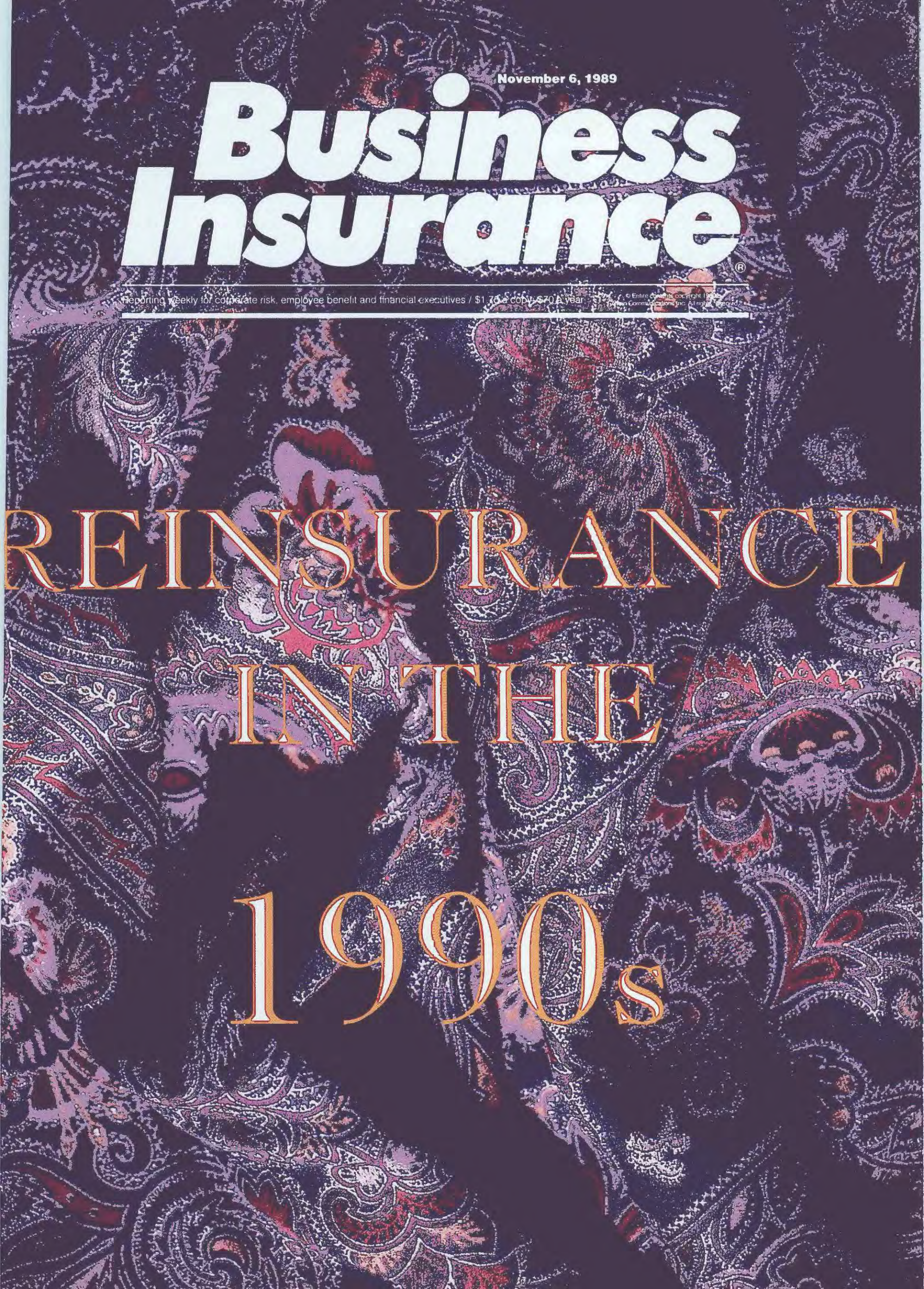
November 6, 1989

Business Insurance®

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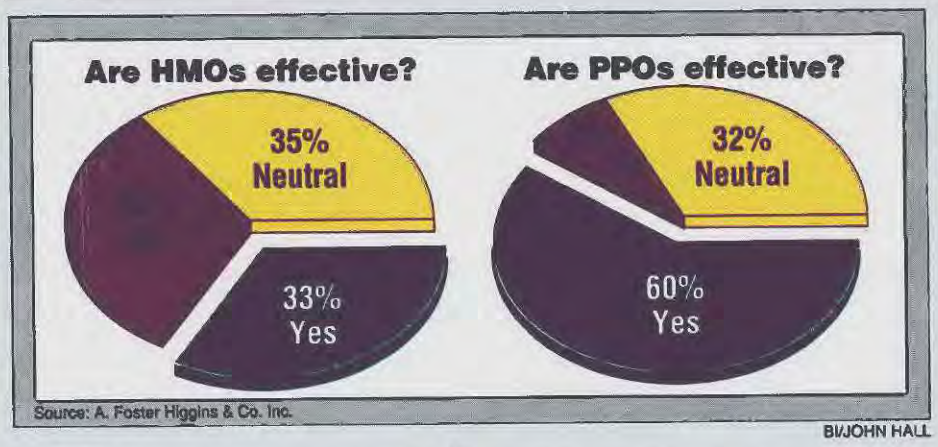
Update

Panel awards $94.5 million in damages to Mission unit

LOS ANGELES—An arbitration panel has issued a final award ordering six reinsurers to pay $94.5 million to Pacific Reinsurance Management Corp., the former reinsurance pooling unit of the insolvent Mission Insurance Co.

U.S. District Judge Terry J. Hatter had remanded an earlier $94 million award to the arbitration panel. That award had included damages that were to be determined by an audit, and sources familiar with the proceedings

Continued on next page



Source: A. Foster Higgins & Co. Inc.

BI/JOHN HALL

Few employers see HMO cost savings

By JERRY GEISEL

PRINCETON, N.J.—Only one-third of employers believe health maintenance organizations are effectively controlling their health care costs, according to a new survey.

And, just 28% of employers believe premiums they pay HMOs fairly reflect the cost of health care coverage for their enrolled employees.

And, while many employers surveyed by benefit consultant A. Foster Higgins & Co. Inc. cannot quantify the cost savings offered by preferred provider organizations, only 60% "believe" that PPOs help control health care plan costs (see story, page 97).

The Foster Higgins study charges that many HMOs and PPOs are not "true organizations," but instead loose affiliations of providers that intend to protect market share rather than control costs.

"When a PPO network includes the majority of an area's physicians and hospitals, or a provider belongs to three or four HMOs, competition becomes illusory," the survey says.

While employers may be growing increasingly skeptical about cost savings from managed care programs, there is plenty HMOs can do to allay that skepticism, according to the survey.

For example, when HMOs set rates based on the experience of individual employers—rather than on that of entire communities—companies have much more confidence in HMO cost effectiveness.

Employers themselves are now taking steps to better manage the cost of their HMOs, the survey found. For example, more employers are consolidating their HMO offerings, and some are changing HMO premium contribution formulas and conducting actuarial studies to determine whether they pay appropriate premiums.

Continued on page 97

IRS won't seek Humana review

Captive ruling now law in 4 states

By STACY ADLER

WASHINGTON—The Internal Revenue Service's decision not to seek U.S. Supreme Court review of a July federal appellate court ruling will make it easier for companies to deduct premiums paid to wholly owned captive insurers.

The IRS let pass an Oct. 25 deadline for filing a writ of certiorari seeking Supreme Court review of a 6th U.S. Circuit Court of Appeals ruling that, in essence, allows corporations to deduct most of the premiums paid to their captive insurers.

The 6th Circuit ruled July 27 that while parent corporations cannot deduct premiums they pay directly to their wholly owned insurance companies, their subsidiaries are entitled to such tax deductions (*BI*, Aug. 28; Aug. 7).

Because the 6th Circuit's decision was not appealed, it is now law in the 6th Circuit, which encompasses Kentucky, Michigan, Ohio and Tennessee.

"This is good news for any taxpayer in the 6th Circuit" that pays premiums to its captive through a subsidiary of the parent company, said Art Hipwell, assistant general counsel for Louisville, Ky.-based Humana Inc., the hospital chain that won the 6th Circuit ruling after a nine-year battle.

"Taxpayers within the 6th Circuit can take deductions and apply for refunds," if they pay captive premiums through their subsidiaries, said attorney Brett Gold of Baker & McKenzie in New York.

Last week, the U.S. Tax Court in Washington in another case indicated that it would follow the 6th Circuit decision in cases involving companies located in the 6th Circuit.

Corporations based outside the 6th Circuit can cite the decision in battles with the IRS over tax deductions for premiums paid to captives, attorneys say.

"Taxpayers in other circuits cannot rely wholly on the Humana decision, but they have an additional arrow in their quiver," Mr. Gold said.

"This will lend support to other courts that think the 'economic family' theory is not viable," said Humana attorney Charles LaVelle of Greenebaum, Doll & McDonald in Louisville, Ky.

Under the IRS's long-held position, officially announced in Revenue Ruling 77-316, premiums paid by a company to its captive are not deductible because subsidiaries and captives are part of the same "economic family."

However, the 6th Circuit in its Humana decision flatly dismissed the "economic family" theory.

"Under no circumstances do we adopt the economic family argument advanced by the government," it said.

The 6th Circuit found that the economic relationship between a parent corporation and its captive bars tax deductions for premiums paid to the captive by the parent because there is no risk shifting or risk distribution in such a transaction. Specifically, the court noted that when a captive suffers a loss it appears on the parent company's bal-

Continued on page 98

Insurance fraud tough to spot: Ex-con

By DOUGLAS McLEOD

CHICAGO—Outside auditors face a tough—if not impossible—task in spotting and unraveling sophisticated insurance frauds, a noted insurance fraud expert says.

"There is no accounting firm prepared to handle all of the machinations," he warns.

The expert is someone who should know: John V. Goepfert, convicted insurance con man and a central figure in the Sasse syndicate scandal at Lloyd's of London in the late 1970s, the Casualty & Indemnity Co. Ltd. bond scandal in 1980, and the Kenilworth Insurance Co. collapse in 1982.

Since serving jail time for the Sasse fraud at the federal prison camp at Allenwood, Pa., Mr. Goepfert has been helping federal and state agencies investigate insurance and securities fraud.

At an insurance conference sponsored by the Illinois Certified Public Accountants' Society last week, Mr. Goepfert outlined elements of large-scale insurance scams and offered auditors advice on spotting fraud-related problems.

Some of the techniques Mr. Goepfert described were employed in frauds in which he himself participated.

Mr. Goepfert cited managing general agency arrangements—in which the MGA controls underwriting, claims handling and reinsurance—as a major source of trouble.



Mr. Goepfert

"The majority of the ills of the insurance industry are because of MGAs or agents," he asserted. "If (insurers) really believe that an MGA's first thought is for the company, that's really a study in futility."

A dishonest MGA can easily write a large volume of substandard business, delay reporting premiums to the insurer, conceal poor claims experience and funnel money to reinsurers the MGA controls, Mr. Goepfert noted.

For example, the MGA might report premiums to the insurer on an earned basis rather than a gross written basis, a technique that will delay reporting for a substantial period and allow the MGA to hold onto the funds, he noted.

The MGA's agreement with the insurer might also be written to provide for an accounting of premiums 60 days after the close of each quarter, affording an additional delay, he said.

Meanwhile, the MGA can employ the technique of "counteraccounting," netting paid claims against premiums held and reporting only the net amount to the insurer, Mr.

Continued on page 99

U.S. Supreme Court to rule in LTV pension plan dispute Page 2

Hurricane Hugo swamps South Carolina insurer Page 2

Mentor creditors reject proposal to oust liquidators Page 2

Intermediaries

Continued from previous page
chael E. Rothpletz, executive vp of G.L. Hodson & Son Inc. in New Hyde Park, N.Y., the eighth-largest U.S. intermediary and a subsidiary of Corroon & Black Corp.

Thomas A. Greene & Co. Inc., the seventh-largest intermediary and a unit of Alexander & Alexander Services Inc., is expecting revenue gains, "but they will be marginal in 1990," said Thomas A. Greene, chairman, president and chief executive officer of the New York-based company.

Any increase, though, will be welcome after two straight years of stagnant or declining revenues for most brokers.

Estimated gross revenues for the 10 largest U.S. reinsurance brokers declined 5.8% on average from 1987 to 1988 (see chart).

The results of higher retentions by ceding companies since the hard market of the mid-1980s "were showing up in less premiums to reinsurers," explained Robert F. O'Leary, president and chief operating officer of Willcox.

This, combined with "some competitive rates on the property side," affected intermediaries' gross revenues. Mr. O'Leary noted.

"A lot of reinsurers had a great deal of surplus, but there was not an awful lot of business due to insurers ceding less of their business to reinsurers," said Ward B. Gordon, chairman of ninth-ranked Intere Intermediaries Inc. in New York, which was acquired earlier this year by The St. Paul Cos. Inc.

As a result, reinsurers offered extremely competitive prices for the business that was available, particularly property business, Mr. Gordon added.

However, "as you added new business, you merely offset the decrease in revenues from ceding companies' increased retentions," explained Hodson Chairman Ronald J. Taylor.

That trend has continued throughout much of 1989, intermediaries observed.

The reinsurance marketplace in 1989 has been "in much the same mode as last year," Mr. Cashman said.

Most intermediaries have been "trying to deal with the issue of a shrinking marketplace—working on keeping their existing clients and getting new ones," Mr. Cashman said, adding that the facultative market has been more competitive than the treaty market.

In 1989, "rates have softened and there is less buying of facultative reinsurance because primary companies have tried to retain their volume and tend to cede less" of their premiums to reinsurers, said TPF&C's Mr. Mitchell.

Most intermediaries report that activity in an otherwise quiet 1989 picked up after the disasters.

"What we're seeing is a lot of activity on catastrophic reinstatement purchases," pointed out Mr. Espe. "A lot of insurers have been through their catastrophic protection once or maybe twice and are looking for additional coverages for the rest of the year," he explained.

Most property catastrophe reinsurance programs allow for one automatic reinstatement of limits if a ceding company's reinsurance limits are exhausted as a result of a catastrophe, he said.

However, if losses resulting from two separate catastrophes both exceed an insurer's catastrophe reinsurance limits during the same policy period, the ceding company would be forced to negotiate with the reinsurer in order to reinstate its catastrophe program, he explained (*BI*, Oct. 9).

Willcox's Mr. O'Leary agreed that some ceding companies have exhausted their catastrophic reinsurance coverage, and further observed that there are some reinsurers that may be facing the same problem with their own retrocessional programs.

They are now "trying to buy their third-event protection before they can even think about offering third-event protection to ceding companies, in many cases. The question now is capacity," Mr. O'Leary said.

The magnitude of Hurricane Hugo damages surprised the reinsurance marketplace, Intere's Mr. Gordon said, because the hurricane hit an area that was "not heavily known for its concentration of property values."

Business interruption losses from Hugo are also quite large, he said.

This will be a "difficult renewal season," Mr. Gordon predicted, noting that the London reinsurance market in particular is very apprehensive following Hurricane Hugo because it is uncertain "how the LMX market will react."

However, despite the recent burst of activity, most intermediaries expect 1989 revenues to, at best, hold steady compared with 1988.

While reinstatements will bring intermediaries some additional commissions, it will have "virtually no impact on their revenue numbers," Mr. Mitchell predicted.

TPF&C Reinsurance's 1989 revenues "will be down in the area of 5% to 7% because of market conditions," he acknowledged.

"We are anticipating finishing 1989 with slightly less total premium volume than in 1988," primarily due to rate reductions and fewer coverages ceded in the facultative market, said Sullivan Payne's Mr. Espe.

Gross revenues at Thomas A. Greene probably will be slightly lower in 1989 than 1988, predicted Mr. Greene.

While intermediaries predict that some property reinsurance-buying habits may change because of the catastrophes, brokers note that casualty reinsurers, as a rule, continue to prefer excess-of-loss reinsurance business to proportional, or pro-rata, reinsurance business.

Under a pro-rata treaty, the reinsurer shares in a proportion of the losses and premiums, while in an excess-of-loss agreement, the reinsurer agrees to reimburse the ceding insurer for all losses—or a large portion of the losses—above the cedant's net retention for a fixed premium.

"Very few reinsurers have any appetite for pro-rata casualty business. I think they see a greater chance for profit in excess-of-loss" business, said Mr. Greene.

"In recent years, the casualty market has consistently had a greater appetite for excess-of-loss reinsurance than for proportional. We are seeing little change in this pattern," said Sullivan Payne's Mr. Espe.

Although pro-rata coverages are available, most reinsurers "are geared to write on an excess-of-loss basis. They feel they can more adequately understand the claims situation," said Blanch's Mr. Cashman.

Reinsurers prefer excess-of-loss business because "they are more comfortable with their own pricing," Willcox's Mr. King noted.

While intermediaries concede that 1989 will not be a banner year, they agree that they have not lost market share to direct-writing reinsurers over the past 12 months.

In fact, "we started picking up market share (from direct writers) in 1988," said Blanch's Mr. Cashman. He explained that while direct writers were, to an extent, successful in gaining market share from intermediaries in 1986 and 1987, most of their gains were in

Continued on page 6

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*American Psychiatric Association ** "Health Benefits Survey: 1988," A. Foster Higgins & Co. Inc.

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The North Atlantic Life Insurance Company of America, Jericho, NY (a member of The NWNL Companies, Inc.).

Intermediaries

Continued from page 4

facultative business, which "has been hard hit" by competition in 1988 and 1989.

"If anything, we feel we have taken business from the direct market," agreed Hodson's Mr. Taylor.

"We don't believe that reinsurance intermediaries have been losing market share to direct writers," said Stephen L. Lunsford, senior executive vp and chief operating officer of Aon Reinsurance Agency.

"In fact, as the business has become even more diverse and complex, we suspect that the opposite may be the case," Mr. Lunsford added, pointing out that intermediaries can bring added expertise and services that direct writers may not offer.

Insurers are also becoming increasingly selective about reinsurers and intermediaries with which they do business, reinsurance brokers noted.

"Ceding companies are applying stricter standards regarding the reinsurers they deal with and the type of reinsurance products they buy, and demanding a more productive delivery of those products," Mr. Lunsford said.

TPF&C Reinsurance's Mr. Mitchell agreed.

"Ceding companies expect more services to be provided by their broker," such as actuarial services; consulting services, particularly for pollution liability exposures; advice on establishing systems to track ceded reinsurance; critiques of rate filings; and help with certification of reserves, he explained.

Furthermore, Mr. Mitchell predicted that only intermediaries who can offer those types of services to their clients will be able to compete successfully in the reinsurance market of the future.

Sullivan Payne's Mr. Espe said he has seen "a significant increase in (ceding companies') desire to do business with larger, more financially secure reinsurers." as well as with financially sound intermediaries "with a long-term commitment to the business."

This financial examination "has also resulted in a decline in the number of reinsurers involved with an individual ceding company program, a trend we see continuing," Mr. Espe noted.

While several of the top 10 intermediaries said they place reinsurance for some risk retention and risk purchasing groups, this business does not currently represent a significant percentage of any of their books of business.

However, some brokers predict growth in this business in 1990.

Hodson has already seen growth and is anticipating further increases in risk retention group business, said Mr. Rothpletz.

And, Mr. Lunsford said that a separate unit within Aon Corp.'s Rollins Burdick Hunter Group unit specializes in working with risk retention and risk purchasing groups. Because of corporate commitment in this area, he expects Aon Reinsurance Agency's percentage of that business to grow.

Several of the Top 10 reinsurance intermediaries have introduced or are developing new products or services for their clients.

Mr. Espe said that Sullivan Payne is in the process of developing "several new sophisticated modeling programs."

One, already available to clients, is a financial statement model that illustrates a ceding company's return on equity at various retention levels, he said.

"The relative stability of the analyzed retention levels can be very clearly compared using these tools," he explained.

Although he declined to provide further details, Mr. Espe said tv other modeling programs Sulliva Payne is developing will foreca insurers' exposures to windstorn and earthquakes.

Stuart Mathewson, vp and acti ary for E.W. Blanch, said that i CATALYST service, which the i termediary introduced in 198 proved very helpful for some of i clients in advance of last month California earthquake.

Its model projects losses base upon variables including earth quake location and magnitud "One (model) came very close t the actual epicenter," Mr. Math ewson said.

Personal lines insurers "wer able to use the model to determin that the earthquake will not be huge financial problem for them, he explained.

One commercial insurer fo which the program forecast a larg potential financial exposure wa able to use that information befor the earthquake occurred "to man age what they were writing. It als gave them an idea of what the would have to do financially t prepare for the loss," Mr. Mathew son said, adding that he plans t use data produced by last month' earthquake to make the modelin program even more accurate.

Mr. Cashman said Blanch is alsc developing some products and ser vices for alternative risk financin mechanisms, like risk retentior and risk purchasing groups and captives.

TPF&C Reinsurance's Mr. Mitchell said that his company is now offering professional liability and pollution liability consulting services, in addition to its core business.

Mr. Mitchell of TPF&C Reinsurance said the resources of other Towers, Perrin consultants "provide us with a tremendous competitive advantage."

Aon Reinsurance Agency's clients can tap resources available through other units of Aon Risk Services Inc., the division of Aon Corp. to which the intermediary reports, said Mr. Lunsford.

For example, Aon Risk Consultants Inc. offers insurance and reinsurance consulting services, and Old Bridge, N.J.-based IRISC Inc. administers the runoff of claims and provides accounting services for insurers, reinsurers and intermediaries, he explained.

Aon Reinsurance Agency is developing some new products for its clients as well, but Mr. Lunsford would not discuss them.

At Thomas A. Greene, a new senior vp, Joseph Kolodney, will head a new unit within its New York office to market products and services to the life, accident and health industry, Mr. Greene said. Previously, the intermediary only served property/casualty clients, he explained.

Hodson has "been paying a lot of attention to the financial reinsurance area and we have a couple of new products that are pretty revolutionary," said Mr. Taylor.

The first product, the GLH Plan for Earnings Protection, is a type of prospective aggregate agreement that allows a ceding company to spread losses out over a number of years, said Mr. Rothpletz.

The coverage has been offered since early last summer.

The second product, which Hodson has just introduced, is a reinsurance plan designed "to combat the new 90-day overdue balance penalty," Mr. Taylor said.

He was referring to an accounting amendment made by the National Assn. of Insurance Commissioners to Schedule F of insurers' annual statements. The amendment, which applies to insurers' 1989 operations reported in 1990, disallows at least 20% of the credit for unpaid reinsurance balances

Continued on page 10

After the Earthquake

A Handshake Deal for Kemper Re Clients

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Dave Mathis

David B. Mathis
Chairman and
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Opinions

Improving arbitration

CEDING COMPANIES and reinsurers alike should support efforts to preserve and improve the arbitration process used to settle reinsurance disputes.

The Brokers & Reinsurance Management Assn., a trade association of reinsurance brokers and underwriters, is attempting to improve the current system by circulating a draft of a new reinsurance arbitration clause designed to solve many of the problems that hinder arbitration (see stories, pages 72-74).

The arbitration process for settling reinsurance disputes, which was intended to be speedier and less expensive than litigation, is degenerating into minilitigation, reinsurers and arbitrators complain.

BRMA's new arbitration clause attacks some of the problems, such as speeding the selection of umpires and enlarging the pool of experts qualified to serve as arbitrators.

These two changes alone could help solve one of the growing problems with reinsurance arbitration —the abuse of the system by reinsurers that are simply trying to delay the inevitable payment of claims. To the extent that the arbitration process moves more quickly, slow-paying reinsurers will find it less advantageous to seek arbitration to delay paying claims that they know they ought to pay.

Ceding companies and reinsurers are invited to comment on the proposed new clause, and we encourage them to identify other provisions that could be added to return reinsurance arbitrations to quick, efficient and fair handling of reinsurance disputes.



Some suggest that more established procedures need to be adopted for arbitrations to give arbitrators more control over lawyers who attempt to transform arbitration into litigation. More specific rules, like limits on the discovery process, could protect the arbitration system from exploitation.

But, in addition to a new arbitration clause and perhaps new established procedures, there needs to be a renewed commitment by the parties, their arbitrators and their lawyers to the fair settlement of disputes. This means keeping the lawyers on a short leash and not allowing the arbitration process to get bogged down in legal maneuvering.

Letters

Captives should be held to strict standards

To the editor: Your Oct. 2 article, "Illinois Now Allows Captives to Reinsure Work Comp Risks," led your readers to believe that recently signed legislation, H.B. 2191, allowing captives to reinsure work comp risks is a healthy thing for Illinois. We disagree.

We believe it is absolutely essential that insurers covering the claims of employees injured on the job under the Workers Compensation Act be financially sound. Otherwise, injured workers could find their benefits halted suddenly or bogged down in lengthy delays.

For example, an Illinois industry such as a group of building contractors could form a captive insurer, find a licensed company to "front" for them and reinsure their workers compensation coverage 100% in the captive insurance company.

Yet, consider the great variance in the financial requirements for insurers and captives in the state.

Under present law, a licensed insurer must have $5 million in capital and surplus to do reinsurance business. However, captives need only $2.3 million to do the same type of business.

While the $5 million is for commercial reinsurance, to reinsure, for example, all of the small building contractors in the state is certainly a commercial reinsurance operation. Yet, the required financial strength of the captive is far below that of a licensed insurer.

In addition, a licensed insurer must have the $5 million in cash or its equivalent. The captive, on the other hand, has three basic alternatives:

- Cash or its equivalent.
- 20% cash and the balance in letters of credit.
- 33% in cash and the remainder in other evidence of indebtedness, including promissory notes of members of the sponsoring organization.

The comments in the article of Tomas M. Russell, the attorney who authored the captive law, emphasized that this amendment would encourage "some offshore captives that reinsure their parent companies' workers compensation risks to redomicile in Illinois."

Yet, do we want captive insurance companies that do not have the strong capital backup that licensed insurers must have? And who will pick up the pieces when such a company goes under? You guessed it: Workers and policyholders in Illinois.

Paul C. Blume
Counsel
Illinois Insurance Conference
Chicago

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

Title of 1992 article misleading to reader

To the editor: In regard to Thomas Drag's article in the Oct. 9 issue, I have only one objection: the title. Why was the article called "Managing Risk in 1992?"

In the slightly more than one page of text, Mr. Drag addressed the management of risk in only a couple of sentences. The article was about the impact of the upcoming free trade of insurance in the European Community. It was about the cost and breadth of insurance coverage.

It's entirely appropriate for a magazine called *Business Insurance* to report on the insurance market both here and abroad. It is entirely inappropriate for the articles discussing those markets to be written under the guise of describing risk management.

Randall Cooper
Tillinghast
Philadelphia

Mental health care needs careful review

To the editor: Leo H. Bradman's Oct. 16 article, "Contract Directly for Mental Health Care," presented a viable strategy to those struggling with the need to balance double-digit increases in the mental and nervous disorders component of their self-insured plan with their moral obligation and corporate philosophy regarding human resource administration. I would, however, like to offer several qualifiers:

- The recommendation to use "community-based group private practices" is a close cousin to Dr. Bradman's mildly discarded "limited staff clinic" approach. As with that mechanism, the employer/purchaser must be able to determine that the community-based group will not employ the same "inadequate or poorly trained staff," will not "restrict the range of services offered" and will not maintain "insufficient locations," as does the limited staff approach.
- The employer/purchaser must be assured that the group does not have conflicting relationships with inpatient facility providers. Examples would be medical or program directorships with bonuses paid on "program activity." Risk sharing relationships, if properly constructed, may mitigate some of this con-

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Intermediaries

Continued from page 6
owed more than 90 days after the contract due date by admitted reinsurers (see story, page 32).

Under the new Hodson product, other markets will reinsure obligations that have not been paid within 90 days to allow the ceding company to receive credit.

"These are both sophisticated financial reinsurance products. We think they are very different from anything our competitors have," Mr. Taylor stressed.

Mr. Gordon said that Intere has been developing professional liability products and services since the intermediary was acquired by St. Paul in April, but he would not be more specific. Intere now reports directly to Lloyd's broker J.H. Minet & Co. Ltd. in London, a St. Paul subsidiary specializing in professional liability insurance (*BI*, Nov. 28, 1988).

Mr. Gordon would not be more specific regarding those products or services.

Following are synopses of the performance of the 10 largest reinsurance intermediaries:

Guy Carpenter & Co. Inc.

Business Insurance estimates that revenues for New York-based Guy Carpenter, the largest reinsurance intermediary, fell 6% in 1988 to $170 million from a restated $180 million in 1987, based on comments from its competitors and information available in the annual statement of its parent, Marsh & McLennan Cos. Inc.

However, *Business Insurance* estimates that its percentage of treaty business increased to 94% in 1988 from 93% in 1987, as a result of conditions in the facultative market.

Guy Carpenter does not disclose its premium volume or break down its business between treaty and facultative operations. Officials at the intermediary would not grant interviews.

The intermediary reported 1,343 employees in 1988, a 2.5% reduction from 1,377 employees reported in 1987.

Guy Carpenter opened a Mexico City office in 1988 an office in Madrid, Spain, earlier this year.

Sullivan Payne Co.

Gross revenues at Sullivan Payne fell about 8.8% to an estimated $52 million from an estimated $57 million in 1987, based upon Mr. Espe's projections in 1988 that revenues this year would be hurt by soft market conditions.

Sullivan Payne does not disclose its premium volume. However, of its total 1988 premium volume, 90% pertained to treaty business, unchanged from 1987.

Sullivan Payne reported 430 total employees in 1988, a 1.2% increase from 425 employees in 1987. Of those, 355 were assigned to treaty reinsurance, up from 350 in 1987, and 75 were assigned to facultative reinsurance, unchanged from 1987.

In April, Sullivan Payne opened a Chicago office to increase its presence in the Midwest and better serve its clients.

Sullivan Payne serves a client base ranging from very large property/casualty stock insurers to small mutual insurers.

Approximately 13% of Sullivan Payne's accounts are based overseas. Mr. Espe estimated that in 1988, about 15% of its business was placed with reinsurers outside the United States, the vast majority of it in the London market. That has not changed significantly in 1989, he said.

In April, Sullivan Payne hired S. Lennart Barkinge as senior vp of its new Chicago office. Mr. Barkinge was formerly a senior vp at Thomas A. Greene.

And, last month Sullivan Pa hired Rodney Kreps as vp and c actuary based in Seattle. Mr. Kr formerly was an actuary with vato, Calif.-based Fireman's F Insurance Co.

E.W. Blanch Co.

Limited partnership E.W. Blar reported a 21.4% drop in premi volume in 1988 to $935 milli from $1.19 billion in 1987. Tre business represents 98% of p mium volume, unchanged fr 1987.

Blanch's estimated gross re nues fell 9.6% to $47 million fr $52 million in 1987.

Blanch reported 308 total e ployees in 1988, a 6.9% reducti from 331 in 1987. Of those, 2 were assigned to treaty insuran compared with 315 in 1987, and were assigned to facultative re surance, compared with 16 in 19

Blanch in July purchased Hitz Associates Inc., a reinsurance co sulting firm and intermedia based in Minneapolis, and merg it into its home office. Hitz's pri cipal, Duane E. Hitz, was nam a Blanch vp.

Also in July, Blanch sold Lloyd's of London subsidiary, E. Blanch (U.K.) Ltd., to intermedia Carter, Wilkes & Fane in London, subsidiary of Lloyd's of Lond broker Willis Faber P.L.C.

Mr. Cashman explained th Blanch sold the London unit Carter, Wilkes & Fane and mai tains a trading relationship wi the new operation to "better ser our clients. We feel we will be ab to offer broader market capacity our clients and more resources London" as a result of the rel tionship it maintains with t stronger London operation, said.

Blanch "handles virtually ever type of property/casualty clien with more of a leaning towar mid-sized companies," Mr. Cash man said, though he noted that th intermediary has been successfu in 1989 in adding more large insu ers as clients. Blanch also has som life/health reinsurance clients, h said.

Less than 1% of Blanch's client are based outside of the Unite States and the intermediary place about 12% of its business wit reinsurers outside of the Unite States in 1989 and 1988.

In other personnel moves, Clif ford English in January was pro moted to general partner from lim ited partner, and Brian K. Enge was promoted to senior vp fron vp.

In July, Gary J. Eberhardt wa promoted to senior vp from vp.

TPF&C Reinsurance

TPF&C Reinsurance reported 7.8% decrease in premium volum in 1988 to $590 million from $64 million in 1987. Of that, 77.3% comes from treaty business, compared with 78.8% in 1987.

Based upon its executives' predictions late last year that gross revenues would remain flat in 1988, *Business Insurance* estimates TPF&C Reinsurance's revenues a $40 million in both 1988 and 1987.

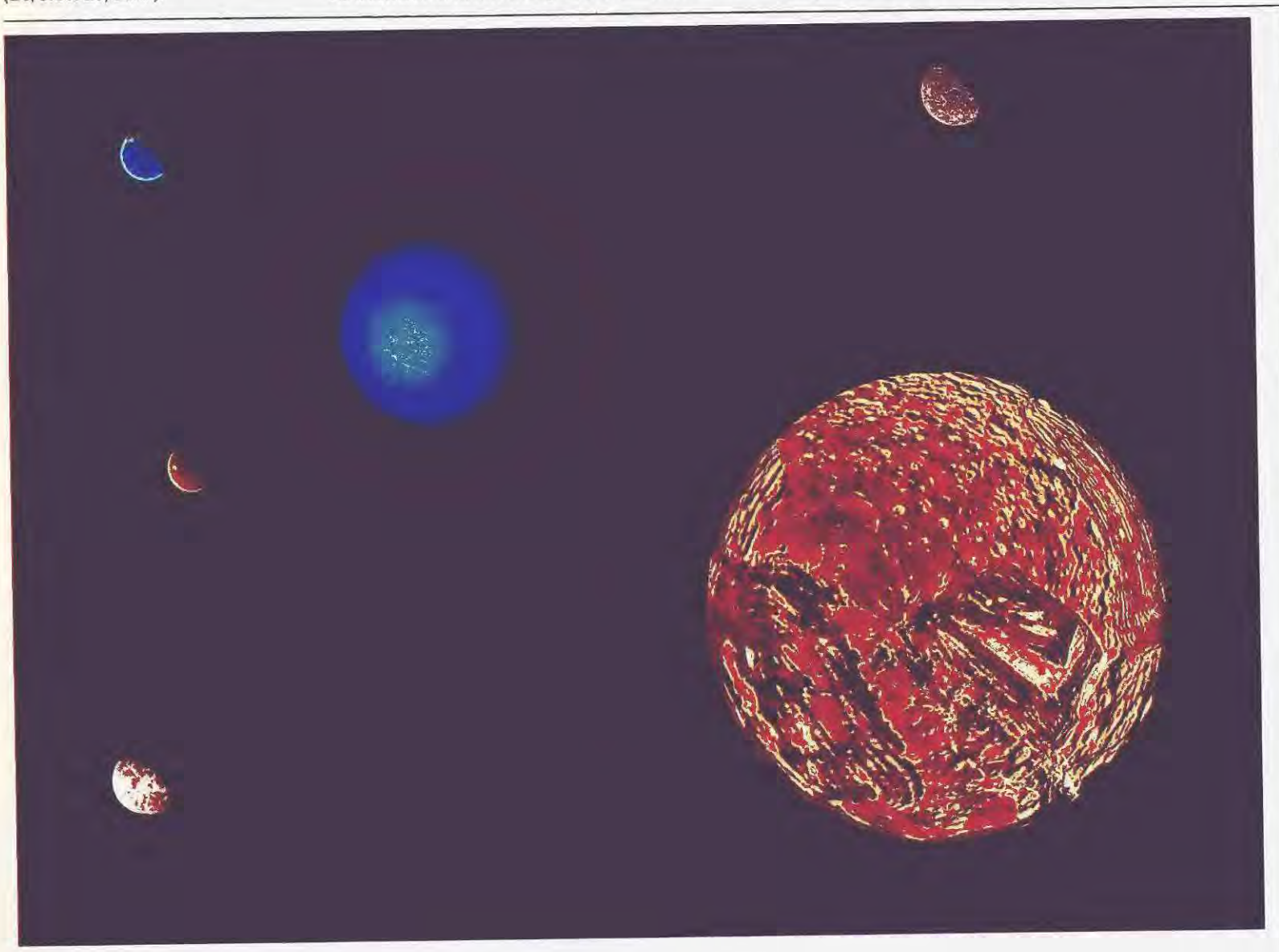
The intermediary reported 281 employees in 1988, an 8.8% reduction from 308 employees in 1987. Of those, 219 were assigned to treaty reinsurance, compared with 238 in 1987; and 62 were assigned to facultative reinsurance, compared with 70 in 1987.

"We have a broad-based list of property/casualty clients, from giant companies to very small county mutuals," Mr. Mitchell said. "The bulk of our business is made up of multiline regional companies."

Less than 3% of TPF&C's clients are based outside the United States, he added.

In 1988, TPF&C Reinsurance placed roughly 25% of its business

Continued on page 14



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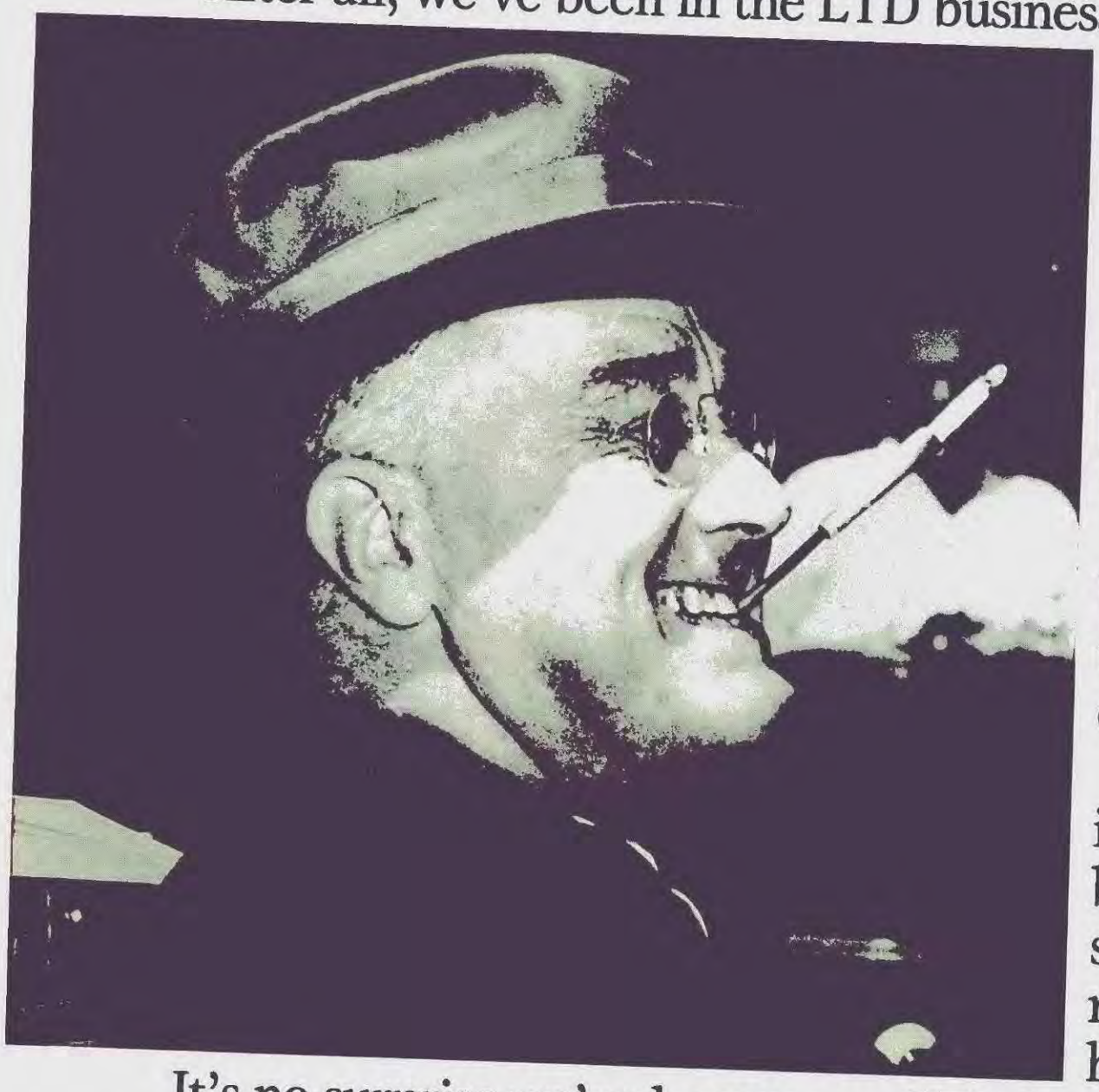
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Intermediaries

Continued from page 10

with reinsurers outside of the United States. "That has increased to 30% in 1989 because we are making a deliberate attempt to spread more of our clients' catastrophic business worldwide as their need for capacity grows," Mr. Mitchell explained.

In 1989, TPF&C Reinsurance has "restructured and regionalized" its facultative operations "in order to better service our clients," he said.

As part of the reorganization, it closed its New York facultative office and combined that operation with its Hartford, Conn., facultative operations. TPF&C Reinsurance still maintains a full-service facultative office in San Francisco and a branch operation in Philadelphia, he said.

And, after acquisition talks with G.L. Hodson fell through in the fall of 1988 (*BI*, Oct. 31, 1988), parent Towers, Perrin, Forster & Crosby now has "no intention of selling the reinsurance company to anyone," Mr. Mitchell said.

In April, Mario Leo formerly chief executive officer-reinsurance, transferred to the intermediary's parent consulting company in New York and continues in his post as executive vp of the parent company.

Mr. Mitchell, who was promoted to managing director and chief executive officer to replace Mr. Leo, formerly was senior vp and manager of the Central Treaty Department.

Other promotions during the last 12 months at TPF&C Re include:

- Christopher T. Brockett in April was promoted to senior vp of the Midwest region from vp. He is based in Philadelphia.
- William Eyre Jr. in San Francisco and William Ray in Philadelphia were promoted to senior vps from vps in July.

Willcox Inc.

Business Insurance estimates that Willcox's gross revenues grew about 6.3% to $33.5 million from an estimated $31 to $32 million in 1987. This estimate is based on Mr. O'Leary's statement that the intermediary saw growth in revenues attributable to both new and existing clients in 1988.

Willcox does not report its premium volume, but the intermediary indicated that 98% of its 1988 premium volume came from treaty business, up from 96% in 1987.

"We're not interested in increasing our facultative book," Mr. King explained, adding: "We provide facultative coverages as a service to our treaty clients."

In December 1988, Willcox's major shareholder, Johnson & Higgins, which formerly held a 51% stake in the intermediary, purchased the remaining 49% stake held by Willis Faber and assumed full ownership of the reinsurance broker.

Willcox's clients range from small to large U.S. stock and mutual insurers to Japanese, European and Lloyd's of London underwriters, said Mr. King.

Roughly 20% of Willcox's clients now are based outside of the United States, up from about 18% in 1988, "because we are one of the few U.S. brokers that actively offers treaty services to non-U.S. companies," Mr. King said.

"Our scope has gotten more international," Mr. O'Leary noted.

Between 30% and 35% of its business in 1989 was placed with reinsurers outside the United States, unchanged from 1988.

In April, Willcox Inc. hired Emmett Henry as senior vp of its Los Angeles office. Mr. Henry formerly was manager of Sullivan Payne's Los Angeles office.

Last month, David G. Christie was hired as senior vp of Willcox's Philadelphia office. Mr. Christie was formerly president of Fester Fothergill & Hartung Ltd., reinsurance underwriting manager in New York.

Aon Reinsurance Agency Inc

Aon Corp. renamed its expanded reinsurance brokerage operation Aon Reinsurance Agency Inc. in January following a major acquisition.

In September 1988, Aon acquired Chicago-based Reinsurance Agency Inc. and merged it with its own Old Bridge, N.J.-based intermediary, Cole, Booth, Potter Inc.

And, last July, Aon purchased Taylor Reinsurance Intermediaries in Seattle, which has become a branch office of Aon Reinsurance Agency.

Furthermore, Aon Reinsurance Agency acquired NFS Intermediaries Inc. in July 1989 as part of the acquisition of Bayly, Martin & Fay International Inc. by Aon Corp.'s Rollins Burdick Hunter Corp. brokerage subsidiary.

Hoboken, N.J.-based NFS, a casualty facultative intermediary, has also become a branch office of Aon Reinsurance Agency.

Business Insurance estimates Aon Reinsurance Agency's revenues at $26 million in 1988 based on indications from executives that revenues were relatively flat. The combined reported revenues of Reinsurance Agency and Cole, Booth, Potter totaled $25.9 million in 1987.

The intermediary does not report its premium volume, but noted that 97% of its premiums came from treaty business in 1988, unchanged from 1987.

Aon Reinsurance Agency reported 146 employees in 1988, a 15.1% reduction from 172 employees in 1987. Of those, 129 were assigned to treaty reinsurance, compared with 155 in 1987, and 17 were assigned to facultative reinsurance, unchanged from 1987.

Mr. Lunsford attributes the staff cuts to the consolidation of Reinsurance Agency and Cole, Booth, Potter. Some of the people "were absorbed into other units of Aon," he said, adding that most of the staff reductions involved claims and accounting personnel.

The intermediary "deals with a variety of clients," Mr. Lunsford said. Its current emphasis is on difficult lines of casualty reinsurance, and the brokerage also "has a growing book of medical malpractice and professional liability accounts," he noted.

Fewer than 5% of Aon Reinsurance Agency's clients are based outside the United States, he estimated. And, less than 10% of the intermediary's business was placed with non-U.S. reinsurers in 1988, though Mr. Lunsford said that he expects that to grow to about 15% in 1989.

"Aon Reinsurance Agency is placing more property business than last year, and the former Cole, Booth, Potter's business is becoming assimilated into our system," he explained, noting that Cole, Booth, Potter has traditionally placed more property coverages in the London market.

The reorganization at Aon Reinsurance Agency was followed by extensive personnel changes. Among the most significant are:

- Paul R. Davies, president and chief executive officer, assumed the additional role of chairman last month.
- Gene Taylor, president of Taylor Reinsurance Intermediaries, was named vice chairman of Aon Reinsurance Agency. He remains in Seattle.
- Mr. Lunsford, who joined Aon Risk Services and Aon Reinsurance Agency in March as executive vp, was promoted to senior executive vp and chief operating officer last

Continued on page 16

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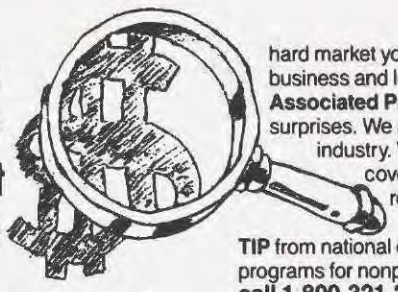
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Intermediaries

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month. Mr. Lunsford, who is based in Chicago, was formerly president of Herbert Clough Inc., a reinsurance brokerage subsidiary of General Reinsurance Co. in New York.

• Executive Vp John Charles last month was given the additional title of executive vp-administration for Aon Risk Services Inc., the division of Aon Corp. that includes Aon Reinsurance Agency.

• Michael Bungert was hired in July as executive vp in the Chicago office. He was previously executive vp of the Chicago office of Thomas A. Greene.

• David M. Kelley was hired last month as executive vp, currently based in Chicago. Mr. Kelley, who was formerly a senior vp at Guy Carpenter in San Francisco, will soon open a San Francisco office for Aon Reinsurance Agency. Two other former Guy Carpenter executives from San Francisco—vp Christopher Pedlar and Robe Bima, who are also now based i Chicago—will be joining Mr. Ke ley in San Francisco.

• H. Rocker Channell Jr. wa hired in March as a senior vp in th Manhattan office. He was formerl senior vp of Sullivan Payne in Ne York.

Thomas A. Greene & Co.

Business Insurance estimate that Thomas A. Greene's gross rev enues fell about 18.2% to $23. million in 1988 from $28.7 millio in 1987.

The intermediary reported 12.2% decline in premium volum in 1988 to $463 million from $527. million in 1987. Of that premiur volume, 93.5% was derived fron treaty business in 1988, compare with 93% in 1987.

Thomas A. Greene reported 21: total employees in 1988, a 5.8% drop from 225 employees in 1987 Of those, 185 were assigned t treaty reinsurance, compared witl 196 in 1987; and 27 were assigne to facultative reinsurance, com pared with 29 in 1987.

Mr. Greene said Thomas A Greene's clients "really run th gamut" from very large property casualty insurers to mid-sized regionals to small local insurers. I does not currently have any life health clients, but recently a unit was opened in New York to expand into life/health reinsurance brokerage.

Other than a couple of Canadian clients, Thomas A. Greene has no clients based outside the United States, Mr. Greene said. About 20% of the intermediary's business in 1989 and 1988 was placed with non-U.S. reinsurers, he added.

In May, the brokerage named Senior Vp Robert T. Mobyed to head its Chicago branch office. He was formerly senior vp of the New York treaty department.

G.L. Hodson & Son Inc.

G.L. Hodson reported a 10% decline in premium volume in 1988 to $360 million from $400 million in 1987. Of its total premium volume, 81% represented treaty business, unchanged from 1987.

Business Insurance estimates that Hodson's 1988 gross revenues totaled $23 million, unchanged from 1987, based upon Hodson executives' predictions of flat revenues in 1988.

Hodson's employee count rose 1.5% to 204 in 1988 from 201 in 1987. Of those employees, 164 were assigned to treaty reinsurance, compared with 157 in 1987, and 40 were assigned to facultative reinsurance, compared with 44 in 1987.

Mr. Taylor said that Hodson "downsized" its facultative operations in February. He explained that the company's employee count currently is about 180, with the bulk of the attrition attributable to its facultative operations.

"We still intend to be in the facultative business, but we are doing it with fewer people," he said, noting that some staff reductions were made possible due to enhancements in Hodson's automation system.

Mr. Taylor said that Hodson's clients "run the gamut from one-state or smaller insurers all the way up to the large national companies." They include a large number of property/casualty, aviation, marine and retrocessional clients, as well as some fidelity/surety and life/health clients, he said.

Hodson has a negligible number of clients based outside the United States, Mr. Taylor said. The intermediary has placed between 10% and 20% of its business with non-U.S. reinsurers in 1989, unchanged from 1988.

In September, Mr. Taylor, who formerly was Hodson's president was promoted to chairman, succeeding Robert G. Hodson, who will continue

Continued on page 20

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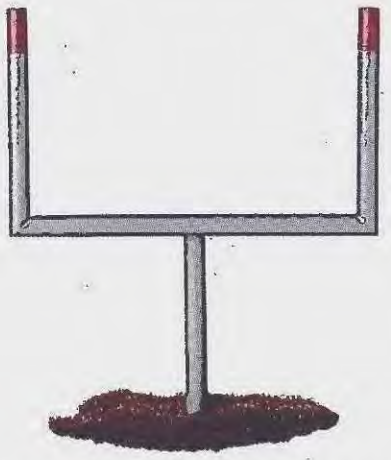
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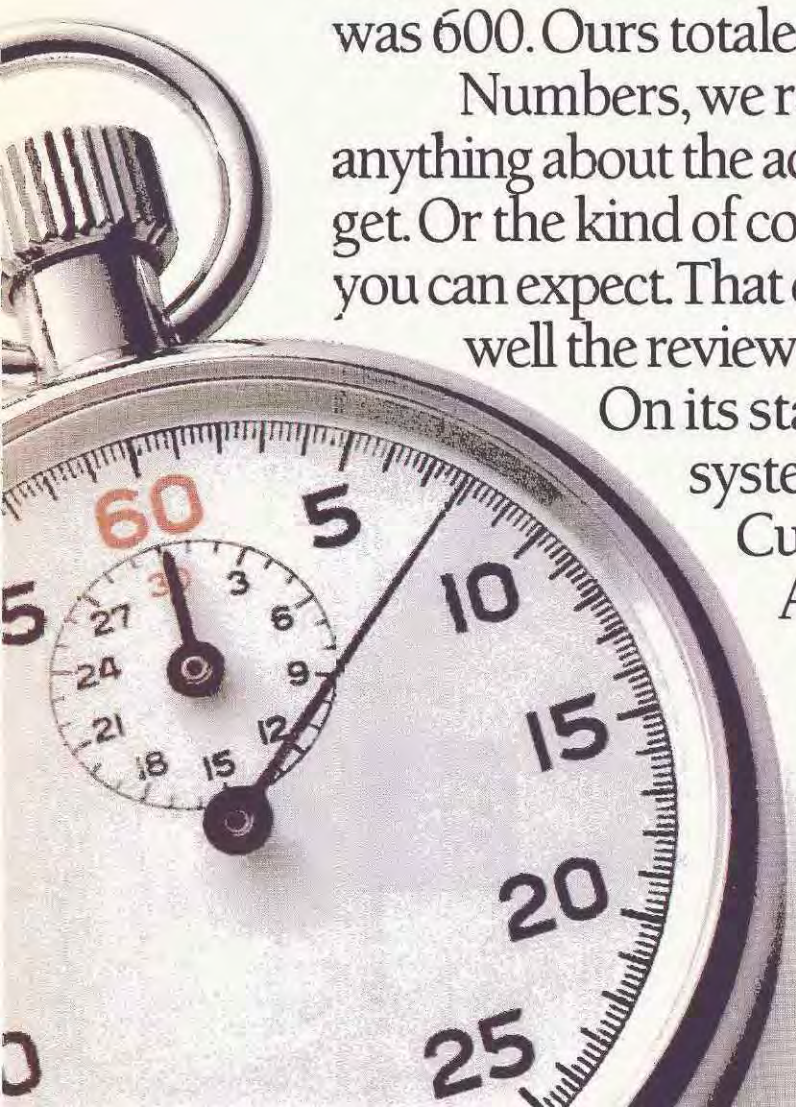
Of the ten leaders, the biggest staff of nurse reviewers and doctors was 600. Ours totaled 2,200.

