghast division of Towers, Perrin, Forster & Crosby Inc. in Bermuda, said, "Our hope is to work as closely with U.S. regulators as possible, but also to provide a domicile for helpful ways to use offshore capital to support the industry."

"I think that a lot of it's going to wind up offshore," although a lot of financial reinsurance business may initially go through a U.S.-domiciled company, said Clarendon's Mr. Roberts. The ability to discount loss reserves improves margins, so the offshore business is competitive, he said.

Meanwhile, financial reinsurance is becoming more attractive to buyers.

Buyers are becoming more sophisticated and aware that it can be a powerful tool that can address three to four issues at the same time, according to Mr. Tremelling. "People are looking at it in a much more in-depth way."

There is greater recognition, for instance, of the ways in which financial reinsurance can be used to smooth out the ups and downs of the market cycle and stabilize the balance sheet, Mr. Tremelling said.

Particularly popular now, say observers, are funded covers, which are being used to fill the gap left by the drying up of capacity in the London property retrocession market (*BI*, Nov. 12, 1990).

In these transactions, the ceding insurance company pays a premium and is guaranteed certain future payments to fund future losses. If losses are smaller than expected, the ceding insurer receives a profit commission.

However, catastrophe losses could occur more quickly than the premium earns investment income, leaving the ceding insurer short on its recoveries.

Funded covers "is the biggest growth area I see today," said Paul Ingrey, president of F&G Re Inc. in Morristown, N.J., which writes financial guarantee insurance.

"Financial reinsurance offers a really good alternative (to LMX coverage) at a lower cost," said Mr. Roeser.

Tretis' Mr. Tremelling also noted the business is moving toward greater integration of the financial elements of the financial reinsurance product with the risk element. It is just a "natural evolutionary process," he said.

The major trend in the business is away from "pure" financial transactions and toward composite products that are a mixture of traditional and financial reinsurance, agreed Mr. Roeser.

Encouraging this trend are regulatory and accounting pressures.

As a result, the gap in the distance between financial reinsurance and traditional reinsurance will continue to close, with financial reinsurance covering increasing amounts of risk, said NAC Re's Mr. Mosca.

Ceding companies "are very concerned about the risk transfer issue" and are seeking assurances that their deals will meet regulatory and accounting approval, said Atrium's Ms. Hutter. "Certainly the accounting departments are keeping an eye on it," she said.

Ironically, however, one of the greatest incentives to incorporate more risk may be disappearing.

Observers note that the industry has long been concerned about a series of draft statements on risk transfer in reinsurance contracts prepared by the American Institute of Certified Public Accountants.

Like its predecessors, the most recent AICPA draft, which was issued in September, provides that a contract will be considered legitimate reinsurance only if it involves a transfer of both underwriting and timing risk to a reinsurer.

But the draft is likely to be put aside by the Financial Accounting Standards Board for now, according to Joseph Erickson, a FASB fellow. He explained that the board has launched another project that will make it unnecessary to develop a standard for risk transfer in reinsurance contracts.

The board has decided to pursue requiring gross reporting of reinsurance recoverables and liabilities, he said.

Under current accounting methods, an insurer reduces its liabilities by amounts recoverable from reinsurers and reports only its net liability for losses.

With gross reporting, however, the insurer would report its full liability for losses and loss adjustment expenses and would report as assets its reinsurance recoverables. A comparison of gross receivables and the gross liability would indicate the amount of risk transfer inherent in the reinsurance contracts.

Gross reporting of reinsurance recoverables and liabilities renders the AICPA draft unnecessary, said Mr. Erickson.

Rick Lindrooth, chairman of the Reinsurance Auditing and Accounting Task Force of the AICPA pointed out, though, that FASB did approve the draft for exposure.

"It's fair to say that they support what we've done, and they approved it for exposure. If they thought we were crazy, we were wrong, they wouldn't have done it," he said.

Mr. Lindrooth added that the final rules may eventually emerge in a different form than the AICPA's latest draft, but said he isn't concerned.

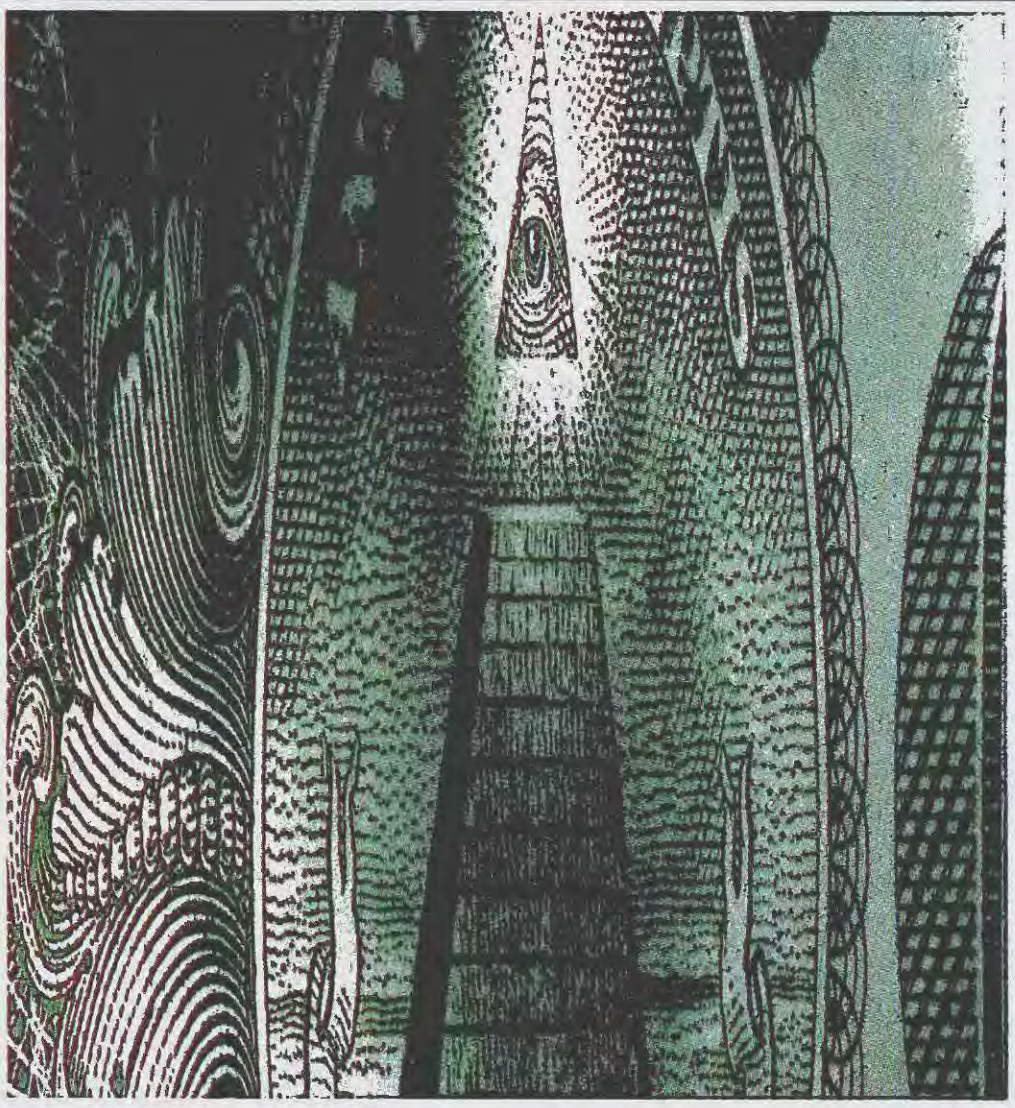
The important thing, he said, is that the conclusions are proper.

Atrium's Ms. Hutter commented that "I think a lot of people are looking at least to the spirit of (the draft), even if it isn't adopted."

For example, the National Assn. of Insurance Commissioners also is considering a proposed amendment to its practices and procedures manual, which has been patterned after the AICPA draft and would require reinsurance contracts to incorporate both underwriting and timing risk.

The proposal is expected to be adopted by the NAIC at its December meeting, said Robert M. Solitro, who is chief examiner with the New Hampshire Insurance Department in Concord and chairman of the NAIC Property and Casualty Reinsurance Study Group, which developed the proposal.

Mr. Solitro noted that the group has closely followed developments at AICPA and FASB on this issue. "If they build a better mousetrap, we'll look at it," he said. ■



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RAA to become a reinsurance 'activist'

By MARK A. HOFMANN

WASHINGTON—The Reinsurance Assn. of America plans to become a more activist organization over the next few years, its new president says.

To do so, the traditionally low-key association will increase staff, move to larger quarters and possibly seek alliances with other property/casualty insurance industry trade groups, said President Franklin W. Nutter.

Mr. Nutter, who was president of the RAA from 1981 to 1984 and who had served as the RAA's general counsel before that, returned to the helm of the RAA this summer after a seven-year stint as president of the Schaumburg, Ill.-based Alliance of American Insurers (*BI*, May 13). He succeeded Jack Blaine, who had held the top post at the RAA for about a year.

Mr. Nutter stressed that the RAA will place a greater emphasis on educating the public about reinsurance and the reinsurance industry.

"We have felt that the lack of understanding of reinsurance is a political threat," he said.

The RAA may also support a federal role in solvency regulation, even though it remains committed to maintaining the McCarran-Ferguson Act, said Mr. Nutter.

"We have a progressive and affirmative solvency agenda at the state level and we're open to a federal role if it will improve solvency standards for the business," he said.

"It is the intention of the association to be activist on reinsurance issues. During the course of the past year and a half, the association has engaged in some long-term strategic planning which included bringing me on the staff, and at our recent board meeting we concluded the long-range plan which incorporates an enhanced staff structure," said Mr. Nutter.

Mr. Nutter

Mr. Nutter pointed out that the RAA hired two new professional staffers last month. Debra J. Anderson, formerly chief general counsel in the Illinois Department of Insurance Office of the Special Deputy Receiver in Chicago, was named RAA general counsel on Oct. 2. And Brad Kading, a former colleague of Mr. Nutter's at the Alliance, where he served as vp and director of government affairs, joined the RAA a few days later as vp and director of state relations. In that newly created position, Mr. Kading will represent the interests of RAA members before state legislative and regulatory bodies.

"It has been our intention to have staff people more focused on specific areas," Mr. Nutter said.

"We intend to hire a director of education—someone who will work with us to improve the overall understanding of reinsurance by state regulators, state legislators, and congressional staff and members. We have felt that the lack of understanding of reinsurance is a political threat, a political liability and we can do a lot to improve our position politically by improving an understanding of what reinsurance is and what it does," he said.

Mr. Nutter said that the RAA will probably also increase the number of staff devoted to federal matters according to a long-term plan covering the next 18 months to three years.

"We will probably come close to doubling the staff," he said. Mr. Nutter said that the RAA would eventually have between 16 and 20 people in the Washington office, and the majority of the new employees would be professionals. Mr. Nutter said the staff currently has five professionals, a number he hopes to increase to at least 12.

The growth in staff eventually will mean a change of address as well, he said. Mr. Nutter said that the RAA intends to remain in the District of Columbia rather than move across the Potomac to Northern Virginia as many other downtown Washington trade groups have done in the past decade.

Growth in staff will not be accompanied by a similar growth in membership.

The RAA currently has 28 members, which represent the vast majority of reinsurers that qualify for membership, he said.

"We always welcome companies that qualify for membership" said Mr. Nutter. But, he pointed out that the RAA would not change its bylaws just to accommodate membership growth.

Member companies must be professional reinsurers; be domiciled in the United States; maintain minimum capital and surplus of $75 million; be licensed in California, New York and at least 23 other states; and maintain at least a B rating from Oldwick, N.J.-based A.M. Best Co.

The RAA's formal mission is brief: "The principal purpose of the RAA is to promote the interests of the property/casualty reinsurance industry and the general public. It presents the point of view of the association's members to the Congress of the United States and its committees, to federal and state regulatory and legislative entities and to the general public.

"The RAA strives to assist reinsurers in providing service to the evolving needs of primary insurers and the public by collecting and disseminating accurate and useful information concerning economic, legal and political developments and changing technological and social conditions, and by providing a forum for discussion and consideration of such information," the mission statement reads.

"As part of that, our mission is educational," Mr. Nutter said. The RAA conducts internal educational efforts for member companies like conferences for claims people and general counsels, as well as efforts to explain how reinsurance works to lawmakers and regulators, Mr. Nutter said.

"We'll be upgrading our overall research and resource capabilities, and that would include upgrading our law library. Our new general counsel is expected to develop and publish an encyclopedia of case law dealing with reinsurance," Mr. Nutter said.

Mr. Nutter said that he hopes that the reinsurance legal encyclopedia will be available in both printed and electronic versions when it is completed.

The RAA is also working with the New York-based Brokers & Reinsurance Markets Assn. on developing international standards for electronic communications, so that reinsurers throughout Europe and North America will have compatible systems for conducting reinsurance transactions, he said. BRMA

Continued on page 30

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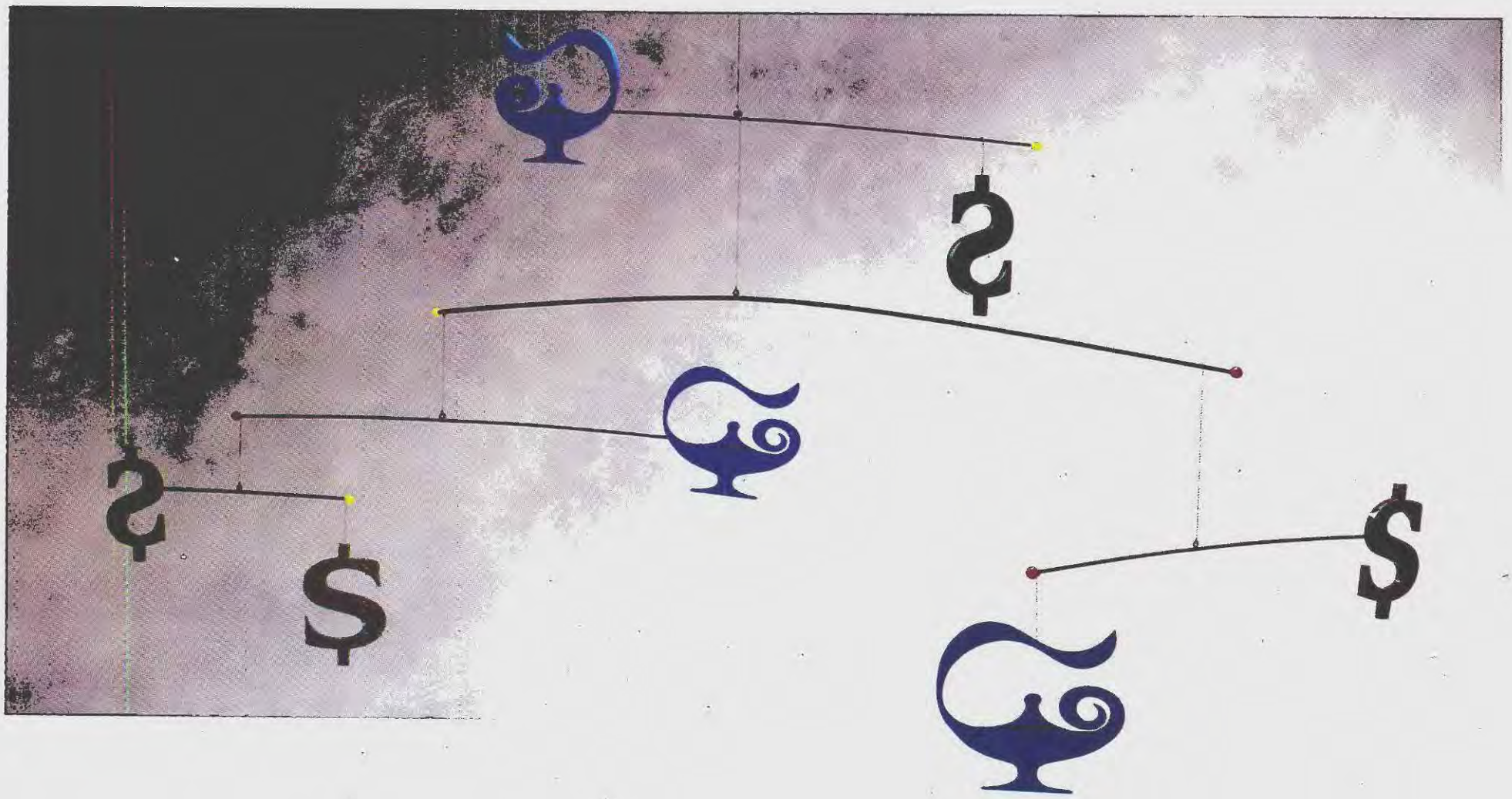

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Spotlight report

RAA's plans

Continued from page 28

represents both reinsurers and reinsurance intermediaries (see story, page 31).

American and European reinsurers, brokers and systems experts will meet in London later this month to discuss the development of the standards, he said.

"There is an effort now to put together a budget and staff that hopefully within the next year can complete the process," he said. "The intent is to create standards fairly quickly and get them adopted."

Mr. Nutter said that the RAA is also working with BRMA to improve the arbitration process.

"We have been looking for ways to be synergistic with BRMA and develop that relationship, and we feel they have a lot to offer. Frankly, we share a lot of common membership with BRMA, so its a natural synergy if you will," he said.

Mr. Nutter predicted that his tenure at the RAA will be different from his previous stint and from those of other predecessors.

The biggest difference will be increased activism, said Mr. Nutter, explaining that the RAA will increase the intensity of its efforts at both the state and federal levels. The new employees to be hired by the trade group will be specialists who will concentrate on specific areas, he said.

Another difference in his tenure will be the number of issues on which the RAA will focus, he said.

Solvency concerns, "particularly the question of a federal role," have assumed a greater urgency than in the past, Mr. Nutter said.

"This association, on the broader questions of solvency, is very progressive. It supports the National Assn. of Insurance Commissioners' solvency agenda and, frankly, probably goes beyond it in the reinsurance area and suggests that accounting and regulatory standards be upgraded," he said.

"This association is open-minded about a federal role in solvency. We have not yet endorsed a specific federal proposal," said Mr. Nutter.

"I want to make clear that we are reserving judgment on whether to endorse a federal role pending any specific proposals put forward," Mr. Nutter said. But, there is a "real recognition" that the international character of reinsurance may make a federal role necessary, he added.

Mr. Nutter ticked off a list of solvency regulation enhancements supported by the RAA.

"We're very much proponents of risk-based capital" requirements, he said. He added that the association favors requiring audits by certified public accountants, actuarial certification of loss reserves and increased standards of credit for reinsurance.

"The RAA is very progressive and aggressive" in backing the National Assn. of Insurance Commissioners' drive to improve state solvency standards, said Mr. Nutter. "We favor increased penalties for overdue reinsurance and we favor improvements in the IRIS tests. We feel very strongly that the NAIC is on the right course."

The reinsurer group's "recognition" that a federal role in solvency regulation may be needed does not conflict with its support for the McCarran-Ferguson Act, Mr. Nutter said.

"We are in support of maintaining the McCarran-Ferguson Act in its present form," he said. The act promotes competition, he explained.

The act is really divided into two parts: one supporting state regulation of insurance, the other granting insurers limited exemption from federal antitrust laws, according to Mr. Nutter. He said that the association's focus is on the second part.

Mr. Nutter also said that the RAA is taking a closer look at the reinsurance industry's role in matters involving insolvent primary insurers.

"A lot of reinsurance issues, a lot of contract interpretation arises out of the liquidation of insolvent insurance companies," he said, calling disagreements over these issues during the insolvency process "a sore spot, a point of contention."

As a result, the RAA has "begun a process of identifying the strengths and weakness of the current system and we expect to emerge from that with proposals for improving the system. At this point, we are critiquing it without any commitment to a state or federal proposal," he said.

Environmental liability questions will also receive more attention from the reinsurance trade group, Mr. Nutter said.

'On the broader questions of solvency, (the RAA) is very progressive,' says Franklin Nutter.

"There is a real concern on the part of reinsurers that reinsurers are just now starting to see (pollution) claims entering the reinsurance portion of the system and the expectation is that having provided protection for high levels of risk, that much of the environmental pollution claims will flow through in a disproportionate way," Mr. Nutter said.

"There's a real interest in examining whether the environmental laws, notably Superfund, are both efficient and equitable," he said. Like primary insurers, reinsurers "question the equity of the retroactive liability of Superfund," he noted.

Mr. Nutter said that RAA is willing to work with primary insurance company trade groups like the American Insurance Assn. in Washington to seek solutions to the environmental liability problem. He said that an independent study on environmental liability might be helpful in dealing with the problems.

While widening the scope of its focus, the RAA has not turned its back on more traditional concerns, Mr. Nutter stressed.

"With respect to excise taxes on reinsurance premiums going abroad, the association has traditionally favored increasing the rate of the excise tax and eliminating waivers of that tax that are frequently introduced in treaties with foreign countries. There are legitimate questions raised about the inequities that the excise tax is meant to address in comparing the tax liability of U.S. reinsurers with (that of) foreign reinsurers doing business here. Our membership has different views with respect to whether or not an inequity has been created," he said.

"I think our higher priority in respect to taxes is in looking at the Tax Reform Act of 1986, in assessing whether the tax code as rewritten by that law is a fair one or whether or not the industry ought to revisit the basis on which it pays federal taxes," he said.

"In 1986, the association promoted a premium tax as preferable to the more complicated method by which taxes are calculated. And while we're not now promoting the premium tax again, we're certainly going to go back and revisit the experience the industry has had under the provisions of Tax Reform Act of 1986," he said. ■

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BRMA has new president, new headquarters

By MARK A. HOFMANN

NEW YORK—The Brokers & Reinsurance Markets Assn. is still on course after undergoing several major changes this year.

The trade association for reinsurance underwriters and brokers in 1991 gained a new president, new headquarters and five new members.

Ward Gordon, former chairman of New York-based Intere Intermediaries Inc., took over the presidency of BRMA upon the retirement of William J. Gilmartin, who had headed the group since its inception in 1987.

Mr. Gilmartin, a retired senior vp of CNA Financial Corp. in Chicago, has embarked on a third career in reinsurance consulting and arbitration.

Upon Mr. Gordon's appointment as president, BRMA moved its headquarters to New York from Olympia Fields, Ill., a Chicago suburb. Staff size also was increased with the hiring in January of Robert Gilligan, formerly an associate with Bear Stearns Co. in New York, as executive vp.

Mr. Gordon said that BRMA has yet to hire someone to track legislative and regulatory developments at the federal and state level.

For the time being, BRMA is continuing to rely on its own legal counsel and the Washington-based Reinsurance Assn. of America to monitor the political arena (see story, page 28).

"RAA will remain the lobbying and statistical agency," he said.

Mr. Gilligan said half of the RAA's 28 members—all of whom are reinsurance underwriters—are also members of BRMA, which further enhances cooperation between the two organizations.

Mr. Gilligan said BRMA added five members this year—four underwriters and one intermediary. The additions bring total membership to 38, comprising 26 underwriters and 12 intermediaries.

Mr. Gilligan said the group's major projects include maintenance of its model catastrophe trust fund program; development of a contract wording manual; and the creation of an international standard for electronic communication among reinsurers.

The catastrophe trust fund program is designed so that reinsurers participating in the program voluntarily fund a trust in the wake of catastrophes. Reinsurance brokers can then draw down on the fund to pay eligible claims, he said.

The fund mechanism, which is handled through Morgan Guaranty Trust Co. in New York, worked successfully in the aftermath of Hurricane Hugo in 1989, Mr. Gilligan said.

The reinsurance officials who have purchased the BRMA model contract wording handbook "are very enthusiastic about it," Mr. Gordon said. In fact, creating such a reference book was one of BRMA's goals since its inception (*BI*, Nov. 12, 1990).

"I think it will become the accepted word on routine contract wording," Mr. Gordon said.

And, as part of its development of electronic communication standards, representatives of BRMA, the RAA and other interested parties will meet in London Nov. 14 to discuss several proposals, Mr. Gilligan said.

"We are trying to put together a cooperative agreement," that would be funded by participants in the project, he said.

Mr. Gilligan said BRMA also is constantly reviewing its goals and projects.

"Even with the association being so young, we're a full-time operation now" and must constantly make certain that the priorities set by members are being met, he said.

The criteria for membership have not changed since the group's founding, said Mr. Gilligan. Criteria for reinsurers include: $50 million in capital and surplus; $50 million in annual net written premium volume; no direct or indirect ownership by a foreign government; no affiliation with a primary insurer; and at least a B+ rating from Oldwick, N.J.-based A.M. Best Co.

In addition, underwriting members that are underwriting managers must be at least 80% owned by their policy-issuing company and must write at least 90% of their U.S. reinsurance business through intermediaries.

Broker members must meet criteria including: a minimum net worth of $2.5 million; be based in the United States; brokerage income from U.S. treaty business must account for more than 50% of total brokerage income; not be majority owned or controlled by a foreign government; be in business in the U.S. market for at least five years; licensed as a broker by New York or substantially meeting that state's requirements; not be part of a holding company system that includes an active insurance or reinsurance company unless 75% of the broker's business is not affiliated business; and not be part of a holding company that assumes more than 25% of its business on a direct basis. ■

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Spotlight report

Reinsurers welcome alternative facilities

By JOANNE WOJCIK

It's a buyer's market for alternative risk financing mechanisms shopping for reinsurance protection.

Domestic reinsurance underwriters are looking for new customers as their traditional clientele—admitted insurers—cede smaller amounts of business.

In addition, many of the major reinsurers feel that alternative facilities have demonstrated their long-term viability and now are acceptable clients.

Even foreign reinsurers have increased their appetite for North American casualty business underwritten by the alternative market, though most alternative facilities are seeking reinsurance from domestic companies, according to consultants.

Alternative facilities can easily find affordable property, general liability and auto liability reinsurance. In addition, many reinsurers will write umbrella coverage for members of the facilities.

Coverage is becoming "more available as more reinsurers realize that alternative facilities are going to prevail in the future," said Gilbert More, senior vp with captive manager Beecher & Carlson Risk Management Inc. in Woodland Hills, Calif.

Indeed, when alternative facilities first began to form, few reinsurers wanted to reinsure them, said Andrew Barile, a reinsurance consultant with Ambel Consultation Services Inc. in New York.

But facilities like purchasing groups, risk retention groups and captives, today have become acceptable entities to be reinsured because they have established track records, he said. In fact, alternative facilities "may be among the few clients that are still buying reinsurance."

"They're going to get more quotes this year for their Jan. 1 reinsurance programs than they ever have," he predicted.

The July 1 renewals for Garden Insurance Co. of Vermont, the captive of Elixir Industries of Gardena, Calif., support this theory: "We received quotes from at least seven or eight reinsurers," said Lea Sirota, risk manager for Elixir Industries and president of its 10-year-old captive.

The alternative facilities created following the hard market of the mid-1980s "have opened up a new market niche for reinsurers," she said.

Jon Harkavy, general counsel for Vermont Insurance Management Inc., a captive management firm in Arlington, Va., agreed: "As much as 35% of the market is alternative risk. They want a piece of that."

"Many domestic reinsurers are more comfortable writing this difficult class of business," said William G. Hurlman, vp in charge of the alternative risk department at Reliance Insurance Co. of Philadelphia. "It's an accepted fact of life."

"The major reinsurers are becoming more aggressive," observed Don Pasmore, vp and director of risk management at the Farm Credit Council in Englewood, Colo., and secretary and underwriting manager of Farm Credit System Assn. Captive Insurance Co., which is domiciled in Colorado.

For example, "there was a big showing of reinsurers at the captive conference we held here in July," he said, referring to a conference sponsored by the Colorado Assn. of Captive Entities. "Some even helped us develop the programs."

Between 35 and 40 reinsurers will underwrite coverage for alternative facilities, market sources say. The major players in the market are American International Group Inc.; American Re-Insurance Co.; CIGNA Reinsurance Co.; Discover Reinsurance Co., a unit of Transamerica Reinsurance Co. of New York; Employers Reinsurance Co.; General Reinsurance Corp.; Prudential Reinsurance Corp.; North American Reinsurance Corp.; SCOR Reinsurance Co.; Skandia International Risk Management Ltd.'s Bermuda-based Alternative Risk Transfer Department; Swiss Re Group; Bermuda-based Sphere Drake Underwriting Management Ltd.; and Transatlantic Reinsurance Co.

Many of the major reinsurance underwriters are becoming more active in the alternative risk financing market "because their traditional markets are so soft," said Joe Peloso, a vp with Prudential Reinsurance Co. and the head of the alternative risk services division of the treaty casualty department.

Reinsurers "are really hungry" for alternative market business, said Donald H. Willhite, executive vp and chief executive officer of Parker Risk Management Services in Denver, a unit of Frank B. Hall & Co. Inc.

However, it is not the fact that primary insurers have increased their retentions that is attracting reinsurers to the alternative market business, according to Darrius Baker, executive vp of North American Reinsurance Corp.'s facultative group.

"We are interested in alternative market business in its own right," he said.

Many reinsurers like working with alternative facilities because it gives them more control over the risks being reinsured, experts point out.

"The risks are the same as they always were," said Mark W. Hinkley, senior vp of Transamerica Re in Stamford, Conn. "But we have the potential for getting broader information on the loss exposure" because reinsurers are working so closely with policyholders.

And some reinsurers are attracted by the homogeneity of the risks underwritten by captives, observed Beecher & Carlson's Mr. More. "It's a set group of business. They know what to expect."

"The alternative market arena is definitely here to stay," asserted Kenneth LeStrange, executive vp of Am-Re Managers in Princeton, N.J., a unit of American Re.

In fact, Am-Re Managers has added staff to enhance its technical capabilities in servicing alternative facilities, which generate about 25% of American Re's reinsurance premium volume, he said.

For example, this year Am-Re Managers has added six underwriters, four actuaries and a full-time accountant, bringing its core staff to 100, up from 89 in 1990, according to Mr. LeStrange.

"We are allocating our resources to an area with the greatest potential for growth," he explained.

Am-Re Managers reinsures general liability, auto liability, miscellaneous professional liability and property risks. It also writes finite risk reinsurance and umbrella and excess coverage for the alternative risk financing programs established by Fortune 1,000 companies, public entities and transportation companies.

Prudential Re also has added an underwriter to its alternative risk services division this year. The division, which is part of the reinsurer's treaty casualty department, now has a staff of four to service alternative facilities, which generate about 5% of

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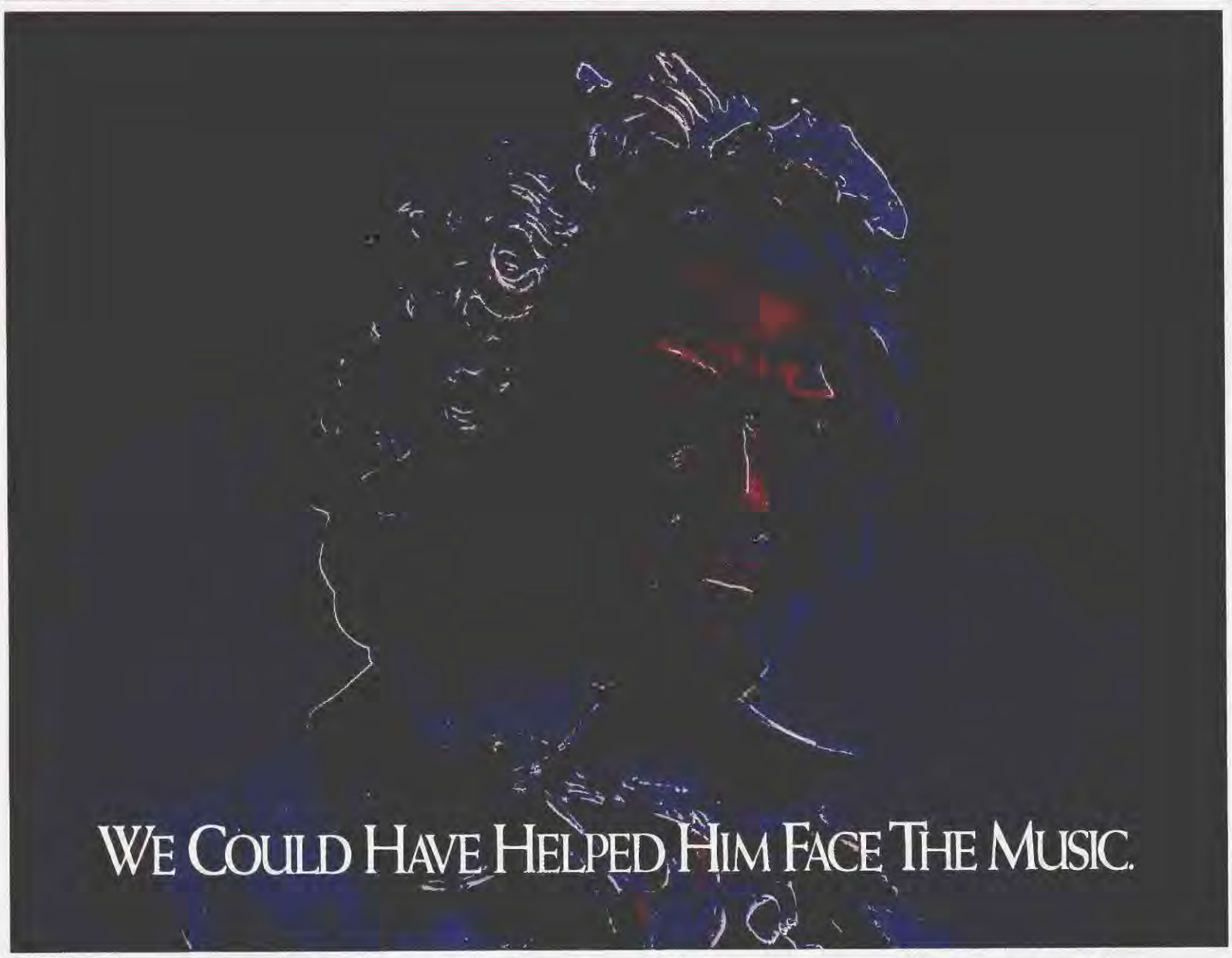

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Alternative market

Continued from page 32

Prudential Re's treaty reinsurance premium volume, according to Mr. Peloso.

Genesis Underwriting Management Co. is looking to strengthen the loss control and claims management services it provides to alternative markets, according to Roger Greiner, president of the 4-year-old subsidiary of General Reinsurance Corp. of Stamford, Conn.

Genesis currently employs 45 full-time technical staff members.

Reliance Insurance Co. of Philadelphia opened an alternative risk department in April 1991 to solicit alternative market business, said William G. Hurlman, vp in charge of the department. Mr. Hurlman, who so far is the only employee in Reliance's new department, formerly worked in the alternative risk division at Continental Corp. in New York.

But alternative facility business is not new to Reliance, according to Mr. Hurlman. Reliance has been underwriting alternative market business for about six years and has about 15 clients whose combined risks generate approximately $12 million in premium, he said.

Reliance's new alternative risk department will underwrite property and casualty reinsurance on both a treaty and facultative basis. In addition, the department offers financial reinsurance, according to Mr. Hurlman.

Its primary marketing focus is group and association captives, single-parent captives and insurance pools and trusts, he said.

Even big-name overseas reinsurers —like Zurich-based Swiss Re Group and Skandia America, both of which own captive management firms—are showing more interest in underwriting reinsurance for the alternative market, pointed out Hugh Rosenbaum, a principal with Tillinghast, the risk management consulting division of Towers, Perrin, Forster & Crosby Inc. in New York.

However, the turmoil in London's excess-of-loss reinsurance market and facultative market over heavy losses is prompting many domestic alternative markets to seek reinsurance protection from domestic reinsurers, according to North American Re's Mr. Baker.

"They are concerned about the security of their reinsurance market," he explained.

In fact, Mr. Baker predicts the influx of business generated by captives looking homeward for reinsurance will help boost North American Re's share of the marketplace.

Alternative market facilities are expected to generate about half of the reinsurer's facultative group's business within the next two years, he said. Mr. Baker declined to provide premium volume figures.

"We get about a half-dozen new submissions each week, and of that we will write about 10%," he said.

North American Re specializes in providing casualty reinsurance for alternative markets writing primary insurance for asbestos abatement contractors, municipal liability pools and manufacturers, said Mr. Baker.

The reinsurer also participates in property reinsurance programs for self-insured school districts, he commented.

Mr. LeStrange of Am-Re Managers also sees a "return of the business that fled to the London market back to the United States."

He said many alternative markets were attracted by the competitive marine market at Lloyd's, which had liberally defined many risks as coming under its purview.

But now that conditions are tightening up in the marine market, many non-marine risks are seeking domestic sources of reinsurance.

"If you start an entity that's suspect, you buy reinsurance from wherever you can," said Ambel's Mr. Barile.

Alternative facilities, though, have become acceptable insurance entities, so "they are finding more opportunities to purchase reinsurance from major companies," he pointed out.

Alternative facilities can most easily find property, general liability and auto liability reinsurance. In addition, many reinsurers will write umbrella coverage for members of alternative facilities.

And limits generally are not a problem, according to Beecher & Carlson's Mr. More.

"On the lines they want, reinsurers write pretty liberally," concurred Transamerica Re's Mr. Hinkley.

Pricing also remains competitive, according to Philip Petronis, manag-

Continued on next page

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Continued from previous page

ing director of risk management services for Marsh & McLennan Cos. Inc. of New York.

"But, I've seen a fair amount of underwriting discipline, which could prevent the alternative markets from underpricing their products," he added.

Even municipalities, which had trouble finding coverage at any price several years ago, have an easy time in today's soft market, said Prudential Re's Mr. Peloso.

Tort reforms enacted in recent years that are designed to limit municipalities' liabilities are helping to reduce losses and thus make these risks more attractive to underwrite, he explained.

Indeed, most reinsurers will at least look at a risk before deciding whether to turn it down, said Prudential Re's Mr. Peloso.

"Overall, there's reception to most risks—at least to look at," he said.

However, finding reinsurance protection for workers compensation, property catastrophe and some types of product liability and professional liability risks generally requires some negotiation, reinsurance experts say.

For example, many reinsurers, like North American Re, will write workers compensation reinsurance coverage only if the reinsurer is writing other liability reinsurance contracts for the policyholder, according to Mr. Baker.

And many reinsurers will underwrite workers comp exposures only if the underlying program has an acceptable retention level, Mr. More said.

"It's very difficult for reinsurers to reinsure workers compensation on a profitable basis," Ambel's Mr. Barile observed.

However, at least one reinsurer —Employers Re of Overland Park, Kan.—exclusively writes workers comp reinsurance for the alternative market.

And, few domestic reinsurers have sufficient capacity to satisfy the needs of alternative markets seeking coverage for catastrophic property losses, according to Tillinghast's Mr. Rosenbaum.

Many reinsurers also offer their alternative market clients underwriting and claims handling advice, loss control consulting and actuarial and financial services.

Reinsurers, like Genesis, initially provide these services to their alternative market clients to quantify the risk they are reinsuring, Mr. Greiner explained.

But later, "we share our observations and conclusions with the risk and its broker in an effort to continually improve the quality of the risk," he explained.

Genesis provides alternative markets support services like underwriting reviews, claims reviews, vocational rehabilitation, loss control and actuarial and financial analyses, said Mr. Greiner.

However, other reinsurers typically provide only those services that are necessary to "make sure the client is getting the right level of services from their other support help," like brokers, third-party claims administrators, actuarial and accounting firms, said Mr. LeStrange of Am-Re Managers.

Indeed, Elixir's Ms. Sirota said the only help Garden Insurance is likely to request from its reinsurers is to coordinate claims that trigger reinsurance.

Some reinsurers are offering alternative facilities access to finite risk or financial reinsurance, which allows a ceding company to reinsure liabilities for an amount that is less than the amount of liabilities transferred. The resulting recognition of future investment income can be used to strengthen loss reserves, increase earnings or reduce operating losses (see story, page 24).

But there aren't many takers, according to Beecher & Carlson's Mr. More.

"There's a great deal of interest in finite risk and those kinds of techniques," said Am-Re Managers' Mr. LeStrange. "But, I think the competitive pricing for more traditional types of reinsurance has kept many of the alternative markets from purchasing it."

To Ambel's Mr. Barile, the major obstacle preventing alternative facilities from purchasing financial reinsurance is a data shortage.

"Most financial reinsurance people are actuarial trained," he said. "They want huge amounts of statistics. But the alternative markets are having a hard time coming up with the required data." ■

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No blanket recovery in sight: Analyst

By MICHAEL SCHACHNER

NEW YORK—Any change in reinsurers' financial results will be slow and painful absent a dramatic increase in property/casualty insurance rates, which is unlikely to occur, a leading insurance industry analyst says.

A slumping economy and the proliferation of alternative risk financing mechanisms are two major reasons why insurers would be hard pressed to enforce a blanket increase in pricing, the analyst says.

"Reinsurers, and the insurance industry as a whole, will not likely see a recovery like they did the last time around" during the hard market in the mid-1980s, according to Myron M. Picoult, managing director and senior insurance analyst with Oppenheimer & Co. in New York.

"It simply won't be as easy to pump through big premium increases" this time, Mr. Picoult said.

"Buyers now have experience with cutting back on coverage, and there are a lot more captives and viable alternatives where people go and never come back," said Mr. Picoult, explaining how risk managers would likely protect themselves against steep rate hikes.

Mr. Picoult offered his thoughts on the current and future status of the reinsurance industry at the 16th annual research seminar sponsored on Oct. 23 by the Insurance Information Institute and the Reinsurance Assn. of America in New York.

'It simply won't be as easy to pump through big premium increases' this time, says Mr. Picoult.

After nearly four years of lackluster results, reinsurers are still being hurt by the primary industry, where insurance companies are holding onto large retentions in an effort to offset dwindling investment income, according to Mr. Picoult.

In addition, both insurance companies and reinsurance companies are pricing their products too low, Mr. Picoult said.

"Cash flow and investment income are flat, or negative. So, insurers are competing for market share. The ability to offset underwriting losses with investment income has slipped away," Mr. Picoult said.

"Companies say they're holding the line. But with the market in this condition, that means they're slipping," he said. "Market share isn't everything, but current management seems to think it is. There's nothing wrong with shrinking a company for the better."

Steven J. Bensinger, president and chief operating officer with Skandia America Reinsurance Corp. in New York, agreed that insurance company executives need to do more planning for the long term.

"Holding the line (on pricing) isn't that good, yet people take pride in it," Mr. Bensinger observed, noting that "renewing a policy as is is a step backward down the slippery slope."

Insurers' results will not improve until underwriting losses become too great to offset or ignore, another analyst said.

"Cash flow will be the final trigger," predicted Michael A. Smith, first vp with Lehman Brothers in New York. "When it goes negative is when we may begin to see some change in the underwriting pattern. Cycles only change when CEOs start to get fired."

Oppenheimer's Mr. Picoult said the blame for soft market conditions can be spread beyond insurer management to regulators, rating agencies and accountants.

"Regulators talk from both sides of the mouth. They complain about solvency, but offer no rate relief. They shouldn't be the ones to decide what a fair rate of return is. That should be left to the free market," Mr. Picoult said.

And, rating agencies have "blown things completely," he asserted. Consumer confidence in the market has been eroded due to the failure of rating agencies to accurately assess many insurers' financial strength, he charged.

Accountants and actuaries, meanwhile, also are partially to blame. "Too often, the accountant does only what the client wants because they're worried about the check," Mr. Picoult charged.

Four years of soft market conditions have added up to consolidation in the reinsurance industry and the beginning of a similar trend in the primary industry, according to Mr. Picoult.

"There are just too many companies competing for limited business, and not all are good or proficient," he said.

As of midyear, the 20 largest reinsurers wrote 84% of the industry's premium volume, "which leaves about 40 companies chasing 16%. There's only niche business left for these companies. Consolidation is really their only choice," Mr. Picoult said.

"Quality business is definitely going to the top underwriters," Mr. Smith of Lehman Brothers agreed. "The bigger reinsurers can still get their price as evidenced by their midyear combined ratio of 104%. The bottom 30 posted a combined ratio of 109%."

Mr. Picoult said a reinsurance oligopoly is in the process of being formed.

"The for sale signs are out there. It's a very tough environment. The weak are getting weaker, while the strong continue to get stronger," he said.

How long market conditions will persist is anybody's question. For the past few years, industry observers have forecasted that a major catastrophic event might lead to a market turnaround. However, even that theory is losing support.

"I don't even think a catastrophic event will turn the market any more. It will have to be more subtle than that," Mr. Picoult said.

"I don't anticipate a tsunami wave or anything" would turn the market, said Tal P. Piccione, president and chief executive officer of U.S. Re Corp., a New York-based reinsurance broker.

Paul D. Hawksworth, president and chief executive officer of Mercantile & General Reinsurance Co. of America in Morristown, N.J., moderated the session. ■

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Intermediaries

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simply, are more able to afford to offer the services they need to provide to meet their clients' needs" and, thus, "generally outperform the smaller firms."

However, some doubt that the larger brokers are outperforming the average intermediary.

Michael Smith, first vp with Lehman Brothers Inc. of New York, said the huge catastrophe losses in Europe last year enabled some brokers to book some "substantial reinstatement commissions," a fact that may have played a key factor in individual brokers' gains.

Meanwhile, Mr. Smith believes the reinsurance brokerage market is growing at a slower pace than the overall reinsurance market. As the smaller reinsurers go out of business, there will be less broker business available, he contends.

Still, these intermediaries are confident they can remain competitive and at least one broker commented that 1990's gains could have been better.

Overall, reinsurance brokers' growth in 1990 was "less than anticipated," said Roger D. Espe, president and chief executive officer of Sullivan Payne Co. of Seattle, the U.S. reinsurance brokerage unit of Sedgwick Group P.L.C.

Judging from his company's book of business, Mr. Espe commented that "while new account growth exceeded our expectations, continued weakness in underlying rate levels in the terms being set for reinsurance covers had an inhibiting effect on overall revenue growth."

Still, some of the nation's leading intermediaries say they are confident their results will continue to improve during the remainder of 1991 and in 1992.

Alexander Re expects revenues to grow by 10% to 12% this year. And, Mr. Coleman said he sees a "minimum of that amount" in '92.

"I have nothing factored in to that in terms of market growth," he said. "Obviously, I would love to see it."

However, Aon's Mr. O'Halleran remarked that he "would be very surprised if there was an appreciable gain in '92."

Since brokers are not anticipating a dramatic turnaround in the reinsurance market, brokerages are striving to increase efficiency to bolster profits.

The 10 largest U.S. reinsurance brokers' revenues per employee rose to $143,158 in 1990, from $128,713 in 1989, an 11.2% increase.

The leader of the pack in terms of productivity gains was TPF&C Reinsurance, whose 210 employees at year-end 1990 accounted for an average of $161,905 in revenues apiece, up 37.1% from the $118,100 in revenues for each of its 254 employees at year-end 1989.

Alexander Re also recorded a significant increase in productivity, with its 170 employees at year-end 1990 accounting for average revenues of $148,235, up 25.4% from average revenues of $118,182 among its 187 workers at year-end 1989.

TPF&C Re's Mr. Mitchell is not at all surprised by reinsurance brokers' increased efficiency.

"It's something I would expect; otherwise they wouldn't be able to survive. When the big profit margins disappeared, everybody asked: 'Are we operating efficiently?' The answer was 'No, we are not.' "

While increased productivity can boost reinsurance brokers' bottom lines, brokers must balance their desire to improve efficiency with the necessity of supplying quality service.

Indeed, brokerage officials say they are striving to enhance and expand the services they can offer ceding companies in the face of a difficult market.

"Competition remains keen for the preferred accounts, which means that all brokers and direct writers are being challenged to demonstrate a true 'value-added' dimension to their client relationships," said Sullivan Payne's Mr. Espe.

At the same time, Mr. Mitchell of TPF&C Re noted, "the buying of reinsurance, for some reason, has gotten much more complicated. . .for the buyer and seller."

As a result, intermediaries are drawing on the resources of other units within their corporate organizations.

"I believe you have to have the critical mass in your organization to provide credible and viable services. If you don't have the staying power by virtue of a certain size, your credibility will be called into question," Mr. Coleman said.

These services that now must be provided run the gamut from sophisticated claims handling to actuarial services, he said. At Alexander Re, for example, cedants not only have the resources of a worldwide intermediary, through London affiliate Alexander Howden Reinsurance Brokers Ltd., but also the resources of the entire A&A organization, he said.

Among the specific services requested, brokers are being asked to provide greater financial analysis of both the ceding company and the reinsurers in a cedant's program, Mr. Mitchell and Mr. Taylor agreed.

"One of the 'hottest' value-added

Continued on page 42

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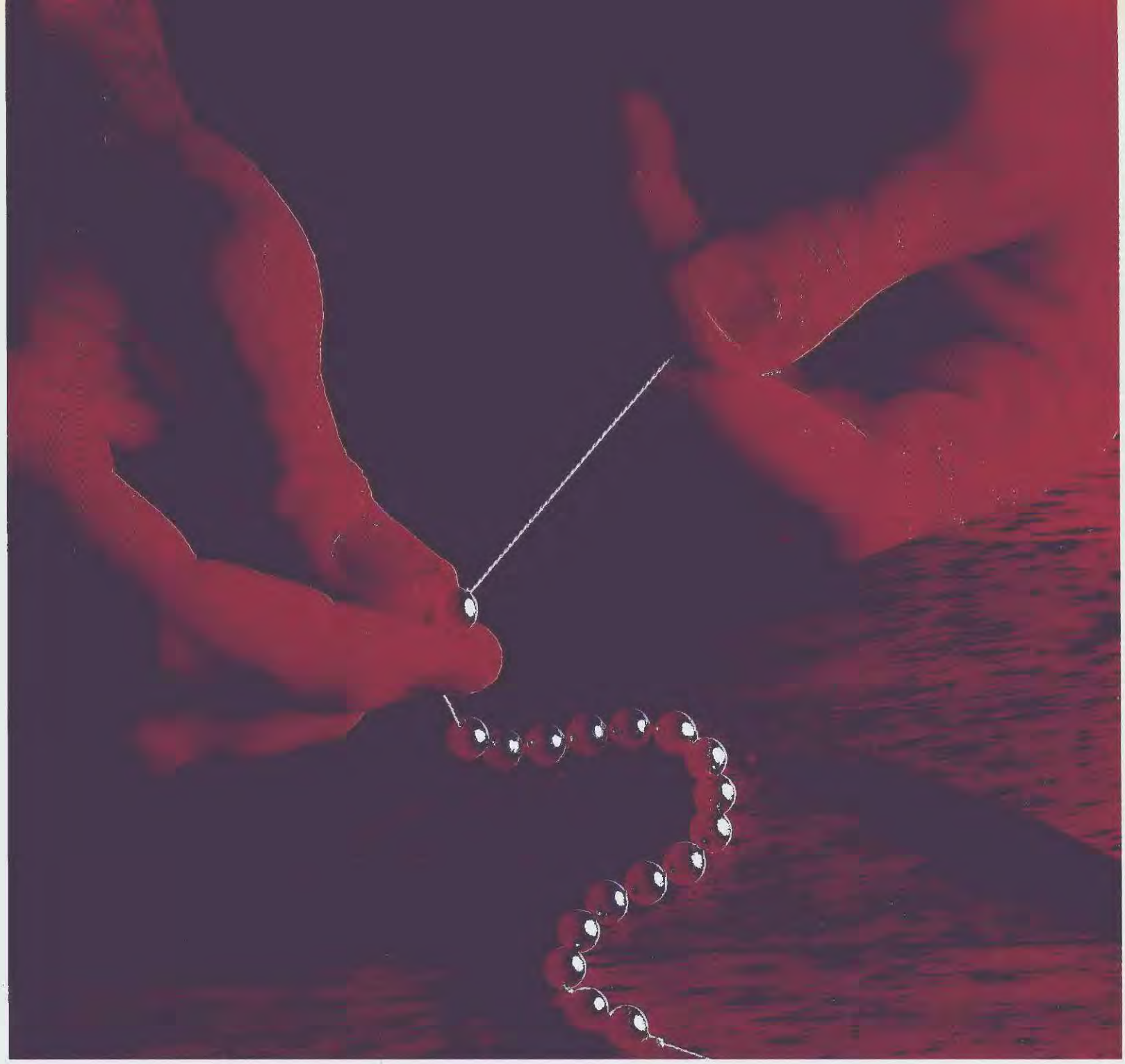

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Intermediaries

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services of the 1990's will be supplying electronic links to cedants and reinsurers," predicted Michael W. Cashman Sr., president and general partner of Blanch. Such links can "provide quick turnaround on claims payments, access to account information and improved communication."

In another example of how reinsurance brokers are putting high technology to work, Wilcox's Mr. King noted that ceding companies now want brokers to provide extensive modeling of how a reinsurance treaty will perform in future years under a variety of conditions.

Such analysis has been made simple by the advent of powerful personal computers and software packages. This means that ceding companies can now add a long-range reinsurance program outline to their long-range strategic plans, Mr. King explained.

Computer programs also are used by brokers to provide clients with more extensive natural catastrophe analysis.

"This is being done in far more detail every year," Mr. King said.

To conduct extensive modeling of the financial impact of a reinsurance program on a ceding company's results, it's imperative that brokers be intimately familiar with their client's financial position, Mr. Mitchell said, noting this is one of the reasons why long-term relationships are so important to ceding companies.

"Continuity is extremely important" if this type of analysis is to be done, Mr. Mitchell said.

Of course, long-term relationships only last as long as the ceding companies are getting a good value for their reinsurance dollar, broker executives said.

In addition to financial analyses, Mr. Mitchell noted that ceding companies are looking for "consultation on certain types of current issues affecting the business." Such consultations cover a broad spectrum of issues, ranging from pollution to judicial trends, he said.

Sullivan Payne's Mr. Espe said that "brokers are now being expected to fill the more complex roles of financial advisers, mergers and acquisitions consultants and, in a number of instances, are becoming important ex-officio members of their clients' senior management teams."

Of course, ceding companies still rely on their brokers to ensure that the reinsurers with which their business is placed are financially sound.

"It's become standard operating procedure for us to provide to our ceding company clients a security analysis of the reinsurers we are placing their programs with," Hodson's Mr. Taylor said.

While larger ceding insurers have resources at their disposal that can be used to analyze the financial position of potential reinsurers, "smaller ceding companies depend on the broker" to provide this service, said Alexander Re's Mr. Coleman.

Blanch's Mr. Cashman noted that his organization has established a collection unit to deal with uncollectible reinsurance. "We aggressively follow outstanding balances and consider it an important service that all brokers should provide."

While ceding companies are demanding that brokers analyze reinsurers' security, several intermediaries noted that uncollectible reinsurance is more of a problem of the past than the present.

"Retrospectively, we can't deny that there's been a problem there," said Aon's Mr. O'Halleran, though he added that "a lot of discipline has been brought into the system."

"It's not really a problem as long as you stay on top of who you're doing business with," added Aon's Mr. Lunsford. "In general, the brokers are doing a much better job."

Still, Mr. Espe of Sullivan Payne said the problem of uncollectibles poses a "major threat to the continued existence" of some ceding companies and, "as a result, the problem is a current and proper topic for regulatory examination."

This increasing demand for all types of services from reinsurance brokers may play into the hands of the larger brokers at the expense of the smaller firms, according to intermediaries and some industry observers. It all comes back to the issue of size and having a relationship with a large organization.

"There's hardly anything that a ceding company could ask from us that we couldn't provide from somewhere within the organization," said Mr. Taylor of Hodson, the Willis Corroon unit.

Steven J. Bensinger, president and chief executive officer of Skandia American Reinsurance Corp. of New York, said that, while there will always be room for "certain boutique intermediaries," intermediaries today do need to draw on a variety of resources.

"I think that the intermediaries are probably targeting some new sources of business, such as the alternative risk market. You'll see that as a developing aspect of their business," Mr. Bensinger said, noting that "particularly the Top 10 (intermediaries) have been able to put a lot of R&D into that."

Aon's Mr. O'Halleran cited the "increasing demand" for reinsurance by alternative risk financing mechanisms, like captives and risk retention groups.

"A lot of people have taken an aggressive approach to go after new types of business, such as alternative risk business," said Daniel R. Colello, president and chief executive officer of Intere Intermediaries Inc. of New York, an affiliate of Minet Re (North America) Inc.

Most of the Top 10 brokers say that alternative risk business is a growing part of their business, though no broker said it accounted for more than 10% to 15% of its business.

For instance, TPF&C Re's Mr. Mitchell noted that "we have become more active in that area so that it now represents about 5% of our business."

"The increase in the amount of alternative risk business has had the most impact on why the brokers have, in general, improved," he said.

Mr. Cashman noted that Blanch has been placing alternative risk business for "several years," and that the company established a unit in January "to handle this ever-growing segment of the business."

Meanwhile financial reinsurance seems to be having much less of an impact on the intermediaries' results, as many of them cited the regulatory scrutiny such programs attract as scaring some insurers away.

"We all know financial reinsurance is being closely scrutinized by the regulatory bodies," said Mr. O'Halleran. "It's why you see more reinsurers separating risk transfer from financial reinsurance."

While Mr. Cashman of Blanch commented that the demand for financial reinsurance has been stable, with his company placing a "minimal amount," others are more bullish on these products.

Mr. Espe said that many of Sullivan Payne's clients are "exploring the broad spectrum of financial reinsurance products in greater depth." As a result, "we have seen an increasing frequency of financial reinsurance transactions and those we have seen tend to be very significant in terms of reinsurance dollars expended."

Wilcox's Mr. King draws an analogy between financial reinsurance and the brokerage business overall: "The challenge" with financial reinsurance is not unlike the everyday challenges faced by reinsurance intermediaries, namely, "finding something that satisfies the ceding companies needs and the requirements

Continued on next page

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Continued from previous page
of the reinsurers."

Following are profiles of the 10 largest U.S. reinsurance intermediaries:

Guy Carpenter & Co. Inc.

Based on data provided in parent Marsh & McLennan Cos. Inc.'s annual report, *Business Insurance* estimates that Guy Carpenter & Co. Inc., the nation's largest reinsurance broker, boosted its revenues 10.9% in 1990 to $275.8 million from $248.7 million the previous year.

These numbers reflect both the activities of Carpenter and the reinsurance operations of London-based M&M subsidiary C.T. Bowring & Co. Ltd. M&M consolidated Bowring's reinsurance operations under Carpenter's management in 1990 (*BI*, Aug. 20, 1990).

Marsh & McLennan stated in its 1990 annual report that the integration of "insurance brokering operations in 1989 and of our reinsurance brokering operations in 1990 further strengthens our ability to operate successfully in worldwide markets."

While Carpenter's estimated reinsurance brokerage revenues jumped more than 10% last year, M&M also commented in its annual report that "declines in premium rate levels in the property and casualty markets, which began in early 1987, affected our insurance and reinsurance brokering business throughout 1990."

Competitors commented that Carpenter's dominant position among reinsurance brokers makes it particularly vulnerable to tough market conditions.

One competitor said: "When you're as big as Guy Carpenter, you are a target. On the other hand, they still have lots of revenues, great people and a great parent company."

Early in 1991, Carpenter acquired Sellon Associates Inc., a reinsurance intermediary in White Plains, N.Y.

Richard H. Blum remains Carpenter's chairman, chief executive officer and president, while G.H.C. Wakefield, the former chairman of Bowring, is deputy chairman.

Staff grew slightly in 1990, to 2,153 employees from 2,117 in 1989. And, like most other Top 10 intermediaries, Carpenter boosted productivity last year. Revenues per employee rose 9% to $128,077 in 1990 from $117,478 in 1989.

Carpenter officials declined to be interviewed for this story.

E.W. Blanch Co.

E.W. Blanch Co. posted a 41% gain in premium volume in 1990, as well as an estimated 20% gain in in revenues, growth that its president, Mr. Cashman, attributed "primarily to the development of new business and the expansion of our existing business" as well as a "strong production and servicing effort by all units."

Blanch's reported that premium volume rose to $1.17 billion in 1990, up from $830 million in 1989, while *Business Insurance* estimates that the company's gross revenues rose to $56.6 million from $47.2 million the previous year, boosting it to the No. 2 spot from No. 3.

Revenues per employee rose 21.5% to $190,572 from $156,811 in 1989.

While Mr. Cashman predicts that premium volume in 1991 will be about even with 1990 levels, 1991 has been marked by other changes in the company, which is structured as a limited partnership.

In January, Blanch centralized its operations, transferring some accounts and personnel from Chicago and New York to Minneapolis.

"The move allows account servicing personnel direct access to our actuarial services unit, along with our technical units such as claims, accounting and contract writing," Mr. Cashman said.

In addition, the company has opened production offices in Boston and Dallas. The Boston office joins Philadelphia and New York as part of the company's East Coast presence, while Dallas represents a new regional outpost, though Mr. Cashman said Blanch has previously conducted business in that region.

In addition to these structural changes, the company has made some personnel moves. William D. Farmer was hired as a senior vp in the Dallas office, joining Blanch from G.L. Hodson & Son Co. Inc. In addition, Robert M. Benjamin, who oversees the company's legal unit, was promoted to senior vp from vp.

The company continues to focus almost exclusively on medium-sized to large U.S. clients, focusing on such specialties as life, accident and health, and professional liability insurance, as well as retrocessional business and risk retention groups.

Sullivan Payne Co.

Sullivan Payne is continuing to develop "products and services that go beyond the scope of traditional reinsurance brokering," said Mr. Espe, its president and chief executive officer.

He noted that reinsurance brokers are having to venture beyond the normal domain of reinsurance to provide services needed by ceding companies.

Hence, Sullivan Payne, while not venturing into any particular new area of specialization, has increased its investment in both research and development and in what Mr. Espe described as "sophisticated reinsurance analysis techniques" as part of its "commitment to developing products and services that go beyond the scope of traditional reinsurance broking."