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But nurses are used to communicating face to face. Not on the phone. And certainly not in the kind of complex, sensitive situations a nurse reviewer can find herself in. That takes special training. Of the firms that offer training, none has a program as large or as intensive as Custom Care-USA.

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Experts say you a specialist for ut We concur.

phone calls are answered within 30 seconds 90 percent of the time even during peak periods. Written notification of review decisions is sent within two working days.

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But to do that it's much better if you can manage things locally. Where you can monitor the patient, negotiate with providers and make arrangements first-hand. Not by long distance. Custom Care-USA can give you and your employees that advantage—using qualified case managers in local Plans around the country.

should only use lization review.



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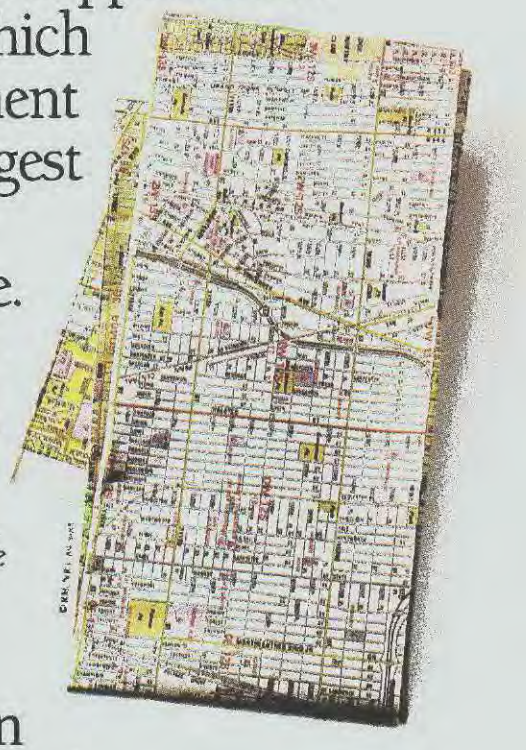
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Intermediaries

Continued from page 16
to serve as a consultant.

Effective this month, Stephen A. Crane will serve as president and chief executive officer of Hodson. Mr. Crane formerly was senior vp/chief financial and planning officer of parent Corroon & Black Corp. in New York (*BI*, Oct. 30).

Intere Intermediaries Inc.

Intere's acquisition by St. Paul earlier this year has not significantly changed the intermediary's operations, according to Mr. Gordon.

"We're able to work together very comfortably and it's broadened our scope" of operations, he said.

Business Insurance estimates that Intere's gross revenues fell about 13.9% to $18 million in 1988 from and an estimated $20.5 million in 1987.

The intermediary does not repo its premium volume, all of which generated by treaty business.

Intere reported 171 employees i 1988, down 17.8% from 208 i 1987.

Since its acquisition by St. Pau Intere has been assuming th treaty business of Atlanta-base RFC Intermediaries Inc., the 10t largest intermediary, which wa acquired by St. Paul in Januar 1988 (*BI*, Dec. 14, 1987).

"RFC has been turning its treat book of business over to us durin the last several months," Mr. Gor don explained. "They continue t work in the facultative area, an we work on their behalf in assum ing some of the treaty busines they have done."

Intere represents a broad rang of clients, about 85% of which ar in the property/casualty business with the remainder divided amon life/health, marine and aviation in surers.

About 15% to 20% of Intere's cli ents are based outside of th United States and "no more tha 15%" of its business is placed wit non-U.S. reinsurers, Mr. Gordo said.

Among management changes a Intere this year, Daniel R. Colell was promoted in April to presiden and chief executive officer of the brokerage from executive vp. Mr Gordon, who formerly was chie executive officer, retains his position as chairman, while forme President Wallace E. Winter was promoted to vice chairman.

Also in April:

- Thomas F. McGrath III was promoted to executive vp of Intere's Northeast, marine and aviation operations. He had been a senior vp.
- Brian S. Keegan was promoted to executive vp of Intere's Southeast, Midwest and West Coast operations from senior vp.
- Michael G. Woll was promoted to executive vp and chief administrative officer from senior vp.

All three remain based in New York.

In addition, Intere hired Arthur P. Schuessler in September as senior vp of a new Philadelphia office. Mr. Schuessler was formerly a vp with TPF&C Reinsurance in Philadelphia.

Also in September, Intere hired Jeffrey Parrish as a vp operating from Columbia, S.C., and primarily working in the accident/health area. Mr. Parrish, who reports to Intere's Atlanta office, formerly operated his own intermediary.

RFC Intermediaries Inc.

Business Insurance estimates that RFC's gross revenues fell about 16.7% to $12 million in 1988 from an estimated $14 million in 1987, based upon conditions in the facultative reinsurance market.

While the intermediary does not report its premium volume, 20% of its 1988 premiums were attributable to treaty business and 80% to facultative business. In 1987, *Business Insurance* estimated that 33% of RFC's premiums were attributable to treaty business.

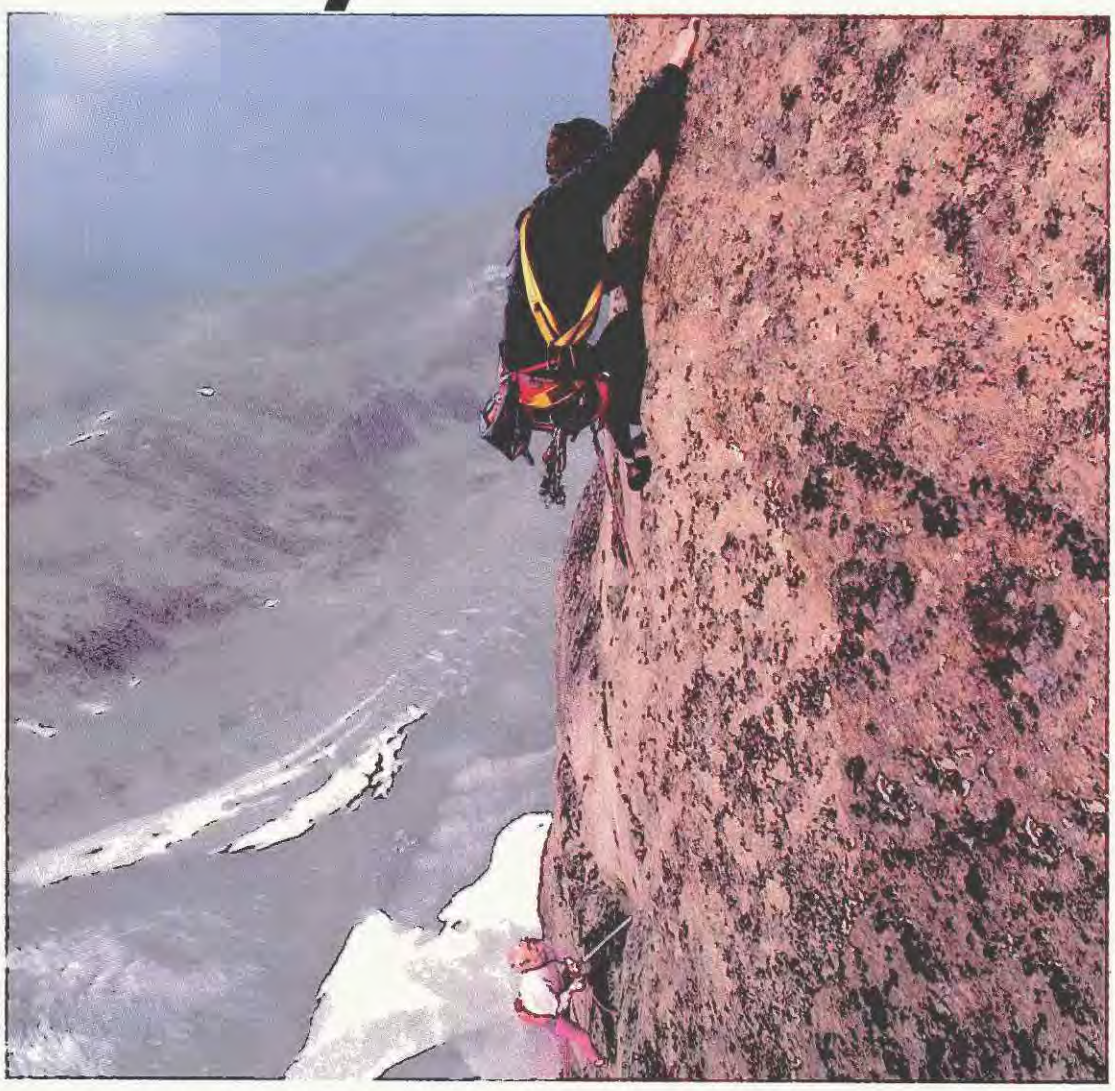
RFC's employee count fell 14.4% in 1988 to 154 from 180 in 1987. Thirty-eight employees were assigned to treaty and 81 to facultative, with the remainder assigned to administrative duties. RFC did not report its employee breakdown in 1987.

RFC specializes in domestic, international and home foreign facultative reinsurance services and also provides structured settlement assistance through a subsidiary, Tailored Awards Inc. Tailored Awards has offices in Atlanta, Dallas, Denver, Philadelphia and St. Paul, Minn.

In March, RFC opened an international/home foreign facultative office in New York.

RFC officials declined to be interviewed for this report. ■

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Financial reinsurance interests U.S. markets

By JUDY GREENWALD

Financial reinsurance, until recently the domain of Bermuda-based specialty reinsurers, is increasingly becoming a focus of domestic multiline reinsurers.

These reinsurers see financial reinsurance as an opportunity to replace premium volume lost to the soft market and increased retentions.

The entry of domestic reinsurers into an already competitive financial reinsurance market has resulted in a glut of capacity. However, many suspect that capacity will shrink once the market hardens and domestic reinsurers return to their traditional lines of business.

Financial reinsurance enables ceding companies to recognize future investment income, stabilize profits, improve leverage and protect balance sheets.

Unlike traditional reinsurance products, financial reinsurers measure the time value of money very precisely and cap their ultimate liabilities under their contracts. Regardless of how much risk they assume under the contract—substantial underwriting risk or only a timing risk on claims payments—financial reinsurers generally do not provide other benefits of traditional reinsurance, such as substantial capacity to insure large per-occurrence limits, claims-handling support or underwriting assistance.

While these differences have produced some questions regarding the tax and accounting treatment of financial reinsurance transactions, a new draft proposal prepared by a task force of the American Institute of Certified Public Accountants is expected to help clarify ambiguities

This latest draft of reinsurance accounting rule would treat financial reinsurance as an acceptabl transfer of risk for balance sheet purposes if at leas the "timing risk," or risk of when claims will be paic is transferred to the reinsurer (see story, page 26).

Previous AICPA drafts would have regarded finan cial reinsurance contracts that involved only the trans fer of investment, credit, expense or timing risks a simply "financing arrangements." (*BI*, Oct. 31, 1988).

As a result of uncertainty over their tax and ac counting treatment, virtually all financial reinsuranc products written today for the U.S. market incorporat some element of underwriting risk, say observers.

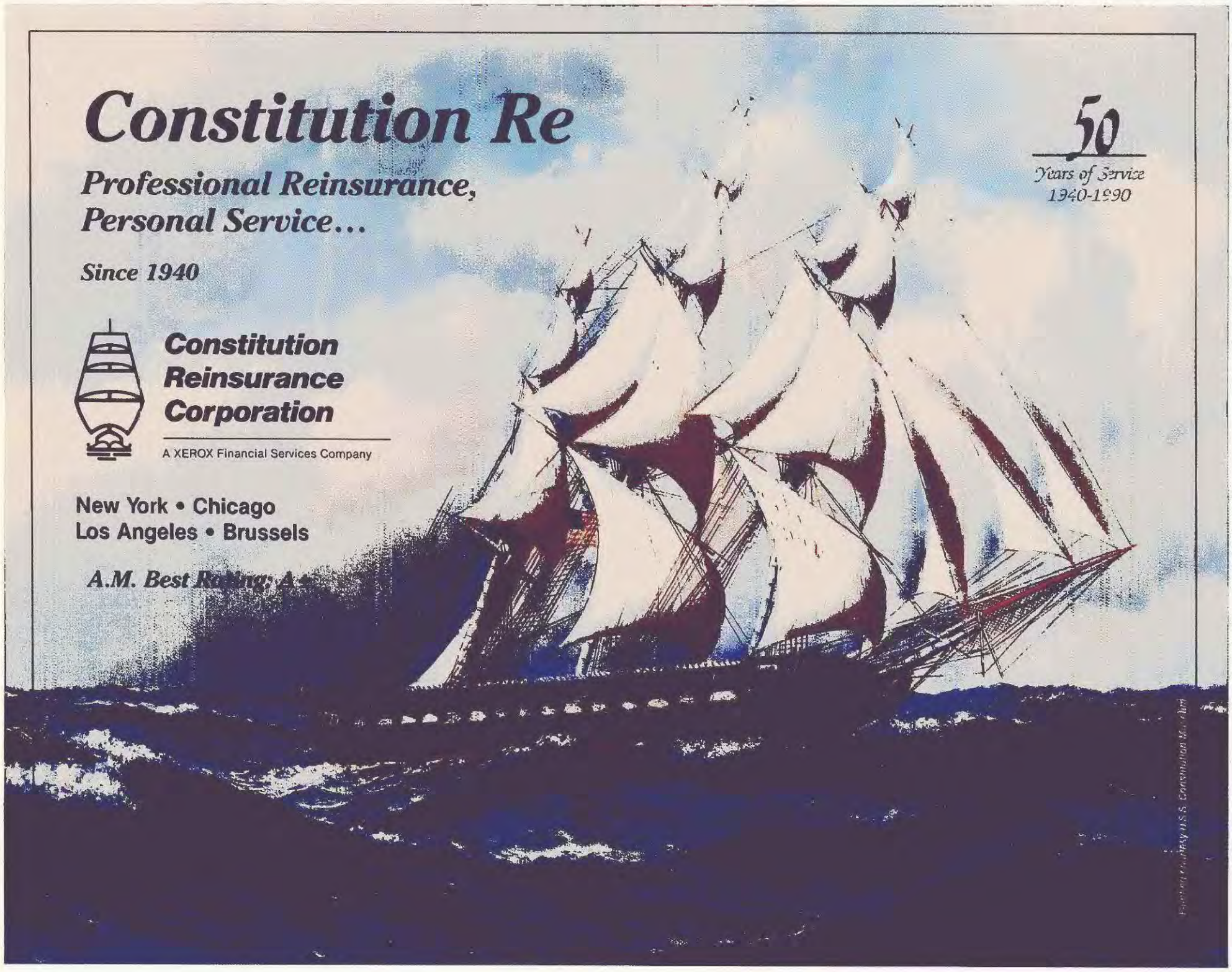
The attraction of financial reinsurance for reinsurers is that it keeps premium volume up while earning fixed profit margins that are better than those that can be earned writing traditional reinsurance in a soft market, said John Smithson, chairman, president and chief executive officer of PMA Reinsurance Co. in Philadelphia, which is considering entering the financial reinsurance market.

"It's a good soft market strategy," Mr. Smithson said.

"It's something I think everyone is looking at right now," said Salvatore D. Zaffino, chairman and chief executive officer of Crump Re Inc. a Hartford Conn.-based reinsurance brokerage unit of Sedgwick Group P.L.C. "It seems to be the 'in' thing to do right now."

"Virtually everyone is willing to participate, including the direct writers," said Robert A. Bailey, senior vp and limited partner with E.W Blanch Co., a Minneapolis-based intermediary.

Continued on page 26



in casualty reinsurance contracts that have survived the soft market.

"Over the past year or so, there

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Financial reinsurance

Continued from page 24

"The reinsurance market is anxious to ponder financial reinsurance because the profit margins are probably better and the risk is less," he added.

"I think there's a lot of focus on it today that wasn't there just a year ago," said Paul Ingrey, president of F&G Re Inc. of Morristown, N.J., a reinsurance subsidiary of USF&G Corp. "There's a lot of interest in the buyers, and a lot of people ready to sell."

In fact, F&G Re—which is considered a major financial reinsurer—is writing less financial reinsurance this year due to the competitive market (*BI*, Sept. 18).

Among those who are increasing the amount of financial reinsurance they write is Skandia America Reinsurance Corp., which expects financial reinsurance to account for 10% of its business within five years, said Steven Bensinger, senior vp and chief financial officer of the New York-based reinsurer.

In addition to creating a unit to write finite risk reinsurance—which are contracts in which the reinsurer's liability is limited through such features as loss ratio caps—it also has established an independent intermediary, Pegasus Advisors Inc. of Simsbury, Conn., that specializes in placing financial reinsurance.

"Clearly, we see that business as being on the upswing," Mr. Bensinger said.

He noted, though, that while Skandia has seen a substantial number of submissions, to date it has written only a couple of "fairly modest" contracts. Skandia is ambitious, but cautious, and will write only contracts with terms and conditions it "can live with," Mr. Bensinger said.

"You walk before you run," he said, adding, however: "We're pretty confident it's going to be a growing part of the business."

Another active company in the financial reinsurance market is Berkshire Hathaway Inc. The Omaha, Neb.-based insurance group started to "dabble" in financial reinsurance six years ago and now "it's a major portion of wh we do," said Ajit Jain, New Yor based president of specialty ris operations for Berkshire Hat away. He said Berkshire Hat away's $5.5 billion of availabl surplus puts it in a "unique" pos tion to offer financial reinsuran products.

Financial reinsurance now ac counts for about 20% of Un derwriters Reinsurance Co.'s pre mium, said Steven H. Newmar chairman, president and chief ex

Continued on next pag

AICPA alters financial reinsurance proposal

Proposed accounting guidelines could resolve some of the uncertainty surrounding the accounting treatment of financial reinsurance.

Under the latest draft of a proposed reinsurance accounting rule being considered by the American Institute of Certified Public Accountants, given certain criteria financial reinsurance contracts would be accounted for as a reinsurance transaction, even if the business ceded involved no transfer of risk other than a timing risk.

However, the AICPA draft states that "an evaluation of whether a contract indemnifies the ceding company against loss or liability from insurance risk should not consider investment yield risk, credit risk, or expense risk, because those risks are generally present in all business transactions."

The draft, prepared by the AICPA's Reinsurance Auditing and Accounting Task Force, also includes a list of other factors that "may indicate that an agreement is a financing arrangement."

Under previous versions of the draft, reinsurers would have been required to assume underwriting risk for financial reinsurance to qualify (*BI*, Oct. 31, 1988).

However, task force Chairman Richard Lindrooth warned that "whatever we have now is subject to change."

The draft must be approved by the AICPA's insurance companies and accounting standards executive committees, he said. From there, it will be sent to the Financial Accounting Standards Board for consideration.

"We're a ways off," Mr. Lindrooth said.

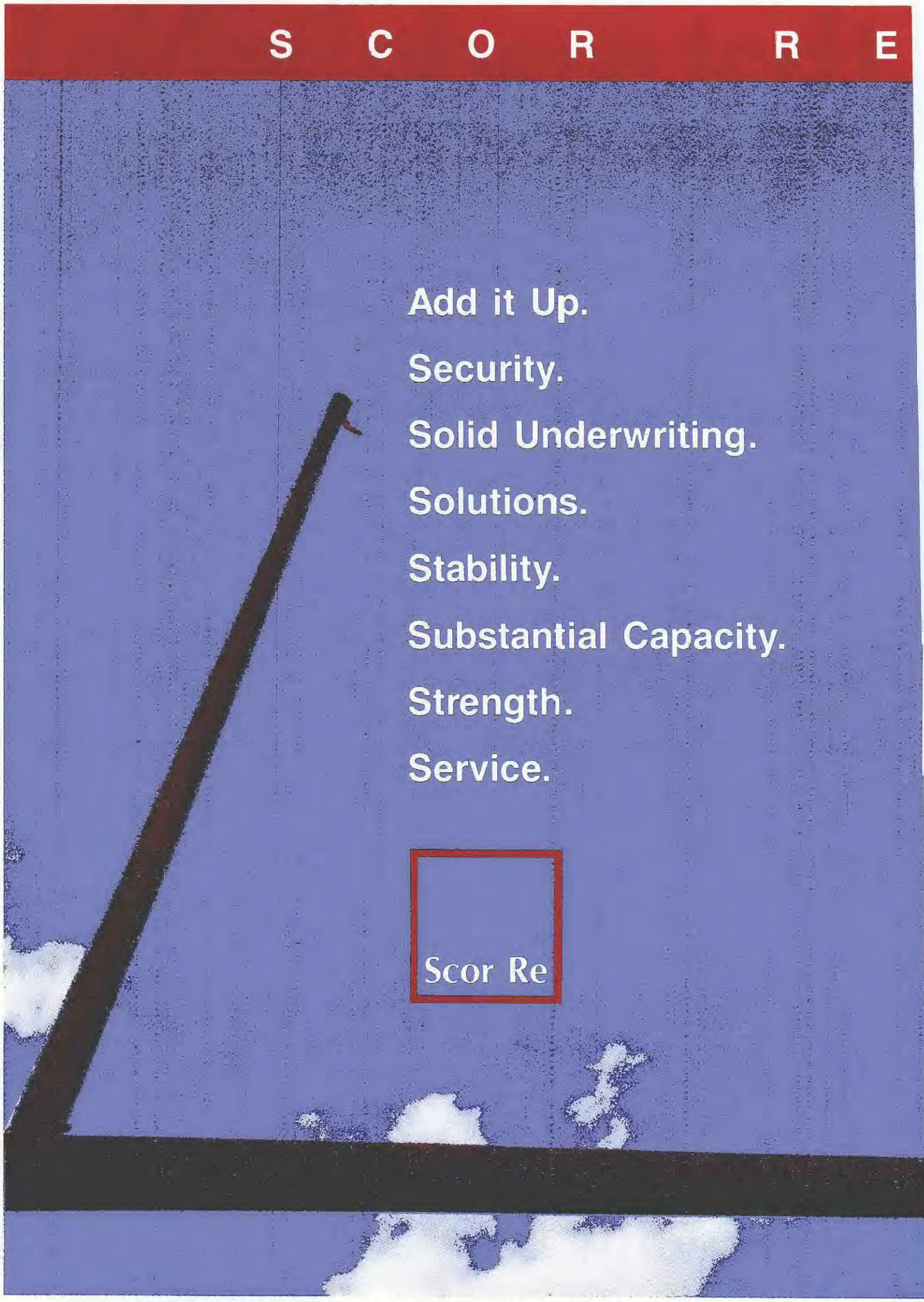
Observers expect that if the draft is approved in its current form, its primary effect would be to clarify the difference between acceptable financial reinsurance and financing arrangements.

It is not expected to have a significant impact on the financial reinsurance now being written.

"I don't think it will have any noticeable impact," said Roger Beach, a part owner of Accord Re Ltd. in Bermuda.

"I think that it would have very little effect on the U.S. market because it's my experience that contracts today incorporate at the very least timing risk," said Michael J. Welch, vp of Forum Reinsurance Co. Ltd. in Bermuda.

—By Judy Greenwald



ontinued from previous page
:utive officer of the Woodland ills, Calif.-based reinsurer.

And, it accounts for about 15% of AC Re Corp.'s volume, said Mark fosca, vp and manager of the reaty department for the Green-ich, Conn.-based reinsurer.

According to observers, other ompanies that write at least some nancial reinsurance include Gen-ral Reinsurance Corp., CNA Fi-ancial Corp., CIGNA Corp. and t. Paul Reinsurance Management orp.

And, among the largest investors in Bermuda-based Centre Reinsurance Holdings Ltd., the largest financial reinsurance underwriter, are Zurich Insurance Co. of Zurich, Switzerland; units of Long Grove, Ill.-based Kemper Group; and Northwestern Mutual Life Insurance Co. of Milwaukee (*BI*, April 10).

In addition, Continental Corp. owns 49% of Bermuda-based financial reinsurer Accord Re Ltd., which began underwriting earlier this year.

New York-based Clarendon Insurance Group also is active in the financial reinsurance market.

Some U.S. multiline reinsurers, however, say they simply are not interested in writing the business.

Michael G. Fitt, chairman and chief executive officer of Employers Reinsurance Corp. of Kansas City, Mo., compared financial reinsurance to financial guarantee insurance, in which he said the reinsurer became involved a few years ago.

Employers Re found that it was neither smart enough, knowledgeable enough nor was the market stable enough to make money on the financial guarantee business, he said. Since then, legislative changes have forced virtually all multiline reinsurers out of the financial guarantee insurance market, he added.

Likewise, the future of financial reinsurance "depends more on the government than it does on the marketplace," Mr. Fitt said. At the same time, there are "ample" opportunities in other areas of the insurance marketplace, he noted.

Reinsurance by its very nature is long-term and based on historical performance, Mr. Fitt said. If a reinsurer deals with new products where there is no historical performance and has no experience, "unless you're very lucky, you usually lose money on it," he pointed out.

Mr. Fitt said he may be a conservative reinsurer, but he added it takes a conservative reinsurer to survive in today's market.

Paul Hawksworth, president and chief executive officer of Mercantile & General Reinsurance Co. in Morristown, N.J., said the reinsurer is not involved in financial reinsurance.

"You need a lot of surplus capital to be able to do that," he said.

"We've been studying it for three years, and continue to decide to do nothing but to continue to study," said A. Edward Gschwind, president and chief executive officer of American Royal Reinsurance Co. in New York.

Some reinsurers may find it difficult to answer whether they are active in the financial reinsurance market because it can be difficult to define precisely what financial reinsurance is.

"We don't write financial reinsurance, per se," said Paul Inderbitzen, executive vp of American Re-Insurance Co. in Princeton, N.J. However, American Re examines the financial ramifications of all reinsurance contracts it writes as a matter of course, he said.

Edmond F. Rondepierre, senior vp and general counsel of General Reinsurance Corp. in Stamford, Conn., agreed it is difficult to define financial reinsurance.

"All reinsurance is financial," he said. "No two people use financial reinsurance to mean the same thing."

For that reason, Mr. Rondepierre said he was reluctant to definitely state whether Gen Re writes financial reinsurance but, he added, "We will do almost any legitimate form of reinsurance for a client."

Most reinsurance has some element of financial reinsurance to it, noted Blanch's Mr. Bailey. For example, by putting ceding commissions and sliding scales into a reinsurance contract, "it becomes partly financial," he said. These elements can either be expanded or contracted, depending on the purpose, he said.

"A lot of people are mixing up what these things are," said James E. Dwane, president of Prudential Reinsurance Corp. in Newark, N.J.

Pru Re, for instance, continues to write contracts with an aggregate cap and funded covers, which "we've done for years and will continue to do," he said. "They certainly have a financial component, but are more or less traditional."

But the reinsurer has not considered writing loss portfolio transfers—in which an insurer cedes its loss reserves on a discounted basis to a reinsurer—or other types of financial reinsurance transactions, Mr. Dwane said.

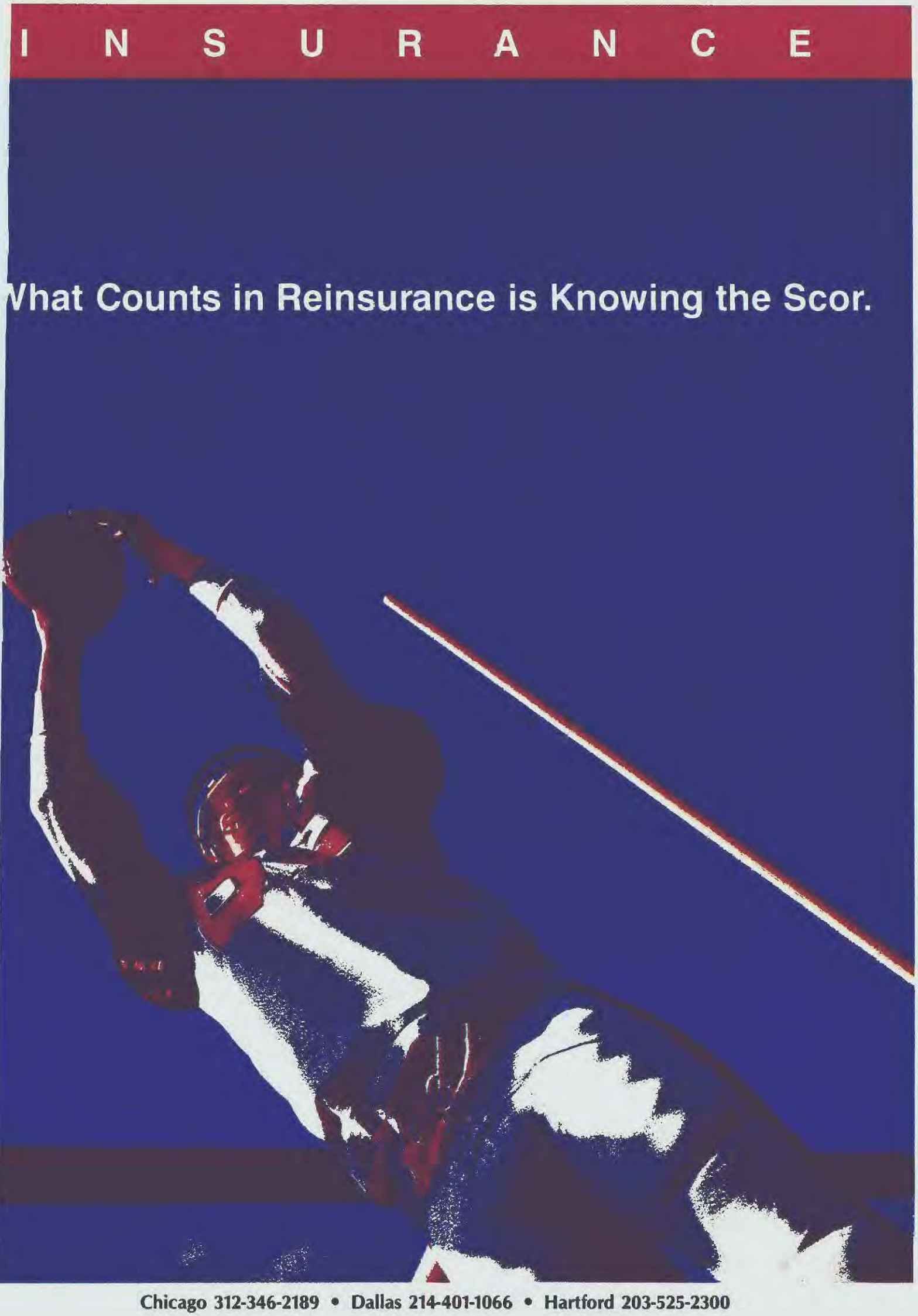
On the other hand, because many financial reinsurers are now incorporating more underwriting risk into their contracts, "it isn't as easy as it used to be to distinguish financial reinsurance from traditional reinsurance," noted Jay A. Novik, president of Atrium Corp. of New York, a reinsurance intermediary subsidiary of Swiss Reinsurance Co.

Partly because of this ambiguity over how to define financial reinsurance, observers are reluctant to estimate how large the market is.

In any event, observers say that with multiline reinsurers joining the host of Bermuda insurers that specialize in financial reinsurance, the supply clearly now exceeds the demand.

"Too many people have jumped

Continued on next page



Financial reinsurance

Continued from previous page
into the fray, and we question whether there's enough business to feed them," said John N. Gilbert Jr., president of Holborn Agency Corp., a New York-based reinsurance intermediary.

"There's definitely more surplus now than there was a year ago," basically because of multiline reinsurers that have entered the market, said Kirk Roeser, president of Gill & Roeser Inc. in New York, an intermediary.

"There's a glut of working capacity for these products right now," Mr. Smithson said.

"I would agree there are more people who are indicating an interest in writing it," said Steven M. Gluckstern, president and chief executive officer of Centre Re, which has $250 million in capital.

He added, however, that so far it has had no impact on either the amount, or the quality, of the business Centre Re has seen.

The increased supply of financial reinsurance has lead to lower profit margins in the industry, Mr. Gluckstern said. "As in any insurance sector, if supply is increased, price goes down," he noted.

"Many companies find the idea of financial reinsurance attractive. I think the profit margins have become pretty thin" for financial reinsurance, said Norman Wayne, president of CIGNA Corp.'s reinsurance division in Philadelphia

There must be a reasonable profit, he said, adding: "Maybe there's an oversupply of capital in that business."

While CIGNA sees many proposals, it consummates relatively few of them because of the terms available, Mr. Wayne said. CIGNA must get a fair return to be willing to write the business, he added.

Financial reinsurers' profit margins have fallen anywhere from one-third to one-half on the "standard-type" financial reinsurance products because of the competition in the market, said James Thomas, chief executive officer of Independence Insurance Co., a Bermuda-based financial reinsurance unit of TSB Group P.L.C. in London. Independence's surplus has just been boosted to about $50 million from about $20 million, noted Mr. Thomas.

Some reinsurers will 'shift their guns' as the market hardens, says Robert N. Tremelling II.

Heidi E. Hutter, senior vp at Atrium Corp., said that in an effort to attract business, financial reinsurers are beginning to keep prices stable, but assume a greater transfer of risk.

Generally, she said, these transactions reflect all the "upside" back to the ceding company, so that if the results are favorable, the profits are refunded to the ceding company. But, if there are any losses, the reinsurer must absorb them without having any favorable results to use as a cushion, she noted.

This approach is being taken in particular by new entrants to the financial reinsurance market that want to justify their existence by writing business, Ms. Hutter said. "We see the trend starting, and certainly see the potential for it to accelerate," said Ms. Hutter, who also discussed the issue at an insurance conference sponsored by Coopers & Lybrand last month.

The problem, Ms. Hutter stressed, is not that more risk is being transferred to the reinsurer, but that inadequate rates are bein charged for it.

As financial reinsurers absor more risk, clearly the results wi be more volatile, said Centre Re Mr. Gluckstern. If people are nc careful in how they price thi greater risk, they will find them selves exposed to more losses, h said.

While there may be an oversup ply of capacity now, observers not this could change once the marke hardens and some of the multilin reinsurers now writing the busi ness return to their traditiona lines.

"Surplus relief tends to be a commodity, and each year the sup ply and demand relationshi changes, so you do have provider who move in and out of the mar ket," said Mr. Roeser.

"Those reinsurers that do no have the expertise and resource devoted to the financial reinsurance area will certainly contract ir that regard," said Dave Koegel, ar assistant vp at Gill & Roeser.

Reinsurers are making 3% to 5% margins on financial reinsurance while in the hard market thei margins on traditional reinsurance can be 15% to 25%, said Robert N. Tremelling II, president of the San Francisco-based intermediary Tretis Group. In addition, financial reinsurance requires a great deal of expertise as well as top executives' involvement.

Because of these factors, some reinsurers will "shift their guns" to traditional reinsurance, and become less and less involved in financial reinsurance when the market hardens, he said. "There will be an ebb and flow there," he added.

Some companies will strive to provide financial reinsurance for the long term, said Underwriters Re's Mr. Newman. Others, however, feel their best opportunities lie in accepting traditional risk business, and only get into financial reinsurance when it is not economic to write traditional reinsurance business, he said, putting his firm in the latter category.

"I think the bulk of the industry fits that category," Mr. Newman added. "We've all picked up this business because there wasn't anything better to do."

Financial reinsurance will probably account for a smaller percentage of NAC Re's total business once the market hardens, predicted Mr. Mosca. "We look at it as an alternative to traditional reinsurance opportunities that aren't as attractive now," he said.

Observers expect that other multiline reinsurers will do the same.

"Some reinsurers will run out of capacity just to meet ordinary demands," said Blanch's Mr. Bailey.

Some of the "fringe market" that is "almost innocent capacity" could be expected to leave the financial reinsurance market once the overall market hardens, said Roger Beach, part owner of Bermuda-based Accord Re.

Many players "will go back to the traditional market when rates are hard," agreed Michael J. Welch, vp at Forum Reinsurance Co. Ltd. in Bermuda, a financial reinsurance underwriter.

"They only have so much capital," he added. "I believe they will go to the markets where they get the highest return."

But Crump Re's Mr. Zaffino said he believes some reinsurers are seeking to establish long-term financial reinsurance relationships. Business that reinsurers lost to alternative risk mechanisms will not return, he noted. "This isn't going back. It's gone forever," he said.

"I think the reinsurance market has to see this as a source of revenue that's gone, so we have to make up this source of revenue in other areas," Mr. Zaffino said.

Even if certain reinsurers do leave the market, others—particu-

Continued on page 30

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Leading insurers' reinsurance recoverables

Dollars in thousands

Company	Statutory surplus	Reinsurance recoverable on: Paid losses	Unpaid losses	Incurred-but-not-reported losses	Unearned premium reserve[1]	Total reinsurance recoverable[2]	Total recoverables as percentage of surplus	Funds held or retained for account of unauthorized companies	Adjusted reinsurance recoverables	Adjusted recoverables as percent of surplus
Aetna Life & Casualty Co.[3]	$3,860,238	$308,435	$937,768	$1,372,258	$420,819	$3,039,280	78.7%	0	$3,039,280	78.7%
Allstate Insurance Co.	4,184,910	129,985	691,435	492,889	143,440	1,457,740	34.8	$186,086	1,271,663	30.4
AmBase Corp.	828,141	195,796	719,596	374,971	237,002	1,527,365	184.4	128,117	1,399,248	169.0
American Bankers Ins. Group	106,335	10,092	9,661	12,469	66,765	99,014	93.1	58,969	40,045	37.7
American General Corp.	740,921	26,558	111,298	48,332	31,925	218,113	29.4	20,212	197,901	26.7
American International Group	3,896,923	967,168	4,224,847	1,294,676	1,414,913	7,901,604	202.8	3,915,379	3,986,225	102.3
Capital Holding Corp.	59,009	149	2,129	0	264	2,542	4.3	0	2,542	4.3
Chubb Corp.	1,343,248	91,391	484,656	496,046	322,385	1,394,478	103.8	83,425	1,311,053	97.6
CIGNA Corp.	1,955,612	680,309	2,637,158	1,700,194	430,702	5,448,363	278.6	1,608,996	3,839,367	196.3
CNA Financial Corp.	2,685,705	341,099	832,121	1,383,364	205,235	2,761,819	102.8	141,441	2,620,378	97.6
Continental Corp.	1,597,897	168,502	1,412,665	288,771	412,849	2,282,787	142.9	873,679	409,108	88.2
Crum & Forster	1,384,177	442,487	1,810,404	734,709	360,114	3,347,714	241.9	736,829	2,610,855	188.6
Farmers Insurance Group	1,933,423	5,090	10,931	2,511	26	18,558	1.0	12,670	5,888	0.3
Fireman's Fund Corp.	1,452,382	288,465	930,803	1,021,307	469,464	2,710,039	186.6	189,627	2,520,412	173.5
GEICO Corp.	650,880	4,800	64,889	66,468	21,524	157,681	24.2	15,783	141,890	21.8
General Re Corp.	2,318,929	64,134	273,847	459,418	41,368	838,767	36.2	166,799	671,968	29.0
Hartford Insurance Group	2,626,449	795,507	2,069,636	1,171,219	208,309	4,244,671	161.6	0	4,244,671	161.6
Kemper Group	804,744	22,815	1,495,890	579,851	517,742	2,616,298	325.1	430,545	2,185,753	271.6
Lincoln National Corp.	973,199	15,696	170,411	1,478	11,943	199,528	20.5	9,274	190,254	19.5
NAC Re Corp.	174,217	4,545	48,234	49,514	8,872	111,165	63.8	38,042	73,123	42.0
Ohio Casualty Corp.	452,183	3,661	45,656	5,201	9,663	64,181	14.2	0	64,181	14.2
Primerica Corp.	143,980	5,656	7,616	2,006	14,258	29,536	20.5	1,989	27,547	19.1
SAFECO Corp.	845,665	14,016	69,922	57,226	44,285	185,449	21.9	4,933	180,516	21.3
St. Paul Cos. Inc.	1,392,583	32,945	580,650	449,695	204,861	1,268,151	91.1	131,865	1,136,286	81.6
Transamerica Ins. Group	738,977	61,821	236,050	113,967	94,916	506,754	68.6	38,345	468,409	63.4
Travelers Corp.	3,130,191	205,860	2,084,687	692,882	444,444	3,427,873	109.5	0	3,422,873	109.5
USF&G Corp.	1,395,116	14,770	1,169,259	207,078	421,286	1,812,393	129.9	846,023	966,370	69.3
Average							102.7			82.0

[1]Estimated [2]Includes recoverables from affiliates [3]Excludes American Re-Insuance Co.

Source: Oppenheimer & Co.

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Unrecoverable reinsurance is unknown peril

By DOUGLAS McLEOD

Despite years of growing concern, unrecoverable reinsurance remains an enigma: Everyone agrees it's there, but no one is sure how much of a danger it poses to ceding insurers.

Insurance industry observers don't even agree on whether the problem of unrecoverable reinsurance has improved in the several years since property/casualty insurers woke up to the fact that some of their reinsurance probably could not be collected.

Some point out insurers have steadily been writing off recoverables from insolvent reinsurers and commuting contracts with other reinsurers that are not likely to pay 100 cents on the dollar. This is reducing uncollectible balances from prior years.

In addition, dramatically improved standards for assessing reinsurer security promise to head off problems in the future, industry sources say.

Other observers, however, are not sure how much progress insurers have really made in whittling down unrecoverable balances.

These observers also fear that the billions of dollars in losses generated in less than a month by Hurricane Hugo, the California earthquake and the explosion of the Phillips Petroleum Co. plant in Pasadena, Texas—coupled with a string of disastrous losses in prior years—could increase the burden of uncollectible reinsurance facing many ceding companies.

"There's a problem out there. It's difficult to believe it's gotten any better. In fact, it's probably gotten worse," said Myron M. Picoult, senior vp with Oppenheimer & Co. in New York and a leading observer of reinsurance recoverables.

"Hurricane Hugo and the earthquake may tilt some small and medium-sized (reinsurers) that were on the precipice, and throw them over," he predicted. "The result will be another step up in the flight to quality."

Mr. Picoult may be the only industry observer willing to estimate total uncollectible reinsurance balances, pegging them at $20 billion, or about 17% of the industry's year-end 1988 surplus of $118.2 billion.

Analysts, regulators and some industry officials, meanwhile, are hoping that new accounting rules imposed by the National Assn. of Insurance Commissioners will finally show the size of the problem.

This year, for the first time, insurers will be required to report overdue reinsurance balances and will have to take a penalty against surplus equal to at least 20% of undisputed balances more than 90 days past due from authorized reinsurers.

This new rule should help pin down how much of a ceding company's reinsurance is past due—an amount that presumably includes balances that may never be recovered—and will also help identify reinsurers that are chronic slow payers.

However, some say the accounting changes will have only a negligible impact on industry surplus.

In addition, loopholes in the NAIC rules will allow some ceding insurers—including those with the most severe uncollectible reinsurance problems—to avoid reporting past due balances until they are audited by regulators, some observers predict.

"Most insurance companies are going to be able to avoid a significant impact in the first and second years" before a triennial audit, said Alan M. Levin, senior vp with Standard & Poor's Corp. in New York. He added, however, the new rules are "going to have a profound effect on the industry in the longer pull."

Uncollectible reinsurance has been the focus of increasing attention in recent years as ceding insurers have sifted through the damage done by the soft property/casualty market of the early 1980s.

That soft market, fueled in part by cheap reinsurance from hundreds of U.S. and foreign markets, produced a shake-out in which numerous reinsurers failed or withdrew from the business. Reinsurer insolvencies, in turn, played a role in the collapse of ceding insurers.

Despite heightened awareness of

Continued on page 34

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Recoverables

Continued from page 32

the problem, though, most industry officials still have a hard time even estimating the possible impact on industrywide surplus.

"I have to believe that a lot of people have not recognized their liabilities, either by putting up reserves or writing (recoverables) off," observed Michael G. Fitt, chairman of Employers Reinsurance Corp. of Overland Park, Kan. "I think there's definitely a cloud out there. How big it is, how black it is, I couldn't say."

"It isn't possible to give a single meaningful answer to how much is unrecoverable," added James Hall, a partner with Coopers & Lybrand.

One way of gauging the potential exposure, however, may be to look at industrywide reinsurance recoverables as a percentage of surplus.

A.M. Best Co. has reported that reinsurance recoverable by 1,948 property/casualty companies in 1988 represented 53.7% of year-end surplus of $118.2 billion, or about $63.5 billion. This was a slight decline from 1987, when recoverables represented 56.5% of year-end surplus of $104.9 billion, or about $59.3 billion.

Best's recoverable figures include unpaid and incurred-but-not-reported losses and unearned premium reserves, but exclude paid losses and balances due from affiliates. The figures are also net of funds withheld by ceding companies for balances due from unauthorized reinsurers.

Oppenheimer's Mr. Picoult, meanwhile, found that reinsurance recoverable by 27 major property/casualty insurance groups represented an average of 82% of the insurers' year-end 1988 surplus (see chart, page 32.)

Unlike Best, Mr. Picoult included reinsurance recoverable on paid losses and balances due from affiliates.

Mr. Picoult's figures also show that the ratio of recoverables to surplus varies widely from insurer to insurer.

Some insurers with high recoverables-to-surplus ratios maintain that they do not face significant problems with defaulting reinsurers.

CIGNA Corp., for example, concedes that its concentration on large commercial property/casualty risks entails heavy use of reinsurance. However, a CIGNA spokesman said the insurer is "highly confident" that controls established by an internal reinsurance security committee will avert significant recovery problems.

Nevertheless, if a large percentage of industrywide reinsurance recoverables proves uncollectible—as Mr. Picoult's $20 billion estimate suggests—the problem could put a big dent in the industry's surplus.

Still, not everyone is convinced insurers will have as serious a problem collecting as Mr. Picoult projects.

Robert A. Bailey, senior vp and limited partner with E.W. Blanch Co. in Minneapolis, conceded that $20 billion "may be a good estimate," but also pointed to the Best figures showing industrywide recoverables of about $63.5 billion for 1988.

If Mr. Picoult is right, roughly a third of this total would prove unrecoverable, an estimate that may be on the high side, Mr. Bailey suggested.

Industry officials, brokers and analysts also disagree about whether the recoverable problem has improved at all in the last few years.

"I think the major bulk of that is behind the industry," noted Willis T. King Jr., chairman of Willcox Inc. Reinsurance Intermediaries.

Over the last two to three years, he said, many ceding insurers have recognized their unrecoverable reinsurance by setting aside reserves.

"I would think most people have taken (unrecoverables) into account because that's been a longstanding problem," added Michael E. Rothpletz, executive vp with G.L. Hodson & Son Inc. in New Hyde Park, N.Y.

Mr. Hall agreed that ceding insurers have dealt with uncollectible balances as business written in prior years has matured, noting that "each year they are getting whittled down a little more."

"It's less of a problem because, in the last three years, North American primary companies have improved the quality of the reinsurers they have been doing business with," Mr. Hall added.

Mr. King agreed that once the problems of prior years are dealt with, unrecoverable reinsurance will be a far less severe dilemma. "It will be tremendously less of a problem because of the attention that's being paid to security."

Mr. Picoult and others, however, are unconvinced that insurers have really put the morass of uncollectible reinsurance behind it.

Write-offs of unrecoverable balances have "picked up a little bit, but it's still pretty darned spotty," Mr. Picoult observed.

S&P's Mr. Levin said the problem "is significant and getting worse."

"It had been getting better. There's no doubt about that," he said. "I think 1989 is going to see a change in that."

The reason for the change, he explained, is the unprecedented series of catastrophes that has hammered primary insurers in the last two months and that will, in turn, hammer reinsurance markets, where large recoverable balances have already accumulated on previous losses over the last few years.

The problem of recoverables "hasn't changed a lot in the last 24 months. If anything, it's probably gotten worse," Mr. Fitt agreed.

Many insurers have not addressed their reinsurance-related liabilities because they have too many other problems on their plates, including the profit-slashing impact of the Tax Reform Act of 1986 and the current soft property/casualty insurance market, Mr. Fitt observed.

Uncollectible reinsurance is "perceived by companies as being one of the less severe problems, which may or may not be true, depending on the company," he said.

An individual insurer's potential exposure to bad reinsurance receivables may be highlighted by the NAIC's 90-day rule, which becomes effective in 1989 annual statements to be filed early next year.

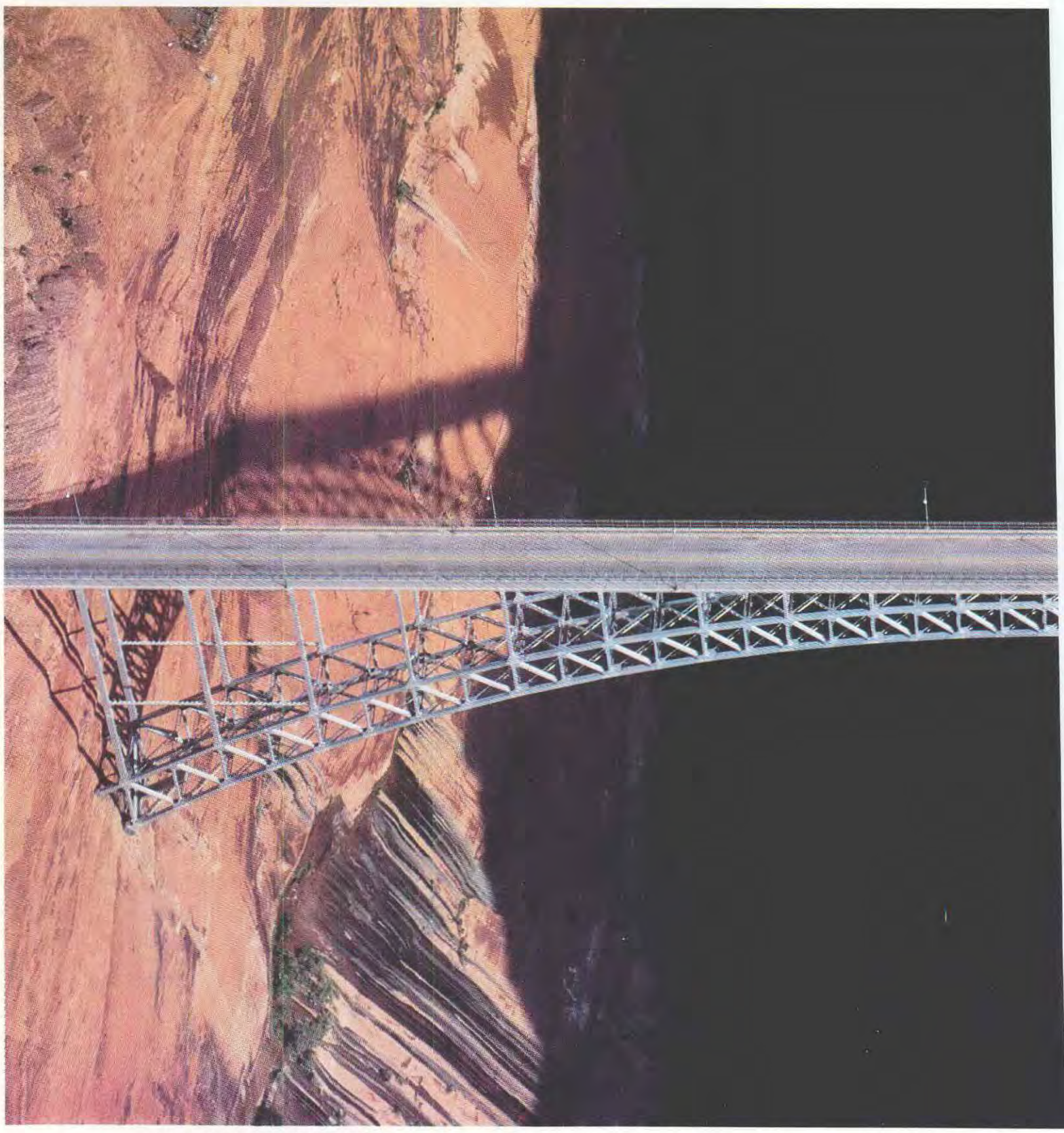
Under the new rule, ceding insurers must report in Schedule F of their annual statements the amoun of paid losses recoverable from eacl reinsurer that are current, 30 to 9(days overdue, 91 to 180 days overdu(and more than 180 days late.

The rule then imposes a penalty against surplus equal to 20% of undisputed paid loss reinsurance balances that are 90 days or more overdue from authorized reinsurers.

In addition, ceding companies wil have to write off 20% of all undisputed recoverables due from authorized reinsurers that are identified as slow payers. A reinsurer will be considered a slow payer if overdue paic loss recoverables amount to 20% or more of all paid loss recoverables plus payments received by the ceding company within the previous 9(

Continued on next page

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Continued from previous page

ays.

The NAIC likely will review the evel of the penalty after its impact n 1989 statements is known, and the ize of the penalty could be increased, ndustry observers say.

The 20% penalty was a compromise that resulted from lengthy NAIC ebate in which some groups opposed any write-off while others—including the Reinsurance Assn. of America—pushed for a 100% penalty.

Opinion about the penalty provision is still divided.

"It seemed severe to impose a penalty when you don't know what (the mpact of) the penalty will be," said Phil Schwartz, vp with the American nsurance Assn.

Reinsurers and analysts, however, generally applaud the rule as a necessary step in addressing the "slow-pay" and "no-pay" problem.

"I think that will instill greater discipline in the reinsurance market," said Andre Maisonpierre, president of the RAA.

Mr. Picoult noted the fact that the NAIC adopted such a rule indicates the significance of the problem, though he also suggested that a 100% penalty would have been harsh and possibly dangerous.

"If you did that, you would probably throw a lot of guys underwater real quick. And I'm not talking about little guys," Mr. Picoult said.

Opinion also is divided on the impact of the 20% penalties.

The volume of overdue recoverables, is "huge," said Hodson's Mr. Rothpletz. "A lot of companies are going to have to take a very significant hit this year-end."

But Blanch's Mr. Bailey disagreed that the 20% penalty will have much of an effect on insurer surplus.

"The amount of paid losses 90 days overdue for the industry as a whole is not a big number as a percentage of surplus, especially when you take 20% of it," Mr. Bailey said.

Observing that paid losses recoverable from unaffiliated reinsurers in 1988 totaled roughly $7.5 billion for the industry, Mr. Bailey noted that even if half of this—$3.75 billion—is overdue, the 20% penalty would amount to only $750 million. This represents less than 1% of the industry's year-end 1988 surplus.

He added, however, that the impact could be material for some companies with bigger-than-average overdue balances.

Several industry observers also noted that loopholes in the 90-day rule could allow ceding insurers to avoid taking the write-offs.

For example, the penalty does not apply to reinsurance balances in dispute, an exception that may prompt some ceding insurers to file lawsuits or arbitration demands or take other steps to classify balances as being in dispute before year-end.

Another loophole involves defining when a reinsurance claim becomes payable, and thus when it becomes 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 the contract does not specify terms, payment is deemed due 30 days after a proof of loss is provided to the reinsurer.

Before year-end, some ceding companies may contact reinsurers to ask if they have all the information they need to pay claims, observers note. If the answer is no—as it would likely be in some situations—the claim is not complete and the clock has not started running.

Mr. Bailey, while declining to describe these provisions as "loopholes," conceded that "the rule allows a lot of options."

For example, Mr. Bailey said he expects future contracts to specify payment terms that conform to reinsurers' past payment practices. If a reinsurer typically takes 90 days to pay claims, for example, the contract could provide for a 90-day payment schedule and, thus, avoid balances being classified as overdue.

Edmond F. Rondepierre, senior vp and general counsel of General Reinsurance Corp. in Stamford, Conn., said he initially doubted whether anybody would end up taking a penalty under the rule.

When the rule was being debated at NAIC meetings, Mr. Rondepierre said he told regulators, "If you guys ever see a penalty under this clause, it's because there was a guy asleep at the switch."

He added, though, that his opinion has changed somewhat. "Where I originally thought that everybody would find a way to weasel out of this penalty, it turns out there are a number of ceding companies that will use it as a lever to force their reinsurers to pay up."

The ceding insurers most likely to take advantage of loopholes in the rule, he observed, are those that face the most dramatic hits to surplus for overdue reinsurance balances.

Mr. Bailey agreed that the threat of identifying a reinsurer as a slow payer may be a useful tool for ceding companies. "I think that may very well have a therapeutic effect."

He added, though, that he does not expect widespread attempts to avoid compliance with the rule.

"I feel confident that the industry will follow the rules," he said. "I'm amazed that the insurance industry is seen as a bunch of scheming connivers."

Mr. Hall observed that skirting the rules carries its own dangers for ceding insurers.

"It is likely that a number of companies will be creative in trying to minimize the effect of the 90-day rule," he said. "I also know regulators in a lot of departments are going to be tough on companies that try to do that.

Whether regulators will succeed is another question, though.

"It would take a lot of determined work on the part of a commissioner" to ferret out some cases where ceding insurers have skirted the rule, Mr. Rondepierre said.

S&P's. Levin added that while he also doesn't expect widespread abuse, the weak link in enforcement is that regulators typically "ask insurers to squeal on themselves."

"The disclosure is only as good as the insurance company," Mr. Levin said, adding that only insurance department audits may reveal abuses of the rule in some cases.

Whatever the ultimate impact on industry surplus, though, some observers note that the rule has already had an impact on some reinsurance payment practices.

"The reinsurers are well aware of the rule and its potential adverse impact, and have taken steps to expedite claims payments," said Mr. King.

Hurricane Hugo was the first major test of improved reinsurance claim systems, and reinsurers worldwide are passing the test with flying colors, turning around catastrophe claims in 24 hours, Mr. King said.

"It's been demonstrated in the wake of Hugo that those systems are working," he said. ■

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A

Alexander Howden Reinsurance Intermediaries Inc.

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	1988	1987
Premium volume	NA	NA
% Treaty	100%	NA
Gross revenues	NA	NA
Total employees	5	NA
Treaty	5	NA

Year founded: 1988.
Parent company: Alexander Howden Reinsurance Brokers Ltd./ Alexander & Alexander Services Inc.
Principal officers: Joseph Artel, senior vp; David Hatwell and Gloria Paider.
Specialties: International treaty.
Licensed in: New York.

Alydon International Ltd.

Imperial Hotel Building, Church Street, P.O. Box HM 2217, Hamilton HM JX, Bermuda; 809-292-5099

	1988	1987
Premium volume	$7,000,000	$6,500,000
% Treaty	95%	85%
% Facultative	5%	15%
Gross revenues	NA	NA
Total employees	3	2

Year founded: 1986.
Principal officers: Roy V. Bray, president/managing director.
Specialties: Property, casualty, captive and self-funded programs, risk retention groups, financial reinsurance.
Licensed in: Bermuda.

Amberco Brokers Corp.- New York

111 John St., New York, N.Y. 10038; 212-608-9766

	1988	1987
Premium volume	NA*	NA*
% Treaty	100%	100%
Gross revenues	NA*	NA*
Total employees	NA*	NA*

* Operations are pooled with other subsidiaries of parent company.

Year founded: 1982.
Parent company: Amberco Holdings Inc.
Principal officers: Julian Griffiths, president; William Wanklyn and Ann McSherry, vps.
Licensed in: New York.

Amberco Inc.

First Floor, Continental Building, Church Street, Hamilton, Bermuda; 809-295-9191

	1988	1987
Premium volume	NA*	NA*
% Treaty	95%	95%
% Facultative	5%	5%
Gross revenues	NA*	NA*
Total employees	NA*	NA*

* Operations are pooled with other subsidiaries of parent company.

Year founded: 1985.
Parent company: Amberco Holdings Inc.
Principal officers: Julian M. Griffiths, president; William Wanklyn, Ann McSherry and Martin Jackson, vps.
Specialties: Captives, risk retention groups, financial reinsurance.
Licensed in: Bermuda.

American Healthcare Intermediaries Inc.

1000 North Point, Suite 1405, San Francisco, Calif. 94109; 415-346-5670

	1988	1987
Premium volume	$29,000,000	$22,000,00
% Treaty	100%	100
Gross revenues	$162,500	$130,00
Total employees	2	
Treaty	2	

Year founded: 1987.
Principal officers: Donald K Anderson, president.
Specialties: Accident, health life, surplus relief.
Licensed in: California, Texas Missouri, Washington and Nevada

American Intermediaries Inc.

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

	1988	1987
Premium volume	$20,071,312	$30,000,00
% Treaty	99%	99%
% Facultative	1%	1%
Gross revenues	NA	NA
Total employees	12	21
Treaty	12	21

Year founded: 1984.

Continued on page 41

How to use intermediaries' directory

Information for the seventh 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 for intermediaries to be included.

Following the name and address of the company, financial and operational information for 1987 and 1988 is given, including **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 1988 and so far in 1989 and names and titles of **principal officers** follow.

If a company specializes in brokering reinsurance for particular types of risks, it is noted under the **specialties** heading. Names of states in which the company is **licensed** or does business as a reinsurance intermediary complete the listings.

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

If you wish to locate an intermediary by state you may refer to the geographic index following the directory. Home offices, branch offices and subsidiaries brokering reinsurance are included.

Although we make every effort to obtain complete and accurate information, *Business Insurance* is unable to verify all data because public documents are rarely available.

Our Record Speaks For Itself...

SIX MONTHS FINANCIAL HIGHLIGHTS

June 30,	1989	1988
Gross Written Premium	$ 91,721,670	$106,441,231
Policyholders' Surplus	111,390,570	101,485,110
Total Admitted Assets	455,887,988	387,488,402
NWP/PHS (Annualized)	1.15	1.50

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Continued from page 36

Subsidiaries: American Intermediaries of New York Inc., New York.
Principal officers: W.J. Buettner, president; Nora B. Smith, executive vp; K. Mark Russ II, vp.
Specialties: Professional liability.
Licensed in: New York.
Membership: National Assn. of Reinsurance Brokers.

American Treaty Brokers Inc.

600 Holiday Plaza Drive, Suite 545, Matteson, Ill. 60443; 312-748-9550*

	1988	1987
Premium volume.	NA	NA
% Treaty.....	99.9%	100%
% Facultative.	0.1%	0%
Gross revenues...	$525,188	$325,991
Total employees..	10	7
Treaty.....	10	7

* Effective Nov.11, 1989, the correct area code will be 708.

Year founded: 1985.
Principal officers: Edward N. Murray, chairman/chief executive officer; Ann M. Hill, secretary/treasurer.
Specialties: Long haul commercial auto, yachts, property, casualty.
Licensed in: New York.

Andrew Edwards & Co. Inc.

111 John St., New York, N.Y. 10038; 212-227-1300

	1988	1987
Premium volume.	$73,500,000	$98,000,000
% Treaty.....	100%	100%
Gross revenues...	NA	NA
Total employees..	12	14
Treaty.....	12	14

Year founded: 1977.
Parent company: AANA Holding Co. Inc.
Branch offices: Woodbury, N.Y.
Principal officers: Andrew Barile and Edward Mallozi, co-chief executive officers.
Specialties: Casualty excess of loss.
Licensed in: New York.
Membership: National Assn. of Reinsurance Brokers.

Aon Reinsurance Agency Inc.

123 N. Wacker Drive, 8th Floor, Chicago, Ill. 60606; 312-781-7900

	1988	1987
Premium volume.	NA	NA
% Treaty.....	97%	97%
% Facultative.	3%	3%
Gross revenues*..	$26,000,000	$25,900,000
Total employees..	146	172
Treaty.....	129	155
Facultative...	17	17

* *BI* estimate.

Year founded: 1945.
Parent company: Aon Corp.
Branch offices: New York; Old Bridge, Hoboken, N.J.; Los Angeles, San Francisco, Seattle.
Acquisitions: Taylor Reinsurance Intermediaries, Seattle; NFS Intermediaries Inc., Hoboken, N.J.
Principal officers: Paul R. Davies, chairman/chief executive officer; W.E. Taylor, vice chairman; David M. Kelley, Michael Bungert, executive vps; Stephen L. Lunsford, senior executive vp/chief operating officer.
Licensed in: Illinois, California.
Membership: National Assn. of Reinsurance Brokers.

Ashford Reinsurance Intermediaries Corp.

345 Kinderkamack Road, P.O. Box 218, Westwood, N.J. 07675; 201-664-6677

	1988	1987
Premium volume.	NA	NA
% Treaty.....	99%	99%
% Facultative.	1%	1%
Gross revenues...	NA	NA
Total employees..	4	5
Treaty.....	4	5

Year founded: 1983.
Parent company: Walshire Assurance Co.
Principal officers: Henry J. O'Shea, president; Donald B. Sharp, executive vp.
Licensed in: New York.

Associated Intermediaries Inc.

P.O. Box 1260, Flowery Branch, Ga. 30542; 404-967-4009

	1988	1987
Premium volume.	$4,000,000	$6,000,000
% Treaty.....	20%	10%
% Facultative.	80%	90%
Gross revenues...	NA	NA
Total employees..	6	10
Treaty.....	2	2
Facultative...	4	8

Year founded: 1982.
Parent company: Associated Reinsurance Management Corp.
Principal officers: Alph H. Browne, president; Diana D. Browne, secretary/treasurer.
Specialties: Financial guarantee, alternative structuring, cap-

Continued on next page

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Continued from previous page

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Licensed in: New York; does business in all states.

Membership: National Assn. of Reinsurance Brokers.

Atlantic Security Ltd.

The Windsor Place, Queen Street, Hamilton, Bermuda; 809-295-5425

	1988	1987
Premium volume	$4,750,000	$2,300,000
% Treaty	20%	20%
% Facultative	80%	80%
Gross revenues	NA	NA
Total employees	10	10
Treaty	1	1
Facultative	1	1

Year founded: 1974.

Principal officers: Hal Forkush, president; Colin James, vp.

Specialties: Financial reinsurance, surplus relief, captives.

B

BEP International

1140 Blvd. de Maisonneve Ouest, Suite 1200, Montreal, Quebec, Canada H3A 1M8; 514-288-1133

	1988	1987
Premium volume	$300,000,000	$225,000,000
% Treaty	95%	95%
% Facultative	5%	5%
Gross revenues	NA	NA
Total employees	160	165

Year founded: 1960.

Parent company: Sodarcan Inc.

Branch offices: BEP International Corp., Jersey City, N.J.; BEP International (Canada) Inc., Toronto; BEP International Inc., Montreal.

Acquisitions: Nelson, Hurst & Bailey, New York.

Principal officers: Montreal office: R. Parizeau, R. Gilbert, R. Limoges, A. Carignan and S. Dufresne. Toronto office: P.M. Bennett, C.J. Robey, M. Mckay, A.P. Ward-Smith and W.A. Weeks. Jersey City office: P.V. Dale, R.W. Bailey, J. O'Brien, J.W. Waite, W.L. Healy and J.A. Oliver.

Specialties: Financial, marine, aviation.

Licensed in: New York.

Membership: National Assn. of Reinsurance Brokers.

BRI International Agency Inc.

156 William St., New York, N.Y. 10038; 212-233-7171

	1988	1987
Premium volume	$1,726,000	$2,200,000
% Treaty	99%	98%
% Facultative	1%	2%
Gross revenues	NA	NA
Total employees	7	7
Treaty	6	6
Facultative	1	1

Year founded: 1981.

Parent company: BRI Holding Co.

Principal officers: Bruno Rumignani, president; Fred Ghawi, Howard Miller and Joseph Zweig, vps; Burton Matfus, secretary/treasurer.

Licensed in: New York.

Adrian Baker Reinsurance Intermediaries Inc.

24 N. Meramec Ave., St. Louis, Mo. 63105; 314-721-1372

	1988	1987
Premium volume	$17,000,000	$15,100,000
% Treaty	80%	80%
% Facultative	20%	20%
Gross revenues	NA	NA
Total employees	7	7
Treaty	5	5
Facultative	2	2

Year founded: 1974.

Principal officers: Adrian N. Baker II, president; Richard H. Chomeau, executive vp; Anthony J. Sutcliffe, senior vp.

Specialties: Property catastrophe, excess workers compensation, personal accident.

Licensed in: New York.

Membership: National Assn. of Reinsurance Brokers.

Bates Turner Inc.

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

	1988	1987
Premium volume	$237,000,000	$204,000,000
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	18	17
Treaty	18	17

Year founded: 1982.

Parent company: Employers Reinsurance Corp.

Principal officers: Michael G. Fitt, chairman/chief executive officer; Michael E. Fisher, president/chief operating officer; James C. Blanton III, vp; E. Wilson Wyant and John R. Klag, assistant vps; Lori Norlen, assistant treasurer.

Licensed in: New York.

Bell Nicolson Henderson (USA) Inc.

123 William St., New York, N.Y. 10038; 212-406-1750

	1988	1987
Premium volume	NA	NA
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	15	15
Treaty	15	15

Year founded: 1980.

Principal officers: John K. Witherspoon Jr., president.

Licensed in: New York.

Le Blanc de Nicolay U.S. Inc.

140 E. 45th St., 42nd Floor, New York, N.Y. 10017; 212-972-7090

	1988	1987
Premium volume	$52,000,000	$45,000,000
% Treaty	100%	100%
Gross revenues	$700,080	$594,297
Total employees	6	6
Treaty	6	6

Year founded: 1986.

Parent company: Groupe Le Blanc de Nicolay Paris.

Principal officers: Gilles Lorans, president; William H. Asay, vp; Ryoko Mochizuki, assistant secretary.

Licensed in: New York.

E.W. Blanch Co.

3500 W. 80th St., Minneapolis, Minn. 55431; 612-835-3310

	1988	1987
Premium volume	$935,000,000	$1.19 billion
% Treaty	98%	98%
% Facultative	2%	2%
Gross revenues*	$47,000,000	$52,000,000
Total employees	308	331
Treaty	287	315
Facultative	21	16

* *BI* estimate.

Continued on page 44

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Spotlight report

Continued from page 42

Year founded: 1957.

Branch offices: Chicago; Hartford, Conn., New York; San Francisco; Copenhagen, Denmark; London.

Subsidiaries: E.W. Blanch (U.K.) Ltd., London.

Mergers: Hitz & Associates, Minneapolis.

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; Daniel C. Chabot, senior executive-client production/service; Donna M. Hentges, executive vp-operations/limited partner.

Specialties: Life, accident and health; professional liability; retrocession; risk retention groups.

Licensed in: New York; does business in all states.

C

Guy Carpenter & Co. Inc.

Two World Trade Center, New York, N.Y. 10048; 212-323-1000

	1988	1987
Premium volume	NA	NA
% Treaty*	94%	93%
Facultative*	6%	7%
Gross revenues*	$170,000,000	$180,000,000
Total employees	1343	1377

* *BI* estimate.

Year founded: 1923.

Parent company: Marsh & McLennan Cos. Inc.

Branch offices: Atlanta; Chicago, Coral Gables, Fla.; Dallas; Hartford, Conn.; Los Angeles, Minneapolis, San Francisco.

Subsidiaries: Balis & Co. Inc., Philadelphia; Guy Carpenter & Co. (Canada) Ltd., Toronto; Guy Carpenter Italia SrL, Milan, Trieste, Italy; Guy Carpenter & Co. (Asia) Ltd., Hong Kong; Guy Carpenter & Co. AS, Copenhagen, Denmark; Guy Carpenter & Co. (Stockholm) AB, Stockholm, Sweden; Guy Carpenter & Co. SA, Brussels, Belgium; Guy Carpenter Y Cia. (Mexico) SA de C.V. Intermediario De Reaseguros, Mexico City, Mexico; Guy Carpenter & Cia. SA Correduria de Reaseguros Madrid, Spain.

Affiliates: Gradmann & Holler-Guy Carpenter GmbH, Frankfurt, West Germany.

Principal officers: Richard H. Blum, president/chief executive officer/director; Michael J. Cody, Robert S. Constable, Michael S. Cooper, executive vp/director; Clement S. Dwyer Jr., Edward G. Maher, Gabrielle J. Troiano, Robin C. Watts, senior vps/directors; James D. Weaver, director.

Licensed in: California, Connecticut, Florida, Georgia, Illinois, Minnesota, New York and Texas.

Membership: National Assn. of Reinsurance Brokers.

John B. Collins Associates Inc.

8500 Normandale Lake Blvd., Minneapolis, Minn. 55437; 612-921-3933

	1988	1987
Premium volume	$79,400,000	$73,000,000
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	10	8
Treaty	10	8

Year founded: 1987.

Principal officers: John B. Collins, James A. Brost, Daniel J. Burke and Gregory L. Brettingen, principals; Timothy J. Pawlik, vp; James E. Christianson, assistant vp.

Specialties: Property, casualty, crop, life, accident and health.

Licensed in: New York; does business in all states.

Combined Intermediaries of America Inc.

1201 Elm St., Suite 5250, Dallas, Texas 75270; 214-744-5250

	1988	1987
Premium volume	$125,000,000	$120,000,000
% Treaty	100%	99%
% Facultative	0%	1%
Gross revenues	$815,000	$565,000
Total employees	9	5
Treaty	9	5

Year founded: 1986.

Principal officers: Alan Hardin, president; Nolan Strahan, executive vp; Avis Johnson, senior vp; Craig Regan, chief financial officer.

Specialties: High risk automobile.

Licensed in: Arizona, Colorado, Florida, Georgia, Louisiana, Oklahoma, Pennsylvania and Texas.

Cooper Gay Steele & Co. Ltd.

120 Wall St., New York, N.Y. 10005; 212-248-1150

	1988	1987
Premium volume	NA	NA
% Treaty	20%	NA
% Facultative	80%	NA
Gross revenues	NA	NA
Total employees	11	NA
Treaty	2	NA
Facultative	5	NA

Year founded: 1988.

Parent company: Cooper Gay (Holdings) Ltd.

Principal officers: David A. Gay, chairman; R. Patrick Steele, president; David C. Bensen, vp; Toby C.D. Esser, assistant vp; Douglas G. Staplehurst, secretary/treasurer.

Specialties: Domestic and international property and casualty.

Licensed in: New York; does business in all states and Puerto Rico.

Cravens & Co. Inc.

555 California St., Suite 2920, San Fransisco, Calif. 94104; 415-433-6161

	1988	1987
Premium volume	$40,000,000	$40,000,000
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	23	21
Treaty	13	21

Year founded: 1978.

Principal officers: Malcolm Cravens, chairman; Hartley D. Cravens, vice chairman; Edward W. Tuescher Jr., president; Leon E. Button, executive vp; Carol C. Cravens, Thomas Kelly and Daniel J. Murphy, vps; Malcolm Mark Cravens and William F. James, assistant vps.

Licensed in: New York.

Membership: National Assn. of Reinsurance Brokers.

Crawley Warren Black Inc.

116 John St., Suite 714, New York, N.Y. 10038; 212-267-3737

	1988	1987
Premium volume	NA	NA
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	5	5
Treaty	5	5

Year founded: 1985.

Parent company: Crawley Warren Group P.L.C.

Principal officers: Peter M. Black, president; Donald W. Brustman, vp; Donald A. Enslen, vp/treasurer.

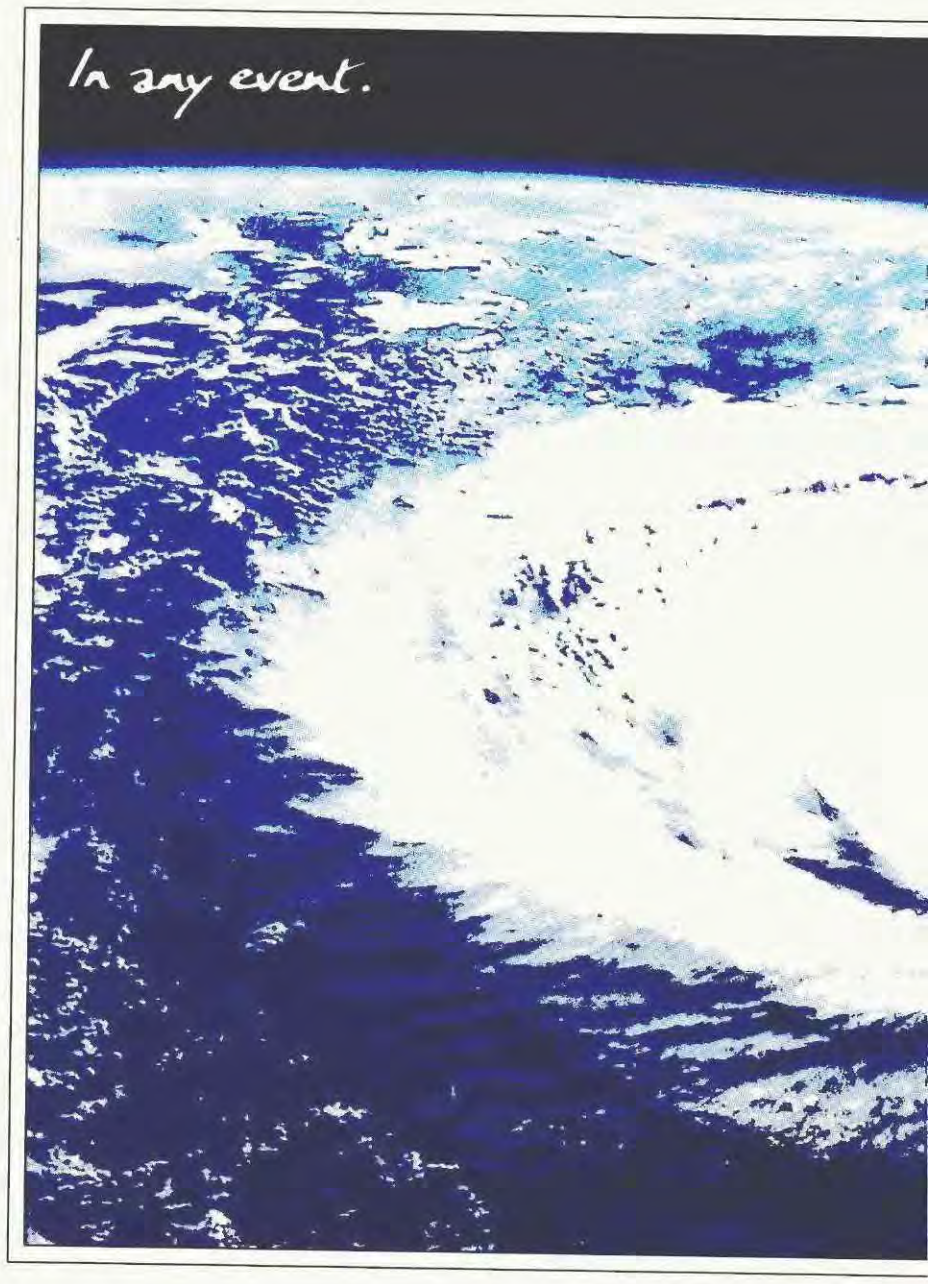
Licensed in: New York.

Crump Re Inc.

10 Columbus Blvd., Hartford, Conn. 06106; 203-727-9727

	1988	1987
Premium volume	$97,500,000	$93,350,000
% Facultative	100%	100%
Gross revenues	NA	NA
Total employees	64	56
Facultative	64	56

Continued on next page



Continued from previous page

Year founded: 1978.
Parent company: Sedgwick Group P.L.C.
Branch offices: Atlanta, Dallas, Minneapolis, New York.
Acquisitions: Independence Intermediaries Inc., Hartford, Conn., and New York.
Principal officers: S.D. Zafino, chairman/chief executive officer; Edmund Hanley, vice chairman; David Wahl, vp-finance/administration.
Licensed in: New York.

Cypress Creek Intermediaries Inc.

440 Crown Oak Centre Drive, Longwood, Fla. 32750; 407-830-9990

	1988	1987
Premium volume	$30,000,000	$27,500,000
% Treaty	99%	100%
% Facultative	1%	0%
Gross revenues	$300,000	$250,000
Total employees	4	4
Treaty	2	3
Facultative	2	0

Year founded: 1984.
Principal officers: Michael T. Pyle, president; Peggy B. Pyle, vp; Laurie A. Langston, assistant vp; Christine Sullivan, assistant secretary.
Specialties: Agricultural, property, casualty, major medical, accident, health, risk retention groups, animal and bloodstock.
Licensed in: Florida and New York; does business in all states.

D

Delaney Offices Inc.

55 John St., 12th Floor, New York, N.Y. 10038; 212-732-3460

	1988	1987
Premium volume	$25,000,000	$21,000,000
% Treaty	100%	100%
Gross revenues	$1,000,000	$600,000
Total employees	5	5
Treaty	5	5

Year founded: 1954.
Principal officers: William F. Delaney Jr., president; Donna D. Wright, vp.
Specialties: Property, aviation, casualty, ocean marine, workers compensation.
Licensed in: New York.

E

EWI RE Inc.

70 Pine St., 60th Floor, New York, N.Y. 10270; 212-248-3980

	1988	1987
Premium volume	NA	NA
% Treaty	100%	NA
Gross revenues	NA	NA
Total employees	8	NA
Treaty	8	NA

Year founded: 1988.
Principal officers: James C. Epstein, president; Jorge I. Cardona, vp/controller; Vaughn V.R. Harris, vp-production.
Specialties: Property and casualty.
Licensed in: New York, does business worldwide.

Enan & Co. Ltd.

1440 Chapin Ave., Suite 300, Burlingame, Calif. 94010; 415-347-2100

	1988	1987
Premium volume	NA	NA
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	23	20
Treaty	23	20

Year founded: 1979.
Principal officers: Hussein A. Enan, chairman; James E. Webster, president; Peter J. Murphy, executive vp/chief financial officer; Dale N. Hoemke, executive vp-marketing; Susan C. Fisch, Glenn H. Reid and Michael Leong, vps-marketing; Terri L. Hazlewood, assistant vp-marketing; Edward C. Woodward, senior vp-claims; Lynn D. O'Brien, vp-claims; Alys Yeh, controller.
Specialties: Property and casualty.
Licensed in: New York.

Encon Reinsurance Managers Inc.

141 Adelaide St. W., Suite 1706, Toronto, Ontario M5H 3L5; 416-865-9640

	1988	1987
Premium volume	$10,000,000	$10,000,000
% Treaty	85%	90%
% Facultative	15%	10%
Gross revenues	$611,000	$841,000
Total employees	6	6
Treaty	2	2
Facultative	2	2

Year founded: 1984.
Parent company: Marsh & McLennan Inc.
Principal officers: Jeffrey R. Vannan, president; William A. Salisbury and Hugh E. Fardy, vps.
Specialties: Professional liability.
Licensed in: Canada.

F

Financial Reinsurance Inc.

140 S. Atlantic Ave., Ormond Beach, Fla. 32176; 904-677-4453

	1988	1987
Premium volume	$26,295,130	$34,463,075
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	5	5
Treaty	2	2

Year founded: 1960.
Parent company: Ormond Re Group Inc.
Subsidiaries: W.J. Burt & Associates Inc., New York.
Principal officers: W. Lockwood Burt, president; John B. Deiner, executive vp; A.L. DiPardo, senior vp-claims; William T. Long, vp/controller-reinsurance accounting.
Specialties: Crop hail.
Licensed in: New York and Florida.

H.S. Fox Corp.

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

	1988	1987
Premium volume	$150,000,000	$100,000,000
% Treaty	100%	100%
Gross revenues	$4,000,000	$3,000,000
Total employees	18	17
Treaty	18	17

Year founded: 1985.
Principal officers: Donald M. Fox, president; Robert C. Henderson, Alan R. Sheppard, executive vps; Robert F. McGarry, Robert M. Hodge, Larry L. Collins, Kathy K. Brandon, vps; Anne Marie Roberts, vp-administration; Diana R. Wickman, assistant vp; Peter A. Fries, treasurer; Shelly H. Buebrle, assistant treasurer.
Specialties: Professional liability, special health risks.
Licensed in: Texas, New York.

C.L. Frates Reinsurance Intermediary Inc.

17 Battery Place, New York, N.Y. 10004; 212-363-8975

	1988	1987
Premium volume	$19,000,000	$17,500,000
% Treaty	100%	100%
Gross revenues	$900,000	$740,000
Total employees	3	2
Treaty	3	2

Year founded: 1986.
Parent company: C.L. Frates & Co.
Principal officers: Albert P. Amato, senior vp; Daniel J. Ryan, account manager.
Specialties: Casualty and professional liability.
Licensed in: New York.

Continued on next page



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Continued from previous page

G

Arthur J. Gallagher Intermediaries Inc.

111 John St., New York, N.Y. 10038; 212-732-9855

	1988	1987
Premium volume	**$10,200,000**	$5,550,000
% Facultative	**100%**	100%
Gross revenues	**$1,167,000**	$589,000
Total employees	**11**	13
Facultative	**11**	13

Year founded: 1987.
Parent company: Arthur J. Gallagher & Co.
Branch offices: Cranston, R.I.
Principal officers: Joe DeChristofaro, president; Bob Osborne, executive vp; Randy Jensen, vp; Kevin Denike, Jack O'Reilly and Joe Flynn, assistant vps.
Specialties: Property and casualty.
Licensed in: New York.

Gill & Roeser Inc.

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

	1988	1987
Premium volume	**NA**	NA
% Treaty	**100%**	100%
Gross revenues	**NA**	NA
Total employees	**11**	9
Treaty	**11**	9

Year founded: 1983.
Principal officers: Ardian Gill, chairman; Kirk Roeser, president; James Snedeker and Steven Bolland, senior vps; David Koegel, assistant vp; Ondine Holohan, account manager.
Specialty: Financial.
Licensed in: All states.

Thomas A. Greene & Co. Inc.

1270 Ave. of the Americas, New York, N.Y. 10020; 212-408-3700

	1988	1987
Premium volume	**$463,000,000**	$527,500,000
% Treaty	**93.5%**	93%
% Facultative	**6.5%**	7%
Gross revenues*	**$23,500,000**	$28,700,000
Total employees	**212**	225
Treaty	**185**	196
Facultative	**27**	29

* *BI* estimate.
Year founded: 1979.
Parent company: Alexander & Alexander Services Inc.
Branch offices: Chicago; San Francisco; Stamford, Conn.
Principal officers: Thomas A. Greene, president/chief executive officer; John L. Busi, executive vp/chief financial officer; William R. Coleman, executive vp; John Marek, Robert T. Mobyed, John W. Tornquist, Robert J. Arnold, Edward Kelley, John F. Langen, John M. Marek, John J. O'Connell and Donald B. Peat, senior vps.
Licensed in: New York.

Greig Fester (North America) Inc.

116 John St., Suite 1410, New York, N.Y. 10038; 212-619-0140

	1988	1987
Premium volume	**$45,000,000**	$38,000,000
% Treaty	**98%**	98%
% Facultative	**2%**	2%
Gross revenues	**NA**	NA
Total employees	**35**	36
Treaty	**34**	34
Facultative	**1**	2

Year founded: 1981.
Parent company: Greig Fester Group Ltd.
Subsidiaries: Ashwood Reinsurance Intermediaries Inc., New York.
Principal officers: Charles B. Penruddocke, president/chief executive officer; D. Jay Carbine, executive vp; Leonard B. Wagner, vp/chief financial officer; Drew Beauchamp, vp-treaty.
Licensed in: New York.

H

H&H Re-Insurance Brokers Ltd.

Trott Road, P.O. Box HM 1861, Hamilton, Bermuda HM HX; 809-295-3342

	1988	1987
Premium volume	**$10,500,000**	$11,500,000
% Treaty	**90%**	95%
% Facultative	**10%**	5%
Gross revenues	**NA**	NA
Total employees	**8**	6
Treaty	**8**	6

Year founded: 1977.
Principal officers: Simon C. Everett, president; W.H. Outerbridge, vp; David Ezekiel, David Pickering and Terry Power, directors.
Specialties: Captives and risk retention groups.
Licensed in: Bermuda.

Continued on next page

Continued from previous page

Harrison & Co.

320 Alvarado Ave., Los Altos, Calif. 94022; 415-941-4419

	1988	1987
Premium volume	$7,500,000	$7,500,000
% Treaty	99%	99%
% Facultative	1%	1%
Gross revenues	$80,000	$75,000
Total employees	2	2
Treaty	1	1
Facultative	1	1

Year founded: 1977.
Principal officers: John P. Harrison, president/treasurer; Ann P. Harrison, secretary.
Licensed in: New York.

Heddington Brokers Ltd.

P.O. Box HM 1187, Hamilton, Bermuda HM EX; 809-295-3063

	1988	1987
Premium volume	NA	NA
% Treaty	20%	10%
% Facultative	80%	90%
Gross revenues	NA	NA
Total employees	12	10
Treaty	2	1
Facultative	10	9

Year founded: 1981.
Parent company: Heddington Insurance Ltd. and Willis Faber P.L.C.
Principal officers: R.C. Golden, president; M.A. Dobbie, senior vp; M.G. Randall, vp; J.O. Heyliger, assistant vp.
Specialties: Energy risks.
Licensed in: Bermuda.
Membership: National Assn. of Reinsurance Brokers.

G.L. Hodson & Son Inc.

3333 New Hyde Park Road, New Hyde Park, N.Y. 11042; 516-365-9000

	1988	1987
Premium volume	$360,000,000	$400,000,000
% Treaty	81%	81%
% Facultative	19%	19%
Gross revenues	$23,000,000*	$23,000,000
Total employees	204	201
Treaty	164	157
Facultative	40	44

* *BI* estimate.
Year founded: 1924.
Parent company: Corroon & Black Corp.
Branch offices: Atlanta, Boston, Los Angeles, Minneapolis, San Francisco.
Principal officers: Ronald J. Taylor, president; Michael E. Rothpletz, executive vp.
Licensed in: New York.

Holborn Agency Corp.

90 John St., New York, N.Y. 10038; 212-267-0224

	1988	1987
Premium volume	NA	NA
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	40	40
Treaty	40	40

Year founded: 1920.
Principal officers: John N. Gilbert Jr., president; James A. Cathcart III, executive vp; Joseph N. Gaffney, senior vp.
Specialties: Property and casualty.
Licensed in: New York.

IOA Re

8 Penn Center, Suite 2300, Philadelphia, Pa. 19103-2901; 215-569-9595

	1988	1987
Premium volume	$52,000,000	$49,000,000
Gross revenues	NA	NA
Total employees	30	26
Treaty	6	6
Facultative	11	8

Year founded: 1950.
Branch offices: Plymouth Meeting, Pa.; Atlanta.
Principal officers: John W. Parker Jr., president; Ralph P. Pillischer, James B. Francis and John G. Brosius, senior vps; Joseph M. Ferrara, William R. Guckes, Deborah N. Perna, Harry A. Schwandt Jr. and Charles H. Place, vps.
Specialties: Life, accident, health, workers compensation.
Licensed in: All states.

Independent Brokers Ltd.

Williams House, 20 Reid St., P.O. Box HM 2070, Hamilton, Bermuda HM HX; 809-295-1646

	1988	1987
Premium volume	$2,101,000	$590,000
% Facultative	100%	100%
Gross revenues	$85,275	$76,900
Total employees	4	4
Facultative	4	4

Year founded: 1984.
Principal officers: Peter J.N. Strong, president; John Neal, vp.
Specialties: Excess liability, malpractice.
Licensed in: Bermuda.

Intere Intermediaries Inc.

199 Water St., New York, N.Y. 10038; 212-809-3900

	1988	1987
Premium volume	NA	NA
% Treaty	100%	100%
Gross revenues*	$18,000,000	$20,500,000
Total employees	171	208
Treaty	171	208

* *BI* estimate.
Year founded: 1919.
Parent company: The St. Paul Cos. Inc.
Branch offices: Atlanta, Chicago, San Francisco, Minneapolis.
Subsidiaries: Intere (Bermuda) Ltd., Hamilton, Bermuda.
Principal officers: Ward B. Gordon, chairman; Wallace E. Winter, vice chairman; Daniel R. Colello, president/chief executive officer; Briar S. Keegan and Thomas F. McGrath, executive vps; Michael G. Woll, executive vp/chief administrative officer; Ronald C. Anderson, Kenneth R. Fewell and Thomas J. Williams, senior vps; Charles M. Caporale, vp/treasurer; Ronald C. Fazio, vp/secretary; Robert L. Mendes, vp/general counsel.

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Mar 13	Feb 28	Risk Mgmt Consultants	Risk Mgmt Services
Apr 10	Mar 28	Captive Managers	Captives/Risk Mgr of the Year
May 22	May 9	Benefits Info Systems	Benefits: Plan Design/Admin
Jun 26	Jun 13	Agents & Brokers	Agent/Broker Profiles
Jul 24	Jul 11	Risk Mgmt Info Systems	Risk Mgmt Systems/Analysis
Aug 7	Jul 25	401(k) Plan Administrators	EBC Award Profiles
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Licensed in: Georgia, Illinois, California, New York and Minnesota.

International Intermediaries Inc.

c/o Calco Management Corp. 120 Wood Ave. S., Iselin, N.J. 08830; 212-867-7575

	1988	1987
Premium volume	$2,000,000	$2,750,000
% Treaty	95%	95%
% Facultative	5%	5%
Gross revenues	$75,000	$80,000
Total employees	4	4
Treaty	2	1
Facultative	2	3

Year founded: 1984.

Principal officers: James Wolosoff, chairman; Buddy Richman, president; John Caltabiano, treasury vp-finance; Marlin Henning, vp.

Specialties: Credit, long-tail casualty.

Licensed in: New York.

J

JBW & Co. Inc.

1450-C Enea Square, Suite 690, Concord, Calif. 94520; 415-680-8060

	1988	1987
Premium volume	$28,000,000	$33,000,000
% Treaty	100%	100%
Gross revenues	$1,700,000	$2,100,000
Total employees	20	16
Treaty	19	15
Facultative	1	1

Year founded: 1980.

Parent company: Concord General Corp.

Branch offices: New York; Westport, Conn.; Newark, Ohio.

Principal officers: Jeff Beresford-Wood, chairman; Roland G. Roth, president; Tom Thie, executive vp; Don Salierno, Ed Lukco, Ian Brook, Peter Norton and Gary Christensen, senior vps.

Specialties: Professional liability, auto physical damage, casualty, workers compensation.

Licensed in: New York.

Membership: National Assn. of Reinsurance Brokers.

JBW Connecticut

225 Main St., Suite 204, Westport, Conn. 06880; 203-454-1400

	1988	1987
Premium volume	NA	NA
% Treaty	95%	95%
% Facultative	5%	5%
Gross revenues	NA	NA
Total employees	2	2
Treaty	1	1
Facultative	1	1

Year founded: 1987.

Parent company: D.J. Salierno Corp. and J.W. Beresford Wood & Co.

Principal officers: Donald J. Salierno, president.

Licensed in: Connecticut.

Membership: National Assn. of Reinsurance Brokers.

J&H Intermediaries Ltd.

Victoria Hall, Victoria St., Hamilton 5, Bermuda; 809-292-4402

	1988	1987
Premium volume	NA	NA
% Treaty	0%	10%
% Facultative	100%	90%
Gross revenues	NA	NA
Total employees	21	21

Year founded: 1978.

Parent company: Johnson & Higgins.

Principal officers: Brian Hall, president; Peter McKenzie, Richard Reynell and Cathy Lord, vps.

Specialties: Captives, offshore alternative insurance programs.

Licensed in: Bermuda.

K

J.L. Kelley Inc.

784 Franklin Ave., Franklin Lakes, N.J. 07417; 201-891-7920

	1988	1987
Premium volume	$175,000,000	$74,000,000
% Treaty	93%	82%
% Facultative	7%	18%
Gross revenues	NA	NA
Total employees	NA	NA

Year founded: 1975.

Branch offices: New York; Chicago; Princeton, N.J.; Los Angeles.

Principal officers: Joseph L. Kelley, chairman; David Gilligan, president; John W. Dunleavy, senior vp; Kenneth J. Rutkowsky, president-Princeton office.

Specialties: Property, casualty, accident, health, alternative reinsurance programs.

Licensed in: New York.

Membership: National Assn. of Reinsurance Brokers.

Kirkham International Ltd.

Belvedere Building, Pitts Bay Road, P.O. Box HM 2340, Hamilton HM JX, Bermuda; 809-292-7569

	1988	1987
Premium volume	NA	NA
Gross revenues	NA	NA
Total employees	NA	NA

Year founded: 1982, fully activated in 1989.

Principal officers: Michael Woodroffe, president.

Specialties: Casualty, captives, surety, excess of loss.

Licensed in: Bermuda.

L

LRO Intermediaries

11365 Ventura Blvd., Suite 113, P.O. Box 1068, Studio City, Calif. 91604; 818-763-9965

	1988	1987
Premium volume	NA	NA
Gross revenues	NA	NA
Total employees	NA	NA

Year founded: 1989.

Parent company: Lepire, Rutsky, O'Connor & Co.

Principal officers: John Lepire, managing partner; Daniel Hess, associate broker.

Specialties: Financially structured programs, professional liability, excess casualty.

Licensed in: California.

Lincoln National Intermediaries

1300 S. Clinton St., Fort Wayne, Ind. 46801; 219-427-3290

	1988	1987
Premium volume	NA	NA
% Facultative	100%	100%
Gross revenues	$3,695,821	$2,998,579
Total employees	15	14
Facultative	15	14

Year founded: 1982.

Parent company: Lincoln National Corp.

Principal officers: Kenneth J. Clark, president; Louis D. Fisher and Thomas E. Skillman, vps.

Specialties: Financial.

Licensed in: New York.

Edward Lloyd Ltd.

55 John St., New York, N.Y. 10038; 212-619-5701

	1988	1987
Premium volume	$18,000,000	$16,000,000
% Treaty	65%	55%
% Facultative	35%	45%
Gross revenues	NA	NA
Total employees	8	9
Treaty	3	3
Facultative	3	3

Year founded: 1984.

Parent company: Lowndes Lambert Group.

Principal officers: Ronald H. Molatto, president; John M. Mannix, vp; Rex R. Lesueur, assistant vp.

Specialties: Property and casualty.

Licensed in: New York.

Luvang Insurance Underwriters Inc.

5805 N.W. 11th St., Suite 410, Miami Fla., 33126; 305-264-7614

	1988	1987
Premium volume	$2,250,000	$2,250,000
% Treaty	0%	5%
% Facultative	100%	95%
Gross revenues	NA	NA
Total employees	4	4
Facultative	4	4

Year founded: 1972.

Principal officers: Juan F. Roman, president; Harold Stewart, vp.

Specialties: Property and casualty.

Licensed in: Florida.

M

Madison Intermediaries Inc.

261 Madison Ave., New York, N.Y. 10016; 212-867-4601

	1988	1987
Premium volume	NA	NA
Gross revenues	NA	NA
Total employees	112	103

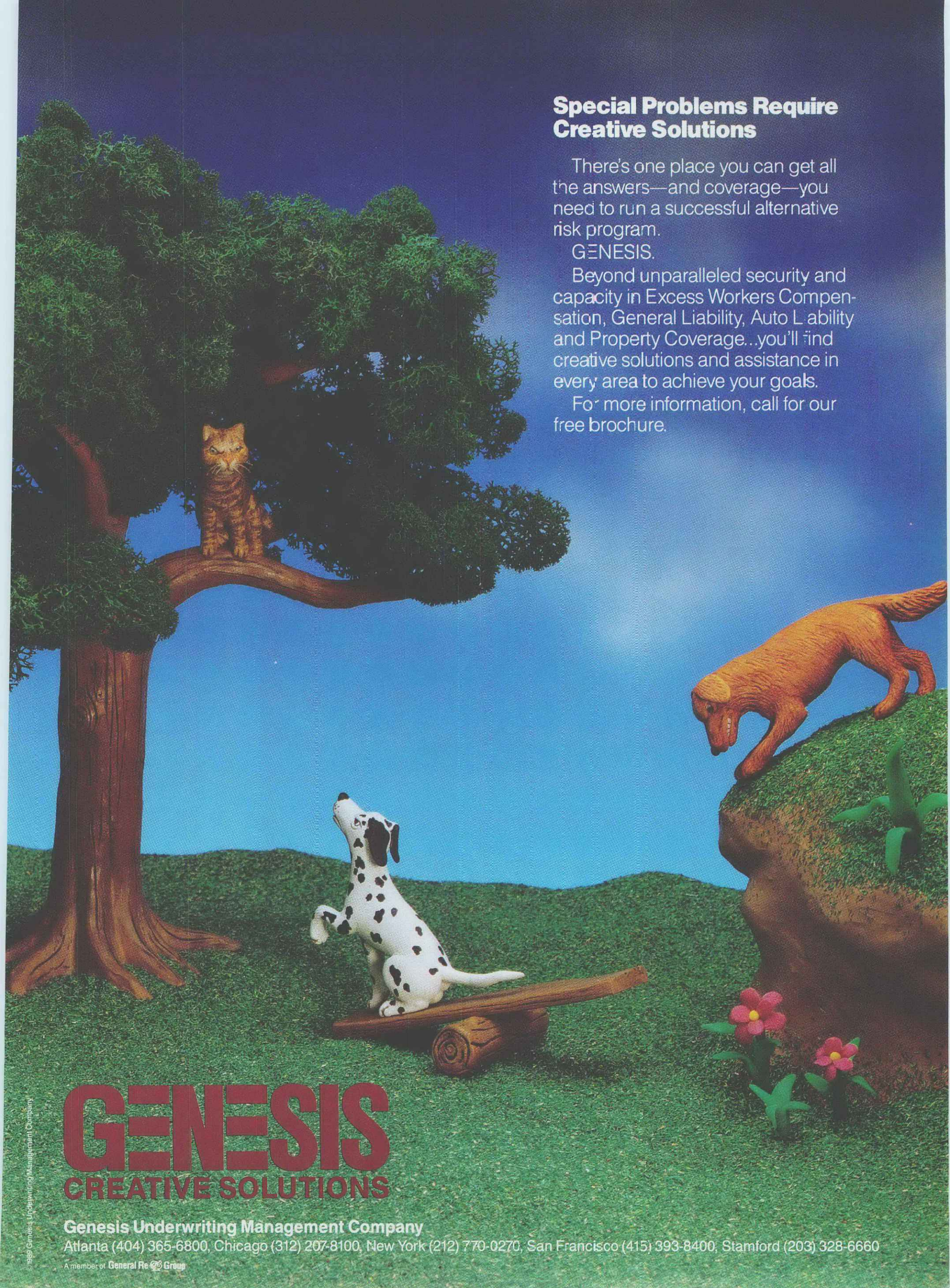
Year founded: 1949.

Parent company: Frank B. Hall & Co. Inc.

Branch offices: Los Angeles, San Francisco.

Principal officers: Thomas J. Kennedy, president/chief executive officer; John R. Cashin, Robert W. Clark, Clarke DeWaters and

Continued on page 50


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ISSUE	AD CLOSE	FULL-RUN SECTION — EDITORIAL FEATURE	DEMOGRAPHIC SECTION
6	OCT 24*	REINSURANCE: TRENDS & ISSUES Directory: Intermediaries Distribution: NAII	
13	NOV 1		AGENT/BROKER TOPICS: PIA Conference Report
20	NOV 7*	SPECIALTY RISKS: Directory: Property Loss Control	INSURER TOPICS: Reinsurance Issues and Relations with Intermediaries
27	NOV 14*		
DECEMBER			
4	NOV 21*	Distribution: NAIC	AGENT/BROKER TOPICS: Life & Financial Services Sales

New York: 212 210-0228 Chicago: 312 649-5276 Los Angeles: 213 651-3710

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Philip L. Parker, senior vps; Charles B. Lalone, vp; George H. McMahon, president-Madison Intermediaries of California; Arnold E. Hale, senior vp-Madison Intermediaries of California.

Specialties: Property, casualty, marine, aviation, professional liability.

Licensed in: New York, California and Florida.

Meadowbrook Intermediaries Inc.

276 Fifth Ave., New York, N.Y. 10001; 212-545-1555

	1988	1987
Premium volume	NA	NA
% Treaty	85%	100%
% Facultative	15%	0%
Gross revenues	NA	NA
Total employees	5	4
Treaty	5	4

Year founded: 1985.

Parent company: Meadowbrook Insurance Group.

Subsidiaries: Meadowbrook Risk Management Inc.

Principal officers: Richard J. Spivak, president; Thomas G. Reid, vp; Tansukh Maru, administrative assistant.

Specialties: Captives and risk retention groups.

Licensed in: New York.

N

Northern States Intermediaries

P.O. Box 160, Waterbury Center, Vt. 05677; 802-244-8607

	1988*	1987
Premium volume	NA	NA
% Treaty	80%	NA
% Facultative	20%	NA
Gross revenues	NA	NA
Total employees	2	2

* Figures are for nine months of 1989.

Year founded: 1989.

Principal officers: John J. Middleton, president/director.

Specialties: Medical malpractice, general liability, product liability.

Licensed in: New York and Vermont.

Nova Reinsurance Brokers Inc.

230 W. Monroe St., Suite 2100, Chicago, Ill. 60606; 312-621-1770

	1988	1987
Premium volume	$6,380,000	$9,250,000
% Facultative	100%	100%
Gross revenues	NA	NA
Total employees	5	5
Facultative	5	5

Year founded: 1978.

Principal officers: A. Norman Dubois, chairman; Terrence J. Winkler, president; Kirsten Olson, assistant vp; Christine Wilbourn, assistant broker; Michael C. Galeba, secretary/treasurer.

Specialties: Casualty.

Licensed in: Does business in Midwestern states.

O

O'Connor Associates Ltd.

299 Market St., Saddle Brook, N.J. 07665; 201-587-1600

	1988	1987
Premium volume	31,000,000	$29,000,000
% Treaty	100%	100%
Gross revenues	2,890,000	$2,475,000
Total employees	41	37
Treaty	41	37

Year founded: 1975.

Branch offices: Coral Gables, Fla.

Principal officers: Joseph A. O'Connor, chairman; Michael Nasert, executive vp.

Specialties: Low layer casualty.

Licensed in: New York.

Membership: National Assn. of Reinsurance Brokers.

P

PWS (USA) Inc.

90 John St., New York, N.Y. 10038; 212-791-9350

	1988	1987
Premium volume	$30,000,000	$25,000,000
% Treaty	7%	2%
% Facultative	93%	98%
Gross revenues	$1,880,000	$1,560,000
Total employees	8	14
Treaty	0	1
Facultative	8	13

Year founded: 1974.

Parent company: PWS (Holdings) P.L.C.