These products and services are designed in many cases to enable the broker to assume the role of a financial adviser, a role ceding companies want their brokers to take.

The company also utilizes its affiliation with Sedgwick Group P.L.C. to aid its security department in the analysis of both domestic and foreign reinsurers.

"Our clients are benefiting from this truly international approach to security analysis and are becoming far more sophisticated in their internal security analysis procedures."

Based on *Business Insurance* estimates, Sullivan Payne posted a 4% gain in gross revenues in 1990 to $52 million from $50 million in 1989. Like other reinsurance brokers, Sullivan Payne also boosted productivity, operating with just 390 people in 1990, down from 410 in 1989. That helped boost revenues per employee to $133,333 from $121,951 in 1989.

Sullivan Payne expects growth to continue this year.

"We anticipate ending 1991 with revenue approximately 8% ahead of our 1990 figure," Mr. Espe said. "This growth. . .results from significant new business gains enjoyed in '91."

Earlier this year, an Iowa state court judge dismissed a 6-year-old sexual harassment complaint against Sullivan Payne, Mr. Espe and John Burridge, a former official at Capitol Intermediaries, a predecessor company to Sullivan Payne.

A jury had awarded Linda Monohon, a former assistant vp at Capitol Intermediaries, $6 million in damages after she alleged sexual harassment and sexual discrimination. Mr. Burridge and Ms. Monohon were involved in a "personal relationship," according to the judge's ruling.

However, the judge did uphold Ms. Monohon's assertions that she suffered discrimination based on a disparity between her earnings and that of male colleagues. While the final award has not been determined, the judge has indicated that Ms. Monohon could be awarded more than $355,000 for lost wages, past and future emotional distress, and medical expenses.

Mr. Espe would not comment on the case.

Wilcox Inc.

Wilcox, the reinsurance brokerage unit of Johnson & Higgins, "con-

Continued on next page

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Financial Services for the Insurance Industry

Intermediaries

Continued from previous page

tinues to grow and prosper," said Mr. King, chairman and chief executive officer. That statement is reflected in Wilcox's 1990 results, its projections for 1991 and the added business it is likely to gain from a recent merger.

According to *Business Insurance* estimates, gross revenues at Wilcox rose 7.1% to $42 million last year from $39.2 million in 1989.

Wilcox—which employed 203 people in 1990, up from 199 the previous year—increased its revenues per employee by 5% to nearly $207,000 in 1990 from $196,985 in 1989.

Looking ahead, Mr. King estimates the company will post revenue gains of 5% in 1991 and 10% in 1992. The 1992 gain will show the impact of Wilcox's recent merger with reinsurance brokerage Sickler Reinsurance Inc. of Indianapolis.

As part of the merger, Frank Sickler, the head of Sickler when it was an independent entity, has been named a senior vp and a director of Wilcox. Sickler's five-person staff has been retained, and a Wilcox broker has been sent to Indianapolis to work with the new acquisition.

Wilcox's growth has taken place within the same client base the company has always maintained, Mr. King said. The only difference, he noted, is that there are more of them.

Wilcox's clients range from small mutual insurers to large mutual and stock ceding companies. Fifteen percent of its ceding company clients are based outside the United States.

While Wilcox continues to handle a variety of specialty products, fidelity and surety products have proven particularly successful, said Robert O'Leary, president and chief operating officer.

Aon Reinsurance Agency Inc.

Competitors of Aon Reinsurance Agency single out the brokerage as the member of the Top 10 currently growing the most quickly.

Indeed, Aon Reinsurance Agency's revenues skyrocketed in 1990, which pushed the company up to a fifth-place tie among the Top 10 with TPF&C Reinsurance.

Business Insurance estimates that Aon Reinsurance Agency's revenues rose 24.5% to $34 million from $27.3 million in 1989. However, a 30.3% increase in the number of employees to 172 in 1990 from 132 in 1989 caused revenues per employee to decline by 4.4% to $197,674 last year from $206,818 in 1989.

Brokerage officials point to Aon Reinsurance Agency's marketing-intensive approach as one of the reasons for the growth. Mr. O'Halleran remarked that he is spending 75% of his time out of the office producing business for Aon Reinsurance Agency.

"With reinsurance numbers going down, you've got to be out there with your top people," he said.

Aon Reinsurance Agency specializes in a variety of products, including hard-to-place casualty business, surplus lines business and professional liability reinsurance.

Currently, Aon Reinsurance Agency is working to improve its services in a number of ways. For instance, it now uses a sister company, Integrated Run-off Insurance Services Inc. of Jamesburg, N.J., to handle runoff accounts. "We think this is a new development that gives a further commitment to our clients," Mr. O'Halleran said.

He also noted the brokerage does not attempt to unduly profit from its investment account, shunning the "living off the float" approach. "We turn around our money as quickly as we can," he said.

In some cases, there is an "immediate pass-through" of claims money, according to Mr. Lunsford. Claim checks go directly to the ceding company from the reinsurer; all the intermediary receives in this instance is notification the claim has been paid.

Among the new employees at Aon Reinsurance Agency is Dan Dolan, who joined the firm as executive vp after 19 years at Guy Carpenter.

TPF&C Reinsurance

After reporting a revenue decline in 1989, TPF&C Reinsurance's performance rebounded in 1990 as it took on a leaner look.

Revenues rose 13.3% last year to $34 million from $30 million in 1989. That followed a 14.3% drop in 1989.

However, the increase was not enough to hold off fast-charging Aon Reinsurance Agency, which tied TPF&C Reinsurance for fifth place in the *Business Insurance* ranking of the 10 largest U.S.-based reinsurance intermediaries. TPF&C held fifth place on its own last year.

The broker's premium volume also rose in 1990, climbing 10% to $550 million from $500 million in 1989.

Meanwhile, it reduced its number of employees by 17.3% to 210 last year from 254 in 1989, which caused the big leap in productivity.

Mr. Mitchell, TPF&C Re's managing director and chief executive officer, says the days of downsizing now are over, though "we are carefully managing our expenses."

Indeed, TPF&C Re's turnaround may be a microcosm of the entire reinsurance brokerage industry: It has become more efficient and is gen-

Continued on page 46

THE LIFE OF AN INSURANCE AGENT ISN'T ALL GLAMOUR AND EXCITEMENT.

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Amwest

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And it brings the Group's total investment in The Home to $740 million.

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And to grow as the market grows.

The Trygg-Hansa SPP Group, with an asset base of approximately $52 billion, is one of the largest insurance organizations in Europe, and is the largest in Scandinavia.

And the Group, with The Home as an integral part, is committed to becoming one of the top performers in the U.S. and international property-casualty markets.

For our part, The Home is going to continue to concentrate on underwriting large business and specialty insurance accounts.

We're well staffed with the technical skills those markets require.

And we have a strong, experienced field organization to deliver the products and services our target customers need.

Five years ago, The Home began to focus on underwriting larger, more complex risks.

It's a focus that has significantly improved our operating performance over the last few years, and has made us a stronger company.

And now, one that's a hundred million dollars stronger.

Home Insurance

OLD PROS ON A NEW TEAM

Intermediaries

Continued from page 44

erating some new business, particularly in the area of alternative market risks.

"We have become more active in that area. It now represents about 5% of our business," said Mr. Mitchell, who added that this new business was a key factor in the company's overall growth in 1990 and thus far in 1991.

And increasing efficiency is one trend that brokers ignore at their own peril, Mr. Mitchell said.

In addition to the gains TPF&C Re has made in productivity and in its ability to serve the alternative risk financing market, Mr. Mitchell noted the company is working on two new specialties: professional liability and surplus lines. In all, 30% of its premium volume comes from specialty insurers.

Meanwhile, the company's client mix has changed somewhat since 1989. According to Mr. Mitchell, fewer than 2% of its clients are based outside of the United States, while a year ago it had no foreign clients.

And, whereas a year ago, 60% of the clients were regional insurers, 20% were national insurers and 20% were local insurers, today the figures are 50%, regional; 25%, national; and 25%, local.

TPF&C Re's mix of treaty and facultative business has also changed, with treaty business consuming 90% of its business, up from 80% in 1989. That portion of facultative business, though, is still one of the highest among the leading intermediaries.

The brokerage will start 1992 with a new name: Effective Jan. 1, this brokerage will be called Towers Perrin Reinsurance, reflecting its parent company's emphasis on the Towers Perrin name.

Minet Reinsurance Brokers International Ltd.

Minet Reinsurance Brokers International Ltd., a unit of Minet Holdings P.L.C., now has a new division to oversee all U.S. and Canadian reinsurance brokerage operations.

Toronto-based IOC Reinsurance Brokers Ltd. now joins Intere Intermediaries Inc. and RFC Intermediaries Inc., both of New York, under the banner of Minet Re (North America) Inc.

The results of RFC and Intere, once separate companies but now both under the wing of Minet's ultimate parent, The St. Paul Cos. Inc., were consolidated last year.

"The formation of the holding company is the first step in what will be a long-term development plan," said Mr. Colello at the time the formation of Minet Re (North America) was announced (*BI*, July 22).

Partly as a result of IOC's inclusion, *Business Insurance* estimates Minet Reinsurance Brokers' 1990 revenues at $33 million. *BI* estimated that Intere and RFC together generated revenues of $30 million in 1989.

However, even with the addition of IOC, the group fell a notch to seventh place because of the growth at Aon Reinsurance Agency.

Premiums at Intere rose 34.6% to $435 million in 1990 from $323 million in 1989. At IOC, the premium volume doubled to $40 million from $20 million during the same period. In 1990, RFC's premium volume reached $120 million; it did not release its 1989 figures.

According to Mr. Colello, "one of the fastest growing areas" for the organization is its accident and health business, which is based in its Atlanta office.

In a key appointment this year, Al Devon has been named Chicago branch manager and senior vp of Intere. He was with Mutual Reinsurance Bureau of Rockford, Ill., as a vp.

Alexander Reinsurance Intermediaries Inc.

Alexander Re is a new name—but an old face—among the largest U.S. reinsurance intermediaries.

The board of Thomas A. Greene & Co. Inc. last month voted to change the name of the brokerage to Alexander Reinsurance Intermediaries Inc., or Alexander Re for short. That follows A&A's decision late last year to consolidate its reinsurance brokerage operations, including Thomas A. Greene and Alexander Reinsurance Brokers Ltd. of London (*BI*, Dec. 17, 1990).

Mr. Coleman, executive vp and chief operating officer of Stamford, Conn.-based Alexander Re, reports to Ronald A. Iles in London, who heads the company's global reinsurance brokerage operations and is president and chief executive officer of Alexander Re.

Other key officers include Robert T. Mobyed, senior vp and Mr. Coleman's deputy; and John F. Roby, senior vp and chief financial officer.

As part of the consolidation, Thomas A. Greene, formerly president and chief operating officer of Thomas A. Greene & Co., has been named chairman emeritus.

Taken alone, Alexander Re posted gross revenues of $25.2 million in 1990, up 14% from $22.1 million in 1989. As a result of this gain, Alexander Re changed places with G.L. Hodson & Son Inc. to move up to No. 8 among U.S. brokerages.

Alexander Re's premium volume rose 12.5% to $475 million last year from $422 million in 1989.

Business Insurance ranks Alexander Re on its U.S. revenues only, since the U.S. operation reports to London. However, when revenues from Alexander Howden Reinsurance Brokers of London are included, A&A's reinsurance intermediaries produced $138.3 million in gross revenues last year, a 29.5% increase from $106.8 million in 1989. The combined operations' premium volume rose almost 28% to $1.88 billion in 1990 from $1.47 billion in 1989.

"Together with AHRB, Alexander Re forms one of the world's largest reinsurance brokers groups," commented Mr. Iles.

According to Mr. Coleman, Alexander Re has "moved out of the (consolidation) phase," which has resulted in the 25.4% gain in revenue volume per employee. He forecast a 10% gain in premium volume and a 10% to 12% gain in revenues for 1991.

Furthermore, he added, "I certainly anticipate a minimum of that amount in '92. That reflects the confidence I have in our organization."

With AHRB serving international ceding company clients, Alexander Re continues to concentrate on U.S. clients and specialize in what Mr. Coleman described as "the reinsurance of difficult catastrophe business for both standard and non-standard companies."

In addition, Alexander Re is pleased with the success of its surety division and its life, accident and health division.

While facultative business remains just 4% of the company's overall business, Mr. Coleman said Alexander Re will continue to be satisfied with that business as long as its growth matches the company's overall growth rate.

In addition to the top-level management changes, J. Daniel Shakespeare III has been promoted to senior vp and manager of the Boston office; Daniel M. Collins and Robert F. Kennedy have been named senior vps and managers of the Chicago and San Francisco offices, respectively; and James F. Zagorski has been named a senior vp. Each of these individuals were formerly vps.

G.L. Hodson & Son Inc.

Several events that took place last year and earlier this year are beginning to improve Hodson's results, according to Mr. Taylor, the brokerage's chairman.

These events include G.L. Hodson

Continued on next page

© 1991 Mechanicsburg Rehab System

Continued from previous page

& Son Inc.'s merger with R/I Inc. of Burlington, N.C.; the merger of Hodson's parent, Corroon & Black Corp. with Willis Faber P.L.C. to create Willis Corroon; and the addition of two key individuals to the staff.

Michael R. Parker, who joined Hodson last year as a senior vp, "has been successful at adding new surety and fidelity accounts to our business," Mr. Taylor said. Mr. Parker had been a vp at Wilcox. And, the addition of Vp Claudia Brewer this year has made the company's retrocessional business "considerably more active." Ms. Brewer had been a vp at Blanch. While Mr. Taylor said Hodson's customer base "runs the gamut," foreign ceding companies comprise only a negligible portion.

"That is by design at this point. With our association with Willis Faber, we're in a little bit of a different situation now. We are currently studying the possibility of becoming more actively involved in placing non-domestic business in the domestic market as the marketing arm of Willis Corroon," Mr. Taylor said.

Aided by the acquisition of R/I, Hodson posted a 2.2% gain in revenues to $23.5 million in 1990 from $23 million in 1989, *Business Insurance* estimates.

Hodson reported that its premium volume rose 1.3% to $385 million last year from $380 million in 1989.

Mr. Taylor noted that, looking back over the last three years, the company will likely have attracted about 75 new clients by the end of this year.

With increased premium volume from new clients, Mr. Taylor said he is optimistic that revenues will increase significantly this year.

He also noted that Hodson is operating more efficiently, aided by improved electronic data processing. Hodson's revenues per employee rose to $123,684 in 1990 from $114,428 the previous year.

John P. Woods Co. Inc.

New York-based John P. Woods entered the life, accident and health reinsurance business earlier this year.

The company reports that this separate department is "staffed by senior executives who have been involved in all aspects of this business activity."

Woods retained its position as the 10th-largest intermediary in the nation, despite a 2.9% decline in its gross revenues and a 10% decline in its premium volume.

Woods reported its premium volume dropped to $360 million last year from $400 million in 1989, while gross revenues fell to $15.1 million from $15.5 million in 1989.

The company, which added two employees last year and now has a staff of 52, continues to handle only treaty reinsurance.

Company officials declined to be interviewed for this story. ■

BI's directory of reinsurance intermediaries

A

Agnew International Inc.

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

	1990	1989
Premium volume	$4,650,000	$4,500,000
% Treaty	5%	5%
% Facultative	95%	95%
Gross revenues	$455,000	$467,000
Total employees	7	7

Founded: 1976.
Specialties: International programs.
Licensed reinsurance intermediary in: New York.
Conducts business: Worldwide.
Principal officers: Patrick J.L. Agnew, president; W. James Cook and Antonio S. Calvo, vps; Paul Kasian, assistant vp.
Contact: Patrick Agnew.

Alexander Howden Reinsurance Intermediaries Inc.

1270 Ave. of the Americas, New York, N.Y. 10020; 212-408-3860; fax: 212-977-9471

	1990	1989
Premium volume	NA	NA
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	7	5
Treaty	7	5

Founded: 1988.
Parent company: Alexander & Alexander Services Inc.
Branch offices: Coral Gables, Fla.
Specialties: International treaty.
Licensed reinsurance intermediary in: New York.
Principal officers: Joseph Artel, senior vp.

Alexander Reinsurance Intermediaries Inc.

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

	1990	1989
Premium volume	$475,000,000	$422,000,000
% Treaty	96%	96%
% Facultative	4%	4%
Gross revenues	$25,200,000	$22,100,000
Total employees	170	187
Treaty	153	165
Facultative	17	22

Founded: 1980.
Parent company: Alexander & Alexander Services Inc.
Branch offices: New York; Boston; Chicago; San Francisco.
Specialties: Property and casualty working, catastrophe, clash, contingency and finite reinsurance, life, accident and health.
Licensed reinsurance intermediary in: New York.
Conducts business: Nationwide.
Principal officers: Ronald A. Iles, chief executive officer; William R. Coleman, chief operating officer; Robert T. Mobyed, senior vp/deputy to the chief operating officer; John F. Roby, senior vp/chief financial officer.
Contact: William R. Coleman.
Membership: Brokers & Reinsurance Markets Assn.

Alydon International Ltd.

Jardine House, 33-35 Reid St., Hamilton, Bermuda; P.O. Box HM 2217, Hamilton HM JX, Bermuda;
809-292-5099; fax: 809-292-9067

	1990	1989
Premium volume	$8,000,000	$8,000,000
% Treaty	95%	99%
% Facultative	5%	1%
Gross revenues	NA	NA
Total employees	4	3

Founded: 1986.
Specialties: Captive and self-insurance programs, risk retention groups, financial and finite risk reinsurance.
Licensed reinsurance intermediary in: Bermuda.
Principal officers: Roy V. Bray, president/managing director.

Continued on next page

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BEP International
Reinsurance Brokers

Jersey City, Seattle, Toronto, Montreal

Continued from previous page

AM-RE Brokers Inc.

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

	1990	1989
Premium volume	**$186,000,000**	$135,000,000
% Treaty	**90%**	95%
% Facultative	**10%**	5%
Gross revenues	**11,560,000**	7,950,000
Total employees	**52**	42
Treaty	**47**	37
Facultative	**5**	5

Founded: 1978.
Parent company: American Re-Insurance Co.
Branch offices: San Francisco.
Licensed reinsurance intermediary in: New York.
Conducts business: Nationwide.
Principal officers: E.B. Jobe, chairman/president; Mahmoud M. Abdallah, executive vp/managing director; Donald F. Merkel and William Godfrey, senior vps; John Varca, senior vp/actuary.

American Healthcare Intermediaries Inc.

1000 North Point, Suite 1405, San Francisco, Calif. 94109-1061; 415-346-5670; fax: 415-776-6358

	1990	1989
Premium volume	**$28,700,000**	$30,000,000
% Treaty	**100%**	100%
Gross revenues	**$265,000**	$290,000
Total employees	**2**	3
Treaty	**2**	3

Founded: 1987.
Specialties: Accident and health, life, disability, surplus relief.
Conducts business in: All states except New York.
Principal officers: Donald K. Anderson, president.

American Intermediaries Inc.

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

	1990	1989
Premium volume	**NA**	$22,000,000
% Treaty	**100%**	100%
Gross revenues	**NA**	$858,000
Total employees	**7**	7
Treaty	**7**	7

Founded: 1984.
Branch offices: New York.
Subsidiaries: American Intermediaries of New York.
Licensed reinsurance intermediary in: New York.
Conducts business: Nationwide.
Principal officers: W.J. Buettner, president; Nora B. Smith, executive vp.

Aon Reinsurance Agency Inc.

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

	1990	1989
Premium volume	**NA**	NA
% Treaty	**94%**	97%
% Facultative	**6%**	3%
Gross revenues	**$34,000,000***	$27,300,000*
Total employees	**172**	132
Treaty	**155**	112
Facultative	**11**	20

* *BI estimate.*
Founded: 1945.
Parent company: Aon Corp.
Branch offices: Hoboken, N.J.; San Francisco; Seattle.
Subsidiaries: Aon Re Inc., New York.
Principal officers: Paul R. Davies, chairman/president/chief executive officer; W. Eugene Taylor, vice chairman; Stephen L. Lunsford, senior executive vp/chief operating officer.
Contact: Joan Steel, 312-701-3016; or Michael O'Halleran, 312-701-3065.
Membership: Brokers & Reinsurance Markets Assn.

Associated Intermediaries Inc.

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

	1990	1989
Premium volume	**$4,500,000**	$1,500,000
% Treaty	**100%**	100%
Gross revenues	**NA**	NA
Total employees	**3**	2
Treaty	**3**	2

Founded: 1982.

Continued on page 50

Guide to directory

Information in the ninth 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 1989 and 1990 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** and **mergers** in 1990 and so far in 1991 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 does **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).

If you wish to locate an intermediary by state, refer to the geographic index following the directory. Home offices and branch offices brokering reinsurance are included.

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

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Continued from page 48

Parent company: Associated Reinsurance Management Corp.

Specialties: Medical stop loss, accident and health, workers compensation, carve outs and financial.

Licensed reinsurance intermediary in: New York.

Conducts business: Nationwide.

Principal officers: Alph H. Browne, president; Diana D. Browne, corporate secretary.

Atlantic Security Ltd.

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

	1990	1989
Premium volume	NA	NA
% Treaty	20%	20%
% Facultative	80%	80%
Gross revenues	NA	NA
Total employees	11	11
Treaty	1	1
Facultative	1	1

Specialties: Financial reinsurance, surplus relief, excess and aggregate stop loss, captives.

Principal officers: Hal Forkush, president; Colin James, senior vp.

Atrium Corp.

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

	1990	1989
Premium volume	$1.2 billion	$1.8 billion
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	29	25
Treaty	29	25

Founded: 1983.

Parent company: Swiss Re Group.

Branch offices: Westport, Conn.

Specialties: Financial reinsurance, surplus relief, finite risk reinsurance, financial guarantee reinsurance, life reinsurance.

Licensed reinsurance intermediary in: New York.

Conducts business: Worldwide.

Principal officers: Jay A. Novik, president; Heidi E. Hutter and Owen Whitby, executive vps; Peter A. Gentile, Stephen F. Patterson and Bruce P. Reich, senior vps; Debra J. Roberts, vp; Jean M. Lawry, Margaret E. Seiter and Steve Fallon, assistant vps. Connecticut: Robert P. Johnson, executive vp; Marvin D. Fineman, vp.

Contact: Jay A. Novik; or Heidi E. Hutter, 212-973-5066.

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Dorinco: A Professional Reinsurer For Insurance Professionals.

B

BEP International

1140 de Maisonneuve Blvd. W., Montreal, Quebec J4Y 3A1 Canada; 514-288-1133; fax: 514-288-0840

	1990	1989
Premium volume	$357,000,000	$305,000,000
% Treaty	98%	98%
% Facultative	2%	2%
Gross revenues	NA	NA
Total employees	140	142
Treaty	132	134
Facultative	8	8

Founded: 1960.

Parent company: Sodarcan Inc.

Branch offices: Jersey City, N.J.; Seattle; Toronto; Montreal.

Subsidiaries: BEP International Corp., Jersey City, N.J.; BEP International (West Coast) Corp., Seattle; BEP International (Canada) Inc., Toronto; BEP International Inc., Montreal.

Specialties: Marine, aviation, workers compensation.

Licensed reinsurance intermediary in: New York.

Conducts business in: New York, Pennsylvania, Texas, Washington.

Principal officers: Raymond Gilbert, chairman/chief executive officer; Robert W. Bailey, Peter M. Bennett, Peter V. Dale and Christopher J. Robey, executive vps; Robert Limoges, senior vp-finance and administration/secretary/treasurer; Pascal Perrier, senior vp; Rene Lapierre and Serge Dufresne, vps; Andre Carignan, senior vp/regional manager. BEP International Corp.: Peter V. Dale, chairman; Robert W. Bailey, president/chief operating officer; James O'Brien and John W. Waite, senior vps. BEP International (West Coast) Corp.: Michael D. Elliott, senior vp/regional manager; Peter W. Taubenheim, vp. BEP International (Canada) Inc.: Peter M. Bennett, chairman; Maureen Mackay, senior vp/regional manager; Kenneth G. Hague, Anthony P. Ward-Smith and William A. Weeks, senior vps.

Contact: Robert W. Bailey, 10 Exchange Place, Jersey City, N.J.; 201-332-1020; fax: 201-332-5673.

Continued on page 52

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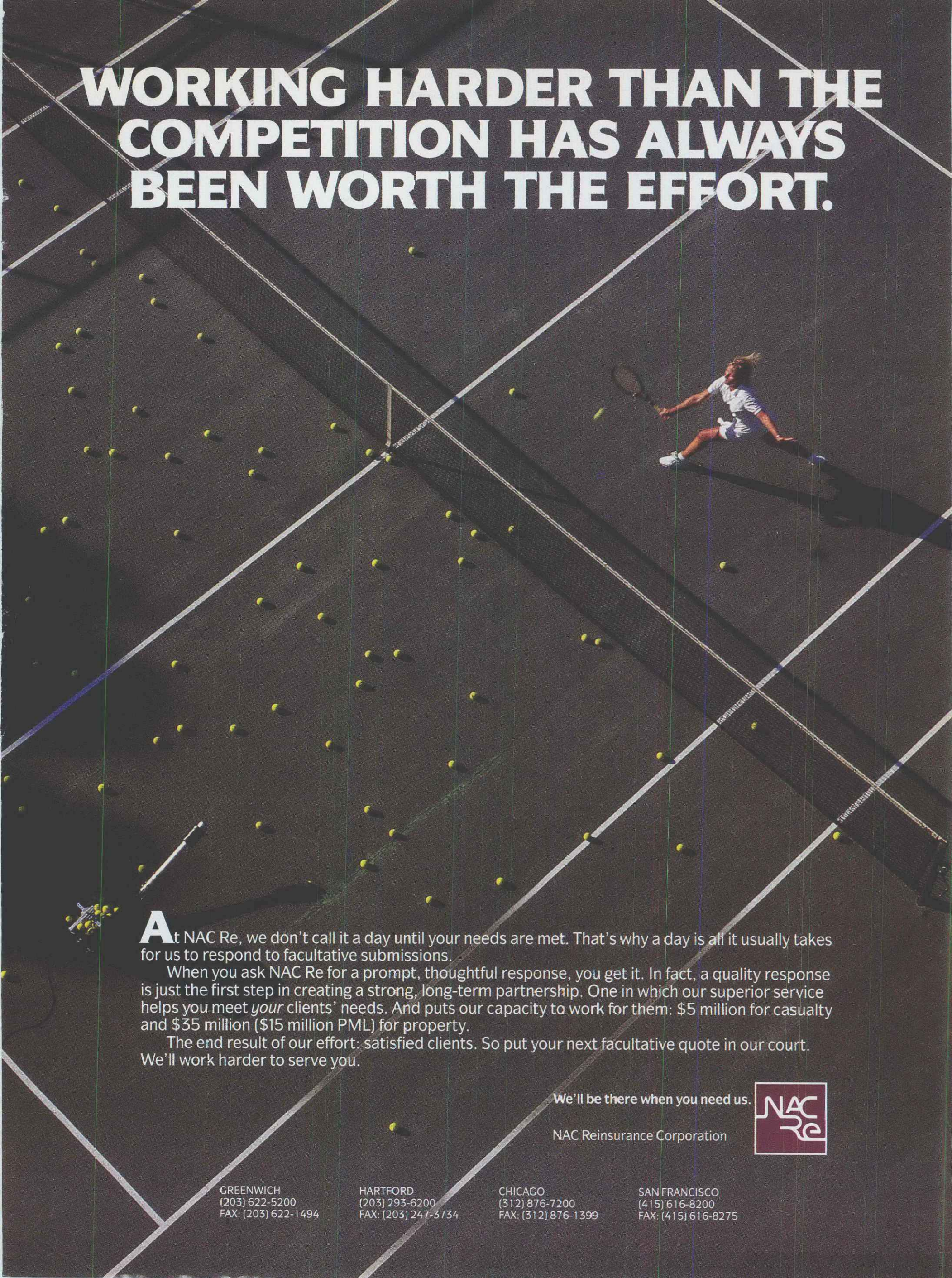

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FAX: (415) 616-8275

Continued from page 50

BRI International Agency Inc.

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

	1990	1989
Premium volume	$1,632,000	$1,354,000
% Treaty	99%	99%
% Facultative	1%	1%
Gross revenues	NA	NA
Total employees	7	7
Treaty	6	6
Facultative	1	1

Founded: 1981.
Parent company: BRI Holding Corp.
Licensed reinsurance intermediary in: New York.
Conducts business: Nationwide.
Principal officers: Bruno Rumignani, president; Fred Ghawi, vp; Burton Matfus, secretary/treasurer; Howard Miller and Joseph Zweig, vps.

E.T. Bailey Co.

70 W. Madison St., Chicago, Ill. 60602; 312-214-3146; fax: 312-214-3110

	1990	1989
Premium volume	NA	NA
% Treaty	90%	90%
% Facultative	10%	10%
Gross revenues	NA	NA
Total employees	NA	NA
Treaty	3	NA

Founded: 1963.
Specialties: Life.
Principal officers: E.T. Bailey, president.

Adrian Baker Reinsurance Intermediaries Inc.

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

	1990	1989
Premium volume	$27,000,000	$27,000,000
% Treaty	70%	70%
% Facultative	30%	30%
Gross revenues	NA	NA
Total employees	10	10
Treaty	7	7
Facultative	3	3

Founded: 1974.
Parent company: The Reliable Life Insurance Co.
Specialties: Accident, health, workers compensation, carve-out, medical, aviation, property, life.
Licensed reinsurance intermediary in: New York.
Conducts business: Worldwide.
Principal officers: Adrian N. Baker II, president; Richard H. Chomeau, executive vp; Anthony J. Sutcliffe, senior vp.

Bates Turner Inc.

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

	1990	1989
Premium volume	$257,000,000	$253,000,000
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	18	18
Treaty	18	18

Founded: 1982.
Parent company: Employers Reinsurance Corp.
Licensed reinsurance intermediary in: New York.
Conducts business: Nationwide.
Principal officers: Michael G. Fitt, chairman/chief executive officer; Michael E. Fisher, president/chief operating officer; James C. Blanton III, vp; E. Wilson Wyant, second vp; John R. Klag and Kathy A. Sandberg, assistant vps; Lori D. Norlen, assistant treasurer.
Contact: Michael E. Fisher.

Bell Nicholson Henderson Inc.

123 William St., New York, N.Y. 10038; 212-406-1750; fax: 212-619-8354

	1990	1989
Premium volume	$70,000,000	$35,000,000
% Treaty	100%	100%
Gross revenues	$2,300,000	$1,700,000
Total employees	23	22
Treaty	23	22

Founded: 1980.
Parent company: Bell Nicholson Henderson (Holdings) Ltd.
Branch offices: Dallas.
Specialties: Property, casualty, marine, finite risk.
Licensed reinsurance intermediary in: New York.
Conducts business in: California, Connecticut, Georgia, Iowa, Massachusetts, New York, Oklahoma, Texas, Washington.
Principal officers: William L. Healy and Roger P. Milbert, vps; George J. Daddario Jr. and Nicholas P. Roberto, assistant vps.
Contact: Roland Stollsteimer.

Le Blanc de Nicolay U.S. Inc.

140 E. 45th St., New York, N.Y. 10017; 212-972-7090; fax: 212-687-4852

	1990	1989
Premium volume	$50,000,000	$50,000,000
% Treaty	100%	100%
Gross revenues	$831,181	$647,654
Total employees	6	6
Treaty	6	6

Founded: 1986.
Parent company: Le Blanc de Nicolay Reassurance.
Specialties: Property/casualty, life, accident and health, credit/financial, international, marine/aviation.
Licensed reinsurance intermediary in: New York.
Conducts business: Worldwide.
Principal officers: Gilles Lorans, president; William H. Asay, vp; Ryoko Mochizuki, assistant vp; Xanthe Kaldis, assistant secretary.

E.W. Blanch Co.

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

	1990	1989
Premium volume	$1.2 billion	$830,000,000
Treaty	99%	99%
% Facultative	1%	1%
Gross revenues	$50,000,000*	$47,200,000*
Total employees	297	301
Treaty	291	286
Facultative	6	15

* *BI estimate.*
Founded: 1957.
Branch offices: New York; Chicago; Boston; Philadelphia; San Francisco; Dallas; Copenhagen, Denmark.
Specialties: Life, accident and health, liability, retrocession and risk retention group.
Licensed reinsurance intermediary in: New York, California, Illinois, Minnesota, Texas.
Conducts business: Nationwide.
Principal officers: E.W. Blanch Jr., chief executive officer/general partner; Michael W. Cashman Sr., president/general partner; Frank S. Wilkinson Jr., Andrew M. O'Brien and Clifford English, general partners; Donna M. Hentges, manaing partner.
Membership: Brokers & Reinsurance Markets Assn.

Burridge Storey & Co. Inc.

33 W. Higgins Road, Suite 4100, South Barrington, Ill. 60010; 708-551-1900; fax: 708-551-1917

	1990	1989
Premium volume	NA	NA
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	4	3
Treaty	4	3

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ıtinued from page 52

Founded: 1989.

Parent company: Farmers Mutual Hail Insurance Co. of Iowa and H.S. Fox.

Licensed reinsurance intermediary in: New York.

Conducts business in: Arkansas, Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, New York, North Dakota, Ohio, South Dakota, Tennessee, Wisconsin.

Principal officers: John H. Burridge, president; Geoffrey F. Storey, executive vp.

C

Guy Carpenter & Co. Inc.

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

	1990	1989
Premium volume.	NA	NA
Gross revenues...	$275,750,000*	$248,700,000*
Total employees..	2,153	2,117

** BI estimate.*

Founded: 1923.

Parent company: Marsh & McLennan Cos. Inc.

Branch offices: San Francisco; Los Angeles; Chicago; Atlanta; Coral Gables, Fla.; Dallas; Hartford, Conn.; Minneapolis.

Subsidiaries: C.T. Bowring Reinsurance Ltd., England; C.T. Bowring Reinsurance Ltd., Australia; Balis & Co. Inc., Philadelphia; Guy Carpenter & Co. (Canada) Ltd.; Guy Carpenter & Co. Ltd., England; Guy Carpenter & Co. (Asia) Ltd.; Guy Carpenter Italia, S.r.l.; Guy Carpenter & Co. AS, Denmark; Guy Carpenter & Co. (Stockholm) AB; Guy Carpenter & Co. S.A., Brussels; Guy Carpenter y Cia (Mexico) S.A. de C.V.; Guy Carpenter & Ciad. S.A. Correduria de Reaseguros (Spain); Gradmann & Holler-Guy Carpenter Gmbh (Munich); Winchester Bowring Ltd., England.

Acquisitions and mergers: Sellon Associates Inc., White Plains, N.Y. (January 1991).

Licensed reinsurance intermediary in: New York.

Conducts business in: California, Connecticut, Florida, Georgia, Minnesota, New York, Texas.

Principal officers: Richard H. Blum, chairman/chief executive officer/president; G.H.C. Wakefield, deputy chairman; Stanley Allain, Robert H. Brandon, Charles J.S. Cullum, Clement S. Dwyer Jr., Simon P. Fisher, Edward G. Maher, Anthony C. McCallum, Kenneth J. Mead, Edmund R. Megna Jr., H.C.L. Prior, Anthony N. Robertson, Don A. Salyer, A.J.C. Smith, Frank J. Tasco, Gabriele J. Troiano, Robin C. Watts and James D. Weaver, senior vps.

Contact: Jeffrey S. Kozlow.

Membership: Brokers & Reinsurance Markets Assn.

John B. Collins Associates Inc.

8500 Normandale Lake Blvd., Minneapolis, Minn. 55437; 612-921-3933; fax: 612-921-3940

	1990	1989
Premium volume.	$91,800,000	$109,500,000
% Treaty.....	100%	100%
Gross revenues...	NA	NA
Total employees..	11	11
Treaty.....	11	11

Founded: 1987.

Specialties: Property, casualty, crop, life, accident and health.

Licensed reinsurance intermediary in: New York.

Conducts business: Nationwide.

Principal officers: John B. Collins, James A. Brost, Daniel J. Burke and Gregory L. Brettingen, principals; Timothy J. Pawlik, vp; Diane M. Klemenhagen, treaty accounting and claims manager.

Contact: Gregory L. Brettingen.

Combined Intermediaries of America Inc.

3010 LBJ Freeway, Suite 1100, Dallas, Texas 75234; 214-247-2621; fax: 214-247-0705

	1990	1989
Premium volume.	$98,000,000	NA
% Treaty.....	100%	NA
Gross revenues...	$1,071,000	NA
Total employees..	7	NA
Treaty.....	7	NA

Founded: 1985.

Specialties: Non-standard auto, workers compensation.

Licensed reinsurance intermediary in: Texas.

Conducts business in: Southern and southwestern United States.

Principal officers: Alan Hardin, president; Avis Johnson, senior vp; Nolan Strahan, executive vp; Craig Regan, chief financial officer; Tom Sheldon, assistant to the president.

Contact: Tom Sheldon.

Cooper Gay Steele & Co. Ltd.

120 Wall St., 22nd Floor, New York, N.Y. 10005; 212-248-1150; fax: 212-248-1181

	1990	1989
Premium volume.	$13,000,000	NA
% Treaty.....	20%	20%
% Facultative.	80%	80%
Gross revenues...	NA	NA
Total employees..	15	11
Treaty.....	2	2
Facultative...	10	5

Founded: 1988.

Parent company: Cooper Gay (Holdings) Ltd.

Affiliate: Cooper Gay & Co. Ltd., London.

Specialties: Property, including technical lines; casualty; marine and energy; international.

Licensed reinsurance intermediary in: New York.

Conducts business: Worldwide.

Principal officers: David A. Gay, chairman; R. Patrick Steele, president; Toby C.D. Esser, vp/director; Stephen S. Brewer, vp; Peter Gorman, controller; Douglas A. Staplehurst, secretary/treasurer; Michael R. Jones and Martin E. Shaw, directors.

Contact: R. Patrick Steele.

Cravens & Co. Inc.

555 California St., Suite 3333, San Francisco, Calif. 94104; 415-433-6161; fax: 415-433-1434

	1990	1989
Premium volume.	NA	NA
Gross revenues...	NA	NA

Founded: 1978.

Licensed reinsurance intermediary in: California and New York.

Principal officers: Malcolm Cravens, chairman; Hartley D. Cravens, president; Michael D. Reynolds, senior vp; Carol C. Cravens vp.

Contact: Carol C. Cravens.

Crump Re

Hartford Square North, 10 Columbus Blvd., Hartford, Conn. 06106; 203-727-9727; fax: 203-522-3284

	1990	1989
Premium volume.	$96,800,000	$96,000,000
% Facultative.	100%	100%
Gross revenues...	$7,500,000	$7,000,000
Total employees..	65	65
Facultative...	65	65

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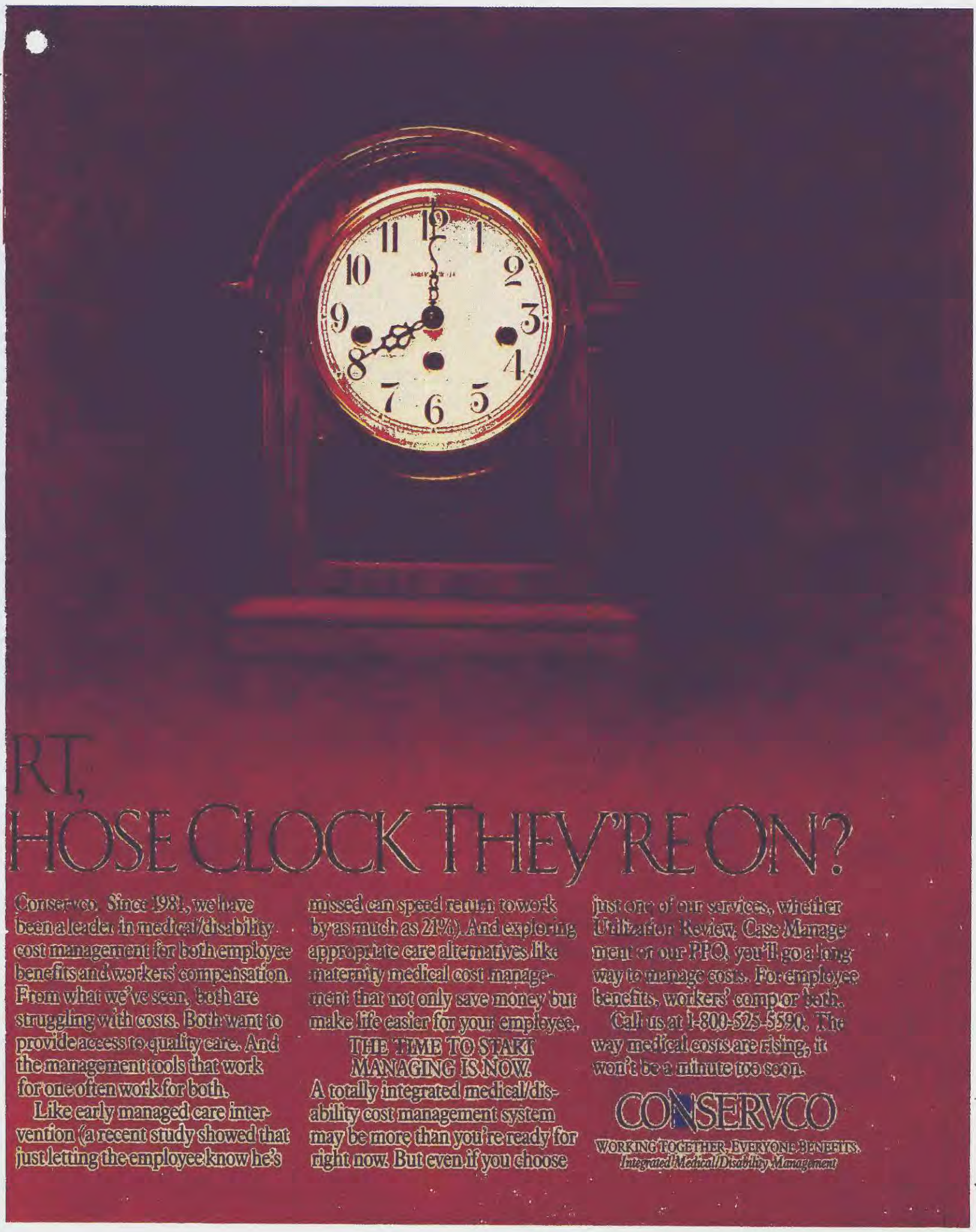

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Founded: 1978.
Parent company: Sedgwick Group P.L.C.
Branch offices: New York, Atlanta, Dallas, Los Angeles, San Francisco.
Acquisitions: Madison Intermediaries (March 1990).
Specialties: Casualty/property facultative, program business, financial reinsurance.
Licensed reinsurance intermediary in: New York.
Conducts business: Nationwide.
Principal officers: Salvatore D. Zaffino, chairman/chief executive officer; David Wahl, vp-finance; Edward Stanton, senior vp-claims; Carl Bach, executive vp-alternate risks.
Contact: David Wahl.

Cypress Creek Intermediaries Inc.

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

	1990	1989
Premium volume	$37,500,000	$40,000,000
% Treaty	90%	99%
% Facultative	10%	1%
Gross revenues	$315,000	$250,000
Total employees	4	4
Treaty	2	NA
Facultative	1	NA

Founded: 1984.
Affiliates: Westminster Intermediaries Ltd., Freeport, Bahamas.
Specialties: Agri-business, accident and health medical programs, property catastrophe classes.
Licensed reinsurance intermediary in: New York and Florida.
Conducts business: Worldwide.
Principal officers: Michael T. Pyle, president; Peggy P. Pyle, vp; Laurie Langston, assistant vp; Christine Sullivan, assistant secretary.

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D

Delaney Offices Inc.

55 John St., New York, N.Y. 10038; 212-732-3460; fax: 212-732-8236

	1990	1989
Premium volume	$20,000	$20,000
% Treaty	100%	100%
Gross revenues	$1,000,000	$1,000,000
Total employees	10	10
Treaty	10	10

Founded: 1954.
Specialties: Property/casualty, ocean marine.
Licensed reinsurance intermediary in: New York.
Conducts business in: New York.
Principal officers: William F. Delaney Jr., president.

E

EWI Re Inc.

70 Pine St., 60th Floor, New York, N.Y. 10270-0132; 212-248-3980; fax: 212-248-3981

	1990	1989
Premium volume	NA	NA
% Treaty	97%	97%
% Facultative	3%	3%
Gross revenues	NA	NA
Total employees	9	7
Treaty	7	5
Facultative	1	1

Founded: 1988.
Licensed reinsurance intermediary in: New York.
Conducts business: Nationwide.
Principal officers: James C. Epstein, president; Vaughn V.R. Harris, vp; Jorge I. Cardona, vp/controller.

F

Falcon Re-Insurance Intermediaries Inc.

135 N. Los Robles Ave., Suite 800, Pasadena, Calif. 91101; 818-796-1152; fax: 818-796-3412

	1990	1989
Premium volume	NA	NA
Gross revenues	NA	NA

Founded: 1991.
Parent company: Condor Services Inc.
Specialties: Surety, marine, casualty, property loss control, finite risk.
Licensed reinsurance intermediary in: New York.
Conducts business: Nationwide.
Principal officers: K. Mark Russ III, president/chief operating officer; Zondra Lee Hendrix, secretary/treasurer/chief financial officer.

Financial Reinsurance Inc.

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

	1990	1989
Premium volume	$12,586,638	$25,592,424
% Treaty	93%	92%
% Facultative	7%	8%
Gross revenues	NA	NA
Total employees	5	5
Treaty	4	4
Facultative	1	1

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

First Reinsurance Intermediaries Corp.

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

	1990	1989
Premium volume	$50,000,000	$50,000,000
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	5	5
Treaty	5	5

Founded: 1983.
Specialties: Financial reinsurance.
Licensed reinsurance intermediary in: New York.
Conducts business: Nationwide.
Principal officers: Stephen M. Edwards, president; Paul G. Curtis, vp.

H.S. Fox Corp.

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

	1990	1989
Premium volume	$240,000,000	$200,000,000
% Treaty	100%	100%
Gross revenues	$6,000,000	$5,000,000
Total employees	26	24
Treaty	26	24

Founded: 1985.
Specialties: Health risks, professional liability.
Licensed reinsurance intermediary in: New York.
Conducts business in: Texas and New York.
Principal officers: Donald M. Fox, president; Robert C. Henderson, Alan R. Sheppard, executive vps; Donald C. Blackburn, Anne Marie Roberts, Kathy Kidwell Brandon, Larry L. Collins, Robert F. McGarry, Robert M. Hodge, Diana Rhodes Wickman, C. Douglas Westbrook, vps; Peter A. Fries, treasurer; Shelley M. Buehrle, assistant treasurer; Janice M. Carroll, Shirley B. Krik, assistant secretaries.
Contact: Donald C. Blackburn.

C.L. Frates Reinsurance Intermediary Inc.

17 Battery Place, New York, N.Y. 10004-1102; 212-363-8975; fax: 212-558-6727

	1990	1989
Premium volume	$23,000,000	$21,000,000
% Treaty	100%	100%

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Continued from previous page

Gross revenues	$1,001,000	$927,000
Total employees	4	3
Treaty	4	3

Founded: 1986.
Specialties: Casualty, fidelity, professional liability.
Licensed reinsurance intermediary in: New York.
Conducts business: Nationwide.
Principal officers: Albert P. Amato, senior vp; Lynett M. Snapinn, account service manager.
Contact: Albert Amato.

G

GFN Intermediaries Inc.

30 Broad St., New York, N.Y. 10004; 212-509-6210; fax: 212-509-6652

	1990	1989
Premium volume	$23,000,000	$15,340,000
% Treaty	65%	65%
% Facultative	35%	35%
Gross revenues	NA	NA
Tott	18	16
Treaty	12	10
Facultative	6	6

Founded: 1985.
Parent company: GFN Corp. and Insurance Co. of Florida.
Subsidiaries: GFN Intermediarios de Reasegura S.A., Mexico City.
Acquisitions: Technical Risk Consultants, New York (June 1990).
Specialties: Domestic and international property, casualty, life, health, accident and engineering risk.
Licensed reinsurance intermediary in: New York.
Conducts business: Nationwide.
Principal officers: Orlando Marini, president/chief executive officer; Ralph Luna, executive vp; Jose Torres and Joseph Corelli, senior vps; Elizabeth Agurto and Carole Carlson, vp; Magdalena Barragan, assistant vp.
Contact: Jose Torres.

Arthur J. Gallagher Intermediaries Inc.

111 John St., Suite 1912, New York, N.Y. 10038; 212-732-9855; fax: 212-619-7957

	1990	1989
Premium volume	$21,165,000	$16,590,000
% Treaty	12%	0%
% Facultative	88%	100%
Gross revenues	NA	NA
Total employees	22	19
Treaty	3	0
Facultative	18	15

Founded: 1987.
Parent company: Arthur J. Gallagher & Co.
Branch offices: Arthur J. Gallagher Intermediaries Inc., Treaty Reinsurance Division, New York.
Subsidiaries: Arthur J. Gallagher International Inc., Cranston, R.I.; Gallagher Plumer Ltd., London; Arthur J. Gallagher Intermediaries Ltd., Hamilton, Bermuda.
Specialties: Facultative property, casualty, programs, financial reinsurance, domestic credit, export credit and political risk treaty on a global basis.
Licensed reinsurance intermediary in: New York, Rhode Island, Illinois.
Conducts business: Nationwide.
Principal officers: Robert L. Osborne Jr., president; Randall S. Jensen, Edward Santos, executive vps; Joe DeChristofaro, vp; Kevin Denike, John O'Reilly, assistant vps; Peter Blume, assistant secretary.
Contact: Robert Osborne, 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

	1990	1989
Premium volume	$14,250,000	$11,500,000
% Treaty	5%	5%
% Facultative	95%	95%
Gross revenues	$1,100,000	$875,000
Total employees	5	5
Treaty	2	2
Facultative	2	2

Founded: 1972.
Parent company: Arthur J. Gallagher & Co.
Specialties: Casualty reinsurance for captives, risk retention groups and other self-insured programs.
Principal officers: David J. McManus, managing director; Wayne L. Brown, manager-broking.
Contact: David J. McManus.

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3

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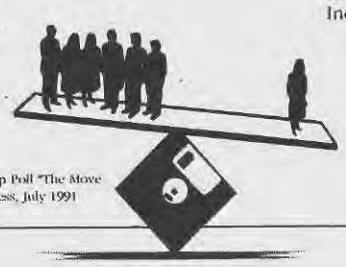

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Continued from previous page

Gardner Mountain Barr Inc.

17 State St., New York, N.Y. 10004; 212-514-8100; fax: 212-514-8027

	1990	1989
Premium volume	$1,500,000	NA
% Treaty	25%	NA
% Facultative	75%	NA
Gross revenues	NA	NA
Total employees	5	NA
Treaty	1	NA
Facultative	1	NA

Founded: 1989.
Parent company: Hogg Group P.L.C.
Affiliates: GMB, London.
Specialties: Financial institution bonds, commercial crime insurance, D&O, K&R, computer theft, financial guarantees, political risk, contingency, one-off risks.
Licensed reinsurance intermediary in: New York.
Conducts business: Nationwide.
Principal officers: Christopher J. Barr., president; Michael Fogarty, vp; Timothy Jaggs, director.
Contact: Mike Fogarty.

Gill & Roeser Inc.

535 Fifth Ave., 34th Floor, New York, N.Y. 10017; 212-972-4880; fax: 212-972-4885

	1990	1989
Premium volume	NA	NA
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	11	11
Treaty	11	11

Founded: 1983.
Specialties: Financial reinsurance, spread loss reinsurance, traditional reinsurance.
Licensed reinsurance intermediary: Nationwide.
Conducts business: Nationwide.
Principal officers: Ardian Gill, chairman; Kirk Roeser, president; Steven Bolland, senior vp; David Koegel, vp.
Contact: Robert Kaufman, President, Creative Strategies Inc., 25 W. 39th St., New York, N.Y. 10018; 212-302-2080.

Greig Fester Inc.

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

	1990	1989
Premium volume	$60,000,000	$50,000,000
% Treaty	97%	100%
% Facultative	3%	0%
Gross revenues	NA	NA
Total employees	27	36
Treaty	23	30
Facultative	4	6

Founded: 1981.
Parent company: Greig Fester Group Ltd.
Subsidiaries: Ashwood Reinsurance Intermediaries Inc., New York.
Specialties: Credit and surety business.
Licensed reinsurance intermediary in: New York.
Conducts business: Nationwide.
Principal officers: Corporate—Charles B. Penruddocke, president/chief executive officer; Leonard B. Wagner, senior vp/chief financial officer; Drew Beauchamp and Timothy J. Poeton, senior vp; Treaty—Richard D. Stary, vp; Facultative—James G. Cerreta, Joseph R. Curcio and Richard D. Stary, vps.
Membership: Brokers & Reinsurance Markets Assn.

H

H&H Re-insurance Brokers Ltd.

Chevron House, 11 Church St., Hamilton, Bermuda; P.O. Box HM 1861, Hamilton HM HX, Bermuda; 809-295-3342; fax: 809-295-4065

	1990	1989
Premium volume	$9,500,000	$9,500,000
% Treaty	90%	90%
% Facultative	10%	10%
Gross revenues	NA	NA
Total employees	8	8
Treaty	8	8

Founded: 1977.
Specialties: Small ceding companies and self-insured programs, including captives, risk retention groups and self-insured funds.
Licensed reinsurance intermediary in: Bermuda.
Conducts business in: Bermuda.

Principal officers: Simon C. Everett, president; W.H. Outerbridge and Paul Bailie, vps.

Harrison & Co.

320 Alvarado Ave., Los Altos, Calif. 94022; 415-941-4419

	1990	1989
Premium volume	$6,500,000	$7,500,000
% Treaty	99%	99%
% Facultative	1%	1%
Gross revenues	$70,000	$80,000
Total employees	2	2
Treaty	1	1
Facultative	1	1

Founded: 1977.

Licensed reinsurance intermediary in: New York.
Principal officers: John P. Harrison, president/treasurer; Ann P. Harrison, secretary.

Heddington Brokers Ltd.

P.O. Box Hm 1187, Hamilton, Bermuda; 809-295-3063; fax: 809-292-3548

	1990	1989
Premium volume	NA	NA
% Treaty	5%	5%
% Facultative	95%	95%
Gross revenues	NA	NA
Total employees	18	12

Founded: 1981.
Parent company: Heddington Insurance Ltd. and Willis Corroon P.L.C.
Subsidiaries: Willis Corroon Heddington Ltd., London.
Principal officers: R.C. Golden, president/chief executive officer; M. Dobbie, senior vp; M.G. Randall, vp; J.O. Heyliger, assistant vp.
Membership: Brokers & Reinsurance Markets Assn.

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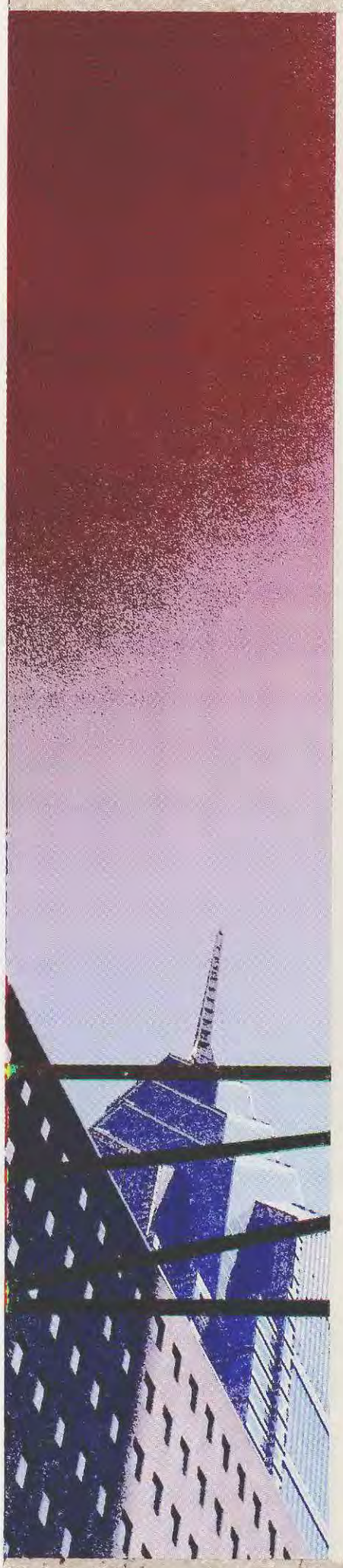

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Continued from previous page

Hileman, Justice & Co.

251 O'Connor Ridge Blvd., Suite 200, Irving, Texas 75038; 214-717-0555; fax: 214-717-0054

	1990	1989
Premium volume	$68,000,000	$68,000,000
% Treaty	100%	100%
Gross revenues	$702,000	$690,000
Total employees	12	10
Treaty	12	10

Founded: 1975.
Licensed reinsurance intermediary in: New York.
Conducts business in: Arkansas, Kansas, Louisiana, Missouri, Oklahoma, Tennessee, Texas.
Principal officers: Andy Justice, president; Del Justice, senior vp; Tina Mercer, vp; Rusty Justice, vp/controller; Sharon Cockrill, treasurer.
Contact: Andy Justice.

G.L. Hodson & Son Inc.

3333 New Hyde Park Road, New Hyde Park, N.Y. 11042; 516-365-9000; fax: 516-365-4828

	1990	1989
Premium volume	$385,000,000	$380,000,000
% Treaty	91%	91%
% Facultative	9%	9%
Gross revenues	$23,500,000*	$23,000,000*
Total employees	190	201
Treaty	172	172
Facultative	18	29

* *BI estimate.*
Founded: 1924.
Parent company: Willis Corroon P.L.C.
Branch offices: Atlanta; Burlington, N.C.; Los Angeles; Minneapolis; San Francisco.
Acquisitions: R/I Inc., Burlington, N.C. (June 1990).
Specialties: Aviation, trucking, professional liability, surety and fidelity, municipal liability, finite risk.
Licensed reinsurance intermediary in: New York.
Conducts business: Nationwide.
Principal officers: Stephen A. Crane, president/chief executive officer; Ronald J. Taylor, chairman; Horace M. Johnson Jr., executive vp; Terrance K. Russell, senior vp.
Contact: Stephen A. Crane.
Membership: Brokers & Reinsurance Markets Assn.

Holborn Agency Corp.

90 John St., New York, N.Y. 10038; 212-267-0224; fax: 212-964-0919

	1990	1989
Premium volume	NA	NA
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	43	40
Treaty	43	40

Founded: 1920.
Specialties: Property and casualty reinsurance.
Licensed reinsurance intermediary in: New York.
Principal officers: John N. Gilbert Jr., president; James A. Cathcart III, executive vp; Joseph N. Gaffney, senior vp.
Membership: Brokers & Reinsurance Markets Assn.

I

IOC Reinsurance Brokers Ltd.

67 Yonge St., Suite 902, Toronto, Ontario, Canada; 416-863-6665; fax: 416-863-3961

	1990	1989
Premium volume	$40,000,000	$27,000,000
% Treaty	90%	90%
% Facultative	10%	10%
Gross revenues	NA	NA
Total employees	14	14
Treaty	12	12
Facultative	2	2

Founded: 1980.
Parent company: Minet Reinsurance Brokers International Ltd., London.
Principal officers: U. Robert Inksater, Joseph I. O'Connell, directors.

Independent Brokers Ltd.

20 Reid St., P.O. Box HM 2070, Hamilton HM HX, Bermuda; 809-295-1646; fax: 809-292-8062

	1990	1989
Premium volume	$5,250,000	$5,194,000
% Treaty	80%	80%
% Facultative	20%	20%
Gross revenues	$145,000	$124,000
Total employees	10	9

Founded: 1984.
Principal officers: Peter J.N. Strong, president.

Industrial Re International Inc.

45 John St., Suite 411, New York, N.Y. 10038; 212-235-1118; fax: 212-608-4948

	1990	1989
Premium volume	$4,500,000	$3,000,000
% Treaty	25%	15%
% Facultative	75%	85%
Gross revenues	NA	NA
Total employees	7	5
Treaty	2	1
Facultative	3	1

Founded: 1987.
Branch offices: Miami.
Subsidiaries: Intco, New York.
Specialties: All marine and non-marine classes including life; accident and health.
Licensed reinsurance intermediary in: New York.
Conducts business in: New York and Florida.
Principal officers: Rene A. Gutierrez, president; Richard Durett, director.

Intere Intermediaries Inc.

199 Water St., New York, N.Y. 10038; 212-809-3900; fax: 212-514-5959

	1990	1989
Premium volume	$435,000,000	$323,000,000
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	182	162
Treaty	182	162

Founded: 1919.
Parent company: The St. Paul Cos.

Continued on next page

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Continued from previous page

Branch offices: Itasca, Ill.; Philadelphia; Bloomington, Minn.; Walnut Creek, Calif.; Atlanta.

Subsidiaries: Intere (Bermuda) Ltd., Hamilton, Bermuda.

Specialties: Property/casualty, marine and aviation, accident and health, domestic and international.

Licensed reinsurance intermediary in: New York, Georgia, Illinois, Minnesota.

Conducts business in: New York, Georgia, Pennsylvania, California, Illinois, Minnesota.

Principal officers: Intere Intermediaries Inc.— Daniel R. Colello, president/chief executive officer; Wallace E. Winter, vice chairman; Brian S. Keegan, Thomas F. McGrath III and Michael G. Woll, executive vps; Robert L. Mendes, senior vp/general counsel; Charles M. Caporale, senior vp/treasurer; Albert J. DeVon Jr., senior vp/Chicago branch manager; Kenneth R. Fewell, senior vp/Atlanta branch managers; Ronald C. Fazio, senior vp/secretary; Intere (Bermuda) Ltd. — Robert Hedges, president.