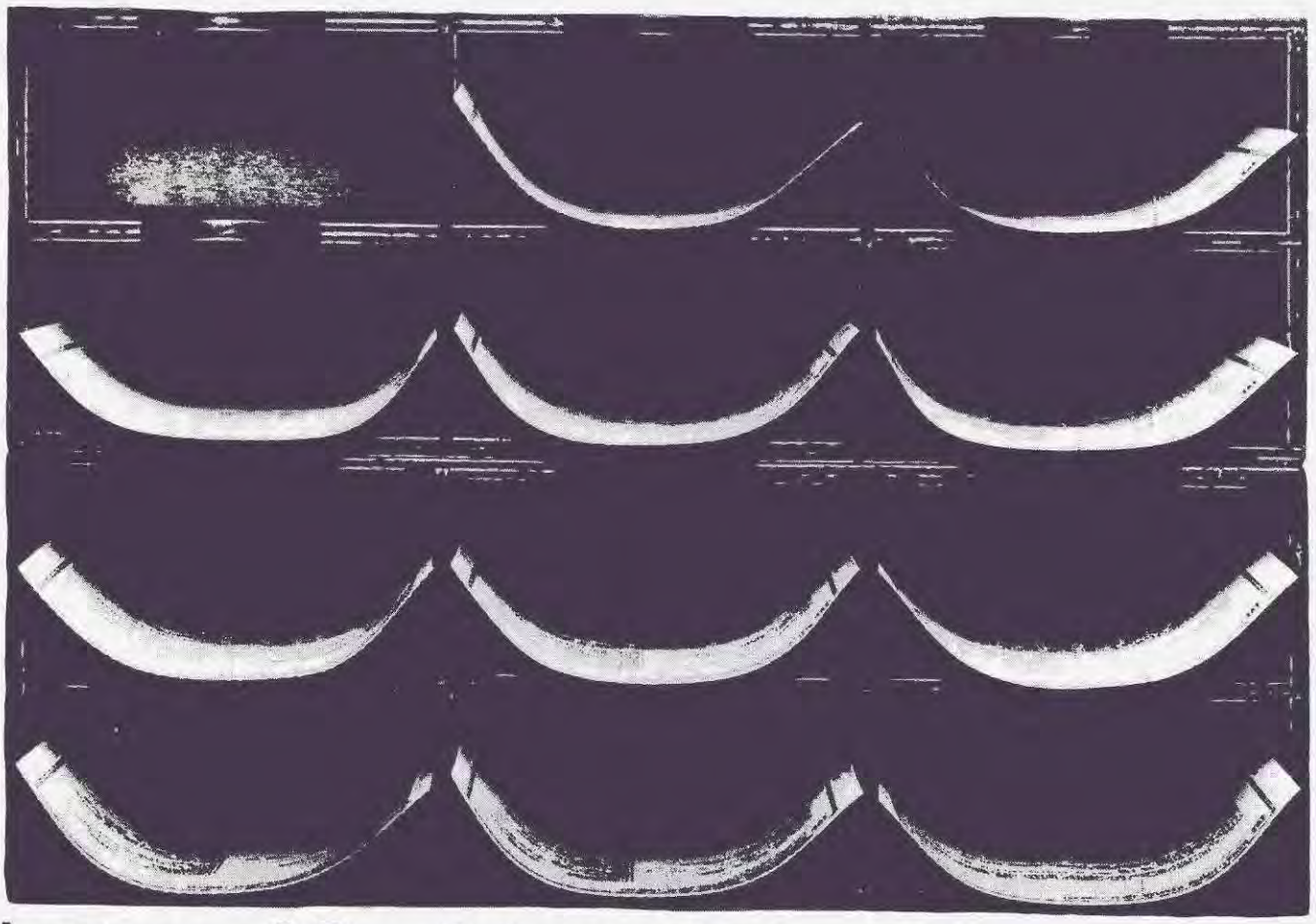
Principal officers: D.J. Springbett, chairman/president; D.R. Neale, treasurer; E. Ryan and S. Prescott, assistant vps; T.P. Parry, secretary.

Licensed in: New York.

Continued on page 60

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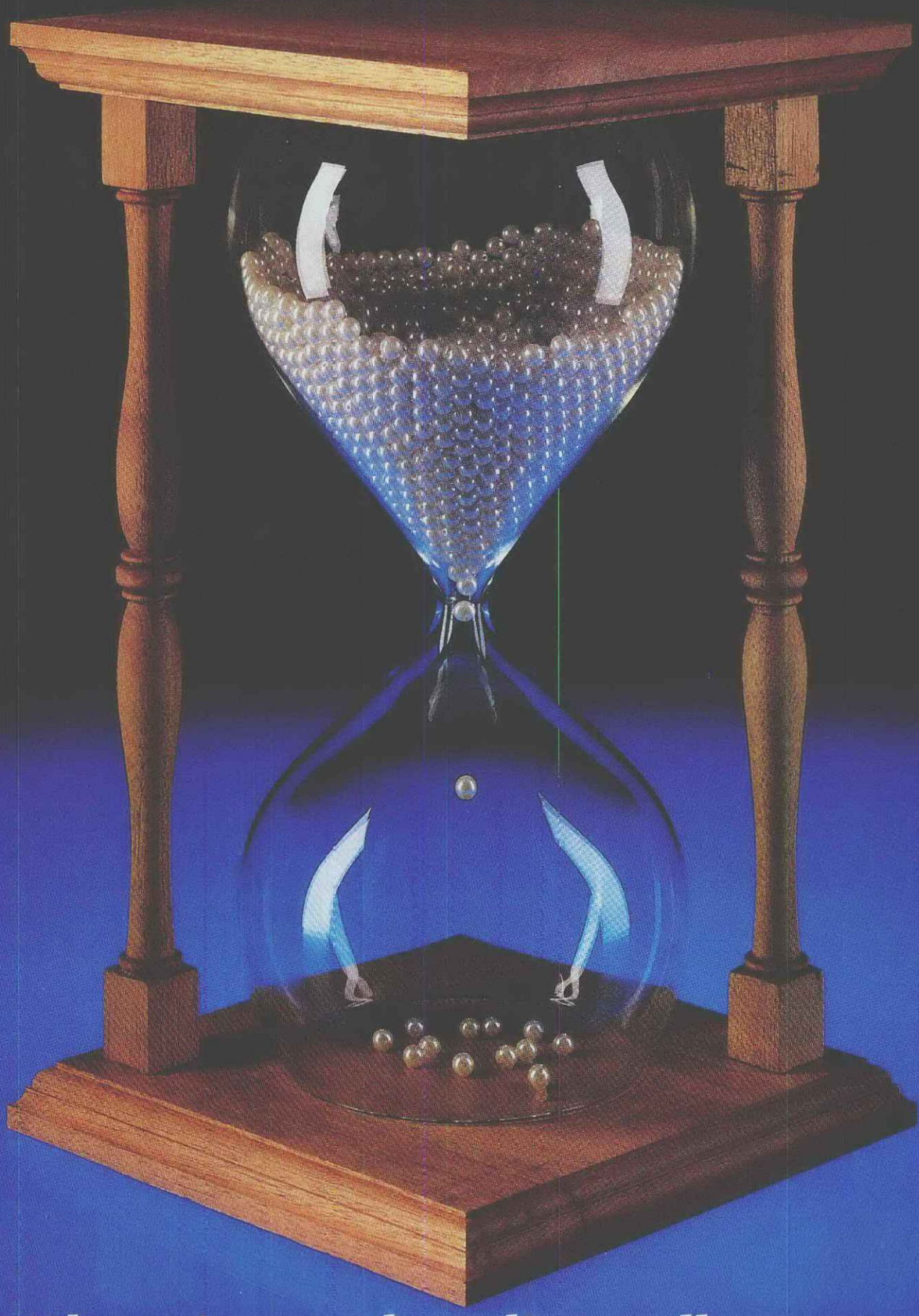
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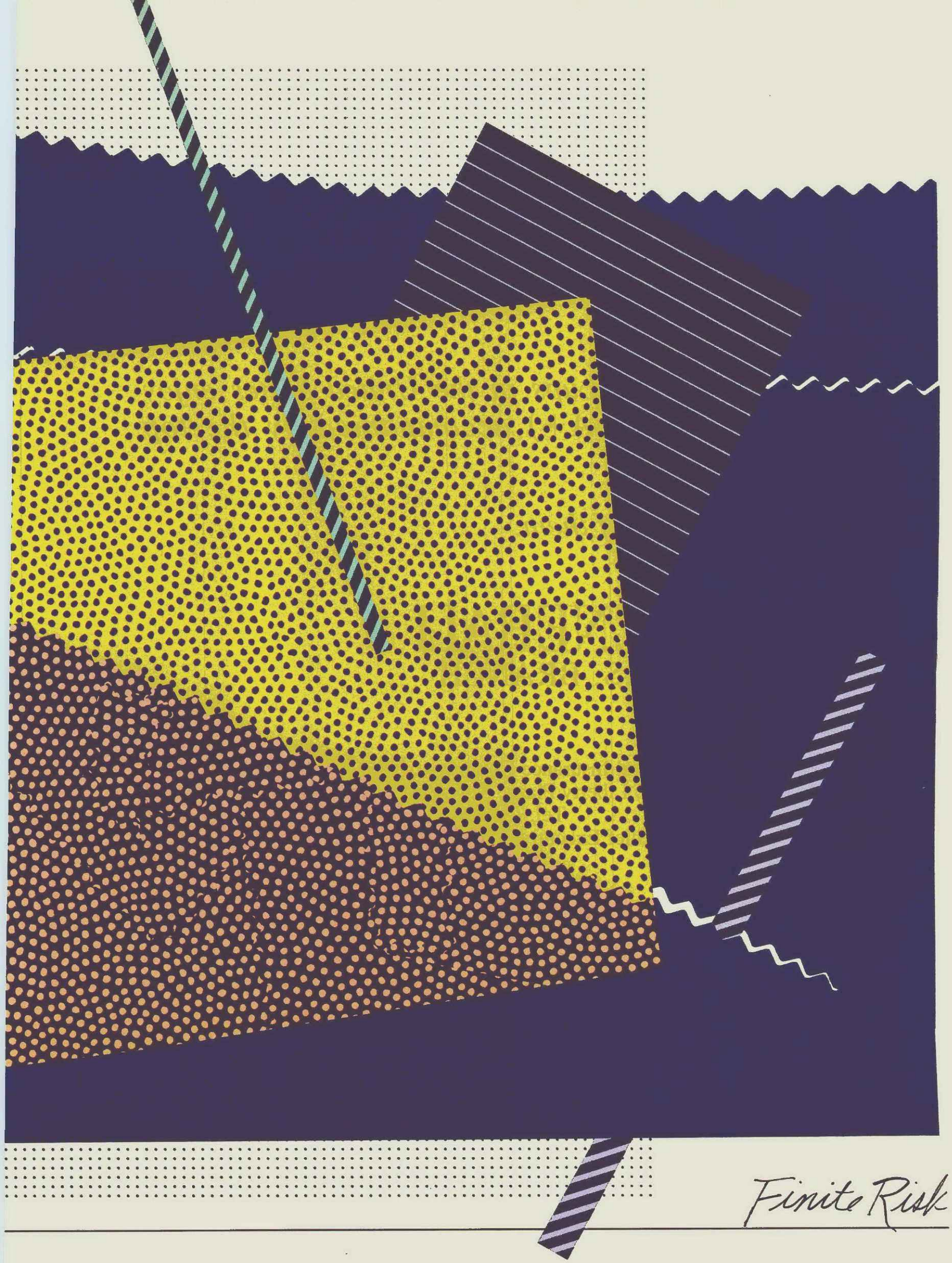


Dan Donovan 7 · 20 · 88

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U.S. tort system, contract wording cause problems

By Jack Edward Koepke

WHILE U.S. JUDICIAL ABERRATIONS and expansions of the past 20 years have contributed significantly to the ongoing derailment of U.S. product liability, these aberrations and the ensuing derailments are not avenues for escaping payment of asbestos-related losses. Reinsurers, moreover, may be expected to honor their contracts even though some contracts were written 20 to 40 years ago when an entirely different tort system prevailed in the United States.

On the other hand, the present condition and status of U.S. product liability may not be ignored in considering a reinsurer's perspective on asbestos bodily injury losses. The ongoing U.S. product liability crisis has had a significant impact on the regulation of asbestos bodily injury losses.

U.S. product liability, through its expansive and virtually unprecedented interpretation of the loss occurrence concept, created the need for the Lloyd's White Papers of 1981, provoked the establishment of the Asbestos Claims Facility in 1985 and helped to bring about its demise and partial reconstruction in 1988 as the Center for Claims Resolution.

U.S. product liability is perhaps viewed by some as an expression of rugged American individualism. U.S. product liability is often seen as a substitute both for lacking welfare systems (health, pension and unemployment insurance) and for lacking or inadequate personal and professional liability insurance—for example, in the cases of automobiles and firearms.

The distinctly American social environment brings with it unique structural components of U.S. product liability such as broad judicial discretion and judge-made law, attorneys' contingency fees and freedom to advertise, juries of laymen with insufficient guidance, and competitiveness among the states.

Uniquely American procedural elements also are woven through product liability: non-recoverable trial expenditures, extensive pre-trial discovery, broad jurisdictional powers, non-recognition of collateral sources of compensation, large mass and class actions, excessive dependency upon joint and several tort liability, and exemplary and punitive damages without criteria of measurement. Flowering over structure and procedure is the incredibly free spirit of the American legal and judicial community, constantly experimenting, inventing and expanding new concepts.

From the perspective of a U.S. consumer, a worker, a member of a labor union or an accident victim, U.S. product liability may appear as a wonderfully humane mechanism, ever-responsive to the needs of the socially deprived.

The European perception of U.S. product liability is quite different, namely that the U.S. "system," with its disproportionate transactional costs, waste and delay, has had a significant negative impact upon the resolution of bodily injury claims. The injured person in the United States probably receives on average not more than one-third of the total sums expended in his product liability action.

For Europeans, the U.S. "system" is also flawed by radical unpredictability and inconsistency. Tactical, logistical, strategic, social, political and public relations aspects of trial management generally take precedence over the factual merits of the case. The chances for success usually lie somewhere between 20% and 80%. From a European perspective, the "U.S. system" thus appears as corrupt and inhumane and as no system at all.

In the U.S. product liability lottery, the need to compensate victims of long-latent diseases raises unique problems.

"Long-latent injuries" is a comprehensive concept intended to include sicknesses and diseases in which substantial time elapses between original exposure and ultimate manifestation. Claims arising from various

Speaking out

products—for example, those containing asbestos, diethylstilbestrol (DES), dioxin, formaldehyde and those that become known by names like Agent Orange, Bendectin and Dalkon Shield—are regarded as possible examples of long-latent injuries. Environmental claims from toxic waste may also fall under the generic term of latent injuries.

Insurers, reinsurers and retrocessionaires that issued coverage to asbestos producers increasingly have had to obtain documentation regarding chains of cover extended in contracts written 20 to 40 years ago. This may include examining hundreds of original and reinsurance certificates per year through various primary, excess and high excess levels.

Further complicating the issue was the tendency of the Asbestos Claims Facility, in spite of scientific evidence to the contrary and in disregard of countervailing legal decisions, to treat all asbestos as one generic product for the purpose of applying a type of industrywide liability among various producers that voluntarily joined the facility.

Many insurance and reinsurance experts are today of the opinion that the U.S. courts have maximized cover without concern for the historic meaning of insurance contracts. This is especially true with regard to the "occurrence concept," which historically was

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considered a *point in time*, never an *extended time period*. Due to *Keene Corp. vs. Insurance Corp. of North America* and similar decisions, notably that of Judge Ira Brown Jr. in the Consolidated Asbestos Litigation in San Francisco, insurers and reinsurers are today in the unprecedented position of having to review complex cover matrices, policies and profiles covering decades and going back to the 1940s.

More than 30,000 asbestos bodily injury cases existed when the Asbestos Claims Facility began operations in June 1985. The Asbestos Claims Facility, during its operations between June 1985 and March 1988, resolved more than 20,000 asbestos bodily injury claims on behalf of participating asbestos producers. When the Asbestos Claims Facility ceased operations in March 1988, the backlog of unresolved claims had, nevertheless, grown to more than 60,000. When the facility opened, new cases were being generated at the average rate of about 500 cases per month.

Since 1987, new case filings have averaged 2,000 per month. The Center for Claims Resolution—the successor to the Asbestos Claims Facility—on behalf of a reduced number of asbestos producers, reports new claims at a montly average of more than 2,000. Considering the present rate of U.S. asbestos bodily injury filings and the time for claim resolutions, we may have 200,000 unresolved asbestos bodily injury claims by the year 2000 costing more than $25 billion.

What percentage of the total amount is likely to be paid as compensation to asbestos victims? Considering that asbestos victims are dying faster than courts are processing their cases, judges may, in the proper exercise of judicial discretion, attempt to expedite asbestos bodily injury cases to the disadvantage of other civil litigants. The asbestos problem clearly depicts one of the U.S. product liability system's inherent weaknesses. That shortcoming is the inability to convey needed compensation to victims without incurring grossly disproportionate and wasteful transactional costs and long delays.

Since this weakness is thoroughly systematic and not incidental, and in view of the epidemic nature of asbestos illness; a cheaper and more efficient societal means of channeling money to victims must be found.

Papers on the subject dated September 1981 and December 1981 were presented to the market by Lloyd's of London. Known as the "Lloyd's of London White Papers," these documents were signed by leading Lloyd's underwriters. They are taken as highly authoritative, official statements of Lloyd's dealing with the problem of excess of loss reinsurance involving long-latent injury losses. These papers recognized that individual asbestos losses are generally not large enough to reach reinsurance attachment points. Conversely, if various asbestos losses could somehow be aggregated or seen as one event, reinsurance attachment points could be reached. The question discussed in these papers is what constitutes an event (or underlying occurrence) for purposes of reinsurance protection.

The Lloyd's White Papers set forth and rejected, in turn, various possible models for reinsurance recovery. The Lloyd's White Papers finally took the position of regarding asbestos-related torts not as arising from one event, nor from one catastrophe, nor as subject to a common origin, nor as one occurrence, but as *individual* loss occurrences attributable to an insured period under an aggregate.

The Lloyd's of London approach has been to enshrine the aggregate extension clause in excess-of-loss reinsurance treaties as the proper reinsurance mechanism for dealing with asbestos-related claims. I support the approach of requiring an aggregate limit in the insurance contract and specific cover for aggregate loss in the reinsurance contract (e.g., via an aggregate extension clause) as preconditions to aggregate treatment of asbestos losses between reinsurance treaty partners.

Unfortunately, the Lloyd's White Papers, while establishing the importance of the aggregate, stopped short of laying down definitions or parameters for identifying the aggregate. Indeed, some London syndicates and companies began accepting asbestos claims for payment without regard to the existence or non-existence of aggregates. Because some reinsurers were unable to follow this approach, the Lloyd's practice has now shifted to a clearer requirement in favor of the aggregate. Asbestos claims presentations have, in some instances, even been withdrawn due to the absence of aggregates.

Nevertheless, the problem of definition remains: How do we identify original policy aggregates and/or reinsurance clauses, so formulated as to allow recognition and payment of asbestos-related claims?

Gerling Global General & Reinsurance Co. in London undertook a study of its own reinsurance portfolio archive during 1952-1965, sorting out various genre and species of reinsurance aggregates. This study revealed many different purported reinsurance aggregate wordings that may be grouped under perhaps a dozen major categories. A few clauses actually labeled "Aggregate Extension Clauses" are not AECs. In numerous older reinsurance contracts, there are no aggregates.

Without a continuous stream of aggregates from beginning to end throughout the various levels of original and reinsurance protection, the excess-of-loss cedant would only be able to present losses arising from one event as it is understood in the traditional insuring clause of the excess reinsurance cover.

As previously noted, all asbestos is *not* one event. Due to the sharing of responsibility for each individual asbestos victim's loss among an average of more than 10 asbestos producers, and in regard to the fact that the liability share of the individual producer is further atomized over years in which the continuous trigger of coverage applies; failure to demonstrate an aggregate

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ASK A CASUALTY ACTUARY

Many variables cloud pricing excess policies

Q **What approach or approaches would you recommend for costing out a casualty excess-of-loss reinsurance agreement or for pricing excess insurance coverage in general?**

A There are four basic types of approaches to pricing the loss provision for excess coverage, regardless of whether it is in the context of normal excess coverage, an excess layer of coverage above a self-insured retention or a reinsurance treaty. Those approaches are: internal large loss experience, industry loss experience, internal layer of loss relationships for underlying layers and market price.

Unless the volume of claim experience in the layer of loss that is being priced is large, its real value in reasonably predicting future losses is slight. What volume of large claims is needed for the experience to have any meaning? Certainly, anything less than five to 10 large claims a year is basically meaningless, unless such information is available on a consistent basis for the past five to 10 years. Theoretically, the total number of large claims needed for relying solely on an individual risk's own loss experience should be at least 550 to 1,000, or more!

However, this is very rarely available and those involved in pricing excess of loss coverages are left to rely either on industry experience—which may not be very relevant—or on the meager volume of actual risk experience on hand. This is a troubling choice, at best.

A persistent problem in the area of excess coverage is the "it can't happen to me syndrome." Just as many residents of the San Francisco Bay Area had convinced themselves that earthquakes were just events that one read about happening someplace else, millions were jolted by last month's tremor, only to learn that the 1906 quake was about 25 times stronger! And so it is in the excess area.

There is a widespread practice of concluding that the provision for excess insurance losses should be minimal because there have been few or no claims above a certain size. In actuality, such an absence or limited presence is really an indication that one or more of the following is true:

- The total claim volume is small enough that large claims are relatively infrequent.
- If past large losses were revalued at what they would cost today, actual loss experience would not look as good as it does.
- Insufficient time has passed for the magnitude or existence of serious claims to become known.
- The risk in question has been very lucky.
- The risk in question has implemented highly effective loss prevention practices to minimize the occurrence of large claims, or has instituted claims settlement practices that tend to reduce the likelihood of smaller claims becoming larger ones.

Often, there is insufficient information to determine which of the above factors might explain the "appearance" of good excess loss experience, and the last reason is implicitly accepted. Normally several years of past large claims experience should be studied in order to increase the total number of large claims reviewed to the point where they will have some meaning and predictive value. What often happens in this process, though, is that large claims from several years past are not adjusted for the effects of inflation or changing legal conditions or benefit levels.

Frequently, this shows up in the observation: "We have never had a loss exceeding $500,00 so there is no reason to expect that one is likely now." What may not have been considered when making this comment is the fact that a $350,000 loss 10 years ago would cost more than $1 million if it occurred today, and a $450,000 loss that happened five years ago would cost almost $1 million today.

It is very important when using several years of large claims experience that the effects of social and economic inflation be fully reflected in the analysis. Normally, this will require including in your analysis claims from prior years that are quite a bit smaller than the lower boundary of the excess insurance layer that is being priced.

Another source of bias in many reviews of large claim experience is the failure to recognize that large claims often become larger before they are settled. What seems like an adequate claim reserve for a serious case based on the facts on hand can turn out to be short when subsequent developments or litigation intervene and increase the amount of the final settlement. This can be a critical problem when treating the large claim experience for the most recent accident or policy years.

Excess insurance losses

Current valuations of excess insurance losses may be understated because the percentage of ultimate losses that are reported increases with time.

Time span	Reported losses	Unreported losses
1 year	2-20%	80-98%
3 years	15-40%	60-85%
5 years	30-60%	40-70%
10 years	65-90%	10-35%

Before you conclude that it is OK to just record the reported loss amounts in your analysis, you should recognize that the currently reported claim reserves are rarely adequate in the aggregate. If possible, tracking the reported amounts on large claims—as they are recorded over several successive years prior to and including closure—will provide you with a clearer picture of the extent of loss development that will probably occur.

In addition to loss development, it is also usually critical to make a provision for claims that have been incurred but not reported. In the case of excess layers, this often includes claims that currently are reserved for amounts that are significantly less than the attachment point of the layer, but which will penetrate the layer once the particulars of the claim become better known to the claims adjusters setting the case reserves.

The accompanying chart provides a rough idea of the degree to which current valuation of reported excess insurance losses may be understated due to adverse development on known cases as well as incurred-but-not-reported claims. In the chart, ranges are provided indicating the typical percentage of reported excess insurance losses at various stages to those that ultimately will emerge. Of course, these percentages will vary widely, depending on individual risk or company characteristics, additional reporting lags if you are a reinsurer and different reporting behavior of losses at a relatively low level vs. a relatively high level.

Because of all these downward biases, it is not uncommon for an analysis of the large claim experience of an individual risk or company to understate the ultimate magnitude of losses in an excess insurance layer. Unless the excess losses for more recent years are modified for loss development and IBNR claims, the magnitude of those losses will be seriously understated and will usually leave the impression that large claims experience is improving for the most recent years—regardless of whether it actually is improving, worsening or staying the same.

Normally, industry experience for excess insurance layers is used in one of two ways. First, increased limit factors from the combined experience of many companies are used to estimate the expected magnitude of losses in some excess layer by applying those factors to the primary—or basic limit—experience of the individual risk or company. The application of such factors should be made in the context of judging whether or not the individual risk or company represents an average, better-than-average or worse-than-average risk when compared with the cross-section of risks represented by industry experience.

This may not be only an issue of the relative quality of the loss control programs, but of the type of business involved.

Second, the increased limit factors may be applied to the portion of the premium available for basic limit losses—the pure premium—if the actual basic limit experience has been distorted by some unusual event, such as a catastrophe that results in a large number of small claims.

There are several actuarial techniques that may be applied to the individual experience of a risk or claim to estimate excess losses. Several of these are fairly esoteric mathematically, but they do have some validity in terms of projecting excess insurance losses based on the relative number of losses by size of loss or the relative dollars of loss by layer of loss for successively higher layers of primary experience.

The critical weakness of these methods is that they are all very sensitive to minor variations in the primary experience. In other words, just a few of the small to medium-sized claims can produce dramatically different projections of the size of excess losses in the higher layers. It is a bit like trying to forecast the size of the federal deficit in the year 2010 based on trends over the past 10 years.

While many of these methods have a very sound basis in theory, their sensitivity is often too great to make them useful in forecasting excess losses. The higher the excess insurance layer that is being estimated, the more likely it is that such extrapolations may be very far off.

Because of the uncertainty involved in making estimates of excess insurance losses, it is often advisable to apply two or three methods in their estimation. Once a reasonable estimate of losses in the proposed excess layer has been derived, it is then necessary to consider whether, or to what

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Mr. Sherman

This month's column on actuarial issues in the casualty field is written by Richard E. Sherman, a principal with Coopers & Lybrand in San Francisco. William J. Miner, an actuary with The Wyatt Co. in Chicago, answers actuarial questions in the benefits field. Susan M. Werner, director of risk management at Hardee's Food Systems Inc. in Rocky Mount, N.C., answers risk management questions. And, Joseph W. Duva, director of employee benefits at Allied-Signal Inc. in Morristown, N.J., answers benefits management questions.

Mr. Sherman's and Mr. Miner's columns appear alternately on the first Monday of each month. Ms. Werner's and Mr. Duva's columns appear alternately on the second Monday of each month. Mr. Sherman's next column will appear in January.

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Reinsuring asbestos claims

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at any point in the primary or excess-of-loss protection of the original cover would generally mean that individual asbestos losses do not reach the excess point in the cedant's treaty.

Moreover, it is not just a matter of ascertaining the existence of an aggregate by screening the original cover, but also a matter of defining and applying reinsurance aggregates.

Let us turn to specific definitions:

- Aggregate limit in the original policy of insurance and the drop-down mechanism in a layer of original policies.

The aggregate limit is the original insurer's device for limiting its occurrence-based duty of coverage at a maximum amount per policy period for the purpose of avoiding (or capping) exposure to an open-ended, high frequency of occurrences during the policy period. The aggregate limit focuses not upon event-linked occurrences, but upon all loss occurrences attributable to the insured period.

As product liability insurance became popular in the 1940s, the difficulty arose as to how a multiple claims situation arising from a mass-consumption product could be accommodated under an occurrence limit. To avoid possible disputes, the aggregate drop-down coverage concept emerged. While maintaining the occurrence concept with its timing trigger and quantum limit functions, the new aggregate drop-down coverage diminished the potential of dispute with regard to the number of occurrences involved in a product liability multi-claims situation.

This is achieved by discharge of the underlying cover once it has exhausted the agreed aggregate limit and, moreover, by transfer and assumption of the coverage duty as to further loss occurrences up to the above-lying cover. This mechanism was repeated so as to transfer the loss throughout the vertical chain of cover.

- The reinsurance aggregate in general.

Reinsurance aggregate loss cover is capable of bundling non-related losses, whereas reinsurance event-linked loss cover cannot bundle non-related losses. The process of aggregation is indeed the process of bundling or grouping all unrelated losses within one insurance period, usually one year. An event transpires as an act of nature. It is substantive and links losses per se, not needing to be brought within a cover conditioned by formal criteria, i.e. that all losses that occur during one year be aggregated.

- Reinsurance by application of the reinsurance clause to policies subject to an aggregate limit.

This device, found generally within the reinsuring clause, states that a cedant's losses under an aggregate limit of an original policy are protected in the same manner as losses relating to an event-linked loss. Cedants obtain extended excess-of-loss reinsurance protection comparable to event-linked excess of loss protection. Thus, with respect to exposure to high frequency, low level, non-related occurrences, cedants are reinsured as to the aggregate loss from all occurrences under the original policy exceeding a certain sum as agreed between cedant and reinsurer.

The aggregation of which we are now speaking is by means of limits, one limit after another on the original cover side and somewhat parallel to sequential limits on the reinsurance side.

- Reinsurance by introduction of aggregate extension clause for risks covering on an aggregate basis.

This reinsurance technical device, often called an aggregate extension clause, appears to extend the coverage obligation of a primary insurer to the reinsurer when the aggregate underlying the reinsured's policy is exhausted, and it becomes the obligation of the cedant to respond to losses from further occurrences attributable to the insured period.

One might perhaps wish to refer to the third definition as a typical U.S. concept: aggregation by application of the reinsuring clause on policies subject to an aggregate limit. The Lloyd's White Papers do not refer to this kind of aggregation although it is perhaps an older, more rudimentary aggregate loss reinsuring device. Definition four may be termed a typical London market excess of loss concept: reinsurance excess-of-loss cover by introduction of an aggregate extension clause for losses on risks covering on an aggregate basis. The functions of the two kinds of cover are not precisely comparable, but the results appear to be identical.

As reinsurance consists of an undertaking by one insurer to insure the liability that another insurer has assumed under a contract of insurance or reinsurance, reinsurers are always entitled to full disclosure of all relevant background documentation to establish a chain of contractual liability.

Reinsurers continue to adhere to their request for proper definition and documentation, yet they still are not receiving sufficient, proper or clear information regarding asbestos losses.

One main purpose of this disclosure, where long-latent injury claims are concerned, is to permit verification of the aggregate characteristics contained in any preceding reinsurance levels and in the original cover from the reinsurance policy down to the primary. The reinsurer's own reinsurer, the retrocessionaire, will frequently demand the same information of the reinsurer that the reinsurer is seeking from his cedant. A reinsurer may pay a claim at his peril if he pays without proof of cover. The request by the reinsurer upon his cedant for documentation has, nevertheless, created some disagreement. Cedants often wish to expedite payment by sweeping application of a follow the fortunes concept.

The first issue is subsequently also one of definition and policy: Since asbestos-related losses are not attributable to one occurrence or event, the reinsured is not entitled to aggregate asbestos-related losses if the contract is not subject to an aggregate. This has led to the perception that reinsurers may also not be bound to respond in situations where the specific reinsured layer carries an aggregate limit but an underlying layer of the original policy is on an occurrence basis only. Moreover, the fact that the original London excess covers to Johns-Manville (now called Manville Corp.) up to 1963 do not contain drop-down provisions obliging London to respond once the underlying cover is exhausted has led to the general realization that there is no contractual obligation on the part of reinsurers.

In some instances, cedants have responded favorably to reinsurers' demands for disclosure and definition. In a few situations, cedants have taken the position that reinsurers are not entitled to the information requested, that the reinsurers should trust the lawyers of his cedant, that everything has already been "checked and found to be in order" or that reinsurers are simply "interested in creating delay."

Reinsurers continue to adhere to their request for proper definition and documentation. Today, as in the past, reinsurers are still not receiving sufficient, proper or clear information from cedants regarding asbestos losses.

If information were received, it may make sense to establish a central clearinghouse, something like an "International Reinsurance Advisory Service," which could provide participating reinsurers with necessary administrative support regarding reinsurance claims having a U.S. asbestos loss background.

An International Reinsurance Advisory Service, if one were created, could establish on a fee basis, answers to various questions: Are there proper aggregate clauses suitable for an aggregate loss presentation to the reinsurer or the retrocessionaire? Is the chain of aggregate complete on the original side and again on the reinsurance side? Has the cedant followed his own contract in presenting aggregate losses? Do facility-unique factors exist, and, if so, have the costs been itemized? Have claims administration and declaratory judgment costs been itemized?

An International Reinsurance Advisory Service might have a significant responsibility to research the ins and outs of each major asbestos loss presentation so that not every cedant, reinsurer and retrocessionaire need ask and answer the same tedious questions and present the same voluminous documentation repeatedly studied and analyzed by others.

The service could do the groundwork necessary for more efficient and uniform claims handling through consistent administrative standards, thus achieving greater reliability, clarity and universality than the present situation allows.

Currently, major European reinsurers and leading members of the London market are discussing these problem areas in a constructive manner.

Lloyd's underwriter Robin A.G. Jackson has in his Market Letter of Oct. 26, 1988, given the following rather significant promise on behalf of the London market: "It is quite clear that the major stumbling block has been a lack of basic information on individual claims, whether arising from direct policies or by way of reinsurance. Whilst we made it absolutely clear that we were not in a position to represent any ceding insurer or syndicate, we did have available in the Toplis & Harding (Market Services) office all the information that was probably needed with regard to basic claims matters of all asbestos bodily injury losses paid by London underwriting organizations. As was confirmed by our attorneys, reinsurers have a right to this information, and, if this was the main stumbling block, it should be made available."

It is thus clear that increased disclosure of necessary contractual documentation will be provided by the London market on major claims complexes involving U.S. producers of asbestos. We appear to be on the path toward improved resolution of asbestos bodily injury claims payments.

Jack Edward Koepke is a director of Gerling-Konzern Globale Ruckversicherungs A.G. in Cologne, West Germany.

Excess insurance losses

Continued from previous page
extent a risk load should be added to account for the high degree of volatility in results that may be present. For very high or catastrophic layers, the amount of premium indicated by expected losses—loaded also for expenses—may be only a very small percentage of the maximum loss under the policy.

For example, it might take 100 years of premium to cover one policy limit loss. If an insurer is only underwriting a small number of such risks, it is often necessary to charge a premium well above expected losses and expenses just to induce the insurer to accept the high level of risk it would assume.

In the case of self-funding excess layers of coverage, volatility is often addressed by funding at a very high confidence level (80%, 90%, 95% or 99%), depending upon the extent of the financial consequences of adverse experience. If funds are not readily available from elsewhere in the organization to cover a catastrophic loss, then funding at a confidence level of 95% to 99% or higher might make good sense. Alternatively, traditional excess or stop-loss insurance coverage might be sought to meet this need.

While it would take a book to fully answer your question, I hope that I have covered enough of the relevant considerations.

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	1988	1987
Premium volume	NA	NA
Gross revenues	NA	NA
Total employees	3	3
Treaty	1	1
Facultative	1	1

Year founded): 1984.
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	1988	1987
Premium volume	$90,000,000	$63,000,000
% Treaty	85%	85%
% Facultative	15%	15%
Gross revenues	$2,500,000	$1,800,000
Total employees	30	24
Treaty	22	19
Facultative	8	5

Year founded: 1979.
Subsidiaries: Pearson & Georgi International, Hoboken, N.J.; Pearson & Georgi (Hellas) S.A., Athens, Greece; Pearson & Georgi (S.E. Asia) Inc., Manila, Philippines.
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	1988*	1987
Premium volume	$20,000,000	NA
% Treaty	100%	NA
Gross revenues	$500,000	NA
Total employees	3	NA
Treaty	3	NA

* 1989 estimates.
Year founded: 1989.
Parent company: Skandia America Group.
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Licensed in: New York.

Peglar & Associates Inc.

100 Prospect St., Stamford, Conn. 06901; 203-325-0863

	1988	1987
Premium volume	NA	NA
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	15	15
Treaty	15	15

Year founded: 1986.
Principal officers: Robb K. Peglar, president; Charles A. Morton, chief financial officer/secretary/treasurer; Peter B. Scanlan and George F. Baumann, senior brokers.
Specialties: Property and casualty.
Licensed in: New York.

Preferred Reinsurance Intermediaries Inc.

1634 Main St., Suite 100, Columbia, S.C. 29201; 803-256-4467

	1988	1987
Premium volume	$41,762,182	$40,164,713
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	11	10
Treaty	11	10

Year founded: 1983.
Acquisitions: Associated Intermediaries S.C. Inc.
Principal officers: Robert H. Sanders, president; Karen N. Basso, senior vp; David L. Coulter Jr., vp; Kevin M. Elmore and Veritha W. Lee, assistant vps; Robert J. Bready Jr., assistant secretary.
Licensed in: New York.

R

RBI Brokerage Inc.

908-A2 Pompton Ave., P.O. Box 308, Cedar Grove, N.J. 07009; 201-857-1466

	1988	1987
Premium volume	NA	NA
% Treaty	70%	70%
% Facultative	30%	30%
Gross revenues	NA	NA
Total employees	4	4

Year founded: 1978.
Branch offices: RBI Brokerage of Florida, Miami.
Principal officers: Paul Wolf, president.
Specialties: Life, health, health maintenance organizations, preferred provider organizations, stop-loss, special risk programs.
Licensed in: New York, New Jersey and Florida.

RFC Intermediaries Inc.

1117 Perimeter Center W., Suite N-500, Atlanta, Ga. 30338; 404-392-9541

	1988	1987
Premium volume	NA	NA
% Treaty	20%	33%*
% Facultative	80%	67%
Gross revenues*	$12,000,000	$14,000,000
Total employees	154	180

* *BI* estimate.

Year founded: 1972.
Parent company: The St. Paul Cos.
Branch offices: Chicago, Dallas, Los Angeles, New York, Philadelphia; Hartford, Conn.
Subsidiaries: Tailored Awards; Atlanta, Dallas, Denver, Philadelphia; St. Paul, Minn.
Principal officers: David L. Cargile, president; Pavittar S. Safir, executive vp; Ronald K. Owen, vp; John Griffin, executive vp-Tailored Awards; Steve Lerner, controller; Jeff Gurtler, Don Bendure, Pat Meagher, Wes Dobson, Bob Mikalouskas, Nick Mesogianes, Richard Grabowski, vps.
Specialties: Domestic, international and home foreign facultative reinsurance; structured settlements through Tailored Awards.
Licensed in: New York, California, Georgia, Illinois, Texas, Connecticut, Pennsylvania, Ohio.

R/I Inc.

2855 S. Church St., Burlington, N.C. 27215; 919-584-0166

	1988	1987
Premium volume	$120,434,483	$86,035,358
% Treaty	99.99%	99.99%
% Facultative	0.01%	0.01%
Gross revenues	NA	NA
Total employees	32	30
Treaty	32	30

Year founded: 1972.
Principal officers: R.W. Edens, chairman; Jay Johnson, president; Bob Hykes and Neill A. Currie II, senior vps; Bobby Bristow, Ted Johnson and Greg Edens, vps.
Licensed in: All states.

Reinsurance Brokers Co.

2325 Severn Ave., Metairie, La. 70001; 504-837-4646

	1988	1987
Premium volume	$5,000,000	$4,500,000
% Facultative	100%	100%
Gross revenues	NA	NA
Total employees	5	5
Facultative	5	5

Continued on next page

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Continued from previous page

Year founded: 1979.
Parent company: Sherar, Cook & Gardener Inc.
Principal officers: J. William Sherar, president; James A. Gardener, vp; Norman C. Cook, executive vp; William G. Sherar, assistant vp.
Specialties: Excess liability, chemicals, pharmaceuticals, oil, marine construction, international.
Licensed in: Louisiana.

ReSOURCE Intermediary Group

200 Berwyn Park, Suite 110, Berwyn, Pa. 19312; 215-647-9500

	1988	1987
Premium volume	$42,780,000	NA
% Treaty	100%	100%
Gross revenues	$1,435,000	NA
Total employees	9	3
Treaty	9	3

Year founded: 1987.
Branch offices: London; Hamilton, Bermuda.
Principal officers: Larry E. Fondren, president; Elaine M. Miller, vp; Maureen A. Smykal, vp/treasurer; Karyl J. Wittlinger, secretary.
Specialties: Financial.
Licensed in: Pennsylvania and New York.

S

Saturn Intermediaries Ltd.

200 N. LaSalle St., Suite 2800, Chicago, Ill. 60601; 312-236-4303

	1988	1987
Premium volume	$82,000,000	$77,250,000
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	12	11
Treaty	12	11

Year founded: 1985.
Branch offices: Des Moines, Iowa; Phoenix, Ariz.
Principal officers: John J. Norton, president; R. Charlene Pedersen, executive vp; Arne R. Sorensen, R. Bebe Hayes and Lorenz Lang vps; Erin Nancy Doherty, assistant vp; H. Serafina Peigh, assistant treasurer.
Specialties: Domestic and international property, casualty and crop hail reinsurance.
Licensed in: New York.

John D. Sayer & Co. Inc.

130 Pennington-Washington Crossing Road, P.O. Box 326, Pennington, N.J. 08534; 609-737-1391

	1988	1987
Premium volume	$35,000,000	$40,000,000
% Treaty	100%	100%
Gross revenues	$1,450,000	$1,350,000
Total employees	10	10
Treaty	10	10

Year founded: 1979.
Parent company: Jardine Thompson Graham Ltd.
Principal officers: John D. Sayer, president; John S. Yeuroukis, executive vp.
Specialties: Surety.
Licensed in: New York.

Smyth, Sanford & Gerard

135 William St., New York, N.Y. 10038; 212-374-1323

	1988	1987
Premium volume	$20,000,000	$17,000,000
% Treaty	40%	35%
% Facultative	60%	65%
Gross revenues	NA	NA
Total employees	15	13
Treaty	8	6
Facultative	7	7

Year founded: 1913, reinsurance brokerage began in 1987.
Branch offices: Coral Gables, Fla.
Principal officers: Robert L. Sanford, chairman; Douglas L. King, president.
Specialties: Property, casualty, marine, accident and health, international, machinery, bloodstock.
Licensed in: New York.

Sterling Universal Ltd.

4 King St. W., Toronto, Ontario M5H 1B6; 416-364-7231

	1988	1987
Premium volume	$200,000,000	$190,000,000
% Treaty	95%	95%
% Facultative	5%	5%
Gross revenues	$10,000,000	$9,500,000
Total employees	89	90
Treaty	84	85
Facultative	5	5

Year founded: 1940.
Parent company: Alexander & Alexander Services Inc.
Branch offices: Montreal.
Principal officers: Richard M. Willemsen, chairman; Bent Sorensen, president; Rochus Meurer, executive vp; Paul J. Mittertreiner, Gordon C. Crutcher and Michael T. Mulville, senior vps.
Specialties: Property and casualty.
Licensed in: Ontario and New York.

Gerald J. Sullivan Co.-Reinsurance

800 W. Sixth St., Los Angeles, Calif. 90017; 213-626-1000

	1988	1987
Premium volume	$220,000,000	$190,000,000
% Treaty	100%	100%
Gross revenues	$8,800,000	$7,020,000
Total employees	20	18
Treaty	20	18

Year founded: 1980.
Parent company: Gerald J. Sullivan & Associates Inc.
Branch offices: New York.
Principal officers: Gerald J. Sullivan, chief executive officer; John F. Sullivan Jr., president; R. Daniel DePalma, Suzanne Allaway, Julius Friedman and Paul G. Wayne, senior vps; Mark J. Ruggles, vp/treasurer; Theodore A. Verspyck, Eric R. Van Elkan, John H. Howard, George P. Biagiotti and Greg Perzell, vps; Steven V. Moccardine and Julie L. Drobner, assistant vps; John R. Bigelow, secretary.
Specialties: Medical malpractice, excess and surplus lines, surety.
Licensed in: New York.

Sullivan Payne Co.

1501 Fourth Ave., Seattle, Wash. 98101; 206-223-1200

	1988	1987
Premium volume	NA	NA
% Treaty	90%	90%
% Facultative	10%	10%
Gross revenues*	$52,000,000	$57,000,000
Total employees	430	425
Treaty	355	350
Facultative	75	75

* *BI* estimate.
Year founded: 1928.
Parent company: Sedgwick Group PLC.
Branch offices: Seattle, Los Angeles, Dallas, New York, Philadelphia, Chicago; Toronto, Montreal, Vancouver, Canada.
Principal officers: Roger Espe, president/chief executive officer; Bob Holmes, Executive vp/president-SPCo. of Canada; Michael Wybar, Brian Smith, executive vps; Lewis Hale, senior vp/chief operating officer; Rick Richman, senior vp/chief financial officer; John Jolly, Taylor Collings, Barbara Bufkin, Len Barkinge, senior vps; Jim Grieser, senior facultative vp; Tom Hopkinson, executive vp-SPCo. of Canada.
Licensed in: New York.

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Continued from previous page

Summit Intermediaries Inc.

354 Eisenhower Parkway, Livingston, N.J. 07039; 201-740-1700

	1988	1987
Premium volume	$17,500,000	$12,500,000
% Treaty	60%	75%
% Facultative	40%	25%
Gross revenues	$1,350,000	$900,000
Total employees	8	17
Treaty	3	7
Facultative	5	10

Year founded: 1984.
Parent company: Rowbotham Baxter Ltd.
Principal officers: James G. Cerreta, president; Joseph R. Curcio and Richard D. Stary, senior vps; Warren L. Weiss, vp/controller; Deborah L. Fairhurst, assistant vp.
Specialties: Trucking, restaurants, taverns, pollution liability.
Licensed in: New York and New Jersey.

T

T.H.B. Intermediaries Inc.

3333 Wilshire Blvd., Suite 711, Los Angeles, Calif. 90010; 213-388-6630

	1988	1987
Premium volume	$19,658,023	$14,520,586
% Facultative	100%	100%
Gross revenues	$1,444,276	$703,625
Total employees	19	14
Facultative	19	14

Year founded: 1984.
Parent company: Thompson Heath & Bond Holdings Ltd.
Branch offices: Los Angeles, Chicago, New York.
Acquisitions: Domestic operations of Agnew International, New York.
Principal officers: Victor H. Thompson, chairman; George R. Jacobbe, president; James Van Slyke, director-facultative reinsurance; Richard DiClemente, vp/branch manager-New York office; Willliam Ullmann, vp/branch manager-Chicago office; Larry Parks, vp/branch manager-Los Angeles office.
Licensed in: New York; does business in all states.

TPF&C Reinsurance

11 Penn Center, 1835 Market St., Philadelphia, Penn. 19103-2965; 215-963-7700

	1988	1987
Premium volume	$590,000,000	$640,000,000
% Treaty	77.3%	78.8%
% Facultative	22.7%	21.2%
Gross revenues*	$40,000,000	$40,000,000
Total employees	281	308
Treaty	219	238
Facultative	62	70

* *BI* estimate.
Year founded: 1934.
Parent Company: Towers Perrin.
Branch offices: San Francisco; Stamford and Hartford, Conn.; Chicago.
Principal officers: Philip W. Mitchell, managing director/chief executive officer; Christopher T. Brockett, Robert F. Jones, Patrick J. McFadden, Edwin W. Raynolds and Jacobus Van de Graaf, senior vps.
Licensed in: Does business in all states.

Tanenbaum-Harber Reinsurance Intermediaries

320 W. 57th St., New York, N.Y. 10019; 212-603-0362

	1988	1987
Premium volume	$10,000,000	$7,000,000
% Treaty	95%	100%
% Facultative	5%	0%
Gross revenues	NA	NA
Total employees	6	6
Treaty	6	6

Year founded: 1986.
Principal officers: Robert K. Harris, chairman; Walter L. Harris, president; Ronnie Ellen Raymond, executive vp.
Specialties: Property, casualty, life, health.
Licensed in: New York.

Totsch Enterprises Inc.

6323 N. Avondale Ave., Suite 240, Chicago, Ill. 60631; 312-631-1676

	1988	1987
Premium volume	NA	NA
% Treaty	97%	99%
% Facultative	3%	1%
Gross revenues	NA	NA
Total employees	5	7
Treaty	5	6
Facultative	0	1

Year founded: 1978.
Principal officers: Marvin D. Totsch, president; William E. Totsch and Robert L. Totsch, vps; Mary Ellen Totsch, secretary/treasurer.
Specialties: Property, casualty and crop insurance.

Tretis Group Inc.

1 Sansome St., 15th Floor, San Francisco, Calif. 94104; 415-421-3555

	1988	1987
Premium volume	$161,000,000	$110,000,000
% Treaty	100%	100%
Gross revenues	$2,900,000	$2,000,000
Total employees	25	23
Treaty	25	23

Year founded: 1986.
Principal officers: Robert N. Tremelling II, president; William A. Klepp and Timothy J. Brophy, directors.
Specialties: Property and casualty.
Licensed in: New York; does business on the West Coast.

U

U.S. Re Corp.

5 Hanover Square, New York, N.Y. 10004; 212-747-1100

	1988	1987
Premium volume	NA	NA
% Treaty	100%	NA
Gross revenues	NA	NA
Total employees	10	NA
Treaty	10	NA

Year founded: 1988.
Acquisitions: Hanover Management Services Inc., New York.
Principal officers: Tal P. Piccione, president/chief executive officer; Joseph M. Fedor, executive vp; John M. Kwaak, senior vp; Richard Davies, vp/controller; Brian R. McGuire, assistant vp.
Licensed in: New York.

V

D.W. Van Dyke & Co. Inc.

95 Rowayton Ave., Rowayton, Conn. 06583; 203-855-0499

	1988	1987
Premium volume	NA	NA
% Treaty	97%	97%
% Facultative	3%	3%
Gross revenues	NA	NA
Total employees	7	7
Treaty	7	7

Year founded: 1978.
Mergers: Underwriters International Inc., South Windsor, Conn.
Principal officers: D.W. Van Dyke II, president/chief executive officer; Donald K. Drelich, executive vp/chief operating officer; Robert A. Welke, vp.
Specialties: Life, accident and health.
Licensed in: New York and Connecticut; doing business in all states.

W

Willcox Inc.

130 John St., New York, N.Y. 10038; 212-952-0650

	1988	1987
Premium volume	NA	NA
% Treaty	98%	96%
% Facultative	2%	4%
Gross revenues*	$33,500,000	$31-$33million
Total employees	188	180
Treaty	184	176
Facultative	4	4

* *BI* estimate.
Year founded: 1898.
Parent company: Johnson & Higgins.
Branch offices: Los Angeles, Philadelphia.
Subsidiaries: Willcox Ltd., London.
Principal officers: Willis T. King Jr., chairman/chief executive officer; Robert O'Leary, president; Peter Armour, executive vp; Edwin Barber, David Christie, Thomas Hancock, George Reeth and Emmett Henry, senior vps.
Licensed in: New York, California and Pennsylvania.

Willis Faber (Bermuda) Ltd.

P.O. Box HM 1995, Hamilton HM HX, Bermuda; 809-295-3063

	1988	1987
Premium volume	NA	NA
% Facultative	100%	100%
Gross revenues	NA	NA
Total employees	5	5
Facultative	5	5

Year founded: 1983.
Parent company: Willis Faber

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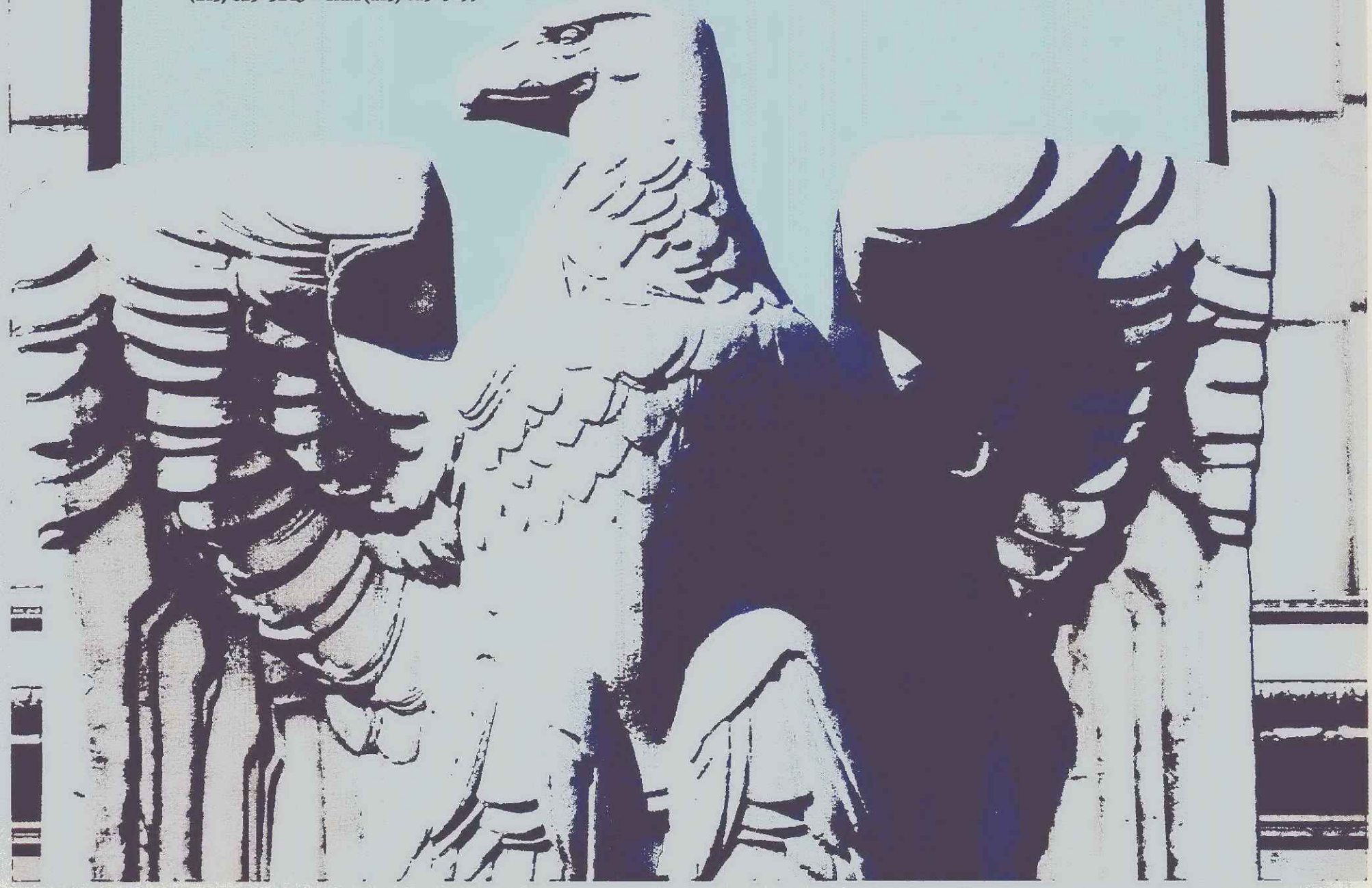
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Continued from page 62
International Ltd.

Principal officers: R.C. Golden, president; M.A. Dobbie senior vp; M.G. Randall, vp.

Specialties: Directors and officers liability.

Licensed in: Bermuda.

Membership: National Assn. of Reinsurance Brokers.

Y

H.E. Yerkes & Associates

127 John St., New York, N.Y. 10038; 212-344-1707

	1988	1987
Premium volume	$29,418,500	$24,875,000
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	5	7
Treaty	5	7

Year founded: 1979.

Principal officers: Harry E. Yerkes, president; Ann R. Kaplan, vp.

Specialties: Ocean marine, energy.

Licensed in: New York.

Z

Zeman Krings Inc.

111 John St., New York, N.Y. 10038; 212-608-7755

	1988	1987
Premium volume	$8,500,000	$25,000,000
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	4	5
Treaty	4	5

Year founded: 1983.

Principal officers: K.C. Krings, president; R.G. Krings, vp; Meenu Bhatia, assistant vp.

Specialties: Marine, professional liability new product development, credit life and health.

Licensed in: New York.

George G. Zimmerman & Co. Inc.

Jockey Hollow Professional Park, P.O. Box 372, Mendham, N.J. 07945; 201-543-3250

	1988	1987
Premium volume	$150,000,000	$80,000,000
% Treaty	90%	98%
% Facultative	10%	2%
Gross revenues	$4,400,000	$2,400,000
Total employees	27	16
Treaty	26	16
Facultative	1	0

Year founded: 1980.

Branch offices: Upland, Calif.; Hartford, Conn.

Principal officers: George G. Zimmerman, chairman/chief executive officer; Eugene J. Schiller, executive vp; Charles J. Sharkey, senior vp; Thomas D. Kinney, vp/comptroller.

Specialties: Life, accident and health, special risk, elderly care policies, sports, student accident risks.

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JBW Connecticut (J.W. Beresford-Wood & Co.)

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LMX market in turmoil after disastrous month

By CAROLYN ALDRED and STACY SHAPIRO

LONDON—Three major catastrophes in the United States within a month are creating a jittery London excess-of-loss reinsurance market, which may mean rising property/casualty and marine reinsurance rates, reduced capacity and delays in negotiating renewals.

London-based underwriters are just starting to hear from brokers and cannot yet calculate losses from Hurricane Hugo, the California earthquake and the explosion at a Phillips Petroleum Co. plant in Pasadena, Texas.

However, they are certain that the three disasters—which combined will cost insurers more than $6 billion—will harden the property/casualty reinsurance market.

Rates in all classes of business will either be stable during year-end renewals or increase by up to 50% over 1988, London underwriters say.

Most massive losses will end up in the London excess-of-loss—or LMX—market, already plagued by losses "spiraling" among retrocessionaires. These include the $1.4 billion Piper Alpha North Sea oil rig disaster in 1988; $3 billion in claims from the October 1987 windstorm in Southeast England and France; and $1.3 billion in claims from Hurricane Alicia in 1983.

Now, LMX underwriters are frantically trying to tally losses from the latest U.S. disasters so they can properly quote rates on London underwriters' retrocessions. Meanwhile, several leading non-marine LMX underwriters already plan to change contract wordings to ensure cedants accept far larger retentions and at least 10% co-reinsurance.

Some LMX underwriters say they will not quote for London underwriters' retrocessional programs until the end of November.

As a result, London-based reinsurers of U.S. ceding companies believe reinsurance renewals overall will be delayed while London underwriters shore up their own LMX retrocessions.

"We aren't (quoting) anything because the LMX market is in a turmoil," said a Lloyd's non-marine underwriter who writes reinsurance for U.S. ceding companies. "What with Hugo and the earthquake. . .the LMX market is not quoting at the moment."

Hugo and the earthquake "will have an effect on all lines," he said, referring to both property and casualty reinsurance. "I don't think there will be any rate reductions. There will be increases for those with losses and (for ceding companies without losses) there will be the same and increased rates. But we will have to wait and see."

For U.S. clients "we see rates going up now because of the losses and the contraction in the retrocessional (LMX) market," said another Lloyd's non-marine underwriter.

Increases will particularly hit the property reinsurance market because rates had fallen so low, he said.

For U.S. ceding companies with property losses, rates will increase about 50%, while rates for cedants reporting no catastrophe-related losses will rise 10%-20%, he said.

On the casualty side, rate "increases will not be as much as for property because the rates didn't go down as much," he said.

"We're going through a period of uncertainty as the effects of Hurricane Hugo and the earthquake become apparent. At this moment no one knows what the losses are going to be," said Brian Clayton, manager and chief underwriter of the property division of Royal Reinsurance Co. Ltd. in London.

"I expect rates to harden for excess-of-loss reinsurances for property, but I have no idea what effect, if any, there will be on casualty rates," he noted.

"There now is limited capacity in the LMX market, which provides the backup protection for the reinsurance market. So it could be the start of a chain reaction," he said.

Meanwhile, not all reinsurers are waiting to hear from their LMX underwriters before quoting renewals, said Callum Stewart, managing director of Heath Fielding Reinsurance Broking Ltd. in London.

Some underwriters are quoting stable rates for clients with few losses, as reinsurers "are not wanting to penalize their good insureds," he noted.

U.S. treaty renewals are handled case by case, agreed Ian Gale, executive director of the North American reinsurance division of Willis Faber & Dumas Ltd. "Customers with no exposures from Hugo or the quake should be treated appropriately. A Midwest company in the market today with no losses is likely to obtain the same rates as last year."

However, brokers say that two months ago most U.S. ceding companies would have been looking for rate cuts.

"It's the end of the soft market," said Mr. Stewart, though he added that "it's not a hard market" and said he had seen no "indiscriminate" rate increases.

Meanwhile, LMX underwriters are planning major restrictions on London underwriters that reinsure U.S. ceding companies, say market observers.

Underwriters want cedants to retain an amount equal to 20% of the cedant's total losses from the 1987 windstorm—known as "87J"—or 20% of the ceding underwriter's total catastrophe premium volume, whichever is greater, said one Lloyd's non-marine underwriter.

And, ceding companies buying coverage from LMX underwriters will have to sign warranties saying that the cedant has no other reinsurance to cover the retention, he said.

LMX underwriters also want each London ceding company to accept a 10% co-reinsurers requirement in each layer of the LMX program, making the cedant responsible for 10% of the loss on each layer.

"We are trying to get higher retentions by coming up with a form of wording which will force reassureds to run meaningful retentions. In the soft market of the last two years, people have tended to buy lower and lower layers so every time there is a loss it spirals and becomes a large loss in the LMX market," said a non-marine LMX underwriter who did not wish to be named.

"I would like to see retentions of about 20% of a reassured's total catastrophe excess-of-loss premium income. At the moment retentions are as low as 1%," he noted.

Forcing higher retentions "would have a considerable effect," because they are "extremely important for the health of the London market," said the underwriter.

"The non-marine LMX market is in a state of flux. There is a definite move to increase retentions on (excess-of-loss retrocessions) with a toughening of terms and conditions," said leading Lloyd's excess-of-loss reinsurance underwriter Derek Walker.

"The catastrophe market is prepared to run one major loss every 10 years. We've had three major losses in three years and it's causing a certain amount of rethinking," he noted, referring to the Piper Alpha explosion, the 87J windstorm and Hurricane Alicia.

That's what the LMX underwriters want, "but whether it sticks is another question," said another underwriter who did not wish to be named.

"If that's imposed on us, then we will have to put our own books in order" and charge clients more, he said. "But a lot of our clients are expecting to pay more money for their reinsurance" and reinsurers "have the ball at their feet. If they don't kick it, they're foolish."

"There is not going to be another opportunity like this to put rates up. We have to get them up," said leading Lloyd's marine underwriter Chris Rome.

Losses in the last two years—particularly from Piper Alpha—have battered Lloyd's marine insurance and reinsurance market and forced rate hikes for LMX marine reinsurance.

So far primary insurance and non-LMX reinsurance rates in the marine market have remained very competi-

Continued on next page

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Continued from previous page
ive, but underwriters believe that ould change with the three major J.S. losses.

"Psychologically, an East Coast vindstorm and a California earthquake will have a major impact" on narine rates, said Mr. Rome.

"Rates are rising dramatically on narine whole-account XLs as there s a significant reduction in capacty," said Jonathan Marland, a director of broker Lloyd Thompson Group P.L.C.

And "because underwriters will be spending substantially more on their reinsurance costs, they will be looking for the most effective way to rationalize" them, he noted.

Therefore, as the LMX market tightens, non-LMX reinsurers and primary insurers will be forced to retain more risk, decreasing available capacity and forcing rates up, brokers predict.

In addition, in the current uncertain market "there will be a reluctance by reassureds to change their leading reinsurance underwriters," noted Mr. Marland, predicting "an almost unilateral cessation of insurance and reinsurance rate reductions" for marine business.

However, rate increases will be selective, he said. "Underwriters should differentiate between those reassureds hit with losses and those not affected by losses."

"Things are going to get extremely difficult in the marine reinsurance market by the end of the year," agreed John Metcalfe, a marine division director of Robert Fleming Insurance Brokers Ltd. in London.

"There will certainly be an increase in rates in the retrocessional area, but in the primary reinsurance and the direct insurance area it is impossible to say," he noted.

Although "there is going to be a blood bath" in the marine retrocessional market, "it is feasible that rates will stay the same in the direct insurance and primary reinsurance market as there still is plenty of competition and capacity for marine business," he observed.

Other brokers say there is not yet evidence of shrinking capacity in the primary marine reinsurance market or direct marine insurance market.

However, London marine underwriters have been hit with too many losses in the last few years and, faced with increasing reinsurance costs, will try seriously to raise rates now, some brokers predict.

"During the next 12 months I believe direct marine underwriters will be trying to get rates back to somewhere around 1986 levels," said Tony Pickering, a director of Jenner Fenton Slade Reinsurance Brokers Ltd.

The Phillips explosion "was the final straw," said Richard Youell, Lloyd's marine underwriter for Janson Green Management Ltd., who writes energy insurance package policies that include non-marine risks. Buying reinsurance is already difficult, he said.

Some marine reinsurers are also concerned about the amount of non-marine risks being written through such packages, since it is non-marine components that are causing massive losses, said one marine broker.

As a result, some excess-of-loss reinsurers are considering limiting the amount of non-marine business ceding companies can write in the marine market, he noted.

Earlier this year, Mr. Youell said, he had a "stirring in the loin" that the reinsurance market might harden. "That stirring has become a throb."

But to accurately gauge year-end renewals, "you need to ring every day. Most of the (LMX) underwriters are so busy putting their own reinsurance in place that they don't have time to take orders."

For example, the Phillips explosion, coming on top of Hugo and the earthquake, "will pose a (reinsurance) reinstatement problem. One hears of distressed underwriters purchasing more reinsurance layers. And they don't know what the limits of loss, in particular on Hugo, will be, so they may be spending precious income for layers they won't need," said Mr. Youell.

The market "is very nervous," he added.

Indeed, Lloyd's famous Underwriting Room has seen a flurry of activity in recent weeks as insurers and syndicates scramble to make sure their reinsurance programs are in order, despite huge reinstatement costs after Hugo and the earthquake (*BI*, Oct. 23).

The Phillips explosion increased the sense of panic, said some brokers.

The California earthquake followed Hugo so closely that a lot of underwriters "were caught short with no back-up cover for the rest of the year," said Bob Slaughter, assistant general manager and a director of Municipal General Insurance Ltd.

Mr. Slaughter left his job as a reinsurance underwriter for Royal Reinsurance to join MGI the day after the earthquake.

Now "there is panic buying for backup cover for the rest of the year and the excess-of-loss underwriters are hiking rates for reinstatements," said one Lloyd's underwriting executive.

And, some Lloyd's syndicates, which cannot adequately assess their disaster losses, are having difficulties purchasing reinsurance reinstatements, observers note.

Meanwhile, "most underwriters are putting their pens away and waiting to see what is going to happen in the LMX market, " said the Lloyd's agency executive, due to uncertainty in the retrocessional market.

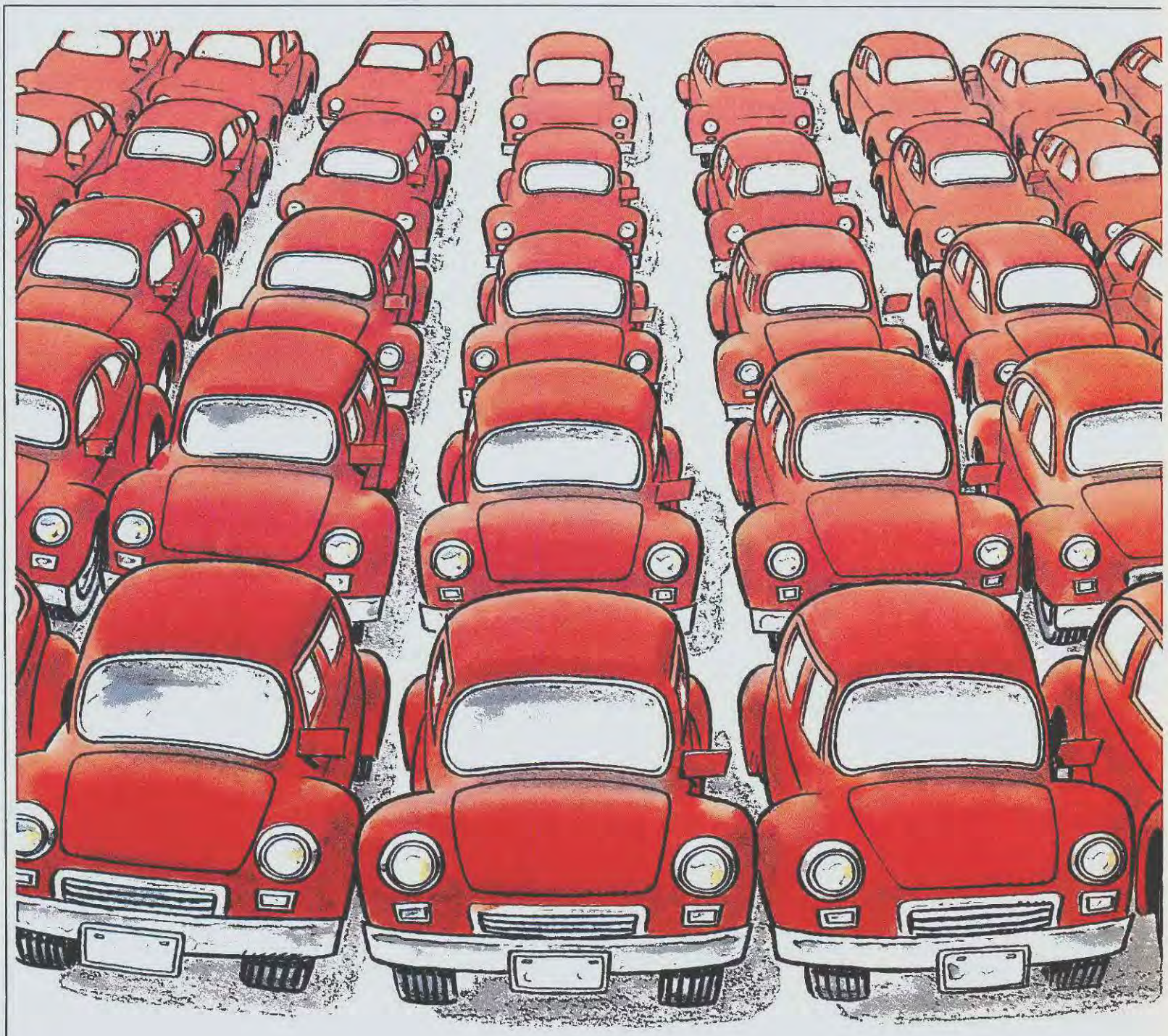
"I don't know how some of the Lloyd's syndicates which just write excess-of-loss reinsurance are going to survive. They are going to have severe cash-flow problems over the next year and if they close their books, there will be a capacity crunch," he predicted.

"Some professional London market reinsurers, particularly Lloyd's syndicates, are facing bankruptcy as a result of overtrading," said Mr. Marland of Lloyd Thompson.

"Providing there is a dramatic increase in rating and hardening of coverages," he said, "the only way they will survive is by trading out of this situation."

Many Lloyd's members already have withdrawn their capacity from excess-of-loss syndicates for 1990, causing huge capacity reductions for several syndicates, confirmed a members' agency director.

But, at the same time many Lloyd's members are requesting additional capacity in the Lloyd's market in the expectation that rates now will harden, according to members' agents. ■



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Spotlight report

Non-U.S. reinsurance market remains soft

By CAROLYN ALDRED

BADEN-BADEN, West Germany —Reinsurance rates will continue to slide in Europe for non-U.S. reinsurance at year-end renewals, continental European reinsurance brokers and underwriters say.

European professional reinsurers are taking a far more relaxed attitude than London underwriters following the recent deluge of U.S.-based catastrophe losses, agreed reinsurers and brokers attending last month's reinsurance gathering in the West German spa town of Baden-Baden.

However, European reinsurers will be closely watching year-end renewals in the London and U.S. markets, brokers and underwriters agree.

European reinsurers expect Hurricane Hugo, the California earthquake and the explosion at a Phillips Petroleum Co. plant in Pasadena, Texas, to harden rates in the U.S. and London markets.

And, if London underwriters increase catastrophe reinsurance rates, rates could rise in the continental European reinsurance market next year, some brokers and underwriters predict.

Meanwhile, European reinsurers likely will follow any attempt by London underwriters to increase rates for U.S. property reinsurance accounts, executives attending the Baden-Baden gathering agreed.

For more than 40 years reinsurers, ceding companies and brokers, primarily from Europe, have been meeting in Baden-Baden for a week in late October to discuss individual contracts and the state of the market.

Regarded by many in Europe as the season's most important pre-renewal gathering, the business discussions at Baden-Baden are more detailed and technical than, for example, talks at the Rendez-Vous de Septembre in Monte Carlo (*BI,* Sept. 18).

The Baden-Baden meeting is also oriented far more toward Europe than the United States, regular attendees agree.

Brokers and underwriters discussing European and international reinsurance—or non-U.S. reinsurance—agreed during the Baden-Baden gathering Oct. 23-27 that the continental European reinsurance market is as competitive as it was last year.

The European market for non-U.S. business still is softening, said Bernd Schmid, vp of reinsurance broker Gradmann & Holler/Guy Carpenter in Frankfurt, West Germany.

"There is still too much capacity in the market, which leads automatically to a soft market for the buyers of reinsurance," he said.

"Rates are consistently too low for European industrial insurance and there is no sign of any change," said Bengt Kastengren, senior reinsurance adviser for Stockholm, Sweden-based Skandia International Insurance Corp.

And, following a week filled with meetings with reinsurers about European business, Mr. Kastengren claimed he "met nobody who was optimistic" that the European reinsurance market would turn soon.

Mr. Schmid agreed. "I don't anticipate a change. The market will keep soft as long as we have overcapacity, and I think there will be an increase in softening because the capacity will continue to increase."

There still is "too much competition in insurance and reinsurance" in Europe, pointed out Christian Baumguertel, a deputy member of the board of managers of Gerling-Konzern Allgemeine Versicherungs A.G. in Cologne, West Germany.

The competition for European and international reinsurance business is showing no sign of abating despite a bad year for property and business interruption losses in Europe, he noted.

For example, fires that destroyed a BASF A.G. chemical plant in Antwerp, Belgium, and a Bayer A.G. plant in Verdinger, West Germany, produced losses totaling hundreds of millions of dollars (*BI,* April 10).

Mr. Baumguertel noted that several accounts that traditionally produced few losses have produced massive losses this year.

Results from the West German property insurance market "will be disastrous for 1989," agreed Peter Hecker, a member of the executive board of Hannover Reinsurance A.G.-Eisen & Stahl Reinsurance A.G. in Hannover, West Germany. However, the European reinsurance market continues to soften, he noted.

Previous years with good loss records and increasing competition among European reinsurers and insurers as they battle for market share in preparation for the forthcoming single European Community market are keeping rates down and capacity abundant, executives attending the Baden-Baden meeting said.

However, some note that market conditions could change next year.

"Recent larger events, such as Hurricane Hugo, the San Francisco earthquake and the loss of the Phillips plant in Texas, give me the impression that rates in the non-proportional and retrocessional markets will rise," said Mr. Baumguertel.

"There is no question that we need higher rate levels in the West German market and hopefully events in London's retrocessional and non-proportional market will increase rates in Europe next year," he said, adding that there will be a "psychological impact" if rates are raised in London.

Several brokers and underwriters attending the Baden-Baden meeting agreed that higher rates and reduced capacity in the London retrocessional market eventually would affect the continental European market sometime next year.

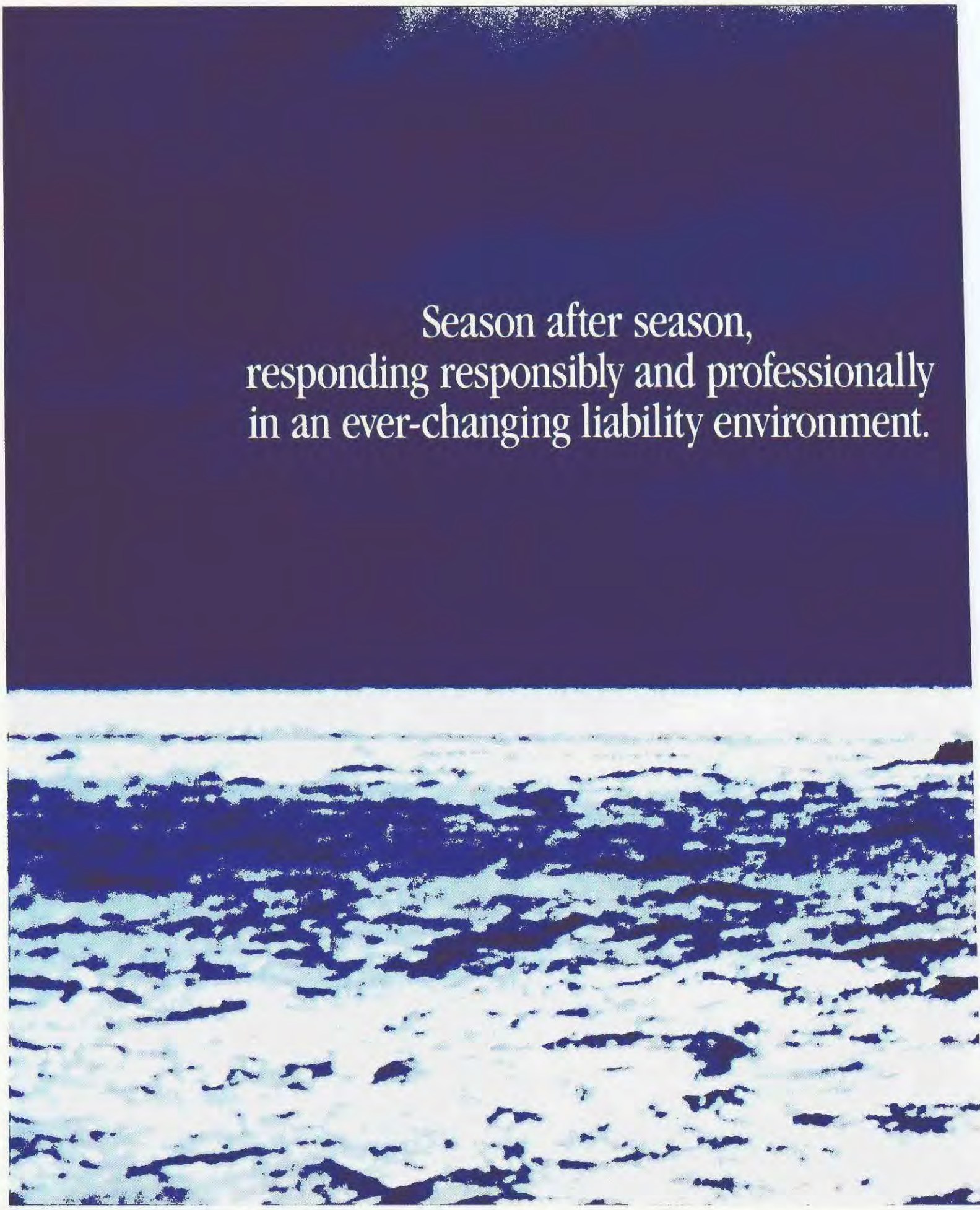
However, they pointed out that the London market will be forced to react further and faster because of London underwriters' greate exposure to U.S. catastrophe losse and their greater reliance on th retrocessional market.

Meanwhile, European reinsurers by taking a more relaxed an longer-term view, will be able t strengthen their position in th world's reinsurance market at th expense of London underwriters some brokers pointed out.

During a warm and sunny weel at Baden-Baden, "there was con stant talk about the U.S. losses," noted one London-based broke who specializes in placing reinsurance for European and Far Eastern insurers and reinsurers.

"A lot of people weren't in a position to be able to gauge how they would be affected by the losses

Continued on next page



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articularly the earthquake," he oted.

However, "there was a sense om the European reinsurers that ne large losses in the U.S. were ot having any effect on their ap- roach to renewals" for non-U.S. usiness, he added.

The "continental reinsurers seem o take a steadier view than the ondon market. They say they are n the market on a long-term basis nd do not have to make wild rat- ng adjustments. And, they are get- ing credit for it," said another ondon-based reinsurance broker /ho did not wish to be named.

There still is plenty of capacity n the European market for inter- ational proportional property re- nsurance, he noted.

"There is going to be ample ca- acity for indigenous international roperty business, and un- derwriters are prepared to con- inue on the same terms and condi- tions as last year," said Barry G. Mackay, chief executive and managing director of the non-marine reinsurance division of Alexander Howden Reinsurance Brokers Ltd. in London.

European reinsurers are "going to take a long-term view and, if necessary, be competitive" for international business, he said.

Predicted shortages of capacity in the London excess-of-loss reinsurance market (see story, page 68) will mean changes in the European market by the end of next year but, in the meantime, "the continentals will be delighted if capacity in London shrinks," noted a London reinsurance broker.

"The big continental reinsurers don't have to rely on retrocession (protection) so much and will not be squeezed (by increased reinsurance costs) to the same extent as London players," he said.

Many European reinsurers are just "waiting for London to shoot itself in the foot," he noted.

As a result, "the London market has got to look very carefully at itself. It always has been accused of overreacting," he warned.

However, London excess-of-loss reinsurers writing European business "are not overreacting this time," said Mr. Hecker of Hannover Re-Eisen & Stahl. While London underwriters attempted to hike excess-of-loss rates for West German reinsurers after the October 1987 windstorm that battered England and France, they currently are not trying to raise rates on West German businesses with good loss histories, he said.

When the London market "put the big squeeze on five years ago and began hiking rates, it saw a lot of business leaving as there were far more competitive markets in Europe," noted another broker, who added that since then the London market has been "driving rates down in order to win it back."

"My only concern is that they don't lose their nerve and hike rates again," thus losing more business, he added.

Reinsurers in Europe likely will take "a much wider view and some continentals may see this as an opportunity of gaining business at London's expense," said Mr. Mackay.

The European "professional reinsurers have very high retentions" and will not immediately be affected by rate hikes in the London retrocessional market, agreed Mr. Schmid of Gradmann & Holler.

"It would have to be a much bigger catastrophe to affect the (European) professional reinsurers," he stressed.

Meanwhile, European reinsurers still are holding back additional capacity for U.S. business until rates increase, brokers and underwriters agree.

Although European reinsurers are prepared to increase their portfolio of U.S. property reinsurance to broaden their spread of risk, most believe the market for U.S. risks is currently too soft to do so.

As a result, any rate increases demanded by London reinsurers for U.S. business likely will be echoed by European reinsurers, brokers and underwriters agreed.

"Most of the continental reinsurers follow leads in the London and U.S. market" for U.S. accounts, pointed out Richard Williams, senior vp of Allendale Insurance Co. in Johnston, R.I.

And most of the continental reinsurers Mr. Williams spoke to while attending the Baden-Baden gathering "felt that the U.S. market should level off and tighten up," he noted.

The European reinsurers are "expecting rates to go up" for U.S. business, and they "will support higher rates," he said.

And, while there is a sense in continental Europe that the London market is suffering from recent losses, "the continentals do not wish to engage in undercutting rates with London for U.S. business," Mr. Williams said.

"I think we are seeing a market that at least is going to stop reducing rates" for U.S. business, though it is difficult to tell if rates will actually rise, he said.

European reinsurers likely will hold rates steady for U.S. ceding companies with good loss records, agreed Patrick Martin, vp of French broker V.A.P. d'Entreves & Co. S.A. in Paris.

"French primary reinsurers do not want to increase rates because of Hurricane Hugo and the earthquake. For example, rates for a small Midwest mutual insurer not hit by the losses will be staying stable," he said.

However, "London still is the leading market for U.S. capacity, and there is not sufficient capacity in (continental) Europe for U.S. business," he said, explaining that London will lead the way in determining rates for U.S. business.

Reinsurers in the French and West German markets are waiting to see what happens in the London market and to hear more information about their own likely earthquake and hurricane losses, said Mr. Martin.

However, "the continental companies won't be cutting rates in front of London for U.S. business. They will be pleased to get the rates increased," he said, predicting "steep increases for big U.S. national companies with losses from Hurricane Hugo and the earthquake."

However, despite possible rate increases, Mr. Martin does not anticipate any decline in capacity for U.S. business in Europe.

"People still are interested in property business because they want short-tail, clean premium," he said.

Meanwhile, "everybody is worrying about the LMX spiral," Mr. Martin said, referring to the losses passed back and forth among London market excess-of-loss retrocessional underwriters. "Nobody writing retrocessional business really knows the extent of their losses," said Mr. Martin.

And, there likely will be a huge shrinkage in retrocessional capacity, particularly in the Lloyd's of London market, next year, he predicted.

Lloyd's underwriters likely "will change their manner of underwriting and retain more business," he said.

This renewal season "is going to be tough for brokers. A few years without any big losses in the U.S. and people were starting to sleep a little," Mr. Martin noted.

Now everyone is beginning to wake up. ■



Spotlight report

Arbitration flaws worth fixing: Experts

By STACY ADLER

While reinsurance arbitration has not proved to be the efficient dispute resolution mechanism it was designed to be, reinsurance experts say the system should be refined rather than scrapped because it is preferable to litigation.

Arbitration, which was created to provide a quicker, less-expensive way for reinsurers and cedants to resolve coverage disputes, has become a form of "mini-litigation," attorneys say.

It "is rapidly becoming at least as complicated—if not more complicated—than litigation," said Edmond Rondepierre, general counsel of General Reinsurance Corp. in Greenwich, Conn.

"Arbitration can take almost as long and cost almost as much as litigation," agreed David Thompson, president and chief executive officer of North American Reinsurance Corp. in New York.

Despite its faults, participants are not yet ready to scrap arbitration.

The process "has become skewed, but I refuse to accept the proposition that arbitration should be abandoned and the parties thrown back into the bottomless pit of litigation," said attorney Ronald A. Jacks of Mayer, Brown & Platt in Chicago, a veteran of more than 50 arbitrations.

"Although arbitrations have become mini-litigations, they are still more streamlined than litigation," said reinsurance attorney Eugene Wollan of Mound, Cotton & Wollan in New York. "On balance, arbitration is still better than litigation."

Most reinsurance arbitration panels consist of two arbitrators—who represent each side of the dispute—and one umpire. Decisions are legally binding and appeals to a court are allowed only in very limited circumstances, such as by proving bias.

The Brokers & Reinsurance Management Assn. is attempting to improve the current system by circulating a draft of a new reinsurance arbitration clause designed to solve many of the problems that hinder arbitration (see story, page 74). BRMA is a reinsurance brokers and underwriters trade association based in Olympia Fields, Ill.

Meanwhile, some reinsurers, including General Reinsurance and North American Reinsurance, are dropping mandatory arbitration clauses from new contracts.

And, some are turning to nonbinding mediation.

Reinsurance arbitration is often criticized for taking nearly as long as litigation, partially as reinsurance arbitration has become more adversarial, experts say.

"Lawyers have turned this into litigation by another name," explained Mr. Jacks. "It is not in their nature to resolve disputes in a non-adversarial manner."

As a result, attorneys acting as arbitrators often battle for months over umpire selection. For example, arbitrators representing six reinsurers and Pacific Reinsurance Management Corp., the defunct reinsurance pooling subsidiary of Los Angeles-based Mission Insurance Group Inc., negotiated more than three years before choosing an umpire.

When they cannot agree on an umpire, arbitrators often draw lots. This system has been heavily criticized as turning the arbitration process into a lottery in which each party has a 50-50 chance of getting an umpire favorable to its position.

BRMA's proposed clause provides that if arbitrators cannot pick an umpire within 30 days, each would have to submit three names to a federal district judge, who would pick the umpire.

"This is the most significant change of the new clause," said William J. Gilmartin, president of BRMA. "This will greatly speed up the arbitration process and stop arbitrators from spending time jockeying for an umpire."

This provision is very similar to a section of the Federal Arbitration Act of 1947, which has been interpreted to allow the federal court with jurisdiction over the arbitration to select the umpire.

Even parties amenable to selecting an umpire are slowed by the shortage of people qualified to preside over reinsurance arbitrations, according to attorneys. Many reinsurance arbitration clauses provide that only active insurance or reinsurance executives can act as arbitrators. Often active officers do not have the time to be arbitrators.

However, other clauses allow arbitrators to be retired insurance or reinsurance executives.

"Demand for qualified arbitrators clearly exceeds the supply," said Mr. Gilmartin.

BRMA is suggesting that all reinsurance arbitration clauses permit retired executives of insurance and reinsurance companies to be arbitrators, potentially more than doubling the pool of qualified arbitrators, according to Mr. Gilmartin.

Another weakness in arbitration clauses is the lack of concrete procedures—such as deadlines—for the negotiations, experts say.

Without firm deadlines, an arbitration can drag on for years, attorneys claim, citing arbitration between insolvent Mission and its reinsurers now entering its fifth year.

BRMA's revised clause does not address scheduling. "This should be left to the panel," said Mr. Gilmartin.

However, Mr. Thompson of North American Re said, "arbitration has become cumbersome because there is no common code of procedures." He faulted arbitration clauses for not being specific enough.

Because of the many problems plaguing arbitration, some reinsurers omit mandatory reinsurance arbitration clauses from new contracts.

Princeton, N.J.-based American Re-Insurance Co. has not used an arbitration clause on a regular basis for about six years, said Robert M. Hall, general counsel and secretary.

However, if a cedant requests an arbitration clause, the reinsurer will provide it, he said.

"Arbitration is not being used as a form a mediation and negotiation, but rather it has become an adversarial minitrial," said Mr. Hall.

"Arbitration has become corrupted so that it has all the trappings of litigation," agreed Mr. Rondepierre of General Reinsurance. "The benefits of arbitration are being taken away."

Instead of mandatory arbitration clauses, both companies are offering non-binding mediation clauses that call for a mediator to work with the parties to negotiate a settlement.

"If the parties can't solve their problem through mediation, they might as well take it to court," said Richard C. Waterman, president of Northwest Reinsurance Services Inc., a Minneapolis-based reinsurance consulting firm.

Unless arbitration can be reformed so that it is less adversarial, mediation is a good alternative, said Mr. Waterman. ■



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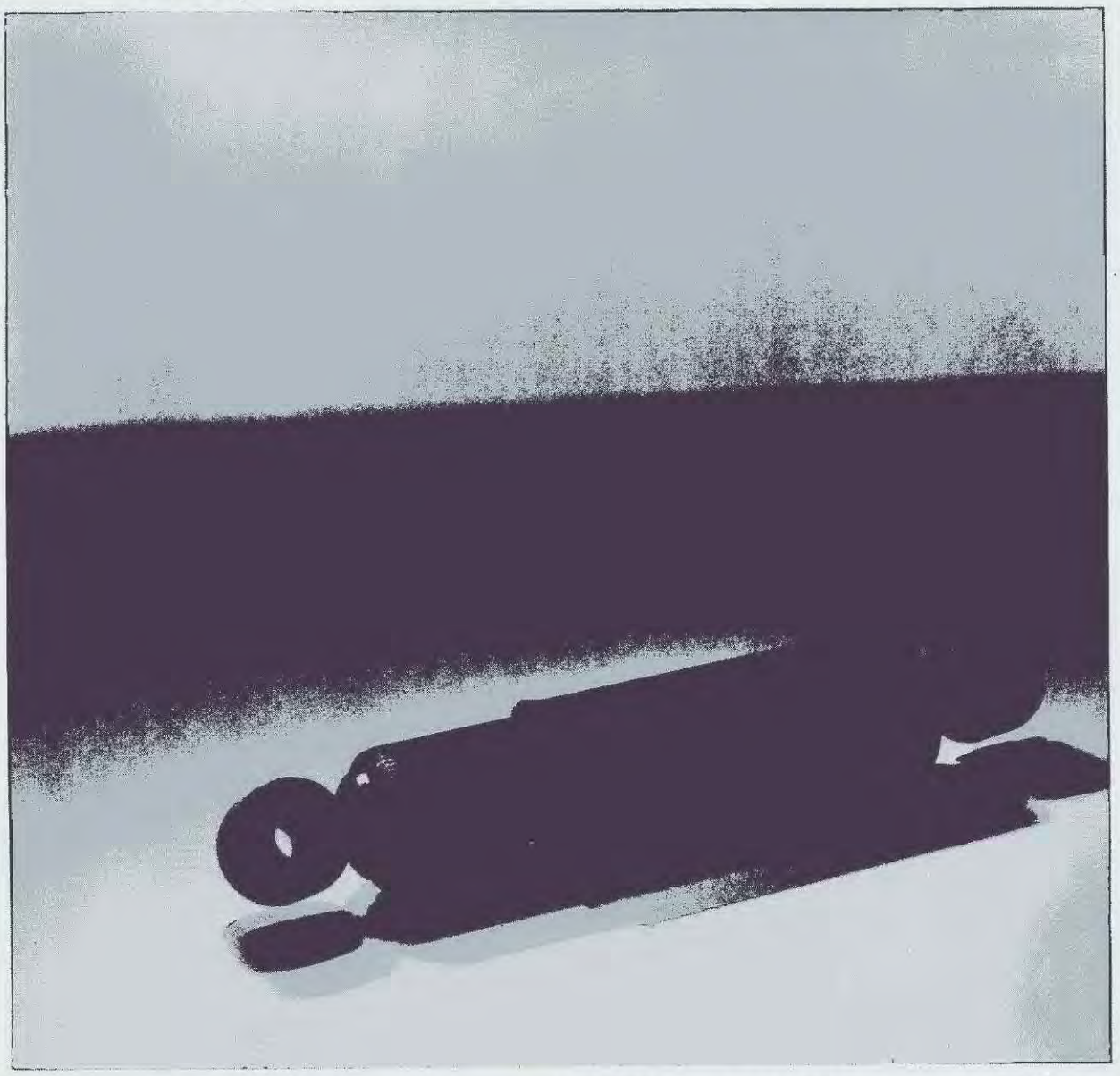
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Spotlight report

Arbitration language modified

The Brokers & Reinsurance Markets Assn. is promulgating a revised arbitration clause for reinsurance contracts.

The revised clause reads:

1. "As a condition precedent to any right of action hereunder, any dispute arising out of the interpretation, performance or breach of this Agreement, including the formation or validity thereof, shall be submitted for decision to a panel of three arbitrators. Notice requesting arbitration will be in writing by Certified Mail or Registered Mail, return receipt requested.

2. One arbitrator shall be chosen by each party and the two arbitrators shall, before instituting the hearing, choose an impartial third arbitrator who shall preside at the hearing. If either party fails to appoint its arbitrator within 30 days after being requested to do so by the other party, the latter, after 10 days' notice by registered mail of its intention to do so, may appoint the second arbitrator.

3. If the two arbitrators are unable to agree upon the third arbitrator within 30 days of their appointment, the third arbitrator shall be selected from a list of six individuals, three named by each arbitrator, by a judge of the Federal District Court having jurisdiction over the geographical area in which the arbitration is to take place, or if the Federal Court declines to act, the State Court having general jurisdiction in such area.

4. All arbitrators shall be active or former, disinterested: executive officers of insurance or reinsurance companies or Underwriters at Lloyd's, London.

5. Within 30 days after notice of appointment of all arbitrators, the panel shall meet and determine timely periods for briefs, discovery procedures and schedules for hearings.

6. The panel shall be relieved of all judicial formality and shall not be bound by the strict rules of procedure and evidence. Unless the panel agrees otherwise, the arbitrations shall take place in (. . .), but the venue may be changed from time to time when deemed by the panel to be in the best interest of the arbitration proceeding. Insofar as the arbitration panel looks to substantive law, it shall consider the law of the State of (. . .). The decision of any two arbitrators when rendered in writing shall be final and binding. The panel is empowered to grant interim relief as it may deem appropriate.

7. The panel shall interpret this Agreement as an honorable engagement rather than as merely a legal obligation and shall make its decision considering the custom and practice of the applicable insurance and reinsurance business as promptly as possible following the termination of the hearings. Judgment upon the award may be entered in any Court having jurisdiction thereof.

8. Each party shall bear the expense of its own arbitrator and shall jointly and equally bear with the other party the cost of the third arbitrator. The remaining costs of the arbitration shall be allocated by the panel. The panel may, at its discretion, award such further costs and expenses as it considers appropriate, including, but not limited to, attorney fees, to the extent permitted by law."

Suggestions should be sent to W.J. Gilmartin, President, BRMA, P.O. Box 317, Olympia Fields, Ill. 60461-0317. ■

Rising stakes erode relationships

By STACY ADLER

The days of settling major reinsurance disputes with a handshake are gone, say attorneys specializing in the cases.

Today in disputes between reinsurers and cedants, one or both parties may demand mandatory arbitration or even file suit.

"Relationships once based on the good old boy network are being eroded," said Lawrence Zelle of Zelle & Larson in Minneapolis.

"The relationship between reinsurers and cedants has become a more traditional arms-length relationship," said reinsurance attorney Eugene Wollan of Mound, Cotton & Wollan in New York.

The increase in disputes between reinsurers and cedants "is a visible sign that the relationship is deteriorating," he added.

"Today the parties are more willing to arbitrate or even litigate their disputes," said Mr. Wollan.

The reinsurer-cedant relationship began to break down in the soft market of the early 1980s, when inexperienced players entered what had been a tight market dominated by a close-knit group of reinsurers, experts say.

In addition, long-tail liability claims from Agent Orange and asbestos began to plague reinsurers. Disputes had been handled quickly and discreetly, but new claims involved millions of dollars and could not be easily resolved.

"The reality is that these large amounts of money are not going to change hands unless the parties have" tested each other, said Ronald A. Jacks of Mayer, Brown & Platt in Chicago.

With so much at stake, "economics are overriding business relationships," said Mr. Zelle.

Reinsurers are also seeking to rescind contracts more frequently than ever, said Mr. Wollan.

For example, surety bond reinsurers of insolvent Union Indemnity Insurance Co. successfully rescinded their contracts (*BI*, Oct. 30).

In addition, disputes often arise involving very old contracts and the individuals who drafted the contracts are no longer available to testify to intent, said Edmond Rondepierre, general counsel of General Reinsurance Corp., Greenwich, Conn.

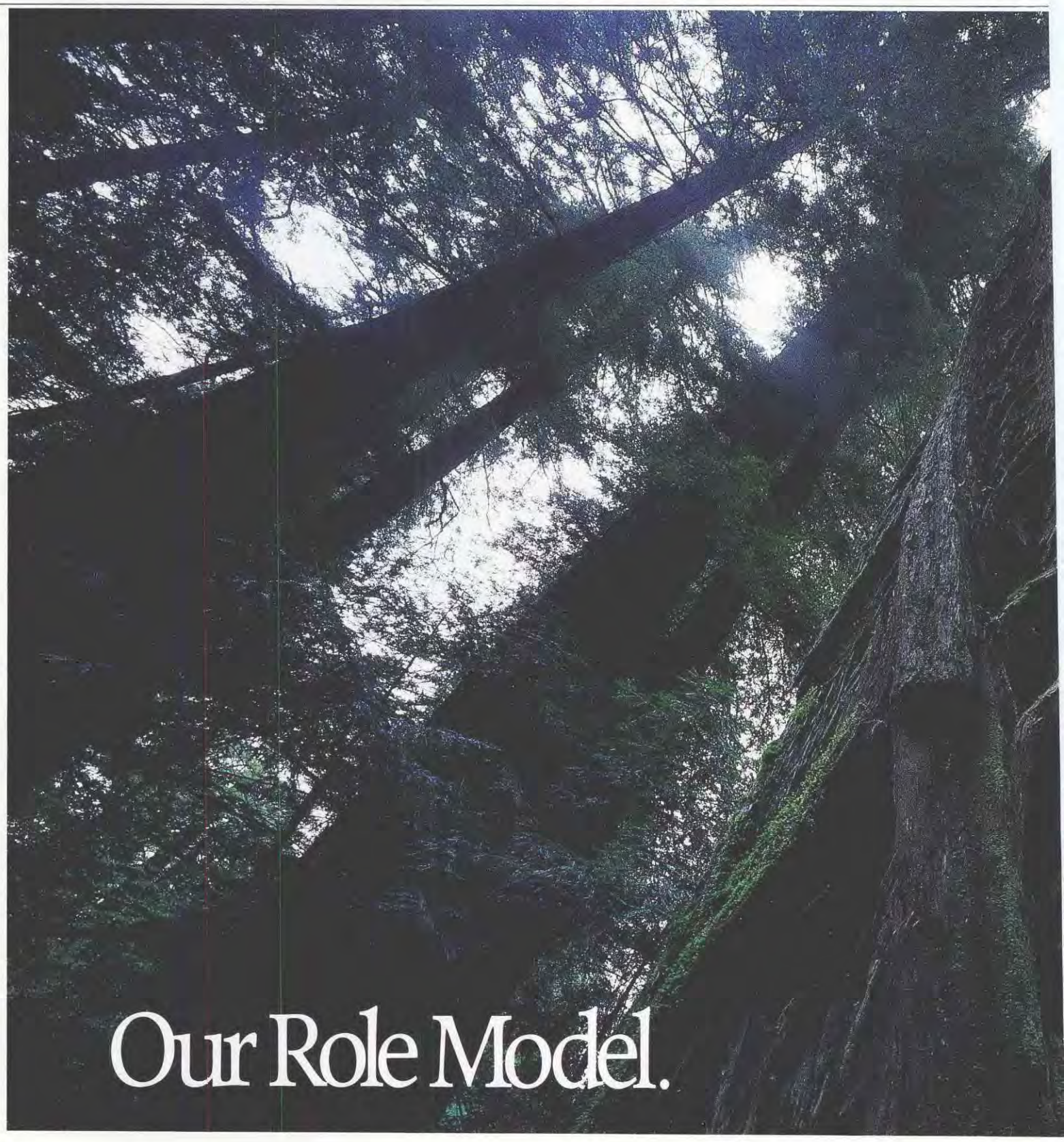
Or, the two companies may no longer be doing business and thus have less of an incentive to conclude arbitrations amicably, he said.

But "real pros can still sit down in good faith and resolve significant disputes in a straightforward, businessman's way," said Mr. Jacks.

American Re-Insurance Co. of New York, for instance, is able to negotiate settlements 99% of the time, says General Counsel and Secretary Robert M. Hall. "Very seldom do we get into a dispute that gets into arbitration or litigation."

"Reinsurers and their clients understand that it is typically a long-term relationship, and both will try to find solutions," said David Thompson of North American Reinsurance Co. in New York.

"I don't sense that our relationships with clients are different than they have been," he said.



Let's face it.

A good reinsurance company isn't measured so much by its willingness to assume risk as its ability to absorb loss. Something that could become more rare in the current forest of reinsurers.

So, before you choose a reinsurer, look beyond today's tempting terms and conditions. Look at strength. Stability. Experience. And ERC.

Security affirmed key for reinsurers

By DOUGLAS McLEOD

GREENWICH, Conn.—The financial security of a reinsurer is the most important element of reinsurance relationships, according to a survey of treaty reinsurance intermediaries and facultative reinsurance buyers.

Security—of paramount concern in the wake of reinsurer insolvencies and the growing problem of unrecoverable reinsurance—was one of several elements of the reinsurance relationships weighed by brokers and cedants in the survey by NAC Reinsurance Corp. of Greenwich, Conn.

The survey also investigated buying habits among the 122 responding treaty intermediaries and 142 facultative reinsurance buyers.

Nineteen percent of intermediaries contacted and 25% of facultative reinsurance buyers contacted by the company responded.

All intermediaries and 96% of facultative insurance buyers ranked reinsurer financial security "very important."

"That was not a surprise," said Ronald Bornhuetter, NAC Re president and chief executive officer.

"Security is always first, and with the hurricanes and earthquake it will be even more important," said Mr. Bornhuetter.

Both groups also gave high ratings to reinsurance knowledge and expertise and long-term commitment in judging reinsurance relationships.

Expertise was cited as important by 94% of the facultative buyers and 87% of the treaty reinsurance brokers, while long-term commitment was cited by 89% of facultative buyers and 87% of brokers.

While agreeing on several issues, the two groups varied in the importance they attached to other elements of reinsurance relationships.

Ninety-six percent of facultative buyers—and only 82% of treaty intermediaries—rated response time on submissions as important.

Consistency of quotes and declinations was ranked important by 91% of facultative buyers. Only 76% of intermediaries found it important.

Consistency and timeliness may be more important for facultative buyers than intermediaries because the facultative business involves a relatively high volume of submissions that must be processed quickly, the survey suggested.

Other findings of the NAC Re survey included:

- Price and terms, considered very important by 93% of facultative buyers but only 84% of treaty intermediaries.
- Timeliness of claim payments, ranked very important by 88% of the intermediaries but only 62% of the facultative buyers.

Reinsurance brokers are more likely to be involved in claims handling than the primary underwriters that responded to the survey as facultative reinsurance buyers, according to the NAC Re survey.

- Flexibility in structuring programs, judged very important by 87% of the treaty intermediaries but only 67% of the facultative reinsurance buyers.

Treaty business, involving numerous reinsurers on a given program, often entails more negotiation than most facultative business, the survey suggests. Treaty reinsurance also involves fewer submissions than facultative risks, it noted.

- Limits and capacity, seen as very important by 77% of the facultative buyers but only 52% of the intermediaries.

An individual reinsurer's capacity may be less important to treaty reinsurance brokers because capacity needs can be filled by bringing additional participants onto the treaty, the survey noted.

- Personal relationships with the reinsurer's staff, cited as very important by 71% of facultative buyers and 63% of treaty intermediaries.

While respondents described personal relationships as important, they judged them to be less important than other "performance factors," according to the survey.

- Most surprising, Mr. Bornhuetter said, was the lack of importance given to a reinsurer's proximity to clients: Only 9% of responding facultative buyers cited it as important.

Several facultative reinsurers—including NAC Re—have begun opening branch offices throughout the country. "That made me think a little bit" but NAC Re will not reconsider its branch office plans, he said.

'Security is always first' with intermediaries and buyers, says NAC Re's president.

In addition to asking treaty reinsurance brokers and facultative buyers to rank the key elements of a reinsurance relationship, the survey presented the respondents with lists of reinsurers and asked with how many of those companies the respondents do business.

Given a list of 21 leading broker market treaty reinsurers, the vast majority of treaty intermediaries reported that they do business with more than 11.

Among all treaty broker respondents, 40.5% reported doing business with more than 15; 41.3% reported doing business with 11-15; 14.9% reported doing business with between six and 10; and the remainder said they did business with between one and five companies.

Facultative buyers, meanwhile, were given a list of 12 leading direct market facultative reinsurers. One-fifth of respondents reported doing business with between nine and 12; 17.2% reported doing business with seven or eight; 30.3% reported doing business with five or six; 22.2% reported doing business with three or four; and 10.1% reported doing business with only one or two.

While the vast majority of treaty brokers use 11 or more of the leading treaty reinsurance markets, the majority of facultative buyers use six or fewer facultative reinsurers, the survey concluded.

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Free copies of the survey are available by contract Marc D. Morris at NAC Re Corp., P.O. Box 2568, Greenwich, Conn. 06836-2568; 203-622-5200.



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New insolvencies possible in '90s, analyst predicts

By MICHAEL SCHACHNER

NEW YORK—Additional insolvencies are likely if some insurers and reinsurers continue the practices of underpricing, underreserving and bad management into the 1990s, predicts an insurer solvency expert.

So far this year, 20 property/casualty insurers have become insolvent, said Steven J. Dreyer, vp of Insurance Solvency International of America Inc., a Hartford, Conn.-based insurer and reinsurer solvency and security rating service.

And, if insurers do not make a greater effort to properly reserve for losses and protect their surplus, the insurance industry will likely witness scores of insolvencies in the '90s, Mr. Dreyer said during a session on insolvencies at the 14th Annual Research Seminar.

The seminar, sponsored jointly by the Insurance Information Institute and the Reinsurance Assn. of America, was held last month in New York.

However, the forecast for insurers and reinsurers is not all gloomy, according to Mr. Dreyer. The major catastrophes of 1989—Hurricane Hugo and the California earthquake —may be the psychological driving force behind a recovery in property/casualty insurance and reinsurance rates, he suggested.

Mr. Dreyer said industry experts widely believe that today's insurer and reinsurer insolvencies are the result of poor pricing during the extended soft market of the early 1980s. And even though today's pricing may be viewed as inadequate, the market is generally not considered as soft now as in the early 1980s, he said.

But, to be certain rates will rebound from today's lows, Mr. Dreyer said the entire insurance industry will have to accept three basic facts:

- Insurers and reinsurers have not fully recovered from years of underpricing, underreserving and purchasing bad reinsurance.
- Insurers must pay claims stemming from the recent disasters before they benefit from future rate increases.
- Higher rates are no guarantee that the frequency of insurer insolvencies will lessen.

Regardless of whether rates rise, structural changes in the insurance industry are imminent, Mr. Dreyer said.

"Specifically, we believe the 1990s will bring a substantial reduction in the number of small insurers and reinsurers worldwide, through liquidation or merger," Mr. Dreyer said.