Contact: Ronald C. Fazio or Claire Kostbar.

Membership: Brokers & Reinsurance Markets Assn.

J

JBW & Co.

1450-C Enea Circle, Suite 690, P.O. Box 4056, Concord, Calif. 94524; 510-680-8060; fax: 510-680-1421

	1990	1989
Premium volume	$21,500,000	$24,000,000
% Treaty	100%	100%
Gross revenues	$1,600,000	$1,800,000
Total employees	26	26
Treaty	26	26

Founded: 1980.

Parent company: Concord General Corp.

Branch offices: Newark, Ohio; East Meadow, N.Y.; Edison, N.J.; Dallas.

Licensed reinsurance intermediary in: New York.

Conducts business in: California, Ohio, Texas.

Principal officers: Roland Roth, president; Thomas Thie and Phil Russo, executive vps; Peter Norton, Gary Christensen, Phil Cawley, John Broadnay and Ed Lurco, senior vps.

J&H Intermediaries

Victoria Hall, P.O. Box HM68, Hamilton HM AX, Bermuda; 809-292-1552; fax: 809-292-2091

	1990	1989
Premium volume	NA	NA
Gross revenues	NA	NA
Total employees	21	22

Founded: 1979.

Parent company: Johnson & Higgins.

Specialties: Direct offshore alternative market excess liability, directors and officers liability, professional liability, captive reinsurance programs, financial insurance programs.

Licensed reinsurance intermediary in: Bermuda.

Conducts business: Worldwide.

Principal officers: Brian R. Hall, chairman; Roger C. Gillett, Brian R. Hall, John S. Pritchard and Cathy Lord, vps.

J.B. Johnson Intermediary Inc.

1776 Woodstead Court, Suite 228, The Woodlands, Texas 77380; 713-292-4023; fax: 713-292-1106

	1990	1989
Premium volume	$16,000,000	NA
% Treaty	100%	NA
Gross revenues	NA	NA
Total employees	4	NA
Treaty	4	NA

Founded: 1979.

Licensed reinsurance intermediary in: New York and Texas.

Conducts business: Nationwide.

Principal officers: Joel B. Johnson II, president; Molly K. Johnson, secretary/treasurer.

Contact: Joel B. Johnson.

K

J.L. Kelley Inc.

784 Franklin Ave., Franklin Lakes, N.J. 07417; 201-891-7920; fax: 201-891-6956

	1990	1989
Premium volume	NA	$84,600,000
% Treaty	NA	91%
% Facultative	NA	9%
Gross revenues	NA	NA
Total employees	NA	36

Founded: 1975.

Parent company: Kelley Holdings Inc.

Branch offices: Chicago.

Specialties: Property and casualty, marine, accident and health.

Conducts business: Nationwide.

Principal officers: David Gilligan, president; Bernard Bowden, executive vp; Joseph L. Kelley, chief executive officer.

Continued on page 66

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Courtin' time

Often overlooked, wholesalers have prettied up.

arrives for

These 'value-added' specialists have big plans.

surplus lines

By LAURA MAZZUCA

Once often relegated to being the retail agent's ace-in-the-hole during a hard market, insurance wholesalers now aim to maintain the relationship regardless of the market cycle.

With surplus lines premium growth stalled due to competition in the admitted market, wholesalers are now pursuing new links with independent agents and brokers in an attempt to boost volume.

It's a slow and awkward process, but both sides stand to gain from the courtship.

Retail agents note a new emphasis on service, relationships and flexibility from wholesalers. Small agencies and brokerages may have the most to gain from this new approach.

Wholesalers should be viewed as experts who "really get to know (their) product line," said Kurt C. Bingeman, president of Russell Bond & Co., a Buffalo, N.Y.-based wholesaler.

"A good wholesaler earning his salt offers total service, not just coverage placement," added Mr. Bingeman, who is the new president of the National Assn. of Professional Surplus Lines Offices Ltd.

Over the years, most surplus lines brokers have developed specialties in hard-to-place coverages like directors and officers liability or long-haul trucking, he noted. They don't simply place this coverage, but also offer assistance and information on coverage details, market conditions and business approaches, according to Mr. Bingeman.

Such specialized service and assistance can be invaluable to independent agents, especially smaller shops that want to compete with larger brokerages, he said.

"My office is especially geared to deal with small to medium-sized agents and brokers," Mr. Bingeman said of Russell Bond, which has 14 employees and $8 million in annual premium volume.

To improve understanding between wholesale and retail agents and brokers, Mr. Bingeman is steering NAPSLO toward increased dialogue with agent associations in the coming year.

NAPSLO manned a booth at the Independent Insurance Agents of America's national convention in September in Honolulu (see story, page 60G). In turn, independent agents were invited to sound off at a panel discussion at NAPSLO's annual convention last month in Los Angeles (*BI*, Oct. 14).

Responses from the retail agents' camp so far are positive.

"We should have some liaison. They may very well have some connections that would help our smaller agents, who don't do a heck of a lot of that business in the course of a year," said Eric Gustafson, chairman of Blake Insurance Agency Inc. in Portsmouth, N.H.

Mr. Gustafson, who is president-elect of the IIAA, was a member of the panel discussion at the NAPSLO convention.

Wholesalers "genuinely want to produce more business through independent agents," noted another speaker, James A. Black Jr., vp and general manager of Barnes Insurance Agency in Easley, S.C.

That discussion made it clear that independent agents and wholesalers share several common concerns. Both want to increase their volume, and both are concerned about issues like insurer solvency, market stability and "the ease of doing business" with each other, said Mr. Black, who is vp-elect of the National Assn. of Professional Insurance Agents.

But just as both sides stand to benefit from such relationships, both sides need to maintain them, Mr. Gustafson stressed.

When looking for a wholesaler with which to do business, agents should research these intermediaries as carefully as they do admitted insurers, said Warren Stanley, president and chief executive officer of Swett & Crawford Group of Los Angeles, the nation's largest wholesaler.

They should scrutinize a wholesaler's financial stability, ownership, continuity, and ability to respond in the event of an errors and omissions situation, Mr. Stanley said.

"Regrettably, that doesn't seem to happen too often in the real world," he added (see story, page 60D).

Instead, retail agents find wholesalers the old-fashioned way: They get referrals from fellow agents, he said. "Only after something has gone awry," laments Mr. Stanley, do most retail agents get around to asking pertinent questions.

To break down the walls on both sides, Mr. Gustafson suggests that NAPSLO and the retail agent associations could work together to develop an educational program for agents on how the surplus lines market can help them.

The new emphasis on maintaining a dialogue between wholesalers and retailers is something of a novelty.

Once considered a "market of last resort" by independent agents, surplus lines brokers were invaluable to independent agents and brokers during the hard market of the mid-1980s, when the admitted market's capacity for some types of coverage shrunk to nearly nothing.

"They provided a lot of capacity then," pointed out Anthony J. DiBuduo, president of DiBuduo & DeFendis Insurance in Fresno, Calif.

During those tough times, Mr. DiBuduo recalled, his agency was able to obtain not only standard types of property/casualty coverage normally written by admitted insurers but also traditionally tough-to-place surplus lines coverages, like taxi and ambulance coverage, through surplus lines brokers.

But soft market competition from admitted insurers, coupled with steadily dwindling rates, has taken its toll on the nation's surplus lines market (see chart, page 60B). Growth has been slow: a slender 6.4%, to $6.73 billion in 1990 from $6.32 billion in 1989, according to statistics from state insurance departments (*BI*, Aug. 12).

Mr. Stanley of Swett & Crawford estimates the surplus lines market's actual dollar volume has probably shrunk at least 20% since the boom days of 1986 and 1987.

But, he adds, the level of activity in the market remains high.

One reason is that the same producers who sought out the surplus lines market when capacity was tight are now looking for higher limits and specialized lines of business to satisfy increasingly sophisticated clients. Admitted insurers offer little of this specialized coverage, Mr. Stanley said.

Continued on next page

Surplus lines

Continued from previous page

Independent agents report using wholesalers for both commercial and personal lines coverages like directors and officers liability, earthquake, contractors liability and personal lines auto. They also use wholesalers to obtain increased capacity for personal and commercial umbrella coverages, he said.

Service and flexibility praised

As surplus lines premium growth has stalled, service from wholesalers has improved considerably, retail agents say.

John Dotson, vp of Texas American Insurers, an independent agency in Fort Worth, said he notices a can-do attitude from wholesalers. Texas American uses wholesalers to place product liability and other tough-to-place coverages he said.

As an example, he recalled the response a wholesaler gave in connection with an amusement park ride distributor that needed liability coverage. The wholesaler, Swett & Crawford, presented the agency with about seven different quotes from non-admitted insurers, he said.

Retail agents should conduct research on their wholesalers as carefully as they do for admitted insurers, says Warren Stanley, president and chief executive officer of Swett & Crawford.

The surplus lines market also wins praise for flexibility.

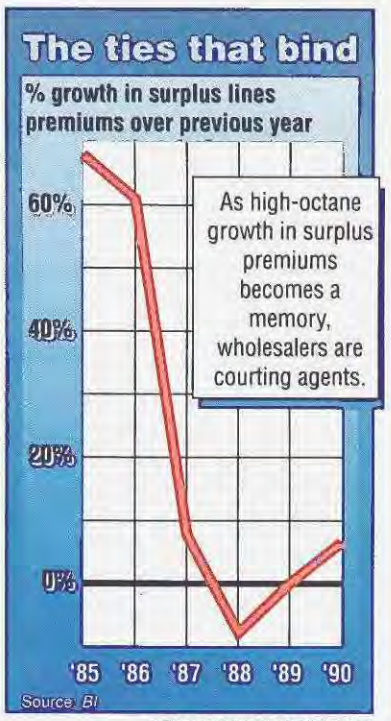
While growth is stalled, non-admitted insurers are keeping busy writing coverage for emerging industries and developing new lines of coverages not offered by the admitted insurers, said Gene McGee, president of MarketSearch, a Washington Township, N.J., firm that helps wholesale brokers access surplus lines insurers.

For example, he and a non-admitted insurer recently developed coverage for extended service contracts on watercraft. Service companies offer customers the extended coverage, which guarantees their performance.

Mr. McGee also helped to develop parts coverage through the surplus lines market for antique and hot-rod cars. While admitted insurers already offer basic property coverage for these cars, it frequently excludes additional elements like parts. A surplus lines program offering such an enhancement would make this coverage attractive to wealthy personal lines clients, he said.

Because of this flexibility, wholesalers "really have a place in today's market," Mr. DiBuduo said. His Fresno agency uses wholesalers to place directors and officers liability, medical malpractice and other hard-to-place coverages.

"I think it protects the consumer, too," because the market offers increased capacity, Mr. DiBuduo added. In fact, he finds that price competition can be just as stiff in the non-admitted market as anywhere else, especially since admitted insurers in California are reluctant to underwrite some auto-related coverages.



GRAPHIC BY JOHN SMITHER

As an example, he points out that he recently obtained umbrella coverage for a national car dealer in the surplus lines market for less than he could have found it in the admitted market.

In fact, many independent producers find they actually have better relationships with their surplus lines brokers and managing general agents than they do with the admitted insurers they represent, said Richard L. Katten, a vp with Ferd. Marks Insurance Agency in New Orleans.

Admitted insurers wait for business to come to them, but wholesalers, like independent agents, must drum up business, Mr. Katten said. "They're entrepreneurs like I am."

Political problems and a highly litigious atmosphere have led many admitted insurers to abandon the Louisiana market, Mr. Katten noted.

"It's created a hesitancy on the part of a lot of companies to write business here," he said.

So for several years, Ferd. Marks has been using the surplus lines markets "to plug gaps in the standard market," noted Mr. Katten. "We use it for everything from Mom and Pop stuff and auto liability, all the way up to municipality coverage and special kinds of property."

Commissions down, premiums up

Friction between wholesalers and independents agents does arise, particularly concerning commissions, since an independent agent working through a wholesaler often will receive a smaller commission than if he or she placed their coverage themselves.

In the admitted market, for example, commissions on a general liability policy may be 15% or 20%, said Mr. Black of Barnes Insurance Agency. But when using a wholesaler, an agent may get "anywhere from 10% to 17%," depending on the insurer the coverage was placed with, he said.

Many agents, though, seem sanguine, or at least resigned, about the lower commissions.

"We live under the theory that half a loaf is better than none," Mr. Katten said.

Others feel they will make up the lost revenue through higher volume in the long run.

And even with the lower commissions, agents "may not be suffering at all," adds Mr. Black. Commission rates are lower because the commission is essentially split with the wholesaler, he said, But, he added, business being placed with the surplus lines mar-

Continued on page 60D

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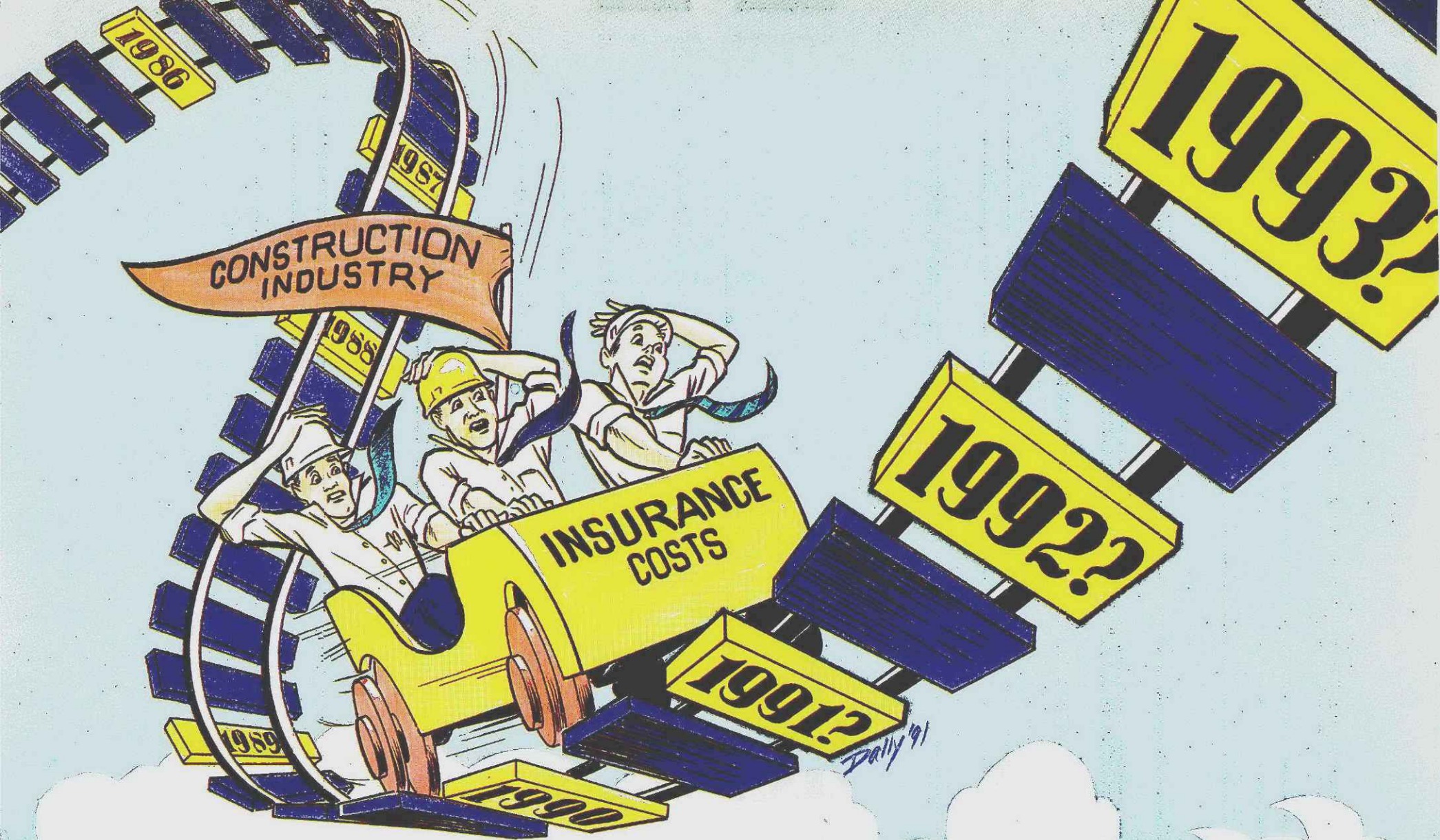

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Surplus lines

Continued from page 60B

ket generally has higher premiums than admitted business.

Questioning need for contracts

Contracts, however, can be a more onerous sticking point.

In the past, wholesalers didn't require independent agents to enter into a contract before they would bind coverage for them, according to Mr. Black. Today, such contracts are becoming commonplace.

In itself, that may not be a problem for agents. But some wholesalers have "gotten a little more aggressive than they need to be," charges Mr. Gustafson of Blake Insurance Agency. One indication, he said, is their growing use of hold-harmless clauses, which relieve wholesalers of all potential liability stemming from a transaction.

Many wholesalers also expect premium payments either up front or in 20 days, "so the insured had better be informed," Mr. Gustafson said.

Some wholesalers have 'gotten a little more aggressive than they need to be,' says Mr. Gustafson.

Contracts are more common, concedes Mr. Stanley of Swett & Crawford, but most involve only simple issues. These would include payment schedules, and the requirement that retailers maintain a certain level of errors and omissions coverage.

Swett & Crawford only introduces hold-harmless clauses when the agent is presented with a quote from an insurer that Swett & Crawford has reservations about, Mr. Stanley said.

Using a wholesaler, he points out, "does not guarantee market solvency." When entering into a relationship with a wholesaler, clients and retail brokers "have to make that trade-off between the solvency issue and coverage or premium considerations," said Mr. Stanley.

Despite their differences, both independent producers and wholesalers seem optimistic about their future relationship.

NAPSLO "can definitely take a role in better educating agents and brokers in the wholesale area," Mr. Stanley said. "That's supportable and good direction." ■

Word-of-mouth is not good enough when choosing a wholesale broker

By LAURA MAZZUCA

Today's tough insurance environment makes it more important than ever for independent agents to do their homework when selecting a wholesaler, observers say.

"In a business that depends so much on integrity, having a reasonable assurance of the integrity of the organization you're dealing with is critical," said Warren Stanley, president and chief executive officer of Swett & Crawford Group of Los Angeles, the nation's largest wholesaler.

This simply boils down to asking the same questions of a wholesaler that you would of a new insurer, Mr. Stanley said.

But such basic research is frequently overlooked. Instead, independent producers tend to rely too much on the advice of their peers when choosing a wholesale broker or managing general agent, he said.

"The marketing arm of independent agents and brokers does not take the same care of selecting an intermediary as the owner (of the agency) does when dealing with another insurance company," Mr. Stanley said.

This could be a big mistake, especially in today's litigious atmosphere of client lawsuits and concern about insurer solvency in both the admitted and surplus lines marketplace.

Feedback from fellow agents is important when selecting a wholesaler. So is information from other sources like state regulators and trade groups like the National Assn. of Professional Surplus Lines Offices Ltd.

But this is only the beginning of the research process, stressed James A. Black Jr., vp and general manager of Barnes Insurance Agency in Easley, S.C.

"At the end of the day, the core questions of ownership, capitalization and financial responsibility in the area of errors and omissions should be asked before you transact business, not after," agreed Mr. Stanley of Swett & Crawford.

Since the wholesaler is the retail agent's liaison to the entire surplus lines marketplace, the wholesaler's ability to negotiate a good deal becomes very important, said Richard L. Katten, vp of Ferd. Marks Insurance Agency in New Orleans.

"I'm as much or more concerned about about the solvency of the wholesaler as I am about the (insurer)," he said.

To Mr. Katten, the most important consideration about a wholesaler is, "Do I know him?" If not, he said, "find out."

"If you don't have a contract in the market (with a wholesaler), you have to trust him; and if you don't trust him, get rid of him," he said.

Although Ferd. Marks has solid, longstanding relationships with its wholesalers, even these must be periodically re-evaluated, Mr. Katten said.

The agency has run into problems in the past with wholesalers that have ended up offering policies substantially different from the conditions quoted, he explained. When that happens, Ferd. Marks simply will not do business with the wholesaler again, Mr. Katten said.

Compatibility is important in selecting a wholesaler, just as it is when picking a new insurer.

"The most important thing is finding a broker who will respond to you," said John Dotson, vp of

Continued on page 60F

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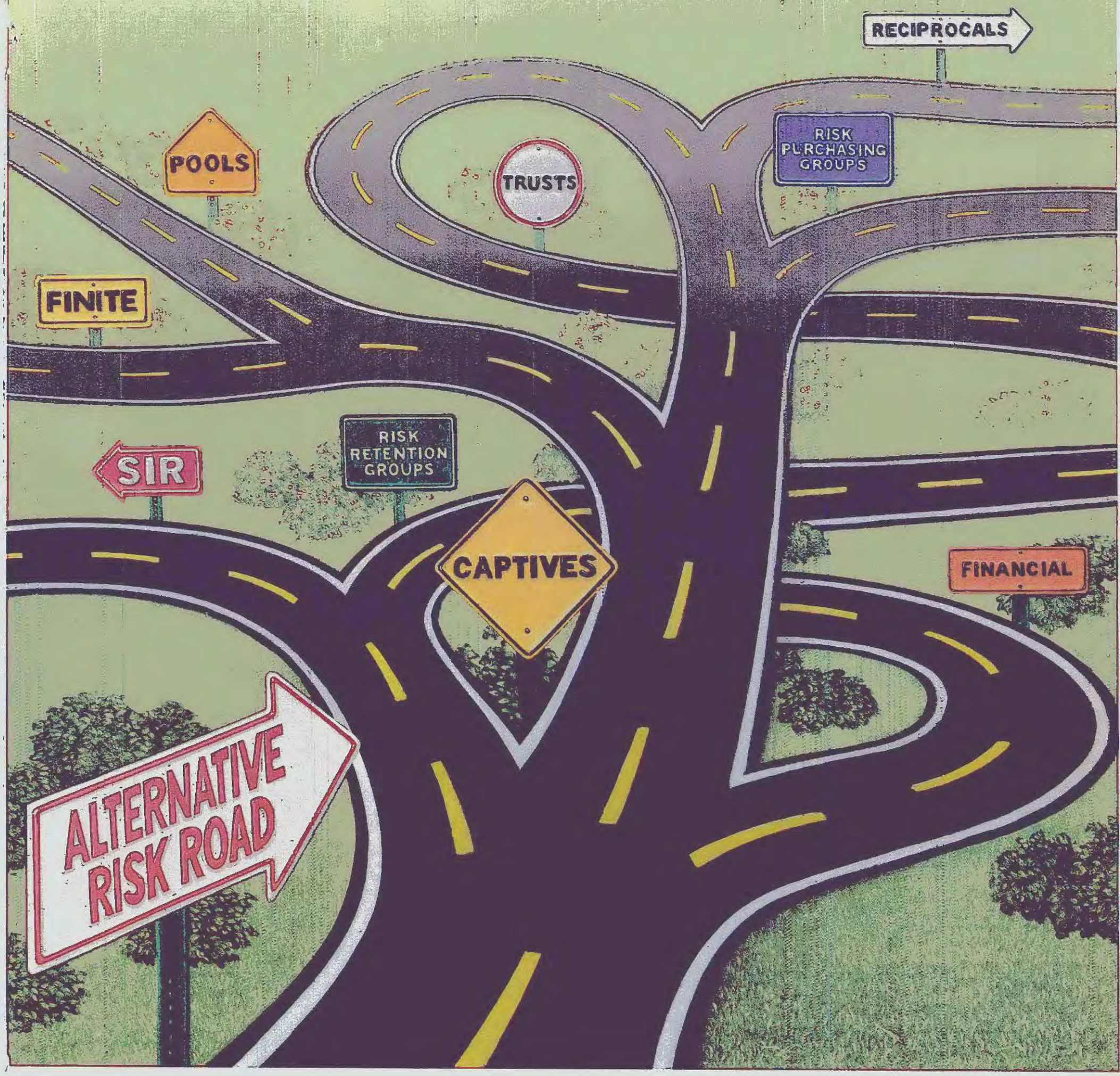

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Homework

Continued from page 60D

Texas American Insurers, a Fort Worth, Texas, agency. "It's a process; it doesn't happen overnight."

Mr. Dotson tries to match the coverage sought with surplus lines insurers that offer this coverage, getting information from sources—like Crittenden Business News Inc. in Novato, Calif., which surveys the surplus lines market—to determine which insurers are writing what coverage. Then he contacts wholesalers that deal with that insurer.

Mr. Dotson finds that it sometimes pays to seek out smaller wholesalers, which, like regional insurers in the admitted market, may be more responsive to the needs of a smaller account.

However, the real research begins once you've chosen a likely candidate, observers agree. Areas to consider at this stage include:

- **Continuity.** Agents should know the wholesaler's scale of operations; the insurers it represents and their financial status; and how long the wholesaler has been in business, Swett's Mr. Stanley said.

If the wholesaler has binding authority with an insurer, it's also a good idea to ask for letters of authority from the insurers, he added.

- **Financial stability.** A good place to start is to request to see the wholesaler's balance sheets, Mr. Stanley said.
- **Ownership.** Many wholesalers are owned by the alphabet brokers, and an agent should know they may ultimately be doing business with a competitor, Mr. Stanley warned.
- **Ability to respond to errors and omissions problems.** If the wholesaler's employees "start taking shortcuts," this could cause E&O problems, Mr. Stanley said.

Especially in today's litigious atmosphere, an agent must be sure that the wholesaler is able to respond to such a problem if it arises, even several years down the road, he added. It's also a good idea to gather information about the wholesaler's E&O coverage limits and its insurers.

- **Professionalism.** The wholesaler should know his stuff, including knowledge of surplus lines coverage and risk management principles, said Mr. Black of Barnes Insurance Agency.

Also, it's a lot simpler dealing with a wholesaler that returns phone calls, makes underwriters available to the agent, provides fast turnaround on quotes, and is familiar enough with the marketplace to be creative with customized coverages, said Mr. Black.

Other conveniences could include the use of standardized forms and having an automation system that's compatible with the agent's, he added.

While closely scrutinizing the professionalism of the wholesaler, the independent agent should keep in mind that the wholesaler probably has the agency under a similar microscope.

"We closely examine the professionalism with which independent agents deal with us," said Charlynn Clark, president of Western General Agency in Salt Lake City, a managing general agent for Topa Insurance Co.

Ms. Clark said Western General and other MGAs prefer to conduct business with agents with solid collections processes and standardized claims reporting procedures.

Wholesalers have just as much at risk as the independent producer if the relationship goes sour, she explained.

For example, Western General recently turned down an account with an agency because of incomplete and poorly prepared information, a lack of E&O coverage and the fact that the agent bound coverage without first informing the MGA, Ms. Clark said.

"I can't have people like that representing us," she added.

The MGA has run into other "ethical" problems with independent agents, Ms. Clark remarked.

One practice she cited as particularly annoying is "market blocking," which is when agencies rush an application to the MGA to cut out its competitors, even though that agency has no intention of using the MGA to place the coverage.

If one of Ms. Clark's insurers gives that agent a quote and the agency places business through another wholesaler, Western General will simply stop doing business with the agent because "they have us working for nothing," she said. ■

Heads of IIAA, PIA back merger vote

COLORADO SPRINGS, Colo.—Officials from both the Independent Insurance Agents of America and the National Assn. of Professional Insurance Agents addressed attendees at the first joint annual convention of the IIA and PIA of Colorado last month.

R.C. Riley, president of the IIAA, and Dan Blum, president-elect of the PIA, addressed more than 275 member agents and insurance company representatives at the joint association convention in Colorado Springs.

Their presentation, "IIAA/PIA National Review," focused on the consolidation efforts of the two associations.

The two association leaders pledged their personal commitment to the consolidation of the two national groups.

"R.C. and I are committed to the successful presentation of a consolidation plan to both our memberships to vote on at our respective 1992 annual conventions," said Mr. Blum, who will assume presidency of the national PIA at its convention later this month.

"The proposed consolidation is being driven by our respective memberships. The individual member is the force behind the consolidation of our associations," Mr. Riley said.

Although efforts toward consolidation have hit snags on the national level, state associations of both the PIA and IIAA continue their individual efforts to join forces.

For example, West Virginia agents in September formally announced their intention to merge the two state associations as of Jan. 1, 1992.

And, agents in other states—including Texas, Nebraska, and the New England states—continue to explore the benefits and drawbacks involved in state-level consolidation.

Steering clear of E&O traps and coverage gaps

By SARA J. HARTY

HONOLULU—Independent agents must have a technical familiarity with the coverages they place to help policyholders obtain the proper coverage and to protect the agency from errors and omissions claims.

Agents who are aware of potential coverage gaps will be better able to fill those gaps for their clients as well as protect themselves from suits.

The need for agents to understand the intricacies of the coverage they sell was addressed at the annual Independent Insurance Agents of America convention last month in Honolulu during two technical sessions focusing on avoiding coverage gaps and E&O claims.

Tom W. Clarke, president of Clarke Insurance Service in Miles City, Mont., concentrated on flexibility in policy forms and specific policy issues like identical aggregate and occurrence limits, which he called the "biggest E&O trap out there."

And David M. Sanborn, a partner with Risk & Insurance Education of West Hartford, Conn., a company that runs industry seminars, described the recent changes to the commercial general liability policy, especially its treatment of pollution.

Forms leave room to maneuver

Agents should be aware that while the Insurance Services Office Inc. is the biggest producer of insurance policy forms, it does have a competitor, said Mr. Clarke, who is a member of the IIAA Technical Conference Committee, which suggests changes and new policy forms to insurers and industry organizations.

That competitor is the American Assn. of Insurance Services, an organization with headquarters in Bensenville, Ill., and representing smaller insurance companies.

According to Mr. Clarke, AAIS has proven "extremely amenable" to suggestions from agents. Not only does the organization listen to the technical committee's suggestions, it "even brings forms to (the committee) for input before taking a form to the marketplace," he said.

And when the agents' suggestions are not adopted in standard forms, they still may not be out of luck. In some cases, an insurer will say, " 'I don't know why we can't do that,' " Mr. Clarke said, encouraging agents to negotiate with the underwriters themselves.

Meanwhile, the IIAA committee has had mixed results in raising some general policy form concerns with ISO.

As an example, Mr. Clarke cited agent misgivings about subrogation clauses in policy forms. "Fifty percent of all products liability litigation emanates from subrogation, a tremendous waste of resources," Mr. Clarke said.

This is simply the "transference of money from one insurance company to another insurance company that is paid for by the consumer but benefits the consumer not at all," he said.

However, ISO's position is that subrogation places fault where it belongs and that eliminating subrogation clauses would not take away the right to subrogate under state laws, he noted.

Other specific commercial and personal lines policy issues that agents should be aware of, according to Mr. Clarke, include:

- Due to increases in divorce and separations, both spouses' names should be listed in a personal auto policy whenever possible.

According to the policy, the terms "you" and "your" only apply to the spouse "if a resident of the same household," Mr. Clarke said. A spouse not named in the policy and no longer living in the household would probably be afforded coverage for an owned car, but not for a borrowed car, he explained.

Insurers in some states will only list the registered owner of the car as a named insured, a member of the audience pointed out. Nevertheless, Mr. Clarke recommended that agents always at least attempt to get both names on the policy.

- ISO's advisory format for the general liability declarations page is confusing and presents an E&O concern for agents, Mr. Clarke said.

Aggregate limits are listed first on the page, followed by the limits per occurrence. This can confuse the policyholder, who may think the limits apply to bodily injury and property damage, respectively, Mr. Clarke suggested.

Although the format is only advisory, many insurance companies do use the page and lack the ability to produce their own, clearer wording, he said.

ISO has agreed to consider the IIAA's technical committee's request for a revised declarations page.

- "It's amazing that you continue to see aggregate and occurrence limits" that are the same, Mr. Clarke added.

"This is the biggest E&O trap out there," he said. Other than for umbrella policies, agents are not doing a good job if the aggregate is not a multiple of the occurrence limit, he said.

- Unclear language can also plague agents.

As an example, Mr. Clarke pointed out that some policyholders do not understand what aggregate limits are. " 'Aggregate' is gravel in my part of the country," said the Montana agent.

"We can come up with better language," he said, adding that the plethora of insurance industry acronyms should be avoided when an agent speaks to a member of the public.

Mr. Clarke illustrated that point with a story about a friend who started using "AIA" after his name. When he was finally asked what it stood for, he proudly responded: "Another Insurance Agent."

Out with the old, in with the. . .

Another session at the IIAA conference focused on the changes to the commercial general liability policy form.

Mr. Sanborn of Risk & Insurance Education emphasized the pollution exclusion in the commercial general liability policy. Among his advice and observations were:

- The CGL policy provides pollution coverage for a policyholder's products and completed operations, as long as they are not "waste," he said.

Adding a Hawaiian touch, Mr. Sanborn gave the example of a business that is contracted to spray some macadamia nut trees with a pesticide. Six days later the trees begin to

Continued on next page

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Coverage gaps

Continued from previous page

die. The company could be held liable for the loss, and, because the operations were completed and loss was not the result of waste, the pollution exclusion would not apply.

Had the trees begun to die while the plant company was still spraying, however, the loss would have been excluded.

The moral is to "do the work and get out of there," Mr. Sanborn joked.

• The old mandatory endorsement that stated that the pollution exclusion does not apply to hostile fires is now built right into the CGL policy.

However, losses as the result of a friendly fire are still excluded, as they are in the homeowners general liability policy.

To explain this exclusion, Mr. Sanborn used the example of a man whose dentures fell out while he was sleeping. The family dog picked up the dentures and dropped them into the fireplace, which happened to be burning. A claim was filed, but excluded on the grounds that it was a friendly fire.

"Hostile dog, but a friendly fire," Mr. Sanborn observed.

• The total pollution exclusion endorsement to the CGL form should be avoided as it negates coverage for everything, including products and completed operations.

• A new "limited" endorsement restoring some pollution coverage now is in the process of being rated by ISO and is expected to be reasonably priced.

This endorsement replaces the absolute pollution exclusion and affords coverage for liability from on-premise pollutants, except waste, he said. For example, contractors would be covered for pollutants brought to a job site, and golf courses would have coverage for claims arising from lawn fertilizers or herbicides carried off premises by runoff water.

The endorsement still excludes leaking underground storage tanks.

Mr. Sanborn's advice and observations about other portions of the CGL policy include:

• Agents must remind policyholders deciding on liability insurance limits to be aware of not only what may be destroyed by a company's actions, but also of the business interruption losses caused by the destruction of the property.

For example, the employer of a repair worker who accidentally destroys an air conditioner in the basement of a large hotel may be potentially liable for much more than just the cost of the air conditioner. The firm could also be responsible for the income the hotel loses if it is forced to shut down, said Mr. Sanborn.

• Unlike the old comprehensive general liability policy, the new CGL form grants liquor liability coverage to the lessor or owner of premises.

However, an exclusion specifies that this coverage does not apply "if you are in the business of manufacturing, distributing, selling, serving or furnishing alcoholic beverages."

For example, "Cheers Inc. in Boston is 'in the business' " and must purchase separate liquor liability coverage under "both the old and new form," Mr. Sanborn said. However, with the new form, the bank that owns the building housing the bar does not need to purchase separate liquor liability coverage apart from its CGL coverage, he explained.

Interpreting the liquor liability exclusion in the new CGL form can be tricky, he warned. While churches are not usually "in the business" of selling liquor, St. Patrick's Day or Halloween parties where a church sells liquor may change its status.

Questions also remain about the definition of "business." For example, selling alcohol and making a profit on such sales can be very different things, he pointed out.

A new ISO policy endorsement amending the liquor liability exclusion can help clear up the issue for churches and social clubs, Mr. Sanborn said. That amendment would completely remove "business" from the exclusion and states that the exclusion applies to policyholders that serve alcoholic beverages for a charge. So churches, for instance, could serve liquor—as long as they did not charge a specific amount per drink—without needing separate liquor liability coverage.

However, if a liquor license is required, a policyholder would still need to buy separate liquor liability coverage under the terms of the amendment, he said.

That provision could present other problems, he warned.

Agents should tell clients that a city license may be required to have open liquor in city parks. So a liquor liability loss at such an event would be excluded, even if liquor was served without charge, he said. ■

Agents ask, 'Now what?'

Once off the ground, agency needs new producers to grow

By SARA J. HARTY

HONOLULU—Principals that successfully create an agency then must add additional producers in order to grow.

However, that's not always easy, say three agents who have created successful independent agencies. They discussed steps they have taken at a "Success Stories" panel at the Independent Insurance Agents of America convention in Honolulu last month.

If independent agents are going to expand their business, they "must bring in more agents," said Bob Santos, chairman and chief executive officer of the Big Island Agencies in Hawaii and president of Hawaii's Assn. of Professional Insurance Agents.

Hiring and training young producers is essential to an agency's continued growth, but is not always easy, the panel agreed.

"I strongly believe in testing" producer candidates, said Jeanne M. Heisler, senior vp and corporate treasurer of The Ronan Agency—an agency started by her parents—in Brick, N.J.

Testing is not infallible, though. For example, one producer Mr. Santos hired had an insurance degree and his pre-employment test results were very good. However, he was not a good fit for the agency and left within two years.

Another good indicator of motivation is some degree of financial need, Ms. Heisler said.

"You don't want someone in a financial dilemma, but you do want someone who has to work," agreed Mark Lauria, owner of Mark Lauria Associates Inc. in Staten Island, N.Y.

By giving new producers a draw

Continued on next page

The Voice of the Independent Agent

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Continued from previous page
so that they will be paid regardless of the commissions they bring in, Ms. Heisler helps new producers become accustomed to the business.

At the end of 13 weeks, she annualizes the commissions the new producer has brought in and either adjusts the draw up or down—or fires the producer. This process continues every eight weeks. Within 24 months, the producer should be completely weaned off the draw, she said.

New producers "definitely need monitoring and assistance in marketing," she said.

After working with three producers who did not work out, Mr. Santos said he finally hired a successful producer. "After a time you begin to see in people what you want," he said.

All of the panelists also place a priority on service.

The axiom that 15% of the customers bring in 85% of the profits has proven true for The Ronan Agency, Ms. Heisler said.

While the agency employees try to give quality service at all times, "we can't afford" to "give quite the same service to smaller accounts" that larger accounts might receive, she said.

"We have asked some clients to go elsewhere because we cannot provide the service they want for the amount of business they bring in," Mr. Santos said.

"Many agencies say they have no time to write new business because they're so busy servicing" clients, noted Mr. Lauria. But "you never know what service will do" for the agency in the long run, he added.

For example, he recalled that he once personally delivered an ordinary homeowners policy so the client could close on a new home.

Later, that client's attorney called him and asked for coverage for 50 commercial buildings. The attorney explained that he chose Mr. Lauria's agency because of the service he provided, he said. ■

'Honest and integrity' key to agents' success

By SARA J. HARTY

Community involvement can help small independent agencies fend off their "mega-agency" competitors, says a Riverview, Mich., agent who practices what he preaches.

After years of being involved in his five daughters' school systems, Mel Kaplani, is running for a seat on the Riverview city council this month.

"You don't have to run for office," but involvement in "schools, city, county, state and civic organizations gives you a trustworthy profile," said Mr. Kaplani. "And, if you exercise honesty and integrity, benefits will roll in like rain."

Health problems kept Mr. Kaplani, owner of Kaplani Insurance Agencies Inc., away from a session on agency "success stories" at the Independent Insurance Agents of America's convention last month in Honolulu. In an interview, though, he recounted his compelling story, which could have filled a session by itself.

His family fled to Greece from the Communist regime in Albania in 1942, when he was three years old.

For the next 12 years they lived in Greek refugee camps.

"We were very grateful to have a roof overhead, and to be fed and protected," Mr. Kaplani said.

He attended Greek schools through the third year of high school. The family immigrated to the United States in 1957, when Mr. Kaplani's father gave up on their chances of returning to Albania.

Shortly after his family settled in Detroit, the 15-year-old Mr. Kaplani took a job washing dishes from 5 p.m. to 1 a.m. every day after school.

"I remember one of my teachers saying, 'Mel, you sure do love to sleep,' " Mr. Kaplani laughed.

After high school and a couple of years of community college, Mr. Kaplani's career took a series of twists and turns. He discovered his strongest talent while selling encyclopedias door to door and continued to use that sales savvy during a seven-year stint selling life insurance in Detroit.

In the meantime, his father had opened a restaurant. His father eventually persuaded Mr. Kaplani that he could make a better living in the food business than in sales.

Mr. Kaplani bought and ran his own restaurant for a time, then realized that he had simply found another commodity to sell. During a 15-year period, he bought and sold 25 restaurants.

"The hours were long, but the financial rewards were great," he said.

Still, he could not shake the feeling that insurance was where he belonged. In 1985, he began searching for an agency that would be willing to sponsor his effort to obtain a property/casualty agent's license. After some difficulty, he found an agent willing to take him on for the time it would take to earn the license.

Two years later, he was ready for his own agency.

And, over the last four years he has bought a series of smaller agencies from older agents preparing to retire.

Today his four agencies generate premiums of more than $3.5 million, and he plans to buy an additional agency that generates $2 million in premiums annually.

Generating premiums of $5 million to $6 million annually is his goal. At that size, agents can still have control over their business and know their clients but also be able to make a comfortable living, Mr. Kaplani believes.

"I have concern for the independent agent," Mr. Kaplani said. "They have been the backbone of the insurance industry" and must not let their position be usurped by the new "mega-agencies." ■

The Voice of the Independent Agent

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IIAA conference draws over 2,300

HONOLULU—More than 2,300 agents and their guests enjoyed beautiful Waikiki Beach and the local color at the 96th annual convention of the Independent Insurance Agents of America.

Though the convention ran from Sept. 29 to Oct. 3, many arrived early or stayed late so they could visit the other islands.

But this wasn't all play and no work. Workshops on topics like agency perpetuation and producer compensation as well as daily "meet markets" lured people away from the surf and sun.

Lee A. Iacocca, Chrysler Corp.'s chairman and chief executive officer, delivered the keynote address. Agents also enjoyed the humor of syndicated columnist Lewis Grizzard and the insights of retired Lt. Gen. Thomas Kelly, director of operations for the Joint Chiefs of Staff during the Persian Gulf War.

An exhibit hall featured 97 exhibits sponsored by insurers, employee testing firms, software firms and others.

Next year's convention is set for Sept. 13-17 in New Orleans. More information is available from the Conventions Department, IIAA, 127 S. Peyton St., Alexandria, Va. 22314; 800-221-7917.

—By Sara J. Harty

State of agency automation viewed

By SARA J. HARTY

HONOLULU—The next stage in agency automation is in the hands of agents themselves, experts say.

"Agents have to take responsibility for the future," said David W. Wroe, president and chief executive officer of Agency Management Services Inc., a software vendor in Norwell, Mass.

"We're in a position where the political obstacles" to single-entry, multi-company interface have been removed, Mr. Wroe said. Agents who wish to move automation forward must stay united behind the development of such an interface, he said.

Single-entry, multi-company interface would allow allow agencies and insurers to share data that has been previously input. Agents now may have to input data into their own proprietary system as well as into several insurers' separate automation systems.

Agents and insurers searching for automation standards have built and now "own the house. We can't afford to rent it again," Mr. Wroe said during a panel discussion at the general session of the annual Independent Insurance Agents of America convention in Honolulu last month.

He said that real progress is coming with the end to the debate over the merits of single-entry, multi-company interface and downloading, which is the electronic transfer of policy information from an insurer to an agent (*A/BT*, Nov. 5, 1990). Downloading, most experts agree, is not as efficient as a single-entry, multi-company interface.

Other experts, though, warned that complete automation is still a ways down the road.

"It will take time—there will be no cataclysmic happening," predicted Eric G. Gustafson, chairman and chief executive officer of Blake Insurance Agency in Portsmouth, N.H., and a senior vp of the IIAA.

Progress in automation also hinges on whether agency principals believe that automation will be necessary to retain customers, he said.

Agency principals are in the best position to resolve some of the work flow problems in agencies that contribute to the need for double entry of information, said Robert E. Merriman, president of White Plains, N.Y.-based ACORD Corp., an insurance industry-supported automation standards organization.

Renewals and endorsements take up 85% of an agent's time, Mr. Merriman said. If those procedures can be automated, the agent's ability to sell and service should increase dramatically, he said.

Meanwhile, agents have found that downloading has not helped eliminate any extra paper, noted panel moderator Herbert G. Treweek, chairman and chief executive officer of HRH Insurance in Gainesville, Fla.

The paper transfer is still occurring because "agents still want to receive" hard copies of at least some of the material, said Richard L. Anderson, senior vp of SAFECO Corp. of Seattle.

Insurers are making an effort to print only those documents that agents want, he said.

"Ecologically and economically," reducing the paper trail is in everyone's best interest, he said.

The panel also discussed the role that the Perot Systems Report, commissioned by the IIAA in 1990, has played in furthering agency automation.

The report concluded that divergent business interests have prevented agency/insurer interface from becoming a reality and suggested several alternatives for achieving full automation (*A/BT*, Jan. 7).

The report was "a catalyst for a great deal of action," Mr. Gustafson said. He noted that the report sped up the formation of the Alliance for Productive Technology, a joint venture by several insurers and software companies to standardize agency/insurer interface (*A/BT*, Aug. 6, 1990).

The major benefit of the Perot Report is that the climate of cooperation between all parties is greater than ever, ACORD's Mr. Merriman agreed.

"I didn't like that report, but I have changed my view with regard to at least some of the results," said Robert Y. Barham, president and chief executive officer of Greenwich, Conn.-based IVANS, an insurance industry-sponsored electronic data network.

Mr. Barham said he was concerned after reading the report that its confrontational tone might alienate some of the parties involved in working toward agency automation. ■

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Commitment is key in maintaining good agent/insurer relations

By SARA J. HARTY

HONOLULU—Independent agents and insurance company management must focus their energies on maintaining a healthy relationship, according to the past president of the Independent Insurance Agents of America Inc.

Insurers should not lose sight of the important role independent agents play in their distribution system, and agents must insist on proper treatment from these insurers, said A. William Bailey Jr. at the association's annual convention in Honolulu last month.

In turn, agents must refocus their commitment to insurance buyers in delivering quality service, said Mr. Bailey, chairman of Insurance & Financial Services in Waco, Texas.

"To our very fine companies, I remind you that no company in any industry, whether manufacturing a product or providing a service, can be any stronger or any healthier than the distribution system utilized," Mr. Bailey said.

Insurers that use the independent agency system "must embrace it totally" by committing resources like people and money to it, he said.

"You must search for ways to strengthen your agents," he said. "Independent agents are the communications arm of this industry, and properly so, because we meet the insurance buyer on a daily basis."

But agents have not been demanding enough from the insurers, "allowing many to get away with inferior service to us and mistreatment of our customers," Mr. Bailey charged.

"If we are bound by the systems and idiosyncrasies of each carrier, we are nothing more than captives," he said. "If I have any advice for our distribution system, it is to do business in your own way" and let the insurers "accommodate your uniqueness."

Mr. Bailey also urged independent agents to become more aggressive and more sales-growth oriented. "Growth is absolutely essential if a business is to be healthy and vibrant. Understand that premium volume growth is desirable and necessary, but account growth is vital and more indicative of activity and sustained growth."

And, attention to service is key for agents to keep their client base, he said.

"Retention demands service, and you must define that as service exceeding expectations. I am convinced that today's society is crying out for personal attention."

It is up to agents and brokers to improve the industry's image "by improving themselves and the way they relate to customers," Mr. Bailey said.

One way to improve agent service is to move toward automation between insurers and agents, he said.

While acknowledging that implementation of the Perot Report recommendations has not been easy, progress is being made, he said (see story, page 60J).

"For the first time ever, the vendors and numerous companies have come together to bring single-entry, multi-company interface reality."

In addition, consolidation with the National Assn. of Professional Insurance Agents remains a priority on the IIAA's agenda, he said, noting that he will continue to work on the Consolidation Steering Committee in the coming year.

"Your first dance is often awkward and stumbling, and so was ours with PIA," Mr. Bailey said.

However, the "distribution system demands consolidation. Our membership is entitled to a consolidated effort, and it will be accomplished." ■

NOVEMBER CLOSINGS

SET YOUR DATES

issue:	November 18 — Reader Service Bonus Distribution: PIA
closing:	November 5
editorial feature:	Benefits: Pension/Retirement Plans & EBC Award Profiles Directory: 401(k) Plan Administrators
demographic section:	Insurer Topics: Reinsurance Issues/Relations with Intermediaries CPCU Conference Report
issue:	November 25
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issue:	December 1991 — Reader Service
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editorial feature:	1991/92 Managed Care Market Report — Directory: HMOs & PPOs
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October November December

AgentBroker Topics

Contracting For Services

The pressure is on for agents to target commercial accounts. Who are they turning to to handle their personal lines business? Are they using consultants to design perpetuation plans, software systems and help improve their office efficiency? BI editors will look at these issues and whether agents are better off contracting for services or handling things on their own.

Issue: October 7
CLOSED

Tapping Surplus Lines Markets and IIAA Conference Report

A soft commercial insurance market is shrinking premium volume in the surplus lines business. BI will look at what effects the current market conditions are having on the relationship between retail agents and wholesalers. Are relations still good? And who's courting whom to build volume? Plus, reporting from Honolulu, BI will recap the news from the Independent Insurance Agents of America's annual conference.

Issue: November 4
CLOSED

PIA Conference Report

The National Association of Professional Insurance Agents conference is one of the year's most important gatherings of insurance producers. BI editors will report on this year's meeting in San Francisco, providing readers with up-to-the-minute news coming out of the sessions along with information on industry trends, developments and market forecasts.

Issue: December 2
Ad Closing: November 18

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Business Insurance — a publication of Crain Communications Inc

Agent/Broker Topics

Agents urged to pursue standard of excellence

By SARA J. HARTY

HONOLULU—Independent agents must move from a "crisis management" approach to daily business to a "standard of excellence founded on client service, consistency and efficiency" to reach their potential, says the new president of the Independent Insurance Agents of America Inc.

Agents also must continue to strive toward a greater understanding of the products they offer, he said.

In addition, agents should consider tapping into a too-often ignored reservoir of potential productivity: new college graduates, urged incoming IIAA President R.C. Riley during the trade group's annual meeting here lastmonth.

"Independent agents can and will prove our ability to increase market share and add real value to the sales and service process," said Mr. Riley, who also is president and chief executive officer of Peel & Holland Inc. in Benton, Ky.

"We ask only that the insurance companies we represent make a long-term commitment to the business of insurance and to the agency system and that they structure their operations with the resolve to provide reasonably stable, consistent markets."

Insurers also should examine the way they treat agents, Mr. Riley said.

"Agents do not perceive themselves as adversaries of their companies. But, unfortunately, because of the actions and insensitivity of some companies in relationships with agents, we feel sometimes that we are viewed by those companies in that context."

Although it may be unintentional, "agents are being treated in an insensitive manner" by insurers, and "this must change," Mr. Riley said.

Mr. Riley also predicted changes in insurance company/agency automation.

"Effective automation, for both agents and companies, will give us the necessary foundation to achieve the level of excellence and service to customers we so desperately need. Effective automation means single-entry, multiple-company interface," he said.

"The leadership of the IIAA is committed to effective automation," he said. "Proprietary company systems and inadequate agency management systems are no longer acceptable."

In striving to improve service, agents also must continue to increase their technical comprehension of the business, Mr. Riley said.

"Knowledge is and will continue to be the critical resource of the independent agent," he said. "Today's consumers both demand and deserve an even higher level of technical competence from their agent."

Mr. Riley encouraged agents to earn professional designations, like the Certified Insurance Counselor or Chartered Property & Casualty Underwriter. But, he reminded agents that "the public and our peers judge us by our actions, abilities and attitudes, not by the designations we may hold."

Increased aggressiveness in recruiting new talent also could pay off for independent agents, according to Mr. Riley.

"I'm convinced that if independent agents, on a widespread basis, began to go to college campuses to tell our career story and to recruit and hire these young people as producers, we would begin to see incredible results.

"Agency market share would increase, profits would grow, production quotas would be met. In turn, companies would be aggressively appointing those agencies producing a large volume of business; a new reservoir of qualified talent for perpetuating agencies would become available; and, frankly, life for us older agents would become a little easier."

Future Force, a program being developed by the IIAA, is designed to help agents attract qualified young people, Mr. Riley said.

The program, which will soon be available, can be implemented by state and local associations. The program will provide agents with the resumes of potential employees and assistance in the recruiting process, including the testing and selection phase.

In addition, the IIAA is developing a producer development manual to complement the Future Force program. The manual will provide agents with a step-by-step plan to help them "attract, recruit, hire, compensate, contract, train, motivate and monitor new producers," he said.

Mr. Riley also stressed that consolidation of the National Assn. of Professional Insurance Agents and IIAA is a "personal priority." Consolidation will allow agents "to strengthen the voice representing them and the programs and services available to them." ■

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Mar 4	Feb 19	International Captive & Reinsurance Forum	Bermuda
Apr 29	Apr 16	Risk & Insurance Management Society	New Orleans
May 13	Apr 30	Public Risk Management Association	Atlanta
May 27	May 14	National Association of Insurance Brokers	Sea Island, GA
Jun 10	May 29	National Association of Insurance Commissioners	Indianapolis
Jun 17	Jun 5	National Association of Insurance Women	Grand Rapids, MI
Jun 24	Jun 11	Group Health Association of America/GHI	New York
Jun 24	Jun 11	Human Resource Management/SHRM Conference	Cincinnati
Jul 1	Jun 18	World Insurance Congress	London
Aug 19	Aug 7	American Risk & Insurance Association	San Diego
Sep 2	Aug 20	Monte Carlo Rendez-Vous de Septembre	Monte Carlo
Sep 30	Sep 18	Independent Insurance Agents of America	Honolulu, HI
Oct 7	Sep 24	National Assn. of Casualty & Surety Agents & Executives	Greenbrier, WV
Oct 7	Sep 24	AEAI/RIMS	Monte Carlo
Oct 14	Oct 2	Self-Insurance Institute of America	Orlando, FL
Oct 21	Oct 8	Baden-Baden Conference	Baden-Baden, W. Germany
Oct 21	Oct 8	Chartered Property & Casualty Underwriters	New Orleans
Nov 4	Oct 22	National Association of Independent Insurers	New Orleans
Nov 18	Nov 5	National Association of Professional Insurance Agents	San Francisco
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Sharing litigation costs

Reinsurers should help finance coverage disputes

By Stuart Cotton

UNDER TRADITIONAL reinsurance concepts, it has generally been accepted that a reinsurer's relationship with its cedant is akin to that of a financial partnership. Thus, while the contract between the cedant and the reinsurer may set out specific rights and responsibilities concerning the manner in which claims are to be handled, adjusted, contested and the like, it is generally understood that a quota-share reinsurer's fortunes are directly tied to those of the cedant. Thus, the reinsurer shares on a pro rata basis in the income and does the same in the "outgo."

Although this certainly oversimplifies the reinsurer's role, it is the backdrop against which an increasingly common type of controversy has crystallized over the last several years.

The 1980s brought with them the birth of substantial efforts by policyholders to involve their insurers in the need—both government-mandated and otherwise—to clean up the environment.

The increasing awareness of the public, as well as the extraordinary impact of federal and state regulation like the Superfund act, has led to policy litigation involving issues that are, in numerous respects, entirely distinct from the traditional coverage questions that have been litigated over the years. Coupled with the novel nature and complexity of the issues presented has been the unprecedented magnitude of the claims, involving amounts that are staggering in terms of their potential impact on the insurance industry. The convergence of these factors has resulted in an explosion of coverage litigation, the resolution of which is of critical importance to all concerned.

One significant question that has attracted attention is whether a reinsurer's financial obligations extend to the cost of certain types of coverage litigation, particularly declaratory judgment actions instituted by ceding companies that seek to establish that defense and indemnity are not owed.

Reinsurance has been very much a function of custom and usage, and formal contract language has not and cannot deal with all aspects of the reinsurer-reinsured relationship.

While some insurers and reinsurers would say that this type of coverage litigation is subsumed within the obligations embodied in the reinsurer-reinsured relationship, others have taken the position that declaratory judgment actions are outside of it and that their costs should be borne entirely by cedants. Various reasons are presented in support of this thesis and there are arguments both pro and con—and based on both fine print in contracts and on common sense—that can be advanced on the underlying issues.

Given that the development of reinsurance over the years has been very much a function of custom and usage, formal contract language has not and cannot deal comprehensively with all aspects of the reinsurer-reinsured relationship. Nonetheless, one cannot ignore contract terms that squarely address the issues in controversy.

Reinsurance treaties frequently include wording that provides that the reinsurer will pay its share of expenses incurred by the cedant in handling a loss, including investigation, adjustment and litigation, if necessary, insofar as the activities specifically pertain to the claim at issue. These expenses are often referred to as "allocated loss expenses."

Some reinsurance certificates contain language that provides, in substance, that the reinsurer will share in expenses in the same proportion that its payment for the loss bears to the cedant's total loss payment.

Where the cedant has brought a declaratory judgment action, there will have been no loss payment and, indeed, the intent of the cedant's effort is to preclude the potential of a loss payment. Thus, under this view, if a declaratory judgment action is successful, a reinsurer will disclaim any responsibility for a share of the costs.

In a more general vein, some reinsurers do not focus on specific contract language. For example, there are several reinsurers that argue that the cost of prosecuting declaratory judgment actions would not fall within allocated loss expenses, even when the action is instituted within the context of a particular claim, because litigations of that kind address a broad range of issues and do not just relate to a single risk or loss. The essence is that the reinsurer feels it would be unfair to share in charges that are not directly attributable to the claim for which it provides reinsurance.

The same concept is sometimes stated in a slightly different manner. The contention advanced is that declaratory judgment expenses are part of the normal and customary business expenses of a cedant in defining its coverage or in establishing that there is no coverage. They point out that a cedant incurs expenses in pursuing various activities that are not paid for by reinsurers—matters concerning the administration of its operations and the policies it has issued or may issue in the future. Thus, its in-house claims operations should not be a reinsurance expense, nor should legal expenses incurred in limiting the scope of its coverage.

Clearly, the stakes are substantial on the issue. Declaratory judgment actions arising from environmental coverage disputes are both commonplace and expensive. Knowing whether the cedant will be required to absorb all of the cost is critical.

Yet, there is a dearth of case law that directly addresses the subject, although there are some principles and a limited amount of decisional discussion that one might apply by analogy. The general principle that a reinsurer is obligated to share in the cedant's defense costs is set out in various cases. See, for example, *Peerless Insurance Co. vs. Inland Mutual Insurance Co.*, 251 F.2d 696 (4th Circuit 1958).

That proposition is rarely disputed, and most facultative certificates and treaties spell out such obligation. The thornier question seems to arise only when the cedant itself brings a declaratory judgment action against its policyholder concerning a particular loss or claim.

There are several common-sense arguments advanced by cedants as to why reinsurers should share in the costs of such a suit.

Before considering the basic issue, one should note that certain reinsurance agreements require specific notice to the reinsurer as a precondition to incurring any such expenses for the reinsurer's account. Even without such specific contract language, some reinsurers will react favorably to the expenses of declaratory judgment actions instituted by the cedant if they are advised in advance. On the other hand, they will refuse to participate in the cost if there is no prior notice.

Thus, the practical course to follow involves an effort on the part of the cedant to communicate with its reinsurer concerning proposed declaratory judgment litigation. Such communication is, of course, the sine qua non of a sensible reinsurance relationship.

The most common rationale for the reinsurer's sharing in declaratory judgment litigation expenses is that such costs are largely analogous to the expenses that would be incurred in defending a coverage suit that had been instituted against the insurer by its policyholder. Sometimes the reinsurance contract expressly provides that these costs are to be picked up by the reinsurer.

Even where not explicitly stated, few reinsurers have sought to avoid payment of expenses for a coverage defense. It is generally accepted that such costs are part and parcel of the allocated loss expenses for a particular risk and, as such, are properly chargeable to the reinsurer.

One need take but a minor logical step to conclude that declaratory judgment expenses for suits by the cedant should be chargeable as well, since they are no different in character except that the insurers went to the courthouse first.

Clearly, the stakes are substantial on the issue. Declaratory judgment actions arising from environmental coverage disputes are both commonplace and expensive.

Reasoning from the above, one finds additional support for the reinsurer's obligation to contribute. Quite clearly, the reinsurer's interests, both financial and otherwise, are being advanced. In those instances in which the cedant has concluded that it should bring suit, there is presumably a strategic advantage in proceeding that way, rather than awaiting a suit from a policyholder.

If the reinsurer's liability for legal expenses turned on who brought the suit first, it would create a disincentive for a cedant to take an aggressive position and institute an action, even though both the cedant and its reinsurers would be better served by casting the policyholder as the defendant.

The vigorous and careful scrutiny of coverage questions and the vigorous resistance of liability will be promoted when a reinsurer stands by its cedant, and it will be discouraged if the result is that the cedant must bear the expense alone. Certainly a cedant's inclination to settle (along with the concomitant cost to the reinsurer) might well be greater if the mounting expense of coverage litigation were not to be shared.

All of the forgoing constitute common sense reasons for a reinsurer's participation in declaratory judgment expense. Of course, translating common sense into legal argument in a litigation context (and into a winning case in arbitration) may require something more, especially when the reinsurer relies on policy language.

The typical reinsurance placement may well be done orally or by a written binder that does not set forth full terms and conditions. This is especially true in the facultative area; certificates may not be issued for some time after the reinsurance is bound and, indeed, in effect. The wording in a reinsurance certificate, for example, may be the first instance in which it is indicated that the reinsurer will only pay expenses to the extent that there has been loss payment.

Yet custom and usage in the industry would suggest a contrary result; i.e., that the quota share reinsurer will participate in all allocable loss expenses including those that are incurred before—and perhaps without—an actual payment. Whether one would say that the remedy is to reform the certificate or find another equitable remedy, the basic position of the cedant would be that the

Continued on next page

Coverage disputes

Continued from previous page
allocated loss expense terms of the facultative certificate are contrary to the agreement between the parties.

It also can be recognized that the various terms and conditions in reinsurance agreements must be interpreted in the context of custom and usage, consistent with their purpose and the expected intent of the parties. Arguably, the language in a facultative certificate concerning how expenses are to be shared is not intended to deal with and does not deal with the circumstances in which no loss is paid. One might reasonably construe the certificate as a whole to be silent with respect to how one apportions expenses in the absence of loss payment, rather than construe it to find that the provision is the exclusive basis for allocation of expenses.

Treaty language that defines loss adjustment expenses in a restrictive manner and makes no specific reference to coverage litigation costs could be viewed in a similar way; recognizing that it may not be intended to address all costs that may arise in all circumstances. The boilerplate language used in most loss adjustment expense definitions was likely developed in a context in which declaratory judgment litigation would be considered anomalous. Thus, one could reasonably conclude that such definitions would give no guidance one way or the other on the issue.

It would seem that when one is dealing with a case of contested coverage, it is most logical to focus on the essence of the quota-share relationship and the concept of what the reinsurer is accepting in the way of obligations. Viewed in such terms, the issue seems to resolve itself more easily and sensibly with a sharing in all the elements of the business, including the cost of contesting coverage through declaratory judgment actions.

While there are a few positions that will not draw the support of some willing advocate, that should not be the test of whether a position makes sense, or whether it is consonant with the underlying rationale and function of reinsurance. In reference to that standard, support from reinsurers in respect of declaratory judgment costs would seem in order. ■

Stuart Cotton is a reinsurance attorney and a partner with the law firm Mound, Cotton & Wollan in New York.

ASK A CASUALTY ACTUARY

IBNR reserve formula simple but effective

Q **Could you explain in simple language the Bornhuetter-Ferguson Method for calculating reserves for incurred-but-not-reported losses?**

A Somewhat jokingly, it has been suggested that the Bornhuetter-Ferguson Method is a technique used by actuaries to become successful. Considering that the two actuaries who invented the method are doing well—Ronald L. Bornhuetter currently is president and chief executive officer of NAC Re Corp. and Ronald E. Ferguson now is chairman and CEO of General Re Corp.—this suggestion may not be too far off.

All joking aside, Messrs. Bornhuetter and Ferguson presented their new method in a paper included in the 1972 volume of the Proceedings of the Casualty Actuarial Society. Since then, its use has become extremely widespread, particularly in the areas of excess insurance and reinsurance. This method lends itself particularly well to situations in which claims are reported and settled very slowly, as is typically the case for many forms of excess-of-loss coverage.

The method is applied separately to each accident or policy year. The formula actually is quite simple:

IBNR Reserve = Expected Losses × Proportion of Ultimate Losses Yet to Be Developed

Let's start with a very simple example. During 1990, earned premium for general liability coverage was $10 million, and the expected loss ratio is 80%. This means that expected losses will be $8 million. A study of recent patterns of the development of incurred losses for this coverage indicates that the proportion of ultimate losses yet to be developed as of 24 months (or year-end 1990) is 40%. According to the B-F Method, the IBNR reserve should then be $3.2 million or:

IBNR Reserve = $8 million × 40%

The simplicity of this method often gets buried within a dizzying exhibit of numbers, but the method actually is that straightforward. There are, of course, a number of details that need to be addressed in applying the method, but they are really only details. The basic philosophy of the method is simple. Independent of losses reported to date, the IBNR reserve can be estimated by applying a percentage to a predetermined estimate of ultimate losses for each given accident year or policy year. Understandably, the method is only as good as the predetermined estimate of ultimate losses on which it relies.

Normally, expected losses for the B-F Method are obtained by applying a loss ratio to earned premiums for the year. Several variations on this are not unusual. Sometimes, expected losses are estimated using pure premiums (ultimate losses per unit of exposure) multiplied by the number of exposure units. In other instances, expected losses are estimated as the product of the ultimate number of claims multiplied by a forecast of ultimate claims severity.

Frequently, the loss ratio applied to earned premiums is estimated by taking ultimate loss ratios from several recent accident years or policy years that are old enough that few additional IBNR claims still are expected. The experience from these past years is adjusted to a current basis by revising the premium for each year to reflect rate changes that have occurred since then, as well as changes in the average premium debit or credit for some types of commercial lines. Similarly the losses for each of those years are adjusted to reflect changes in claims frequency and claim severity that have occurred in the intervening years.

The adjusted losses are then applied to the adjusted premiums to come up with an expected loss ratio. The process is then repeated for each of the several recent accident years, producing a series of "on-level" loss ratios. After reviewing these loss ratios, a specific loss ratio is selected as the most likely for the upcoming year.

What has been done is to take the actual experience of recent years and estimate what that experience would be under current conditions. This is quite analogous to the types of data adjustments made in deriving premium rates for new policies. However, here we apply these adjustments to estimate losses for the one, two or three most recent accident years for the purpose of better estimating loss reserves.

Let's look at an election night application of the same type of principles that underlie the B-F Method. By 11 p.m. in the State of Confusion, 70% of the 1,771,430 ballots cast in the gubernatorial race have been counted. Democratic candidate Libb Brall has 54% of the vote, leading Republican challenger Wright Winn Gurr by 669,000 votes to 570,400. The LTL (Leaning to the Left) network claims victory for Ms. Brall by extrapolating results based purely on the ballots counted so far. It concludes that the final count will show Ms. Brall with 54% of the total (or 956,570 votes) while Mr. Gurr will receive 46% (or 814,860) votes. LTL has used a technique analogous to the incurred loss development method.

However, SCN (Staunch Conservative Network) claims victory for Mr. Gurr by using a technique similar to the B-F Method. Based on exit interviews and election eve polls in populous Bollix County, where a computer snafu has snarled the vote tabulation process, Mr. Gurr is expected by SCN to capture 60% of those votes. In addition, absentee ballot trends from recent elections show that Ms. Brall can be expected to capture only 40% of these votes when they are counted.

SCN takes the 531,430 ballots that have yet to be counted and assumes that Mr. Gurr will receive 60% of them, or 318,858 votes, while Ms. Brall will receive only 40% or 212,572 votes. SCN concludes that Mr. Gurr will win be a narrow 7,086 votes, capturing 889,258 ballots to Ms. Brall's 882,172.

What clearly distinguishes LTL's forecasting method from SCN's? LTL clearly based its projection on a straightforward extrapolation of the votes counted by 11 p.m. SCN, however, used outside information. It came up with a forecast of how the remaining 30% of the votes would be cast quite independent of the votes counted so far.

This is exactly what happens under the B-F Method. If the quality of the outside information is good, at least in comparison to the relevance of results to date, the B-F method can provide a valuable forecasting tool.

Who actually won the election? That was still unknown at 11 p.m. The real losers likely will be election workers, who will have to endure more than one recount. The other thing that is clear is that neither Ms. Brall nor Mr. Gurr is likely to concede anytime in the near future.

Politics aside, Messrs. Bornhuetter and Ferguson are to be congratulated on inventing a reserving method that has become widely used throughout the insurance industry and, to a lesser extent, the risk management community.

In my next column, I will go over a specific numerical example to illustrate the differences between the B-F Method and the standard insured loss development method. ■

Would you like advice from an experienced colleague on a risk management, benefit management or actuarial problem? Four features in the Perspective section of Business Insurance can give you some answers.

Ask A Casualty Actuary, Ask A Benefit Actuary, Ask A Benefit Manager and Ask A Risk Manager answer written questions from readers on risk and benefit management issues and actuarial problems.

Mr. Sherman

This month's column on actuarial issues in the casualty field is written by Richard E. Sherman, president of Pacific Actuarial Resources (PAR) EXCELLENCE in Ashland, Ore. William J. Miner, an actuary with The Wyatt Co. in Chicago, answers actuarial questions in the benefits field. Susan M. Werner, director of risk management at Hardee's Food Systems Inc. in Rocky Mount, N.C., answers risk management questions. And Dennis J. Nirtaut, manager of employee benefits at Continental Bank Corp. in Chicago, answers questions on employee benefit plans.

Mr. Miner's and Mr. Sherman's columns appear alternately on the first Monday of each month. Ms. Werner's and Mr. Nirtaut's columns appear on the second Monday of alternate months.

Mr. Sherman's next column will appear in January.

Address your questions to ASK, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please give us your name, title and employer; however, Business Insurance will consider unsigned letters.

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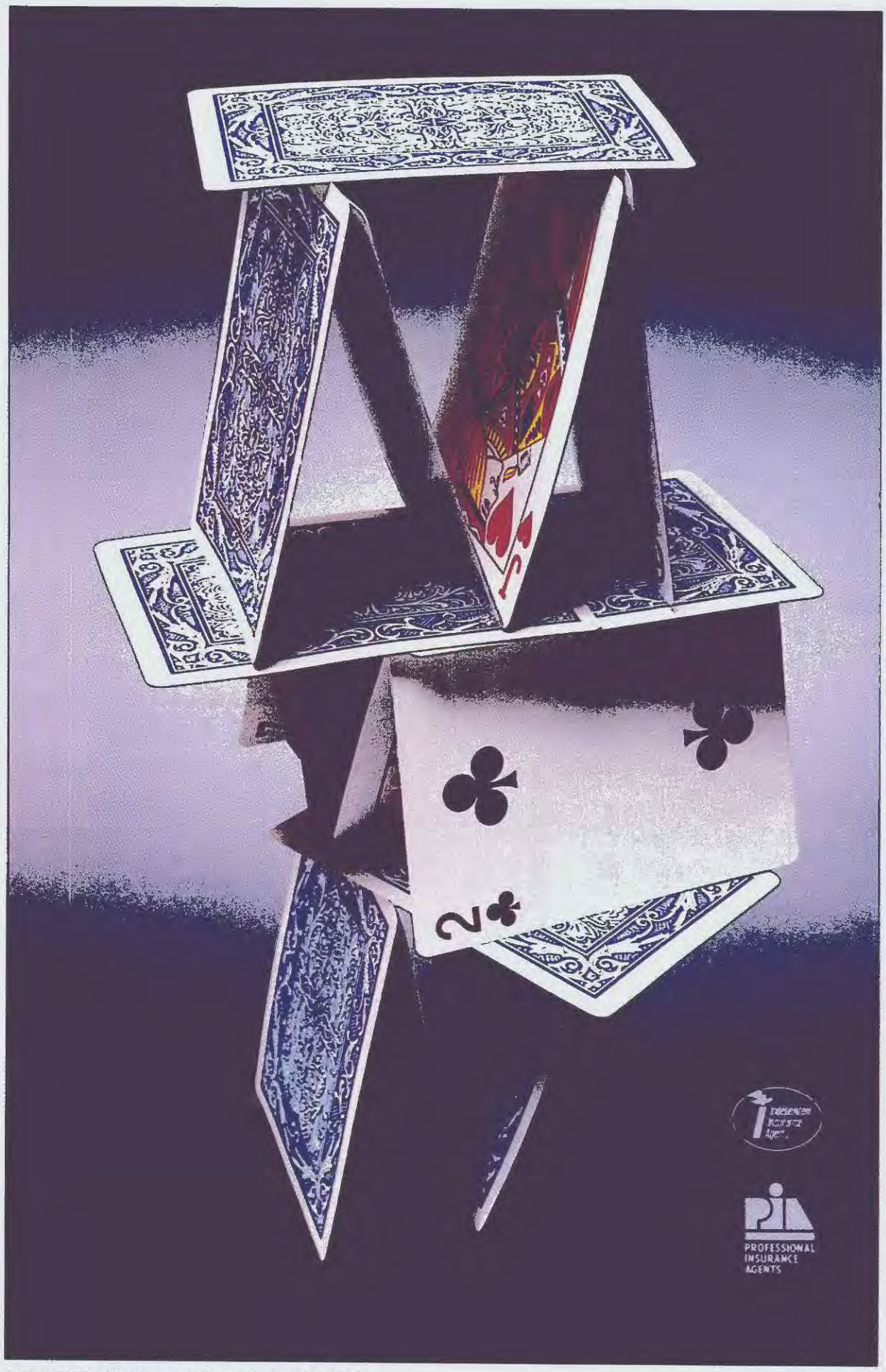

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Continued from page 60

Kirkway International Ltd.

Belvedere Building, Pitts Bay Road, P.O. Box HM 2340, Hamilton HMJX, Bermuda; 809-292-7569; fax: 809-292-3299

	1990	1989
Premium volume.	NA	NA
% Treaty.....	100%	100%
Gross revenues...	NA	NA
Total employees..	2	2
Treaty.....	2	2

Founded: 1982.
Specialties: Captive, financial and finite, self-insured workers compensation, surety, low level casualty.
Licensed reinsurance intermediary in: Bermuda.
Principal officers: Michael Woodruffe, president.

L

W.J. Lehrke Co.

6600 France Ave. S., Edina, Minn. 55435; 612-920-1667; fax: 612-920-2039

	1990	1989
Premium volume.	NA	NA
% Treaty.....	100%	100%
Gross revenues...	NA	NA
Total employees..	10	10
Treaty.....	10	10

Specialties: Flexible excess, catastrophe or excess-of-loss loss reinsurance, optionable reinstatements, financial reinsurance.
Licensed reinsurance intermediary in: New York and Minnesota.
Conducts business in: Illinois, Iowa, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin.
Principal officers: Walter J. Lehrke, chairman; Thomas A. Lehrke, president; Soren P. Sorenson, vp; Mark F. Noack, assistant vp.

John Lepire & Associates

11365 Ventura Blvd., Suite 113, Studio City, Calif. 91604; 818-763-9905; fax: 818-762-2242

	1990	1989
Premium volume.	$15,000,000	$5,000,000
% Treaty.....	100%	100%
Gross revenues...	$500,000	$100,000
Total employees..	6	6
Treaty.....	2	2

Founded: 1989.
Specialties: Financial risk assumption, professional liability.
Licensed reinsurance intermediary in: New York.
Conducts business: Nationwide.
Principal officers: John Lepire, president/chairman; Violet Liou, treasurer.
Contact: John Lepire.

M

Madison Intermediaries Inc.

261 Madison Ave., New York, N.Y. 10016; 212-867-4601; fax: 212-490-1487

	1990	1989
Premium volume.	NA	NA
% Treaty.....	100%	100%
Gross revenues...	NA	NA
Total employees..	87	100

Founded: 1949.
Parent company: Frank B. Hall & Co. Inc.
Sale: Domestic facultative division to Crump Re (March 1990).
Specialties: Casualty and property, marine, aviation, professional liability, title.
Licensed reinsurance intermediary in: New York, California and Florida.
Conducts business in: New York.
Principal officers: Thomas J. Kennedy, president/chief executive officer; John R. Cashin, Philip L. Parker and Robert W. Clark, senior vps; Charles A. Higham, senior vp/chief financial officer.
Contact: Charles A. Higham.

Manhattan Intermediaries Inc.

45 John St., Suite 906, New York, N.Y. 10038; 212-608-1849; fax: 212-406-9186

	1990	1989
Premium volume.	NA	NA
% Treaty.....	100%	100%
Gross revenues...	NA	NA
Total employees..	1	1
Treaty.....	1	1

Founded: 1989.
Specialties: Financial guaranty, portfolio reinsurance.
Licensed reinsurance intermediary in: New York.
Conducts business in: New York.
Principal officers: Rachel Treichler, president.

Meadowbrook Intermediaries Inc.

276 Fifth Ave., New York, N.Y. 10001; 212-545-1555

	1990	1989
Premium volume.	NA	NA
% Treaty.....	100%	100%
Gross revenues...	NA	NA
Total employees..	5	5
Treaty.....	5	5

Founded: 1985.
Parent company: Meadowbrook Insurance Group.
Licensed reinsurance intermediary in: New York.
Conducts business: Nationwide.

N

National Intermediaries Inc.

777 Longridge Road, Stamford, Conn. 06904; 203-329-7700; fax: 203-329-9027

	1990	1989
Premium volume.	NA	NA
%Treaty.....	NA	95%
%Facultative.	NA	5%
Gross revenues...	NA	NA

Founded: 1976.
Parent company: National Reinsurance Corp.
Licensed reinsurance intermediary in: New York.
Continued on next page

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1 PORTSOKEN STREET
LONDON, ENGLAND E1 8DF
ATT: TIM JAGGS
071 480-4683 FAX: 071 702-0544

Continued from previous page

Conducts business: Nationwide.

Principal officers: Carl Zuanelli, James Brautigam, Renee Walter.

Contact: Carl Zuanelli.

P

PWS Holdings P.L.C.

52-56 Minories, London, England EC3N 1JJ; 44-71-480-6622; fax: 44-71-702-1689

	1990	1989
Premium volume	$525,000,000	$550,000,000
% Treaty	11%	15%
% Facultative	89%	85%
Gross revenues	$32,500,000	$35,000,000
Total employees	320	320
Treaty	20	20
Facultative	50	50

Founded: 1964.

Branch offices: New York; Johannesburg, South Africa; Guernsey, United Kingdom; Bermuda; Copenhagen, Denmark.

Subsidiaries: PWS International; PWS North America; PWS USA Inc.; Thurgood, Farmer & Hackett; Fryer, Cheasley & Light; PWS Group Services; PWS Overseas Holdings; PWS Life & Pensions; PWS Bermuda.

Mergers: Danish Underwriting and Services (DUNAS A/S) formed by agreement with Municipal General Insurance Ltd., Copenhagen, Denmark.

Specialties: International facultative and treaty reinsurance, U.S. property and casualty, aviation excess of loss, political risks, directors and officers, financial, Canadian binders, marine insurance services.

Licensed reinsurance intermediary in: New York.

Conducts business: Nationwide.

Principal officers: M.E.M. Pearson, chairman; J.J.S. Farmer, deputy chairman; P.J. English, managing director; B. Habib, financial director.

Contact: C.E. Aman III, director/vp, PWS USA Inc., 212-791-9359; or P.J. English, group managing director.

Pearson & Georgi International Inc.

117 Washington St., P.O. Box 1597, Hoboken, N.J. 07030; 201-656-0800; fax: 201-656-3412

	1990	1989
Premium volume	$86,000,000	$75,000,000
% Treaty	90%	85%
% Facultative	10%	15%
Gross revenues	$2,100,000	$1,650,000
Total employees	31	28
Treaty	28	24
Facultative	3	4

Founded: 1979.

Branch offices: Athens, Greece; Manila, Philippines.

Specialties: All classes of non-life treaty and facultative reinsurances, domestic and worldwide jumbo risks, workers compensation, personal accident, health and medical.

Licensed reinsurance intermediary in: New Jersey and New York.

Conducts business: Worldwide.

Principal officers: F.H. Pearson, chairman; E.G. Georgi, president; R.A. Agatep, executive vp; J.A. Zaffarese, managing director; Lena Culppeper and Aret Tasciyan, vps.

Membership: Brokers & Reinsurance Markets Assn.

Pegasus Advisors Inc.

86 Hopmeadow St., P.O. Box 398; Simsbury, Conn. 06070; 203-651-0641; fax: 203-658-5470

	1990	1989
Premium volume	$35,000,000	NA
% Treaty	100%	NA
Gross revenues	$550,000	NA
Total employees	4	2
Treaty	4	2

Founded: 1989.

Parent company: Skandia America Group.

Specialties: Non-traditional (or finite risk) reinsurance.

Licensed reinsurance intermediary in: New York.

Conducts business: Nationwide.

Principal officers: Gregory E. Leonard, president; Larry Frank and Ron Wilson, vps.

Contact: Gregory E. Leonard.

Peglar & Associates Inc.

100 Prospect St., Stamford, Conn. 06901; 203-325-0863; fax: 203-359-2658

	1990	1989
Premium volume	NA	NA
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	16	16
Treaty	16	16

Founded: 1986.

Specialties: Property and casualty.

Licensed reinsurance intermediary in: New York.

Conducts business in: California, Colorado, Connecticut, Florida, Georgia, Illinois, Massachusetts, Montana, New Jersey, New Mexico, New York, Pennsylvania, Texas.

Principal officers: Robb K. Peglar, president; Charles A. Morton, chief financial officer/secretary/treasurer; George F. Baumann, vp; Christian F. Haerle and Michael J. Moran, assistant vps; Vern W. Ismen, associate director.

Contact: Meredith B. DiLeo, office manager.

Membership: Brokers & Reinsurance Markets Assn.

Preferred Reinsurance Intermediaries

1634 Main St., Suite 100, Columbia, S.C. 29201; 803-256-4467; fax: 803-256-7312

	1990	1989
Premium volume	$49,000,000	$48,000,000
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	12	12
Treaty	12	12

Founded: 1983.

Parent company: Midland Financial Group Inc. and employees.

Branch offices: Port Washington, N.Y.; Canoga Park, Calif.

Licensed reinsurance intermediary in: New York.

Conducts business: Worldwide.

Principal officers: Robert H. Sanders, president; Karen N. Basso, senior vp; Robert H. Hodson and David L. Coulter, vps; Kevin M. Elmore and Veritha W. Lee, assistant vps; Florence B. Wayne, branch manager; S. Oliver Hines, treaty broker.

Contact: Charles W. Perry, corporate accounting.

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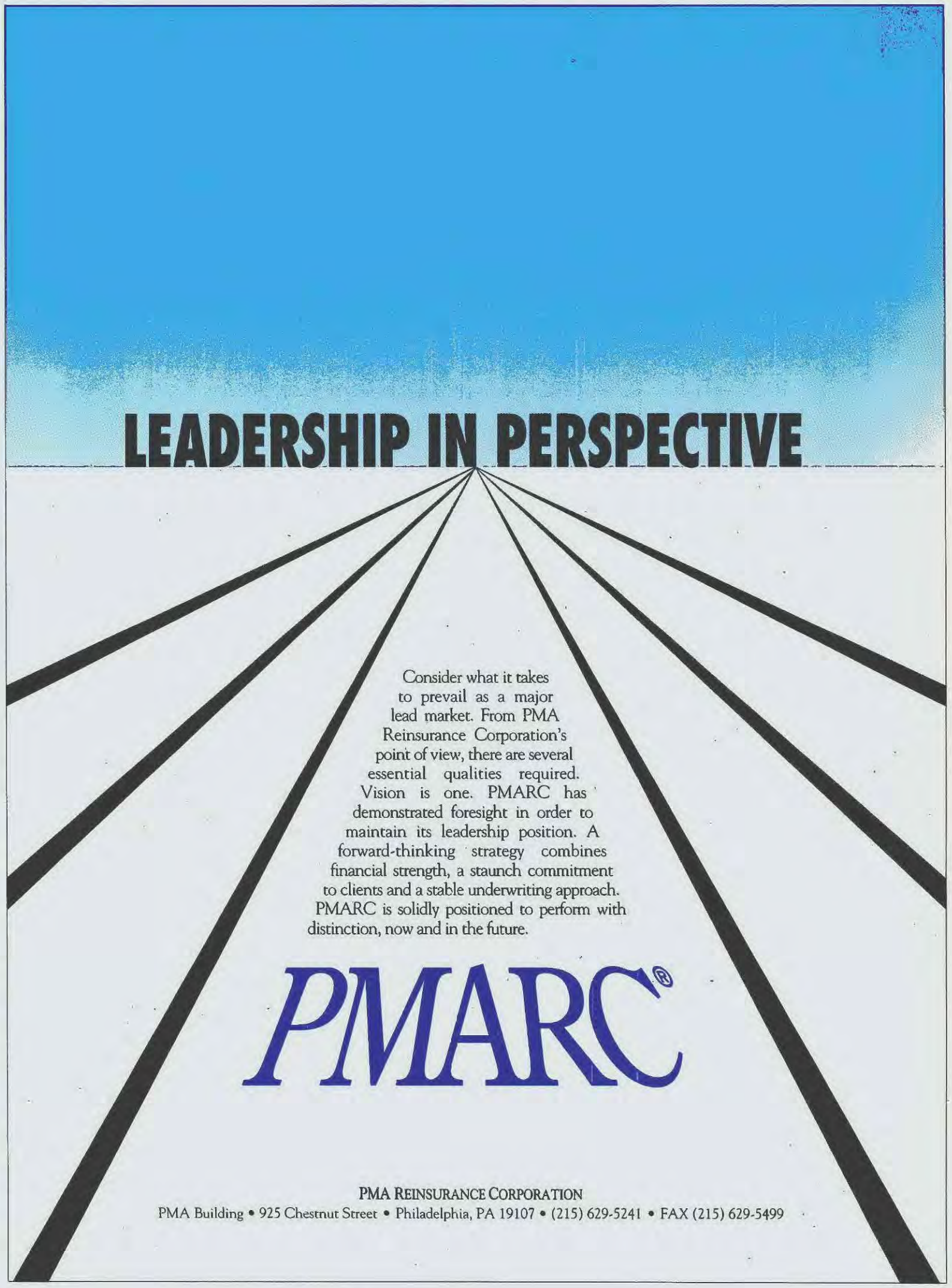

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Continued from previous page

R

RBI Brokerage Inc.

908-A2 Pompton Ave., P.O. Box 308; Cedar Grove, N.J. 07009; 201-857-1466; fax: 201-857-1487

	1990	1989
Premium volume.	NA	NA
% Treaty.....	70%	70%
% Facultative.	30%	30%
Gross revenues...	NA	NA
Total employees..	4	4

Founded: 1978.
Specialties: Life, health, health maintenance organizations, preferred provider organizations, stop-loss, special risk programs.
Licensed reinsurance intermediary in: New York, New Jersey.
Principal officers: Paul A. Wolf, president.

RFC Intermediaries Inc.

1117 Perimeter Center W., Suite N-500, Atlanta, Ga. 30338; 404-392-9541; fax: 404-392-1464

	1990	1989
Premium volume.	$120,000,000	NA
% Facultative.	100%	100%
Gross revenues...	NA	NA
Total employees..	96	114
Facultative...	96	114

Founded: 1972.
Parent company: Minet Re (North America) Inc.
Branch offices: Chicago; Hartford, Conn.; Philadelphia; New York.
Subsidiaries: Tailored Awards Inc., Atlanta, Dallas, Philadelphia and St. Paul, Minn.
Licensed reinsurance intermediary in: New York.
Conducts business in: California, Connecticut, Georgia, Illinois, Minnesota, New York, Pennsylvania, Texas.
Principal officers: David L. Cargile, president/chief executive officer; Charles M. Caporale, senior vp/treasurer; Daniel Colello, director.
Contact: David L. Cargile.
Membership: Brokers & Reinsurance Markets Assn.

Re/Insurance Brokers Inc.

100 Brookwood Place, Suite 605, Birmingham, Ala. 35209; 205-871-4949; fax: 205-871-4950

	1990	1989
Premium volume.	NA	NA
% Treaty.....	100%	NA
Gross revenues...	NA	NA
Total employees..	3	NA
Treaty.....	3	NA

Founded: 1990.
Specialties: Professional liability and financial reinsurance.
Conducts business: Nationwide.
Principal officers: Dale Busby, president.

Reinsurance Brokers Co.

3545 N. I-10 Service Road, Suite 300, Metairie, La. 70002; 504-455-4545; fax: 504-888-6645

	1990	1989
Premium volume.	$4,900,000	$5,200,000
% Facultative.	100%	100%
Gross revenues...	$125,000	$250,000
Total employees..	4	5
Facultative...	4	5

Founded: 1982.
Parent company: Sherar, Cook & Gardner Inc., division of Hilb, Rogal & Hamilton Co. of Louisiana.
Specialties: Property, casualty, marine, aviation, international.
Licensed reinsurance intermediary in: Louisiana.
Conducts business: Nationwide.
Principal officers: J. William Sherar, president; James A. Gardner, vp; William G. Sherar, assistant vp; Virginia M. Baber, assistant vp.

ReSOURCE Intermediary Group

200 Berwyn Park, Suite 110, Berwyn, Pa. 19312; 215-647-9500; fax: 215-647-4329

	1990	1989
Premium volume.	$147,850,000	$86,920,000
% Treaty.....	100%	100%
Gross revenues...	$2,114,000	$1,910,000
Total employees..	16	15
Treaty.....	16	15

Founded: 1987.
Specialties: Financial reinsurance, portfolio sales/transfers, mergers and acquisitions.
Licensed reinsurance intermediary in: Pennsylvania and New York.
Conducts business: Nationwide.
Principal officers: Larry E. Fondren, president; Micheal J. Di Loreto and Benn Prybutok, general partners; Karyl J. Wittlinger, secretary/treasurer.
Contact: Larry E. Fondren.

Continued on next page

THE ABILITY
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MERCANTILE & GENERAL
REINSURANCE

Continued from previous page

S

John D. Sayer & Co.

130 Pennington-Washington Crossing Road, Pennington, N.J. 08534; 609-737-1391; fax: 609-737-8524

	1990	1989
Premium volume.	$90,000,000	$45,000,000
% Treaty.....	100%	100%
Gross revenues...	$3,500,000	$2,000,000
Total employees..	14	14
Treaty.....	14	14

Founded: 1979.
Parent company: Jardine Matheson Holdings Ltd.
Specialties: Surety.
Licensed reinsurance intermediary in: New York.
Conducts business: Nationwide.
Principal officers: John D. Sayer, president; John S. Yeurokis, executive vp; John E. Januszewski Jr., vp/controller; Glenn T. Jackson, vp.

Self Insurers Plan Administrators Inc.

2831 Ringling Blvd., Suite 107-A, Sarasota, Fla. 34327; 813-954-0308; fax: 813-366-1076

	1990	1989
Premium volume.	NA	NA
% Treaty.....	50%	50%
% Facultative.	50%	50%
Gross revenues...	NA	NA
Total employees..	5	5

Founded: 1989.
Specialties: Self-insured workers compensation and health.
Conducts business in: Florida.
Principal officers: Gerald L. Shivener.

Smith, Sanford & Gerard Reinsurance Intermediaries Inc.

135 William St., New York, N.Y. 10038; 212-374-1323; fax: 212-693-0722

	1990	1989
Premium volume.	$25,000,000	$22,000,000
% Treaty.....	40%	40%
% Facultative.	60%	60%
Gross revenues...	NA	NA
Total employees..	14	15
Treaty.....	6	8
Facultative...	7	7

Founded: 1913.
Branch offices: Coral Gables, Fla.
Specialties: Property, casualty, marine, accident and health, international, machinery breakdown and bloodstock.
Licensed reinsurance intermediary in: New York.
Principal officers: Robert L. Sanford, chairman; Douglas L. King, president; Anthony Provenzale, Jeffrey Sirr, Bruce Catherwood, Daniel V. Malloy, Daniel V. Malloy III, Craig Ott, man; J.F. Sullivan Jr., president; Sue Allaway, senior vp; Julius Friedman and Paul G. Wayne, senior vps.
Contact: J.F. Sullivan Jr. or Louise M. Sullivan, assistant vp, 206-340-9255.

Sullivan Payne Co.

1501 Fourth Ave., Suite 1400, Seattle, Wash. 98101; 206-223-1200; fax: 206-625-6926

	1990	1989
Premium volume.	NA	NA
% Treaty.....	90%	90%
% Facultative.	10%	10%
Gross revenues...	$52,000,000*	$50,000,000*
Total employees..	390	410
Treaty.....	325	340
Facultative...	65	70

* *BI estimate.*
Founded: 1928.
Parent company: Sedgwick Group P.L.C.
Branch offices: Philadelphia; Dallas; New York; Los Angeles; Chicago; Toronto; Vancouver, British Columbia.
Licensed reinsurance intermediary in: New York.
Conducts business: Nationwide.
Principal officers: Roger Espe, president/chief executive officer; Bob Holmes, executive vp/president (SPCo of Canada); Michael Wybar, W. Brian Smith and Thomas Hopkinson, executive vps; Lewis Hale, senior vp/chief operating officer; Rick Richman, senior vp/chief financial officer; Lennart Barkinge, Barbara Bufkin,

T

T.H.B. Intermediaries Inc.

3333 Wilshire Blvd., Suite 711, Los Angeles, Calif. 90010; 213-388-6630; fax: 213-388-9117

	1990	1989
Premium volume.	$27,532,227	$21,356,521
% Facultative.	100%	100%
Gross revenues...	$2,294,015	$1,985,539
Total employees..	25	25
Facultative...	25	25

Founded: 1984.
Parent company: Thompson Heath & Bond (Holdings) Ltd.
Branch offices: Chicago; New York.
Licensed reinsurance intermediary in: New York.
Conducts business: Nationwide.
Principal officers: Victor Thompson, chairman; George R. Jacobbe, president; Jim Van Slyke, director-facultative; Larry Parks, branch manager-Los Angeles; Richard DiClemente, branch manager-New York; William Willmann, branch manager-Chicago.
Contact: George R. Jacobbe.

TPF&C Reinsurance

Mellon Bank Center, 1735 Market St., Philadelphia, Pa. 19103-7501; 215-963-7700; fax: 215-963-7873

	1990	1989
Premium volume.	$550,000,000	$500,000,000
% Treaty.....	90%	80%
% Facultative.	10%	20%
Gross revenues...	$34,000,000	$30,000,000
Total employees..	210	254
Treaty.....	177	209
Facultative...	33	45

Founded: 1934.
Branch offices: Hartford, Stamford, Conn.; San Francisco.
Licensed reinsurance intermediary in: Pennsylvania and New York.
Conducts business: Nationwide.
Principal officers: Philip W. Mitchell, managing director/chief executive officer; Christopher T. Brockett, Patrick J. McFadden, William Ray, Edwin Reynolds, Jacobus Van de Graaf, senior vps.
Contact: Philip W. Mitchell, managing director/chief executive officer.
Membership: Brokers & Reinsurance Markets Assn.

Continued on next page

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Tanenbaum-Harber Reinsurance Intermediaries Inc.

320 W. 57th St., New York, N.Y. 10019; 212-603-0362; fax: 212-582-6256

	1990	1989
Premium volume	$15,000,000	$12,000,000
% Treaty	90%	90%
% Facultative	10%	10%
Gross revenues	NA	NA
Total employees	7	7
Treaty	6	6

Founded: 1986.
Specialties: Risk retention groups, captives, life, accident and health, specialty casualty, small company programs.
Licensed reinsurance intermediary in: New York.
Conducts business: Nationwide.
Principal officers: Robert K. Harris, chairman; Walter L. Harris, chief executive officer; Ronnie Ellen Raymond, president; Juan Carlos Maldonado, controller; Garth A. Wagner, assistant vp; Donna L. Fertel, secretary.
Contact: Ronnie Ellen Raymond.

Totsch Enterprises Inc.

8303 W. Higgins Road, Suite 500, Chicago, Ill. 60631; 312-380-8040; fax: 312-380-8054

	1990	1989
Premium volume	NA	NA
% Treaty	95%	97.5%
% Facultative	5%	2.5%
Gross revenues	NA	NA
Total employees	5	5
Treaty	5	5
Facultative	1	1

Founded: 1978.
Specialties: Property, casualty, crop.
Conducts business in: United States and Canada.
Principal officers: Marvin D. Totsch, president; Mary Ellen Totsch, secretary/treasurer; Robert L. Totsch and William E. Totsch, vps.
Contact: Marvin D. Totsch.

Tretis Group Inc.

345 Spear St., Suite 400, San Francisco, Calif. 94105; 415-495-3555; fax: 415-495-6735

	1990	1989
Premium volume	$91,500,000	$78,600,000
% Treaty	100%	100%
Gross revenues	$4,352,000	$3,000,000
Total employees	26	26
Treaty	26	26

Founded: 1986.
Specialties: Property, casualty, finite financial risk.
Licensed reinsurance intermediary in: New York.
Conducts business: Nationwide.
Principal officers: Robert T. Tremelling II, president; William A. Klepp and John M. Peeke-Vout, directors.
Contact: John M. Peeke-Vout.

U

U.S. Re Corp.

99 Park Ave., New York, N.Y. 10016; 212-808-5500; fax: 212-808-5206

	1990	1989
Premium volume	NA	NA
Gross revenues	NA	NA
Total employees	16	10

Founded: 1987.
Branch offices: Atlanta.
Acquisitions and mergers: Uni Ter Corp., New York.
Licensed reinsurance intermediary in: New York.
Conducts business: Nationwide.
Principal officers: Tal P. Piccione, president/chief executive officer; Joseph M. Fedor, executive vp; John M. Kwaak, Richard D. Wallace, senior vps; Richard Davies, Brian R. McGuire, James B. Wynn, vps.
Contact: Richard Davies.
Membership: Brokers & Reinsurance Markets Assn.

Urts Reinsurance Intermediaries Inc.

625 President Kennedy Ave., Suite 300, Montreal, Quebec, H3A 1K2, 514-284-9326; fax: 514-284-3112

	1990	1989
Premium volume	$13,000,000	$20,000,000
% Treaty	89%	77%
% Facultative	11%	23%
Gross revenues	$650,000	$1,000,000
Total employees	6	9
Treaty	5	6
Facultative	2	3

Continued on next page

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Continued from previous page

Founded: 1978.
Parent company: The David Group.
Specialties: Property, casualty and auto.
Licensed reinsurance intermediary in: Canada.
Conducts business in: Canada.
Principal officers: Raymond David, president; Joseph Lanzo, general manager.
Contact: Joseph Lanzo.

V

D.W. Van Dyke & Co. of Connecticut Inc.

95 Rowayton Ave., Rowayton, Conn. 06853; 203-855-0499; fax: 203-852-6776

	1990	1989
Premium volume	$300,000,000	$200,000,000
% Treaty	95%	95%
% Facultative	5%	5%
Gross revenues	NA	NA
Total employees	12	10

Founded: 1978.
Specialties: Life, accident, health, financial reinsurance.
Licensed reinsurance intermediary in: New York.
Conducts business: Worldwide.
Principal officers: Donald W. Van Dyke II, chairman/chief executive officer; Donald K. Drelich, president/chief operating officer; Robert A. Welke, senior vp/secretary; Christopher Kuehler, vp; Lauren Kennedy, vp/comptroller.
Contact: Donald K. Drelich.

W

Willis Corroon (Bermuda) Ltd.

P.O. Box HM 1995, Hamilton HM HX, Bermuda; 809-295-1272; fax: 809-295-4143

	1990	1989
Premium volume	NA	NA
Gross revenues	NA	NA

Founded: 1983.
Parent company: Willis Faber International Ltd.
Principal officers: M. Dobbie, executive vp; M.G. Randall, senior vp; R.F. Corroon, assistant vp.

Willcox Inc.

130 John St., New York, N.Y. 10038; 212-952-0650; fax: 212-952-0295

	1990	1989
Premium volume	NA	NA
% Treaty	99%	99%
% Facultative	1%	1%
Gross revenues	$42,000,000*	$39,200,000*
Total employees	203	199
Treaty	201	197
Facultative	2	2

* *BI estimate.*

Founded: 1894.
Parent company: Johnson & Higgins.
Branch offices: Los Angeles, San Francisco, Philadelphia, Indianapolis, London.
Subsidiaries: Willcox Intermediaries Ltd., London.
Mergers: Sickler Reinsurance Inc., Indianapolis.
Specialties: International, marine, aviation, property, casualty, financial, life, accident/health, fidelity, surety.
Licensed reinsurance intermediary in: California, Indianapolis, Pennsylvania.
Conducts business: Nationwide.
Principal officers: Willis King, chairman/chief executive officer; Robert O'Leary, president/chief operating officer; Thomas Hancock, executive vp; Edwin Barber, Charles Griffin, Emmett Henry, George Reeth, John Reinman, Timothy Rivers, Frank Sickler, senior vps; Charles Durr, chief financial officer.
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

	1990	1989
Premium volume	$360,000,000	$400,000,000
% Treaty	100%	100%
Gross revenues	$15,052,953	$15,500,000
Total employees	52	50
Treaty	52	50

Founded: 1978.
Specialties: Property, casualty, life, accident and health.
Licensed reinsurance intermediary in: New York.
Conducts business: Nationwide.
Principal officers: John P. Woods, president; Josephine A. Hoey, senior executive vp; Charles M. Wade, Thomas J. Tartaro, executive vps; Ellsworth P. Whiteman, senior vp; J.P. Woods III, Matthew C. Albanese, Paul D. Hearn, Francis T. Donohue, Charlene M. Lacey, vps; George A. Whipple, assistant vp.

Y

H.E. Yerkes & Associates Inc.

127 John St., New York, N.Y. 10038; 212-344-1707; fax: 212-422-8473

	1990	1989
Premium volume	$30,450,000	$29,000,000
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	5	5
Treaty	5	5

Founded: 1979.
Specialties: Ocean marine, offshore and energy risks.
Licensed reinsurance intermediary in: New York.
Conducts business in: New York.
Principal officers: Harry E. Yerkes III, president; Ann R. Kaplan, vp.
Contact: Ann R. Kaplan. ■

LEADERSHIP IN PERSPECTIVE

Consider what it takes to prevail as a major lead market. From PMA Reinsurance Corporation's point of view, there are several essential qualities required. In fact, they are the same qualities to which PMARC credits its success:

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Harrison & Co.
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Guy Carpenter & Co. Inc.
Crump Re
G.L. Hodson & Son Inc.
Sullivan Payne Co.
G.J. Sullivan Co.
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Willcox Inc.
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Falcon Re-Insurance Intermediaries Inc.
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Indianapolis
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BEP International
Sullivan Payne Co.

Bermuda

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Greece

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United Kingdom

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GMB (Gardner Mountain Barr Inc.)
PWS Holdings P.L.C.
Willcox Inc.

Guernsey
PWS Holdings P.L.C. ■

Insider trading

American International Group Inc.: Kathleen E. Shannon, vp, exercised an option for 650 shares of common stock at $17.80 per share on Sept. 23 and now directly holds 4,842 common shares. American International Group stock was trading at $82.63 per share on Oct. 25.

Frank B. Hall & Co. Inc.: Saul P. Steinberg, director and beneficial owner, indirectly purchased 71,800 shares of common stock at between $3.63 and $4 per share from Sept. 4 to Sept. 23 and now indirectly holds 29.2 million shares. Frank B. Hall stock was trading at $3.50 per share on Oct. 25.

NAC Re Corp.: Robert A. Belfer, director, purchased 7,500 shares of common stock at between $23.38 and $24 per share on Sept. 30. Mr. Belfer indirectly purchased 18,500 shares of common stock that day at between $23 and $23.13 per share and now directly and indirectly holds 784,937 shares. NAC Re stock was trading at $23.25 per share on Oct. 25.

U.S. Healthcare Inc.: James M. Broderick, officer, exercised an option for 21,000 shares of common stock and sold 20,500 shares at between $3.75 and $24.50 on Sept. 5 and no longer holds any shares in the company. U.S. Healthcare stock was trading at $30.50 per share on Oct. 25.

•

Insider Trading, compiled by Invest/Net Trading Group Inc. of fort Lauderdale, Fla., from reports filed with the Securities and Exchange Commission, tracks stock sales and purchases by insurance industry directors and officers.

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24-hour cover seen as cure for rising comp medical costs

By MICHAEL BRADFORD

ORLANDO, Fla.—Soaring workers compensation medical expenses are leading employers to explore "24-hour coverage," which merges workers comp coverage with group health care plans.

Twenty-four-hour coverage has become a reality for some employers that face steadily climbing workers comp expenses, according to speakers at the National Educational Conference & Expo sponsored by the Self-Insurance Institute of America Inc. in Orlando, Fla., last month.

Hugh Vinson, senior vp at Alexander & Alexander of Texas in Dallas, noted that some employers in Texas that have opted out of the state's workers compensation system have instituted group benefit plans that provide medical benefits for workers injured on the job.

And in Florida, he added, the state's 1990 workers comp law was amended to allow employers to obtain 24-hour coverage for medical benefits. This statute, however, needs clarification before it is implemented (*BI*, Sept. 16).

Employers that are considering 24-hour coverage have a number of options, according to Mr. Vinson. "When you talk about 24-hour coverage, you get a lot of different descriptions."

Edwin E. Freedman, managing director-national health and welfare practice at Alexander Consulting Group Inc. in Lyndhurst, N.J., agreed, noting that "most of us are grappling" with the relatively new concept of 24-hour coverage and its various forms.

Mr. Vinson said the types of 24-hour coverage range from plans that are "all-inclusive" and provide medical and disability benefits for any injury and illness to other types of programs that exclude coverage for some conditions or injuries.

The forms of 24-hour coverage being considered include:

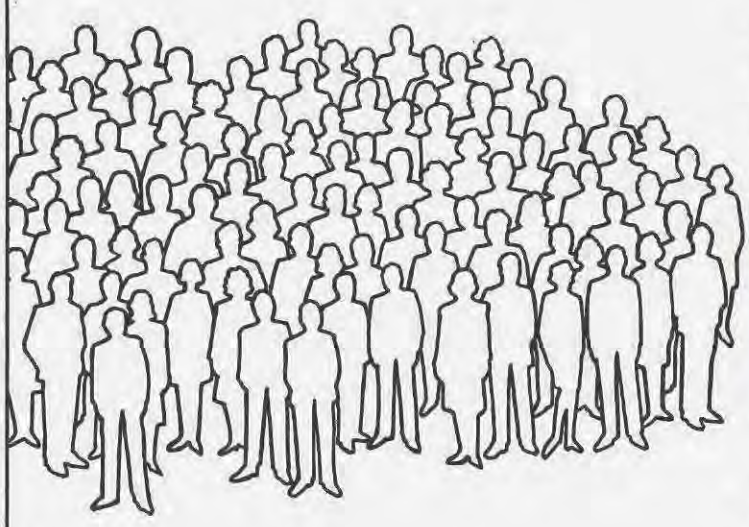
- A "marketing product" that provides integrated management of a client's workers comp and group health insurance claims.
- Medical coverage that provides medical benefits for both occupational and non-occupational injuries and diseases. Disability claims are covered only for work-related injuries and diseases.
- Disability coverage that provides benefits for occupational and non-occupational injuries and diseases but covers medical costs only for work-related conditions.
- Accident coverage that provides medical and disability benefits for occupational and non-occupational accidental injuries. Work-related diseases are covered.
- Disease coverage, which provides medical and disability benefits for all occupational and non-occupational diseases and work-related injuries.
- An all-inclusive plan that provides medical and disability benefits for all diseases and injuries, work-related or not.

The most common form of 24-hour coverage is the marketing product, which is written by commercial insurers on separate policies to provide workers comp medical benefits as well as group health care benefits. Under the product, the insurer simply merges the claims handling aspects for both types of coverage.

"Legally, they have to be separate policies," said Mr. Vinson, which means technically such a program is not true 24-hour coverage.

"But they are, in effect, coordin-

Continued on next page



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Continued from previous page
ating claims handling and medical management of claims on the employee benefits side as well as the workers compensation side," he said.

"The idea here, of course, is to eliminate or at least reduce duplication of payments, make sure the claim is properly classified. . .and identify pre-existing conditions," he explained.

Mr. Vinson said at least one insurer offering the product is able to pull up an employee's health care benefit claims history when a workers comp claim is filed and from that record can identify any earlier ailments that may have been aggravated by the workplace injury.

While aggravation of a pre-existing condition is covered under workers comp insurance, Mr. Vinson pointed out that having the information "might very well aid in the negotiation, examining, ultimate settlement and value of that claim. I'm finding in talking to some insurers that that is indeed what is happening."

Mr. Freedman of Alexander Consulting Group said there is a lot of fear among workers comp insurers regarding 24-hour coverage.

Many, he said, are "scared silly" that they are going to "lose market share to the benefits folks" if 24-hour coverage takes hold and employers opt for alternatives to workers comp coverage.

Therefore, Mr. Freedman cautioned his audience to realize that some of the things they will be told about 24-hour plans by workers comp insurers "just aren't true" because they are trying to protect their market.

While 24-hour coverage is not a cure-all for the problem of ever-increasing medical costs, it nonetheless indicates that employee benefits personnel are working closer with their counterparts in the risk management department in an attempt to find ways to hold down medical costs, Mr. Freedman said.

"I have talked to many companies' benefits and workers comp folks who are now beginning to deal together," he said.

Risk management departments, Mr. Freedman explained, are beginning to consider managed care tools to hold down workers comp medical costs in the same way employee benefits departments have been using such techniques.

"One thing that I can suggest workers comp can learn from benefits is coding of claims," Mr. Freedman added. By identifying such variables as where an accident occurred, the treating physician, diagnosis and other items, risk managers can use the information to locate problems that contribute to high medical costs, he explained.

In most cases, workers compensation claims payment procedures are lagging about 10 years behind the methods used by employee benefit departments, Mr. Freedman said.

The session was moderated by Allen I. Bassuk, an independent risk management consultant in San Antonio, Texas. ■

Attendance record set at SIIA meeting

ORLANDO, Fla.—The Self-Insurance Institute of America's 11th annual National Educational Conference & Expo set an attendance record this year.

The conference, held Oct. 16-19 at the Dolphin Hotel in Orlando, Fla., attracted more than 1,500 attendees.

"We've had tremendous growth," said Thomas D. Mather, senior vp of Creative Risk Management Corp. in Mount Clemens, Mich., and the SIIA's vp-national conference. "The conference has grown every year."

Conference attendees were offered two dozen workshops to choose from during the four-day gathering, with special roundtable meetings for members on the last day of the meeting.

When not wandering the cavernous confines of the Dolphin Hotel, seminar attendees were listening to speakers who touched on topics that ranged from Department of Labor investigations to selecting the proper third-party administrator.

Some visitors took in the attractions of nearby Walt Disney World while others stayed up late watching the National League Championship series, which was televised during the evenings.

Next year's conference is set for Sept. 9-12 in San Francisco.

For more information on the SIIA and next year's conference, contact the organization at 1700 E. Dyer Road, Suite 165, Santa Ana, Calif. 92705; 714-261-2553.

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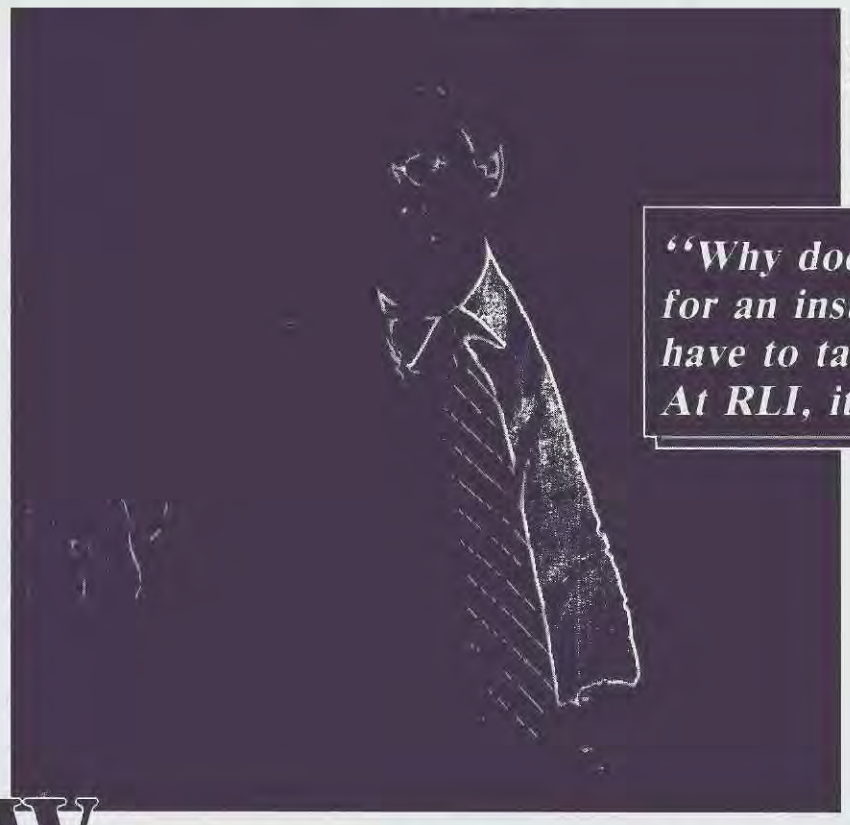

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Select health care TPA on its ability, not price

By MICHAEL BRADFORD

ORLANDO, Fla.—Employers that self-insure their health care plans should focus on claims processing ability, not price, when considering which third-party administrator to hire, advises an executive who led his company's search for a TPA.

Robert Jewell, vp-human resources at Vollrath Group Inc. in Gallaway, Tenn., said while there are several things to consider in the four- to five-month process of selecting a TPA, price should not be paramount.

Speaking at Self-Insurance Institute of America's annual National Educational Conference & Expo last month in Orlando, Mr. Jewell urged employers to first "determine what it is you want from a third-party administrator. It's going to differ from organization to organization. Every company is different."

TPAs are "kind of like cars" in that "you can get luxury models or you can get basic transportation—sometimes from the same TPA, all for a price," he said.

But, he added, "I don't think (price) is going to be the determining factor" in selecting a TPA. "The first factor I would look at is claims processing. . .that's the most obvious place to start."

Mr. Jewell did say that he believes a TPA's fees should not be

Continued on next page

Labor Department official explains rationale

Welfare plans investigated

By MICHAEL BRADFORD

ORLANDO, Fla.—The U.S. Department of Labor is aggressively investigating complaints related to employee welfare plans, an attorney says.

The agency has "embarked on a very intensified program" during recent years to ensure compliance with the Employee Retirement Income Security Act of 1974, said George Pantos, an attorney with Vedder, Price, Kaufman, Kammholz & Day in Washington, D.C., and the Washington counsel for the Self-Insurance Institute of America Inc.

The Labor Department is "devoting more time than ever to investigations, and particularly to investigations of service providers of welfare plans as they relate to ERISA compliance," Mr. Pantos said during a seminar at the SIIA's National Educational Conference & Expo, held last month in Orlando, Fla.

The agency's stepped-up enforcement has "heightened the concern of all involved—and rightfully so," he said.

Session attendees were briefed by a Labor Department official on what to expect if they become a target of such an investigation.

"We begin cases, typically, just by gathering facts," said Alan D. Lebowitz, a deputy assistant secretary at the Labor Department.

"We don't make a judgment too soon about whether a case is a civil case or a criminal case. We just try and gather the facts and review what we have.

"And if we think there is a criminal issue, we will present the facts to the U.S. Attorney. If it's purely civil, we'll deal with it ourselves, and if we don't think there's an issue at all, we just close it out," he explained.

An employer or service provider that is investigated can expect the Labor Department to dig through its files.

The department "gathers its facts by gathering documents," Mr. Lebowitz said. "If any of you work for companies that have been involved in investigations, you know that we gather up a lot of documents."

And, it does little good for a company to challenge the agency's intentions, he said.

"We have extremely broad subpoena power" to compel "the production of documents and testimony," Mr. Lebowitz said.

"We've never lost" a challenge by a company that complained the agency was out of line in its investigation, Mr. Lebowitz said.

And, the department's investigative authority is not limited to plan fiduciaries, he pointed out.

To determine whether a plan has run afoul of ERISA, it is appropriate for the Labor Department "to gather documents and information from anyone who might be a party in interest" as defined by ERISA, Mr. Lebowitz said.

Such parties can include third-party administrators, attorneys, professional service providers, consultants, insurance intermediaries, computer service providers and accountants, Mr. Pantos pointed out.

However, Mr. Lebowitz stressed that the Labor Department is careful not to be "unduly disruptive to legitimate businesses" when conducting an investigation. "It's not our purpose in life to cause a business to come to a complete stop while it gathers up thousands of pages of documents."

Even before document gathering begins, the investigation is set in motion with a letter that "sets out what we are going to be looking at and lays out the kinds of documents we want to see," Mr. Lebowitz said. "We invite a kind of informal communication with our area office to work out a way of providing the information."

The invitation is extended "as an accommodation so that we are not a burden," he said.

Despite the agency's efforts not to be intrusive, there are "a lot of people in organizations who believe that we have exceeded our authority, that we proceed on fishing expeditions and ask for documents that are not relevant," Mr. Lebowitz acknowledged.

Such challenges to the department's authority are untrue and a waste of time, Mr. Lebowitz asserted. "As I've said, we don't lose the cases.

"And I would suggest if you're involved in an investigation with us that you really try to work with the investigator or, if that's not possible, with the supervisor. . .to work out some reasonable accommodation that will suit both our interests," he said.

The Labor Department employs around 600 investigators, with about 400 in major U.S. cities, Mr. Lebowitz said.

Most of the approximately 1,700 agency investigations each year are handled in the field, he said. About 500 investigations find violations, which are split "roughly equally" between pension plans and benefit plans. "The violations run from technical problems to criminal situations," he said.

Mr. Pantos moderated the session. ■

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based on the dollar amount of claims processed. "I believe it is a fundamental conflict of interest" to base fees on the dollar amount of claims handled when it is the TPA's job to lower those amounts, he explained.

The 'turnaround time' to process claims should be speedy, says Robert Jewell, vp-human resources at Vollrath Group Inc. If employees get several dunning notices from a provider seeking payment, they will think they have a poor benefits package.

Mr. Jewell told his audience that the manner in which a TPA deals with employees when processing claims is "very important. If the letter your employee receives from your TPA or the phone conversation they have regarding a claim is not satisfactory to them, it's going to come back to your office.

"Can your employees talk directly to a claims processor?" Mr. Jewell asked. "And, in fact, can you talk directly to a claims processor, or are you always going to be talking to an administrator who is talking to the claims processor?"

When there are too many middlemen in the claims transaction, the chances that problems could occur will increase, he said.

"And I think there should be a toll-free number for your employees to use. It seems like a small thing, but believe me, people get ticked off when they have a big claim going because little Johnny or little Jane is in the hospital and they make 19 calls and get a phone bill for $75."

One TPA should be able to process claims from various parts of the country for employers with operations in more than one state, Mr. Jewell pointed out. However, that means the TPA must know what constitutes reasonable and customary charges in all areas.

The "turnaround time" to process claims should be speedy, he said. If employees get several dunning notices from a provider seeking payment, they will think they have a poor benefits package.

"All of sudden, because of slow claims processing, you have employees complaining about the most expensive benefit you're providing today," he said. "That's not acceptable."

An employer should also be familiar with the TPA's procedures for auditing claims, he advised.

"First, you want to know if claims over a certain amount are going to be audited, and what criteria the TPA is going to use to audit claims."

Audits are important, he said, because hospitals may make billing errors and providers may charge for unnecessary procedures.

A billing error may be as simple as a charge for more days than a patient actually is hospitalized or as complex as a technical overcharge that involves inappropriate medical procedures, he said.

"I can look at something and I won't know if treatment is inappropriate or not," Mr. Jewell remarked. "But I expect my TPA to know that. And if it is inappropriate, I expect my TPA to do something about it. If nothing else, at least ask questions and make sure it was appropriate."

Mr. Jewell noted other qualities a TPA should possess, including:

- Knowledge of specific and unique features of an employer's benefit plan.
- A good performance record.

Mr. Jewell said employers should ask for references and check them.

- Accurate systems for tracking claims and producing claims reports.
- Access to legal advice.
- The ability to spot catastrophic cases early and recommend case management when appropriate.

Mr. Jewell said he is undecided on whether the size of a TPA should be a factor in choosing an administrator. "Obviously you don't want to deal with a storefront that just blew into town," he remarked, but any TPA that provides the services the employer needs is the one that should be chosen, regardless of its size.

The session was moderated by Norman C. Moon, director of group sales at The Lafayette Life Insurance Co. in Lafayette, Ind. ■

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NOVEMBER CLOSINGS

issue:	November 18 — Reader Service Bonus Distribution: PIA
closing:	November 5
editorial feature:	Benefits: Pension/Retirement Plans & EBC Award Profiles Directory: 401(k) Plan Administrators
demographic section:	Insurer Topics: Reinsurance Issues/Relations with Intermediaries CPCU Conference Report
issue:	November 25
closing:	November 13
issue:	December 1991 — Reader Service
closing:	November 11
editorial feature:	1991/92 Managed Care Market Report — Directory: HMOs & PPOs
issue:	December 2
closing:	November 18
demographic section:	Agent/Broker Topics: PIA Conference Report
issue:	December 9 Bonus Distribution: NAIC
closing:	November 26
editorial feature:	Insurance Regulation & Trends

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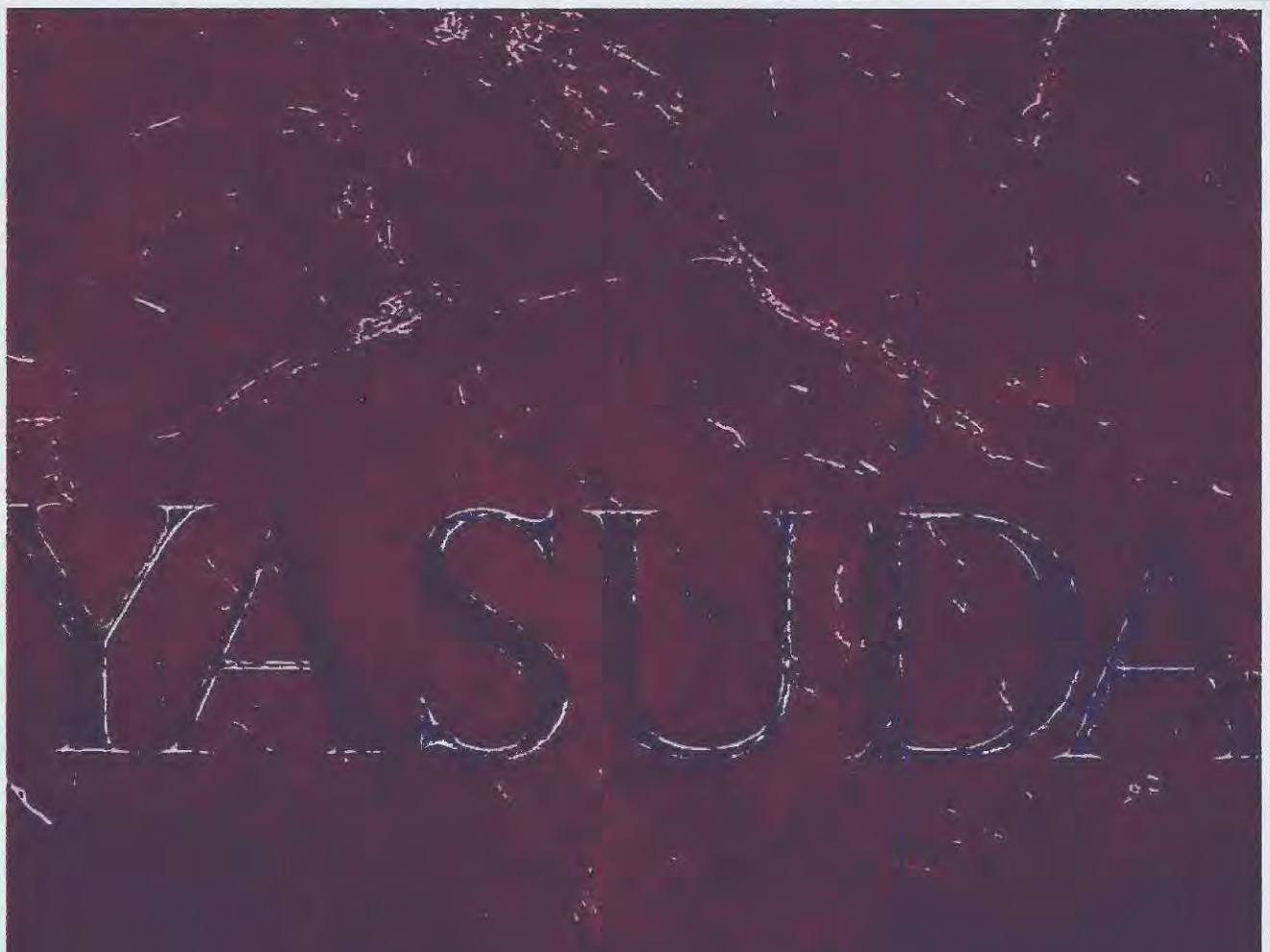

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Getting a head start on case management

By MICHAEL BRADFORD

ORLANDO, Fla.—Knowing early that a medical case is going to be expensive is the key to cost savings through case management, according to a health care consultant.