"Smaller insurers which are unfortunate enough to operate in a single state which mandates rate rollbacks may not survive," he predicted.

Primary insurers' premium income —which had been eroded by competition from captives, self-insurance and risk retention groups—will be further threatened as aggressive consumer advocates and public officials make it harder for insurers to charge premiums sufficient to build reserves, he added.

He also noted that the reinsurance market faces its own challenges.

"Primary companies will underwrite with more care," making reinsurers less susceptible to primary company pricing errors, he predicted. "But the resolve of reinsurers will be tested if the soft market continues."

Mr. Dreyer said that for the 12-month period ended June 30, reinsurance premium volume fell 4%, a figure he believes shows that reinsurers are fighting the urge to cut rates.

However, "it is apparent that th temptation to cut prices at the re insurance level is increasing. Will th lure of immediate cash overwheln the good consciences of America' reinsurers?" he asked.

Mr. Dreyer also predicted that reg ulation in the 1990s will be steppe up to ensure that reinsurers hav adequate surplus. He believes that i ceding companies do not set mini mum policyholder surplus require ments for reinsurers, state insuranc regulators will do it for them.

"When reinsurance is purchased security now weighs more heavily than in the past. Minimum size requirements are already pervasive among U.S. cedants, who typically require a reinsurer to have $50 million in surplus for property and $100 million for liability," according to Mr. Dreyer, who added that the London benchmark for surplus is now at around 25 million pounds ($39.5 million at current exchange rates), compared with no more than 5 million pounds ($7.25 million at appropriate exchange rates) in 1983.

Changes in reinsurance buying practices, changes in regulation and changes in the financial environment for reinsurers all suggest that a shakeout lies ahead for the reinsurance market, particularly outside the United States, where companies tend to be smaller, suggested Mr. Dreyer.

Much of the U.S. reinsurance market is underreserved, especially if poorly priced business from years past comes back to roost, said Mr. Dreyer.

A recent ISI study of loss-reserve deficiencies among 57 prominent U.S. reinsurers showed that more than 50% of the companies were technically insolvent in 1984 and nearly 33% were insolvent in 1985, said Mr. Dreyer.

However, he pointed out that by year-end 1986, the hard market had virtually rescued reinsurers by allowing them to atone for their overly optimistic reserving practices.

"But can the reinsurance industry afford to continually low-ball its reserves and bring them up to snuff in succeeding hard market years?" asked Mr. Dreyer.

The data from the study suggest that reinsurers' loss reserves originally were set far lower than for primary insurers, which he pointed out do not have an exemplary track record of loss reserving accuracy.

While Mr. Dreyer noted that ceding companies are looking for reinsurers with larger surpluses under the concept that "bigger is better," he noted that adequate reserves and quick claims payment will be more important indicators of strength down the line than surplus.

Mr. Dreyer predicted that new accounting rules promulgated by the National Assn. of Insurance Commissioners, which will lower ceding companies' surplus if they use slow-paying reinsurers, will prompt insurers to seek out companies that pay on time.

An NAIC amendment to Schedule F disallows at least 20% of the credit for unpaid reinsurance balances owed by admitted reinsurers for more than 90 days after the contract due date (*BI*, Oct. 30; Dec. 26, 1988).

"Quality is approximated by the claims-paying record of the reinsurers. This is a logical approach, but by no means fool-proof. A ce-

Continued on next page

Demand for reinsurance is expected to increase

By MICHAEL SCHACHNER

NEW YORK—Reinsurers can expect better times ahead, stock analysts and reinsurer executives say.

Ceding companies are expected to reduce their retentions in the wake of recent catastrophes, which will generate new business to reinsurers, observers say.

And, ceding companies' confidence in reinsurers will grow as expected new regulations designed to strengthen reinsurers' security are enacted, observers predicted at the 4th Annual Research Seminar sponsored last month in New York by the Insurance Information Institute and the Reinsurance Assn. of America.

The combination of Hurricane Hugo and the California earthquake in less than a month could lead to a needed boost in reinsurance premiums if many insurers seek lower retentions upon renewal, said Joanne S. Morrissey, president of Firemark Consultants Inc., a stock analyst and investment banking firm in New York.

High retentions by primary insurers, "coupled with catastrophic losses the industry is no longer accustomed to dealing with will precipitate a backlash of companies needing more reinsurance," she explained.

After "a few more catastrophes," such as another major California earthquake, "retentions will come down and reinsurance companies will be able to pick and choose their business by 1991 at the latest, paving the way for explosive growth in the reinsurance sector," she said.

Martin Jackson, president of U.S. International Reinsurance Co., a unit of The Home Insurance Co. in New York, agreed. He said that most of the losses from recent catastrophes will be shouldered by primary insurers, which should push them to buy more reinsurance.

"The opportunity coming out of the recent events bodes well for the volume of reinsurance in the U.S.," said Mr. Jackson.

Bard E. Bunaes, chairman and chief executive officer of New York-based Constitution Reinsurance Corp., a unit of Crum & Forster Inc., agreed that primary insurers will reduce retentions and seek more reinsurance.

"But will reinsurers be dumb enough to chase premiums or write it at a correct price?" Mr. Bunaes wondered.

Ms. Morrissey also noted that increased solvency and surplus regulations governing reinsurers will be "good for the industry and have a positive impact on the financial outlook, since there will be more monetary strength backing the market."

"If reinsurance regulation occurs, ease of entry may be restricted as higher capital requirements are instituted," Ms. Morrissey explained.

And, ceding companies will have more confidence in their reinsurers, she said.

However, it will take the next year or so for primary insurers to realize that they need more reinsurance, she acknowledged.

"But for those insurers with access to capital, the '90s will be a period of growth and prosperity, more so for the reinsurers than for the primary sector. For those small companies with limited resources, it may be a time of standing outside the restaurant, peering through the window and watching the reinsurance banquet to which they could not afford a ticket," Ms. Morrissey said.

Ms. Morrissey also pointed out that the reinsurance industry will emerge virtually unscathed from consumer movements that led to the passage of Proposition 103 in California.

For example, even if other states limit insurers to an 11.2% rate of return, which was proposed earlier this year by California Insurance Commissioner Roxani Gillespie in an effort to implement provisions of Proposition 103, the cap on profits will not apply to reinsurers because reinsurance rates are unregulated, Ms. Morrissey said.

William D. Warren, president and chairman of National Reinsurance Corp. of Stamford, Conn. moderated the session. ■

Solvency issues

Continued from previous page

dant which is knee-deep in bad reinsurance will be beyond help by the time he starts writing off uncollectibles," Mr. Dreyer said.

Also participating in the discussion were C. Richard Peterson, executive vp of Fred S. James & Co. Inc. in New York and president of the National Assn. of Insurance Brokers, and LeRoy Simon, executive consultant with Coopers & Lybrand in New York.

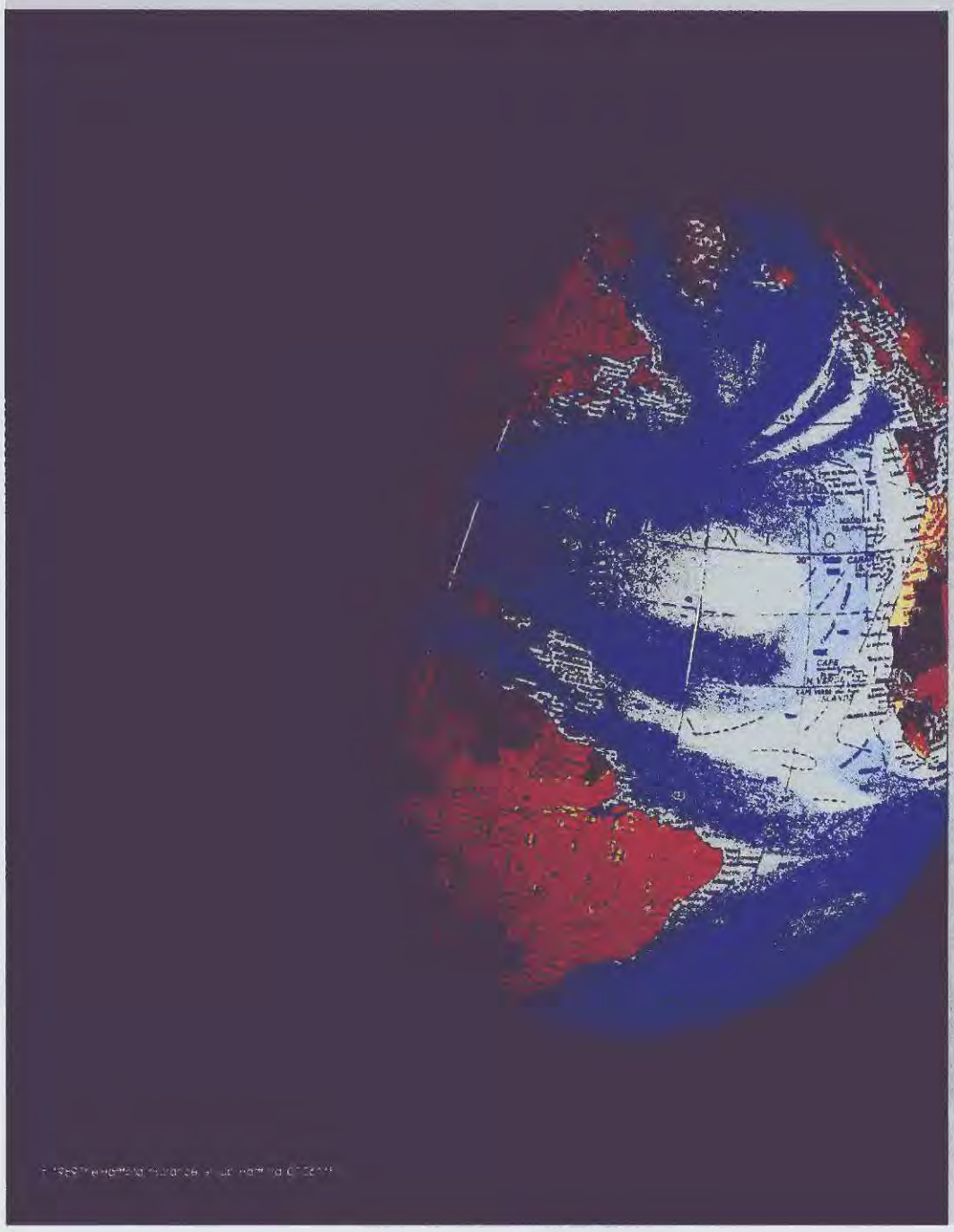
N. David Thompson, president and chief executive officer of North American Reinsurance Corp. in New York, moderated the session. ■

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Insider trading

Business Insurance this week introduces a new column, Insider Trading. The feature, prepared by Invest/Net Group Inc. of Miami from reports filed with the Securities and Exchange Commission, tracks stock sales and purchases by insurance industry directors and officers.

Aetna Life & Casualty Co.: Philip R. Roberts, vp, exercised an option for 2,200 shares of common stock at $33.75 per share on Sept. 1 and now directly holds 2,200 shares.

Michael E. Mateja, vp, sold 1,000 shares of common stock at $65.75 per share on Aug. 1 and now indirectly and directly holds 20,132 shares.

The stock was trading at $59.88 per share on Oct. 30.

Alexander & Alexander Services Inc.: Frank R. Wieczynski, officer, exercised an option for 121 shares of common stock at $31.13 per share on Oct. 9 and now directly holds 17,959 shares.

Ronald J. Roessler, vp, exercised an option for 756 shares of common stock between $21.38 and $17.75 cents per share on Oct. 4 and now directly holds 2,056 shares.

John A. Bogardus, director, disposed of by gift 600 shares of common stock at an unreported price per share from Aug. 4 to Aug. 26 and now indirectly and directly holds 98,970 shares.

The stock was trading at $31.75 per share on Oct. 30.

American International Group Inc.: Debra E. Klugman, officer, exercised an option for 100 shares of common stock at $42.44 per share on Oct. 12 and now directly holds 600 shares.

Lawrence O. Johnson, officer, indirectly sold 500 shares of common stock at $94.13 per share on Sept. 26 and now does not indirectly owns shares in the company.

Frank Peter Fillips, vp, exercised an option for 672 shares of common stock at $16 per share on Aug. 18 and now directly holds 3,153 shares.

The stock was trading at $102.75 per share on Oct. 30.

Chubb Corp.: Glenn A. Montgomery, vp, sold 200 shares of common stock at $78 per share on Sept. 18 and now directly holds 100 shares.

Charles E. Teeple, vp, disposed of by gift 140 shares of common stock at $26.46 per share on Sept. 11 and now directly holds 1,522 shares.

The stock was trading at $87.75 per share on Oct. 30.

CIGNA Corp.: Michael J. Monroe, vp, exercised an option for 986 shares of common stock at an unreported price per share on Aug. 1 and now directly holds 1,385 shares.

The stock was trading at $63.50 per share on Oct. 30.

Continental Corp.: William E. Gleason, vp, sold 945 shares of common stock at $37.25 per share on Sept. 5 and no longer owns direct shares on the company.

The stock was trading at $32.88 per share on Oct. 30.

Arthur J. Gallagher & Co. Inc.: Dean H. Goosen, officer, exercised an option for 1,600 shares of common stock at $16.25 per share on Sept. 27 and now indirectly and directly holds 6,800 shares.

The stock was trading at $23.50 per share on Oct. 30.

The Hartford Steam Boiler Inspection & Insurance Co.: Robert W. Trainer, officer, exercised an option for 2,400 shares of common stock at $17.50 per share on Sept. 22 and now indirectly and directly holds 8,702 shares.

Kenneth J. Kelley, officer, exercised an option for 6,200 shares of common stock at $27.50 per share on Aug. 16 and now directly holds 16,567 shares.

Donald M. Carlton, director, sold 1,000 shares of common stock at $54.25 per share on Aug. 24 and now indirectly and directly holds 11,807 shares.

The stock was trading at $53 per share on Oct. 30.

Hilb, Rogal & Hamilton Co.: Alvin Rogal, officer and director, sold 22,320 shares of common stock at between $19 and $19.25 per share on Sept. 13 and now directly holds 223,200 shares.

Robert S. Ukrop, director, purchased 1,000 shares of common stock at $18.25 per share on Aug. 14. Mr. Ukrop indirectly purchased 800 shares of common stock at $18.25 per share the same day and now directly and indirectly holds 8,120 shares.

The stock was trading at $21.25 per share on Oct. 30.

Lincoln National Corp.: Edwin J. Goss, director, exercised an option for 4,299 shares of common stock between $32.25 and $39.94 per share on Aug. 31 and now indirectly and directly holds 17,558 shares.

Jack D. Hunter, vp, exercised an option for 5,000 shares of common stock at $38.50 per share on Aug. 31 and now indirectly and directly holds 11,999 shares.

Michael Marchese, vp, exercised an option for 1,500 shares of common stock at $38.50 per share on Aug. 31 and now indirectly and directly holds 3,971 shares.

The stock was trading at $56.63 per share on Oct. 30.

Marsh & McLennan Cos. Inc.: Edward O'Neill Cole, vp, disposed of by gift 200 shares of common stock at an unreported price on Sept. 19 and now indirectly and directly holds 17,556 shares.

Michael A. Waskom, vp, sold 100 shares of common stock at $69.75 per share on Aug. 16 and now indirectly and directly holds 806 shares.

The stock was trading at $80.75 per share on Oct. 30.

NAC Re Corp.: Donald Kramer, chairman, disposed of by gift 8,000 shares of common stock at an unreported price on Sept. 5 and now indirectly and directly holds 476,938 shares.

Ronald L. Borrhuetter, president, purchased 975 shares of common stock at $32 per share from Aug. 11 to Aug. 17 and now directly holds 72,000 shares.

The stock was trading at $39 per share on Oct. 30.

Ohio Casualty Corp.: Barry S. Porter, officer, exercised an option for 753 shares of common stock at $35.88 per share on Aug. 17 and now directly holds 6,669 shares.

The stock was trading at $51.25 per share on Oct. 30.

Old Republic International Corp.: Clarence J. McConville, director, sold 5,000 shares of common stock at $27.50 per share on Oct. and now directly holds 10,750 shares.

Peter Lardner, director, indirectly disposed of by gift 374 shares of common stock at an unreported price per share on Aug. 28 and now indirectly owns 32,087 shares.

The stock was trading at $27.5 per share on Oct. 30.

RLI Corp.: RLI ESOP, beneficial owner, purchased 1,100 shares of common stock at $8.57 per share on Aug. 25 and now directly holds 1,594,530 shares.

The stock was trading at $7.88 per share on Oct. 30.

SAFECO Corp.: Roland M. Trafton, director, indirectly disposed of by gift 575 shares of common stock at an unreported price per share on

Continued on next page



ntinued from previous page

pt. 5 and now directly holds 37,704 ares. The stock was trading at 4.13 per share on Oct. 30.

Travelers Corp.: Joseph T. ophy, vp, sold 14,731 shares of mmon stock at $42.88 per share Aug. 29 and now indirectly and rectly holds 16,918 shares.

The stock was trading at $40.25 r share on Oct. 30.

USF&G Corp.: Edward D. Bangs, , exercised an option for 748 shares common stock at $27.42 per share Aug. 18 and now directly holds 3,499 shares.

James V. Harrington, vp, purased 1,298 shares of common stock $21.19 per share on Aug. 14 and ow directly holds 6,560 shares.

Cecil E. Estes, vp, sold 200 shares f common stock at $32.63 per share n Aug. 10 and now directly holds 41 shares.

The stock was trading at $30.88 er share on Oct. 30. ■

Indiana Insurance Co. names president

Comings & goings: industry

H. Stanley Newman was appointed president and chief operating officer of Indiana Insurance Co. of Indianapolis, a unit of Nationale-Nederlanden U.S. Property & Casualty Holdings Inc.

Mr. Newman also will serve as president of two subsidiaries—Consolidated Insurance Co. and Cooling-Grumme-Mumford Co. Inc.—and as executive vp of Nationale Nederlanden North America Property & Casualty Corp. of Keene, N.H.

Also at Indiana Insurance Co., **Joseph H. Yeager** named senior vp-underwriting. He had been senior vp-administration.

In other insurer changes:

Lon A. Smith named president and chief operating officer of Hartford Life Insurance Cos., a unit of Hartford Insurance Group in Hartford, Conn. He succeeds **Robert S. Lackey**, who resigned last August.

Robert V. DeLiberato elected vp and actuary-specialty pricing at Reliance Insurance Co. in Philadelphia. He previously was assistant vp-specialty pricing.

Curt L. Fuhrmann named president of Washington National Insurance Co.'s health insurance division. He previously was president of Pyramid Life Insurance Co. of Mission, Kan.

Stephen J. Zabilski named vp-corporate planning at Transamerica Insurance Co. of Woodland Hills, Calif. He had been vp with a Transamerica financial systems subsidiary. Also, **Jeffrey J. Cooper** named vp and director of ceded reinsurance. Mr. Cooper previously was with Sullivan Payne Co.

Frank J. Greaney named executive vp-provider and client services for Blue Cross & Blue Shield of New Hampshire. He had been president of the American Health Network for American General Insurance Group Insurance Co. of Texas.

Malcolm S. Todt named vp and senior officer of municipal equipment leasing for Municipal Bond Investors Assurance Corp. in Armonk, N.Y. He had been vp and treasurer of Insilco Corp.

Dave Pollock named executive vp-corporate development for Des Moines, Iowa-based Central Life Assurance Co. He had been head of group insurance operations in Madison, Wis. **Fred Moore** named senior vp-group insurance for Central Life. He previously was head of individual insurance products.

Mark F. McGreevey named vp and regional manager in the Atlanta office of Arkwright Mutual Insurance Co. He had been a regional manager at the Hobbs Group, a brokerage subsidiary of Arkwright.

Nationwide Mutual Insurance Co. of Columbus, Ohio, announced these promotions to senior vp: **Enus A. Burigana**, international insurance and specialized lines; **Galen R. Barnes**, chief actuary-property and casualty insurance services; **William P. DeMeno** and **Jack F. Olson**, business operations; **Bernard E. Guinan**, field operations officer for the southern zone; **J. Richard Harmon**, field operations officer for the northern zone; and **Earl F. Peitz Jr.**, western operations.

Also at Nationwide, **Marvin Johnson** was named vp of commercial loss reserves.

Reinsurance

David Kelley, Christopher Pedlar and **Robert Bima** joined Aon Reinsurance Agency Inc. Mr. Kelley was named executive vp of West Coast operations and will head Aon Reinsurance Agency's San Francisco office when it opens. Messrs. Messrs. Pedlar and Bima joined Aon as vps. The three previously were with Guy Carpenter & Co. of San Francisco Inc.

Agents/brokers

Brian L. Marx named vp and director of casualty risk management for the San Francisco office of Frank B. Hall & Co. of California. He previously was vp and casualty account executive for Johnson & Higgins in New York.

Bill Dolan appointed regional manager of Jardine Emett & Chandler Inc. for the group including New York, Schenectady, N.Y., Philadelphia and Boston. Mr. Dolan, a senior vp, will be based in New York effective Dec. 1.

Also, **Neil G. Huson** joined Jardine Emett & Chandler Oregon Inc. as senior vp responsible for producing and servicing major accounts.

Alexander & Alexander Services Inc. announced these appointments to managing vp: **Clarence P. Messick** of the Tulsa, Okla., office; **A. Preston Washburn** of the Albuquerque, N.M., office; and **Gregory A. Ball** of the Long Island office in Melville, N.Y.

Fred S. James & Co. of Georgia Inc. announced these promotions: **Gary W. Shertenlieb** to executive vp; **James Al Friday**, **J.D. Reece** and **Steven R. Benedict** to senior vps; and **Philip E. Maher** and **E. Nathan Crutchfield** to vp.

Michael Thrower joined Rollins Burdick Hunter of the Carolinas Inc. as vp. He will be based in Charlotte, N.C.

Raymond M. Hale III appointed vp at Rich & Cartmill Inc. of Tulsa, Okla.

Other suppliers

Benefit, compensation and actuarial consultant Martin E. Segal Co. announced these changes: **Louis A. Champagne**, former head of the New Orleans office, named director of the Atlanta office; and **Robin J. Dusang**, a benefits consultant, named director of the New Orleans office.

Cathy L. Jones promoted to senior consultant with Robert Hughes Associates Inc., a Dallas-based risk management consultant.

W. Patrick Hughes appointed director of sales and service for Employee Benefit Plan Administration Inc. of Hampton, N.H. ■



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Business Insurance

Weyerhaeuser names director of insurance

Comings & goings: Buyers

Cheri J. Hawkins named director of insurance for Weyerhaeuser Co. in Tacoma, Wash., effective Jan. . In this position she will oversee our insurance specialty divisions: roperty, casualty, marine and onds. In addition, she will serve as xecutive vp and treasurer of Weyerhaeuser's captive insurance subsidiaries in Bermuda and Vermont, as well as a director of Forest Insurance Ltd., a Bermuda-based association captive. She will replace **Jack Christenson**, who has served as director of insurance since 1973 and will retire at year-end, and reports to Dave Edwards, assistant treasurer. Ms. Hawkins, who joined Weyerhaeuser in 1970, has served as assistant director of insurance since 1973. Prior to joining the company, she was a methods analyst with The Boeing Co. Ms. Hawkins received a bachelor of arts degree in accounting from the University of Puget Sound in Tacoma, Wash. In addition, she holds the Certified Public Accountant designation. She is a past president of the Washington Chapter of the Risk & Insurance Management Society. And, after serving in a variety of posts with the national RIMS organization, she was named first vp for 1989-1990, as well as the chairwoman of RIMS' human resources committee.



Ms. Hawkins

* * *

Gary E. Bird, 39, named assistant director of risk management for Phelps Dodge Corp. in Phoenix, Ariz. In this newly created position, he manages property/casualty insurance and claims. He reports to Richard Van Wagoner Jr., director of risk management, whom he will succeed upon Mr. Van Wagoner's March 1 retirement. Prior to joining the mining company, Mr. Bird operated a risk management consulting firm in Phoenix. Prior to that he served as supervisor of insurance for the Salt River Project in Tempe, Ariz. Mr. Bird received a bachelor of science degree in business administration from the University of Arizona in Tucson. In addition, he holds the Chartered Property & Casualty Underwriter and Associate in Risk Management designations.

* * *

Margaret M. Gagliardi promoted to senior vp-compensation, benefits and staffing at American Express Travel Related Services Co. Inc. in New York. In this newly created position she is responsible for the financial services company's worldwide compensation and benefits programs as well as internal staffing efforts. She reports to Bonnie Stedt, executive vp-human resources. Ms. Gagliardi most recently served as vp-compensation and benefits. She joined American Express in 1977 as manager-international benefits and has since been promoted to positions of increasing responsibility. Prior to joining American Express, she was manager-employee benefits and pension policies for American Broadcasting Cos. in New York. She received a bachelor of arts degree from Hunter College in New York and a master of business administration degree from New York University. Ms. Gagliardi is a member of the advisory board of the American Management Assn.'s Compensation and Benefit Review and the editorial advisory board of the Journal of Compensation & Benefits. In addition, she is a trustee of the Employee Benefit Research Institute. She also is a member of the New York state controller's Pension Advisory Council.



Ms. Gagliardi

•

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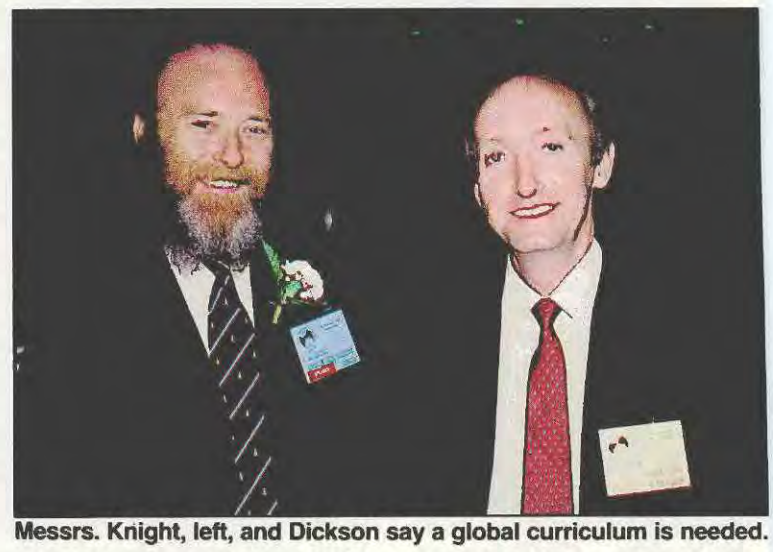
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Global curriculum presented to risk management group

By KATHRYN J. McINTYRE



Messrs. Knight, left, and Dickson say a global curriculum is needed.

MONTE CARLO, Monaco—An internationally acceptable curriculum leading to a diploma in risk management that would be recognized around the world is being prepared for the endorsement of the international federation of risk management organizations.

An outline of such a program was presented to the board of the International Federation of Risk & Insurance Management Assns. during the AEAI/RIMS Risk Management Forum held in Monte Carlo last month (*BI*, Oct. 30).

Members of IFRIMA, which include the Risk & Insurance Management Society Inc. in the United States and 20 other risk management groups from around the world, are reviewing the proposal.

A final proposal is expected to be presented to the IFRIMA board in April during the annual RIMS conference, said IFRIMA President Kevin W. Knight, who also is member of the Assn. of Risk & Insurance Managers of Australia and manager of security and investigation service for the Queensland Administration of the Australian Postal Corp.

"Hopefully, the IFRIMA board will approve and actively support the final syllabus next April with courses rapidly coming on stream so that the first graduates will be produced in 1993 or 1994," Mr. Knight said during the AEAI/RIMS meeting.

The proposal was presented to the IFRIMA board by Gordon Dickson, a professor in the department of banking and insurance at Glasgow College in Scotland, which offers Europe's only risk management degree.

Mr. Dickson developed the proposal with input from risk management associations around the world, Mr. Knight said. In particular, risk management institutes in the United Kingdom and Australia worked on the project, Mr. Knight said.

The proposed curriculum would include nine subjects, five of which would be standard around the world and four of which would be geographically specific to the country or region in which the student resides.

The five standard subjects would have a clearly defined syllabus and recommended texts. Another six subjects, from which the student would select four, would be outlined in broad terms, according to the proposal.

The standard subjects would be risk analysis, business finance, risk financing, corporate risk management and risk control. The additional subjects would be risk and the business environment, liability exposures, the political environment of business, pensions and employee benefits, and financial risk.

Mr. Dickson is suggesting that the diploma be "pitched at post-graduate/post-experience" level, with students holding a degree, professional qualification or set years of experience before commencing study.

He also is suggesting that thr subjects be studied during one yea requiring three years of study to ol tain the diploma.

Mr. Dickson proposes that th three main insurance institute around the world formally adopt th risk management curriculum an allow students to register for the d ploma. They are the Insurance Inst tute of America in the United State the Institute of Risk Management i the United Kingdom and the Austra lian Institute of Risk Management.

While not recommending the es tablishment of a world examinin body, Mr. Dickson suggests that moderating panel under the auspice of IFRIMA be formed to review th examinations and solutions. Thi panel would be drawn from the thre main insurance institutes.

Mr. Dickson notes that "the whol question of funding will have to b addressed," but suggests that "this i something which should follow th laying down of basic guidelines an the formation of educational objec tives."

Mr. Gordon, who previously taugh risk management at the University o Iowa, also is chairman of the U.K Institute of Risk Management's Education Committee.

There is an important need for ar international risk management curriculum, Messrs. Knight and Dickson agree.

The United States and Europe, to a lesser extent, offer a wide choice of business education opportunities that include or complement dedicated risk management education programs, notes Mr. Knight, citing the Associate in Risk Management designation offered by the Insurance Institute of America and continuing education courses offered by RIMS.

"The rest of the world is quite clearly not so fortunate," he said.

Mr. Dickson notes the proposed worldwide curriculum is based on an "interdisciplinary" approach to risk management, which will prepare graduates for general management positions as well as risk management.

"Risk management education has been an agenda item at IFRIMA board meetings since 1986," Mr. Knight noted. "The matter of an international syllabus of core subjects and the concept of an advanced international risk management designation was explored at the board meeting held in Brisbane in October 1988."

As a result of that discussion, Mr. Knight wrote all IFRIMA directors and corresponding associations in December 1988 for their comments on what topics they considered basic to risk management education in any country and what topics would be needed in their nation or region.

Responses were sent to Mr. Dickson, who then developed the proposal, which includes detailed "aims

Continued on next page

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'ontinued from previous page
nd learning objectives" for each of ıe suggested subjects.

For example, under risk analysis, ıe aim is defined as "to introduce tudents to the concept and appli-ation of systematic risk analysis."

The learning objectives are defined s: "The student should understand he theory and, where appropriate, he application of the following:

- The need for risk analysis and he costs involved.
- The nature of risk and human ıehavior.
- The range of risk identification ınd analysis techniques most comnonly used in industry, including ›hysical inspection, check lists, orga-ıizational charts, flow charts, hazard ınd operability studies, fault trees, ıazard indices and contract analysis.
- Fundamental statistical analysis.
- The use of probability calculations.
- The importance of risk analysis reports and the techniques of report writing.
- Takeovers, mergers, joint ventures and divestments.

Norman Baglini, president of the Insurance Institute of America in Malvern, Pa., said last week that the IIA "is very, very interested in internationalizing the whole concept of risk management. George Head and I are more than willing to work with all organizations to modify and adapt risk management concepts to apply in various parts of the world and various types of situations, giving weight to cultural differences, different risk environments and different regulations in the various countries."

Mr. Head is a vp at the institute.

"We firmly believe that risk management principles apply universally," Mr. Baglini said, endorsing the concept of a worldwide curriculum and "providing support" for it. ■

Manville fund OK: Director

By STACY ADLER

DENVER—The Manville Personal Injury Trust Fund is running into cash-flow problems, but still has enough money to pay asbestos claimants, says Executive Director Marianna Smith.

The trust fund is the centerpiece of Manville's reorganization and was created to help compensate asbestos bodily injury victims. It was initially financed with $631 million from Manville's insurers and $155 million from the company.

While that cash is quickly dissipating, the trust also owns 24 million shares of Manville common stock, 7.2 million shares of convertible preferred stock, and bonds and notes from Manville worth an estimated $2 billion. The common stock is trading at $9 to $10 per share.

In addition, the trust receives one-fifth of Manville's profits.

"Our cash is dwindling, but we have assets and other income," explained Ms. Smith. "We are not running out of money."

Manville President Tom Stephens added: "The Manville plan of reorganization, overwhelmingly approved by the vote of its claimants and creditors, specifically said that there would be times when the trust would be illiquid."

"The plan provides options for the trust to mitigate its cash-flow needs as they arise," said Mr. Stephens.

For example, the trust can sell its stock, as needed, to raise cash. Manville has a right of first refusal to repurchase those shares.

The Manville stock is now worth "nearly $1 billion," he said.

Manville has offered to repurchase from the trust $500 million of its preferred stock at market prices, he said.

A final decision on the sale of stock has not been made.

However, under a worst-case scenario—if the trust was unable to maximize the value of its stock and was forced to rely on the profit-sharing installments from Manville—some asbestos victims who file claims by the end of the year may not be paid for 25 years, admitted Ms. Smith.

Larger than expected settlements are one reason for the cash depletion. As of Aug. 14, the trust had paid 12,992 claims totaling $515 million—an average of $39,639 per claim. When the trust was created, the projected average claim was $25,000.

Manville filed for reorganization under Chapter 11 of the Federal Bankruptcy Act on Aug. 26, 1982. The company then faced more than 17,000 asbestos bodily injury claims, with more than 400 new claims being filed each month (*BI*, Sept. 6, 1982). The trust now faces more than 25,000 asbestos bodily injury claims, but it is unknown how many future claims will be filed. ■

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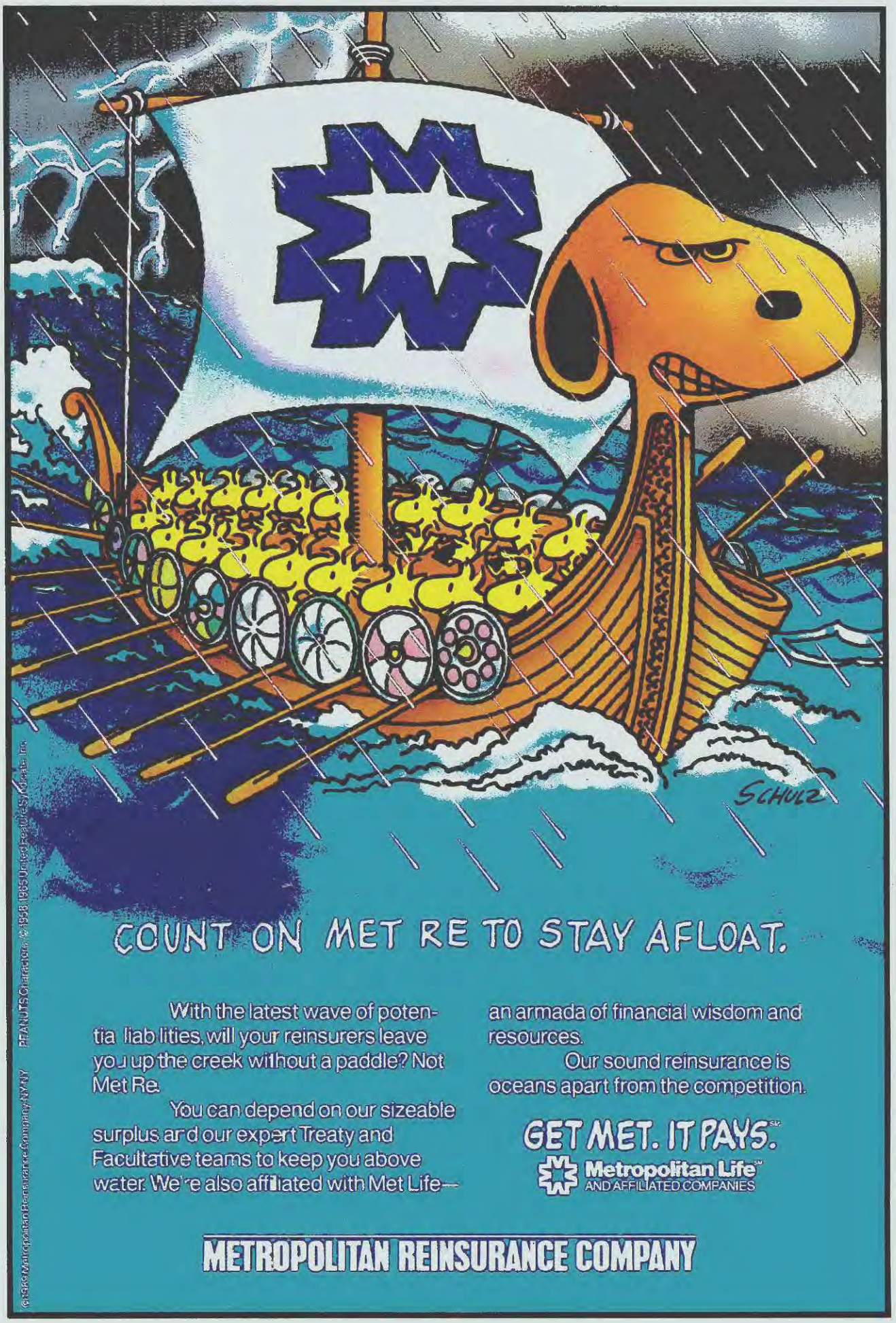
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P&I clubs may boost oil spill limits

By CAROLYN ALDRED

London

LONDON—Protection and indemnity clubs—the shipping industry's mutual liability insurers—may offer an additional $100 million of coverage on oil pollution liability policies.

The International Group of P&I Clubs—which represents 16 P&I clubs around the world—is considering raising the maximum limit for oil pollution policies to $500 million from $400 million per incident.

The proposed 25% increase follows the massive Exxon Valdez oil spill earlier this year in Alaska's Prince William Sound, which heightened concern about shipping liabilities (*BI*, April 3).

The proposal by the group's reinsurance subcommittee likely will be adopted in a few weeks, said Stephen James, deputy chairman and senior underwriter for The United Kingdom Mutual Steamship Assurance Assn. (Bermuda) Ltd.

U.K. Mutual, which is managed by Thomas Miller & Co. of London, is the largest member of the International Group of P&I Clubs.

The International Group also proposes raising individual club retentions for oil pollution incidents to $1.6 million per incident from the current retnetion of $1.2 million.

Claims between $1.2 million and $12 million now are pooled by International Group members.

Subsequent losses, up to the current maximum limit of $400 million, are covered under a $1.262 billion reinsurance program written by Lloyd's of London underwriters and reinsurers worldwide.

Meanwhile, U.K. Mutual is warning policyholders that more frequent and larger shipping liability claims may force rates to go up substantially in the next few years.

U.K. Mutual insures an estimated 25% of the world's merchant shipping fleet for third-party liabilities.

U.K. Mutual levies premiums according to its policyholders' total shipping tonnage and history of claims.

An initial—or advance premium—is called at the beginning of every policy year and a second—or supplementary—call is made several months after the policy year has ended and claims have been assessed.

The supplementary call generally has been about 20% of the advance premium.

The P&I Club announced last month that it plans to ask all members this month to pay an additional sum equal to 20% of the advance premiums they paid in February 1988 for the 1988-89 policy year.

U.K. Mutual also warned that the supplementary premium for the 1989-90 year—payable in November 1990—will be 40% of the advance premium called in February 1989.

In addition, the P&I club said it plans to increase the advance call for the 1990-91 year by 30% over 1989-90.

The club also is estimating that the 1990-91 year supplementary call—payable in November 1991—will be 40% of the advance premium.

"Since 1986 claims have shown a steady increase both in frequency and size," said Stephen James, U.K. Mutual's chief underwriter. Increases in 1987-88 and 1988-89 claims were particularly steep, he said.

"Increased level of shipping as the shipping industry has come out of recession" in recent years accounts for part of the increase, he said.

Higher shipping levels, he said, have meant:

- Increased reliance on older vessels.
- More voyages per vessel per year.
- Larger cargoes.
- Overstretched crews.
- Problems with ship maintenance.

In addition, a changing "general attitude towards the level of compensation to victims" is fostering larger liability payments worldwide, he noted.

New mutual

A new mutual insurer began writing insurance coverage last month for patent and trademark agents.

London-based Pamia Ltd. provides professional negligence insurance cover for 56 patent and trademark agencies, which draft legal descriptions used to obtain patents and trademarks.

The insurer offers limits up to 2 million pounds ($3.2 million) per claim and is managed by Thomas Miller Professional Indemnity in London.

Willis Wrightson Ltd. is Pamia's insurance consultant and reinsurance broker.

Closing the books

A Lloyd's of London bylaw will make it more difficult for underwriting agents to keep syndicate accounts open beyond Lloyd's three-year accounting period, Lloyd's announced last week.

The bylaw is scheduled to take effect in January.

To keep an account open under the new rules, a syndicate managing agent will have to:

- Obtain a report from the syndicate auditor.
- Obtain an independent actuarial report.
- Obtain an independent quote estimating the reinsurance needed to close the account.
- Inform Lloyd's and hold a meeting for members' agents.

Meanwhile, under the new requirements, agents managing syndicates that already have open underwriting years must:

- Submit six-month progress reports to Lloyd's and members' agents on the open years of account.
- Not be able to start a new syndicate.
- Not be able to distribute any surplus to members or take any profit commission from members on the account.
- Not be able to increase the capacity of the syndicate whose account is not closed.

Broker sells interest

London-based brokerage Will Faber P.L.C. is selling its 20.4 stake in Lodnon investment bar Morgan Grenfell Group P.L.C. Banque Indosuez of France fc 137.4 million pounds ($217.1 mi lion).

Indosuez purchased 16.45 mi lion of Willis Faber's 31.6 millio shares of Morgan Grenfell on Oc 26 at 410 pence per share ($106. million) in cash.

Under a condition of the agree ment, Indosuez may also purchas the remaining 15.15 million share at 462 pence per share ($110.5 mil lion).

But Indosuez agreed not to bi for the entire share capital of Mor gan Grenfell during the next yea unless there is a material change i circumstances affecting the invest ment bank.

Willis will be seeking approva of the sale agreement at an ex traordinary general shareholder meeting.

Willis Faber has owned a larg stake in the British investmen bank since 1967.

Last year the shareholding con tributed 6.4 million pounds ($11.6 million at appropriate exchange rates) to Willis Faber's pretax profits.

Comings & goings

Iain Hope, deputy chairman of insurance broker Alexander Stenhouse U.K. Ltd., has been elected chairman of the American-European Community Assn. The association was formed in 1980 to provide a forum for business and government leaders to better understand developments in the European Community.

Minet International Professional Indemnity Ltd. has appointed Managing Director **Geoffrey Morris** to the company's recently formed European Management Group. Mr. Morris has moved to London from New York.

In other changes at MIPI, **Derek Cooper**, responsible for MIPI's continental European activities, and **Philip Foley**, responsible for the company's U.K. retail portfolio, both have been appointed managing directors. And, **Emily Hanahoe** and **Terry Caden** have been appointed senior regional directors.

Cliff Pearce has been promoted to a director of broker Nicholson Chamberlain Colls Financial Institutions Ltd.

David M. Menzies has been appointed a director of Manning Beard Ltd. Mr. Menzies previously was a director of C.T. Bowring Reinsurance Ltd., where he was responsible for accident and health business. ■

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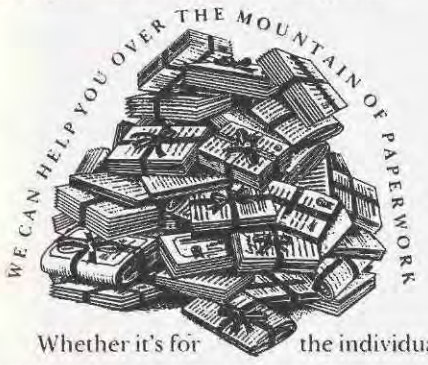


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Fiduciary liability policy covers ESOP sponsors

A fiduciary liability insurance olicy for sponsors of employee ock ownership plans is now ailable through Fred S. James &). Inc.

The coverage, which is targeted ESOPs that own more than 50% a company's stock, indemnifies an fiduciaries and trustees gainst breaches of fiduciary ities as outlined by the Employee etirement Income Security Act of 974, said Jeffrey S. Gelburd, ac-ount executive at Fred S. James Harrisburg, Pa.

James' Harrisburg office will ad-inister the program, which is ponsored by the Washington, .C.-based ESOP Assn. and under-ritten by National Union Fire In-rance Co. of Pittsburgh, Pa., a nit of American International roup Inc.

The program also can be tailored cover other employer-sponsored enefit plans, including 401(k) sal-ry reduction plans, defined bene-it pension plans, and group health nd life insurance plans, said Mr. elburd.

Premiums are based on the lan's assets and employee popula-ion, beginning at $1,500, Mr. Gel-urd said.

Policy limits range from $1 mil-ion to $25 million.

Deductibles range from $5,000 to 50,000, Mr. Gelburd said.

For more information, contact effrey S. Gelburd, Account Ex-cutive, Fred S. James & Co. Inc., .O. Box 1675, Harrisburg, Pa. 7105; 717-763-7261.

Products and services

Long-term care

Travelers Corp. has expanded the range of coverages offered under its employer-sponsored group long-term care plan.

In addition to home health care, nursing home benefits and adult day care, Travelers' long-term care program, which targets groups of 10,000 and up, now covers case management and respite care for care givers and homemakers.

Travelers expanded the policy, originally introduced in 1986, "because we know, from research of our own workforce, that there is great emotional and financial strain on employees responsible for a stricken family member's care," said Pamela Germain Skagias, second vp in Travelers' employee benefits department.

However, the policy is not limited to active employees. Coverage also can be extended to employees' spouses, parents and in-laws, as well as to retired employees and their spouses.

Under the policy's case management program, designed to assist policyholders and care givers, patient coordinators—registered nurses trained in geriatrics—work with employees, their physicians and families to develop individualized plans or care based on medical and social needs.

Offering temporary relief to care givers, the respite care coverage ensures that there will be no interruption in care for disabled individuals when the relative or friend who usually assists them is unavailable. Temporary arrangements covered include short stays in rest homes, lasting from a few days to two weeks; visits from companions; and assistance from home health care agencies.

The homemaker services benefit covers routine tasks such as meal preparation, laundry, shopping and house cleaning performed by home health care agencies.

Also included in the policy is an optional inflation benefit that automatically increases the amount of the daily benefit based on changes in the Consumer Price Index.

To become eligible for these benefits, plan enrollees must need human assistance with at least two activities of daily living or be diagnosed as having senile dementia. They must also be receiving doctor-prescribed treatment that is part of a formal plan authorized by a patient care coordinator.

The policy does not require prior hospital confinement before covering nursing home care, nor prior hospitalization or nursing home confinement before covering community-based services or respite care.

Continued on next page

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Products and services

Continued from previous page

Under the LTC program, benefits are capped at $100 per day for nursing home care, $50 a day for community-based care and $2,000 a year for respite care, paid after an initial waiting period of 60, 90, or 120 days, respectively.

Depending on the lifetime maximum selected by the sponsoring employer—1,000, 1,500 or 2,000 days—and the benefit level the enrollee chooses, the plan pays up to a maximum of $200,000.

Premiums, payable over a lifetime or in a 20-year period, are based on an enrollee's age at the time of enrollment and will not change as policyholders get older.

Based on these criteria, a 42-year-old individual would pay lifetime monthly premiums of $7.95 for a $50-per-day nursing home coverage plan with a 1,500-day lifetime maximum benefit and a 90-day waiting period.

The policy is available nationwide.

For more information, contact The Travelers Corp., 1 Tower Square, Hartford, Conn. 06183-1060; 213-277-9101.

Storage tank cover

A new insurance policy designed to meet the Environmental Protection Agency's financial responsibility requirements for owners and operators of underground petroleum storage tanks is available from Agricultural Excess & Surplus Insurance Co. of Cincinnati.

The claims-made policy will provide limits of up to $1 million per pollution incident and $2 million annual aggregate per insured site.

The policy also provides $100,000 in defense costs—outside of policy limits—and higher defense limits are available.

The policy, which covers third-party property damage, third-party bodily injury and government mandated cleanup costs (both on- and off-site), includes a 12-month extended reporting period, which is double the length required by the EPA, according to Mike Ryan, director of environmental insurance for AESIC, a unit of Great American Insurance Co. of Cincinnati.

Longer reporting periods also are available, he added.

Coverage is available to petroleum marketers and to non-marketers nationwide, except in Delaware, Maine, New Hampshire, Rhode Island and Vermont.

The coverage initially will be limited to petroleum underground tank systems only (all gasoline blends, waste oil, diesel, fuel oil, kerosene, aviation gasoline and motor oil). However, the insurer plans to add above-ground petroleum tanks to the program "in the near future," noted Mr. Ryan.

AESIC will write the policy to cover underground storage tanks of any age and construction providing they meet the insurer's underwriting standards, said Mr. Ryan.

The minimum deductible is $5,000 per pollution incident, and premiums start at $3,500.

To speed up the claims process, AESIC—an approved surplus lines insurer—has established a 24-hour toll-free claims number.

For more information, contact Mike Ryan, AESIC, 515 Main St., P.O. Box 2575, Cincinnati, Ohio 45201; 513-369-5881.

Builders risk policy

The Marine Office of America Corp. is expanding its builders risk policy to include additional coverage.

The builders risk policy, which covers individual and multiple construction projects to limits of $150 million, now also covers: the full costs of replacing building materials (with materials of like kind and quality); debris removal; extra expense; and interruption due to civil authority.

The policy continues to cover building materials on or off-site, labor and related costs for transporting the replacement materials from manufacturer to job site, scaffolding, construction forms and temporary structures.

In addition to expanding the scope of its coverage, MOAC also will permit policyholders to spread premium payments throughout the duration of the construction project, according to Samuel T. Byron, MOAC's president and chief executive officer.

Premiums, rated according to the contractors' experience, start at $500 for a monoline policy. However, this minimum premium does not apply when the policy is written as part of a package account, a MOAC spokeswoman explained. Deductibles are "negotiable," the spokeswoman said.

Cranbury, N.J.-based MOAC is a subsidiary of Continental Insurance Corp.

For more information, contact Beth Badolato, Marketing Analyst, MOAC, 1 Continental Drive, Cranbury, N.J. 08570-0009; 609-395-7418.

Psych network

American PsychManagement is now offering self-insured employers with more than 1,000 employees a nationwide mental health care and substance abuse treatment program that controls cos by matching patients with appr priate clinicians.

The network-based program "PsychManagement Solution" addresses cost containment by er phasizing medically appropria treatment, explained Peter Sta ton, American PsychManagement marketing vp, who acknowledg that "psychiatric costs are goir out of sight."

Instead of focusing on contro ling rates, PsychManagement S lution emphasizes "appropria care," he said.

By calling American PsychMa agement's 24-hour toll-fre "PsychConnection" hot line, a pa tient can receive referral to imm diate treatment from one of APM independently contracted networ therapists.

For more routine consultation the patient can receive up to 10 o fice visits with a therapist.

And if the therapist decides fur ther treatment is necessary, he o she will refer the patient to a spe cialist.

The goal of the program is t match patient need with the ap propriate clinician and to ensur that only medically appropriat treatment is delivered to the pa tient, Mr. Stanton explained.

"This system creates the bes possible performance," he said.

APM further enhances the pro gram's effectiveness with full ser vice utilization management, special claims department and toll-free customer service area.

Fees, billed on a per-employee per-month basis, are based on ar employer's individual claims expe rience.

For more information, contact Peter Stanton, Vp-Marketing, American PsychManagement Inc., 1560 Wilson Blvd., Suite 1000, Arlington, Va. 22209; 703-528-2255.

New property policy

The Hartford Insurance Corp. has added new coverages to its commercial property policy to meet the insurance needs of distributors, municipalities, hospitals, retailers and educational institutions.

Hartford's expanded special property policy, designed to respond to "an increasing need for broader coverages," also is flexible enough to add desired coverages through endorsements, according to Dale Powers, industry group manager of commercial marketing.

The new policy features:

- Replacement cost coverage for both buildings and contents.
- Protection for the backup of sewers and drains.
- Expanded glass coverage.
- Increased limits for several extensions of coverage, including valuable papers and records.
- Coverage for up to $500,000 and 180 days for newly acquired and newly constructed buildings.
- Coverage for up to $250,000 and 180 days for personal property at newly acquired locations.

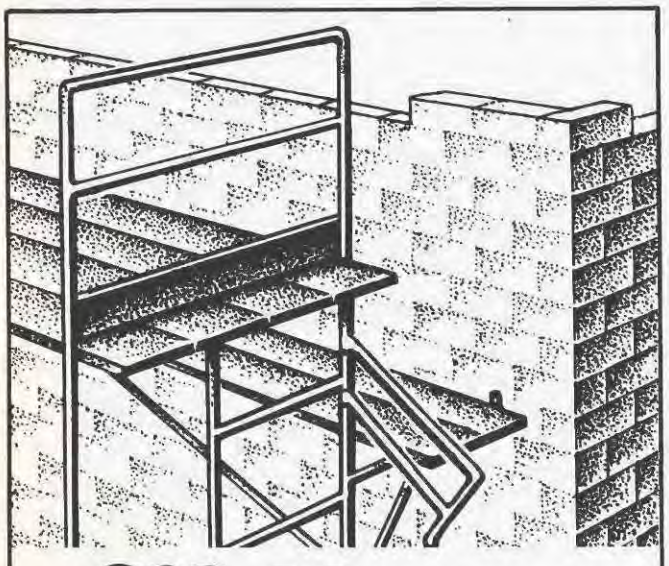
The new policy also expands the definition of covered property to include, among other things, alarm systems, lawn maintenance and snow removal equipment. In addition, the policy provides $10,000 in coverage for expenses related to the investigation of a claim.