"You need to know as early as possible that you are going to have a case that is potentially expensive to you," said Debbie L. Scheff, president of Health Cost Consultants Inc. in Vienna, Va.

And, there are several ways to identify potentially costly cases, she said at a session during the Self-Insurance Institute of America's annual National Educational Conference & Expo last month in Orlando, Fla.

Benefit managers should be on the lookout for certain diagnoses or conditions—like acquired immune deficiency syndrome, premature births and injuries to the head, neck or spinal cord—that can run up enormous bills if not properly managed, Ms. Scheff said.

Not every such case is appropriate for case management from the beginning, she acknowledged, "but the warning signal needs to occur."

And, not all patients suffer from conditions that are so easily recognizable as potentially costly to treat, she said.

For example, a patient may develop an infection while in the hospital for a minor ailment, leading to a longer stay, she said.

Therefore, an early warning system should contain "length-of-stay standards" for hospital admissions, Ms. Scheff said. Cases that appear to exceed those standards should be checked to determine whether they are appropriate for case management, she said.

Another early warning signal is repeat admissions, Ms. Scheff pointed out.

"Many times you have cancer patients who go into the hospital for chemotherapy," she explained. While each two- or three-day admission alone may not be overly expensive, those visits can add up to a sizeable hospital bill over time, she said.

Ms. Scheff noted that some people who require chemotherapy can be treated at home. "It's certainly not the case with all chemotherapy patients, but what you're looking for is stability, and you should know who those patients are."

It is important that case management be integrated with utilization review, Ms. Scheff stressed. "In fact, your utilization review department should be the administrator of your early warning system. You can do that through a computer system" that has the ability to flag factors like diagnoses and length of stay to indicate potentially costly cases.

If case management and UR services are provided by separate vendors, it is crucial that the two frequently communicate, she advised.

As an example of how proper case management can save money, Ms. Scheff cited a case involving a patient with a gastrointestinal infection who was admitted to an Atlanta hospital earlier this year. While in the hospital, the patient was diagnosed with AIDS.

"The case was originally picked up in a utilization review system," because the diagnosis triggered a warning that the condition could be chronic, she pointed out.

"In effect, the case management process started at that time through a referral from the utilization review nurse to the case manager," Ms. Scheff said.

UR personnel monitored the patient and case managers checked periodically to determine when the patient's condition was stable enough to move him to a less expensive setting, she said.

"When it started to stabilize, they started to look at alternatives for him," she said.

Ms. Scheff said the patient wanted to die at home, so case managers arranged to have him moved home where he could still receive medical care and be treated with dignity.

At the same time, the case managers took steps to keep health care costs down, she said.

During the two months the patient lived at home, case managers were able to meet the patient's medical needs while keeping the cost of care $50,000 below what it would have reached if the patient had remained in the hospital, Ms. Scheff said.

'You need to know as early as possible' about a potentially expensive case, says Ms. Scheff.

But, there also comes a time when case management must "back out," Ms. Scheff observed. "In some instances, case managers hang on for too long, and it's unnecessary because the patient has stabilized and their treatment is going along fine."

At that point, case management should be limited to periodic telephone calls to check on the patient's condition and care, she emphasized. "You need to be sure that your case manager does back out when his or her intervention no longer contributes to the patient."

Another seminar panelist said that assigning a registered nurse to work with employees can be a good way to educate them to be more effective consumers of health care and thereby lower health care plan costs.

Employees "like having a personal RN," said Sylvia Cheatham, president of Medical Information Services in Muskogee, Okla., and a registered nurse.

In addition, a nurse often becomes a shoulder to cry on and a supportive listener for employees, Ms. Cheatham noted. The nurse also could work with the employers, health care providers and case managers regarding patient care.

The seminar was moderated by Ron Woods, president of Health-Care Administrators Inc. in Muskogee. ■

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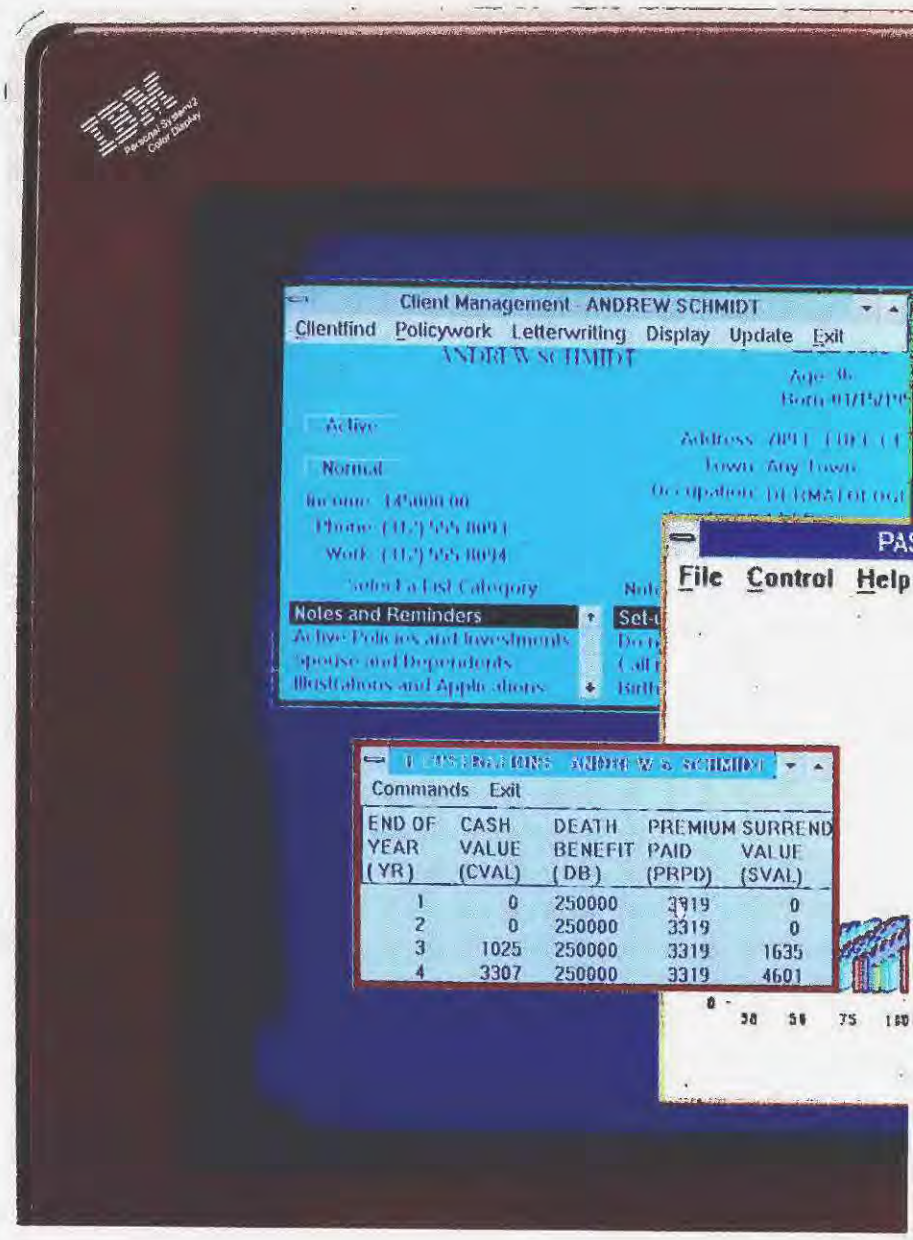

Texas Instruments promotes Henderson

W. Thomas Henderson, 44, has been named corporate risk manager at Texas Instruments Inc. of Dallas. He replaces **Hugo Hines**, who retired Sept. 30. Mr. Henderson, whose most recent title was assistant corporate risk manager, is responsible for the electronics company's worldwide risk management program, including the property/casualty insurance program. He reports to William A. Aylesworth, chief financial officer. Before joining Texas Instruments 12 years ago, Mr. Henderson was an officer in the U.S. Army. He holds a bachelor's degree in business administration from Georgia State University in Atlanta and a master's degree in business administration from the University of Dallas in Irving, Texas.

Comings & goings: buyers

Mr. Henderson is a deputy member of the Risk & Insurance Management Society Inc.

* * *

Douglas S. Kasten, 43, has been named assistant treasurer-corporate risk management at Northern Telecom Ltd. of Mississauga, Ontario. Mr. Kasten replaces **Daniel E. Sullivan**, who retired April 1. Mr. Kasten is responsible for the telecommunications company's worldwide corporate risk management program. He reports to James Wilkinson, vp and treasurer. Prior to joining the company's Northern Telecom Inc. unit in 1985 as director of risk management, Mr. Kasten was assistant director of risk management for Joseph E. Seagram & Sons Inc. in New York. He holds a bachelor's degree in finance from the University of Louisville in Louisville, Ky., and a master's degree in business administration in risk management from The College of Insurance in New York. Mr. Kasten holds the Associate in Risk Management designation as well as the Chartered Property & Casualty Underwriter designation. In addition, he is a deputy member of the Risk & Insurance Management Society Inc. of New York. Mr. Kasten will remain at Northern Telecom's Nashville, Tenn., office.

* * *

Sarah Lee Allen has been named director-insurance, motion picture and television productions at Paramount Communications Inc. of New York. In this newly created position, she is responsible for coordinating property/casualty insurance programs with motion picture and television production operations. Ms. Allen reports to Peter A. Butler, vp-insurance and national purchasing. Before joining Paramount Communications, Ms. Allen was vp at Entertainment Brokers International of Los Angeles. She holds a bachelor's degree in art history and a master's degree in education from Stanford University in Palo Alto, Calif. Ms. Allen will be based at the Paramount Pictures studio in Los Angeles.

* * *

Adaire C. Peterson, 38, has been named vp-human resources at NWNL Cos. Inc. of Minneapolis. In this newly created position, she is responsible for all human resource functions, including staffing; compensation; employee relations; training and development; and employee benefit plans, including group health care plans and retirement savings plans. Ms. Peterson reports to John G. Turner, president and chief executive officer. Before joining NWNL Cos. Inc., Ms. Peterson was vp and manager-business trust services at Norwest Bank Minnesota in Minneapolis. She holds a bachelor's degree in history from the University of Minnesota in Minneapolis.

Ms. Peterson

* * *

Doug Byrd, 45, has been named executive director at Santa Clara County Schools Insurance Group in San Jose, Calif. In this newly created position, he is responsible for overseeing loss control, accounting, administration and risk management functions for the self-insurance pool whose members have 14,000 employees. Mr. Byrd, whose most recent title was risk manager, reports to the group's executive board, headed by Thomas Wilberding, president of the board. Before joining the self-insurance pool, Mr. Byrd was risk manager for the city of Monterey, Calif. He holds a bachelor's degree in general engineering from the U.S. Military Academy in West Point, N.Y. He also holds a master's degree in public administration from the University of Oklahoma in Norman. Mr. Byrd has received the Associate in Risk Management designation and is the president of the California chapter of the Public Risk Management Assn.

Mr. Byrd

* * *

Buddy Nichols, 45, has been named vp-risk management at The Samaritan Foundation in Phoenix. In this newly created position, he is responsible for risk management, claims management, workers compensation, professional liability claims, and general fire and safety compliance. Mr. Nichols reports to Dan Dearen, executive vp. Before joining The Samaritan Foundation, a system of medical, behavioral health and rehabilitative service providers, Mr. Nichols was senior vp-risk management and quality assurance for Methodist Health System, a Memphis, Tenn.-based hospital chain. He holds a bachelor's degree in history from the University of the Ozarks in Clarkesville, Ark. Mr. Nichols is a deputy member of the Risk & Insurance Management Society Inc.

Mr. Nichols

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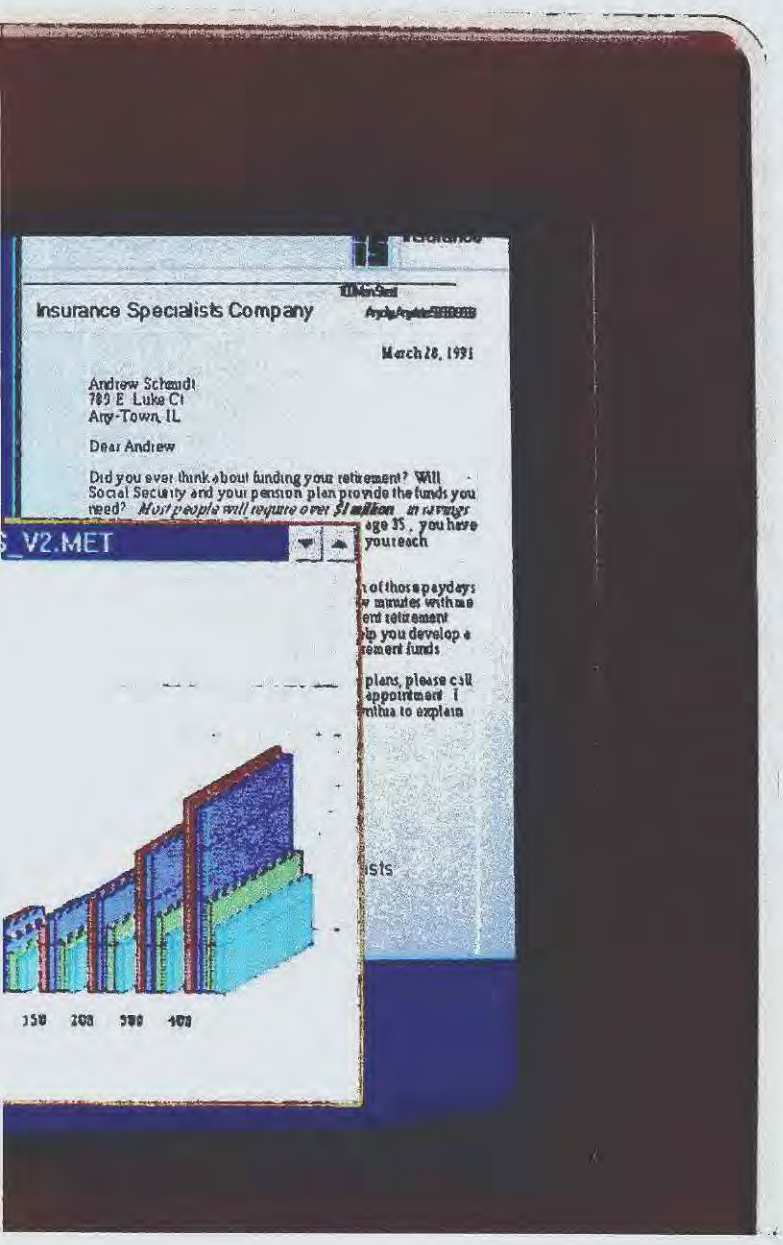

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Texas reform act to have small effect on market

By MICHAEL BRADFORD

AUSTIN, Texas—The teeth of new Texas insurance reforms are not expected to take much of a bite out of insurers and policyholders.

Insurers say the Texas Insurance Reform Act, which was passed earlier this year in a special legislative session and became effective Sept. 1, will not have much effect on their operations.

And, buyers are not expecting great changes, either.

"This has been the quietest thing we've ever seen," said Mark Carter, legislative committee chairman for the Dallas-Fort Worth chapter of the Risk & Insurance Management Society Inc. and director of corporate risk management at LTV Corp. in Dallas.

In its original form, the law would have reduced competition in the state and increased insurers' cost of doing business and, consequently, premium rates, critics warned (*BI*, March 11).

While the original act contained several features that drew strong objections from insurers, the final version was considerably toned down (*BI*, June 3). Removed were higher capital and surplus requirements for insurers, proposals to scale back premium tax deductions for guaranty fund assessments and a requirement that insurers write all lines of business in Texas that they write in other states.

The earlier version of the legislation was deemed by many as a "hateful piece of legislation," Mr. Carter recalled.

The legislation was spurred in part by Gov. Ann Richards' support of insurance reform during her gubernatorial campaign last year. But, insurers and others affected by the law—including buyers, third-party administrators and utilization review firms—now say they are not overly concerned about the changes that the law will bring.

However, they add that much of the legislation's impact remains unclear. It is possible that insurance rates could rise if insurers find their costs rising because of the law, though any increases are not likely to be severe and will be a long time in coming, observers note.

"We're all kind of feeling our way," said Tom Bond, legislative chairman for Texans for Responsible Insurance Reform in Austin, which represents several property/casualty insurer and agent trade groups, as well as individual insurers.

Insurance prices could rise somewhat, Mr. Bond acknowledged. But, he added that it is too soon to know what increased costs insurers are facing and whether they will pass them on to buyers.

Insurers' biggest problem is finding time to make sure new regulations in the 600-page bill are correctly implemented, according to Wayne Stratton, regional vp of the Alliance for American Insurers in Austin.

"There's always a fear when you do things quickly that some things are going to fall through the cracks," Mr. Stratton said.

Along with the reforms, insurers currently have to deal with workers compensation reforms under the Texas Workers Compensation Act, which the Legislature passed in 1989 and became effective this year, he noted.

The workers comp law is in effect while the state attorney general appeals a state district court ruling that the law is unconstitutional because it denies injured workers access to a traditional jury trial (*BI*, May 20).

In addition, Mr. Stratton noted, insurers are studying the potential impact of legislation passed in August that creates a new competitive state workers compensation fund in Texas to replace the state's assigned risk pool (*BI*, Sept. 2).

This spate of insurance reforms will be the last until at least 1993, when the state's Legislature next meets.

Currently, insurers and policyholders are attempting to comply with provisions of the Texas Insurance Reform Act, including:

- Deadlines that require insurers to pay claims within 60 days after a policyholder has provided claims information.

Insurers, which would face penalties for late claims payments, also must shoulder more of the burden of proof in disputed claims.

- Changes in the tax credit for assessments to the state's property/casualty guaranty fund. Insurers receive a 100% tax credit, but it must spread out over 10 years.
- Licensing requirements for utilization review companies.
- A file-and-use rating system for commercial property and general liability insurance, which replaces the prior-approval system.
- A flex rating system for most personal lines property/casualty insurance. Rates are to be deve-

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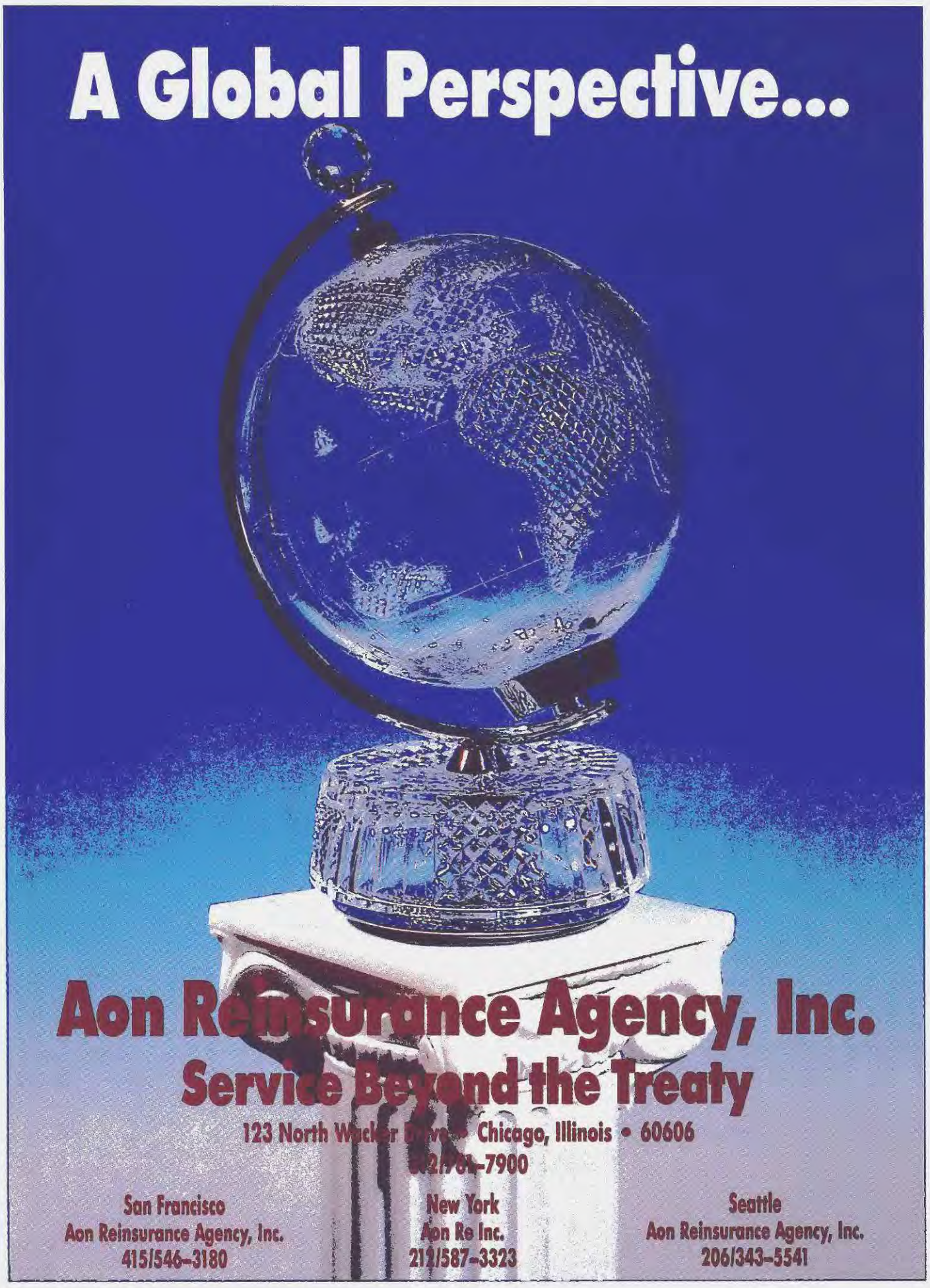

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loped on a file-and-use basis if they fall between benchmarks set by the three-member State Board of Insurance.

- The establishment of an anti-fraud unit within the Texas Department of Insurance, the new name for the regulatory agency formerly known as the State Board of Insurance. However, the three-member board that oversees the agency will continue to be called the Texas State Board of Insurance.
- Changing the name of the Office of Consumer Protection to the Office of Public Insurance Counsel and strengthening the agency's authority.

Many insurers initially expressed concern over the new claims payment deadlines, attorney Thomas B. Alleman, a partner with Vial, Hamilton, Koch & Knox in Dallas, recently told a seminar audience.

He explained that Article 21.55 of the law calls for insurers to act within 15 days to acknowledge receipt of a claim, begin an investigation and request information from the claimant.

After the policyholder has provided the requested information, the insurer has another 15 days to accept the claim, reject it or ask for another 45 days to investigate the claim and request more information from the policyholder, he pointed out.

If the insurer has not acted after 60 days from the time all information is received from the policyholder, the claim must be paid along with an 18% penalty to the claimant. The insurer also must pay the claimant's attorney's fees.

Once an insurer has determined it will pay a claim, it has five days to do so.

At the Dallas seminar, which his law firm sponsored, Mr. Alleman told insurers that there is no reason to panic over that provision.

"You're probably going to be doing what you're already doing," except that there will be statutory deadlines, he said.

Insurers at the seminar agreed that the claims payment deadlines are not restrictive.

The time limitations do not "create any new obligations on the part of the insurer," said Herbert A. Alves, vp and claims attorney at Gulf Insurance Co. of Irving, Texas, a subsidiary of Primerica Corp.

"The only thing new is we've got specific time limits. I don't think it's anything to lose our heads over."

Kendrick R. Stribley, senior claims officer with Chubb & Son Inc. in Dallas, said the requirements are similar to those in Arkansas regarding claims payments. "We've not experienced any difficulty in fulfilling our obligations" in Arkansas, and Chubb does not expect problems with claims payments in Texas, he said.

Still, Mr. Alleman noted, insurers will have to make some adjustments to conform to Article 21.55, particularly regarding claims notification.

While notifying insurers of a claim will be easier for policyholders under the article, it could be a problem, in some cases, for insurers, according to Mr. Alleman.

He explained that under the new law, written notice of a claim does not have to be on an insurer's form. It can be "anything that reasonably apprises the insurer of the facts of the claim."

Mr. Alleman told insurers that the law "does not give you any defense against an illiterate claim, an improper claim, a claim you do not understand. You have to become the interpreter of someone who is trying to let you know things. The peril of miscommunication now falls on your shoulders."

Mr. Alleman pointed out that it is unclear whether Article 21.55 applies to health care benefit plans established under the federal Employee Retirement Income Security Act of 1974. If the requirements do apply to ERISA plans, the law goes far beyond any similar laws in other states, he said.

Stephen Coady, president and chief executive officer of Health Economics Corp., a Dallas-based third-party administrator, said the firm's legal counsel is still digging through the law to determine what portions apply to TPAs.

If TPAs are held to the claims payment timetable, that will not be a problem, because Health Economics and other TPAs operate well within the guidelines, he said.

Indeed, regarding the standards the law establishes for timely claims payments, he said: "If you're violating those, you're not in the business you ought to be in.

"It's good business practice to turn claims around quickly," he noted.

"Economically it's better, because it diminishes the probability that the provider will send out a second claim." That means there is less chance that a claim will be paid twice, and the telephone work required to straighten out billing problems will be eliminated, Mr. Coady explained. "Those two things are expensive."

Mr. Coady said it also is unclear whether TPAs fall under the licensing requirements established for utilization review firms.

UR firms have indicated that the certification requirement will lead to an increase in their prices (*BI*, July 1). Licensing fees and resulting administrative costs are expected to be passed on to employers.

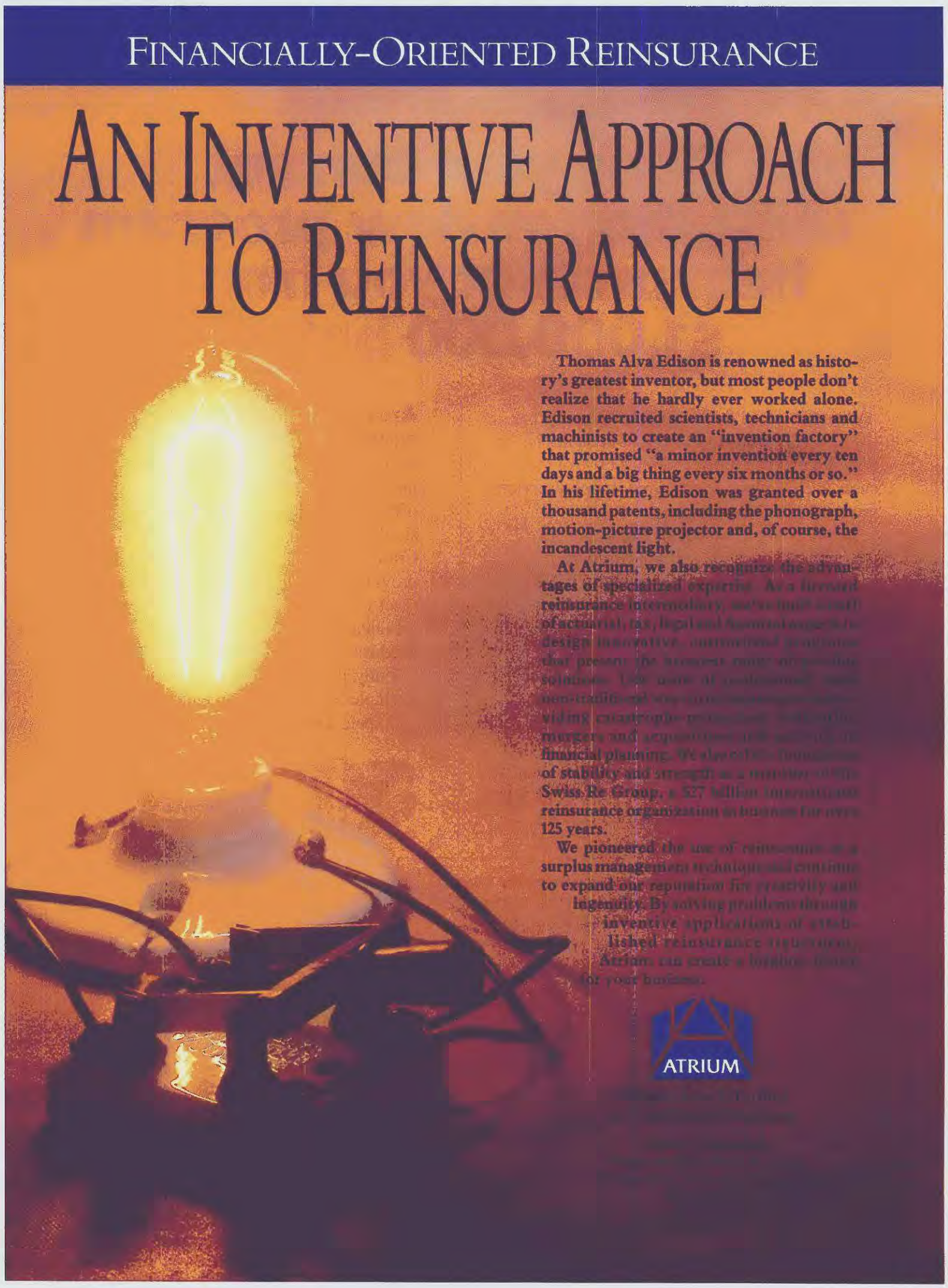
The UR reforms cover pre-certification and concurrent review services. They call for increased physician involvement and establish a process for enrollees or health care providers to appeal adverse UR determinations.

Another wild card in the law is that the Office of Public Insurance Counsel now has greater authority to participate in rate hearings and other activities, said Amy Johnson, public counsel for the agency.

While the office previously was able to take part in rate hearings for workers compensation insurance and automobile coverage, that authority has now been expanded to all lines.

The office also will develop a "consumer bill of rights" for distribution to policyholders, Ms. Johnson pointed out. "My concern is that they know what they are buying and why they are buying it."

The bill of rights will explain parts of the insurance law and inform consumers of their rights and responsibilities in areas like claims payment procedures. ■



Risk Retention Act takes back seat to solvency bills

By JERRY GEISEL

ARLINGTON, Va.—Congressional action on a Bush administration proposal to overhaul the federal Risk Retention Act is unlikely anytime soon, a Commerce Department official says.

NRRA

While introduction of the proposal could occur in the next few weeks, any action will be sidelined while Congress focuses on proposals affecting solvency regulation of insurers, said Edward Barrett II, a Commerce Department official who helped draft the administration's Risk Retention Act overhaul legislation.

"It will be difficult, at best, to get attention focused on the proposal, Mr. Barrett said during the annual meeting of the National Risk Retention Assn. last month in Arlington, Va.

While action may not be imminent, Mr. Barrett hopes that Congress considers the proposal at least before the commercial insurance market tightens. "We hope Congress will act before we have another crisis so the legislation doesn't have to be considered in a crisis atmosphere."

In 1986, the last time Congress made changes to the Risk Retention Act, the commercial liability insurance market was at the tail end of a crisis that saw premiums skyrocket and capacity dry up for many types of coverage.

In that atmosphere, Congress acted quickly to expand the Risk Retention Act to allow risk retention groups and risk purchasing group insurers to provide all types of commercial liability coverages—except workers compensation—to group members. The original 1981 Risk Retention Act allowed risk retention and purchasing groups to write only product liability and completed operations coverages.

But while the 1986 expansion of the act was welcomed by risk managers, it was put together with such haste that there are many gaps and uncertainties in the law.

The Bush administration's Risk Retention Act proposal, unveiled in February, is intended to clear up many of those ambiguities and set specific financial standards insurers would have to meet to write coverage for purchasing groups (*BI*, Feb. 18).

Under the proposal, a purchasing group insurer would have to be admitted in at least one state and meet these standards before it could write business in a state:

- Have the capital and surplus that the state requires of admitted insurers writing the same type and amount of business.
- Maintain a premium-to-surplus ratio of no greater than 3-to-1.
- Maintain minimum capital and surplus of $3 million in its principal place of business. A purchasing group can designate its principal place of business, where it must maintain an office and have members.

Alternatively, a purchasing group insurer could write coverages if it met either of these standards:

- The insurer is domiciled in a state that the National Assn. of Insurance Commissioners has certified meets the NAIC's regulatory standards.
- The insurer is based outside of the United States and is listed on the most recent NAIC Non-Admitted Insurers Quarterly Listing or has been approved since the last listing was published.

To maintain an NAIC listing, a non-U.S. insurer must, among other things, keep a trust fund of at least $2.5 million in a Federal Reserve Board member bank and have at least $6 million of capital and surplus. The capital requirement will be raised to $15 million next year.

The Risk Retention Act currently does not set specific capital and surplus requirements for purchasing group insurers.

However, several federal courts have ruled that a state can require a purchasing group insurer to be licensed in that state before it can write coverage for policyholders in the state (*BI*, Aug. 13, 1990; July 24, 1989).

The Bush administration proposal, to the concern of some service providers, also would require that purchasing groups be controlled by members and not by an insurer or broker.

That provision is clearly aimed at individuals who set up insurance companies to write purchasing group business and then themselves organize purchasing groups and solicit policyholders.

Some purchasing group service providers, though, are concerned that the control provision could be interpreted to mean that suppliers and vendors would not able to aid in the formation of the groups.

But, the Commerce Department's Mr. Barrett told the NRRA meeting the control provision is not intended to eliminate the role of outside experts in the formation of purchasing groups.

"We are not saying that an agent or broker never can be part of the creation of the group. We are saying, though, that control of the group must rest with the members," Mr. Barrett said.

The control provision also is designed to stop individuals from launching thinly capitalized insurers for the sole purpose of writing coverage for purchasing groups that they organize, he said.

The Bush administration proposal also would require purchasing groups to provide more information to state insurance regulators, Mr. Barrett said.

For example, a purchasing group would have to provide the address, telephone number and domicile of the insurer writing coverage for the group to regulators in all states in which it has members.

The purchasing group also would be required to identify its principals or officers and identify and provide the address of the organization managing the group.

Looking back at the history of the 1986 amendments, the legislation has spawned many successful, solid risk retention and purchasing groups, Mr. Barrett said.

"There is no question that the act has provided an important alternative to the commercial market," Mr. Barrett said.

But the act also may have provided access to unscrupulous operators, especially those establishing purchasing group insurers, he said.

If the Bush administration proposal is passed and if states improve their regulatory efforts, "there will be fewer opportunities for fly-by-night" operators, Mr. Barrett said. ■

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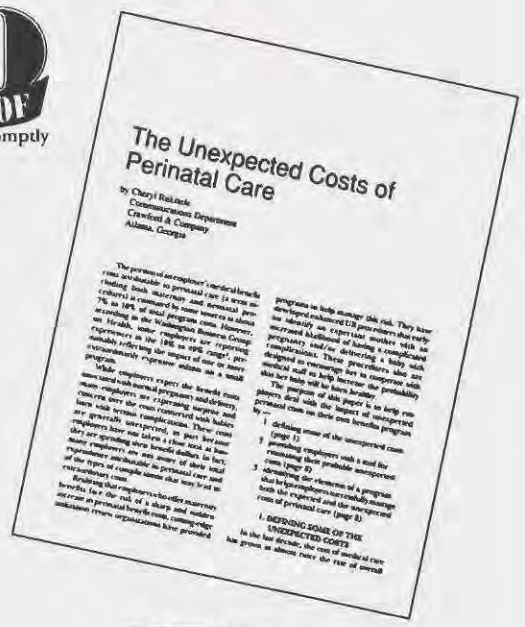
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HEALTHCARE MANAGEMENT

Big insurer failures spark talk of federal regulation

By JERRY GEISEL

ARLINGTON, Va.—The state takeovers of Executive Life Insurance Co. and Mutual Benefit Life Insurance Co. earlier this year are escalating congressional interest in federal insurance company solvency legislation, congressional staffers say.

When the benefits of hundreds of thousands of individuals are affected by the collapse of insurers, Congress takes notice, the staffers agreed during a panel discussion at the annual meeting of the National Risk Retention Assn. in Arlington, Va., last month.

While congressional interest in federal solvency legislation was triggered years ago by the failure of several property/casualty insurers, including Mission Insurance Co. and Transit Casualty Co., recent problems among life/health insurers are fueling current scrutiny.

Current problems "may be the engine that will drive" solvency legislation, said Gary Slaiman, an aide to Sen. Howard Metzenbaum, D-Ohio, and majority counsel to the Senate Antitrust, Monopolies and Business Rights Subcommittee.

"Members' attention is attracted when constituents ask, 'What happened to my annuity?' " said Mary-Moore Hamrick, minority counsel to the House Consumer Protection and Competitiveness Subcommittee.

"We saw tremendous anxiety from policyholders who didn't know what their fate would be. We are talking about hundreds of thousands of policyholders around the nation," said J. Michael Adams Jr., majority counsel to the Consumer Protection Subcommittee.

The problems of two huge life insurers—high-flying Executive Life and the more conservatively run Mutual Benefit—have caused Congress to rethink whether there should be a federal role in solvency regulation, said Tiger Joyce, minority counsel to the Senate Consumer Subcommittee.

Executive Life was seized by California insurance regulators in April (*BI*, April 15). Under a conservatorship order, most policy surrenders were frozen, while monthly annuity benefits were cut by 30% for hundreds of thousands of retirees.

Mutual Benefit was seized by the New Jersey Insurance Department in July (*BI*, July 22). Annuity benefits continue to be paid in full, but policy surrenders have been frozen.

The collapse of Executive Life, which had amassed a $6.4 billion junk bond portfolio that accounts for for more than two-thirds of the insurer's assets, illustrated the weakness of state solvency regulation, said Moses Boyd, majority counsel to the Senate Consumer Subcommittee.

Executive Life "showed there was inadequate monitoring of insurance companies" at the state level, Mr. Boyd said.

While some may have dismissed as an aberration the problems of Executive Life—which purchased much of its huge junk bond holdings through now-convicted financier Michael Milken—the takeover of the more prudently run Mutual Benefit Life sent tremors through Congress, according to Mr. Joyce.

And if another major life/health insurer collapses, leaving hundreds of thousands of policyholders wondering whether they will receive their promised benefits, momentum could further accelerate for a greater federal role in insurance solvency regulation, he said.

Several members of Congress—both in the Senate and House of Representatives—already have unveiled proposals to create a new federal role in solvency regulation, staffers noted.

For example, a legislative outline released earlier this year by House Energy and Commerce Chairman John Dingell, D-Mich., would create the Federal Insurer Solvency Corp., which would develop and enforce solvency standards for multistate property/casualty and life/health insurers (*BI*, Aug. 12; March 25).

The federal agency would not directly regulate multistate insurers, but it would issue certificates of approval to state-licensed insurers and oversee state regulatory efforts.

The FISC, which would be funded by insurance company fees and assessments, also would oversee regulation of risk retention groups and multiple employer welfare arrangements.

Mr. Adams said Rep. Dingell is expected to introduce a formal solvency proposal, using his earlier outline as a building block, later this year.

The proposal "will take center stage at the Energy and Commerce Committee. It will be a bill of major importance," Mr. Adams

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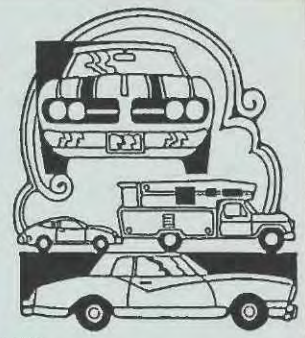

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• A book intended to help employees become better-informed consumers of health care is available from the International Foundation of Employee Benefit Plans. **"It's Your Health: A Consumer's Guide"** provides various checklists that employees can consult before visiting a doctor. The book also contains a section discussing options that might be available under an employer health care plan, like HMOs, PPOs, wellness programs and long-term care insurance. Copies are available for $14.35 for foundation members and $16.95 for non-members. Contact the Publications Department, International Foundation, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

• **"Reinsurance Contracts: Content and Regulation"** includes a description of the different types of reinsurance agreements, an explanation of the clauses and language seen in some of the more common agreements, and a discussion of how reinsurance is regulated. The 44-page pamphlet is available at no charge from NAC Reinsurance Corp., Contract Department, 1 Greenwich Plaza, P.O. Box 2568, Greenwich, Conn. 06836-2568; 203-622-5246.

• Information on establishing a captive in Vermont is now available. For a free copy of **"The Vermont Alternative: A Case for the Domestic Captive,"** contact Commonwealth Risk Management Inc., P.O. Box 834, Montpelier, Vt. 05601-0834; 802-229-5000.

• Employee safety rules for special equipment operation, protective clothing and fire safety, in addition to general safety rules, are discussed in **"Safety Rules,"** a 20-page booklet. Copies of the booklet are available for $12 from the Safety and Security Department, Naperville Park District, 320 W. Jackson Ave., Naperville, Ill. 60540.

• **"The Wellness Program Guide for Business,"** a booklet explaining how companies can structure a wellness program, is available from Health Regeneration & Disease Prevention Inc. The booklet discusses program organization and goals and reviews various program modules, like those dealing with nutrition, physical fitness and lifestyle changes. Copies are available for $25 from HRDP, P.O. Box 114, River Grove, Ill. 60171; 708-456-0018.

• Workers compensation claims, coverage, billing and safety are broached in a question-and-answer format in the booklet, **"The Average Person's Guide to Workers' Compensation."** Copies of the booklet are available for $5.95 each with discounts available for bulk orders. Contact CompTime Press, 63 Seventh Ave., Troy, N.Y. 12180; 518-235-4085.

• An information sheet documenting more than 20 cost-effective **corporate wellness programs** is available from the American Institute for Preventive Medicine. The information can be used by benefit managers to convince management to expand or begin a wellness program. The flier is available without charge from the American Institute for Preventive Medicine, 24450 Evergreen Road, Suite 200, Southfield, Mich. 48075.

• A revised edition of **"Working Safely with Video Display Terminals"** is available from the U.S. Occupational Safety and Health Administration. The booklet discusses health problems related to the use of the terminals and preventive measures that can be taken. Single, free copies can be obtained by sending a self-addressed label to the OSHA Publications Office, Room N3101, U.S. Department of Labor, Washington, D.C. 20210, or to the nearest regional OSHA office.

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Federal oversight

Continued from previous page
predicted.

"Chairman Dingell is very serious about his bill. The level of interest is high. The investigative stage is over. The legislative stage has begun," said Ms. Hamrick of the Consumer Protection Subcommittee.

Another proposal introduced in late July by Sen. Metzenbaum is similar in many respects to Rep. Dingell's outline.

However, the Metzenbaum bill, known as the Insurance Protection Act of 1991, would create the National Insurance Guaranty Corp., a national guaranty fund that would cover claims against all insolvent interstate property/casualty and life/health insurers and supersede state guaranty funds (*BI*, Aug. 12).

The NIGC would be pre-funded with assessments against insurers and would not be supported with any federal funds or guarantees.

Mr. Slaiman acknowledged that the Metzenbaum bill is controversial, but he said its introduction was generated by inadequate state regulation of both life and property/casualty insurers.

The session was moderated by James Anderson, chairman of the NRRA's government affairs committee and director of government relations at the National Assn. of Wholesaler-Distributors in Washington, D.C. ■

NNRA meeting draws about 150

ARLINGTON, Va.—About 150 people attended the annual meeting last month of the National Risk Retention Assn. in Arlington, Va.

The NRRA is a non-profit trade group whose membership includes risk retention and risk purchasing groups, risk managers, attorneys, insurers, reinsurers and other service providers.

The association was formed after the passage of the 1986 amendments to the Risk Retention Act to promote the alternative risk sharing mechanisms—risk retention and purchasing groups—authorized under the law and to improve the regulatory environment in which the groups operate.

For more information, contact the NRRA, Box 1740, 3421 M St. N.W., Washington, D.C. 20007; 800-999-4505.

DON'T CONFUSE ACTIVITY

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Crime, drugs, world peace, insurance?

Former regulator calls insurance a 'huge political issue'

By MARK A. HOFMANN

NEW ORLEANS—The property/casualty insurance industry spends too much time talking to itself and not enough talking to the public it serves in language the public can understand, says a former insurance regulator.

However, more than semantics is involved, she adds.

"Insurance has become a huge political issue. It's up there with crime and drugs and world peace" as a matter of public concern, says Roxani M. Gillespie, a partner at the law firm Buchalter, Nemer, Fields & Younger in San Francisco.

Ms. Gillespie, who served as California insurance commissioner from 1986 to 1991, spoke to a general session at the annual meeting of the Society of Chartered Property & Casualty Underwriters in New Orleans last month.

"Insurance is viewed as a bottomless pit. That is the fundamental problem we have," Ms. Gillespie said. Consumers don't realize that when they're asking for subsidized coverage, they're asking for everyone to foot the bill, she said.

That view stems in part from a misperception that insurance is an inordinately profitable business, Ms. Gillespie said. Some public opinion polls indicate that consumers think that insurers make a 40% profit even during a time of prolonged industry underwriting losses, she said.

"We have never taken the trouble to explain ourselves" to the voters, said Ms. Gillespie. The "most important" action insurers and others in the industry can do is offer consumers "real education" about insurance.

She stressed that they cannot rely on the general news media to do that job for them.

"The media will always be against us" as long as they think their readers and viewers are against the insurance industry, Ms. Gillespie said.

To counter the industry's negative public perception, insurers need better advertising, Ms. Gillespie said. She blasted ads that use cartoon characters to sell such a critical product as silly and called for more serious efforts.

Direct customer contact, particularly when claims are involved, is the most critical facet of the industry's dealings with the public, according to the former regulator. "Every time we adjust a first-party claim in a stupid manner," the industry makes a serious mistake, she said.

Insurers are not the only party to blame for the industry's crisis of public confidence, another speaker said.

Jan M. Edelstein, a special assistant to the chairman of New York-based American International Group Inc., pointed her finger at the federal government for its handling of hazardous waste cleanup under the Comprehensive Environmental Response, Compensation and Liability Act, better known as the Superfund law.

"Superfund was passed in haste by a Congress responding to the public outcry surrounding Love Canal and other toxic waste stories. Although Congress intended Superfund's liability system to be fair—because it would 'make polluters pay'—the reality is that the system is fundamentally inequitable," Ms. Edelstein charged.

Superfund liability is strict, joint and several and "most importantly, liability is retroactive" she said.

The law allows a party to be required to pay to clean up an entire site even if it bore only minimal responsibility for the pollution. And with cleanup costs averaging more than $20 million per site, it is hardly surprising that the people handed the cleanup bill litigate to reduce or redistribute cleanup costs, said Ms. Edelstein.

"Superfund is less an environmental program than a litigious nightmare," she said. She said that AIG Chairman Maurice R. Greenberg's plan for a national environmental trust fund is far more equitable than the current system (*BI*, March 6, 1989).

The fund would be financed by assessments on all segments of the economy, she said. She noted that Mr. Greenberg had suggested a 2% premium tax on buyers of commercial property/casualty insurance, but stressed that Mr. Greenberg and AIG are open to all reasonable funding suggestions.

"Sharing the cost of cleanup is fair," because everyone has benefited from the economic growth that accompanied the pollution, Ms. Edelstein said.

Under the AIG proposal, the money collected would go into a fund that could be used solely for cleanups.

The trust fund approach also would require greater oversight of the Environmental Protection Agency's expenses relating to Superfund activities. Ideally, there also would be a way to give credit to companies that have already paid for Superfund cleanups, she said.

Also speaking at the session was a labor union official who said paying for the nation's health care will require a new approach.

"The health care crisis is sapping America's vitality," said Humphrey Donahue, national representative of the AFL-CIO in Washington. "The urgency of the health care crisis requires new alliances and new initiatives," he said.

"More is involved here than the broad moral question" of aiding the uninsured and underinsured, Mr. Donahue said. Cost-shifting has placed an "inhumane" burden on workers, and the cost is "striking at the core" of the middle class, he said.

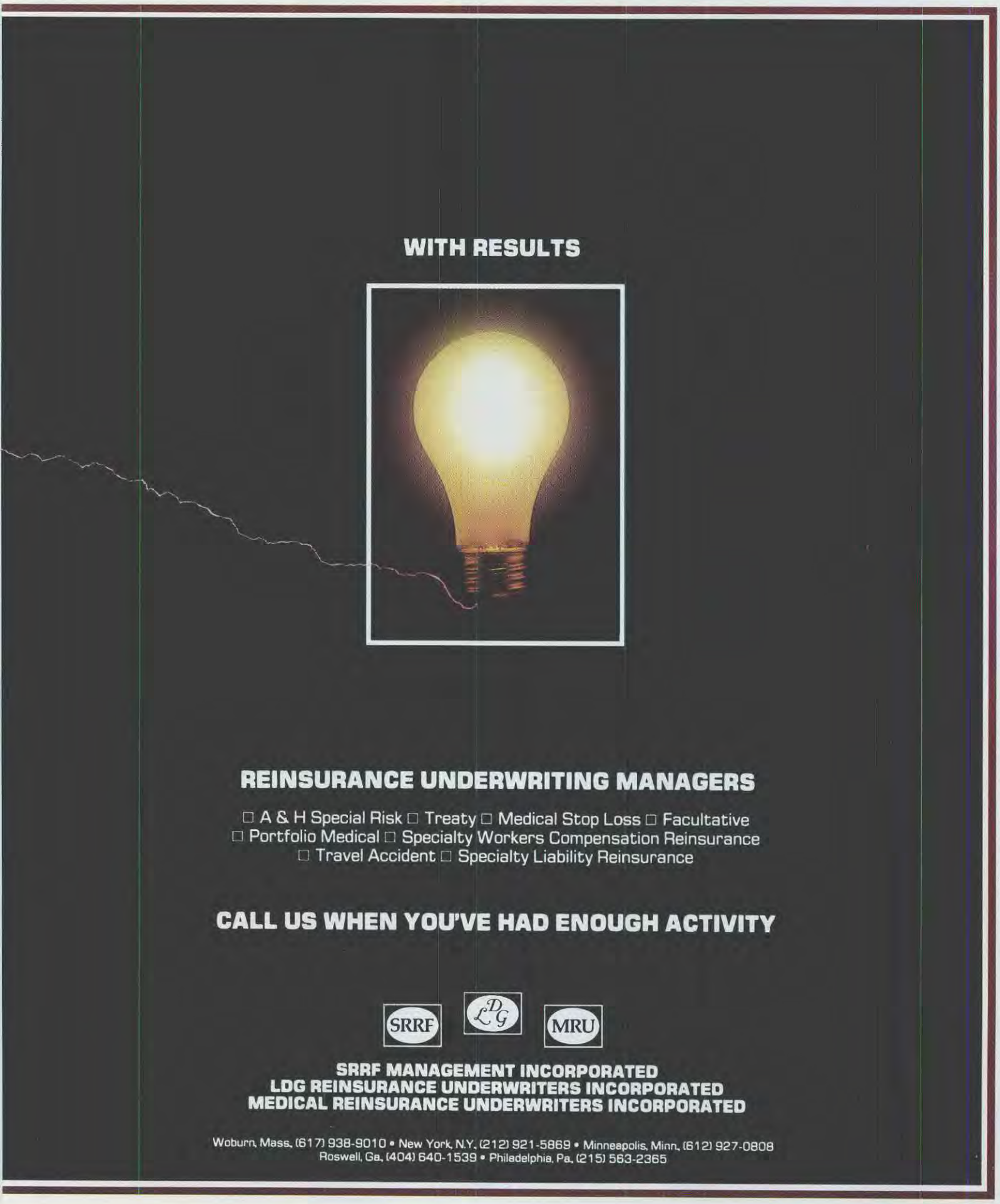
In addition, responsible employers are "subsidizing" competitors that refuse to do their share in providing health insurance for employees, he said.

The AFL-CIO is "open to working with all" parties that share its concerns about health care, Mr. Donahue said.

During a question and answer session following his prepared remarks, Mr. Donahue said that the AFL-CIO has not endorsed a single-payer health care system.

"We are not advocating a German-style or Canadian-style health care reform. Any health care reform would have to be a plan made in the U.S.A.," he said.

Stephen J. Paris, 1990-91 president of the Society of CPCU, moderated the session. Mr. Paris is managing partner in the Boston law firm Morrison, Mahoney & Miller. ■



Higher rates advocated for comp residual market

By MARK A. HOFMANN

NEW ORLEANS—Insurers do not need any help from states to lose money, but they are getting plenty of it as states force them to pay the ever-escalating costs of state-mandated workers compensation pools, an insurer says.

As a result, insurance companies ought to seek several reforms to state workers comp residual markets, not the least of which is rate reform, said William H. Huff, executive vp of Employers Casualty Co. in Dallas.

Mr. Huff also is a former insurance commissioner of Iowa and a former president of the National Assn. of Insurance Commissioners.

"Certainly many, if not most, of the problems with the workers compensation residual market are directly traceable to the problems of workers compensation in general, and it is fairly easy to trace the growth of the workers compensation residual market to the general inadequacy of rates in many states," Mr. Huff said.

"You show me a state which has a large proportion of risks in the pool or state fund and I will show you a state in which rates are inadequate," he said during a panel discussion, "Underwriting: A Look at Residual Markets," at the annual Society of Chartered Property & Casualty Underwriters meeting in New Orleans.

Mr. Huff noted that as late as 1984, when the Texas economy began to show signs of weakness, the Texas Workers Compensation Assigned Risk Pool accounted for only 3.2% of the total workers comp premium in the state. Only two years later that figure had risen to 19.1%.

And, in 1989, the pool accounted for 31.3% of the total workers comp premium and had an underwriting deficit of $551 million, Mr. Huff said.

A number of developments in the Lone Star State during the mid-1980s exacerbated the situation, he explained. The economy plummeted, leading to more claims, and awards from the State Industrial Accident Board escalated rapidly.

In addition, there was no penalty for being in the assigned risk pool, he said. "Pool rates were exactly the same as the voluntary market rates" until late 1987, when the State Board of Insurance instituted a system of experience-based surcharges on employers in the assigned risk plan, Mr. Huff said.

But, even that reform did not have the desired effect, he said. Employers could get around it by circumventing a change-of-ownership rule that was later toughened to require a material change in owners and operations, Mr. Huff explained.

In its attempt to deal with a rapidly deteriorating situation, the State Board of Insurance instituted many reforms that took effect Jan. 1, 1990, Mr. Huff said. Those reforms implemented mandatory rate differentials for most pool participants and allowed the pool to cancel the policies of employers that do not carry out safety recommendations made by the servicing insurer's safety engineers, he pointed out.

He predicted that the "full effects" of those reforms would be evident this year.

But Texas is not the only state with serious residual market losses, he said. In fact, the residual markets in 38 states reported losses in 1989.

However, six states—Florida, Louisiana, Maine, Massachusetts, Rhode Island and Texas—accounted for 63% of the total residual market loss in 1989. And, Texas and Massachusetts alone accounted for about one-third of the nationwide losses.

"No company, regardless of its size, can stand tremendous losses of the magnitude we are seeing in these pools. The industry was willing to assume this burden many years ago, partially out of social conscience, partially to avoid take-all-comers laws and/or partially to avoid the creation of state funds," Mr. Huff said.

But now, he said, "the industry can no longer afford to allow these residual markets to drag down the entire workers compensation system."

Mr. Huff offered a series of potential remedies to the residual market problem. Three—raising the price, reducing the system costs through reform or a combination of both—he credited to William Hager, president of the Boca Raton, Fla.-based National Council on Compensation Insurance.

Mr. Huff then added a few of his own proposals.

The NCCI proposals should be used "to make the various pools more self-supporting and more of a punishment for an insured in order to provide more incentives to find a voluntary market," he said.

And the amount that insurers must pay to support the residual markets should be capped, Mr. Huff said.

"It appears some legislators and regulators have the impression that the insurance industry is owned by them and that any social need can be addressed by mandating that the insurance carriers provide the coverage regardless of the amount of subsidization mandated upon the carriers," Mr. Huff said.

But, insurers are owned by stockholders, policyholders or members, not by regulators, legislators or society as whole, he said.

"The various states have a right, I suppose, to mandate the participation of carriers in residual market mechanisms in their state as a condition of doing business, provided that mandate is reasonable," Mr. Huff said.

"But I do not believe they have the right to force us to subsidize these to the detriment of our voluntary policyholders and our owners," he said.

"We can lose enough money on our own, thank you, without the help of state mandates. We need to let our legislators and regulators know that we are not some sort of compliant cash cow ready to be milked at any time a perceived problem arises."

Paul M. Cogswell, president of the Property Insurance Plans Service Office in Boston, and John J. Corbley, president of the Automobile Insurance Plans Service Office in Johnston, R.I., also discussed the workings of residual markets, with an emphasis on homeowners insurance and personal automobile insurance.

Richard F. Reynolds, a member of the Texas State Board of Insurance in Austin, moderated the discussion. ■

Cumulative trauma 'epidemic' disputed

By KATHRYN J. McINTYRE

NEW ORLEANS—The "epidemic" of cumulative trauma claims may not be entirely real, and real claims can be treated less expensively than with surgery, a doctor contends.

Only one in five people who meet the clinical criteria for carpal tunnel syndrome actually has the illness, says Dr. Lawrence K. Spitz, who is president of Penn Diagnostic Center in Philadelphia.

Carpal tunnel syndrome is an ailment that occurs when the nine tendons in the wrist that run through the carpal tunnel to the fingers swell from overuse and continuous flexing. When this swelling occurs, the median nerve, which provides sensation to the fingers, is compressed, causing numbness and tingling in the fingers.

The disorder commonly stems from jobs requiring repetitive hand motion and grabbing, like assembly line work, timber mill work and typing.

But, unless the patient is subject to a nerve conduction velocity test, the diagnosis of carpal tunnel syndrome will be "wrong 80% of the time," Dr. Spitz said during a seminar on controlling claims costs during the annual meeting of The Society of Chartered Property & Casualty Underwriters held last month in New Orleans.

"There is no good data" on the number of workers with carpal tunnel syndrome, but the number of repetitive motion injury claims has increased to 51% of all work-related illnesses in 1989, from 18% in 1985, Dr. Spitz said, stressing he was referring to the percentage of illnesses and not accidents. However, the National Council on Compensation Insurance is starting to collect data on the syndrome, he said.

Dr. Spitz said that "intervention ergonomically and medically" can re-

Continued on next page

CPCU meeting draws over 4,000 to New Orleans

NEW ORLEANS—The 1991 meeting of the Society of Chartered Property & Casualty Underwriters drew the second-largest crowd in the insurance education association's history.

A total of 4,187 people attended the annual conference, which took place Oct. 20-23 at the New Orleans Hilton and Towers Riverside. The attendees included 1,391 new CPCU designees and 1,032 other CPCU members.

Only the 1989 meeting in Anaheim, Calif., drew a larger audience.

The new officers of the Society of CPCU assumed their posts after the meeting's conclusion.

Jerrol L. Harris, senior vp of California Casualty Management Co. in San Mateo, Calif., succeeded Stephen J. Paris as the society's president (*BI*, Oct. 21). Mr. Paris, a managing partner in the Boston law firm Morrison, Mahoney & Miller, became immediate past president and will serve as an ex-officio member of the board of directors.

Edwin L. Overmyer succeeded Mr. Harris as president-elect. Mr. Overmyer is president and chief executive officer of Berwanger Overmyer Associates, a Columbus, Ohio, insurance agency.

J. Wesley Ooms, assistant vp of State Farm Fire & Casualty Co. in Bloomington, Ill., was elected vp of the society. Roger L. Smith, president of the Insurance Educational Assn. in San Francisco, entered the second year of a three-year term as the society's secretary-treasurer.

The Malvern, Pa.-based society reports that 2,007 people earned the CPCU designation during the 1990-91 academic year, which is also the second-largest number ever for a single year. Nearly 32,000 CPCU designations have been conferred since 1943.

To obtain the designation, candidates must complete 10 examinations, meet certain experience requirements and adhere to a strict code of ethical behavior.

For more information on the designation program or the society, contact: The Society of CPCU, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 215-251-2728. ■

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Caution urged in shopping alternative market

By MARK A. HOFMANN

NEW ORLEANS—Risk managers should use the same criteria in choosing an alternative risk financing vehicle as they would in selecting a commercial insurer, says a national brokerage executive.

In fact, risk managers need to be even more cautious when dealing with alternative facilities, said Charles L. Ruoff, a senior vp at Sedgwick James Inc. in New York. Alternative facilities have less history and are subject to less regulation than commercial insurance companies, Mr. Ruoff said.

Mr. Ruoff spoke during a session on "Evaluating Alternative Markets" during the annual conference of the Society of Chartered Property & Casualty Underwriters last month in New Orleans.

Alternative markets, Mr. Ruoff said, are no longer simply an American phenomenon; they have become significant global players.

While the early risk financing alternatives of the 1970s tended to be oriented to single companies, the trend shifted toward multicompany mechanisms during the 1980s, he said.

But not all alternative mechanisms last. To understand why, Mr. Ruoff said, one need only look at traditional insurers that have failed. Reasons behind those failures include loss reserve deficiencies, abnormally rapid growth and significant changes in business written, he said.

And, "just as there is alleged fraud in the commercial marketplace, there can be fraud in alternatives," said Mr. Ruoff. Risk managers have to check the credentials of the people involved with any alternative mechanism they are considering, he said.

Four factors ought to be considered, the brokerage executive said.

First is historical perspective. Risk managers should look for a reasonable formation plan, a continuity of operations and the facility's long-term prospects, Mr. Ruoff said.

"The risks are highest at formation" because no one knows whether the facility actually will be followed, he said. The risk manager needs to determine whether the facility has stuck with its plan and consider whether its prospects —which might look good during a hard market—will remain the same during a market downturn.

Next, the risk manager should look at the alternative market's financial resources. According to Mr. Ruoff, the specific areas to examine include capitalization, underwriting income, investment income and reinsurance arrangement.

Regarding underwriting income, Mr. Ruoff said would-be participants should look for a growth factor and profits.

Risk assumptions, including investment risk and currency exchange risk, are the third factor to consider. Many alternative markets invest conservatively, though Mr. Ruoff stressed that not all are so prudent.

Management resources form the fourth factor that should be taken into consideration while evaluating an alternative market.

According to Mr. Ruoff, these include continuity of expertise; technical capabilities; underwriting, claims, loss-control and systems services provided either by staff or through contract; actuarial review; and audit and legal services. Once again, Mr. Ruoff stressed that risk managers should subject alternatives facilities to even greater scrutiny than their traditional insurance counterparts.

The head of one of the most successful facilities formed during the last hard market disputed whether policyholder-owned mechanisms like ACE Ltd. and X.L. Insurance Co Ltd. are truly alternative mechanisms.

"We really don't like the term alternative markets; we would like to be thought of as alternatives in the market," said Walter E. Scott, chairman, president and chief executive officer of ACE Ltd. in Hamilton, Bermuda.

ACE, he noted, had 386 policyholders at the end of last year, up from 230 policyholders in 1986 shortly after it was formed. And X.L., another Bermuda facility that has some policyholders in common with ACE, had 525 policyholders at the end of 1990, Mr. Scott said.

Mr. Scott stressed that ACE, X.L. and Corporate Directors & Officers Assurance, Ltd., a Bermuda facility that writes directors and officers liability insurance and that is managed by ACE, follow a conservative investment strategy.

"There is not a single junk bond in any of these investment portfolios. There is not a single real estate investment," he said.

Former New York Superintendent of Insurance James P. Corcoran made somewhat light of federal concerns over the stability of non-U.S. reinsurers during his remarks during the same session.

"I viewed alien reinsurers as a sort of reverse Marshall Plan," said Mr. Corcoran, referring to the massive U.S. reconstruction effort of Western Europe masterminded by Secretary of State George Marshall during the late 1940s.

Non-U.S. reinsurers should be welcomed with open arms and exposed to the U.S. civil justice system, joked Mr. Corcoran, now a partner in the New York law firm of Wilson, Elser, Moskowitz, Edelman & Dicker.

In another jab at his own profession, Mr. Corcoran suggested that exporting 600 New York lawyers to Japan would solve the trade deficit in three years.

Michael J. Mullen, executive director of the National Assn. of Insurance Brokers in Washington, D.C., moderated the session. ■

Trauma claims

Continued from previous page

verse the process and keep 80% of those with carpal tunnel syndrome out of the operating room.

"There is too much surgery for carpal tunnel syndrome," Dr. Spitz maintained.

In addition, he recommended testing workers for symptoms of carpal tunnel syndrome to determine which workers need treatment or a change in job assignments to prevent the disorder from becoming worse.

Dr. Spitz attributed the increase in workers complaining of carpal tunnel syndrome in part to a new awareness among workers that the disorder exists. "People are more aware. They see it in the media," he commented.

He also pointed out that among people with carpal tunnel syndrome, women outnumber men six-to-one. "We are not sure if that is biological" or is related to the fact that many women hold jobs in which they may be at greater risk, he said. ■

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Data bank keeps doctors on edge

But 'Big Brother' image is false: Attorney

By SARA J. HARTY

NASHVILLE, Tenn.—After its first full year in operation, questions remain about some of the most basic aspects of the National Practitioner Data Bank, says one expert.

That first year has proven skeptical providers wrong on some counts and right on others, but "physician paranoia" about the data bank remains a problem, said Mark A. Kadzielski, a lawyer who has represented hospitals and doctors in malpractice actions and who also is a partner with Weissburg & Aronson in Los Angeles.

Hospital risk managers should attempt to control the paranoia surrounding the data bank, at least to the extent that rational fears can be separated from irrational ones, he said.

Mr. Kadzielski spoke at the annual American Society for Healthcare Risk Management conference last month in Nashville, Tenn.

Congress authorized the data bank as part of the Health Care Quality Improvement Act of 1986. The data bank includes listings of medical malpractice awards or settlements and disciplinary proceedings—like denial of hospital privileges—against health care professionals.

According to the 1986 law, the data bank was designed to meet a "national need to restrict the ability of incompetent physicians to move from state to state without disclosure or discovery of the physician's previous damaging or incompetent performance" (*BI*, May 7, 1990).

The law requires health care facilities to tap the data bank for reports on physicians and dentists seeking medical privileges as well as those whose privileges are being reviewed.

Even before the data bank began operating in September 1990, doctors and hospitals were uneasy, Mr. Kadzielski said.

Access to the information was generally limited to hospitals and doctors. But there was an important, though narrow, exception: Plaintiffs' attorneys in medical malpractice cases could query the data bank if the physician's hospital had not requested information from the bank when reviewing a physician's status.

That exception created a lot of concern among practitioners, he said. In reality, though, not one attorney has yet been allowed access to the data bank, he said.

Concerns over public access to the records also were raised initially. While there have been many proposals to allow public access, none has been approved so far nor is foreseen in the near future, he said.

Another prediction was that the data bank staff would prove insufficient to keep up with requests for data. And, "in fact, there has been a 100% turnover on the help line," Mr. Kadzielski said.

Concerns over potential backlogs and delays were also voiced in the early days. "In fact, there have been tremendous delays, especially in first six months. At this stage, however, these problems have been pretty well cleared up," he said.

Questions over the adequacy of the $2 fee charged to those seeking data from the bank were raised early on. "On May 1, the fee did go up to $6 and we predict double figures by early next year," Mr. Kadzielski said.

But some fears have proven exaggerated, he said. "Big Brother" has not destroyed health care, he pointed out.

The most reassuring statistic for hospital medical staff members is that fewer than 1% of the inquiries to the data bank have turned up information about the health care professional in question, he said.

And the specter of Big Brother will not materialize if those who use the information remember that the data bank is designed to simply provide raw data, Mr. Kadzielski said. An inquiry that produces data about a professional does not definitively mean anything; it just gives the hospital a piece of information to further explore, he said.

However, one major—and probably justified—complaint has been that all settlements of claims, no matter how small, must be reported to the data bank.

"The reportability question is still the No. 1 question that I'm getting," said Mr. Kadzielski. "Payment of penny one or more" requires a report, he reminded the risk managers.

The American Medical Assn. has suggested a $30,000 floor, Mr. Kadzielski said.

The issue will be studied by the secretary of health and human services in the next year, and a report on this issue likely will be published in the spring. Perhaps by the fall of 1992 a floor will be implemented, Mr. Kadzielski said. Until then, any payment must be reported, he stressed.

However, hospital risk managers

Continued on next page

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Data bank

Continued from previous page
can take some steps to keep some potentially reportable incidents from reaching that stage. Mr. Kadzielski's "hot tips" for the data bank include the following:

- A disclaimer should be inserted into the application form sent to doctors seeking staff privileges that says: If you aren't qualified for a privilege, please do not apply, because if you do apply and don't receive it, you will be reported to the data bank.
- Seek voluntarily withdrawal of privilege requests. For example, assume a professor of gynecology applies for full obstetric and gynecology privileges. This professor has not delivered a baby in 10 years. If he is denied obstetric privileges, the denial must be reported to the data bank.

Instead, health care risk managers should try approaching such physicians and requesting a withdrawal of the request.

Some hospitals give out temporary privileges 'like Halloween candy,' Mr. Kadzielski says.

Risk managers should remember that while denials based on competence must be reported, denials of privileges because a practitioner lacks insurance are not reportable.

- Look for warnings signs of physician impairment early, before a claim arises.

Risk managers should look for chemical dependencies, psychiatric impairments and signs of disease in physicians before corrective action must be taken. If intervention occurs before corrective action has been taken, a report to the data bank is avoided.

- Define what is meant by an "investigation" and when an investigation has officially begins in the hospital's bylaws. In cases where a physician is under investigation and resigns, a report must be made.

Hospitals can give practitioners an opportunity to resign before an investigation is formally begun, avoiding a report, he explained.

- Risk managers should set policies and procedures concerning the data bank so that the hospital staff know what steps are to be taken in certain circumstances and are clear on what constitutes a reportable event.

Temporary privileges can be a huge problem area, Mr. Kadzielski said. "Some hospitals give them out like Halloween candy."

Hospitals should be very careful about when temporary privileges are given, should require requests for temporary privileges well in advance, and should always set a finite time on such privileges. ■

Hospitals can negotiate policy terms: Consultant

By SARA J. HARTY

NASHVILLE, Tenn.—Health care risk managers who have a general knowledge of insurance policy terms and conditions may be able to negotiate more favorable coverage, a consultant says.

And, knowledgeable risk managers could have the unique opportunity to influence policy language when current topics of concern cause underwriters to make changes in policies, said Judith J. Morgan, an Atlanta-based principal with the Tillinghast division of Towers, Perrin, Forster & Crosby Inc.

Ms. Morgan spoke at a session at the annual American Society for Healthcare Risk Management convention last month in Nashville, Tenn.

An example of changing policy language affecting health care risk managers is the growing popularity of wording that excludes liability coverage for impaired physicians, she said. These exclusions are usually intended to protect the insurer from paying for losses resulting from a doctor treating a patient while under the influence of alcohol or drugs, she explained.

However, risk managers should watch out for policy language that might be construed to exclude coverage for all care delivered by a provider with a chemical dependency, whether or not the provider was impaired at the time the care was provided, Ms. Morgan said.

Exclusions for liability stemming from sexual abuse also are of current interest in policy language, she said. In the past, medical professional liability policies typically covered sexual abuse, largely because it was not specifically excluded, she said.

However, recently developed policies are restricting coverage for sexual abuse to defense costs or, in some cases, excluding coverage entirely, Ms. Morgan said.

This restriction is generally negotiable, she said.

Hospital risk managers should review policy definitions of sexual harassment, misconduct and abuse and make sure the definitions leave the hospital with the coverage it needs.

Underground storage tanks and AIDS are other topical issues that are causing underwriters to rewrite policy language and introduce exclusions, Mr. Morgan said. Interested risk managers should take the opportunity to let their opinions and viewpoints be heard while the rewriting is in progress, she said.

And, hospital risk managers who review their institution's property exposures may decide they need to change their coverage.

Three common components of property coverages are:

- Business interruption, which covers losses in income stemming from covered damage to property.
- Accounts receivable coverage, which covers the amount of money a policyholder is unable to collect if its accounting records are destroyed.
- Extra expense coverage, which covers necessary expenses incurred by the policyholder to resume normal operations or minimize loss of income following damage to property.

Many hospitals have more accounts receivable and business interruption coverage than they need, yet are not getting enough extra expense coverage—which is relatively inexpensive, according to Ms. Morgan.

Limits equal to the total amount of accounts receivable is generally not necessary, she said, noting that data backup systems now make most records retrievable.

And, most hospitals could minimize the duration of business interruption by using undamaged portions of the hospital or by using other owned facilities in the event of a catastrophe, she said.

However, even if there is no real business interruption, there could be significant expense in maintaining operations after property damage, she said.

For instance, renting and moving equipment, utilizing outside services for laundry, food and laboratory expenses could all be covered through the extra expense coverage, she said.

For many facilities, Ms. Morgan suggested that extra expense limits of $5 million would be more appropriate than the limits of $500,000 or $1 million many now have. ■

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Risk skills quizzed

By SARA J. HARTY

NASHVILLE, Tenn.—Experienced health care risk managers should continue to hone their risk financing skills, a consultant suggests.

And attendees of the American Society for Healthcare Risk Management's annual convention were given a short quiz to help determine how advanced their risk financing skills were. The quiz, offered by Judith J. Morgan, an Atlanta-based principal with the Tillinghast division of Towers, Perrin, Forster & Crosby Inc., asked:

- What is the total cost of risk for your organization? Give a number in absolute dollars.
- What would you say your risk financing ratio is? How efficient is that ratio?
- Assume your organization is multistate with an exposure to hurricanes. If your deductible is $100,000, do you assume risk of $100,000 or $500,000 if a hurricane causes damage in five different locations?
- You've had a good year at the hospital in terms of loss experience. When you get the actuarial report back, the experience modifier is 0.95. Last year it was 0.80. Does this mean:

  ✔ Industry experience improved?

  ✔ Industry experience is worsening?

  ✔ Your loss experience is worsening even though you thought you had a good year?

  ✔ Inconclusive?

  ✔ The actuaries made an error?

Ms. Morgan then discussed the following answers, in the same order as asked:

- It is good sign if risk managers can come up with a real number.

"You should at least have a feel for the cost of risk beyond what your deductible is," Ms. Morgan said.

The total cost of risk is much larger, for example, than the large number associated with covering malpractice risks, according to Ms. Morgan.

The cost of risk includes unreimbursed losses, including deductibles and uninsured losses; risk transfer costs, including insurance premiums, costs of fronting arrangements and any charges associated with letters of credit; loss control costs; and administrative costs, including salaries and external service providers.

- Risk managers can determine their risk financing efficiency by calculating self-insured unreimbursed losses divided by self-insured unreimbursed losses plus premiums. The higher that number is, the greater the efficiency, Ms. Morgan said.
- This was an issue for many risk managers after Hurricane Hugo, she explained.

"If your deductible is on a per-location basis, your risk is $500,000; if it is on a per-occurrence basis, it is $100,000. Make sure you know which basis your deductible is on," she advised.

- If the experience modifier goes up, it likely means that the industry's experience was improving faster than your company's.

"The thing to remember is that the experience modifier has to be indexed to a common year if you want to compare one year to another," Ms. Morgan said. ■

1,300 attend ASHRM meeting

NASHVILLE, Tenn.—The American Society for Healthcare Risk Management's 13th annual conference, held Oct. 9-12 in Nashville, drew more than 1,300 registrants from around the country.

ASHRM offered participants a variety of special interest sessions focusing on pediatric facilities, rural hospitals, long-term care facilities and other types of health care settings. Educational workshops addressed both basic and advanced risk management concerns.

In addition, attendees visited with more than 70 vendors at trade exhibits, including brokers, insurance companies and professional waste management companies.

Most attendees stayed at the Opryland Hotel, a sprawling complex just outside of downtown Nashville that offered many diversions, including the nearby Grand Ole Opry.

Registrants could visit one of the hotel's several restaurants or bars for a break from convention activities, or take a walk through the hotel's two-acre conservatory that contains more than 10,000 tropical plants.

Next year's ASHRM conference will be held Nov. 8-11 in Las Vegas, Nev.

For more information contact ASHRM, American Hospital Assn., 840 N. Lake Shore Drive, Chicago, Ill. 60611; 312-280-6430.

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Top health care priority: the graying of America

By SARA J. HARTY

NASHVILLE, Tenn.—New demands will be placed on the health care industry as the American population ages, says the president of a group specializing in forecasting health care trends.

And, while rising costs have resulted in health care cost containment measures like managed care, increased competition among providers will be seen as health care markets strive to attract patients in need of ambulatory services, rather than acute care, said Russell C. Coile Jr., president of The Health Forecasting Group in Alameda, Calif.

Mr. Coile gave the keynote address at the 13th annual meeting of the American Society for Healthcare Risk Management in Nashville, Tenn., last month.

In addition, Americans demand too much from health care for a national health care system to be a viable alternative in the near future, he said.

One of the major trends in health care is that of age-driven demand, Mr. Coile said.

One-third of the U.S. population falls into the baby boom generation, and the baby boomers will begin to turn 65 in the year 2011, he said.

An advantage of this demographic shift for hospitals will be increased utilization, which will make it easier for hospitals to achieve profitability, Mr. Coile said.

However, "the restricted capacity of the long-term care system makes it difficult to find a place for patients recovering, but not needing acute care," he said.

The development of an "elder-care continuum" would better serve whatever needs the elderly may have, Mr. Coile said.

"The elderly want to maintain their independence and, ideally, the hospitals can help them do that," he said.

One trend starting in California is the "medical motel," a facility that can hold patients needing around-the-clock care but not necessarily requiring inpatient hospitalization.

These facilities still are in the experimental stage, he said. Questions remain as to how safe they are and for whom they are appropriate. In addition, it remains to be seen whether insurers believe that the motels actually represent a new level of care, according to Mr. Coile.

If the facilities are deemed a success, the medical motels may begin to appear east of California.

While these types of facilities could reduce hospital costs, Mr. Coile noted that the rise in health care costs has not been slowed.

One of the least visible and most pervasive forces increasing the cost of health care is defensive medicine. "No one knows the true cost of malpractice and the cost of defensive medicine," he said.

Physicians may choose to give a costly magnetic resonance imaging test—a technique that provides cross-sectional images of internal organs—simply to protect themselves from later being sued for neglecting to order one for a patient who could have been helped by it, Mr. Coile said.

While it is true that Detroit has more MRI machines than all of Canada, it also leads the nation in the number of malpractice suits filed, according to Mr. Coile.

Until there is substantial tort reform, defensive medicine will continue to be a substantial problem, Mr. Coile predicted.

Managed care, in trying to control the spiraling costs of health care, has become attractive to many employers, said Mr. Coile, adding that "managed care is the future in health care."

Managed care "networks are a metaphor for hospitals of tomorrow," he said. These networks, which primarily began by providing acute care, will increasingly cover a broader array of services, he predicted.

But independent physician associations—which are groups of physicians who maintain their private practices along with an HMO contract—are becoming less popular because of their inefficiency, Mr. Coile said.

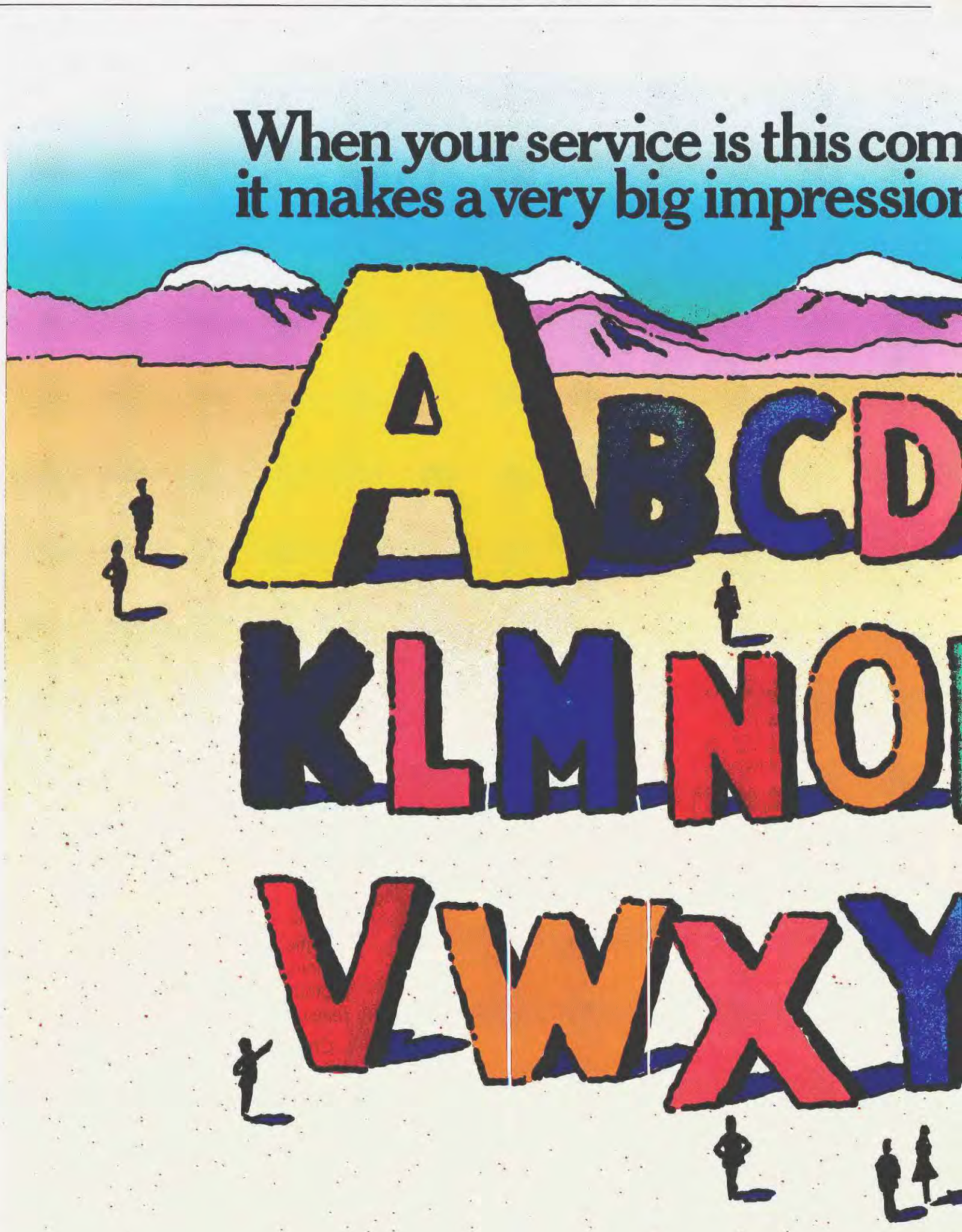
The number of Americans without health insurance is another huge problem that demands attention, Mr. Coile said. Some 34 million U.S. citizens do not have health insurance, and Mr. Coile said that in some states, one out of four people are uninsured.

"Americans would like to have complete health care protection—and would like it to be free," Mr. Coile said. "Actually, that's unfair. Studies show that they would be willing to pay $50 a month for quality health care," he quipped.

"One of the reasons Detroit needs so many MRIs is because a number of the patients are Canadians," he added, implying that Canada's national health care system is not completely successful.

"A national health care system is not likely anytime soon, although the country is close to making a national decision to meet the needs of uninsured by mandatory employer-provided insurance," he predicted.

National health care "is simply not one of the top five domestic issues. When it is one of the top three issues, it will be addressed, ideally before 1996 when health care will again become a campaign issue," he said. ■



Caution advised for AIDS notification

By SARA J. HARTY

NASHVILLE, Tenn.—Hospital risk managers and administrators should be ready with a plan if one of the facility's health care providers is diagnosed as HIV-positive, a hospital counsel advises.

But hospitals must tread carefully when notifying that provider's patients of the situation, she warned.

Remaining silent has its dangers; however, notifying patients can not only be expensive, but also may lead to lawsuits alleging mental anguish stemming from the notification letter, said Linda Marie Harpster, associate general counsel for the University of Cincinnati Hospital. Ms. Harpster spoke at a session on risk managers' concerns at the American Society for Healthcare Risk Management's annual conference, held last month in Nashville, Tenn.

While no such suits have been filed against the University of Cincinnati Hospital, other facilities that have notified patients of possible HIV infection have been sued, she said.

Notification programs, termed "look-backs," began after the discovery that a Florida dentist had infected five patients with the HIV virus, which causes acquired immune deficiency syndrome (*BI*, Nov. 5, 1990).

Before that incident, hospitals did not perform look-backs, because it was generally believed that transmission of the HIV virus to a patient from a provider during routine health care procedures did not pose a significant threat.

Notification programs also raise the issue of maintaining confidentiality both for physicians and for patients, said Ms. Harpster, who told the audience how this hit home at the University of Cincinnati Hospital.

A physician at that hospital had just finished a four-year residency in obstetrics and gynecology. After he had accepted a faculty position at the hospital in 1987, he was diagnosed as HIV-positive.

The medical school and hospital at first revoked the faculty position offer and the physician's hospital privileges. But eventually, upon reconsideration, the hospital reinstated the physician's privileges and his faculty position, Ms. Harpster said. In turn, he agreed to limit his practice.

In 1989, the physician died of complications from AIDS.

In 1991, after the controversy raised over the infection of patients by the Florida dentist, the hospital decided to institute a look-back program, Ms. Harpster said.

The medical executive committee decided that those patients who had undergone an invasive procedure at the hands of the doctor during the doctor's residency would be notified by certified mail of the situation and informed that they could be tested for the HIV virus at the hospital, Ms. Harpster said. Because the physician was an obstetrician/gynecologist, those patients numbered about 1,200.

Because the physician had died two years earlier, the hospital had not expected to be able to trace his particular virus.

Ultimately, however, the hospital was able to grow the virus from available blood samples, so that had a patient tested HIV positive, it could have been determined whether the physician had been the cause of infection, she said.

So far, none of the physician's patients has tested positive, Ms. Harpster said.

While the University of Cincinnati Hospital did not encounter any provider confidentiality problems in conducting its look-back, state laws on confidentiality for health care professionals vary, Ms. Harpster explained.

Even if the provider has died, facilities must make sure that the right to confidentiality has been terminated, she said. When possible, the hospital should work with the provider's family and attorney, she added. And, the attorney handling the estate may not be the same one that represented the provider while he or she was alive, she noted.

Reasonable restrictions and transfers can be made for practitioners diagnosed as HIV-positive who are still practicing, Ms. Harpster said.

In the course of the University of Cincinnati Hospital's look-back program, several issues were raised that might be helpful to others in a similar situation, Ms. Harpster said. These include:

- Confidentiality. The more direct contact the hospital has with a former patient, the greater the chances of a breach of confidentiality, Ms. Harpster said. As an example, she told how one of the other physicians at the hospital felt that the number of people voluntarily coming in for HIV testing was inadequate. That doctor suggested that patients be phoned at work.

"Don't do that," Ms. Harpster warned the audience, because even calling these people at home can cause a confidentiality problem. The committee stopped the physician from phoning patients at work, she added.

From the beginning, it should be decided to what lengths the facility will go in contacting affected patients, Ms. Harpster suggested.

- Preparation. "You cannot go public until you are ready to handle 4,000 to 6,000 calls from the public," Ms. Harpster said. That volume of calls coming into a hospital's regular phone lines would gravely disrupt hospital communications. The University of Cincinnati Hospital averted this problem by setting up a separate hot line.
- Media concerns. The hospital chose to court the media to some

Continued on next page

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Limiting hospital's liability as employer

By SARA J. HARTY

NASHVILLE, Tenn.—Employers faced with firing an employee should know how to reduce the likelihood of a wrongful discharge suit.

And, employers must be aware of their responsibilities when an employee reports sexual harassment on the job, an issue brought home by the recent confirmation hearings for Supreme Court Justice Clarence Thomas.

These issues dominated a session on employer concerns at the annual American Society for Healthcare Risk Management conference last month. The session was presented by Richard J. Simmons, a labor law specialist with Musick, Peeler & Garrett in Los Angeles.

Varying attitudes in different states influence wrongful discharge cases, Mr. Simmons said.

Different states are biased either toward the employer or toward the employee. In Georgia for instance, "they sometimes hang employees for tardiness," while in California, a pro-employee state, employers can't "whisper bad words or dream bad dreams" about their employees, Mr. Simmons joked.

Employers must comply with federal statutory restrictions, contractual restrictions and the wrongful discharge doctrine that applies in the state.

The applicable federal law, Title VII of the Civil Rights Act of 1964, prohibits discrimination on the basis of race, sex, color, national origin, religion and age. There is no upper limit on age protection. The law applies to all employers with 15 or more employees.

Before discharging an employee, the employer should be prepared to prove that one of these protected traits did not influence the decision, said Mr. Simmons.

Contractual restrictions are those that the employer makes through express and implied guarantees, including those laid out in an employee handbook.

He advised companies, for instance, to refer in their literature to "regular employees" rather than "permanent employees."

Flexibility also should be built into the disciplinary process outlined in an employee handbook. This can be done, he said, by liberally sprinkling phrases like "the employer reserves the right to deviate from the policy as circumstances require."

Otherwise, employers may find themselves having to follow strictly the progressive discipline procedures outlined in the handbook. For example, the handbook might call for verbal reprimands for first offenses, suspension for second offenses and discharge for third offenses.

This could present a problem if the first offense is so drastic that immediate discharge or suspension would be appropriate, he said.

And employers should always quote a monthly—instead of an annual—salary to prospective employees in offer letters, he said.

This prevents employees discharged within the first year of employment from arguing that the annual salary quote was an implied guarantee of a full year of employment.

Mr. Simmons offered six rules to avoid a wrongful discharge situation:

- Be fair. Employers should ask themselves if it is fair to discipline an employee based on the quality and quantity of evidence available. If so, ask what form of discipline would be fair.
- Be consistent. There must be common enforcement of rules throughout the company. The best way to ensure this is to develop a centralized authority for discipline.
- Be knowledgeable about company policies.
- Be brutally honest and candid with employees. Employees have a right to know if there is a deficiency in their performance.
- Be objective. Avoid unnecessary investigations.
- Be in a position to prove all of the above. The employer must be able to show good documentation.

When a woman alleges sexual harassment, the standard currently used is that of the "reasonable woman." If a reasonable woman would be offended by the occurrence, it constitutes harassment, he said.

Hospitals could be found liable in varying degrees for sexual harassment, Mr. Simmon said.

A hospital will be held strictly and absolutely liable for harassment by its managers and supervisors, even if its rules prohibit harassment.

But when workers harass co-workers, hospitals are liable only if they knew or had reason to know the harassment was occurring and failed to take immediate corrective action.

For example, a female employee may come to the risk manager or employer in confidence with a charge of sexual harassment, but may ask the employer to please wait to see whether the employee can take care of the situation herself. The employer must respond that the situation will be treated as confidentially as possible, but that action will be taken immediately.

Other employees could be having similar problems with the same worker, and the employer now knows of the problem, Mr. Simmons said.

When non-employees harass employees, liability is determined by evaluating how much control the employer had over the perpetrator.

If, for instance, a patient is doing the harassing, the hospital does not have a lot of control. However, if the perpetrator is a vendor or pharmaceutical salesperson, control is evident and action had better be taken, Mr. Simmons said.

For hospitals with physicians working independently, there is some question as to whether the hospital is liable for a physician's actions. While this can be argued either way in the courtroom, the best advice is to act when you know of a problem, Mr. Simmons said.

The risk management staff should develop a protocol with the medical staff to handle these types of situations, he suggested.

The types of sexual harassment to watch for are:

- Quid pro quo harassment. Examples are situations in which sexual favors are made a condition of getting a job or promotion, or any unwelcome conduct of a sexual nature that is made part of the job.
- Unwelcome conduct of a sexual nature that either interferes with job performance or creates a hostile working environment. This is the more common form and can be verbal, visual or physical, said Mr. Simmons.

Consensual sexual conduct between adults is not harassment. However, such a relationship could become harassment if the conduct became unwelcome in the eye of one of the parties.

Even well-intentioned compliments—"you have nice legs" or "you have a nice figure"—can constitute harassment, Mr. Simmons said.

In 1980, to be considered verbal harassment, the comment almost had to consist of vulgarities, Mr. Simmons noted. The climate has changed, and now harassment can consist of simply "not keeping your thoughts to yourself," he said. ■

AIDS notification

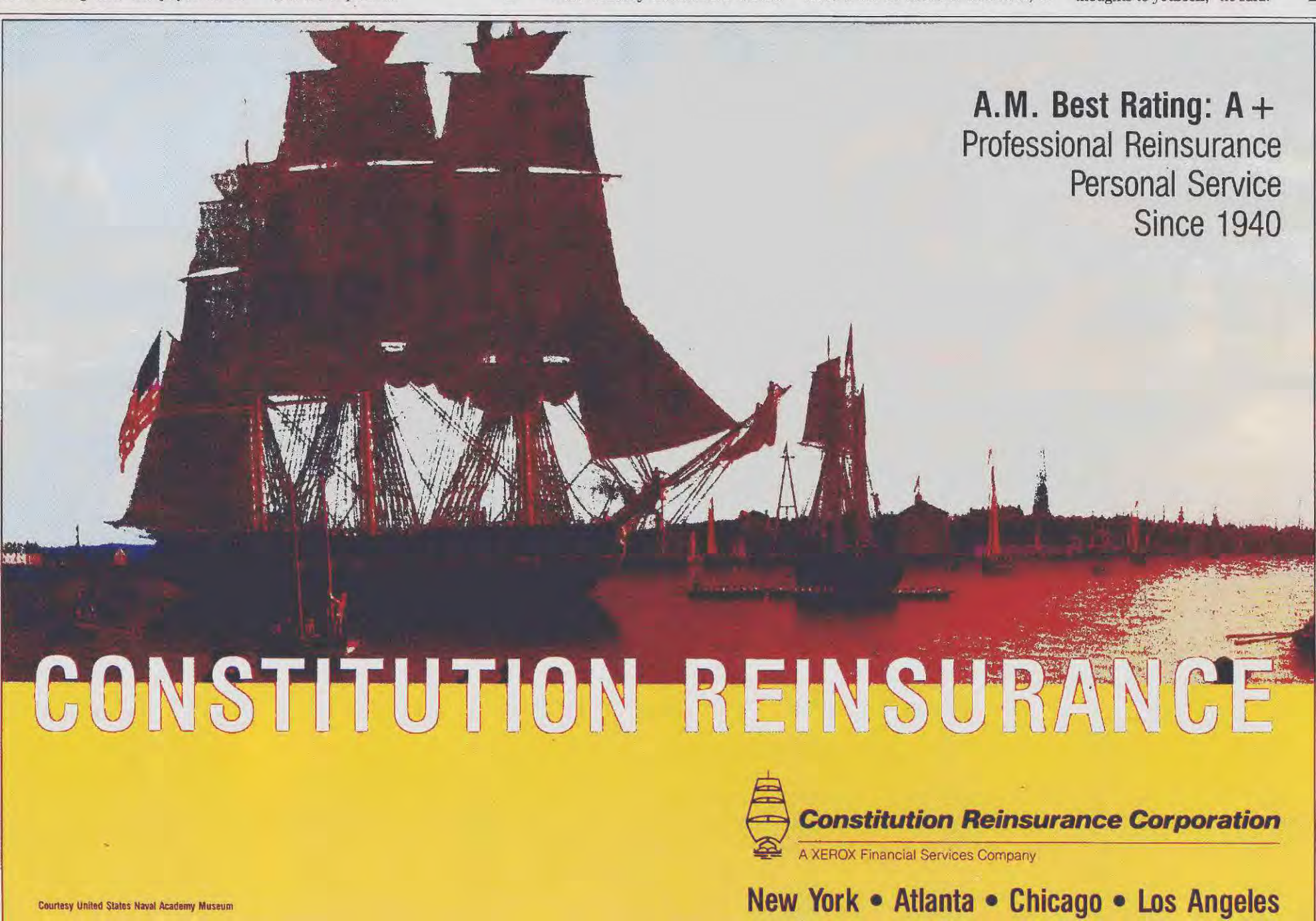
Continued from previous page

extent by providing daily information on the number of calls received. And, cooperation from the local media was good for the most part, she said.

However, after airing a short news item on the situation, one local television station chose to display its own phone number—in order to find former patients to interview—rather than the hospital's hot line number. That station later featured a woman on the evening news telling how the physician in question had performed her Caesarean section delivery with his bare hands.

The news staff later followed the woman to the testing facility at the university campus, complicating the confidentiality issue for the other patients there to be tested.

If it were to be done over, the testing center would be situated in a busy area rather than one isolated from other hospital areas, Ms. Harpster said. This would keep those being tested from standing out, she explained. ■



Discord runs deep in Texas

Firms frustrated with work comp system

By MICHAEL BRADFORD

DALLAS—Rising costs are forcing Texas businesses to consider bailing out of the workers compensation system and cutting back retiree benefit programs, a recent survey reveals.

"Almost half of those surveyed consider withdrawal from the state workers comp program to be an appropriate business risk. Some even said that it was necessary for survival," said Stuart M. Bumpas, an attorney with Locke Purnell Rain Harrell of Dallas.

About 90 Texas employers of various sizes were surveyed at a September seminar sponsored by Locke Purnell and William M. Mercer Inc.

Perhaps the most significant finding is businesses' frustration over the state's workers comp system, he said.

An estimated 30% to 40% of Texas employers have abandoned the system because of high premiums and inefficiencies (*BI*, Sept. 16). Businesses have not been allowed to self-insure their workers comp exposures, though a state law allows large firms to begin doing so in 1993. The law is effective pending a court challenge (*BI*, May 20).

Only about 15% of the employers surveyed said they had withdrawn.

However, among those that had not withdrawn, 17% said they were considering pulling out within the next six months, and 33% were considering doing so within 18 months.

The remaining 50% of businesses still in the system have no plans to leave it.

Companies are pulling out or considering leaving the system because of "rising costs, economic constraints and the tough competitive environment that businesses are wrestling with today," Mr. Bumpas said.

Of the employers surveyed, 43% agreed that becoming a "non-subscriber" to the system is an appropriate business risk, and 5% said it was necessary for survival.

The trend of employers pulling out of the system "is in many ways troubling," Mr. Bumpas said. "The liability can be tremendous" for companies that leave the system.

But, Mr. Bumpas said he doubts that as many employers would consider such a move an appropriate business risk today, because they probably were not aware of two court decisions handed down shortly before the seminar. The decisions likely will slow the number of employers that had hoped to withdraw from the system while retaining some protection from tort claims filed by injured employees, he said.

Texas employers considering leaving the system were encouraged earlier this year by two rulings involving Wyatt Cafeterias Inc. Two federal district judges first ruled that Wyatt was exempt from negligence and breach-of-contract claims filed by an injured worker because the cafeteria chain's plan that provided benefits to the injured workers was subject to the federal Employee Retirement Income Security Act of 1974, which prohibits such suits.

However, Judge Barefoot Sanders subsequently reversed his ruling and Judge Jerry Buchmeyer followed by vacating his decision (*BI*, Aug. 26).

In the survey, 59% of the employers also reported that employee benefits expenses were rising more than 10% annually, with 29% saying these costs are rising 15% annually.

The survey found that 24% of the respondents intend to trim costs by reducing retiree medical benefits or shifting costs to retirees.

Another 41% said they were considering such action.

Reductions in retiree medical benefits is a "very prevalent trend," said F. Pierce Noble, managing director at Mercer. "Companies are re-evaluating their whole approach" to providing medical benefits for retirees, he said.

One change could involve prefunding retiree medical benefits.

Among surveyed companies, 43% are considering prefunding, 13% believe their companies will prefund retiree medical benefits and only 10% currently are prefunding.

"I don't anticipate that we will see a large number of companies prefunding, but I do anticipate a large number will be decreasing benefits," Mr. Noble said.

Ken Polk, consulting actuary with Buck Consultants Inc. in Dallas, agreed that prefunding is not likely to take off. "It's talked about some, and there is some prefunding," but it does not appear to be popular.

Mr. Noble pointed out that not only does prefunding take a lot of a company's cash, there is no ideal funding vehicle that will allow a company to gain tax deductions on contributions while keeping investment earnings tax-exempt. ■

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Advising risk management advisers

Clients entitled to honest information: Experts

By MICHAEL SCHACHNER

PHILADELPHIA—Risk management consultants must be objective and honest with their clients at all times, even if it means telling clients things they don't want to hear, a retired consultant says.

When a risk manager enters into a contract with a consultant, the client has a right to expect honest representation, objectivity and timely work, insists Warren Brockmeier, a retired attorney and former vp and head of risk management consulting with The Wyatt Co. in Chicago.

Mr. Brockmeier, speaking at a panel discussion during the Society of Risk Management Consultants' annual conference last month in Philadelphia, said the biggest driving force for a consultant in a relationship with a risk manager should be objectivity.

"A consultant cannot let financial or emotional attachments interfere with objectivity," Mr. Brockmeier insisted.

"Fact-based objections to a course of action are all that count. If some sort of animosity you may hold toward a broker or insurer doesn't adversely affect your client, then it must be pushed to the back burner. The client has a right to expect that recommendations aren't being made to spite someone or to ensure a pipeline of future business," he said.

A client should also be able to count on his or her risk management consultant to work within a cost and scheduling budget.

"Consultants should not be permitted to sandbag clients with a bunch of last-minute changes. A client deserves to be kept aware of potential delays as they occur. Any expense overruns should be announced promptly so alternatives can be discussed openly," Mr. Brockmeier said.

But the client/consultant relationship is not a one-way street, he noted.

"Clients can't act as if they have greater expertise than really exists. When consultants say they will perform an audit or make an inquiry, the client must assume that the consultant has the expertise to do the job. Interferenee is counterproductive," Mr. Brockmeier said.

"Be honest at all times, even if it means telling your clients what they don't want to hear. In the long run, everyone will benefit," he told consultants.

The potential for liability arises if the consultant fails to perform up to the client's expectations, another speaker warned.

For a risk management consulting firm to limit its exposure to lawsuits, the consultant should educate clients on the best way the two parties can work together, said George Head, vp with the Insurance Institute of America in Malvern, Pa.

"As risk management consultants, you're teachers. So remember what worked best in past relationships and tell your clients about those experiences. It gives the client a foundation of what to expect. You may also ask clients to educate you on their expectations," Mr. Head said. "Because when expectations are known by both parties, you're much less likely to get sued."

'A consultant cannot let financial or emotional attachments interfere with objectivity,' Mr. Brockmeier says. 'The client has a right to expect that recommendations aren't being made to spite someone or to ensure a pipeline of future business.'

Another method of reducing potential liability is for a consultant to put himself or herself in the client's shoes, Mr. Head advised.

"Right from the start you should deal with clients person-to-person so that you become colleagues who share objectives and solutions," he said.

Risk management consultants should also confer with other consultants for advice, according to Mr. Head.

"This gives a consultant clearer insight into what needs to be done. Pretend for a while that you're the client and see what some of your esteemed colleagues in the field would suggest for you," he suggested.

And, risk management consultants should not be afraid to openly discuss the types of claims that have been brought against them and other consultants.

"Share your loss experience," Mr. Head urged. "You can even publish an article about a suit you were involved in. Talking about being sued doesn't directly lead people to suing. They're going to sue anyway."

Insurance brokers are also susceptible to lawsuits by clients if they fail to meet contractual promises, a consultant told the SRMC members.

Legally, brokers who fail to obtain proper coverage for their clients must give the client prompt notice or be held liable, said Leonard J. Silver, president of First Risk Management in Feasterville, Pa., who moderated the session.

In addition, the broker must legally fulfill any promises it makes, offer only proper advice and exhibit good faith, according to Mr. Silver.

"The failure to place coverage at the best terms available constitutes bad faith. A broker must also place coverage with a solvent carrier," he said. "It's their duty to assess solvency."

But Lawrence Geneen, senior vp with Johnson & Higgins in New York, said brokers cannot guarantee the solvency of all insurance companies.

"Too many insurers have gone insolvent for brokers to guarantee them. Most brokers have market security committees that research insurers, but they can't guarantee them," Mr. Geneen said.

Brokers should also read and clarify all policies for their clients, said David Warren, a risk management consultant in Orinda, Calif.

"Brokers must read the policies on behalf of their clients. Insurance is complex, and while some say the insured can read the policy, it's really the role of the broker to make sure that everything is in order," said Mr. Warren.

"Most insureds don't read their policies and ignorance is protected. The responsibility is that of the broker," agreed Mr. Silver. ■

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Some insurers' service falls short: Consultant

By MICHAEL SCHACHNER

PHILADELPHIA—Policyholders must stay on top of insurance companies to ensure they receive the basic services to which they are entitled, a risk management consultant says.

However, based on the track records of many insurers, policyholders should not expect insurers to do any more than what falls within the normal scope of business, he adds.

Policyholders, who in most cases are only looking for a basic level of service from their insurers, don't always get what they expect, said Dwight Levick, a consultant with Kevin F. Donoghue & Associates in Boston.

"I think a policyholder deserves truth in advertising. You'd think insurers would be accurate in what they promise, but insureds and their consultants need to take a closer look. Make sure you know what's covered vs. what you think is covered," Mr. Levick said during a session on what policyholders should expect from insurers at the Society of Risk Management Consultants' annual conference last month in Philadelphia.

He urged consultants and policyholders to obtain clear explanations of the esoteric terms, exclusions and endorsements that commonly fill a commercial property/casualty policy.

Insurance buyers also deserve "sound judgment" from their underwriters, he said.

"There's no excuse for having someone without experience write your policy from a blue book. There's no excuse for this! But it happens all the time," Mr. Levick said.

If an insurer denies a certain type of coverage, it should explain why and should offer alternatives, he said.

And, underwriters should be pressed to discuss the future of an account, Mr. Levick said. "You should want to know how the writing of the risk will change over years. The underwriter better be able to say how he'll be evaluating the progress of the risk and whether loss rating will be a future factor."

Two areas where insurers often fall short of their duties is handling workers compensation and some types of liability claims, according to Mr. Levick.

"I know you expect that an insurer's knowledge of workers comp laws and medicine will help you handle claims, but they often have no idea how to handle claims better than you. Make sure they know this before you sign," Mr. Levick recommended.

Also, an insurer's administrative skills and financial condition must be sound. "Make sure the insurer is in sound condition based on good investment strategies. This way, they'll be around for you," he said.

'Make sure you know what's covered vs. what you think is covered,' Mr. Levick says.

An attorney who represents insurers, though, says federal law ensures that a policyholder has a right to expect insurers to handle all legitimate claims fairly and without invasions of privacy and harassment.

"The Unfair Insurance Claims Practices Act of 1974 guarantees that an insured can expect certain rights. There are remedies available to an abused insured," said David Strawbridge, an attorney with Cozen & O'Connor in Philadelphia, who specializes in fraudulent claims.

"Almost all states have said that if an insurer acts in bad faith, there are any number of courses of action that an insured can take," Mr. Strawbridge noted.

Seeing that insurers properly meet their obligations—and stay in business to do so—is the job of the insurance regulator, another speaker said.

Linda Wells, chief counsel with the Pennsylvania Insurance Department, said the biggest challenge facing her department is identifying troubled companies early on.

"We feel that limited-scope investigations are very important. They set the groundwork for and prioritize the major four-year reviews we conduct," she said.

Other tools regulators commonly use to monitor solvency include:

- Examining reports done by other state regulators.
- Evaluating and following up on consumer complaints.
- Analyzing sharp increases or decreases in market share.
- Examining annual rate filings.

"It's still a very hard job and there's no sure way to keep up on an insurer's exact condition. Statutory structure is standard. Every insurer has to meet minimum reserve and capital requirements. All we can do is perform our own financial exams and review reports from independent accountants and auditors," said Ms. Wells.

Leonard J. Silver, president of First Risk Management in Feasterville, Pa., moderated the session. ■

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Business Insurance

INTERNATIONAL

Outhwaite tells his side of story in historic trial

No one foresaw losses so large, he says

By STACY SHAPIRO

LONDON—Lloyd's of London underwriter Richard Outhwaite for the first time is defending in public his decision to write 32 runoff reinsurance contracts that have produced hundreds of millions of dollars in losses for the members of his syndicate in 1982.

The 987 members suing Mr. Outhwaite's agency, R.H.M. Outhwaite (Underwriting Agencies) Ltd., and 80 other members agencies have accused the underwriter of "single-handedly" costing them more money than has been lost by anyone else in the financial district known as the City of London.

They have accused Mr. Outhwaite of negligence, misconduct and incompetence in writing the runoff reinsurance contracts, most of which provide unlimited coverage. The contracts so far have produced about $450 million in losses.

The members claim that Mr. Outhwaite knew or should have known in 1981 and 1982 when he wrote the contracts that asbestos claims would explode and affect all of the contracts.

But for the past week and a half, as part of a landmark trial in London's High Court, Mr. Outhwaite has repeatedly testified that he wrote the contracts because he thought they would be profitable.

He has admitted that he knew at the time that U.S. asbestos losses could be covered by the contracts. But he has repeatedly said that neither he nor the rest of the insurance industry knew the magnitude and speed with which those losses would hit the insurance industry.

Mr. Outhwaite testified he wrote the contracts because he thought they would be profitable.

And he says he bought time-and-distance reinsurance that would have covered the runoff losses in the future, but that so many claims were filed so quickly that the majority of the losses were due before the reinsurance could

Continued on page 110

Singapore toughens rules

Regulator hikes solvency margins for onshore risks

By KATE McILWAINE

SINGAPORE—Insurers based in Singapore face higher solvency margins and limits on the types of investments they can make beginning in 1992.

The new regulations were announced by Singapore Finance Minister Richard Hu, who opened Singapore's first International Reinsurance Conference, held here Oct. 6-9.

Singapore hosted its first international reinsurance conference.

Mr. Hu cited a "dramatic increase in the number and severity" of catastrophic losses affecting the insurance industry worldwide as the reason for the higher solvency margins.

Under the changes, solvency margins for onshore, or domestic, business will be raised to a minimum of $5 million Singapore ($2.9 million at current exchange rates), or 50% of net premiums written or loss reserves, whichever is greater. The current minimum requirement is $1 million Singapore ($588,200), or 20% of net premiums or loss reserves, whichever is greater.

For offshore business, which would include most captives, an insurer will still be required to maintain a minimum solvency margin of $1 million Singapore, or 20% of net premiums or loss reserves.

Mr. Hu said there also will be maximum limits on investments in equities, real estate, unsecured loans and foreign assets, although he did not give full details when making his announcement at the conference.

The finance minister blamed catastrophic losses in other markets, particularly in London and the United States, for the decision to toughen the solvency margins.

The effect of catastrophic losses has been severe for the insurance and reinsurance industries, Mr. Hu commented.

"Capacity for excess-of-loss covers has shrunk substantially. The security of reinsurers has become an issue," he said. "A look at the plight of the London reinsurance market indicates the impact of the catastrophe losses. The London market has been the major center for the writing of catastrophe reinsurance business.

"Some of the smaller Lloyd's syndicates are in dire financial straits," he said. Lloyd's of London reported an overall loss of $983.7 million for its 1988 underwriting year, its first loss in more than 20 years, Mr. Hu observed (*BI*, July 1).

In addition, he noted that Lloyd's losses for 1989 are expected to exceed $1 billion and that an unprecedented number of Lloyd's members have resigned.

However, Lloyd's Deputy Chairman John S. Greig at a separate session said that Lloyd's will survive its difficult years (see story, page 105).

Mr. Greig also commented that the London market's troubles are unlikely to have a major impact on the Southeast Asian market.

"The notable exception will be the capacity for business from countries with significant catastrophe exposures, such as the Philippines. However, even here, the impact will be limited in view of the relatively small size of the catastrophe programs from those territories," Mr. Greig said.

However, Mr. Hu went on to predict that the London reinsurance market is likely to "decline in im-

Continued on next page

Stock purchase fuels speculation regarding Skandia

GLOBAL BRIEFS

LONDON—Speculation is increasing about a potential takeover and breakup of Scandinavia's largest insurer, Skandia Insurance Co. Ltd. of Sweden.

Norwegian insurer UNI Storebrand A/S of Oslo late last month increased its holding in Skandia to 18.3% from 11.4%, a Storebrand official confirmed.

In addition, Stockholm-based Skandinaviska Enskilda Banken, Sweden's largest bank and holder of an option to purchase a 28.5% stake in Skandia, will meet this week to decide what to do with its option, a bank spokesman said.

At an October presentation to market analysts in London, officials from Storebrand refuted suggestions that the Norwegian company would acquire the 28.5% Skandia option from SEB, analysts said.

But Knut Franke, Storebrand's strategy manager and who was present at that presentation, told *Business Insurance* that the statement was a reaction to suggestions in that day's British press that Storebrand would make such an acquisition.

"We made a denial that such an event was forthcoming, with a view to that morning's press coverage," said Mr. Franke. "But in such a situation, you never know about the future."

He said that company policy at the moment was to make no further comment about the SEB option.

"What we would like to say is

Continued on page 109

Firm finds increased retention 'more economical'

BP to assume more risk

By GAVIN SOUTER

LONDON—British Petroleum P.L.C. is boosting its self-insured retentions and drastically cutting spending on commercial insurance in the face of a hardening energy insurance market.

The company instead will self-insure many of its risks rather than spend the approximately $100 million that market sources say it normally spent on its entire insurance program.

While capacity in the energy insurance market contracted suddenly at midyear, the decision to cut insurance spending was made before midyear renewals, a BP spokesman said.

Although BP's move sparked interest in the London insurance market, it is not expected to set a trend for other oil companies, one underwriter said.

BP decided to cut its insurance spending in March following a review of its insurance program earlier this year, the BP spokesman said.

"It became clear to us that if you are a large company with a large spread of assets, you do not need to pay out large insurance premiums to protect your large assets. It is more economical for us to bear the risk than to buy insurance coverage," he said.

BP claims to be the world's third-largest oil company, with 1990 revenues of 33 billion pounds ($63.69 billion at year-end 1990 exchange rates) and fixed assets worth 20.3 billion pounds ($39.12 billion).

The company would not reveal the amount by which it will reduce its insurance budget. Sources say that the figure will be substantial but that it will be contingent on the cost of coverage during the upcoming renewal season.

However, the company still is

Continued on page 109

ACE buys $50 million in Centre Re stock

BERMUDA

HAMILTON, Bermuda—High-layer excess liability insurer ACE Ltd. is acquiring $50 million worth of newly issued shares in Centre Reinsurance Holdings Ltd.

The investment was announced Oct. 24 in a joint statement from Walter Scott, the chairman and chief executive officer of Bermuda-based ACE, and Steven Gluckstern, his counterpart at Centre Re. The investment reflects the "potential applicability" of Centre Re's finite risk reinsurance products to the risk management programs of ACE's approximately 400 clients, Mr. Scott said.

"It's possible, for example, that we could use Centre Re's financial reinsurance to increase the ability of a client's captive to assume risk and, therefore, increase the attachment points of a client's excess program so as to allow him to buy higher limits," Mr. Scott explained.

Centre Re's chief financial officer, Lawrence Cheng, said he expects the relationship with ACE to be "synergistic."

Mr. Scott

Mr. Gluckstern

The $50 million will aid Centre Re's growth plans, which include last month's $63.7 million offer to acquire Pinnacle Reinsurance Co. Ltd. (*BI*, Sept. 23).

Neither company would say what percentage of Centre Re will be held by ACE.

But, a spokeswoman for Centre Re said that Zurich Insurance Group's stake of about 75% will leave it by far the majority owner.

Other major shareholders in Centre Re include Kemper Reinsurance Co. of Long Grove, Ill., and Northwestern Mutual Life Insurance Co. of Milwaukee.

"ACE's impressive shareholder and client base represents an ideal potential market for Centre Re type products. In addition, we are looking forward to the contribution of Walter Scott as a member of the board of directors of Centre Re," said Steven M. Gluckstern, president and chief executive officer of Center Re.

A Centre Re board meeting is scheduled for late November, said the spokeswoman.

—By Roger Scotton and Mark Hofmann

Singapore

Continued from previous page

portance and lose its pre-eminent position. Any insurance regulator must be concerned with these developments in international reinsurance."

Insurance company managements must follow "sound insurance principles with prudent underwriting, investing and loss reserving," he said. There is a need for "a larger cushion to absorb any unexpected, future shocks."

Mr. Hu said Singapore's insurance regulatory authority, the Monetary Authority of Singapore, is particularly concerned that foreign insurers' poor results could ultimately affect their branch operations in Singapore.

"With the increasing globalization of insurance, developments in one part of the world are bound to impact on another," he said.

But Mr. Hu said he is not assuming that what has happened elsewhere would happen in the Singapore market.

"The risk of natural disasters in Singapore, for example, is rather remote. However, with increased population densities and a higher concentration of values, the cautious approach to underwriting should be followed.

"And our direct general insurers also write offshore reinsurance business—and in regions subject to earthquakes and windstorms," he said.

Commenting on the decision to limit investments, Mr. Hu said: "Traditionally, insurers have been conservative about the investment of their assets. . .however, in more recent times, with high interest rates and keen competition in insurance, many underwriters have resorted to cash flow underwriting with disastrous results."

The Singapore Monetary Authority's new approach pertains to all assets and will require a degree of diversification, he said.

Although Mr. Hu did not go into great detail on the investment controls, including whether they would pertain to captives, he said they would impose limits on investment in equities, real estate, unsecured loans and foreign assets. Investments in related companies also would be limited, and unsecured loans would be limited to directors and employees of the insurer.

Singapore's insurance regulations require insurers to maintain separate technical reserves for onshore and offshore business.

Currently, there are no investment restrictions on insurers' offshore funds, while 15% of reserves for domestic business must be in Singapore government securities and 55% of those reserves must be in authorized assets, which are mainly Singapore-based securities.

Mr. Hu said the new, stricter regulations are designed to "further enhance the financial soundness of the Singapore insurance industry and to better protect policyholders."

Mr. Hu then described the progress Singapore has made in its drive to become a major financial and insurance center.

In view of its small population and size, Singapore realizes that it must have a policy of free trade and open market competition, he said.

"Our reinsurance development began with the establishment in 1973 of the first professional reinsurer," Mr. Hu said. Since then, he said, "we have admitted only strong, reputable reinsurers to set up in Singapore."

In 1978, Singapore introduced a concessionary tax rate of 10% for income from offshore insurance business.

"This tax incentive would not by itself be enough to attract quality reinsurers to Singapore. The cutting edge is the political stability and the excellent total business environment that Singapore provides," he said.

Mr. Hu said Singapore's insurance industry has grown from one professional reinsurer in 1973 to 31 in 1991. The number of people with insurance industry qualifications also has increased.

"Offshore premiums written by the professional reinsurers reached $400 million Singapore ($230.4 million) in 1990, from nothing in 1973. It represents 56% of total offshore non-life insurers' business written by the Singapore market.

"The foundation has been laid for the development of Singapore as a reinsurance center, and we can expect to see the Singapore insurance market grow in size and sophistication in the years ahead," Mr. Hu noted.

Figures released by the monetary authority show that gross premiums for onshore business in 1990 were $879.5 million Singapore ($506.6 million at year-end 1990 exchange rates), up 14% from $771.5 million Singapore ($405.8 million at year-end 1989 exchange rates) in 1989.

Net premiums for onshore business totaled $702.3 million Singapore ($404.5 million) in 1990, up 16.8% from $601.3 million Singapore ($316.3 million) in 1989.

Gross premiums for offshore business were $701.6 million Singapore ($404.1 million) in 1990, up 14.7% compared with $611.6 million Singapore ($321.7 million) in 1989. Net premiums were $433 million Singapore ($249.4 million), up 3.7% from $417.7 million Singapore ($219.7 million) the previous year. ■

Singapore reinsurance conference draws 316

SINGAPORE—The success of the first Singapore International Reinsurance Conference has prompted organizers to schedule another gathering for 1993.

The conference, held Oct. 6-9 at Singapore's Marina Mandarin Hotel,

Singapore International Reinsurance Conference

attracted 316 delegates from 28 countries.

The next conference will be scheduled for 1993, so as not to conflict with the biennial East Asian Insurance Congress, which is being organized by the Indonesian Insurance Council to be held in Bali in September 1992 and is expected to attract 2,000 delegates. No date for the 1993 Singapore meeting has been set.

Planning for the Singapore conference began two years ago after Law Song Keng, Singapore's insurance commissioner and deputy managing director of the Monetary Authority of Singapore, suggested Singapore's growth as an insurance and reinsurance center warranted an international conference.

Singapore is attractive as a base for regional and international reinsurance business because of its location as a hub of the Asia-Pacific region. It offers a highly developed basic infrastructure, an educated, well-disciplined workforce, a long record of political and social stability, and a sound fiscal and regulatory environment, Mr. Law said.

William Goh, chairman of the conference's organizing committee and director of the Singapore Insurance Institute, said the next conference will be heavily promoted in Australia and the United States. "Australia is one of the biggest supporters of the Singapore insurance market," he said. The majority of captives in Singapore are Australian-owned.

For more information on the Singapore insurance market, contact Law Song Keng, Insurance Commissioner, Monetary Authority of Singapore, 10 Shenton Way, Singapore 0207; 65-220-9448.

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INTERNATIONAL

Reinsurer fears glut of competition in Southeast Asia

By KATE McILWAINE

Singapore International Reinsurance Conference

SINGAPORE—Too many foreign reinsurers have moved into the Southeast Asian market, according to an Indonesian reinsurer.