Premiums are based on each individual's risk experience and exposure to loss, making prices more competitive for the safety-conscious policyholder, according to Mr. Powers.

The policy is targeted to medium-sized to large accounts, or those generating a minimum premium of $5,000 to $10,000.

For more information, contact The Hartford Insurance Co., Hartford Plaza, Hartford, Conn. 06115; 203-547-4968, or a local Hartford agent.

Continued on next page



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uto dealer plan

A package of insurance coverages abling franchised automobile dea- ships to customize their policies to the needs of their individual dea- ships is available in 10 Southeast- n states through American Insur- ce Consultants, a High Point, .C.-based managing general agent.

Coverages under the automobile aler package program, under- itten by Fort Wayne, Ind.-based incoln National Health & Casualty surance Co., include:

- Garage liability coverage, offer- g up to $2 million combined single mit with higher excess limits avail- le upon request.

Coverage also can be broadened to clude contingent leasing; product- lated and legal damages; odometer rors and omissions; fraudulent tle; title errors and omissions; em- loyee benefits; and agents' errors nd omissions.

- Dealers' open lot coverage, hich can be tailored to insure the ntire automobile inventory or to wrap-around" the dealers' floor lan insurance coverage.
- Garagekeepers' coverage avail- ble on a legal, excess or primary asis.
- Property coverage for buildings nd contents, employee tools, busi- ess interruption, extra expense, lass and builder's risks.
- Crime coverage, written to in- lemnify against employee dishon- sty, including theft and securities orgeries.
- Inland marine coverage for ac- ounts receivables, valuable papers nd records and computers.

AIC initially introduced the pro- gram in Alabama, Arkansas, Geor- gia, Kentucky, Mississippi, North and South Carolina, Tennessee, Virginia and West Virginia, said Dick Owens, AIC executive vp, because competi- tion for this line of business in the Southeast had been minimal.

However, AIC will "more than likely" also introduce the program in Maryland, Pennsylvania and the Midwest.

The program, which permits pre- miums to be paid in monthly in- stallments, is experience-rated ac- cording to the dealership size, Mr. Owens said. The "typical" deduct- ible is $1,000, but it can be lower, he said.

Optional excess liability coverage of up to $5 million also is available.

Exclusions, such as nuclear liabil- ity, are standard, Mr. Owens said.

For more information, contact Dick Owens, Executive Vp, Ameri- can Insurance Consultants, P.O. Box HP-4, High Point, N.C. 27260; 919- 841-5600.

Settlement guide

A new claims handling system de- veloped by Jury Verdict Research Inc. can help risk managers, attorneys and insurance professionals settle personal injury litigation.

The two-volume manual, "Better, Earlier Settlements Through Eco- nomic Leverage," contains compre- hensive worksheets and litigation cost tables that let the user determine settlement values and how to account for the claim's cost.

To enable analysis of individual claims on a personal computer, com- panion software also is available. The software consists of two components: "JVR Case Evaluation Software" provides the probable verdict amount and chance of plaintiff recovery, while the "Basic Settlement Value" portion calculates settlement value and completes the cost accounting and comparative cost analysis.

The two-volume manual is avail- able on a 30-day trial basis and costs $195. The entire system, including both software components and the manual, costs $890 and is available for 30-day review as well.

For more information, contact Jury Verdict Research Inc., 30700 Bain- bridge Road, Suite H, Solon, Ohio 44139; 800-321-6910.

Books/videos

"Essentials of Hospital Risk Management," published by Aspen Publishers Inc., is a complete "how- to" guide for risk managers, hospital administrators, attorneys and others concerned with this critical area of hospital administration. Dozens of sample forms, charts and surveys help the reader develop and imple- ment a professional, state-of-the-art risk management program. Copies are $41.95 each, available on a 30- day trial basis. Contact Aspen Pub- lishers Inc., 1600 Research Blvd., Rockville, Md. 20850; 800-638-8437.

A new **life planning video se- ries**, "It's Your Future," is available from the International Foundation of Employee Benefit Plans. The series is made up of six videos covering a wide range of topics such as financial planning, health issues, fitness, ca- reer planning and aging. The com- panion workbook is a reader-partici- pation style book with worksheets, checklists, logs and questionnaires. The complete set of videotapes is $995 for IFEBP members and $1,295 for non-members. Individual tapes from the series are available at $195 for IFEBP members and $240 for non-members. To order, contact the IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700. ■

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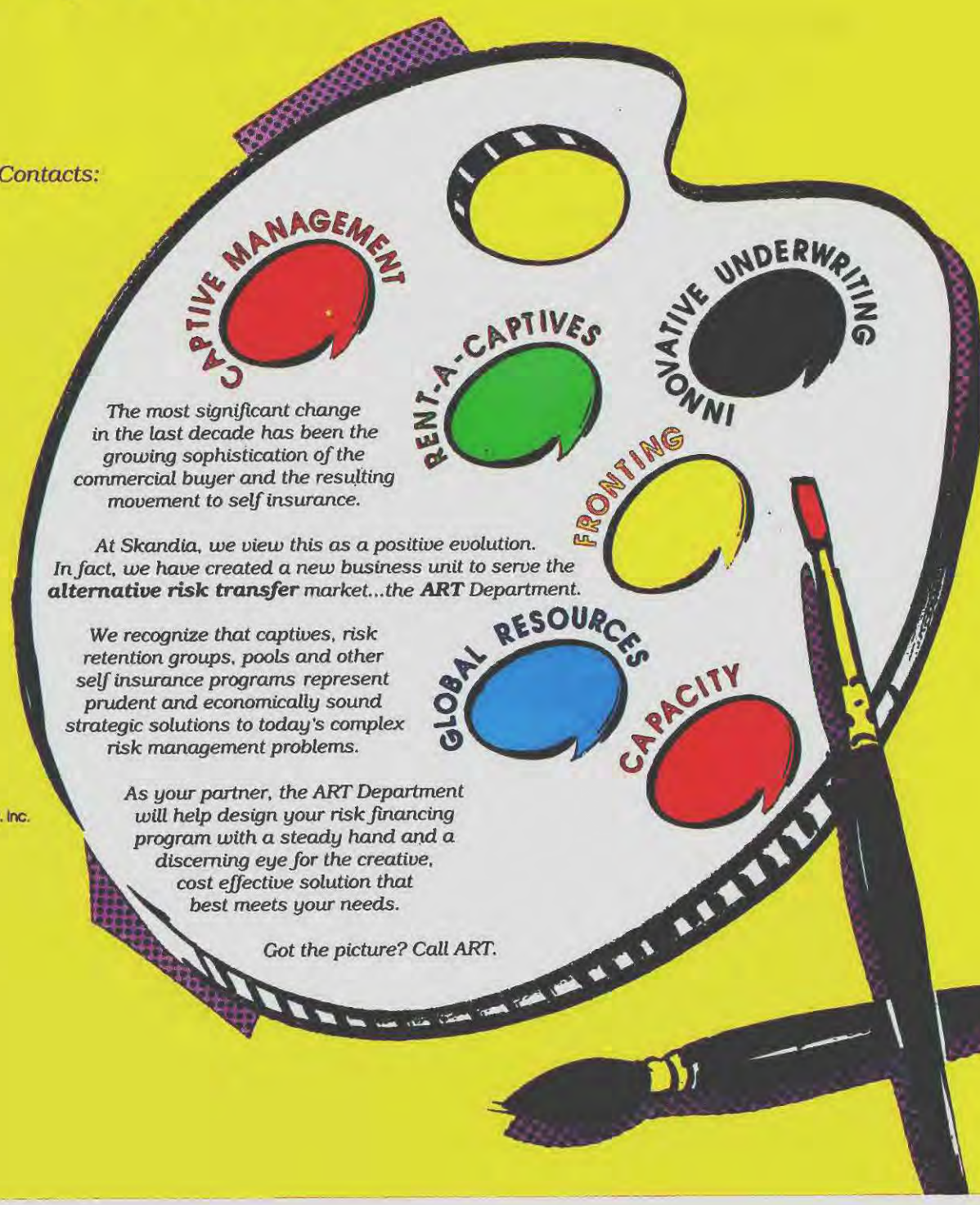
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Rate hike rules still cloudy in California

LOS ANGELES—A Los Angeles Superior Court judge's decision upholding her earlier ruling that California Insurance Commissioner Roxani Gillespie may impose a freeze on private passenger automobile insurance rates does not clarify which rate approval system rate requests will be subject to when the freeze expires.

Hartford, Conn.-based Aetna Casualty & Surety Co. filed for a 9.8% increase in private passenger rates after Judge Miriam Vogel's initial ruling on Oct. 10 that Ms. Gillespie has the authority to impose the freeze, which Ms. Gillespie ordered in early October (*BI*, Oct. 9).

However, in her earlier ruling, Judge Vogel also allowed Farmers Group Inc. to raise rates on Dec. 1. But Judge Vogel did not make clear whether that rate request would be subject to the prior approval system that takes effect Wednesday under Proposition 103 or the expiring file-and-use system (*BI*, Oct. 16).

Aetna said it would not try to implement the increase until after ongoing hearings by the Insurance Department on insurers' request for relief from insurance "charge" rollbacks mandated by Proposition 103. "But we did not want to lose the right to get the rate" under the file-and-use system, the spokesman said.

In her Oct. 27 decision, Judge Vogel urged Aetna to join other insurers in an agreement to respect the freeze, pending the outcome of the hearings.

Aetna has not decided whether to appeal, a spokesman said.

Judge Vogel has scheduled a Nov. 21 status hearing regarding Farmer's intention to raise rates Dec. 1.

—By Louise Kertesz

Around the states

Maternity mandate

MONTPELIER, Vt.—A new state regulation requires all health insurance policies to offer non-discriminatory maternity coverage.

Insurers may continue to charge current premiums only if policy rates for men and women are "identical," said Jeffrey Johnson, deputy commissioner of insurance, in a statement.

Insurers seeking to increase rates must file with the department by Nov. 15, said Mr. Johnson.

The state Department of Banking and Insurance will review rates and could demand reductions to ensure that the coverage is properly priced.

If an insurer charges new rates before filing for rate approval, "penalties will be significant," said Roger L. Lever, principal of rates and forms for the department.

Maternity coverage was required beginning Oct. 1 on all new health insurance policies and the coverage must be offered on the anniversary dates of existing policies.

Insurers with previously approved maternity endorsements may use them to comply with the maternity coverage requirement, the department said. But a maternity endorsement that does not provide coverage equal to that for any other condition will not satisfy the requirement.

And if an insurer does not have an approved maternity endorsement or form that provides coverage equal to that for any other condition, insurers must file new forms to comply with the regulation.

Insurers may continue to use existing forms providing they:

- Notify the department in writing within 30 days.
- State that they will deem existing forms to include the required maternity coverage.
- Notify existing policyholders in writing within 30 days that their policies will now include coverage for maternity conditions as any other condition.
- File to bring forms into compliance by Nov. 15.

—By Collin Nash

Sheriffs' liability

TROY, N.Y.—New York state voters Tuesday are being asked to amend a 19th century constitutional provision that makes sheriffs personally liable for their deputies' mistakes.

When the law was passed, sheriffs were unsalaried and kept all fees they collected. By the 1920s, the law had been changed so that collected fees went into county general funds, but an accompanying constitutional change regarding sheriff's liability never was enacted.

Thus, a sheriff can still be held personally liable for deputies' mistakes, even though the sheriff may have done nothing wrong or in no way had been negligent.

Proposal One—a constitutional amendment introduced by State Sen. Dale Volker, R-Buffalo, and sponsored by Assemblyman Vincent Graber, D-Buffalo—is designed to change this "antiquated" provision, said Christopher G. O'Brien, deputy executive director of the New York State Sheriffs Assn. Institute.

"This may seem like a minor matter," conceded Peter R. Kehoe, the association's counsel and executive director, in a statement. But for sheriffs "there hangs over their head the possibility that they could lose their home or their life savings," he said. "No other public official in all of government has this liability."

The Legislature has twice unanimously approved an amendment to change the statute, and voters must now approve the measure.

Support may be greatest in upstate counties where sheriffs are the primary law officials and voters are familiar with the issue, said Mr. O'Brien.

But in the remainder of the state, people "may vote against the proposal for lack of knowledge and experience about the sheriff and his duties," he said.

Proponents see "no fiscal impact" if Proposal One is passed. Expenses to add a sheriff to each county's liability policy are not expected to be large, said Mr. O'Brien, who added that many counties are self-insured

—By Collin Na

Texas rates

AUSTIN, Texas—Commerci property insurance buyers may p less for some coverages in Texas ne year.

The Texas State Board of Insu ance late last month lowered by 4.8 rates for monoline fire and extend coverage for property insurance pol cyholders in the state. The new rat go into effect March 1.

Insurers had sought a 7.8% i crease in the rates, and the sta board's staff had asked for a 5.5 decrease. Meanwhile, the sta board's Office of Consumer Prote tion had asked that the rates b lowered 1.5%.

Fire and extended coverage in 198 generated only $71.3 million of th state's $486.7 million in commerci property insurance premiums, said spokesman for the state board.

The board also approved a ne pricing rule that allows commerci property insurers to file rates tha can deviate as much as 30% from th state board-promulgated rates rather than the previous maximum o 25%.

The rule is scheduled to go int effect on March 1, unless Insuranc Commissioner Paul Wrotenberry act to implement it sooner.

—By Michael Bradfor

Michigan Blues

DETROIT—After two years of rec ink, Blue Cross & Blue Shield o Michigan predicts a slight profit i 1989.

The Detroit-based health insure also will add $200 million to its claims reserves this year, boosting them to $230 million. Reserves had dipped as low as negative $7 million as of June 1988 (*BI*, Aug. 15, 1988).

"I'll be much happier when we can put together three good years in a row," said Robert Naftaly, senior vp and chief financial officer. However, "we are stable and we can pay our customers' claims."

Reserves, though, still are well short of the $391 million the Michigan Insurance Bureau considers sufficient.

BC/BS of Michigan is awaiting a bureau ruling on its plan to boost reserves to $230 million. The plan also outlines how the company proposes to reach its claims reserve goal.

Deputy Insurance Commissioner D.A. D'Annunzio said he hadn't seen the plan, but noted the insurer is "doing a much better job" of managing its finances, "at least outwardly so."

The Blues' improved 1988 performance was fueled by a reduced labor force, higher rates and more stringent internal controls. Those changes, along with additional factors such as a new contract with the state's hospitals, will allow the insurer to achieve its claims reserve goal in three to five years, said Mr. Naftaly.

Meanwhile, the Blues will not pursue any action against several large employers—including General Motors Corp.—that refuse to pay a 1% surcharge the insurer imposed in 1988 to increase reserves.

The surcharge was imposed on all premiums paid by companies and individual policyholders (*BI*, Aug. 15, 1988). It was approved by the state when claims reserves hit their June 1988 low.

Mr. Naftaly said talks are continuing with the companies that balked at paying the surcharge.

The plan's financial improvement will not be impeded by an Oct. 13 agreement between the plan and state regulators to reduce rate hikes on health insurance for the elderly and individual policyholders, Mr. Naftaly said.

—Crain News Service

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Info

• **"Stress in the American orkplace: Alternatives for the orking Wounded"** is a book exoring work-related factors that ıuse stress. In addition to exaining stress, its causes and possie solutions, authors Donald T. eCarlo and Deborah H. Gruenld point out that recent trends in orkers compensation law may ve employees new rights in this :ea, increasing employers' liabilies. Copies of the publication are vailable at $19.95 each, plus $3.50 ır shipping. Quantity discounts re available. For ordering inforıation, call LRP Publications at 00-341-7874.

• **"Final Demands, Final ffers & Corresponding Vericts"** examines the disparities in laintiff awards in personal injury ases. For example, researchers ound that the amount demanded y an injured plaintiff may differ y as much as 400% from what a efendant offers to pay for a claim. n addition, more than one-quarter f defendants studied offered more noney at settlement than the jury warded at verdict. However, in he cases studied, no settlement vas reached and the claim was ried to verdict. Copies of the reearch publication are available or $25 each from Jury Verdict Reearch Inc., 30700 Bainbridge Road, Suite H, Solon, Ohio 44139; 216-248-7960.

• **"Insurer Solvency: Public Policy Recommendations for Improvement"** is a compilation of 20 recommendations by a task force of the National Assn. of Independent Insurers. The report by 25 NAII members urges action to improve early detection of financially troubled insurers, reform state guaranty fund systems and to speed the handling of insurer liquidations. The report is available to non-members for $10 by contacting the NAII, 2600 River Road, Des Plaines, Ill. 60018-3286; 312-297-7800, extension 214.

• The **"Classification and Cross-Reference"** guide from the International Risk Management Institute Inc. explains how rating technicians classify risks for commercial general liability and workers compensation insurance premium pricing. The 92-page booklet applies to the new CGL form, the old comprehensive general liability form and National Council on Compensation Insurance codes. The guide is $24.98 each for five or fewer copies; $12.49 each for six or more copies from International Risk Management Institute Inc., 12222 Merit Drive, Suite 1660, Dallas, Texas 75251-2217; 800-527-2580; in Texas 214-960-7693.

• The Consulting Engineers Council of Metropolitan Washington has published **"Guidelines for Environmental Site Assessments."** The 16-page handbook is aimed at helping engineers, their clients, lenders and insurers examine property for hazardous wastes or pollution. It includes tips on meeting the due diligence requirements of the Comprehensive Environmental Response, Compensation and Liability Act, otherwise known as Superfund. Copies of the booklet are available, prepaid, for $7.50 each from Consulting Engineers Council of Metropolitan Washington, 8811 Colesville Road, Suite G106, Silver Spring, Md. 20910; 301-588-6616.

• **"Disability Intervention and Cost Management Strategies for the 1990s"** has been published by the Washington Business Group on Health's Institute for Rehabilitation and Disability Management. The report from the Second Annual National Disability Management Conference includes strategies for controlling costs through effective claims and case management, ensuring quality rehabilitation programs and fraud prevention and detection. Disability benefits for pregnancy and maternity leave, cancer patients and AIDS patients also are discussed. Copies are $25 each from the Washington Business Group on Health's Institute for Rehabilitation and Disability Management, 229½ Pennsylvania Ave. S.E., Washington, D.C. 20003; 202-547-6644.

• The Insurance Information Institute is offering **"Reinsurance: Fundamentals and New Challenges."** Topics include the function of the reinsurance intermediary, loss development from the reinsurers' viewpoint, and the increased federal taxation and regulation of the industry. The 116-page monograph was written by experts representing reinsurers, intermediaries, attorneys and the Reinsurance Assn. of America. Copies of the monograph are available for $15 each from the Insurance Information Institute, Publications Service Center, 110 William St., New York, N.Y. 10038; 800-221-4954.

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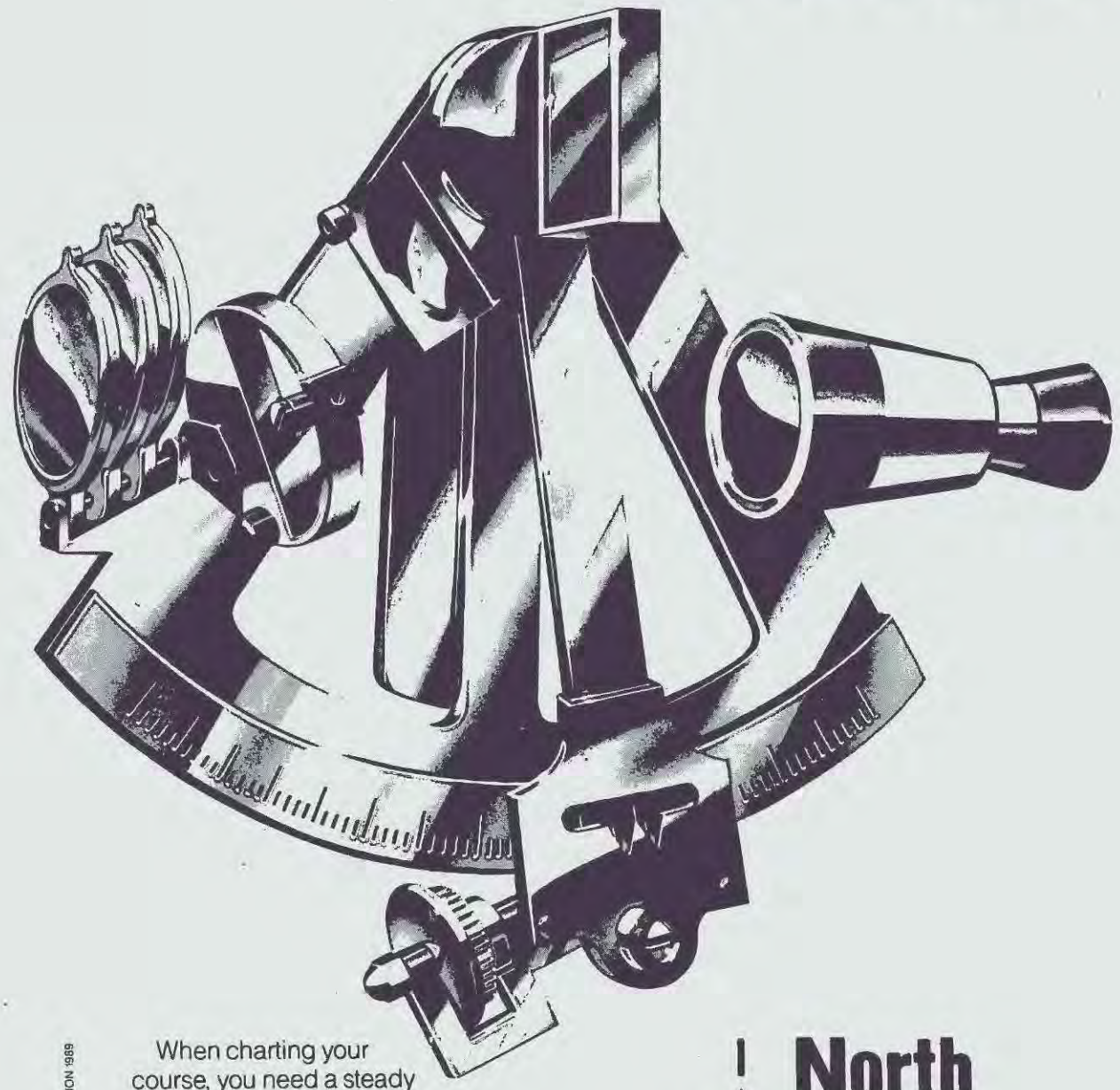
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Honeywell offers family care referrals

By MICHAEL SCHACHNER

About 8,000 Honeywell Inc. employees in Phoenix now have access to a free information and referral service for child care and elder care under the company's dependent care program.

The service began Nov. 1 for elder care and Oct. 2 for child care. Honeywell employees can call dependent care consultant Summa Associates in Tempe, Ariz., for information on either kind of facility in the Phoenix area.

The I&R network was added to Honeywell's dependent care program. In 1987 the company established a dependent care pretax reimbursement account to which employees can defer up to $5,000 annually.

"We clearly recognized that child care is no longer simply a personal issue. It has become a business issue with more single parents than ever before," a spokesman said.

Honeywell employees in Phoenix also can use a $300 flexible spending account balance for dependent care.

Under the 5-year-old FSA program, Honeywell's Phoenix employees also can use the flex dollars:

- For unreimbursed health care.
- As a 401(k) savings plan contribution.
- As a cash bonus.

Honeywell also recently initiated the Wee Care program, in which employees' sick children can get daycare supervision at Phoenix General Hospital.

The company covers $20 of the $25 Wee Care fee, the spokesman said.

Benefit beat

Pension plan survey

About 60 million workers, or 59% of the U.S. workforce, were employed by companies that sponsored pension plans in 1988, up from 56% in 1983, a recent survey reports.

However, while the total number of pension plan participants increased to 45 million from 41 million, the percentage of eligible workers participating in the plans has decreased to 44% in 1988 from 46% five years earlier, the survey found.

The findings of "Pension Coverage and Benefit Entitlement: New Findings from 1988," produced by the Washington, D.C.-based Employee Benefit Research Institute, are based on an analysis of the employee benefit supplement to a nationwide U.S. Bureau of the Census survey in 1988. EBRI conducted similar studies in 1983 and 1979.

In the survey, an employee was considered "covered" if his or her employer had a pension or retirement plan for any of its employees. The worker "participated" if he or she reported being included in such a plan.

Also, workers were considered "entitled to benefits" if after leaving their current employer they could eventually receive some benefits from the employer's plan.

Most workers covered by pension plans earn moderate wages and salaries, according to the survey report.

Workers earning between $10,000 and $30,000 annually accounted for 61% of the workforce with pension coverage, while workers making less than $10,000 accounted for 13% of the workforce that reported having pension coverage.

Workers with a salary greater than $30,000 accounted for the remaining 26% of those covered by pension plans.

But, from 1983 to 1988, lower-paid employees gained the most ground in pension coverage, EBRI says.

For example, 27% of workers earning less than $5,000 per year were covered by an employer-provided pension, compared with 23% five years earlier.

Among workers earning $5,000-$9,999 per year, 37% were covered in 1988, compared with 32% in 1983.

Among workers earning $10,000 to $14,999, 54% were covered in 1988 compared with 52% in 1983, the survey found.

And, the percentage of covered workers earning more than $15,000 a year changed little, the survey found.

The survey also found that 82% of workers at firms with 250 or more employees were covered and that those workers accounted for 70% of all workers covered by pension plans.

Meanwhile, only 12% of workers at firms with fewer than 10 employees were covered in 1988.

And, the survey found that a higher proportion of unionized workers were covered by pension plans—89%—compared with nonunion workers—52%. The survey noted that union workers accounted for 29% of all workers covered by pension plans.

The survey also found that 82% of workers with 15 or more years of job tenure were covered compared with 52% of those with four years of tenure and 38% of those with less than one year of service.

A greater percentage of full-time workers—65%—are covered by pension plans compared with part-time workers, but more part-time workers were covered by pension plans in 1988 than in 1983, according to the survey.

For example, the percentage of those covered who worked fewer than 500 hours increased to 27% in 1988 from 22% in 1983.

The percentage of those who worked 500-999 hours and were covered by pension plans increased to 37% in 1988 from 31% in 1983.

And, the percentage of those who worked 1,000-1,499 hours and were covered by pension plans increased to 45% in 1988 from 42% in 1983.

The coverage rate held near steady for those working 1,500-2,000 hours per year, decreasing 56% in 1988 from 57% five years earlier.

The coverage rate also held nearly steady for those working 2,000 hours or more, increasing to 65% in 1988 from 64% in 1983.

The survey explains that the decline in the percentage of workers participating in pension plans may be the result of a decline in industries with traditionally high plan participation rates among workers and a decline in union participation.

Public sector employees are more likely than their private sector counterparts to be covered by employer-sponsored pension plans, the survey found.

In May 1988, employer-sponsored plans covered 92% of public sector workers, 52% of private-sector workers, and 21% of the self-employed.

And, coverage is highest among "prime age" workers, the survey found.

More than 66% of the workers 35-59 years old were covered in 1988; more than 60% of employees ages 25-34 and 60-64 were covered; 42% of workers older than 65 were covered; and only 38% of workers younger than 25 were covered.

EBRI's September Issue Brief "Pension Coverage and Benefit Entitlement: New Findings from 1988," is available from EBRI for $14.95, or as part of an annual subscription ($224) to the monthly EBRI Issue Briefs and Employee Benefit Notes.

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Pollution coverage conflict expands

High stakes' are forcing policyholders, insurers to litigate

By STACY ADLER

CHICAGO—Disagreements between policyholders and insurers over coverage for pollution incidents are widening, according to the nation's leading environmental insurance attorneys.

One reason for this chasm is the enormous amount of money at stake.

Also, because pollution liabilities can threaten the existence of both policyholders and insurers, there is little room for compromise, attorneys say.

"This is a high-stakes game—perhaps the highest," said insurer attorney Stephen Cohen of McElroy, Deutsch & Mulvaney in Morristown, N.J.

Many of the nation's premier environmental insurance attorneys gathered in Chicago late last month to discuss pollution coverage litigation.

The Environmental Insurance Law Institute, sponsored by Executive Enterprises Inc., brought together attorneys who represent some of the world's largest conglomerates as well as attorneys for some of the world's leading insurance companies.

Despite their adversarial status, the two groups of attorneys could agree on one point: Courts are inconsistent in their interpretations of the pollution coverage available to policyholders under comprehensive general liability policies.

'You can find a decision to support virtually any position,' says Stephen Cohen.

Relevant law is now a "crazy-quilt of opinions," said policyholder attorney Nicolas Zoogman of Anderson Kill Olick & Oshinsky in New York.

"There is a real lack of uniformity," said Mr. Cohen. "You can find a decision to support virtually any position."

"There is something for everyone in insurance coverage litigation," agreed insurer attorney Roger Warin of Steptoe & Johnson in Washington, D.C.

Among the issues dividing insurers and policyholders and leading to these diverse opinions are:

- The meaning of "damages."
- The pollution exclusion clause.
- What constitutes an "occurrence."

Nearly all CGL policies provide they will "pay on behalf of the insured all sums which the insured shall become legally obligated to pay as damages."

Insurers have taken the position that CGL coverage encompasses only monetary damages awarded by courts, not damages imposed on a policyholder by a government order to clean a polluted site.

Meanwhile, policyholders argue that the term "damages" encompasses all legal liabilities incurred by policyholders, including government cleanup orders.

"There is support for both positions," said insurer attorney Mr. Cohen. "It is far too early to see where this is going."

Two U.S. Court of Appeals' decisions have agreed with insurers and ruled that government-mandated cleanup costs are not insurable (*BI*, March 7, 1988; July 27, 1987).

But more recently, the 2nd U.S. Circuit Court of Appeals held that government-mandated hazardous waste cleanup costs are insurable (*BI*, Oct. 23).

In addition, a vast number of lower courts have sided with policyholders that assert that the distinction between damages awarded by a court and damages imposed by a government order is merely creative lawyering.



In response, policyholder attorneys are coming up with creative arguments of their own.

For example, policyholder attorney Mr. Zoogman asserts, "Even if the property damage is not insured, there may be insurance for the legal liabilities stemming from the property damage."

However, insurer attorney Nancy Gleason of Dowd & Dowd in Chicago responded that a policyholder's liability is not necessarily indicative of an insurer's liability.

"Superfund creates policyholder liabilities, but does not necessarily create coverage," she said.

Insurers and policyholders with pollution liabilities also are vigorously debating what constitutes an "occurrence" for insurance purposes.

There are at least four theories:

- The manifestation theory holds that the occurrence takes place when the pollution is first known to the policyholder.
- The exposure theory holds that the occurrence takes place when the property is first exposed to hazardous wastes.
- The injury-in-fact theory holds that it is not enough that the property is exposed to hazardous chemicals, but there must also be actual property damage.
- And, the triple trigger theory holds that the occurrence is ongoing from the time the property is first polluted until it is cleaned.

"These issues were first litigated heavily in the asbestos arena and now are being litigated in the environmental arena," said insurer attorney Mr. Cohen.

"This is an area that will be highly litigated," predicted Mr. Cohen. "And it is the issue that is most likely to divide insurers," he said.

Arguments over what constitutes an occurrence often pit the insurers in one policy period against the insurers in another policy period, he explained.

"This is a very divisive issue," agreed policyholder attorney Robert Chesler of Lowenstein, Sandler, Kohl, Fisher & Boylan in Roseland, N.J.

Mr. Chesler predicted the majority of courts will adopt a triple trigger in hazardous waste litigation because this maximizes coverage for the policyholder.

The pollution exclusion clause found in comprehensive general liability policies, which bars coverage for pollution unless it is "sudden and accidental," creates another hotbed of pollution coverage litigation.

Policyholders contend the clause should be interpreted to bar coverage only for pollution that is expected or intended by the policyholder. Insurers, on the other hand, argue that the clause should bar coverage for all pollution not occurring quickly.

"This is the most heavily litigated issue," said insurer attorney Mr. Cohen.

To date, it would appear that there is still a split among the courts on this issue, according to attorneys.

While insurers have had several major victories in this area, "the policyholder interpretation of the clause is back with a vengeance," said policyholder attorney James Price of Spencer, Fane, Britt & Browne in Kansas City, Mo.

"If the pendulum had swung in favor of insurers, it is now swinging back," he said.

Specifically Mr. Price pointed out that Illinois and Georgia supreme courts have issued pro-policyholder rulings on the pollution exclusion.

The Illinois Supreme Court recently let stand an appellate court ruling that the pollution exclusion in comprehensive general liability policies bars coverage only for pollution that is expected or intended by the policyholder (*BI*, Oct. 9; March 20).

And, the Georgia Supreme Court in July ruled that the pollution exclusion does not bar coverage for hazardous waste cleanups (*BI*, July 3).

Nonetheless, insurer attorneys still believe their arguments concerning the pollution exclusion are prevailing.

"Courts are holding fairly consistently that the pollution exclusion means sudden and bars coverage for gradual pollution," said insurer attorney Robert J. Bates of Phelan, Pope & John in Chicago.

In the end, both policyholder attorneys and insurers agree that they must work toward compromise solutions.

"We must find more ways to resolve these issues without litigation," said insurer attorney Ms. Gleason.

But optimism is not running high.

"I see this litigation continuing for many years," predicted policyholder attorney Mr. Zoogman. "Five years from now we will be litigating issues we have not even thought of yet." ■

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Policyholders can't err and win cover: Scholar

By STACY ADLER

CHICAGO—Policyholders suing insurers for pollution cleanup costs have almost the same odds of winning as a baseball team trailing in the bottom of the ninth with two outs and a batter facing a full count, according to a law professor's analogy.

Policyholders must "bat a thousand" to win pollution coverage from their insurers, said Professor Kenneth S. Abraham of the University of Virginia School of Law.

If the policyholder loses even one argument in litigation, it is likely to lose all of the coverage at stake, he explained.



Mr. Abraham discussed the difficulties that policyholders face in suing insurers at the Environmental Insurance Law Institute held late last month in Chicago. The symposium was sponsored by Executive Enterprises Inc.

Both state and federal courts are split over whether government-mandated pollution cleanup costs are insurable under comprehensive general liability policies, Mr. Abraham pointed out.

Policyholders have won important victories on the insurability of costs spent to mitigate third-party damage, but insurers also have won important court rulings on the pollution exclusion, he said.

The pollution exclusion clause bars coverage for all pollution that is not "sudden and accidental."

While policyholders contend the clause should be interpreted to bar coverage only for pollution expected or intended by the policyholder, insurers have successfully persuaded courts that the clause should bar coverage for all pollution not occurring quickly.

Another wellspring of litigation surrounds the term "damages" in CGL policies. Policyholders argue that government-mandated cleanup costs are insurable damages.

Meanwhile insurers argue that only monetary damages awarded by a court of law are insurable under CGL policies.

California is "emblematic" of the division emerging in the courts on the "damages" issue, according to Mr. Abraham.

While one California appellate court has said that government-mandated hazardous waste cleanup costs are insurable, another California appellate court has ruled that these costs are not covered by insurance.

The 6th District Court of Appeals ruled in September that Chicago-based FMC Corp. cannot tap any of its 174 primary and excess liability insurance policies to pay tens of millions of dollars to clean up 46 polluted sites nationwide (*BI*, Sept. 18; Sept. 11).

And, in April the California 1st District Court of Appeals ruled that La Jolla, Calif.-based Aerojet-General Corp. could use its general liability insurance for a multimillion-dollar hazardous waste cleanup ordered under the Superfund Act (*BI*, May 1).

"There is really a nationwide split on the damages issue," said Mr. Abraham. "There is a crying need for resolution of this issue."

"There is no uniform body of law that has emerged. And, it may never emerge."

The division among the nation's courts in interpreting CGL policies hurts policyholders more than insurers because an adverse decision on any one aspect of the CGL policy voids coverage, Mr. Abraham explained.

"Even a little adverse law to policyholders can hurt them tremendously," Mr. Abraham observed.

"In essence, policyholders must pitch a shutout game." ■

Property insurers to enter coverage fray

By STACY ADLER

CHICAGO—Policyholders are beginning to look to their property insurers in an attempt to find coverage for the costs of government-mandated hazardous waste cleanups.

"There seems to be a new desire for a deep pocket," explained attorney Henry R. Daar of Clausen Miller Gorman Caffrey & Witous in Chicago.

"Liability insurers have been successful in defending these claims. Now, property policies are envisioned as the new deep pockets," he said at the Environmental Insurance Law Institute late last month in Chicago. The symposium was sponsored by Executive Enterprises Inc.

"The law is extremely new in this area. There are relatively few, if any, cases interpreting how environmental claims are to be treated under property policies," he said.

Westinghouse Electric Corp., one of the first policyholders seeking coverage for pollution claims under property policies, is suing more than 140 property and liability insurers to pay cleanup costs from 81 hazardous waste sites and thousands of bodily injury claims (*BI*, May 29; June 15, 1987).

The Pittsburgh-based company argues that because its most recent property insurance policies specifically exclude damage to land, its older property policies—by inference—must have insured such damages, Mr. Daar said.

However, policyholders are unlikely to prevail if they argue that groundwater contamination is property damage, he said.

"There is a plethora of law where policyholders argue that the groundwater belongs to third-parties," he explained. "Clearly, then groundwater is not covered by first-party property policies."

When considering pollution claims, courts also must determine when coverage under property policies is triggered.

Most courts agree coverage under property policies is triggered at the time the damage first occurs, according to Mr. Daar.

"In the property field, the policies in effect at the time the loss initiates covers the entire loss," Mr. Daar said.

For example, if a building caught fire at 11:59 p.m. on Dec. 31 and burned for two days, the property insurer on this risk on Dec. 31 would cover the entire loss, even though only minimal damage occurred during the first minute of the fire and the building was covered by a different insurer beginning at midnight, he said.

But in the liability arena, policyholders and insurers debate whether coverage is triggered when damage first occurs, when it is discovered or all periods in between.

Mr. Daar also noted that simply being denied coverage under an "owned property" exclusion in a liability policy does not guarantee a policyholder coverage under property policies.

"Owned property is not the same as insured property," he explained. For example, many property policies specifically exclude damage to land.

SPECIALTY RISKS



Photo: Mary Dunham

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NOVEMBER

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'OV. 9-10. Fourth Annual Na-ional Assn. of Health Data Or-anizations Meeting in Washing-on, D.C.; $225 for NAHDO embers; $295 for non-members. lational Assn. of Health Data Or-anizations, 316 Pennsylvania Ave. .E., Suite 202, Washington, D.C. 0003; 202-546-5881.

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NOV. 10. Assessing Vendors Workshop in Summit, N.J., spon-sored by Health Research Institute; $250. **Also Dec. 7** in Chicago. Health Research Institute, 1600 S. Main Plaza, Suite 170, Walnut Creek, Calif. 94596; 415-676-2320.

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NOV. 11-12. Medical Staff Law Update in Chicago, sponsored by the American Bar Assn.'s Section of Tort and Insurance Practice and Division for Professional Education; $390 for TIPS members; $350 for members of the ABA Young Lawyers Division; $425 for other ABA members; $200 for government employees; $75 for law students. American Bar Assn. Division for Professional Education, 750 N. Lake Shore Drive, Chicago, Ill. 60611; 312-988-6200.

NOV. 11-15. 21st Annual National Conference of Insurance Legislators Conference in Austin, Texas; $150 for legislators and staff; $25 for spouses. LaVerne Cantwell, National Conference of Insurance Legislators, 1776 Church View Drive, P.O. Box 217, Brookfield, Wis. 53008; 414-782-6669.

NOV. 12-15. 13th Annual Conference of the Assn. of Risk & Insurance Managers of Australia in Sydney, New South Wales; $575 Australian ($452) for IFRIMA members; $625 Australian ($531) for non-members. Dart Associates, P.O. Box 1197, North Sydney, New South Wales 2059; telephone 02-929-3628; fax 02-929-0446.

NOV. 13-14. Understanding Reinsurance Contract Language course in New York City, sponsored by Executive Enterprises Inc.; $990. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

NOV. 13-14. The Property-Casualty Reinsurance Pricing Forum in New York City, sponsored by Executive Enterprises Inc.; $990. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

NOV. 13-14. The Florida Symposium on Rehabilitation in Daytona Beach, Fla., sponsored by The Collyer Co.; $250. The Collyer Co., 716 South Beach St., Ormond Beach, Fla. 32174; 904-672-4584.

NOV. 13-15. Making Sense of Environmental Regulations course in Tampa, Fla., sponsored by The University of Kansas Division of Continuing Education; $595; 20% discount for three or more attendees from the same organization. University of Kansas, 6600 College Blvd., Suite 315, Overland Park, Kan. 66211-1522; 913-491-0221.

NOV. 13-15. Property/Casualty Statutory Financial Statements course in New York City, sponsored by Executive Enterprises Inc.; $895 plus $95 non-refundable registration fee per organization. **Also Nov. 29-Dec. 1** in Los Angeles and **Dec. 11-13** in Orlando, Fla. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 212-645-8689; 800-831-8333.

NOV. 13-15. 16th Annual Computer Security Conference in Atlanta, sponsored by the Computer Security Institute; $845 for CSI members; $895 for non-members; $865 for second attendee from the same organization; $850 each for three or more attendees from the same organization. Computer Security Institute, 360 Church St., Northborough, Mass. 01532; 508-393-2600.

NOV. 14. Controlling Workers' Compensation Costs workshop in Springfield, Ill., sponsored by the Illinois State Chamber of Commerce; $120 for ISCC members; $180 for non-members. **Also Nov. 29** in Chicago. Illinois State Chamber of Commerce, 20 N. Wacker Drive, Chicago, Ill. 60606-3083; 312-372-7373.

NOV. 14-15. Crisis Communication Management seminar in Atlanta, sponsored by E.I. du Pont de Nemours & Co. Management Services; $1,045 including seminar materials, luncheon and refreshments. Du Pont, Attn. CAK, 1300 First State Blvd., Suite A, Wilmington, Del. 19804; 800-248-7020.

NOV. 14-15. Managing Environmental Compliance at Federal Facilities conference in Dallas, sponsored by Executive Enterprises Inc.; $990. **Also Dec. 4-5** in Chicago, **Jan. 16-17** in Atlanta. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

NOV. 14-16. Ninth Annual Construction Insurance Conference in San Antonio, Texas, sponsored by the International Risk Management Institute Inc.; $548. International Risk Management Institute, 12222 Merit Drive, Suite 1660, Dallas, Texas 75251; 800-527-2580; 214-960-7693.

NOV. 15. The Insurance of Latent Defects conference in London, sponsored by the Insurance & Reinsurance Research Group Ltd.; 240 pounds ($373). Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

NOV. 15. Workers' Compensation-Issues Into the '90s seminar in Sioux City, Iowa, sponsored by The Society of Chartered Property & Casualty Underwriters; $95 for CPCU members; $120 for non-members. Bonnie Kinsley, The Society of Chartered Property & Casualty Underwriters, 720 Providence Road, CB No. 9, Malvern, Pa. 19355; 215-251-2735.

NOV. 15. Maximizing Coverage; Minimizing Costs seminar in Elmhurst, Ill., co-sponsored by The Society of Chartered Property & Casualty Underwriters and the West Suburban Chicago chapter of The Society of CPCU; $125 for CPCU members; $185 for non-members. Mari Jennings, The Society of Chartered Property & Casualty Underwriters, Kahler Hall, 720 Providence Road, CB No. 9, Malvern, Pa. 19355; 215-251-2741.

NOV. 15-17. Claims Management course in Orlando, Fla., sponsored by the Risk & Insurance Management Society Inc.; $595 for RIMS members; $645 for non-members. Risk & Insurance Management Society Inc., 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

NOV. 15-17. Government Risk Management Seminar in Washington, D.C., sponsored by the Public Risk Management Assn.; $375 for PRIMA members; $475 for non-members. Public Risk Management Assn., 1117 N. 19th St., Suite 900, Arlington, Va. 22209; 703-528-7701.

NOV. 16. Medical Malpractice Insurance Issues conference in New York City, sponsored by FOJP Service Corp.; $215. Barbara B. Challan, FOJP Service Corp., 130 E. 59th St., New York, N.Y. 10022; 212-891-0709.

NOV. 16-17. Medical Malpractice Workshop in New York City, sponsored by the Practising Law Institute; $495. Practising Law Institute, Department EWA9, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

NOV. 16-17. Litigating the Complex Motor Vehicle "Crashworthiness" Test seminar in New York City, sponsored by the Practising Law Institute; $390. Practis-

Continued on page 95

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LEGAL NOTICE

IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS COUNTY DEPARTMENT, CHANCERY DIVISION IN THE MATTER OF THE LIQUIDATION OF (AMALGAMATED LABOR LIFE INSURANCE COMPANY) NO. 89 CH 3565

N O T I C E

PLEASE TAKE NOTICE, that on July 5, 1989 an Order of Liquidation with Finding of Insolvency was entered against Amalgamated Labor Life Insurance Company ("Amalgamated") by the Honorable Albert Green, Judge of the Circuit Court of Cook County, Illinois. Zack Stamp, Director of Insurance of the State of Illinois, is the Statutory and court affirmed Liquidator of Amalgamated.

TAKE FURTHER NOTICE that pursuant to the Order of said court, all rights and liabilities of Amalgamated and its creditors, policyholders and all other persons interested in its assets are fixed as of July 5, 1989, unless otherwise provided by such other Order of the Court.

TAKE FURTHER NOTICE that any and all persons, partnerships, corporations, associations, estates, trusts and governmental units having or claiming to have any accounts, debts, claims or demands against Amalgamated or claiming any right, title or interest in or to any funds or property of Amalgamated in the possession of the Liquidator are required to file a Proof of Claim with the Liquidator on or before 4:30 p.m. Chicago Time, July 5, 1990.

TAKE FURTHER NOTICE, that the form of and required content of all proofs of claim are described in the Illinois Revised Statutes, 1987, Chapter 73, Paragraph 821. Proofs of claim, together with supporting documents, if any are to be filed with and may be secured from the Special Deputy Liquidator, Amalgamated Labor Life Insurance Company, In Liquidation, 446 East Ontario Street, Suite 700, Chicago, Illinois 60611. Filing shall occur upon the receipt of Proof of Claim by the Liquidator. The Liquidator reserves the right to require such additional information with respect to any claims as he may deem necessary. The Liquidator further reserves all rights to any and all defenses of Amalgamated concerning such claim. All Proofs of Claim must be duly sworn to before an Officer authorized to take oaths.

THE LAST DATE FOR THE FILING OF PROOFS OF CLAIMS WITH THE LIQUIDATOR AT HIS ABOVE MENTIONED OFFICE IS JULY 5, 1990 AT 4:30 P.M., CHICAGO TIME. NO PERSON HAVING OR CLAIMING TO HAVE ANY CLAIMS AGAINST AMALGAMATED LABOR LIFE INSURANCE COMPANY, SHALL PARTICIPATE IN ANY DISTRIBUTION OF THE ASSESTS OF THE COMPANY UNLESS SUCH CLAIMS ARE FILED WITH THE LIQUIDATOR ON OR BEFORE JULY 5, 1990 AT 4:30 P.M.

James W. Schacht, Special Deputy Liquidator, Office of the Special Deputy, 446 East Ontario, Suite 700, Chicago, Illinois 60611, (312) 915-4700.

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TOTAL 50,751

* Source Business/Occupational breakdown of qualified circulation, May 29, 1989 issue, as submitted to BPA for June 1989 BPA Publisher's Statement.

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Dates

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; Law Institute, Department
'A9, 810 Seventh Ave., New York,
'. 10019; 212-765-5700.

)V. 16-17. Managed Health Care ıinar in San Francisco, sponsored the Practising Law Institute; $495. ıctising Law Institute, Department -105, 810 Seventh Ave., New York, '. 10019; 212-765-5700, Ext. 271.

)V. 20-21. Well Control Operaıns: A Seminar for the Risk ınager and Insurance Profesınal in Calgary, Alberta, co-sponred by Abel Engineering, Well ntrol Co. and The Wyatt Co.; $425. .e Wyatt Co., Risk Management actice, 300 Fifth Ave. S.W., Suite 0, Calgary, Alberta T2P 3C4; 403-5-6748.

)V. 20-21. Insurance Industry :counting and Reporting Conrence in Washington D.C., sponred by KPMG Peat Marwick; $875. ‹ecutive Education Registrar, PMG Peat Marwick; 800-762-3932.

)V. 20-24. Practical Risk Manement course in London, sponred by the Insurance & Reinsurıce Research Group Ltd.; 775 ›unds ($1,205). Insurance & Reinırance Research Group Ltd., Bridge ouse, 181 Queen Victoria St., Lon›n, England EC4V 4DD; phone: 01-6-2175; fax: 01-489-1487.

)V. 28-29. Reinsurance Account-ıg Workshop in London, sponsored y the Insurance & Reinsurance Re-earch Group Ltd.; 400 pounds 622). Insurance & Reinsurance Re-earch Group Ltd., Bridge House, 181 ueen Victoria St., London, England C4V 4DD; phone: 01-236-2175; fax: 1-489-1487.

)V. 29. Pollution Liability—The aw and Available Insurance se-ıinar in Indianapolis, co-sponsored y the Indiana chapter of the Society f Chartered Property & Casualty Underwriters and the Society of PCU; $125 for Society of CPCU ıembers; $185 for non-members. Mari Jennings, Society of Chartered roperty & Casualty Underwriters, Kahler Hall, 720 Providence Road, B No. 9, Malvern, Pa. 19355; 215-51-2741.

)V. 30. Directors & Officers Liaıility Insurance conference in Lonlon, sponsored by the Insurance & Reinsurance Research Group Ltd.; 240 pounds ($373). Insurance & Reinurance Research Group Ltd., Bridge House, 181 Queen Victoria St., Lonlon, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

)V. 30-DEC. 1. Rewarding the Insurance Executive in the '90s conference in New York City, sponsored by KPMG Peat Marwick; $775. **Also Dec. 4-5** in Chicago. Nina Berler, KPMG Peat Marwick, 201-307-7375.

)V. 30-DEC. 1. Information Systems Architecture and Strategic Data Planning in the Insurance Industry seminar in New York City, sponsored by the Insurance Data Management Assn.; $250 for IDMA members; $350 for non-members; $50 for luncheon only. Insurance Data Management Assn., 85 John St., New York, N.Y. 10038.

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

Letters

Continued from page 8

flict.

- The employer/purchaser must recognize that risk sharing relationships (i.e., capitation) have inherent problems. One can point to criticisms of health maintenance organizations in terms of restricting or delaying treatment until the symptoms subside, etc.
- The use of a community-based group practice may expose the benefit manager to employee complaints due to perceived restriction in care. Employees who have longstanding therapeutic relationships or who have a "top of mind" awareness that a particular treatment facility is "the place to go," may be angry to find gateway mechanisms with alternative treatment modalities that are supported by wide copayment differentials. The benefit manager must realize that this will be a "cost" of creating a controlled access mechanism.
- The employer/purchaser that has a third party administrator mechanism, an employee assistance program mechanism and a utilization review mechanism (often each with its own vendor), will now have the joy of integrating these functions with the mental health provider under any of the configurations cited in the article.

Under the risk-sharing context, the provider will likely want to assume the utilization review mechanism. Otherwise, the burden of integrating these functions should be upon the vendors, not the employer/purchaser. Vendors that create real or artificial barriers to smooth integration (i.e., EAPs that want to utilize their own panels and TPAs that charge for critical mental health-specific utilization reports) should be aggressively challenged.

- The employer/purchaser must hold one of all of its managed care vendors accountable for the provision of meaningful utilization statistics. Among the most common measures are outpatient visits per 1,000, inpatient days per 100, and cost per family member per month. It would be appropriate for the employer/purchaser and provider to agree on acceptable utilization range targets.
- The employer/purchaser must hold the provider at risk for *all* utilization, including inpatient. The mental health profession is well aware of cost-effective alternatives to inpatient care. However, financial incentives supporting less restrictive treatment have not materialized in mental health benefit design yet.

Finally, the provider must articulate and subsequently demonstrate the combined philosophy of least restrictive, most clinically appropriate treatment. This may equate, for a bona fide substance abuse rehabilitation patient, to one week of inpatient treatment/rehabilitation followed by two to three weeks of partial hospitalization (an "in lieu of" benefit to inpatient treatment), followed by a certain number of weeks of outpatient care.

Yes, as Dr. Bradman well stated, there is nothing sacred about 28-day treatment programs for substance abuse or ongoing inpatient psychiatric treatment, for that matter.

With aggressive and appropriate case management, these patients can be properly placed and aggressively transitioned to less restrictive treatment settings at correlative unit costs.

Phillip E. Prosser
Memphis, Tenn.