While the abundance of reinsurers in the region makes it easy for local insurers to obtain necessary capacity, the reinsurers are fighting for "a relatively small portion of the cake," said Rudy A. Wuwungan, president of Jakarta-based P.T. Maskapai Reasuransi Indonesia.

Mr. Wuwungan spoke at the Singapore International Reinsurance Conference last month.

But Phua Kia Ting, managing director of Singapore Reinsurance Corp. Ltd., the country's major reinsurer with annual earned premium of $20.9 million Singapore ($12.3 million), said Singapore needs a "critical mass" of reinsurers to ensure that insurers from other nations, particularly captive insurers, will place their reinsurance programs in Singapore.

Singapore's reinsurers fight for 'a relatively small portion of the cake,' says Mr. Wuwungan.

"With 31 companies, we have that critical mass. If we had only, say, five, people would bypass Singapore and go to London or elsewhere," he said.

Mr. Phua said Singapore can not yet be regarded as an international reinsurance and insurance center, but it is developing. The large number of reinsurers in Singapore means there is competition and capacity in the market, he pointed out.

Mr. Wuwungan of P.T. Maskapai Reasuransi Indonesia said that the international reinsurers that have been established in Southeast Asia have a duty to participate in building local awareness of insurance.

The six nations that form the Assn. of South East Asian Nations, or ASEAN, accounted for only 0.39% of the world's total premium volume in 1989, he said (see story, page 103).

Those countries are Singapore, Malaysia, Indonesia, the Philippines, Thailand and Brunei.

Japan, by comparison, generated 21.9% of the world's volume, making it the largest market behind the United States, with 39%, he said.

And for non-life premiums only, the ASEAN nations accounted for 0.38% of worldwide premium volume in 1989, while Japan produced 11.39%.

Easily available capacity in the ASEAN nations has caused intense competition and a steep fall in rates for property business, affecting the market's growth and results, Mr. Wuwungan said.

"ASEAN insurers are still too dependent on traditional fire and allied perils classes of business. There is not enough spread on other insurance products, such as casualty business, to balance any big losses in the property market," he said.

And while property insurance rates have declined, the Southeast Asia region still has a significant exposure to natural hazards, like typhoons and earthquakes, Mr. Wuwungan said.

Small and medium-sized insurers can better withstand natural catastrophes because they write predominately personal lines coverage with little natural perils cover, he observed. ■

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INTERNATIONAL

Poor reinsurer security affects everyone

By KATE McILWAINE

SINGAPORE—Poor reinsurer and insurer security is a self-inflicted disease that touches nearly everyone associated with the insurance industry, according to an executive with an insurance industry rating agency.

The "poor security virus" was created by a new environment in the insurance market, said John Gardner, managing director of London-based Insurance Solvency International Ltd.

Insurers, brokers, and risk managers and their captives diversified into reinsurance, creating "ignorant, innocent, incompetent and rapacious capacity," based on a mistaken belief that reinsurance

Singapore International Reinsurance Conference

was "a cash cow or a tax dodge," he said.

Mr. Gardner made his comments during Singapore's International Reinsurance Conference last month.

Products were cheap because rating was unskilled, but the pressures of competition and price forced buyers to purchase "cheap and shoddy products," he said.

Mr. Gardner said greed was the key reason for poor reinsurance security, but other factors included negligence, indifference to the quality of security, ignorance and a lack of alternatives.

Among the 936 companies rated by ISI, representing the vast bulk of the world's reinsurance market outside the United States, 18.3% are rated as vulnerable or worse, Mr. Gardner said.

But, vulnerable does not necessarily mean the companies are going to "go under," he said. It means those companies do not meet criteria set by ISI.

"In our opinion, they are undercapitalized, underreserved or losing money," he said.

Poor reinsurance and insurance security is causing suffering for the entire insurance industry, including insurance and reinsurance buyers and brokers, Mr. Gardner said.

"Some suffer in silence and disclose nothing. Others display open suffering and publish grievous losses caused by uncollected reinsurances. Some companies have died, directly or indirectly broken by the failure to collect," he commented.

As an example, Mr. Gardner cited a recent report by a Lloyd's of London syndicate he did not name that he said had been "caught short" by more than 425,000 pounds ($719,950 at current exchange rates) for uncollectible reinsurance.

"There can be very few companies in the world which have not suffered from the failure to pay by one or more of their reinsurers or from their failure to renew important programs."

Mr. Gardner pointed out that the symptoms of poor security include too much premium being written at the wrong rates, causing underwriting losses not offset by investment income and compounded by bad reinsurance.

Bad asset structures, underreserving and uncommitted shareholders also have contributed to insurer and reinsurer security problems, Mr. Gardner said.

A recent A.M. Best Co. study showed the primary causes of insolvencies in the United States were deficient loss reserves, accounting for 28% of failures; rapid growth and overtrading, 21%; alleged fraud, 10%; overstated assets, 10%; significant change in business, 9%, reinsurance failures 7%; catastrophe losses, 6%; and miscellaneous, 9% (*BI*, July 22).

"The same things bring down insurance companies now, as they always have and always will," Mr Gardner said.

"There are still cowboys in the market, but the cowboys—in the tales of the Wild West—were the goodies. It was the rustlers who were the baddies, and I've always looked on the bad reinsurers as rustlers and pirates. The rustlers and pirates always are featured in the badlands of the United States and in the Caribbean," Mr Gardner said.

To avoid poor security, risk managers, insurers and reinsurers have to take evasive action.

"First, you must decide whether a company is domiciled in a country from where you wish to buy reinsurance," he said.

Mr. Gardner advised examining the sovereign risk—the nation's political and economic situation—then the insurance environment, particularly the regulator's powers.

"I describe this as the totality of the market stability, the market's collective responsibility and the quality of regulation in the country."

Other factors about an insurer or reinsurer that should be considered are the level of exposure of shareholders' funds to the business underwritten, earnings levels, the quality of assets and their earning performance, the adequacy of reserves and the quality of reinsurance programs and reinsurers.

Mr. Gardner said that large reinsurers are more likely to have better security than the small reinsurers, though that maxim is not necessarily applicable to Lloyd's syndicates.

The quality of management and the direction and commitment by shareholders also are fundamental considerations.

Mr. Gardner said that while buyers should pay attention to the views of rating agencies, these ratings are not guarantees. "Do not accept anybody's word, either that of the rating agency or that of your broker," Mr. Gardner advised.

"Ratings are a matter of judgment. We can't offer any guarantees, but we can have a jolly good shot at it," he said.

"I like it when someone rings up and says, 'I disagree.' At least it means they have read the rating and studied it."

Mr. Gardner recommended that risk managers and insurers set up their own formal security committees.

But he criticized U.S. regulators for their "increasing paranoia" about the quality and security of non-U.S. n insurers and reinsurers. And, many U.S. insurers are unnecessarily reticent about using reinsurers with foreign names, he said. ■

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Six countries dominate Southeast Asian market

By KATE McILWAINE

Singapore International Reinsurance Conference

SINGAPORE—The Southeast Asian insurance market is dominated by companies from six nations that comprise an alliance called the Assn. of South East Asian Nations, or ASEAN.

Rudy A. Wuwungan, president and director of Indonesian reinsurer P.T. Maskapai Reasuransi Indonesia of Jakarta, outlined the market potential of each of the ASEAN nations during a session at the first Singapore International Reinsurance Conference held last month.

The nations include:

• **Brunei.**

Brunei is a small country, but has the highest gross national product per capita of the ASEAN nations, according to Mr. Wuwungan.

The insurance industry in Brunei is in "developing stages," he said, but could increase significantly in the near future because the government is striving to increase the non-oil sector to 50% of the gross national product.

Besides the Brunei National Insurance Co. and Brunei Reinsurance Sdn. Bhd., some Malaysian and Singaporean companies have branches in Brunei.

• **Malaysia.**

The insurance market in Malaysia is highly regulated and the supervisory authority—Bank Negra, which is Malaysia's central bank—has implemented measures to encourage insurers to improve their financial strength, Mr. Wuwungan said.

Insurers are required to place their treaty and facultative cessions with Malaysian National Reinsurance Bhd. to meet the government's strategy of increasing local retention capacity and limiting foreign exchange expenditures on reinsurance.

Rates are controlled for auto, property and workers compensation lines. A fire tariff that was imposed in 1985 will be reviewed next year.

There are 39 non-life insurers, 15 composite insurers and one reinsurer.

• **Indonesia.**

In Indonesia, government regulation of insurance has been scaled back since 1988, when a decree, known as Pakdes 20, 1988, was introduced.

"Presently there is a strong surge of severe rate competition," Mr. Wuwungan said.

"The consequent softening of the market—particularly in fire, marine cargo and hull, and engineering lines—is causing a deterioration of market results in these classes of business," he said.

There are no restrictions on reinsurance, but insurers are encouraged to reinsure locally.

The four domestic reinsurers—two are state-owned and two are private—formed a consultative forum of Indonesian professional reinsurers in 1979, which aimed to assist the government to stabilize the industry.

Meanwhile, non-life premiums are rising an average of 20% per year, Mr. Wuwungan said.

There are 10 state insurers and 69 private non-life companies.

• **The Philippines.**

In the Philippines, the insurance industry is supervised by the Insurance Commission within the Ministry of Finance.

The Insurance Code of 1978 sets solvency requirements, trade practices and licensing of intermediaries. Motor vehicle third-party bodily injury cover is compulsory, a workers compensation tariff is financed by all employees and fire insurance is compulsory for all buildings mortgaged with the Development Bank of the Philippines.

The major reinsurer in the Philippines is the National Reinsurance Corp., founded in 1978 and jointly owned by all local insurers.

Insurers are required to place treaty cessions with National Re. Facultative reinsurance can be placed outside the Philippines only with commission approval.

Mr. Wuwungan said the non-life insurance sector in the Philippines grew steadily in 1988 and 1989, but natural catastrophes like the earthquake in Central Luzon last year and the April volcanic eruption of Mount Pinatubo, one of 21 active volcanoes in the Philippines, has affected the industry.

There are 93 domestic insurance companies, but only 32 earn premiums in excess of $1 million a year, and only 13 earn more than $2 million a year.

• **Singapore.**

In Singapore, the insurance industry is supervised by the Monetary Authority of Singapore and regulated by the Insurance Act 1989.

Workers compensation and auto third-party bodily injury coverage are compulsory.

Insurers are required to cede a percentage of their business to Singapore Reinsurance Corp. Ltd., the national reinsurer.

Premium income written by Singapore insurers grew in 1989 by 12.8%, and offshore business contributed "a significant share," Mr. Wuwungan said.

He noted an increase in overseas insurers and reinsurers in Singapore.

Phua Kia Ting, managing director of Singapore Reinsurance Corp. Ltd., said the Singapore market could develop into an international center in the long term, but at present could only be considered a regional center.

"You need local companies with big capital bases so their underwriting jurisdiction can be extended beyond the present regional limitations," he said.

"It may take 20 years to develop those big capital bases, resources and the human expertise," he said.

• **Thailand.**

Thailand's non-life industry is supervised by the Department of Insurance in the Ministry of Commerce and regulated by the Non-Life Insurance Act 1967.

Workers compensation and commercial auto third-party liability are compulsory. Fire and allied perils, business interruption, auto and workers compensation coverages are subject to strict rate regulation.

There are 62 domestic non-life companies and five foreign insurers with branches in Thailand. There are two locally registered reinsurance companies. ■

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INTERNATIONAL

Retrocessional market reeling

Catastrophes trigger 'collapse of capacity': Lloyd's official

By KATE McILWAINE

SINGAPORE—Capacity is extremely tight in the retrocessional market because of the recent spate of catastrophes, a Lloyd's of London official says.

There has been a "total collapse of capacity" in the retrocessional market, asserted Lloyd's Deputy Chairman John S. Greig.

Singapore International Reinsurance Conference

"It is no exaggeration to say 1991 was the most difficult renewal year for reinsurers for the past decade or even longer" because of the catastrophic losses over the past several years, Mr. Greig said during Singapore's First International Reinsurance conference last month.

Insured catastrophe losses totaled $9 billion in 1989 and nearly $11 billion last year, said Mr. Greig, who is chairman of London broker Greig Fester Ltd.

While 1991 is "not looking too bad" so far, there is likely to be a loss of more than $1 billion from last month's Typhoon Mireille in Japan (*BI*, Oct. 17), and a recent hailstorm in Canada caused $900 million of insured damages, Mr. Greig said.

The frequency of catastrophic losses has increased dramatically over the past four years, Mr. Greig said. And, because of contractions in the retrocessional market, as risks passed from the direct insurer to the reinsurer, the percentage of risk retained by the reinsurer increased, he said. As a result, catastrophic losses have had a greater impact on reinsurers' results.

For natural catastrophes, reinsurers have borne 60% to 70% of insured losses, and for man-made catastrophes, reinsurers have been socked with more than 80% of losses, according to Mr. Greig.

In the past, retrocessional cover was readily available and cheap, he observed.

Prices, though, have increased dramatically.

"Currently, a top layer of an excess-of-loss program for a reinsurer writing a worldwide book of business, excess of all previous losses, will pay around 20% rate on line. That is, the cost would be equivalent to one total loss every five years," Mr. Greig explained.

"Prior to Hurricane Hugo, prices were around a quarter of that level," he said.

Despite the decrease in reinsurance capacity, the earthquake insurance program for insured property owners in New Zealand obtained $570 million in catastrophe coverage during April 1 renewals, the same coverage it had the previous year, Mr. Greig noted. He said the program is believed to be the largest single catastrophe reinsurance placement in the world.

Mr. Greig said the retrocessional market has dwindled to no more than five leaders, with perhaps 25 companies and Lloyd's syndicates also involved.

"Many reinsurers are being forced to use supporting non-catastrophe business to access further retrocessional capacity from reinsurers who do not actively participate in the retrocessional market," he said.

He said the vast majority of retrocession covers now exclude London market excess-of-loss business and any retrocession business assumed by the reinsurer.

"This is vital because it removes, at a stroke, the second-tier retrocessional market, the so-called spiral. Those reinsurers who accept business from other reinsurers cannot obtain cover for retrocession business and, therefore, any further risk transfer ceases," he said.

He noted that the LMX spiral means it is impossible to accurately estimate losses accruing to any one year of account until the spiral had run its course, which could take years.

Mr. Greig said that all reinsurers have significantly increased their real exposure, adding that reinsurers need more paid-up capital to respond to their increased net exposure.

The result will be further mergers or the withdrawal of some companies from the reinsurance market, eventually leading to an overall reduction in capacity, he predicted.

"The impact of this reduction will be a significant increase in the price of catastrophe reinsurance worldwide, as there will be fewer alternative reinsurers with whom underpriced covers can be placed," he said.

But, the Southeast Asian market has not bit hit hard by catastrophes, according to Phua Kia Ting, managing director of Singapore Reinsurance Corp. Ltd.

The Southeast Asian market is largely insulated from the effects of the catastrophes, he said.

However, competition among Singapore's 31 reinsurers is "dragging rates down," Mr. Phua acknowledged. And, broader terms are being offered at the same rate. 'It is happening, but one cannot quantify it."

Mr. Phua also expects other international reinsurers to move into the Singapore market. "Some are definitely considering it," he said.

The growth of Singapore as a captive market is important to Singapore-based reinsurers, but the majority of Singapore-domiciled captives still place their reinsurance overseas, Mr. Phua said. ■

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- plus, specialized information.

INTERNATIONAL

Lloyd's official sees end to tough times

By KATE McILWAINE

Singapore International Reinsurance Conference

SINGAPORE—Lloyd's of London will survive its difficult years, a market official reassured delegates at the Singapore International Reinsurance Conference.

John S. Greig, deputy chairman of Lloyd's and chairman of broker Greig Fester Ltd. in London, predicted that recent losses will cause Lloyd's capacity to shrink, but the quality of underwriting will improve and the structure of Lloyd's may change.

Lloyd's in July reported a 509.7 million pound ($983.7 million at applicable exchange rate) loss for the 1988 underwriting year. And, it predicted that losses could reach 1 billion pounds in 1989 (*BI*, July 1).

Lloyd's bad results arose from three causes, Mr. Greig said:

• The need to bolster reserves for long-tail U.S. liability claims like pollution and asbestos on business written in the 1970s and earlier.

In the market's 1988 results, these additional reserves amounted to nearly 580 million pounds ($1.12 billion), he observed.

• Inadequate rating levels in most markets, particularly the marine and aviation markets.

Overcapacity and low reinsurance rates were the main culprits, he said.

• The fact that Lloyd's was the single most important insurer of catastrophe risks and was therefore caught up in the London market excess-of-loss reinsurance spiral.

Mr. Greig said the "funneling effect" of the spiral meant some names found themselves facing "ruinously high losses" as syndicates had exhausted their retrocessional protection. But, he added, there are relatively few such names—only about 1% of membership—and many of the same syndicates posting losses were turning in high profits in good years.

Mr. Greig attacked the media, saying gossip columnists and general news reporters did not understand the insurance industry or Lloyd's.

In addition, lawyers "gathered like vultures" to exploit the structure of Lloyd's because it allowed its capital base to litigate against its underwriting arm.

Many Lloyd's syndicates have closed, particularly those providing LMX capacity. Underwriters were squeezed between the loss of cheap retrocession capacity and demands from names for a higher profit.

Because Lloyd's regulations limited the amount of premium syndicates could write, capacity was reduced further.

"We are witnessing the raw effect of the insurance and reinsurance cycle taking its toll on the weaker members of the market, and allowing the well-managed to take advantage of the inevitable upswing," Mr. Greig said.

"Lloyd's real strength is in reinsurance and highly sophisticated insurance. It is not going to get into the mass market."

Meanwhile, he said a Lloyd's task force is looking at potential areas of expansion for Lloyd's markets and one of the options may be a more direct involvement in the Southeast Asian market. ■

Natural perils challenge industry

By KATE McILWAINE

Singapore International Reinsurance Conference

SINGAPORE—Catastrophic losses will result in increased policyholder retentions through deductibles or coinsurance, warns a reinsurance executive.

Insurers and reinsurers also could exclude hazards partially or entirely from coverage, said Juergen Lohmar, the manager responsible for property business in Asia—including New Zealand and Australia—for Munich Reinsurance Co. "It is a particular challenge for the insurance industry, and especially reinsurers, to guarantee that natural perils remain insurable," said Mr. Lohmar at Singapore's First International Reinsurance conference last month.

"Only when every commercial and technical means of making risks calculable, transparent and therefore economically viable has been exhausted is the insurance industry compelled to give up its protective function in favor of the state."

Factors that influence a reinsurer's capacity for natural hazards are price, limitation of liability, accumulation control—control of additions to policy benefits made as a reward for continuous policy renewal—and reserves for catastrophic events, according to Mr. Lohmar.

While reinsurers often includes an event limit in excess-of-loss treaties, events are not always limited in pro-rata treaties in some countries, which is a problem, he said.

"A cession limit in sum insured per zone or per country already exists in reinsurance treaties in Japan, New Zealand and Latin American countries. By eliminating uncertainty, cession limits can, in practice, lead to more capacity being available to meet the actual need for reinsurance cover," he said.

Dr. Lohmar said the work of CRESTA, a loose organization of insurers, reinsurers, risk managers and brokers established in 1977, has been important in promoting the standardization of accumulation control.

The organization, which has headquarters at Munich Re in Munich, Germany, enables insurers and reinsurers to get a picture of the current status of liabilities and other factors influencing losses, broken down into accumulation zones. That information, published for 47 countries, is the basis for the calculation of probable maximum losses.

Mr. Lohmar warned underwriters against using uniform market probable maximum loss rates, saying they need to take factors like the type of risk, the insured interest and the geographical distribution into account. He also said underwriters must charge premiums that are truly commensurate with the risk.

Mr. Lohmar called on governments to consider the need to reserve adequately for catastrophic losses, saying such reserves should not be taxed. "If annual fluctuations increase as a consequence of more frequent and greater catastrophes, it will be necessary to set aside more funds for catastrophe reserves. The issue here is to convince tax authorities that premiums paid for coverage of natural catastrophes cannot be considered earned premium or profit at the end of the year," he said. ■

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Mergers may cut reinsurers' role

By KATE McILWAINE

SINGAPORE—Insurer mergers sparked by huge catastrophic losses will mean fewer opportunities for reinsurers, a reinsurer says.

Mergers inevitably produce large insurance companies that need less reinsurance, thereby reducing the number of potential clients, said John Lock, managing director and chief executive officer of Mercantile & General Reinsurance Co. P.L.C. in London.

"The larger the company, the more its reinsurance requirements are limited to protection against catastrophe loss only," Mr. Lock said last month at the Singapore International Reinsurance Conference.

With the recent instability of many markets, reinsurers need to know more about the risks they cover and to reconsider providing large amounts of pro-rata treaty reinsurance.

Singapore International Reinsurance Conference

"Failure to follow that simple principle has, in the past, led to disappointment, disputes and, in certain cases, disappearance" from the market, Mr. Lock added.

He predicted that pro-rata treaty reinsurance will diminish in importance worldwide, but that excess and facultative coverages will continue to grow. "What was once the bread-and-butter business of reinsurers has now become a source of persistent loss which cannot be corrected merely by the adjustment of commission terms," he noted.

"You must know the risk and the company, and you must have the long-term commitment in the form of financial resources," said Phua Kia Ting, managing director of Singapore Reinsurance Corp. Ltd., in a separate interview.

If insurers in Southeast Asia follow fundamental underwriting principles, reinsurers "will not be hurt much," said Mr. Phua. "But if everybody competes for business without regard for maintaining standards, everybody will suffer."

Mr. Lock said it is important that the ceding company and the reinsurer have a significant retention in the business placed. Without that, no proper community of interest exists between the parties.

In addition, Mr. Lock said the industry needs to take a more vigorous stand against the dominance of the legal profession in the United States, as well as in other countries where there is "still time to resist the importation of American habits."

Reinsurers have to be optimistic, but realistic, he said. "The biggest loss hasn't yet happened."

However, Mr. Lock did have some good news for reinsurers. The recent growth worldwide in captives, self-insurance and pooling arrangements will provide new clients and the opportunity to develop direct relationships with those managing, rather than insuring, risks, he said.

In addition, the new market economies in Eastern Europe suggests there will be "remarkable growth" in reinsurance opportunities in those countries, he said.

Overall, Singapore Re's Mr. Phua said the mood of pessimism that pervades the reinsurance market in other countries is not evident in Southeast Asia. "The local reinsurers have been affected by floods in South Korea, and results for Taiwan reinsurers have not been good, but Singapore is still profitable," he said.

Mr. Phua said he did not see a decrease in the number of insurers or reinsurers in Singapore as necessary. However, he welcomed the announcement by Singapore's finance minister, Richard Hu, (see story, page 99) that solvency requirements for insurers in Singapore will be increased.

"Anything that enhances solvency is good for the market," he said, though "it might result in some rationalization (in the direct market)."

Mr. Phua was the session moderator. ■

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Insurance education a priority

SINGAPORE—Southeast Asian insurers and reinsurers give a high priority to education of their executives and employees.

Several speakers at Singapore's In-

Singapore International Reinsurance Conference

ternational Reinsurance Conference last month stressed the need for improved insurance education, while praising the efforts already made by the Singapore Insurance Institute and other bodies.

Rudy A. Wuwungan, president and director of Indonesian reinsurer P.T. Maskapai Rcasuransi Indonesia of Jakarta, called for the establishment of a regional research body.

Such an organization's responsibilities would include:

- Encouraging higher education for management, with an emphasis on producing top crisis management specialists for insurance companies.
- Encouraging local insurance institutes to include the study of at least two foreign languages in their programs, so underwriters can operate more easily internationally.
- Developing a regional electronic communications network, which could later be integrated with an international network.
- Conducting studies on new insurance products, particularly in casualty lines, to increase Southeast Asian markets' insurance spending.
- Conducting studies on "acceptable pricing control," particularly for property insurance business.
- Studying ways for Southeast Asian insurers to cope with natural disasters and minimize their exposures to earthquake, volcanic eruption and storm damage.

Mr. Wuwungan said foreign insurers and reinsurers moving into Southeast Asia have a duty to help the local industry grow and should contribute to the research body.

Phua Kia Ting, managing director of Singapore Reinsurance Corp. Ltd., said the growing reinsurance industry in Singapore faces a shortage of qualified people.

"There is a gap between the requirement and the supply. The growth has absorbed those who are trained," Mr. Phua said.

That means there are opportunities for those trained in Singapore and for qualified people from overseas, he said.

"It takes time for someone to gain experience," Mr. Phua said.

Meanwhile, the Singapore Insurance Institute introduced its certificate in general insurance in April 1990.

By the end of the August, 702 insurance company employees and agents had obtained the certificate.

—By Kate McIlwaine

INTERNATIONAL

Political risks of Soviet ventures

Experts call for government insurance aid

By MARIA KIELMAS

LONDON—Western governments must take up the initiative of providing political risk insurance to encourage foreign investment in the Soviet Union, insurers and bankers urged at a recent London conference.

But there is no simple formula that will be able to contain all the risks of investing in a region where both the political and economic outlook is increasingly uncertain, particularly since the failed August coup, political risks experts said during a session at "Foreign Investment and Privatization in the U.S.S.R.—The Prospects After the Events of Aug. 19," a conference co-sponsored by the Institute of State and Law of the Soviet Academy of Sciences in Moscow and international law firm Cole, Corette & Abrutyn of London.

Additional co-sponsors of the Oct. 10-11 conference held in London were broker Willis, Faber & Dumas Ltd., accounting firm Price Waterhouse and travel agency Barry Martin Group.

According to Soviet figures, there has been approximately $4 billion worth of foreign investment in the Soviet Union from 1987 to 1991, said Peter Wakefield, senior assistant director at London-based merchant bank Morgan Grenfell, who oversees Soviet-related loans.

"Compared to the size of the Soviet economy, this is an absolutely minute amount of money," he said. "There are a lot of meaningless joint ventures; some are designed to provide the Soviet partner with access to hard currency."

This situation in many cases reflects two major Soviet problems, according to Mr. Wakefield.

First is the failure to distinguish between the "blue chip serious investor" and the less serious investor, he said.

The second problem is a seeming Soviet obsession with competition, he said. "Competitive tendering is sometimes good and sometimes very unsuitable," Mr. Wakefield said, referring to small contracts that are unnecessarily put up for bid, thus slowing the process.

"The major change that we have seen since August is a much greater emphasis on capital-intensive projects and the manufacturing sector, rather than just the service sector," like insurance, he said.

According to Mr. Wakefield, the principal risks facing investors in the Soviet Union include:

• Legal and jurisdictional risks.

The legislation of the Soviet Union and the republics is unstable and developing rather unpredictably in many cases.

"Apart from the laws themselves, there is the question about who owns what and who has control over what. And worse still is the fact that even when the laws are there, it is difficult for most Western companies to have confidence in the application of that law," Mr. Wakefield said.

He added that these laws, as written, are general and vague, and from an Anglo-Saxon point of view at least, it is difficult to know where one stands.

And, at a separate session during the conference, another speaker observed that laws are being hastily drafted.

Although "dozens and dozens" of laws have been adopted by parliaments in both the Soviet Union and individual republics, their content and applicability remain unclear, said Boris Federov, head of Soviet Affairs at the London-based European Bank for Reconstruction & Development.

However, this appears not to bother many in the business community, he pointed out.

"If you say 'this is not the law,' they say, 'who cares, let's go forward,' " said Mr. Federov, who had been minister of finance in the Russian federation until he resigned last year in protest at the slow pace of reform.

• Political risk.

This largely stems from a lack of consensus on where to go with the Soviet economy and also how to get there, Mr. Wakefield said.

"There's a tendency for emotional and nationalistic outbursts to turn the direction of policy rather than any considered analysis," he said.

• Economic risk.

This is a function of the political situation, Mr. Wakefield said.

"The printing presses are said to be running flat out and the only limitation to money supply is the supply of paper," he said.

• Currency convertibility.

The Soviet Union has very little hard currency, he noted.

In addition, "Western banks are not providing new loans to the Soviet Union and there is a certain amount of doubt as to whether they will be able to service those (existing) loans," he said.

• Commercial risk.

These risks are the same the world over, he said, and include the risk of breach of contract or the risk that a contract signed with a partner will simply not be possible to fulfill on either side.

There is also a fear of labor disputes, and in certain parts of the Soviet Union, this risk is significant, he said.

• Infrastructure risk.

This is mainly due to lack of efficient transportation networks for raw materials for manufacturing, Mr. Wakefield said.

"If you want to export material from a plant, then you have to get it transported reasonably fast," he said.

One of the main ways Western investors are tackling these risks is to invest as little cash as possible in Soviet ventures, Mr. Wakefield observed.

"It has the advantage of leaving the option to invest more at a later stage, a foot-in-the-door technique. But you may find out later that by not taking the major risk at this stage, you have missed out on an opportunity," he said.

Insurance support for the risks associated with these investments is an area that governments must look at, Mr. Wakefield said. "Political risk coverage is essential before this can go ahead," he said.

But as yet, Western governments

Continued on next page

AWARDS

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Political risk

Continued from previous page
have been reluctant to meet the demand for coverage, said Paul Davison, executive director, political and financial risks at Willis Faber & Dumas Ltd., the international and wholesale insurance subsidiary of Willis Corroon P.L.C.

Willis Faber & Dumas opened a Moscow office in September (*BI*, Sept. 30).

"Since Aug. 19, underwriters, be they public or private, have been understandably cautious," he said.

Mr. Davison said he had raised the issue with a representative of the United Kingdom's Export Credit Guarantee Department, who indicated that the state agency was closed for new Soviet business.

"But he did indicate that this was under review," he said.

Mr. Davison stressed that the commercial insurance market's ability to cover Soviet political risks will be inadequate.

"There is an increasing clamor for the establishment of a multi-government-sponsored export credit agency directed at the Soviet Union," he said.

Such a multinational institution could be established under the auspices of the U.S. Overseas Private Investment Corp. or the Multilateral Investment Guarantee Agency, which is a branch of the World Bank, he said. The latter would require the Soviet Union and republics to become members of the World Bank, he added.

The European Bank for Reconstruction & Development has also been suggested as a sponsor for the scheme, Mr. Davison said.

This new insurer then could offer export credit or political risk coverage over a 15- to 20-year period, he said.

Meanwhile, all political risk underwriters will be seeking a clearer legal framework in the Soviet Union and its republics before they underwrite a great deal of business, according to Mr. Davison.

"There are conflicts between union law and republic law and we will be seeking a clarification of those issues," Mr. Davison said. For example, there a Soviet law requires a body of cabinet ministers to regulate foreign investment, whereas a law passed by the Russian republic contains no such requirement, he said.

Mr. Davison said political and economic stability are very much interrelated in this region.

"I believe there is a compelling argument which suggests that the speed and scale of Western aid will have a direct and significant impact on stability in the region," he said. "I view the greater the Western presence, the less likely that the old guard returns."

He listed several points that could diminish the risk of political intervention in foreign investment:

- Investments that create meaningful jobs.
- Those that generate hard currency.
- Those that afford a transfer of technology.

Underwriters are trying to understand from the outset such issues as who's in charge, what are they in charge of and what are the rules, Mr. Davison said. ■

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REINSURANCES EFFECTED
at Lloyd's, London

Western insurance savvy needed for Soviet ventures

By MARIA KIELMAS

LONDON—A Western company investing in a Soviet joint venture must bring insurance expertise to the partnership, since there is little insurance consciousness in the Soviet Union, a broker points out.

And while the Western company will have to buy some coverage in the Soviet Union, the solvency of the growing number of new Soviet insurers must be questioned, noted Hugh Warren, an executive vp with Corroon & Black International in New York, a unit of Willis Corroon P.L.C.

Under the "good neighbor" philosophy of foreign investment, Western firms should make use of local services, including Soviet insurers, when possible and especially when that coverage fits in with their global insurance programs, said Mr. Warren, who will become chairman of Willis Corroon Construction Risks Ltd. on Jan. 1.

Mr. Warren spoke at a conference last month in London titled "Foreign Investment and Privatization in the U.S.S.R.—The Prospects After the Events of Aug. 19."

Western investors in the Soviet Union must make intelligent use of the local insurance market, he stressed.

"Any multinational investing. . .must ensure that it is perceived as a good neighbor on a local basis and do the right thing in terms of local insurance," he said.

He advised that it may be best to purchase whatever coverage is available from Soviet insurers, filling in any gaps with global insurance programs, in order to be seen as a good partner by local officials.

A multinational investor 'must ensure that it is perceived as a good neighbor, Mr. Warren says.

Mr. Warren said the Soviet insurance market should be flexible enough to write coverage for foreign investors and adapt that coverage to mesh with their global insurance programs.

"What they are looking for from the Western investor and the Western insurance company is guidance: What coverages should they be issuing on a local basis and how they should be rating these coverages. And because the experience, to a great extent, for industrial and commercial risks has not been there in the past, they need Western help," Mr. Warren explained.

But before investors become good neighbors, certain characteristics of the local Soviet market must be considered, he said. Western firms should look at the solvency of local insurers and their ability to pay claims, particularly the ability to pay claims in hard currency.

"Hard currency policies can be very important when you are importing machinery and equipment. In the event that there is damage, you have to replace it in the West. So if you can arrange hard currency coverage on a local basis, it's going to ease the process of replacing damaged equipment," Mr. Warren advised.

In addition, Western companies dealing with local Soviet insurers must make sure the insurer can provide services in all regions in which the joint venture operates, he said.

The only types of insurance that foreign joint ventures must currently purchase in the Soviet Union are fire and allied perils coverage. While mandatory third-party auto liability coverage has been proposed, the suggestion has not progressed further, Mr. Warren said.

"In terms of investing in a joint venture, the Western partner has to take the initiative and responsibility for insurance," said Mr. Warren. "Do not conclude a joint venture agreement unless you, the Western partner, have the responsibility for controlling insurance."

The Western partner must ensure that coverage is correctly placed, he noted. "You have to cover yourself as the joint venture partner and even cover the agreement, but certainly you as the investor in the Soviet Union have to have adequate protection of your interest."

He noted that coverage concerns apply primarily to liability exposures. "If you are manufacturing products in the Soviet Union that are exported elsewhere in the world, then the deep-pocket theory prevails. If it causes bodily injury or damage, then the injured party is not necessarily going to go after the joint venture partner in the Soviet Union but the Western partner."

However, notwithstanding a new Soviet consumer protection law enacted this summer before the coup attempt, there is no litigation consciousness in the Soviet Union, so an investor's Soviet liability exposure is not regarded as critical, Mr. Warren said.

"Once you go out of the Soviet Union and, heaven forbid, if you export to the United States, then you have a serious problem. The deep pocket theory comes in, and the U.S. court is going to look somewhere else for recompense."

Business interruption insurance is an unknown concept in the Soviet Union, Mr. Warren said, and Western expertise also can be useful in attempting in insure this exposure.

Loss of anticipated revenue must also be taken into account with regard to Soviet climatic conditions, he said. "Extremes of weather have to be taken into consideration when assessing the risk."

Lack of adequate transportation and infrastructure also are important in assessing business interruption exposures. "If you are a multinational with a plant away from the main industrial centers, then you have a major problem in the Soviet Union."

Mr. Warren said he is not aware of any provisions regarding employer liability for worker injuries in Soviet law.

"It would rest with legislation on a local basis," he said, adding that "in the Soviet Union, I don't really know if there are any rules."

He also noted that there are no specific Soviet laws recognizing brokers and consultants. These intermediaries are unknown in the Soviet Union, since government monopolies have controlled the insurance market. Willis Corroon currently is the only registered broker in the Soviet Union (*BI*, Sept. 30), though other brokerages have applied for licenses to operate there, Mr. Warren said. ■

KØBENHAVNSKE REASSURANCE-COMPAGNI A/S DET

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INTERNATIONAL

British Petroleum

Continued from page 99

purchasing a substantial amount of protection and indemnity coverage and directors and officers liability coverage, sources say.

"They are very keen to keep their D&O coverage in place in case the decision to cut their insurance turns sour," according to one broker.

In addition, the BP spokesman said the company will continue to buy commercial coverage for its marine and aviation risks.

The BP decision comes three years after the energy insurance market suffered its worst loss ever—$1.4 billion—stemming from the explosion of the Piper Alpha oil platform in the North Sea.

However, the risk of a similar loss now occurring is much lower, the BP spokesman said.

"Health and safety measures have improved significantly since then throughout the oil industry," he said.

And, if a loss of similar magnitude did hit BP in the future, the company would be able to bear it without having to increase its debt by more than 1% after tax write-offs, the spokesman said.

BP's decision was partially influenced by increasing rates in the energy insurance market. During midyear renewals, energy insurance rates increased by about 20%, and further increases are expected at year end.

However, the rate increases will vary with a policyholder's loss history, said Philip Hallett, executive director in the energy department of C.T. Bowring & Co. Ltd.

"Underwriters are being far more analytical than they were in the soft market, so increases could be anything between 20% and 300%, depending on the loss record," he said.

The BP move is a one-of-a-kind decision rather than a trend in the market, said John Charman, underwriter for Lloyd's of London syndicate 488, managed by Charman Underwriting Agency Ltd.

"There have not been other major programs that have been reduced. In fact, it is the other way around: Companies cannot obtain all of the coverage they want because of the shrinking capacity in the market," he said. ■

GLOBAL BRIEFS

Continued from page 99

that the stake (held by Storebrand) is a long-term investment; it is a strategic, rather than a financial, decision," said Mr. Franke.

Storebrand initially acquired an 11.4% stake in Skandia in September (*BI*, Sept. 30).

Mr. Franke would not comment on the possibility that Storebrand would attempt to take over Skandia.

A spokesman for Skandia in Stockholm said, "We have just accepted the fact that Storebrand is a big shareholder, but we have made no comment so far and the situation is not very clear in discussions with SEB."

An SEB spokesman said that the bank's option to purchase 28.5% of Skandia will be discussed at a board meeting scheduled for Tuesday, Nov. 5. "We won't say anything until then."

According to Jan Dworski, Sweden analyst at London stockbroker Barclays de Zoete Wedd Ltd., SEB may be obliged to dispose of its Skandia option because "the balance sheet costs will be too high."

"Technically, they could afford it, but it is costly to hold now, as Swedish banks face increasing credit losses," he said, adding that "SEB is not in as bad a situation as the others."

He said that one hypothesis making the rounds in Sweden is that Storebrand may take over Skandia's international operations, while the domestic side of the company would remain independent. "Otherwise, a complete takeover will be a bit odd as Storebrand is only one quarter the size of Skandia," Mr. Dworski said.

He said that such a split would be similar to an earlier one in 1985, in which Skandia spun off its international side, creating Skandia International. The parent company later bought back the international subsidiary (*BI*, Nov. 11, 1988).

"Flotation wasn't a success," Mr. Dworski said of the earlier move.

The new Swedish government has announced that a law restricting foreign ownership in Swedish companies to 40% will be rescinded by the beginning of next year. Mr. Dworski said this will not have any effect on Skandia as the company's stock now is freely traded, meaning foreigners may acquire up to 100%.

—By Maria Kielmas

German plant explosion

HANAU, Germany—German insurers and reinsurers could be hit with a 300 million deutsche mark ($177.9 million) loss, following the explosion last month of a hydrogen tank in Hanau, near Frankfurt.

The massive loss adds to the woes of the German insurance industry, blighted for several years by record fire losses. And, at least one reinsurer believes it could mark the beginning of an upward climb in industrial property insurance rates (see story, page 19).

The Oct. 5 explosion forced almost all work to stop at Heraeus Quartzglass GmbH, a subsidiary of Hanau-based Heraeus Holding GmbH, a company spokesman said.

The subsidiary, which makes products for the semiconductor and telecommunications industries, expects manufacturing to resume by the beginning of next year. But the site will not be fully repaired for at least a year, he said.

Investigations were continuing late last month into why the blast occurred, the spokesman said.

The loss, including business interruption losses, is fully insured with a group of German insurers, said the spokesman, though he could not identify them.

The property damage portion of the loss is estimated to cost insurers about 250 million deutsche marks ($148.2 million), he said.

"We cannot estimate yet the cost of lost production. We hope to have no loss in market share, although that will depend on how long we have to stop production," he said.

The spokesman denied estimates from insurance sources that put the likely total loss as high as 400 million deutsche marks ($237.2 million). The total loss would more likely be about 300 million deutsche marks, he said.

A spokesman from Frankfurter Allianz A.G., a unit of Allianz A.G. Holding, confirmed it writes part of Heraeus' property insurance.

A spokeswoman from Gerling-Konzern Allgemeine Versicherungs A.G. in Cologne also confirmed that Gerling participates in the coverage.

The loss is expected to push the German insurance market's industrial fire underwriting results further into the red in 1991.

"The German fire market has had an enormous frequency of very costly loss," said Christian Baumguertel, a member of Gerling's board of directors.

This latest loss could be the last straw for German insurers, he noted, adding that he is "quite hopeful for (rate) increases" during upcoming year-end renewals.

"It is necessary to enforce increases to match the losses," he said, estimating that the market currently is underrated by 25% to 30%.

"Industry is running out of capacity, particularly for large chemical and industrial risks and, in particular, for loss of profits cover, which has become more popular in recent years," he noted.

"The direct insurers seem resolved to increase rates as a result of the extreme losses in Germany, including the recent Heraeus loss," said a spokesman from Munich Reinsurance Co. of Munich.

—By Carolyn Aldred

Norad Re insolvency set at $34.6 million

HAMILTON, Bermuda—Norad Reinsurance Co. is insolvent by almost $34.6 million, according to the latest report from liquidators.

The failed captive insurers' liabilities total nearly $37.6 million. But liquidator David Brown said in a recent letter to creditors that efforts to collect outstanding amounts due from Norad's reinsurers are by no means over and could yet increase the size of Norad's estate by $711,782.

Norad, a captive insurance subsidiary of Berwind Corp. of Philadelphia, was under management by James Bermuda Ltd., now a unit of Sedgwick Group P.L.C., when it stopped underwriting in 1985. It was placed in liquidation in 1988.

Total claims filed in the liquidation have now reached $43.8 million, according to new statistics contained in Mr. Brown's letter.

Norad's largest creditor remains the insolvent Mutual Fire, Marine & Inland Insurance Co. of Philadelphia, which seeks about $28 million from the failed captive.

In his latest letter to creditors, Mr. Brown said he is continuing to audit claims relating to business placed with Norad through managing agents C.R. Driver & Co. Ltd. in London. But, he said, "certain matters" still need to be resolved before the Driver claims, which account for $7.7 million in claims that the liquidators have yet to adjudicate, are accepted or rejected.

The total amount of adjudicated claims from accepted creditors in the Norad liquidation now tops $36 million, the liquidator's report shows, up from $33.9 million a year earlier. The figures also show that slightly more than $5.2 million was distributed in a first dividend to creditors in July 1990 (*BI*, July 16, 1990). But, an extra $931,118 has been set aside to provide funds for dividends that have been withheld pending claims resolution.

Mr. Brown said the liquidators hope to declare another dividend in 1992.

"We're waiting to see how much more reinsurance we can collect in first," he said. "At the moment, we have assets of $3 million, subject to the cost of the liquidation. If we distributed all of that, we would be paying out a further 6 cents on the dollar, bringing our total dividend to 18 cents."

Income and expenditure figures in Norad's statement covering Oct. 5, 1988, to Sept. 30, 1991, show that out of $4.4 million in revenues, including a $971,679 increase in the value of Norad's investments, $1.7 million was spent since the liquidation began. Liquidators' fees were $945,755 and legal fees were $529,202.

—By Roger Scotton

INTERNATIONAL

Outhwaite trial

Continued from page 99

be triggered.

"There was a lack of appreciation, even amongst those most intimately involved with asbestos-related risks, of the scale of the problem which lay ahead," said Mr. Outhwaite in a statement accompanying his testimony.

"There was no one, in my estimation, who had any real premonition of the appalling extent of the asbestos problem. And, even had the best informed put forth their most pessimistically calculated estimates, they would not have come close to the actual losses."

He added that the runoff losses have personally cost him "millions" because it has lowered the value of the Outhwaite agency of which he is a shareholder.

Mr. Outhwaite also told the court that he and his wife wrote a total of 100,000 pounds ($191,000 at applicable exchange rates) in capacity for the open 1982 underwriting year of syndicate 317/661, the third-largest sum written by the syndicate's 1,614 members that year.

Underwriters and brokers who placed the runoff contracts also were Outhwaite syndicate members in 1982, including Lloyd's Chairman David Coleridge, who also is chairman of Sturge Holdings P.L.C.; former leading nonmarine underwriter Ralph Rokeby-Johnson; and three brokers with Winchester Bowring Ltd. who placed the majority of the runoff contracts, including Hady Wakefield, now chairman of C.T. Bowring Reinsurance Co. Ltd.

It is most "improbable" that these men would have placed the contracts with a syndicate of which they were members if they thought the business would produce a loss, Mr. Outhwaite said.

The landmark trial has played to a packed courtroom, attracting plaintiffs, lawyers and Mr. Outhwaite's friends in the market.

If the members' attorney can persuade the judge that Mr. Outhwaite was incompetent and therefore they should collect damages, it will leave the door open for thousands of other members to sue their members agencies for underwriting losses (*BI*, Sept. 2).

The banter between Anthony Boswood, the trial lawyer for the plaintiffs, and Mr. Outhwaite last week was robust and heated, with neither side giving up a single point without a fight.

Mr. Outhwaite has been considered one of the most formidable underwriters at Lloyd's and has had a loyal following from members despite the years of litigation over the runoff contracts. He is still underwriting in the market, with his syndicate attracting 2,626 members writing 77.8 million pounds in capacity in 1990 ($125.3 million at applicable exchange rates), though capacity fell to 66.2 million pounds ($127.8 million) this year, according to court papers and Lloyd's sources.

While on the witness stand, Mr. Outhwaite denied that he is responsible for single-handedly losing more money for investors than any person in the history of the City of London, as Mr. Boswood has alleged (*BI*, Oct. 14).

Mr. Outhwaite named a few other British corporate executives who have been reported as losing more money for their shareholders in the last two years than was lost by the syndicate's members in 1982.

In addition, six other Lloyd's syndicates have suffered losses as large or larger than his syndicate's in the last two years, he said.

In particular, the entire Lloyd's membership is now paying for the largest losses ever at Lloyd's, which stem from syndicates formally managed by PCW Underwriting Agencies Ltd., he pointed out. Although Lloyd's settled with members because of the dishonest acts committed by PCW officials, the vast majority of PCW losses were underwriting losses, he said.

Mr. Outhwaite has said in court papers that many of the 32 runoff contracts—whose losses now total about $450 million—were battered by an escalation in unforeseen claims after 1982, including:

- Accelerated claims following a settlement between asbestos manufacturer Manville Corp. and its insurers in 1984 after the runoff policies were written. "It set the scene for other such settlements."
- The Wellington Agreement and Asbestos Claims Facility formed in 1985, which provided a mechanism whereby asbestos-related injury claims were paid by the insurers of producers. But that mechanism "was artificial and arbitrary and hit the early years (of the business assumed by the syndicate), which I was most frequently reinsuring the hardest and first."

Mr. Outhwaite said he has had some success in denying these claims on the basis of an arbitration agreement that said the underwriters that purchased the runoff contracts "paid claims for which they were not liable," he said (*BI*, July 22).

- Asbestos property damage claims—which have become a "significant source of loss" on the contracts—were not known or anticipated when the contracts were written.
- Pollution claims hitting the contracts "were unforeseen until after 1982." These and the asbestos property damage claims "will almost definitely exceed the personal injury asbestos claims," he said.

However, Mr. Boswood in cross-examination grilled Mr. Outhwaite about his competence when writing the contracts.

Collecting premium without knowing whether a claim will be filed 'applies to every single risk I write,' Mr. Outhwaite says. 'It's the whole point of insurance' to write a contract and hope you'll make a profit, he adds.

Mr. Boswood alleged that if Mr. Outhwaite had done some more homework in 1982, he would have found that these contracts would give rise to huge asbestos-related claims.

For example, Mr. Outhwaite could have gone to the office of the Asbestos Working Party, which was set up in the London market in 1982, to learn the frequency of the cedants' asbestos-related underwriting losses, Mr. Boswood said. Alternatively, Mr. Outhwaite could have gone to the United States to learn the frequency of asbestos claims filed there, he said.

Mr. Outhwaite continually responded that it was the cedants' responsibility to provide him with all relevant information. It was the cedants that best knew about the business they wrote, and it was the cedants that could best estimate "ultimate" loss, he said.

He also said he believed that the Asbestos Working Party would give information about a cedant's asbestos losses only to the cedant, not to a prospective reinsurer.

The plaintiffs' leading expert witness, Uli von Eichen, retired managing director of Munich Reinsurance Co.'s London office, who sat in the courtroom last week behind Mr. Boswood, also has said in court papers that Mr. Outhwaite could have conducted an audit of each ceding syndicate's accounts before writing the contracts.

But that is "a totally impractical suggestion," Mr. Outhwaite said at the trial. His quotes for the runoff policies were based on the cedants' estimation of reserves needed to close their accounts under Lloyd's auditing rules. To send an auditor in after these steps were carried out is "nonsense," he said.

Mr. von Eichen also has said in court papers that the asbestos problem was so well known in the market by 1982 that no one could estimate what the ultimate losses would be.

But Mr. Outhwaite said that "certainly wasn't the perception at Lloyd's at the time." Underwriters did make estimates of their outstanding asbestos losses, he said. If they could not have made estimates, they would not have been able to close their 1979 accounts when they were audited in 1982, he said.

Mr. Boswood also alleged that Mr. Outhwaite wrote the contracts recklessly by collecting substantial amounts of premium without having "any idea" whether the contracts would produce claims, thereby "bankrupting names."

But collecting premium without knowing whether a claim will be filed "applies to every single risk I write," Mr. Outhwaite responded. "It's the whole point of insurance" to write a contract and hope you'll make a profit, he said.

An underwriter does not know when he is writing catastrophe coverage whether an earthquake will occur in San Francisco, he pointed out.

But, Mr. Boswood replied, underwriters would conduct research to determine the area in which earthquakes or windstorms are most likely and set rates accordingly.

Mr. Outhwaite answered that no one foresaw a hurricane in the United Kingdom in 1987, referring to the October 1987 windstorm that cost underwriters more than 1 billion pounds.

Mr. Boswood then asked Mr. Outhwaite whether he had taken any "precautions" so as not to "bankrupt the names."

Mr. Outhwaite said he balanced his book of business and bought reinsurance. But, he added, the results of "these things are uncertain."

Mr. Boswood also referred to affidavits that Mr. Outhwaite filed in 1987 in arbitration proceedings that claim some of the cedants did not disclose and had misrepresented their asbestos losses. Mr. Outhwaite said in those affidavits that the cedants should have done more research and known the extent of the asbestos losses at the time they obtained the runoff contracts.

Mr. Outhwaite's lawyers during the arbitrations uncovered a report that said that the total losses from asbestos would cost more than $38 billion.

However, during cross-examination last week, Mr. Outhwaite said that although he offered these arguments in 1987 "in hindsight," he has lost this argument in at least three arbitrations. He believes that evidence from the arbitrations shows that the cedants were not aware of the full extent of the asbestos problem. He says he now accepts that argument.

The cross-examination of Mr. Outhwaite continues this week. The case is expected to last until late December. ■

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Managed care

Continued from page 1

tant with Noble Lowndes in Newtown, Pa.

"Normally, when employers replace indemnity coverage with managed care there's an initial outcry. Maybe this survey group has been exposed to managed care for a while. But overall, the attitude toward managed care is improving," he said.

"That positive of a rating sounds a little high, but it's no accident that approval ratings for managed care have gone up with cost becoming such an issue," said Joe Parente, a consultant in the New York office of A. Foster Higgins & Co.

"Cost, while not the sole driver, is an issue in determining satisfaction. It's a harder life right now for most people," he said.

In addition to finding that 90% of survey respondents—or 360 out of 400—who are enrolled in managed health care like their plan, the study found that satisfaction increases with time.

The survey reported that 80% of employees enrolled in managed care plans for fewer than four years were satisfied with their plan, while only 12% were dissatisfied. The remainder did not answer.

However, 91% of employees who had been enrolled in a managed care plan for at least four years were satisfied with the plan, with only 6% saying they were dissatisfied. The remainder did not answer.

"The longer people participate in managed care, the more satisfaction increases. People seem to grow more comfortable with managed care features over time," TPF&C's Mr. Abernathy explained.

"Managed care is definitely not a one-year solution. It's natural to see dissatisfaction after the first few months, especially if a restrictive HMO is replacing an indemnity plan. But we have seen tremendous increases in both participation and satisfaction from the first year to the second and beyond," concurred Mr. Gibson of Noble Lowndes.

Managed care is snowballing in popularity and should be virtually ubiquitous by the turn of the century, even though more than half of working Americans currently receive health care coverage through a traditional indemnity plan, he said.

"More and more employers are realizing that managed care is not a big, horrible thing. Employee reluctance to get into managed care is lessening. Within 10 years it will be difficult to find a traditional indemnity plan with no managed care features," he said.

"Managed care offerings will only become more popular," Mr. Parente agreed. "Employees are more used to the idea, which will make it easier for employers. But employers will still have to communicate the changes. Employers must guarantee that quality will not be lost or employee support will disappear."

Among the approximately 400 respondents enrolled in a managed care program, 246 had the option of enrolling in a traditional indemnity plan.

Employees are selecting managed care plans because they provide complete benefits at substantially reduced out-of-pocket expenses, benefit consultants say.

Survey results show that cost is one of the leading factors why many employees opt for managed care if they have a choice.

Overall, 45% of the respondents enrolled in managed care plans who had a choice of managed care or indemnity plan coverage said they chose the managed care plans because of low out-of-pocket costs.

And, after being enrolled in managed care plans for awhile, many respondents still found that their level of out-of-pocket costs was one of the plan's most positive attributes.

According to the survey, 37% of respondents covered by a plan with a PPO option said the cost of the plan was one of the program's leading attributes; 29% of HMO enrollees cited out-of-pocket cost as a leading component of their overall satisfaction; and 23% of those enrolled in a point-of-service plan singled out cost.

Conversely, 27% of employees chose traditional indemnity plans because of the cost of the plan. But, only 16% of indemnity plan participants said they considered their out-of-pocket costs a major component of overall satisfaction.

And, 23% of employees in indemnity plans said they would be willing to limit their medical care to specific doctors and hospitals to maintain out-of-pocket costs at current levels.

The survey also found that employees enrolled in managed care plans were slightly more satisfied than those enrolled in indemnity plans with the quality of care they receive.

Ninety-two percent of employees enrolled in PPOs and 89% of those enrolled in HMOs are satisfied with the quality of care they receive, compared with 88% of employees enrolled in traditional indemnity plans. Ninety-five percent of employees enrolled in point-of service plans were satisfied with the quality of care they receive.

However, employees enrolled in traditional indemnity plans generally were more satisfied with the adequacy and breadth of coverage, the survey found.

According to the survey:

- 29% of indemnity plan participants said that adequacy and breadth of coverage was a major factor contributing to their satisfaction.
- 22% of HMO members felt their coverage was adequate.
- 21% of point-of-service participants felt their coverage was satisfactory.
- 12% of PPO members labeled adequacy of coverage a building block of satisfaction.

When asked what accounts for plan dissatisfaction, high deductibles were mentioned by 20% of indemnity plan participants. But only 13% of PPO members complained about deductibles. Five percent of point-of-service enrollees criticized high deductibles.

Some managed care enrollees did object to the limited choice of doctors offered by their plans. Twenty-two percent of HMO enrollees said doctor choice was poor, while 21% of point-of-service participants complained about choice of physicians provided by the plan.

But 39% of HMO members, 37% of PPO members and 33% of point-of-service members said they disliked nothing about their plans. One-third of respondents enrolled in indemnity plans said they disliked nothing about their plan.

"We were surprised by the high percentage of people who said they disliked nothing about managed care," said TPF&C's Mr. Abernathy. "That to me supports the mentality that managed care is the least onerous of a bad situation."

Other key survey findings include:

- More than 40% of respondents under age 30 said low out-of-pocket costs were their chief criterion for selecting managed care plans, compared with only 20% of those over age 45 and 9% of those over age 60.
- Free choice of providers was the primary criterion that respondents with postgraduate education used in selecting their health care plan and the second leading factor for those with a college degree. However, close to half of those with a college education or higher are enrolled in some type of manage care arrangement.
- To keep their current premium contribution levels the same, 24% of all respondents said they would accept higher copayments, while 25% would pay higher deductibles. Some 31% would accept limits on the choice of providers to maintain current contributions.

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To obtain a free copy of "Managed Care: The Employee Perspective," call Keith Freeman at TPF&C at 914-745-4190.

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Sub-total 25,117

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Commercial Consumers

Sub-total 26,809

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RIMS seminar

Continued from page 2

dustry remains in the "valley of the cycle," the more likely it is that a severe tightening will occur, he said.

Mr. Johnson believes that insurance buyers can expect prices to begin firming around the middle of next year.

Joe Wynne, senior vp at Reliance National Insurance Co. in New York and another panelist, said he believes it is unlikely that there will be any hardening in 1992, but he also expects significant price increases when the market does change direction.

However, Mr. Wynne also expects that the next hard market will not be as bad as the crisis of the mid-1980s.

Mr. Gallagher said the simple dynamics driving the market cycle are leading to an inevitable conclusion: significant rate hikes when the market finally turns.

The economics of the insurance industry are such that "when the supply is gone, the demand creates a dramatic increase" in price, Mr. Gallagher said.

"Regardless of the fact that the market's been soft, nobody's changed the law of economics—it's supply and demand. The problem in our business is that too much of the supply is illusory."

No insurers are willing to "step up to the plate and say, 'I really have been underreserving' and risk their salary and their stock options if they think that they can hold off just a little bit longer to see if the market will turn for them so it can save them."

There has to be a shift in insurers' attitudes before the market can change, said Mr. Wynne of Reliance National.

"This market can never change until carriers have the discipline to stand by their convictions" on raising or holding prices steady, he said.

"I believe that we were prepared, perhaps 18 months ago, to hold that discipline," and buyers and brokers were prepared for higher prices as a tradeoff for a stable market.

But, "all of a sudden, in the face of a loss of market share, the discipline deteriorated," Mr. Wynne said. "We need to be able to maintain that discipline if we're going to effect some stability in pricing and weed out some of the more price-conscious providers."

The market, though, has already turned for some types of coverage, pointed out Quill O. Healey, chief executive officer of Sedgwick James North America in New York.

"If you're in the energy business, the marine business or if you've just renewed (coverage for) your airline fleet, the market's turned," Mr. Healey said.

He pointed out that most aviation, marine and energy coverages are written by Lloyd's of London syndicates, which have been forced to raise rates because of heavy losses and the tightening retrocessional and catastrophe reinsurance market (see stories, pages 19 and 22).

While other U.S. businesses have not seen their rates rise, "America is the only place in the world today that is not facing a significant market turn," Mr. Healey said.

Sedgwick James believes that a hardening of the U.S. insurance market is about 18 months away, he said.

Richard A. Nielsen, executive vp at Johnson & Higgins of New York, told the gathering that he does not think prices will increase in 1992. "It's easy to say sometime in 1993, but my crystal ball's not any clearer than yours on that."

Turning to the issue of insurer solvency, the panelists presented differing views concerning who should bear the financial brunt of insurance company failures.

Mr. Gallagher said insurance buyers should take the responsibility when their insurers go belly up, instead of relying on state guaranty funds to bail them out.

Why should risk managers, "who are supposed to be taking care of your company, have the rest of the insurance marketplace to fall back on if the carriers you select are not around in the future to pay those claims?" Mr. Gallagher asked.

"I'm not a proponent of guaranty funds for large, sophisticated commercial risks, and I realize I'm singing in the wind, because politically, that's never going to change," he said.

But Mark Carter, director of corporate risk management at LTV Corp. in Dallas, disagreed. "It's a little too easy to say that we go out and get our shopping cart, go down the aisle and select from this myriad of companies that we've had an opportunity to fully analyze," he said.

No one, including rating companies like A.M. Best Co., is able to fully analyze insurers, Mr. Carter charged. "And I don't think the risk manager can either."

Risk managers "rely on our intermediaries to recommend, certainly, and give us input," he said. "It's a shared responsibility, and we rely on each other."

"We need to get a better handle" on identifying companies in trouble, Mr. Carter added. "What are the tell-tale signs? We don't have them yet."

Mr. Healey of Sedgwick James said that insurers, brokers and policyholders should share in financing guaranty funds payments, because "if a carrier goes bankrupt and cannot pay claims, that becomes a societal problem. It is all of our problem together."

Insurers, brokers and policyholders "all have to bear a portion of that responsibility," or the public's confidence in the insurance industry will continue to plummet, Mr. Healey said.

When evaluating the security of an insurer, everyone involved has to play a role, according to Mr. Johnson of Protection Mutual.

"It is the insured's, the insurer's and the broker's responsibility to evaluate financial security of the particular underwriter," Mr. Johnson said. "And, I believe it is the underwriter's responsibility to be prudently managed and make those kinds of decisions that see that you don't get into quick trouble."

Mr. Wynne of Reliance National pointed out that another societal problem leads to financial problems in the insurance industry: "We have a lot of problems with the tort system."

The civil justice system generates enormous awards that ultimately can lead to financial problems for insurers and policyholders, he said.

"I think our responsibility as citizens in trying to bring more reality to those types of judgments is paramount," Mr. Wynne asserted.

J&H's Mr. Nielsen stressed the importance of the regulator's role in maintaining insurance company solvency.

Regulators are in the best position to gather and disseminate financial information from insurers, Mr. Nielsen said.

However, he acknowledged that with 50 different regulators, it is a nearly insurmountable task.

"I'm not trying to pass the buck to regulators, but I'm trying to say that I think there could be a lot more done," he said.

Michael G. Whelan, risk management officer at ENSERCH Corp. of Dallas moderated the session. ■

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Profit sharing

Continued from page 1

gram. An age-weighted plan would allow a rapid accumulation of benefits for older employees, who may be the company's owners or most valuable workers.

The appeal is less certain for large companies. Benefit experts note that large employers typically offer both defined benefit and defined contribution plans and that the combination of the two types of plans enables large companies to meet retirement income objectives for workers of all ages.

But, large employers may find age-weighted profit-sharing plans attractive in certain situations. For example, the plans might be appropriate for employers that are reducing retiree health benefits.

In that case, the larger profit-sharing contributions for older employees would give those employees more resources with which to pay medical expenses after retirement.

"It is a tax-effective way for the accumulation of resources to enable the retiree to have funds to purchase coverage," said Allen Steinberg, a consultant with Hewitt Associates in Lincolnshire, Ill.

Consultants cite other situations where age-weighted profit-sharing plans also could meet specific employer needs.

The plans could, for example, help a high-tech firm recruit older, highly skilled workers, noted John Woyke, a principal with TPF&C, the benefits consulting unit of Towers, Perrin, Forster & Crosby Inc. in Valhalla, N.Y.

Age-weighted profit-sharing plans might also give employees an incentive to remain with a company, said Brian McDermott, a principal with A. Foster Higgins & Co. Inc. in New York.

"It is an attempt to retain employees. It gives employees an incentive to stay if they know allocations will increase" with age, Mr. McDermott said.

But age-weighted plans also have a few significant drawbacks, according to some benefit experts.

"Clearly, these are not plans for everyone," said Gary Blank, a consultant in the San Francisco office of The Wyatt Co.

For example, he said, younger employees likely would resent contributions that are only a fraction of those made for older employees.

"The employee relations issues are such that many large employers may not want to touch these plans," said Howard Golden, a partner at benefit consultant Kwasha Lipton in Fort Lee, N.J.

"How do you explain to someone on the assembly line that he is only going to get a $50 allocation while the person next to him will be receiving an allocation that is many times higher? A lot of companies will not want those kinds of communication headaches," said Seth Tievsky, a principal in the Washington, D.C., office of Ernst & Young.

At the same time, an age-weighted profit-sharing plan—especially if it is the only pension plan offered by an employer—could leave younger workers who terminate employment with only minuscule benefits.

"The plans don't do much for younger employees," said TPF&C's Mr. Woyke.

In fact, an age-weighted profit-sharing plan could put a company at a competitive disadvantage in

Continued on next page

The IRI Difference:

Our Commitment to Your Long-Term Needs Is a Way of Life

When Harry Coor, IRI Vice President-Operations, reflects back on a career that spans more than three decades, he recalls with great satisfaction the long-standing, uninterrupted relationships with many of IRI's insureds.

Mr. Coor observes, "1990 was IRI's one hundredth year in business. Our centennial celebration gave us a unique opportunity to visit with and pay honor to 185 customers who have chosen to do business with us continuously for fifty years or more . . . one, in fact, for ninety-eight years. I imagine that each of these customers has a personal perception of what The IRI Difference has meant to them decade after decade."

Harry Coor, Industrial Risk Insurers

He continued, "In these days of instability, changing values, planned obsolescence and financial turmoil, it is comforting to know how many of these relationships have not only survived but have grown and been strengthened over the years. IRI's dedication to the highest standards of business ethics, fairness, honesty, and quality products and services continues with renewed intensity as we move into our second century.

"At IRI, our commitment to long-term relationships is not a hollow promise—it's an inherent characteristic of The IRI Difference, it's a way of life."

IRI℠
can make a difference

Industrial Risk Insurers, Hartford, Connecticut

Groups seek delay of rules

WASHINGTON—The Internal Revenue Service should delay the effective date of its pension non-discrimination rules, business and benefit lobbying organizations say.

Comprising more than 600 pages, the final rules were published in September and are to take effect Jan. 2. They include complex formulas employers can use to show that their pension plans do not discriminate in favor of highly compensated employees.

But several trade groups say the rules should be delayed by at least one year to give employers more time to prepare. Those groups are the American Society of Pension Actuaries, the Assn. of Private Pension & Welfare Plans, the Financial Executives Institute, the National Assn. of Manufacturers and the Profit Sharing Council of America.

"Reason says we need to hold off a bit," said Howard Weizmann, executive director of the Washington, D.C.-based APPWP.

"Employers should be allowed to make very important decisions regarding the design of their plans in a less frantic atmosphere. Decisions on pension plan design and how to provide retirement income are much too important to be decided in a matter of a few months," Mr. Weizmann said.

Others note that employers with different pension plans for different company operating units will find it difficult to comply because the IRS has not finished special rules affecting such employers. The proposed Separate Lines of Business rules—dubbed SLOB—have been described as unworkable.

If the IRS does not delay the pension non-discrimination rules, the business groups say they are prepared to ask Congress to force the agency to hold off.

However, benefit experts could not recall Congress ever intervening to require the IRS to delay the effective date of final, published benefit regulations.

In 1989, though, Congress passed legislation that denied the IRS any funds that could be used to write final regulations for Section 89 (*BI*, Aug. 14, 1989). Legislators later repealed Section 89, a provision in the Tax Reform Act of 1986 that set enormously complicated non-discrimination rules for welfare plans.

Congress took those moves only after a major employer lobbying effort.

But, so far, legislators have not been flooded with mail from employers complaining about the pension non-discrimination rules.

Employers and their advisers may have been too busy trying to digest the rules, said Frank McArdle, a Hewitt Associates consultant in Washington, D.C.

—By Jerry Geisel

Profit sharing

Continued from previous page
trying to attract younger workers if competing firms offer conventional profit-sharing plans in which the uniform contributions are made on behalf of all employees.

While few experts will predict how fast age-weighted profit-sharing plans will grow, they say that employers will be carefully evaluating the plans in the months ahead.

"It is a type of plan that employers must consider when evaluating new pension plan designs," said Wyatt's Mr. Blank.

IRS approval of age-weighted profit-sharing plans stems from the agency's recognition that a contribution made on behalf of a younger employee will produce the same benefit at retirement as a much larger contribution for older employees. This is because the contribution for the younger employee will grow though the accumulation of interest over the years.

Age-weighted profit-sharing plans are, however, subject to certain restrictions.

For example, the plans are subject to federal law that currently restricts total annual defined contribution plan contributions to $30,000 per plan participant or 25% of compensation, whichever is less.

Some older employees in an age-weighted plan could reach that cap quickly if their employers also offer other defined contribution plans, like 401(k) plans.

In addition, age-weighted profit-sharing plans are subject to IRS pension non-discrimination tests. Those complex tests are designed to ensure that plans do not discriminate in favor of highly compensated employees, generally those earning slightly more than $60,000 annually.

Benefit consultants, though, say age-weighted profit-sharing plans can be designed to pass the non-discrimination tests.

For example, under one approach, contributions could be varied by age to produce an annuity benefit at age 65 that would be equal—as a percentage of current compensation—for all employees.

The IRS regulations also permit variations of age-weighted profit-sharing. For instance, an employer can link the size of contributions to years of service or a combination of age and service.

Some benefit experts note that a plan based on years of service would be easier to communicate to employees than an age-weighted plan.

Ultimately, according to benefit consultants, the decision to install an age-weighted profit-sharing plan will depend on how a company wants to allocate retirement plan funds.

Companies need to consider all the ramifications before setting up such a plan.

"Any employer that wants to implement such a plan should give a lot of thought to all the implications as well as how the plans would be communicated," said Hewitt's Mr. Steinberg. ■

Canadian health plan study

Continued from page 2
rate income and/or payroll taxes, according to the study.

National health care "is such a murky area with so many different scenarios, we didn't want to be guilty of just presenting the good news or just presenting the bad news, so we've presented a variety of models that project both savings and costs," explained Sharon Silow-Carroll, senior research associate at the Economic & Social Research Institute and co-author of the report.

Business, labor and consumer groups agree that the study is important to the debate over national health care reform, but they doubt whether adopting a Canadian-style system that cuts spending is politically feasible.

The study, funded by a grant from the Robert Wood Johnson Foundation, a Princeton, N.J.-based research-funding organization, used economic models to project the financial impact a national health plan would have on the U.S. economy over a period of as long as 10 years.

U.S. health care spending for 1991 is projected at $748 billion, or 12.8% of gross domestic product, according to the study.

About 53% of that total is paid by the private sector. In 1991, businesses and individuals are expected to pay $397 billion for health insurance and out-of-pocket expenses, the study says.

The government pays the remaining 47%—or a projected $351 billion in 1991—through general revenues, payroll taxes and tax subsidies.

The authors use Ontario's Provincial Plan as a model for a U.S. national health plan. The Canadian national health plan covers basic services, but provinces may cover additional benefits.

Ontario's plan covers physician services, inpatient and outpatient hospital care, laboratory tests, dental surgery, various kinds of therapy, nursing home stays and home health care.

The Ontario plan does not cover private or semi-private hospital rooms, dental care other than surgery, eyeglasses, prescription drugs outside the hospital or cosmetic surgery.

The study found that the United States would save the most—$241 billion in 1991 alone and $5.5 trillion over a decade—under a Canadian-style system if health care spending were cut to Canadian levels. The $5.5 trillion figure equals the size of the entire U.S. economy in 1990.

Under such a health care system, the United States would spend $7.2 trillion on health care between 1991 and the year 2000, compared with $12.7 trillion if health care spending trends continued in a "business as usual" manner, according to the study.

Canada spends 8.7% of its gross domestic product on health care, compared with 12.8% in the United States.

Cutting U.S. health care expenditures to the 8.7% level would produce a one-time savings of $241 billion in the first year, the study reported.

That savings take into account the estimated $14 billion cost of moving to universal coverage, Ms. Silow-Carroll noted.

The reduction in health care spending in the United States would be achieved through administrative efficiencies, negotiated physician fee schedules and government-imposed hospital budgets, among other things.

Nearly half—$113 billion—of the $241 billion in savings would be attributable to a reduction in administrative costs—specifically in the area of private insurance overhead, hospital administration and physicians' billing and overhead expenses, the study reported.

Reducing U.S. physicians' net income by about 25% to match their Canadian counterparts' income would mean $28 billion more in savings, according to the study.

The study found that the United States would save the most—$241 billion in 1991 alone and $5.5 trillion over a decade—under a Canadian-style system if health care spending were cut to Canadian levels.

And, $114 billion more could be saved through a variety of measures, including reducing the intensity of health care technology and labor, as well as amenities like private and semi-private rooms; eliminating wasteful and unnecessary health care; and implementing medical malpractice insurance reforms, the study says.

The study's authors point out that employers would be big winners under this particular national health plan.

"Assuming the United States achieves Canada's health care proportion of GDP, total spending would fall from $748 billion to $507 billion in 1991, and the share accounted for by the private sector would drop from 53% to 25%," the study reported.

That private sector portion of expenses would come through taxes.

"The private sector would spend only $127 billion (on health care) in 1991, compared with $397 billion under business as usual—for a savings of $270 billion," it said.

Conversely, the share of health care paid for by the government would rise to 75% from 47%. Public outlays would grow 8.3% to $380 billion in the first year from $351 billion.

That $29 billion could be raised through increasing payroll and income taxes, instituting a new excise or value-added tax on all non-food goods and redirecting spending from other areas like defense or transportation, the study authors note.

A "realistic" scenario presented in the study suggests raising the $29 billion "by dividing the new burden equally between payroll taxes and federal income taxes. That is, about $14.5 billion would be raised by increasing payroll taxes and another $14.5 billion by increasing income taxes," the authors explained.

They calculated that the government could raise the $29 billion with a 0.3% increase in the payroll tax rate for both employers and employees and a 0.5% increase in the income tax rate for both business and individuals.

"The payroll tax increase of 0.3% translates into a tax increase of $90 per year during the first two years for a worker earning $30,000 annually. An employer also would pay the same increase," the study authors noted.

"If such a worker had a taxable income of $20,000, the extra income taxes would amount to $1,000 annually. A firm with profits of $10 million would pay an extra $50,000 in corporate income taxes" annually, they said.

The study authors said that the government would face a decreasing shortfall over the first three years. Indeed, "before long, tax revenues at current rates would not only cover public spending for health care, but also would bring in significantly more than necessary to cover the cost of the new program. Under the assumption that we maintain our level of health spending at 8.7% of GDP, this surplus would reach $191 billion, or about $120 billion in 1991 dollars, in the year 2000," the authors noted.

As a result, they said, tax rates could return to current levels after the third year.

But, even though increased payroll and income taxes would partially offset employers' savings, the annual pretax savings to employers under this Canadian-style health care system would increase from $136 billion in 1991 to $541 billion in the year 2000, according to the study.

Cumulative pretax savings for employers over the decade would reach $3 trillion in dollars not adjusted for inflation—or $2.3 trillion when adjusted for inflation, the study reported.

But, "within the business sector, the impact on particular industries would vary significantly," the authors said.

"An analysis of the steel, electronics and retail trade industries reveals that the more generous the health benefits currently provided to workers, the greater the savings from converting to a national health plan," they said.

For example, the savings per steel industry worker—who typically has rich benefits—are significantly higher than in electronics or retail trade.

The study authors concede that bringing spending down to the same share of national output as in Canada would require that the United States reduce its health care expenditures considerably. And, they say it is unclear whether this type of reform is politically feasible.

Others agree.

"I don't think Americans would be satisfied with a one-payer system like the Canadian system, because it has too many shortcomings—like long waits to get services and inadequate resources," said Sharon Canner, assistant vp of industrial relations for the National Assn. of Manufacturers in Washington, D.C.

However, the study also examined other Canadian-style national health plan scenarios that would result in controlled growth of health care spending. "We do this because we do not view spending control as an 'all-or-nothing' matter, but rather as a policy that can be carried out with different degrees of swiftness," the authors explained.

Another model projects savings based on a system in which the United States realizes only administrative costs savings. This model assumes that no attempt is made to "ratchet down" current spending on physician incomes, intensity of care, technology, capital or other potential areas of savings, Ms. Silow—Carroll explained.

Assuming that the government's revenue shortfall is made up by increasing payroll and income tax revenues, "we project employers' pretax savings growing from $97 billion in 1991 to $487 billion in the year 2000," the authors said.

The cumulative pretax gain to employers over the decade is $2.5 trillion, or nearly $2 trillion when adjusted for inflation.

Like the second, a third model also assumes that the adoption of a Canadian-style health care system would not reduce health spending to the proportion of GDP achieved in Canada. Instead, health care expenditures would rise to 13.1% of the U.S. GDP—which would be maintained over time—from 12.8%.

The government's revenue shortfall in the first year under this scenario would total $225 billion, and the shortfall would decline to only between $160 billion and $180 billion in the year 2000. Payroll taxes and federal income taxes would therefore have to be raised considerably, the study authors note.

For example, for a worker earning $30,000 a year, the annual payroll tax increase in the first five years under this scenario would be $660 per employee. Employers would pay the same amount.

And, if taxable income for such a worker were $20,000 per year, the income tax increase would be $800.

However, after paying their share of new payroll and income taxes, employers would enjoy pretax savings of $76 billion in 1991, the study reported. "Pretax savings to employers would increase to $448 billion in the year 2000—for a cumulative savings of more than $2 trillion over the decade," or $1.7 trillion when adjusted for inflation, the study said.

The study also examines savings under scenarios that mimic the German health care system.

In Germany, wage earners and salaried employees must enroll in one of about 1,000 "sickness funds," which are independent non-profit funds financed mainly by employers and employees.

"The heavy German payroll tax would result in a greater burden on employers than under the Canadian-style system," the survey authors said. However, pretax employer savings would still reach $536 billion over the decade when adjusted for inflation, the study reported.

Under a German-style system, more of the costs would be shifted to consumers in the form of higher personal income taxes, the study explained.

The report "makes the point very strongly that the most expensive choice in front of us is to do nothing at all," said Karen Ignani, director of the department of employee benefits at the AFL—CIO in Washington, D.C.

"Purchasers, business and the government will have to take a hard look at this," she said.

However, the report does not address the administrative complexities of implementing a national health plan, and that is a problem for some observers.

"A key element in any major reform is the transition period. Dealing with that phase is the key," NAM's Ms. Canner said. "How do we get from where we are now" to a reformed system? she asked. "This report doesn't address that."

"Getting from here to there represents a huge challenge," agreed Nat Semple, vp and secretary of the Committee for Economic Development, a private, non-profit research and policy institute in Washington, D.C., consisting of about 250 Fortune 500 chief executive officers.

"Corporate America's willingness to make the tradeoffs discussed in the report is divided," Mr. Sample said.

"If you are a manufacturer providing comprehensive health benefits, you'd be glad to see a national health care system. But, if you are a small employer that does not currently provide coverage, you might not. Business is anything but monolithic on this issue."

The study, however, is a good tool to have in the debate, Mr. Semple added.

Public Citizen, a consumer action group in Washington, D.C., had not studied the report in detail, a spokesman said.

But, "this study will be long forgotten when they actually get ready to look at health care reform in Congress," he predicted. While Public Citizen advocates the adoption of a Canadian-style health care system in the United States, it does not advocate cutting health care spending in the United States to Canadian levels, he said.

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A free copy of "A National Health Plan in the United States: The Long-term Impact on Business and the Economy," can be obtained from the Economic and Social Research Institute, 1820 Discovery St., Suite 340, Reston, Va. 22090; 703-709-6604.

Update

OSHA levies $10 million fine

Continued from page 2

IMC will pay about $9.8 million of the fine. The two companies also have agreed to institute new safety procedures at both the Sterlington plant and a phosphate processing facility in New Wales, Fla.

The fine was levied under a new schedule of increased penalties that OSHA adopted earlier this year (*BI*, Feb. 4).

The IMC and ANGUS fine was the second record OSHA fine assessed recently under these new penalties. Citgo Petroleum Corp. already has agreed to pay $6 million in fines in connection with a March 3 refinery fire that killed six workers in Lake Charles, La. (*BI*, Sept. 2, March 11).

Product liability reporting plan

WASHINGTON—Manufacturers of consumer goods would be subject to broader government reporting requirements for civil actions alleging product injury under proposed rules by the Consumer Product Safety Commission.

The proposed rules, published Oct. 28 in the Federal Register, would substantially increase the circumstances under which manufacturers must report product injury cases to the commission and would impose civil penalties of up to $1.25 million for reporting failures. Firms would be required to report to the commission:

- Any product that is deemed by the manufacturer to pose an "unreasonable risk of serious injury or death."
- When a "particular model" of a product is the subject of three or more civil actions, filed within a prescribed 24-month period, that allege death or grievous bodily injury. The actions must result in a final settlement or in a judgment in favor of the plaintiff.

However, manufacturers would not be required to disclose the amount of any settlement. And, the reports would not constitute an admission that the product is dangerous or defective.

The rules also would bar the commission from disclosing any of the information contained in the manufacturers' reports.

Syndicate 418 complaints

LONDON—More than 200 members on the open 1985 underwriting account of Lloyd's of London's largest syndicate plan to meet this week to discuss their dissatisfaction with the syndicate's management.

At least one member, Kenneth R. Lavery of Oakville, Ontario, has complained to Lloyd's that syndicate 418, managed by Merrett Underwriting Agency Management Ltd., should have kept open its 1982 underwriting year, during which it wrote 11 runoff reinsurance contracts that later produced substantial losses for the 1985 account. Had Merrett kept syndicate 418 open in 1982, more than 2,000 members who joined between then and 1985—including Mr. Lavery—would not have been hurt by the later losses, he charged.

Mr. Lavery pointed out that syndicate 317/661, managed by R.H.M. Outhwaite (Underwriting Agencies) Ltd., kept its 1982 underwriting year open because of runoff contracts (see related story, page 99).

But, Dennis Purkiss, deputy underwriter for syndicate 418, said members have been kept fully informed about the motives for closing the underwriting year.

Sharp cutbacks at III

NEW YORK—With its membership assessments off sharply, the Insurance Information Institute is cutting back sharply on its regional office operations, reducing its 73-person staff by nearly one-third and shutting down its magazine, "Insurance Review."

Hit especially hard by the defections of several national insurers (*BI*, May 6), the New York-based public relations group's budget next year will be slashed nearly 31% to $9 million from $13 million in 1991, according to III President Gordon Stewart.

Regional offices in Atlanta, Boston, Chicago and Washington, D.C., will no longer be staffed by III employees. Instead, they will be maintained through independent service contracts, Mr. Stewart said. The group's federal affairs office in Washington, D.C., will not be affected.

The group's cutbacks do not mean it is abandoning its "first and foremost" mission of being the source of record on property/casualty insurance subjects, according to Mr. Stewart.

In addition, the III will undertake initiatives in several areas, including tort reform and environmental liability. The III also will attempt to carry out more cooperative efforts with other industry groups, he said.

Briefly noted

Wind, hail, tornadoes and flooding caused about **$25 million in insured property damage** to portions of Louisiana Oct. 22, reports the Property Claim Services division of the American Insurance Services Group. The Baton Rouge area was hit hardest. . . .Exxon Corp. claims in litigation filed in state and federal court that faulty steering controls made by Sperry Marine Inc. led to the March 1989 grounding of the **Exxon Valdez** and the ensuing massive oil spill. UNISYS Corp., which owned Sperry Marine when the Valdez steering system was installed and is a named defendant in the suit, said a National Transportation Safety Board Study found the disaster was not caused by mechanical failure. . . .Philip W. Barnes is resigning as the **Texas insurance commissioner** after less than a year on the job, saying he never intended to make a career at the Texas Department of Insurance. Georgia D. Flint, associate commissioner for license and investigations, has been named acting commissioner until a permanent replacement is named. . . .The Texas State Board of Insurance is appealing a state district court judge's decision striking down a regulation that Texas insurers must write **automobile coverage for previously uninsured motorists** at normal rates. The judge said the board exceeded its authority (*BI*, Oct. 7). . . .Employers and insurers are launching the Coalition for the Preservation of ERISA Pre-emption to try to defeat a bill introduced in the House and Senate that would **expose group health insurers to state penalties**—including punitive damages—for improperly denying claims. Business lobbyists say the House bill, H.R. 1602, could be voted on by the House Education and Labor Committee this month (*BI*, Sept. 30).

Reform bills

Continued from page 1

health care access reform," said Frank McArdle, a consultant with Hewitt Associates in Washington, D.C.

The new bills recognize the difference between "what can be done in the short term vs. what can be done in the long term," he said.

"The two finance chairmen have decided to bite off a piece of health care reform that is doable," said Ellen Goldstein, director of health care policy for the Assn. of Private Pension & Welfare Plans in Washington, D.C.

"The greatest significance is that incrementalism is likely to be the rule in health care reform," agreed Dallas Salisbury, president of the Employee Benefit Research Institute in Washington, D.C.

Although the bills are identical in many ways, they differ notably in their approaches to cost containment.

Under the Bentsen bill, managed care and utilization review programs could avoid state restrictions on managed care by obtaining federal certification. This would allow more businesses to take advantage of the lower costs associated with managed care without fear of state laws that, for example, limit the use of UR, require coverage of certain benefits or limit discounts.

Standards for certification, which would be set by the secretary of health and human services, are not defined by the bill.

The Rostenkowski bill would take a much different—and much tougher—approach. Under that measure, the HHS secretary would be required to establish specific payment rates for health care services, which health care payers would then have the "option" of using, beginning in 1994.

The rates would be based on payment schedules used by Medicare, although the bill would allow "appropriate adjustment to reflect differences in the benefits and populations served."

A spokesman for the American Medical Assn. in Chicago said the AMA is concerned about the Rostenkowski bill's provision to base rates on Medicare payment schedules because "recent budget cuts and interpretation of the resource-based relative value scale shows that Medicare reimbursement is very vulnerable to federal budget cuts."

According to the Rostenkowski bill, a health care purchaser could choose to follow the established rates. As long as payment is made "on a timely basis," the provider could not seek a higher rate.

Providers that try to charge a higher rate, or refuse to accept the set rates, could be subject to civil fines. The bill would not prohibit providers from accepting payments lower than the established rate.

"This would be a break with common practice in a number of ways. We'd be in uncharted waters," said Mr. McArdle of Hewitt. It is a "radical" change, he said.

Allowing providers to charge rates below the established rates would still leave room for managed care, if such a strategy were more cost-effective, he noted. However, "as a practical matter, many purchasers would choose the Medicare rates," he said.

Mr. McArdle said that the "optional" part of the rate proposal would simply allow purchasers to choose not to follow the rates if they wish, although he said few would pursue such a strategy.

"There's been considerable cost-shifting as Medicare cut back its rates," he said, explaining that employers that locked into the established rates would be insulated from those cost shifts. Employers that for some reason decided to pay the higher rates would suffer considerably from cost-shifting, he said.

The Rostenkowski bill's rate control proposals "will sure get a lot of people's attention," said Stuart J. Brahs, vp-federal government relations with the Principal Financial Group in Washington, D.C.

The APPW's Ms. Goldstein, though, expressed disappointment with the lack of emphasis on managed care in both bills. She added that she likes the fact that the Bentsen bill would pre-empt state laws regulating managed care.

Sharon Canner, assistant vp-industrial relations for the National Assn. of Manufacturers in Washington, called the provision in the Bentsen bill that would exempt managed care programs from state regulation a "plus." She called the Bentsen bill "more practical" than the House measure calling for health care rate controls.

A spokesman for the Health Insurance Assn. of America in Washington, D.C., also said the health insurer trade group is "very pleased to see" the incentives for managed care in the Bentsen measure.

Its "emphasis on managed care would be viewed very favorably" by members of the Washington Business Group on Health, said Rick Smith, director-public policy.

The Rostenkowski measure would garner less support. "Frankly, within the employer community, rate-setting remains very controversial," he said.

While taking a smaller-scale approach to health care reform may be more politically plausible, observers question how quickly either measure will be passed.

EBRI's Mr. Salisbury pointed out that the fact that the bills differ indicates that even relatively small changes in the health care system may take a considerable amount of time to implement.

"Even on as 'narrow' an issue as small group health care reform, that two senior leaders of the same political party would have significant differences on approach implies that even small incremental reforms will take a significant amount of time to build consensus," said Mr. Salisbury.

Principal's Mr. Brahs added that neither bill is likely to represent the final version of whatever small-group health-care access legislation emerges in Congress.

"I don't believe either (Rep. Rostenkowski or Sen. Bentsen) is necessarily wedded to every jot and tittle," he said.

Despite the differences in their approach to cost containment, the bills share many common provisions. Both would:

- Allow employees with pre-existing medical conditions who switch jobs without a lapse in health coverage of more than three months to maintain coverage under the new employer's policy without being penalized for the pre-existing condition.
- Increase the current 25% tax deduction for health insurance premiums paid by the self-employed to 100%. The current 25% deduction is scheduled to lapse at the end of 1991.

Observers note that the revenue lost from this provision would have to be made up somewhere. Both Sen. Bentsen and Rep. Rostenkowski have estimated that that provision could cost the Treasury Department as much as $10 billion over a five-year period.

- Create minimum standards for insurance sold to small employers, defined as those with two to 50 employees. Insurers violating the standards would be subject to a 25% federal excise tax on the premiums from policies sold to small employees.

Principal's Mr. Brahs called the proposed tax "Draconian."

Meanwhile, the Rostenkowski bill also would effectively bar the use of self-insurance for small-employer plans by subjecting them to an excise tax of 25% on all benefits paid.

"My guess is that their feeling is that the level of risk at smaller levels is greater," Hewitt's Mr. McArdle said. By imposing the tax on small self-insured employers, the Rostenkowski bill would "encourage those employers to use insured plans, where there would be both new standards and a greater pooling of risk," he said. ■

Christo umbrella accident

Continued from page 1

ment. The Christo umbrella that struck Ms. Keevil-Mathews had been planted in an area adjacent to a county road.

The county is one of several named insureds on a comprehensive general liability policy that Christo purchased to cover the project, according to Tom Newell, liability claims adjuster for Kern County. However, the county also had signed a hold-harmless agreement with the artist.

The policy, with limits of $1 million per occurrence and $2 million aggregate, was written by St. Paul Fire & Marine Insurance Co., Mr. Newell said.

Others named in the policy include Christo, other public entities like Los Angeles County and the state of California, and landowners that granted easements for the project including Tejon Ranch, a publicly traded company located in Kern County.

Along with the name of each owner, the policy details the parcel location and the number of umbrellas on each parcel, Mr. Newell said. "A lot of thought went into this."

The policy was placed by Frenkel & Co. Inc. in New York. Alan Samuels, Frenkel's vice chairman and chief executive officer, confirmed that coverage for the project had been placed with St. Paul.

"We feel that our staff has done an excellent job in protecting the county," Mr. Newell said, explaining that the county requires a hold harmless agreement with every permit to use county land.

The clause states that "the permittee shall indemnify the county of Kern and any of its officers and employees and shall defend and hold them harmless from any and all claims" arising out of personal injury or property damage, he explained.

"I don't recall that we required Christo to have the (insurance) policy," Mr. Newell continued. But, "it was prudent" of the artist "to go out and get it since we told them we will hold them responsible for any lawsuits that involve us."

Kern County self-insures its own liability exposures, Mr. Newell said.

"Christo insures all of his projects," said Frenkel's Mr. Samuels, noting that there had been no serious accidents at a Christo project until the recent deaths.

Mr. Samuels said that Frenkel also placed coverage for the Japanese portion of Christo's umbrella project, but he declined to provide details. He speculated that the worker's death in Japan would be covered by workers compensation.

Frenkel has placed coverage for Christo's prior projects, he said.

Christo specializes in controversial projects. He has run a fence through two California counties, covered the Pont Neuf in Paris and wrapped islands in Biscayne Bay in pink fabric.

Allene Zanger, general counsel for Tejon Ranch, declined to discuss details of the company's easement agreements with Christo. Tejon Ranch is "well insured," Ms. Zanger said, declining to elaborate.

Meanwhile, Christo's attorney, Scott Hodes, of Chicago-based Arvey Hodes Costello & Burman, was quoted in local papers stating he could find no witnesses, apart from Ms. Keevil-Mathews' husband, who saw the umbrella strike her. Mr. Hodes did not return telephone calls.

Local papers reported that Mr. Mathews said his 33-year-old wife suffered from rare non-malignant tumors and had possibly less than 10 years to live.

"We were told by the husband that she was struck by an umbrella, and we have no reason to believe other than that," explained a spokesman for the Kern County Sheriff's Department. ■

Balance sheet tricks, not treats

By MYRON M. PICOULT

Special to Business Insurance

Over the past year, as we have discussed the operating results and the outlook for the property/casualty industry, we have consistently harped on the fact that the reported numbers were "dirty" and not truly indicative of the industry's paltry operating environment.

A review of the 1991 second-quarter and six-month figures further underscored our contention. On balance, premiums were down, but not as much as the sloppy pricing environment seemed to indicate. Likewise, cash flows were shrinking, but there was no real sign of red ink. Furthermore, the relatively "flat" combined ratios appeared to be a remarkable achievement, given the industry's higher retentions, negative spread between price increases and loss costs and the high level of catastrophe losses through the first half of the year. Paid loss levels also were remarkably bland.

In general, managements attributed their relatively favorable performance to reductions in exposure and favorable reserve developments. We have had a lot of trouble swallowing that story. As we surveyed the landscape, we spotted something that we believe has and is contributing greatly to the perpetuation of distorted income and balance sheet figures. Our guess is that there has been a marked increase in the use of various forms of financial reinsurance to obfuscate the real operating trends in the business. This is exacerbating the underwriting cycle and prolonging the agony.

We do not yet have a feel for the size of the market, but our visceral feel is that it probably involves more zeros than most hand-held calculators can handle. Ceding companies do not have to provide much information on financial reinsurance transactions unless they involve loss portfolio transfers. Data in A.M. Best Co.'s Aggregates and Averages for 1991 shows that ceded premiums on loss portfolio transfers rose to $103 million in 1990 from about $36 million in 1989. Additionally, the total net loss and loss expense figures incurred in the latter part of the 1980s are materially greater than the figures posted in the early 1980s.

Indeed, not all financial reinsurance transactions are bad. Transactions that involve a true transfer of both underwriting and timing risk are very acceptable. In the absence of the foreign treatment for the use of equalization reserves for tax accounting, it is almost essential that some form of financial reinsurance for catastrophe coverage be utilized. Hence, our perspective that financial catastrophe coverages are both logical and acceptable.

The problems lie with "sham" financial reinsurance transactions that obfuscate true operating trends. Statutory accounting principles generally prohibit the discounting of loss reserves. Many of the financial reinsurance schemes enable the ceding carrier to accomplish the discounting by reporting the discounting as a recoverable and underwriting income. We have difficulty discounting that which is deficient. The industry's reserve development record speaks for itself. The discounting of deficient loss reserves only compounds the industry's problems.

For example, assume that an insurer has a $12 million block of business that is severely underreserved. This is the ultimate reason to seek out a financial reinsurance arrangement. The ceding company enters into a finite financial reinsurance transaction involving excess-of-loss reinsurance. The ceding company purchases a layer of $5 million excess of $10 million for a premium of $3 million. On a ceding carrier's income statement, premiums decline $3 million and claims drop by $5 million. Hence, an underwriting profit of $2 million was created. From a balance sheet perspective, assets, cash and investments recede by $3 million, while liabilities (loss and loss expense reserves) decline by $5 million. Hence, the ceding company's statutory surplus figure is enhanced by $2 million.

This transaction distorts the ceding company's leverage ratios. Both the premium-to-surplus and reserve-to-surplus ratios decline. The loss ratio and the combined ratio are also distorted, since losses are netted out against the reinsurance deal. Put another way, financial reinsurance is being used to take balance sheet items off the balance sheet. This results in an apparent improvement in a ceding carrier's financial strength and may also result in some deferral of taxes for U.S.-based companies.

The proliferation of financial reinsurance has not gone unnoticed. The National Assn. of Insurance Commissioners is engaged in a study to review the appropriate statutory accounting treatment for financial reinsurance transactions. Likewise, the American Institute of Certified Public Accountants has put forth a draft "Guidance for Assessing Risk Transfer in Property and Liability Reinsurance Contracts."

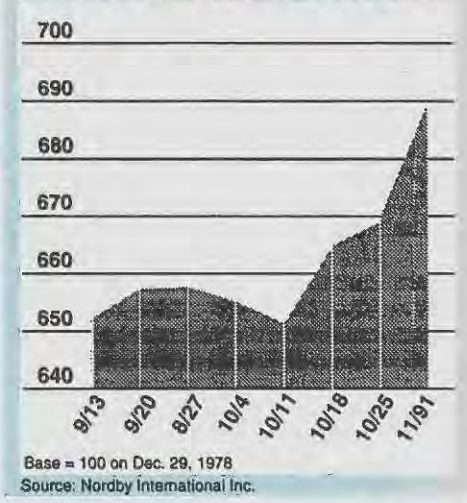
The New York Insurance Department—one of the strongest if not the strongest in the NAIC—has already latched onto the situation. New York statutes (Regulation 108) provide guidance on the appropriate kind of disclosure, so that it's possible to see the effect of the transaction on a company's financials. The effect of the transaction is shown as a separate item from the surplus figure.

A key problem at this time is the lack of disclosure by ceding companies. We believe that property/casualty insurers should be required to provide information on how much financial reinsurance they have purchased, the financial reinsurer and the reason or reasons behind the transaction. We may have a shot at getting responses to the first two queries, but the last request may be tough. Indeed, the ultimate reason for a financial reinsurance placement is deficient reserves with little prospect of correcting the problem in a reasonable time frame. Once this information has been provided, analysts and industry observers could "gross up" the numbers and get a peek at the real leverage ratios and a more realistic picture of underwriting results and combined ratios.

The flagrant abuse of financial reinsurance is convoluting both income statements and balance sheets. The industry's integrity is currently under attack. Sustaining financial shenanigans does not help the situation and invites a faster and more forceful federal regulatory foray if the NAIC cannot exhibit strong leadership on this issue. From our perch, financial reinsurance that does not involve a true transference of risk looks more like a trick than a treat! ■

Myron M. Picoult is managing director and senior insurance analyst with Oppenheimer & Co. in New York. He is the past president of the Assn. of Insurance & Financial Analysts and a member of the New York Society of Security Analysts.

BI Insurance Index



Base = 100 on Dec. 29, 1978
Source: Nordby International Inc.

Insurance industry stocks shot up last week as the *Business Insurance* Index rose 21.07 points to 689.65 on Nov. 1 from to 668.58 on Oct. 25. Advancing issues for the week were led by Chandler Insurance Co., up 28.57%; Argonaut Group, up 12.38%; and CIGNA Corp., up 12.01%. Declining insurance issues for the week followed American Indemnity Financial Corp., down 13.04%; FHP International, down 9.78%; and United Fire & Casualty Group, down 7.49%. The most active issue for the period was U.S. Healthcare, with 4.1 million shares traded. The *BI* Index was up 3.2%; the New York Stock Exchange Composite was up 2%; the Standard & Poor's 500 was up 1.8; and the Dow Jones 30 Industrials was up 1.7%.

British Issues

Oct. 31 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High pence	1 Week Low pence
Commi Union	478	N/M	30.7	6.4	478	464
Genl Accident	509	N/M	35.7	7.0	509	498
Gdn Royal Exch	161	N/M	15.9	9.9	161	154
Royal	305	N/M	34.7	11.4	305	296
Sun Alliance	332	N/M	18.7	5.6	332	326
Brokers						
Bradstock	167	19.0	6.0	3.6	167	167
CE Heath	499	17.3	34.5	6.9	499	488
Hogg Group	204	12.2	10.7	5.2	208	204
Lloyd Thompson	461	23.2	12.0	2.6	461	460
Lowndes Lmbrt	348	17.3	15.3	4.4	348	344
PWS Holdings	84	9.8	4.7	5.6	84	84
Sedgwick Grp	251	23.8	16.0	6.4	25	238
Steel Brrl Jones	320	16.8	16.3	5.1	320	320
Willis Corroon	300	15.8	17.6	5.9	300	292

Source: Philip Olsen, Insurance Industry Analyst, London

BI Industry Stock Report

OCTOBER 28, 1991 THROUGH NOVEMBER 1, 1991

		Price	Weekly % change	Year to Date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt/Bk. value
BROKERS												
Alexander & Alexander	NYS	19.38	0.65	-16.22	27.63	19.00	660	1.00	5.16	16	9.77	1.98
Gallagher Arthur J. & Co.	NYS	21.00	5.00	-9.68	28.38	19.00	15	0.64	3.05	17	5.88	3.57
Frank B. Hall	NYS	3.38	-3.57	-6.90	4.38	2.00	84	0.00	0.00	-7	-5.24	-0.64
Hilb, Rogal & Hamilton	OTC	12.50	4.17	-15.25	17.50	11.25	305	0.36	2.88	22	3.56	3.51
Marsh & McLennan	NYS	75.13	6.18	-3.69	87.25	69.13	875	2.60	3.46	18	14.77	5.09
Poe & Associates	OTC	11.88	-1.04	85.55	12.50	6.50	486	0.32	2.69	13	2.52	4.71
BROKERS	AVERAGE		1.6	4.8					2.5	11		
CONGLOMERATES & HOLDING COMPANIES												
Berkley W.R. Corp.	OTC	28.25	6.60	-24.67	32.25	21.50	99	0.32	1.13	16	23.89	1.18
Berkshire Hathaway Inc.	NYS	8525.00	0.29	27.72	8525.00	183.59	0	0.00	0.00	-31	4612.00	1.85
ITT (Hartford Group)	NYS	56.38	1.58	17.45	63.00	44.50	867	1.72	3.05	9	64.01	0.88
Sears (Allstate)	NYS	36.75	0.68	44.83	43.50	24.38	2047	2.00	5.44	13	37.38	0.98
CONGLOMERATES	AVERAGE		2.3	16.3					2.4	2		
INSURERS/REINSURERS												
Aetna Life & Casualty	NYS	39.13	3.64	0.32	49.13	31.88	2611	2.76	7.05	8	64.23	0.61
American General	NYS	42.50	2.10	38.21	42.50	26.50	806	2.00	4.71	11	37.14	1.14
American Heritage	NYS	30.00	-0.83	42.86	32.25	19.63	3	1.08	3.60	12	19.25	1.56
American Indemnity/Fin'l	OTC	5.00	-13.04	53.85	7.75	2.75	37	0.08	1.60	15	12.93	0.39
American International	NYS	86.88	5.14	13.01	102.00	67.88	1973	0.48	0.55	12	45.34	1.92
Aon Corp.	NYS	38.88	6.14	11.87	41.75	29.75	334	1.60	4.12	11	18.50	2.10
Argonaut Group	OTC	29.50	12.38	38.28	33.38	18.75	261	0.68	2.31	9	48.26	0.61
AVEMCO Corp.	NYS	25.38	-2.40	50.74	27.25	14.13	20	0.40	1.58	19	9.55	2.66
Baldwin & Lyons Inc.	OTC	26.50	9.84	41.33	26.50	17.00	56	0.28	1.06	8	24.29	1.09
Belvedere Corp.	ASE	3.38	-6.90	35.00	3.75	1.75	2	0.04	1.19	14	7.65	0.44
Chandler Insurance	OTC	3.38	28.57	-50.91	7.25	2.13	626	0.00	0.00	-2	5.95	0.57
Chubb Corp.	NYS	70.13	9.36	29.26	75.25	44.00	1178	1.48	2.11	11	35.19	1.99
CIGNA Corp.	NYS	53.63	12.01	31.19	56.75	35.50	890	3.04	5.67	11	73.15	0.73
CNA Financial Corp.	NYS	91.50	4.87	33.33	92.50	53.00	115	0.00	0.00	13	70.23	1.30
Continental Corp.	NYS	25.25	3.06	1.51	30.63	19.00	824	2.60	10.30	9	37.83	0.67
Durham Corp.	OTC	35.00	4.48	25.00	35.00	24.50	52	1.00	2.86	20	28.04	1.25
Fund American Corp.	NYS	65.75	0.38	26.75	67.13	45.00	100	0.68	1.03	11	36.11	1.82
Fremont General Corp.	OTC	22.75	10.98	56.90	25.25	11.63	473	0.88	3.87	7	19.13	1.19
Frontier Insurance Group	NYS	24.00	1.05	26.32	25.88	15.69	16	0.00	0.00	10	11.20	2.14
Gainsco Inc.	ASE	11.88	0.00	55.74	12.88	4.50	26	0.04	0.34	15	3.37	3.52
General RE Corp.	NYS	92.25	3.36	-0.81	102.50	80.00	833	1.68	1.82	13	37.50	2.46
Hanover Insurance Co.	OTC	36.50	2.10	37.74	36.50	21.25	119	0.44	1.21	13	37.44	0.97
Harleysville Group	OTC	28.50	3.64	24.59	32.00	15.75	20	0.64	2.25	9	22.99	1.24
Hartford Steam Boiler	NYS	53.00	4.18	8.72	63.75	43.63	149	2.00	3.77	14	17.05	3.11
Kansas City Life Ins.	OTC	32.25	0.00	4.45	36.00	30.25	3	1.20	3.72	8	39.22	0.82
Kemper Corp.	NYS	38.00	7.04	60.00	39.25	17.63	340	0.92	2.42	10	34.20	1.11
Lawrence Insurance Group	ASE	9.00	-1.37	28.57	9.50	6.38	11	0.48	5.33	14	4.71	1.91
Liberty Corp.	NYS	42.75	2.40	3.95	48.00	39.00	14	0.92	2.15	14	23.86	1.79
Lincoln National	NYS	52.13	4.25	21.22	55.25	33.00	422	2.72	5.22	11	45.16	1.15
Market Corp.	OTC	18.25	1.39	55.32	19.50	10.25	21	0.00	0.00	9	3.22	5.67
Mutual Risk Mgmt. Ltd.	NYS	24.75	5.88	-	26.75	17.00	48	0.20	0.81	25	-	-
NAC Re Corp.	OTC	24.75	6.45	-25.00	28.34	19.34	224	0.16	0.65	13	18.90	1.31
Navigators Group	OTC	31.00	-3.13	41.98	35.00	16.50	8	0.00	0.00	18	13.52	2.29
Nobel Insurance LTD.	OTC	3.63	-4.93	20.83	4.38	2.50	136	0.00	0.00	5	7.76	0.47
NWNL Companies	NYS	34.63	9.06	105.19	34.63	13.25	826	1.40	4.04	9	42.73	0.81
Ohio Casualty Corp.	OTC	44.75	0.00	9.15	50.25	32.75	535	2.48	5.54	9	36.38	1.23
Old Republic Int'l	NYS	33.25	1.53	45.36	33.75	18.63	76	0.72	2.17	8	33.09	1.00
Orion Capital Corp.	NYS	32.00	0.00	82.86	32.38	13.50	45	0.92	2.88	10	20.42	1.57
Phoenix RE Corp.	OTC	9.00	0.00	16.13	10.25	6.25	190	0.20	2.22	11	13.30	0.68
Protective Life Corp.	OTC	21.50	-2.27	44.54	22.50	12.50	330	0.84	3.91	9	16.29	1.32
Provident Life	OTC	19.38	4.73	10.71	24.50	14.25	993	1.00	5.16	6	25.88	0.75
Re Capital Corp.	ASE	14.25	-2.56	10.68	18.63	11.75	14	0.20	1.40	10	15.05	0.95
Reliance Group Holdings	NYS	4.75	-5.00	2.70	7.50	4.25	36	0.32	6.74	3	5.61	0.85
RLI Insurance Corp.	NYS	16.00	2.40	10.34	16.38	10.50	18	0.48	3.00	8	14.41	1.11
St. Paul Companies	OTC	65.50	6.50	4.38	74.25	54.50	1132	2.60	3.97	7	52.00	1.26
SAFECO Corp.	OTC	38.88	1.97	18.25	44.75	27.75	578	1.48	3.81	9	31.50	1.23
SCOR U.S. Corp.	NYS	15.75	1.61	27.27	16.50	8.50	17	0.24	1.52	9	11.19	1.41
Seibels Bruce Group	OTC	6.00	-5.88	41.18	8.88	4.25	70	0.36	6.00	120	7.35	0.82
Selective Ins. Group	OTC	16.50	4.76	24.53	18.00	12.50	43	1.04	6.30	9	18.91	0.87
Statesman Group Inc.	OTC	6.00	5.49	283.88	6.06	1.25	955	0.00	0.00	18	2.48	2.42
Tokio Marine & Fire	OTC	51.50	1.98	8.99	56.50	40.50	41	0.00	0.00	-	70.93	0.73
Torchmark Corp.	NYS	52.88	1.93	8.18	58.50	38.00	373	1.60	3.03	12	16.70	3.17
Transamerica	NYS	36.13	-0.69	10.73	38.38	28.13	402	2.00	5.54	13	36.56	0.99
Transatlantic Holdings	NYS	34.38	4.96	25.57	39.38	22.63	127	0.20	0.58	12	18.38	1.87
Travelers Corp.	NYS	20.00	-2.44	20.30	25.38	12.50	1719	1.60	8.00	-10	41.44	0.48
Trenwick Group Inc.	OTC	25.25	1.00	9.19	30.00	19.25	102	0.60	2.38	9	21.71	1.16
United Fire & Casualty	OTC	43.25	-7.49	23.13	58.00	32.00	16	1.32	3.05	11	35.39	1.22
USF&G Corp.	NYS	7.13	-5.00	-5.00	13.63	6.13	1418	0.20	2.81	-1	11.96	0.60
UNUM Corp.	NYS	68.88	4.75	47.72	70.25	39.00	400	1.04	1.51	11	37.25	1.85
USLIFE Corp.	NYS	44.13	3.82	57.59	44.13	25.63	96	1.64	3.72	10	60.34	0.73
Unitrin	OTC	34.00	-1.81	10.57	41.50	27.75	181	1.00	2.94	13	30.70	1.11
Washington National	NYS	15.88	8.55	45.98	15.88	9.38	33	1.08	6.80	-6	26.85	0.59
USLICO Corp.	NYS	18.25	1.39	14.96	21.00	14.75	77	1.00	5.48	10	29.44	0.62
Zenith National Ins.	NYS	16.63	6.40	22.02	18.50	10.13	20	1.00	6.02	-88	13.14	1.27
INSURERS/REINSURERS	AVERAGE		2.8	33.0					3.4	11.4		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	OTC	10.38	-9.78	-31.97	29.75	10.00	1801	0.00	0.00	8	5.44	1.91
HMO America Inc.	OTC	14.00	9.80	115.38	17.13	5.00	1527	0.00	0.00	16	0.61	22.95
Pacificare Health Sys.	OTC	22.50	3.45	38.46	42.50	12.50	240	0.00	0.00	11	6.55	3.44
Safeguard Health Enter.	OTC	7.25	1.75	52.63	7.88	4.00	49	0.00	0.00	17	3.53	2.05
Sierra Health Services	ASE	14.00	-4.27	1.82	29.50	8.63	171	0.00	0.00	7	1.78	7.87
United Healthcare Corp.	NYS	63.75	7.37	174.19	63.75	17.00	577	0.06	0.09	36	3.75	16.95
United Medical Corp.	ASE	6.50	8.33	-18.75	10.88	5.88	25	0.20	3.08	11	8.73	0.74
U.S. Healthcare	OTC	31.75	4.10	8.09	38.00	14.50	4087	0.44	1.39	16	3.39	9.39
HMOs	AVERAGE		2.6	42.5					0.6	15		
ALL COMPANIES	AVERAGE		2.6	29.7					2.9	11		

System design: Nordby International Inc.

Executive Life

Continued from page 2

products. Including muni-GIC holders as policyholders would increase the failed insurer's liabilities by $1.85 billion.

This scenario would throw a wrench into the bid for Executive Life that Insurance Commissioner John Garamendi has recommended to the judge.

That bid, submitted by the National Organization of Life & Health Guaranty Assns., excludes payment on GICs issued to municipalities to back municipal bonds sold during the mid-1980s (*BI*, Oct. 28; Oct. 21; Oct. 14; Sept. 2).

Meanwhile, NOLHGA last week was soliciting pledges for leading U.S. insurers to back its bid for Executive Life if the nation's guaranty funds fail to provide necessary capital over the next five year, a spokeswoman confirmed.

While Judge Lewin did not say when he would render a decision on the muni-GIC controversy, Insurance Department attorneys hope a ruling would come today or Tuesday. NOLHGA has until today to resolve uncertainties in its bid.

The judge has 90 days in which to rule on the policyholder status of the muni-GIC holders.

GIC experts and employers whose pension plans bought GICs say that making the holders of those contracts mere general creditors would wreak havoc with the more than $200 billion pension GIC industry.

"It would be a gross injustice" for the judge to rule that pension GICs are not insurance products, said Peter Bowles, president of pension investment firm Fiduciary Capital Management in Woodbury, Conn.

"The judge would portray a fundamental misunderstanding of pension GICs if he saw them in the same light" as muni-GICs, he said.

A decision that pension GICs are not insurance products would create a crisis, said Gail Cohen, a lawyer representing the participants of Xerox Corp.'s defined contribution pension plan.

"Do you realize what that would do?" asked Ms. Cohen, who is with Barger & Wolen of Los Angeles. "You'll see this courtroom filled with insurance company presidents ready to commit suicide."

Most pension plan administrators consider pension plan GICs insurance products, said Robert R. Evans, chairman of the Group Annuity Participant Protection Assn.

"If you'd taken a poll prior to this event, there was a universal perception that these contracts were indeed an insurance product and they were indeed covered by guaranty funds," Mr. Evans said.

'It would be a gross injustice' for the judge to rule pension GICs are not insurance, Mr. Bowles says.

The GAPPA, which was formed in June, represents the interests of between 40 and 50 employers that have invested more than $540 million in Executive Life GICs on behalf of 250,000 active and retired defined contribution plan participants.

The GAPPA intervened in the muni-GIC trial "to lend our support to the commissioner's position that muni-GICs are not insurance," Mr. Evans said.

Pension plan GICs, though, are really "group annuity contracts" in which individual plan participants are named as beneficiaries, he said.

Contracts sold to defined contribution plan sponsors identified the GICs as "group annuity contracts," according to Mr. Evans, who also is an assistant treasurer of Xerox.

According to evidence presented during the muni-GIC trial, muni-GICs were not authorized in California until a 1988 law permitted their sale by insurance companies domiciled in the state.

Because the bill, which later became Section 10541 of the state Insurance Code, exempts the products from insurance premium taxes, they must not be insurance products, argued Insurance Department attorney Karl Rubinstein of the Los Angeles law firm of Rubinstein & Perry.

In contrast, the department regards pension plan GICs as a form of annuity that is authorized in California, Mr. Rubinstein said.

GIC experts agree that there is a distinct difference between GICs used to back municipal bond issues and pension plan GICs.

"There is a significant assumption of risk" on behalf of the insurer underwriting a pension GIC, Mr. Bowles said. For example, the insurer is liable for the face amount in the event of the death of a pension plan participant, he explained.

"Muni-GICs work like a zero coupon bond," he explained. A specific sum is deposited at the front end, earning a specific rate of interest over a set period of time and paying a predetermined sum at maturity, he explained.

But "you cannot access it or redeem a part of it during the term," he said.

In contrast, pension plan GICs have a so-called window during which contributions of varying amounts can be made. Pension plan GICs also can be converted into individual annuities, Mr. Bowles explained.

Murray L. Becker, president of Becker & Rooney Inc. of Teaneck, N.J., a GIC service provider, said the convertability of pension GICs into individual annuities separates them from muni-GICs.

However, attorneys for the muni-GIC holders maintain there is no substantive difference between the two.

They also assert that the department is attempting to use the nearly $2 billion in muni-GIC assets to help pay Executive Life's other policyholder liabilities.

"I think they're here to pick our pockets," said Philip S. Warden, an attorney with Pillsbury Madison & Sutro in San Francisco, who represents municipal bond indenture trustees other than Texas Commerce Bank of El Paso, which brought the suit over the standing of muni-GIC holders.

With the exception of a few hardship withdrawals requested by individual pension plan participants, no payments are being made to defined contribution pension plans that purchased Executive Life GICs, the Insurance Department said.

In addition, employees who withdraw funds from their 401(k) plan accounts have access to all but the portion that was invested in Executive Life GICs, he said.

The GIC investments usually comprise only a portion of total pension and 401(k) plan investments, he added. ■

Labor Department suing employer for covering pension with ELIC annuity

HOUSTON—In the fourth suit of its kind, the U.S. Department of Labor is charging that various Halliburton Co. units violated the Employee Retirement Income Security Act by improperly buying Executive Life Insurance Co. annuities to pay pension benefits.

Named in the suit, filed last week in U.S. District Court here, are Geosource Inc., a seismic data gathering and processing firm; Gearhart Industries Inc., which acquired Geosource in 1984; several Halliburton units that the department says are "successors-in-interest" to Geosource and Gearhart; and plan trustees.

Halliburton, which is based in Dallas, is not named in the suit.

According to the suit, the Geosource retirement plan was terminated in 1985 and the benefits replaced with $26.7 million in Executive Life annuities.

After the annuity purchase, Gearhart recovered $17.4 million in surplus assets from the Geosource plan.

The suit alleges that the defendants chose Executive Life without a bidding process and failed to give "meaningful consideration" to the insurer's financial condition.

The Labor Department is asking the court to require the defendants to make up plan participants' losses. Under a conservator's order, workers and retirees covered by Executive Life annuities now receive only 70% of promised benefits.

Earlier this year the Labor Department took similar action against Maxxam Inc., MagneTek Inc. and AFG Industries Inc. (*BI*, July 15, June 17). Those companies also bought Executive Life annuities to pay pension benefits.

—By Jerry Geisel

Kinser named COO of BC/BS Assn.

Comings & goings: industry

Thomas Kinser has been named to the newly created position of executive vp and chief operating officer with the Blue Cross & Blue Shield Assn. in Chicago.

Mr. Kinser, who had been president and chief executive officer at BC/BS of Georgia, will oversee federal programs, finance, marketing, communications, government relations, health care services, provider relations and administration. He will assume the new post on Dec. 2.

Mr. Kinser has been with the BC/BS organization for 22 years.

In other insurer changes:

Reliance Group Holdings Inc. of Philadelphia announced **A. Raymond Williams**, formerly chairman and chief executive officer of American International Group Inc.'s U.S. life companies, appointed executive vp of a newly formed worldwide accident and health division of Reliance National Risk Specialists; **Richard B. Root**, who has been with Reliance since 1980, named senior vp-underwriting services at Reliance National Insurance Co. in Philadelphia; **Jane C. Taylor**, who had been senior vp and actuary for a Reliance assumed reinsurance facility, named senior vp-actuarial standards and programs at Reliance National; **Bonnie J. Ault**, formerly of Albert G. Ruben Co. of Los Angeles, named vp-underwriting in the entertainment arts department; and **John M. Henderson**, formerly with Speare & Co., a Santa Monica, Calif., brokerage, named vp in the entertainment arts department.

American International Group Inc. of New York announced that **Peter J. Haller**, a senior vp with both its A.I.Global and American International Underwriters units, has been named to the newly created position of director of energy marketing for the domestic brokerage group.

Several changes were also reported in the AIG domestic regional operations: **Steve Bisbee** appointed regional vp of the Mid-Atlantic region in Philadelphia; **Joseph M. Cataldo** appointed regional vp of the Northeast region in Boston; **Michael J. Cohen** appointed resident vp in the midtown New York office; and **James L. Williams** named resident vp in Los Angeles.

Home Insurance Co., a unit of Trygg-Hansa SPP Holding A.B., announced these changes: **David Ladd**, who had been a personal lines executive, named executive vp for corporate planning and research; **Peter C. O'Connor** promoted to senior vp from vp and will remain head of the international division; Senior Vp **Richard Lambert**, who had been head of Home's Metro New York office, will joined its headquarters staff to oversee field planning; Vp **James Wandzilak**, formerly manager of the Southern California office, will succeed Mr. Lambert as manager in New York; Vp **Stephen Dennison**, formerly general manager of the Houston office, will succeed Mr. Wandzilak in California; and **Barry Walter** promoted to vp and general manager of the Seattle office.

Also at Home, **Bengt Lindemalm**, formerly vp of Trygg-Hansa Insurance Co. Ltd. and head of its international operations, has joined the international division in New York as vp and European regional director.

Liberty Mutual Insurance Co. of Boston announced these promotions: **James A. DuPont** appointed senior vp and division manager of the New York division; and **William G. Gourley** appointed senior vp and division manager of the Southwest division, based in Irving, Texas.

Chubb Corp. of Warren, N.J., announced these changes at its Chubb & Son Inc. unit: **James L. Talley**, who is manager of the corporate reinsurance department, named senior vp; and **Linda A. Kortlandt**, manager of the Pittsburgh branch office, promoted to vp.

Metropolitan Life Insurance Co. of New York announced that **Ted Athanassiades** was promoted to senior executive vp from executive vp and will continue to head the pensions department.

Richard E. Hinds, formerly a risk manager with a Florida utility, named underwriting manager for Energy Insurance Mutual Ltd. of Tampa, Fla., a captive excess liability insurer for electric and gas utilities.

Takeshi Nozaki appointed senior vp with Continental International, a Continental Corp. division in Cranbury, N.J. Mr. Nozaki, who had been chairman and president of the U.S. division of Tokio Marine & Fire Insurance Co. Ltd., is responsible for Continental operations in Japan, and new business development in the Philippines and Taiwan.

Agents/brokers

Ron W. Forrest named chairman, chief executive officer and president of Alexander & Alexander Inc., the U.S. retail brokerage unit of Alexander & Alexander Services Inc. of New York. Since January, Mr. Forrest, formerly a senior vp, had been responsible for global business operations. He is also a former chairman of Alexander Stenhouse U.K. Ltd. in London.

Also at A&A, Executive Vp **James A. McCormick** named chief executive of risk management services for the global retail operation. He has directed retail operations in Latin America since January.

Willis Corroon P.L.C. announced these changes: **William B. Hanson** joins its Corroon & Black Corp. unit as vp and senior consultant in the employee benefits division in San Francisco; **Chuck Griswold** joined its Corroon & Black Corp. of San Jose unit as senior vp and surety bond manager; and at the Benefit & Specialty Sales Group in Nashville, Tenn., **Brian D. Johnson** appointed president and chief operating officer of the life/health programs division; **Mark H. French** promoted to senior vp and chief administrative and financial officer; and **Dan K. Lee** named president and chief operating officer of its public entities division.

Kenneth M. Potalivo joined The Cal-Surance Cos. of Orange, Calif., as senior vp and manager of the broker's commercial division.

These promotions were announced at two units of Chicago-based Aon Corp.: **Lee A. Brodsky** named president and chief executive officer of Scarborough & Co. and chairman of Bankers Insurance Service Corp.; **Lloyd Wheeler** named to succeed Mr. Brodsky as president of Bankers Insurance Services.

Olwen Maher has been appointed development manager in Continental Europe for Alexander Insurance Managers. She will be based in Dublin, Ireland.

Reinsurance

Brendan R. Connelly appointed president and chief executive officer of North American Reassurance Co. of New York, a unit of Swiss Reinsurance Co. He had been chief operating officer since 1988.

Thomas C. Plummer and **Karl R. Messemer** appointed vps with Skandia America Group of New York.

Frederick Roe named vp in the facultative division of American Re-Insurance Co. of Princeton, N.J.

Douglas G. Munn appointed managing underwriter with Duncanson & Holt Canada Ltd. in Toronto, a new division of Duncanson & Holt Inc.

Prudential Reinsurance Co. of Newark, N.J., announced these changes: **Michael Burke** named regional vp in Philadelphia in the direct treaty department; **David Halm** named vp of regional operations in Chicago with the facultative department; **Ming-I Huang**, who had been vp and chief actuary with Clarendon Insurance Group Inc., named vp-treaty underwriting in the treaty casualty department; and **Vicki Malinski** named director in the treaty property department. ■

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Edgar Bergen & Charlie McCarthy courtesy of the Bergen Foundation.

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