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May 22	May 9	Public Risk & Insurance Management Assn.	Nashville, TN
May 29	May 17	National Assn. of Insurance Brokers	Sea Island, GA
Jun 5	May 23	National Assn. of Insurance Commissioners	Cincinnati, OH
Jun 12	May 31	Group Health Assn. of America/GHI	Atlanta, GA
Jun 19	Jun 7	National Assn. of Insurance Women	Honolulu, HI
Aug 28	Aug 15	Monte-Carlo Rendez-Vous de Septembre	Monte-Carlo
Sep 11	Aug 29	Independent Insurance Agents of America	Los Angeles, CA
Oct 2	Sep 20	National Assn. of Casualty & Surety Agents & Executives	Greenbrier, WV
Oct 9	Sep 26	RIMS/AEAI	Monte-Carlo
Oct 9	Sep 26	Self-Insurance Institute of America	San Diego, CA
Oct 16	Oct 4	Chartered Property & Casualty Underwriters	Anaheim, CA
Oct 23	Oct 11	National Assn. of Professional Insurance Agents	Las Vegas, NV
Oct 23	Oct 11	Baden Baden Conference	Baden Baden, W. Germany
Nov 6	Oct 24	National Assn. of Independent Insurers	Seattle, WA
Dec 4	Nov 21	National Assn. of Insurance Commissioners	Las Vegas, NV

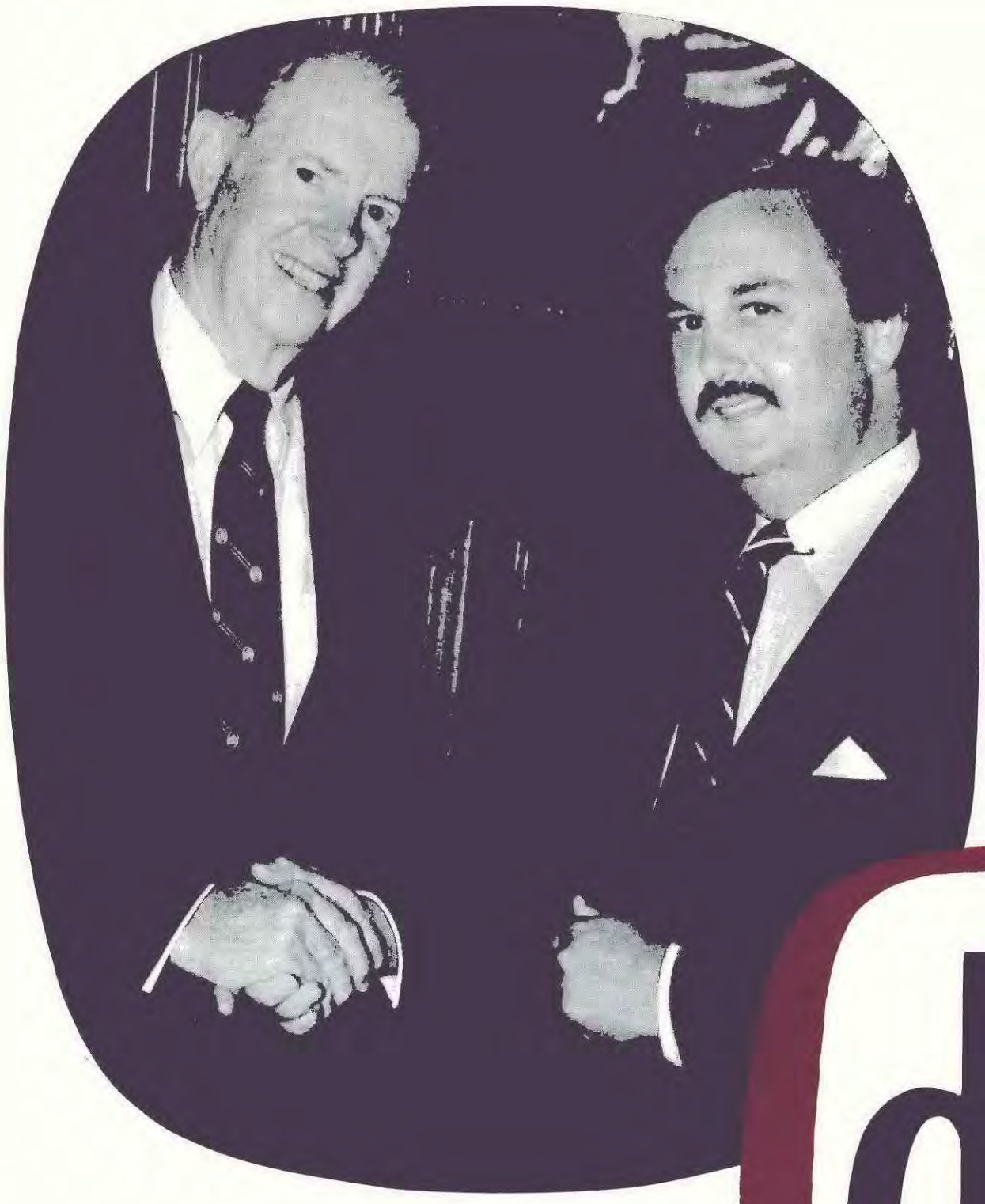
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anaged care

itinued from page 1

hese findings of employer skep-sm and uncertainty over the lity of HMOs and PPOs to de-er health care cost savings, as l as what employers are doing make managed care plans work ter, are detailed in "1989 Man-d Care Survey."

he survey, based on the re-onses of 1,915 employers, is eduled to be released this week.

t is not surprising that many ployers question whether HMOs l PPOs, touted by supporters as most cost-effective way to pro-le health care, really help con-l costs.

Both rapidly proliferated in the 80s, coinciding with steep health e cost increases.

While HMOs premium increases ually have been much lower than ose imposed by insurers writing ditional fee-for-service indem-y plans, even that gap may be rrowing.

But, nearly one-third of survey respondents—31%—say HMO premiums do not fairly reflect health care costs for enrolled employees.

Fifty-two percent of respondents said HMOs attract good risks—younger, healthier employees.

"Many employers believe their HMOs 'shadow price,' i.e., set rates based on the employer's indemnity premiums," the report says.

Indeed, 54% of employers reported that their HMO rates are the same or higher than their indemnity plan rates.

Federal law may have encouraged this "shadow pricing," benefit experts have said.

Under the so-called equal contribution rule, an integral part of the HMO Act of 1973, employers had been required to make the same contribution toward the premium charged by a federally qualified HMO as the largest contribution made to the largest non-HMO plan, such as a companywide, self-funded indemnity plan.

For example, if an employer had contributed $200 a month for family coverage under the indemnity plan, it would have had to contribute that much toward HMO coverage as long as the HMO premium was $200 or more.

Noting that younger, healthier employees tend to select HMOs over indemnity plans, employers argued that the equal contribution rule forced them to pay more than their experience would justify.

As part of a major revision of the 1973 law, Congress last year amended the equal contribution rule to require only that employer contributions to HMOs not be "financially discriminatory." For example, employers now can make the same percentage contribution toward HMO premiums as they make for other health care plans, rather than paying equal dollar amounts for both types.

The percentage of employers making equal dollar contributions to their HMO and indemnity plans declined during the last year to 55% from 67%, the survey found.

HMOs are changing, albeit slowly, the way they base rates. For example, the percentage of employers with an HMO that sets rates based on an employer's experience rather than uses community rating, under which the entire community's experience is taken into account, has increased to 35% during the last year from 33%.

Experience rating can have a dramatic effect on employers' perception of the ability of HMOs to control costs, the survey found.

For example, of the employers contracting with HMOs that base premiums on an employer's own experience, 42% said their HMOs are cost-effective, compared with 31% of employers that offer HMOs with community rating.

An employer may prefer experience rating over community rating because it may feel: "I should pay for my experience, and not the experience of others," Mr. Erb said.

And, the survey notes, the 1988 HMO Act amendments allow federally qualified HMOs to consider individual employer's experience in setting rates.

The amendments allow federally qualified HMOs to use "adjusted community rating," under which an HMO can set advanced, fixed rates based on an employer's prior and projected experience. But, unlike true experience rating, a federally qualified HMO cannot make a retrospective adjustment at the end of the year if claims turn out to be higher than expected.

Non-federally qualified HMOs always have been free to choose their own rating structure.

But, employers' perceptions about HMOs' ability to control health care costs varies by region.

Among Pacific Coast employers, 51% said their HMOs are cost-effective, compared with only 19% of Mid-Atlantic employers.

HMOs are most widespread on the Pacific Coast, where 79% of employers offer them, compared with 77% for Mid-Atlantic and 45% for South-Central states.

More employers said they are weeding out inefficient HMOs. For example, 26% of respondents—up from 22% in 1988—said this year they tried to cut the number of HMOs offered.

Consolidating "provides an excellent opportunity for employers to lower administrative costs and restrict offerings to those plans that meet cost effectiveness and quality criteria," Mr. Erb said.

More employers also are conducting actuarial studies to determine whether HMO premiums are appropriate based on the predicted cost of providing health care to enrolled employees.

For example, 38% of employers with more than 20,000 employees conducted HMO actuarial studies this year, up from 31% in 1988.

The survey also found:

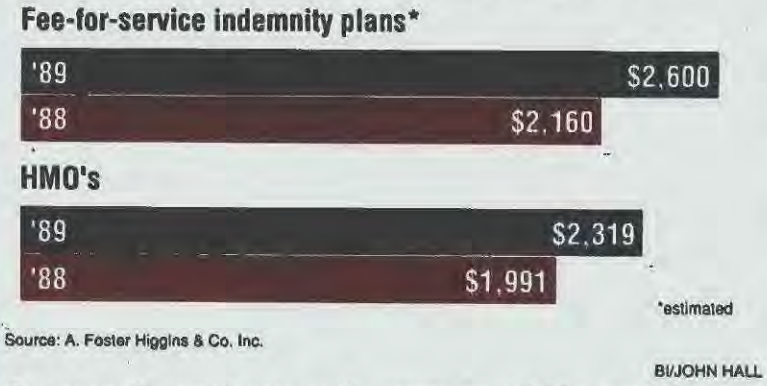
- 30% of eligible employees enrolled in HMOs this year, unchanged from 1988.
- 62% of surveyed employers now offer an HMO, compared to 61% last year.

•

Copies of the Foster Higgins "1989 Managed Care Survey" are available from Joan Lemeshow, A. Foster Higgins & Co. Inc., 212 Carnegie Center, Princeton, N.J. 08540; 609-520-2275. The cost is $100, and prepayment is requested.

Indemnity plan, HMO costs increase

Indemnity plan costs have increased 20.4% in the past year, while HMO premiums have risen 16.5%.



Source: A. Foster Higgins & Co. Inc.

BI/JOHN HALL

For example, employers said HMO premiums went up 16.5% on average this year to $2,319 per employee—from $1,991 in 1988.

Meanwhile, respondents said indemnity plan costs increased 20.4% on average this year to $2,600 per employee from $2,160 in 1988.

"The growth in managed care has not been accompanied by greater control over health care costs," Foster Higgins says.

Employer disillusionment over the inability of HMOs to control health care costs is widespread, according to the survey.

For example, 32% of employers disagreed with the statement: "HMOs are effective in controlling our costs," while 35% of employers were neutral (see chart, page 1).

John Erb, a managing consultant in Foster Higgins' Princeton, N.J., office, is not surprised that so many employers question whether HMOs help control costs. "HMOs may be effective in controlling costs, but the employer is not seeing those savings," he said.

An HMO's benefit structure may make it difficult for employers to measure its cost controlling effectiveness, said James Doherty, president of Group Health Assn. of America, a Washington, D.C.-based HMO trade group.

For example, an employer can estimate savings from sharply raising deductibles and coinsurance levels in its indemnity plan, Mr. Doherty said. However, to the extent benefits are cut, more costs are shifted to employees.

Compared with indemnity plans, HMOs typically offer a much richer benefit package, with no deductibles and low copayments. Unless these differences in employees' out-of-pocket costs are examined, "it can be like apples and oranges" when trying to compare the overall cost effectiveness of HMOs and indemnity plans, Mr. Doherty said.

"We know we provide cost-effective quality care. But we have to do a better job of communicating that," Mr. Doherty said.

HMOs are a simple, efficient way to deliver health care, he added.

Employers say PPOs are cost-effective but can't track savings

By JERRY GEISEL

PRINCETON, N.J.—While most employers cannot quantify the effectiveness of their preferred provider organizations, a majority believe PPOs do control health care costs, according to a new survey.

Fifty-five percent of employers responding to the survey by benefit consultant A. Foster Higgins & Co. were unable to measure the effect of their PPO arrangements on their overall health care costs.

Another 24% of surveyed employers said a PPO had reduced their health care costs, while 4% said a PPO actually increased the company's overall health care costs, according to Foster Higgins' "1989 Managed Care Survey."

And 17% of the survey respondents said a PPO had no effect on their health care costs.

John Erb, a managing consultant with Foster Higgins in Princeton, N.J., believes that many employers cannot measure the effect PPOs have on their health care costs because of a lack of data.

For example, PPOs, especially smaller ones, may not have access to claims information of employees who use services outside the PPO network. This is especially true if a PPO organizes a network but does not actually pay claims.

"If a PPO only organizes a network, it may not have utilization information," said Jackie Berkelhamer, executive director of the American Assn. of Preferred Provider Organizations in Chicago.

But, "PPOs are looking to enhance their data capabilities," pointed out AAPPO Chairman Jim Kent, who also is executive vp and chief operating officer of Mental Health Programs Corp. in Tampa, Fla., which provides managed mental health and substance abuse programs.

While most employers cannot quantify whether PPOs actually do save money, employers "believe" PPOs are helping control their health care costs, according to the survey.

The survey found that 60% of employers with PPOs—including both those who could and could not actually quantify PPOs' cost impact—agreed that PPOs are cost-effective, while 32% were neutral and 8% disagreed.

Sixty-four percent of employers with self-insured health care plans believe PPOs are cost-effective, compared with 55% of employers with insured plans.

Self-funded employers are more likely to agree that PPOs are cost-effective probably because a self-funded employer will see the immediate impact of the discounted prices offered by the PPO provider, the survey pointed out.

While the percentage of employers offering health maintenance organizations has stagnated (see story, page 1), the popularity of PPOs is increasing. The survey found that 31% of employers now offer a PPO, up from 25% last year and just 15% as recently as 1986.

One reason that PPOs may be growing in popularity is that PPOs can attempt to reduce costs while retaining provider choice for employees, according to the survey.

"Employers may find a PPO. . .which can allow employees to continue receiving 100% coverage if they use the network to be a less threatening means of reducing benefit levels than instating a coinsurance requirement," the survey noted.

The key to persuading employees to use PPOs is giving them incentives to use network providers, according to the survey.

For example, 43% of employers impose only a 10% coinsurance requirement on employees using PPOs, while 30% do not have a coinsurance requirement. Twenty-seven percent impose a coinsurance requirement of at least 15%.

By contrast, when services outside the PPO network are used, 71% of employers impose a 20% coinsurance requirement; 16% impose at least a 30% coinsurance requirement; 2% require 10% coinsurance; and 11% require other levels.

But, employers are requiring employees to pay a greater share of the cost of services they receive from PPO providers, the survey found.

For example, the percentage of PPOs requiring an employee to pay a deductible when using a PPO hospital increased to 58% from 51% during the last year.

"Employers apparently are becoming reluctant to waive cost-sharing requirements entirely since this strategy can backfire And drive up utilization, negating PPO savings," the survey explained.

Hibernian

Continued from page 2

then be paid by the South Carolina Property & Casualty Insurance Guaranty Assn.

However, American Mutual Fire will assume Hibernian's runoff business as of Dec. 1, or 30 days after the date of liquidation. As a result, coverage written by Hibernian will continue in force until the end of each policy's term.

Without such a plan, policies would have been canceled in 30 days. Policyholders also would have faced a $250 deductible on subsequent claims filed against the guaranty fund and a $100 deductible to obtain the return of their unearned premium, said a spokesman for the South Carolina Insurance Department.

Chief Insurance Commissioner John Richards is "ecstatic" about the plan, said a spokesman. It will protect policyholders and claimants of Hibernian, "who should notice no difference in the change from Hibernian to American Mutual Fire, with the same service and all contractual obligations being fulfilled," Mr. Richards said in a statement.

The arrangement is "unique," said Lanville Mengedoht, chairman of the guaranty fund. "We are very pleased that we could do it without any real financial burden cast on the policyholders of Hibernian Mutual."

To fund the payment of Hibernian's claims, the guaranty fund expects to assess relevant insurers in the state the maximum 1% of premium written before the end of this year and again early next year, Mr. Mengedoht said.

American Mutual Fire and a subsidiary, Carolina American Insurance Co., together face an estimated $50 million in hurricane loss claims, although $38 million of that was reinsured, said Richard Russell, American Mutual Fire's president. The two had 1988 net premiums of more than $50 million.

Both companies "are fully capable of paying all claims, both storm-related and otherwise," he said. However, they are seeking additional quota-share reinsurance protection so they can continue writing at pre-storm levels, he said, adding that American Mutual Fire has agreed in principle to a reinsurance agreement with North American Reinsurance Corp. in New York.

In addition, American Mutual Fire would consider an infusion of additional capital to meet its goal of ending 1989 with a policyholder surplus of at least $16 million.

American Mutual Fire and Carolina American had combined policyholder surplus of more than $33 million before the storm, Mr. Russell said.

American Mutual Fire is not connected to American Mutual Liability Insurance Co. or American Mutual Insurance Co., which were placed in liquidation in March (*BI*, March 13; Jan. 20). ■

Supreme Court

Continued from page 2
agency to ask Congress for an increase in termination insurance premiums.

The current annual PBGC premium ranges from $16 to $50 per plan participant, depending on how well a defined benefit pension plan is funded.

"This is an important case for the pension insurance fund and the people we protect. We are pleased that the Supreme Court will review it," said PBGC Executive Director James B. Lockhart.

LTV said it was disappointed that the Supreme Court will review the appellate court decision. But, it added it is confident the justices will uphold the lower court rulings.

LTV also said that it will continue settlement discussions with the PBGC while the case is under review by the Supreme Court.

The Supreme Court also let stand without comment the New York state Court of Appeal's decision that allows DES victims to sue manufacturers of the drug on the basis of their market share when the victims cannot identify the specific maker of the drug that caused their injuries.

The high court in 1980 upheld a comparable decision by the California Supreme Court (*BI*, Oct. 20, 1980; March 31, 1980).

E.R. Squibb & Sons, Eli Lilly & Co. and Rexall Drug Co.-three of eight firms named as defendants in the underlying New York litigation —separately petitioned the Supreme Court in August to review the decision.

Other defendants in the underlying litigation were Merck & Co. Inc., Upjohn Co., Abbott Laboratories, Boyle Co. and Rorer Group Inc.

The eight defendants represent about 65% of the DES market share, according to attorney Paul Rheingold, of Rheingold & McGowan in New York, which represents more than 100 women suing DES manufacturers.

"Other manufacturers were either too small or are out of business today," he pointed out.

Approximately 300 companies manufactured DES, or diethylstilbestrol, between 1941, when the Food and Drug Administration approved the drug, and 1971, when the FDA banned its manufacture.

None of the three manufacturers that asked the high court to review the New York court decision would comment on either the Supreme Court's refusal to review the case or on their product liability insurance.

But these rulings in "two very large states clearly will have an impact on other states," Mr. Rheingold said.

"The fact that the two largest states in the nation have come in this way on market share liability and have written very clear opinions on the matter is positive. Therefore, it is my opinion that it will clearly have an impact on other states"

Mr. Rheingold also noted that Washington and Wisconsin courts have adopted a market-share liability standard.

However, defense attorney Geoffrey R.W. Smith with McCutchen, Doyle, Brown & Enersen in Washington, D.C., who specializes in food and drug product liability litigation, believes that courts in other states will adopt a market-share liability standard that lies somewhere between the standards adopted by the New York and California courts.

In California, a pharmaceutical company can escape liability if it can prove it did not manufacture the drug that caused a plaintiff's injuries.

This defense is not available to a pharmaceutical company in New York.

"It is more likely that in the next states, justices on the state supreme courts will craft something new," he said. The New York case "goes so far in the extreme that it may prompt courts to look for solutions somewhere between" the market-share liability standards adopted by the New York and California courts.

And, observers say the Supreme Court's refusal to examine the New York court's decision makes litigation between drug manufacturers and their insurers over product liability coverage likely.

"One will have a tough t ascertaining what coverage drug manufacturers had," served Peter Polstein, senior with Alexander & Alexander S vices Inc. in New York.

"They probably had whatever ability forms and coverages w available at that time. There w no claims-made forms, but I im ine there may have been dedu ibles and retentions of some fo but not to the degree they ca today," he said.

And "back in the '40s, '50s a '60s, self-insurance was not ty cal," Mr. Smith pointed out.

"Therefore, there is an imme problem between insurers and pharmaceutical manufactur where the liability coverage qu tion concerns when the drug w made, when the claim was ma when manifestation of the inju occurred or a combination of three," Mr. Smith explained.

Currently, most pharmaceuti manufacturers self-insure much their product liability risk, sa Mr. Rheingold.

Captive tax ruling

Continued from page 1
ance sheet.

However, the relationship between sister corporations and captives does not bar such deductions because a sister corporation's balance sheet is not affected by a loss to the captive, the court found.

Therefore, the appellate court reversed the U.S. Tax Court and ruled that premiums paid to captives by sister corporations are true transfers of risk and, thus, are tax-deductible.

As a result, corporations in the 6th Circuit can structure their operations so that captive premiums are paid by subsidiaries, rather than by the parent company, and now enjoy sizable tax deductions, attorneys say.

The appellate court in its decision recognized that corporations will be able to structure—or restructure—their operations to take full advantage of the court's ruling by making payments to captive insurers through subsidiaries.

"Such an argument provides no legal justification for denying the deductions in the brother-sister context," the court said.

Furthermore, corporations in the 6th Circuit with premium payments that already meet the test outlined in the appellate court ruling will be able to seek tax refunds for the past three tax years from the IRS, attorneys point out.

In order to receive a deduction under the 6th Circuit ruling, the captive must be owned by the parent company, not by subsidiaries. In addition, the captive must be adequately capitalized and there cannot be an indemnification agreement between the subsidiaries and the captive.

"There are a lot of cases pending and a lot of tax years that are still open" involving corporations in the 6th Circuit, said attorney James Cameron of Baker & McKenzie in New York.

"Taxpayers in the 6th Circuit will be a lot more aggressive in seeking deductions," he predicted.

The ruling stemmed from a suit brought by Humana, seeking tax deductions for premiums paid between 1977 and 1979 by Humana hospitals to its Colorado captive, Health Care Indemnity Inc.

About 93% of the premiums paid to Health Care Indemnity were paid by Humana subsidiaries, according to Humana's Mr. Hipwell.

Based on this calculation, Humana expects to recover $9 million in tax refunds and $18 million in interest for the years 1977 to 1979.

In addition, Humana is litigating the same deductibility issue in Tax Court for the tax years 1980-1985 and is contesting the issue for all years through to the present.

If the 6th Circuit's decision applies to all tax years subsequent to 1979, Humana estimates that as of Oct. 25, the company could recover an additional $24 million in tax refunds and $29 million in interest.

One reason the IRS may have decided not to seek Supreme Court review of this 6th Circuit decision is because it is waiting until at least one federal appellate court rules in its favor on this issue, said tax attorney J. Patrick Whaley of Musick, Peeley & Garrett in Los Angeles.

"The IRS is trying to find the best case to take to the Supreme Court," agreed Mr. Cameron.

The U.S. solicitor general, who represents the federal government before the Supreme Court, often bases decisions to seek high court review of a court decision on whether a significant amount of money is at stake and whether federal appellate courts have issued conflicting rulings, accordi to Mr. Whaley.

"There is not a clear-cut conflic in this instance, he noted.

In addition, the IRS may look Congress, rather than to the court for relief, attorneys say.

Attorneys for the IRS would n return phone calls.

In a separate case, the U.S. Ta Court late last week issued anoth ruling on the deductibility of pr miums paid to a wholly owned cap tive subsidiary.

In a case involving Memphi Tenn.-based Malone & Hyde Inc., wholesale food distributor, the cou reaffirmed its position that premium paid by a parent corporation to subsidiary are not tax deductible be cause there is no risk shifting or ris distribution.

Malone & Hyde purchased primar property, liability, auto and worke compensation insurance from North western National Insurance Co. c Milwaukee, which, in turn, reinsure part of the risk with Malone & Hyde's Bermuda-based captive Eastland Insurance Ltd.

The Tax Court noted in its Nov. decision that there was no evidenc that Malone & Hyde charged pre miums paid to Northwestern Na tional and reinsured through East land back to any of its subsidiaries Therefore, the court said: "We neec not address the brother-sister cor poration issue."

However, attorneys pointed out th court did imply that if the brother sister issue were raised by Malone & Hyde, it would have followed th Humana decision, since Malone & Hyde is located in the 6th Circuit.

"This case shows that Tax Court will follow the 6th Circuit for cases going to the 6th Circuit," said Mr Gold of Baker & McKenzie. ■

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FICA taxes to rise to 7.65% in 1990

Washington

WASHINGTON—Employers and employees will pay higher Social Security taxes next year.

The FICA tax rate and the taxable wage base will increase next year.

The tax rate will rise to 7.65% from 7.51%, payable by the employer and employee for a total tax rate of 15.3%.

In addition, the first $50,400—up from $48,000—of an employee's salary will be subject to the FICA tax.

The increases will raise the maximum tax paid by employers to $3,855.60 per worker in 1990 from $3,604.80 in 1989.

In addition, the maximum job-related income a Social Security beneficiary under age 65 can earn without a reduction in Social Security benefits will be $6,840 in 1990, up from $6,480, while beneficiaries aged 65-69 will be able to earn up to $9,360 in job-related income next year, up from $8,800.

Social Security beneficiaries over 69 have no limits placed on earnings.

The nation's 38.9 million Social Security beneficiaries will receive a 4.7% cost-of-living increase, also beginning in January.

—By Jerry Geisel

PBGC names official

Diane E. Burkley, a veteran Washington attorney, has been named deputy executive director of the Pension Benefit Guaranty Corp.

Ms. Burkley, 37, will be the PBGC's chief negotiator.

Ms. Burkley most recently was a partner in the Washington, D.C., office of the law firm Reed, Smith, Shaw & McClay of Pittsburgh. Previously, she was a pension and insurance policy consultant to the Executive Office of the White House.

Ms. Burkley also has served as a special assistant in the U.S. Department of Labor's solicitor's office.

She has a degree from the Georgetown University Law Center in Washington, D.C.

Ms. Burkley succeeds Royal Dellinger, who left the PBGC last month to do private consulting.

—By Jerry Geisel

ısurance fraud

ntinued from page 1

epfert observed.

:his means the MGA only has to rry about concealing the volume unpaid claims.

Mr. Goepfert recalled that when controlled a large book of shop- ıg center business, his method of aling with reported but unpaid ıims was to "put them in file awers and forget about them til you get an attorney letter."

ın addition to intentionally un- rreserving for unpaid claims, the GA would ignore incurred-but- t-reported loss reserves, despite ws requiring that such reserves established.

'He's worried about hiding the 0% loss ratio. He's not worried out the 65% IBNR reserve," Mr. epfert said.

"There's absolutely no way any mpany under any circumstances ould allow an (agent) to handle ıy claims," he advised. "That's e kiss of death."

The hypothetical MGA also can phon funds by setting up its own fshore reinsurer to assume the ısiness being written.

Such an offshore reinsurer need ıt have much real capital of its wn, he added: Many offshore ınks will rent certificates of de- ɔsit to a reinsurer looking to bol- er its financial statement.

"What I'm talking about is banks ıat everybody recognizes, banks ıat anyone would take paper om, no question," he said.

The copy of a rented CD given to ıe reinsurer would not be dated, ır. Goepfert added, explaining ıat this protects the bank from ver actually having to pay any- ıing on the instrument. If some- ne tried to collect on the CD, the opy could be backdated to show ıat it had already been taken back y the bank, he explained.

Mr. Goepfert added that an in- ırance fraud artist who manages ɔ buy a U.S. insurance company an "blow it out" in various ways.

For example, an unscrupulous ısurance company owner could et up a non-U.S. entity to write he insurer's catastrophe reinsur- nce protection, he said.

Large sums of money could be ıoved out of the insurer this way vith little risk of its ever being eeded, as long as the catastrophe overage's attachment point is set o high that it will never be ierced, he observed. "That's one vay to move the money to wher- ever you want it," he said.

The unscrupulous operator can move the money yet again by setting up many other reinsurers to act as retrocessionaires on the catastrophe coverage, he added.

Mr. Goepfert also outlined a hypothetical case in which business is funneled through a chain of brokers to a Bermuda-based insurer with a "service office" in the United Kingdom.

In this scenario, many of the players are affiliated, including a U.S. wholesale broker through which the business is written; a Bermuda broker; the Bermuda insurer and its U.K. service office; and at least one of the Bermuda insurer's reinsurers.

The U.K. service office is necessary because the Bermuda insurer has not been approved by British regulatory authorities and may not actually underwrite in the United Kingdom, Mr. Goepfert explained.

The service office sends risks to the Bermuda co-broker, which rejects a pre-arranged number of submissions, he noted.

Allowing an agent to handle any claims is 'the kiss of death,' says John V. Goepfert.

"All that is done to show there is due diligence and the binding is not actually done in the U.K., when in fact it is," Mr. Goepfert said.

Through a process of "netting," commissions are stripped off by the chain of brokers, with the Bermuda insurer retaining only 12.5% of the original gross premium as a fronting fee.

Most of the remaining premium is returned to the U.K. service office to pay current claims to keep the operation running, he said.

Through the use of "counter-accounting," little or no money is actually paid to the non-affiliated reinsurers, he added.

"Whoever gets the money first keeps it," Mr. Goepfert explained.

Such an operation can run until the flow of incoming business slows to the point that the insurer can't keep up with current claims.

"Once the business stops and starts to slide, that's when the whole show is over," he said.

The insolvent company is then taken over by regulators, and its reinsurance proves uncollectible, he noted.

Despite growing awareness of these types of scams, Mr. Goepfert said he has seen little improvement in efforts to combat them in the last decade. In fact, he said, the situation may be growing worse, with only one difference: The scams are now more brazen than in the past.

"I don't see as much sophistication," he said. "People are just stealing."

Mr. Goepfert called for several regulatory changes to stem the tide of fraud.

He suggested, for example, that alien insurers be required to submit convention statements and have them approved by state regulators before being allowed to write business.

"There are companies writing in (the United States) that don't have four dollars and 80 cents of real money," he observed.

Mr. Goepfert added that state insurance departments should have the power to regulate rates of offshore companies to prevent them from undercutting licensed insurers "who are trying to make a living and abide by the rules.

Mr. Goepfert was sentenced in 1982 to 10 years in prison for defrauding the Sasse syndicate at Lloyd's. He later agreed to cooperate with the FBI in a wide-ranging securities and insurance fraud sting operation, and his sentence was subsequently reduced (*BI*, April 29, 1985).

The FBI sting had started with an investigation of Casualty & Indemnity, an insurer licensed in the Central American nation of Belize but operated by Mr. Goepfert and several associates from Philadelphia.

Between 1979 and 1980, C&I had issued fraudulent construction bonds and financial guarantees backed by phony certificates of deposit from two offshore banks.

In 1986, Mr. Goepfert also pleaded guilty to charges that he defrauded Chicago-based Kenilworth Insurance Co. Among other things, an indictment had accused him of concealing his ownership of Kenilworth stock, concealing premium diversions and accepting kickbacks of brokerage commissions (*BI*, May 12, 1986).

Although Mr. Goepfert was initially sentenced to three years in prison, this sentence was later changed to probation and community service. ■

Mentor liquidators

Continued from page 2

ɔrove a motion proposed by the lissidents to increase the size of he committee of inspection, a :reditor group that oversees the iquidation, to nine members from he current five.

The four new members will be ɛlected from among 10 nominees.

Mr. Kempe, a Bermuda-based ɔartner at accountant Ernst & Young, left Bermuda immediately ıfter the meeting and could not be :eached for comment.

But Gareth Hughes, an adviser to Mr. Kempe, said after the meeting :hat the dissidents' movement is ɔver.

Announcing the end of what he described as a "tremendous dis- :raction" for the Mentor liquida- :ors, Mr. Hughes said the firm re- jection of the proposals to replace the liquidators was a major defeat for the dissidents.

"Their movement is dead as far as we are concerned," Mr. Hughes said.

But Francis Mackie, an attorney with the London firm of Clyde & Co. who represents the dissidents, refused to concede defeat.

The dissidents, far from being defeated, have succeeded in forcing a complete turnaround in a liquidation that "was clearly in the doldrums three years ago," said Mr. Mackie.

"This was very definitely not a defeat. The resolutions to move the liquidators brought matters to a head and forced the liquidators to allow a forum for the opposition," he said.

"The dissidents' continued pressure on the liquidators this year has achieved substantial progress and changes in the direction of the liquidation since last year's annual meeting," Mr. Mackie explained.

"On the basis of statements made by the liquidators on Wednesday, a great deal has changed since the meeting in 1988. About 108 claims have been admitted, though not adjudicated on, and progress has been made in dealing with creditors' liabilities. It was also made clear to us by the liquidators that an interim dividend could be paid within the next 24 months," he said.

"The meeting and the resolutions we put before it helped concentrate attention on the role of the committee of inspection, and I think you're now going to see the committee taking a far more active and more clearly defined part in decision-making. I believe the meeting allowed new benchmarks to be set in this liquidation. And I think you're going to see the committee emerging from it as a more inquisitive and decisive body than it has been," Mr. Mackie said.

He described the creditors' actions at the meeting as "probably the best decision they could have made given the information presented to them at the meeting."

Mr. Mackie, who attended the meeting on behalf of Lloyd's of London syndicates and London and U.S. insurance and reinsurance companies, said his involvement with the Mentor liquidation now is over.

"I think the creditors have had their day," he said. "They had a good meeting on Wednesday and should be happy with the outcome."

However, joint liquidator Mr. Arnold, a London-based consultant to Ernst & Young and a former partner with the accounting firm, said he was not all that elated by the outcome of the meeting.

"The only elation I feel at the moment is that the horse I bought my wife a share in for her birthday won at Newbury this afternoon," Mr. Arnold said Wednesday before leaving for London.

"As I have said before, far too much money and energy has been spent on this matter for me to feel elated right now," he said, referring to the dissidents' campaign. ■

Update

A&A settles hotel fire litigation

SAN JUAN, Puerto Rico—Broker Alexander & Alexander Services Inc. has agreed in principle to a $12 million settlement with the Plaintiffs' Steering Committee in the San Juan Dupont Plaza hotel fire litigation.

A&A had placed property and liability coverage for the hotel.

The brokerage confirmed that the settlement was reached Oct. 27, but would not say whether its errors and omissions insurance would cover any portion of the settlement.

However, A&A noted in its third-quarter earnings statement released last week that an $11 million reserve had been established for Dupont Plaza settlement costs and the write-off of previously incurred automation system development costs.

Settlements with other defendants have totaled more than $150 million. Among the parties that previously have settled is American International Group Inc., which wrote a $1 million liability policy for the hotel. As part of that settlement, AIG will assume ownership of the hotel (*BI*, May 15).

The litigation stems from the 1986 New Year's Eve fire that killed 97 people and injured more than 100 others (*BI*, Jan. 19, 1987; Jan. 5, 1987).

Metal flaw eyed in United crash

WASHINGTON—The Federal Aviation Administration strongly suspects that a flawed titanium engine disk caused the crash of a United Airlines DC-10 jet last July in Sioux City, Iowa.

An FAA spokesman explained that the disk, which spins engine blades, may have had metallurgical imperfections because it was produced with a now-outmoded procedure.

All other disks made from the same billet of titanium have been removed from all airplane engines and are being tested for similar flaws, he said.

Fairfield, Conn.-based General Electric Co., which manufactured the jet engine, has been named in multiple lawsuits (*BI*, Aug. 28; Aug. 21).

Although the FAA considers its suspicions "well-grounded," the agency is continuing its investigation of the crash, in which 112 passengers and crew were killed (*BI*, July 24).

In addition, the National Transportation Safety Board is holding hearings in Sioux City to examine, among other issues, the disk's exact role in the crash, said a NTSB spokeswoman.

Caperton's ex-wife drops suit

CHARLESTON, W.Va.—A suit brought against Charleston, W.Va.-based brokerage McDonough Caperton Insurance Group and several other defendants by the estranged wife of its former chairman has been withdrawn with none of the defendants paying any damages.

Dee Caperton initially sought $12 million from McDonough Caperton, the nation's 17th-largest insurance brokerage; West Virginia Gov. Gaston Caperton, her husband and the former chairman of McDonough Caperton; the governor's campaign manager; and a Charleston lawyer (*BI*, Sept. 4).

Mrs. Caperton, a former state representative who did not seek re-election last year, alleged that she had been deceived into selling her share of the brokerage to her husband at an unfair price to avoid conflict of interest charges while she served in the state House of Representatives.

Ms. Caperton, who filed for divorce in July, filed the fraud suit Aug. 17 in U.S. District Court for the Southern District of West Virginia. She sought $3 million in compensatory and $9 million in punitive damages.

Mrs. Caperton's suit was withdrawn on Oct. 24. A spokesman for Gov. Caperton said the former first couple of West Virginia have reached a divorce agreement but have agreed not to disclose its details.

Reliance seeks new UAL stake

NEW YORK—Reliance Group Holdings Inc., whose chairman and major shareholder is financier Saul P. Steinberg, is seeking regulatory clearance to acquire more than 15% of the common stock of UAL Corp., parent of United Airlines.

As of Oct. 2, Reliance held 4.7% of UAL stock, according to papers filed with the Securities and Exchange Commission. However, *Business Insurance* has learned that Reliance has recently sold most, if not all, of its shareholdings in the Elk Grove Township, Ill.-based UAL.

Reliance only would confirm that it is seeking permission from the Federal Trade Commission and Department of Justice under the Hart-Scott-Rodino Antitrust Improvements Act to acquire more than 15% of UAL's stock.

An earlier proposal by United's pilots to take over the airline through an employee stock ownership plan fell through last month when financing could not be arranged (*BI*, Sept. 25).

Briefly noted

The judge presiding over the Texas lawsuit charging insurance industry defendants with violations of **Texas antitrust and deceptive trade practice laws** will hear oral arguments Dec. 7 on the defendants' motions for summary judgment in the case. Pete Schenkkan, a defense attorney with the Austin, Texas, law firm of Vinson & Elkins, said the attorney general's office and defense attorneys met recently and agreed to the upcoming hearing. The suit charges insurers violated state antitrust laws and accuses the Insurance Services Office Inc. with violating provisions of the the Texas Deceptive Trade Practices-Consumer Protection Act. . . .A **South Carolina Workers Compensation Advisory Committee** appointed by Insurance Commissioner Elaine McReynolds has recommended that workers compensation insurance rates be increased an average of 12.5%, effective Jan. 1. The National Council on Compensation Insurance had sought a 20.6% rate increase.

Disasters challenge industry

By MYRON M. PICOULT

Special to Business Insurance

THE PROPERTY/CASUALTY insurance industry's losses from Hurricane Hugo and the substantive but unquantified losses from last month's California earthquake have clearly changed the industry's operating environment. However, prior balance sheet problems remain and, in fact, probably have been exacerbated by the two disasters.



Mr. Picoult

One of the things that made the last two underwriting cycles somewhat unique was that when water began to flow in the canals, all the boats floated to a higher level. There was not quality differentiation among different insurers. We think the world has changed some and that investors will become more discriminating with the valuations of different companies.

For the most part, investors are ignoring the insurers' earnings prospects for 1989 and have generally conceded that 1990 will not be anything to write home about either. However, the need to repair balance sheets is likely to eat into the prospective earnings recovery that many insurers would hope to see begin in 1991. This also has negative implications for dividend growth for many companies.

Adversity, however, always creates opportunities, and we suspect they will abound for insurers with strong balance sheets and with true "niche" capabilities.

The property/casualty insurance industry's ability to accrete statutory capital has clearly been reduced. The main factor is the Tax Reform Act of 1986, which is actually decapitalizing the industry. Furthermore, the likelihood of write-offs of portions of reinsurance recoverables in no longer theory (see story, page 32).

In addition, the alacrity with which the stock market provided capital to the industry in 1985-86 was mind-boggling and is not likely to be repeated, given the disappointing return-on-equity figures that were generated.

Exacerbating the situation is the distinct possibility that the primary insurance industry's ability to obtain timely and sufficient rate relief may be hindered by the difficult political and regulatory environment that currently prevails.

Hence, we believe that the primary industry's pricing/underwriting upturn will be a "slowtracted" recovery. The bottom line is that the strong will get stronger and the weak will get weaker. Those insurers that can generate high internal returns are in the driver's seat.

We believe that investors have been presented with a window of opportunity that could last 12 to 15 months. A sluggish economic environment and declining interest rates could go a long way in helping re-establish investor interest in financial equities. Earnings visibility, stability and integrity—along with exemplary balance sheets—are likely to become much more important investment criteria in the years ahead.

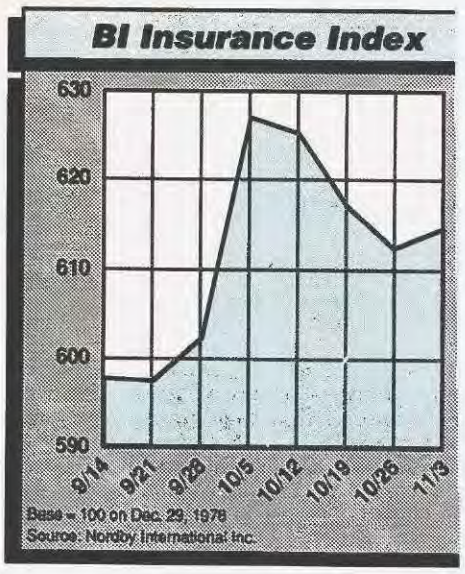
While the downside risk in the major publicly owned insurers appears small, the upside potential also appears limited. Investment emphasis should still be placed on quality.

Conversely, the handful of quality companies that are available could end up being accorded premium price multiples given their balance sheet characteristics, earnings dynamics and changing perceptions about financial equities.

It will be interesting to see how the fourth quarter of 1989 plays out. The year is shot, and insurance company managements should begin to address their companies' problems. Hence we would expect to see some corporate "kitchen renovations" pop up. In those instances where the balance sheet can withstand the pressure, more extensive renovations are likely.

One of the property/casualty insurance industry's greatest problems is the woefully low level of management ownership. This must change. As a general rule of thumb, a company is run more effectively when its management holds a meaningful stake.

It is difficult to believe that investors will remain complacent about the insurance industry's abominable returns on equity. The return of differentiated capitalization ratios is the first salvo. ■



Insurance industry stocks reversed direction la week, as the *Business Insurance Index* rose 1 points to 614.6 on Nov. 3, from 612.7 on Oct. 2 Advancing issues were led by Re Capital Corp., u 16.0%; Trenwick Group Inc., up 12.9%; and HM America Inc., up 10.2%. Decliners followed Saf guard Health Enterprises, down 11.7%; AVEMC Corp., down 9.5%; and Orion Capital Corp., dow 8.8%. The most active issue during the period wa Sears, Roebuck & Co. (Allstate), 3.4 million share traded. The *BI Index* gained 0.3% for the period; th Dow Jones 30 Industrials gained 0.6%; the Star dard & Poor's 500 Index was up 0.2%; and th New York Stock Exchange Composite rose 0.03%

British Issues

Nov. 2 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence pence
Commi Union	452	22.6	29.3	6.5	455—452
Genl Accident	1018	12.4	68.0	6.7	1030—1018
Gdn Royal Exch	218	15.0	15.7	7.2	219—216
Royal	458	21.8	34.0	7.4	466—458
Sun Alliance	288	9.1	17.0	5.9	292-287
Brokers					
Bradstock	209	14.3	10.0	4.8	210—209
CE Heath	489	14.0	34.5	7.1	498—489
Hogg Robinson	150	10.5	9.7	6.4	150—150
Lloyd Thompson	259	17.3	9.3	3.6	259—259
PWS Holdings	50	12.5	2.7	6.7	51—50
Sedgwick Grp	268	18.9	16.7	6.2	270—268
Steel Brrl Jones	254	15.9	15.3	6.0	257—255
Willis Faber	242	17.0	15.3	6.3	250—242

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

Northwest settles 1987 crash suits

By MICHAEL SCHACHNER

DETROIT—Northwest Airlines Inc. has settled all remaining lawsuits stemming from the 1987 crash of Flight 255 outside Detroit, which killed 156 people.

U.S. District Court Judge Julian Cook said the St. Paul, Minn.-based airline settled 145 remaining lawsuits that were to have gone to trial Oct. 31.

The terms of the settlement were not disclosed.

However, lawsuits are still pending against St. Louis-based McDonnell Douglas Corp., which manufactured the MD-82 jetliner that crashed moments after taking off from Detroit Metropolitan Airport (*BI*, Aug. 24, 1987).

A Northwest spokesman would not comment on the settlement, citing a "gag order" issued by Judge Cook until the litigation concludes.

Daniel M. Izard, president and chief executive officer of Associated Aviation Underwriters in Short Hills, N.J., Northwest Airline's lead U.S. aviation insurance underwriter, said the settlement falls within the reserve established for the Northwest crash.

However, Mr. Izard would not comment on the size of the reserve.

Underwriters at the time of the crash said liability claims could total about $175 million.

About 55% of Northwest's $700 million in aviation liability coverage was placed in the U.S. market by Marsh & McLennan Cos. Inc.'s Minneapolis office.

About 35% of the coverage was placed in the London market by Lloyd's of London broker Bowring Aviation Ltd. and led by the Ariel syndicate at Lloyd's.

The remainder of the coverage is believed to have been placed in the French insurance market and led by La Reunion Aerienne. ■

BI Industry Stock Report

NOV. 3, 1989 — **10/27/89 THROUGH 11/3/89**

		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	33.38	3.10	43.57	33.38	22.63	465	1.00	3.00	19	2.90	11.51
Corroon & Black	NYS	39.00	1.63	22.83	39.75	29.13	195	1.24	3.18	17	7.62	5.12
Gallagher Arthur J. & Co.	NYS	23.75	-1.04	39.71	26.50	15.88	15	0.52	2.19	16	5.33	4.46
Frank B. Hall	NYS	3.00	4.35	0.00	4.63	2.50	131	0.00	0.00	-1	N/A	N/A
Hilb, Rogal & Hamilton	OTC	22.75	-1.09	64.12	24.75	12.38	260	0.20	0.88	20	4.60	4.95
Marsh & McLennan	NYS	88.00	5.86	58.56	88.00	55.00	1533	2.50	2.84	19	6.48	13.58
Poe & Associates	OTC	9.25	0.00	5.71	9.25	8.00	2	0.40	4.32	9	1.43	6.47
BROKERS	AVERAGE		1.8	33.5					2.3	14		
CONGLOMERATES & HOLDING COMPANIES												
Berkley W.R. Corp.	OTC	43.13	-0.85	45.59	44.75	29.00	95	0.40	0.93	9	21.28	2.03
Berkshire Hathaway Inc.	NYS	8350.00	0.91	79.57	8900.00	4600.00	2	0.00	0.00	11	2468.63	3.38
ITT (Hartford Group)	NYS	58.50	0.86	16.71	64.50	47.75	1046	1.48	2.53	10	56.33	1.04
Sears (Allstate)	NYS	38.13	-2.54	-5.56	48.13	37.63	3387	2.00	5.25	13	36.09	1.06
CONGLOMERATES	AVERAGE		-0.4	34.1					2.2	11		
INSURERS/REINSURERS												
Aetna Life & Casualty	NYS	61.25	1.24	30.67	62.50	46.00	1157	2.76	4.51	9	58.11	1.05
Ambase Corp.	NYS	13.75	-1.79	23.60	16.38	10.50	232	0.20	1.45	5	18.66	0.74
American General	NYS	35.75	2.51	19.17	38.50	29.50	1047	1.50	4.20	11	28.04	1.27
American Heritage	NYS	28.25	2.73	10.78	28.50	25.00	5	1.20	4.25	11	22.47	1.26
American Indemnity/Fin'l	OTC	8.50	0.00	-19.05	13.00	8.25	8	0.56	6.59	-12	17.38	0.49
American International	NYS	107.25	0.23	60.98	109.00	61.75	1844	0.48	0.45	13	33.55	3.20
Aon Corp.	NYS	36.00	-2.04	30.32	38.00	26.00	915	1.40	3.89	11	16.67	2.16
Argonaut Group	OTC	66.25	0.76	52.30	69.50	42.25	35	1.00	1.51	8	36.83	1.80
AVEMCO Corp.	NYS	21.50	-9.47	-16.10	27.50	22.38	13	0.40	1.86	13	9.20	2.34
Baldwin & Lyons Inc.	OTC	20.00	0.00	37.93	21.13	14.38	3	0.20	1.00	7	17.57	1.14
Belvedere Corp.	ASE	4.88	8.44	8.44	6.50	4.25	8	0.04	0.82	8	8.43	0.58
Chandler Insurance	OTC	11.25	1.12	50.00	12.25	6.25	86	0.00	0.00	7	9.53	1.18
Chubb Corp.	NYS	88.25	-0.28	52.81	89.63	53.75	1263	2.32	2.63	9	53.50	1.65
CIGNA Corp.	NYS	64.25	-1.72	38.92	65.75	45.75	671	2.96	4.61	11	53.08	1.21
CNA Financial Corp.	NYS	97.00	3.74	65.11	97.00	56.00	93	0.00	0.00	10	54.52	1.78
Continental Corp.	NYS	33.00	1.93	3.13	41.13	31.50	604	2.60	7.88	-73	42.10	0.78
Durham Corp.	OTC	33.25	3.10	3.91	34.75	30.00	25	0.92	2.77	27	26.32	1.26
Fireman's Fund	NYS	36.25	-0.68	24.46	40.75	28.38	586	0.60	1.66	9	32.74	1.11
Fremont General Corp.	OTC	16.75	9.84	34.00	18.25	10.63	107	0.80	4.78	58	17.61	0.95
Frontier Insurance Group	NYS	18.25	-3.95	63.90	21.75	9.63	7	0.00	0.00	9	7.53	2.42
General RE Corp.	NYS	92.63	3.50	68.42	92.63	53.13	1738	1.36	1.47	15	29.04	3.19
Hanover Insurance Co.	OTC	31.25	3.31	17.92	33.00	25.50	78	0.44	1.41	7	31.47	0.99
Harleysville Group	OTC	24.75	1.02	39.44	25.00	15.50	11	0.60	2.42	8	18.94	1.31
Hartford Steam Boiler	OTC	52.75	-5.80	42.57	59.25	31.00	403	1.60	3.03	15	13.04	4.05
Kansas City Life Ins.	OTC	35.00	1.45	2.19	39.50	32.25	269	1.04	2.97	8	39.22	0.89
Kemper Corp.	NYS	48.00	6.67	104.26	51.88	22.75	391	0.84	1.75	11	28.91	1.66
Lawrence Insurance Group	ASE	7.13	1.86	-10.88	10.75	6.63	1	0.28	3.93	17	3.19	2.24
Liberty Corp.	NYS	35.75	-2.05	-1.72	40.00	32.50	2	0.80	2.24	15	21.17	1.69
Lincoln National	NYS	60.50	4.76	39.88	61.00	42.75	426	2.48	4.10	16	39.21	1.54
NAC Re Corp.	OTC	39.50	-0.63	91.14	40.13	19.50	887	0.20	0.51	18	22.81	1.73
Navigators Group	OTC	25.75	-0.96	25.61	27.75	19.25	19	0.00	0.00	10	15.22	1.69
Nobel Insurance LTD.	OTC	2.25	-5.26	-51.35	5.88	1.50	17	-	-	0	7.76	0.29
NWNL Companies	OTC	37.63	2.05	22.37	40.63	26.88	281	1.20	3.19	10	37.50	1.00
Ohio Casualty Corp.	OTC	51.00	0.49	42.66	52.50	33.25	105	2.08	4.08	7	33.30	1.53
Old Republic Int'l	OTC	29.13	2.66	28.12	30.38	22.63	58	0.74	2.54	14	26.60	1.10
Orion Capital Corp.	NYS	23.38	-8.76	46.13	28.50	13.88	72	0.84	3.59	6	12.93	1.81
Phoenix RE Corp.	OTC	13.38	7.04	37.23	13.38	8.75	137	0.00	0.00	6	12.99	1.03
Protective Life Corp.	OTC	14.75	-1.67	11.32	16.25	12.88	41	0.70	4.75	36	14.54	1.01
Provident Life	OTC	26.38	-1.84	36.15	29.38	17.75	842	0.68	2.58	9	12.60	2.09
Re Capital Corp.	ASE	13.63	16.00	47.35	13.63	8.63	53	0.00	0.00	11	10.71	1.27
RLI Corp.	NYS	7.63	5.24	0.07	9.38	6.88	17	0.40	5.24	7	23.24	0.33
St. Paul Companies	OTC	60.25	-1.23	40.12	61.88	40.50	815	2.20	3.65	8	32.00	1.88
SAFECO Corp.	OTC	35.13	0.37	50.29	36.00	23.13	585	1.20	3.42	8	24.88	1.41
SCOR U.S. Corp.	NYS	12.50	8.70	44.93	13.00	6.88	35	0.20	1.60	9	10.35	1.21
Seibels Bruce Group	OTC	10.63	0.05	-5.51	13.63	10.25	27	0.80	7.53	10	13.42	0.79
Selective Ins. Group	OTC	18.50	7.25	-19.57	19.50	14.50	57	0.96	5.19	6	22.33	0.83
Statesman Group Inc.	OTC	2.50	-4.76	-13.04	4.00	2.00	36	0.05	2.00	14	3.48	0.72
Tokio Marine & Fire	OTC	77.00	-2.53	-16.08	98.00	66.00	13	0.23	0.30	33	N/A	N/A
Torchmark Corp.	NYS	47.50	1.06	55.74	50.75	29.38	330	1.40	2.95	14	12.24	3.88
Transamerica	NYS	47.38	5.00	41.96	48.00	30.38	799	1.92	4.05	11	30.70	1.54
Trenwick Group Inc.	OTC	24.00	12.94	68.42	24.75	13.25	185	0.36	1.50	13	16.91	1.42
United Fire & Casualty	OTC	33.25	-1.12	9.02	34.50	28.50	0	1.20	3.61	7	22.56	1.47
USF&G Corp.	NYS	30.50	-2.01	5.17	34.00	28.25	656	2.80	9.18	15	22.57	1.35
UNUM Corp.	NYS	44.75	8.48	67.29	45.00	24.88	466	0.60	1.34	13	30.64	1.46
USLIFE Corp.	NYS	41.75	-3.19	21.45	48.13	32.88	241	1.40	3.35	9	54.27	0.77
Washington National	NYS	27.13	-1.35	1.90	29.13	24.00	117	1.08	3.98	-62	32.33	0.84
Zenith National Ins.	NYS	18.50	0.00	4.96	21.50	15.00	7	0.84	4.54	8	13.61	1.36
INSURERS/REINSURERS	AVERAGE		1.3	27.6					2.9	9.1		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	OTC	43.50	-7.20	270.21	51.13	10.88	406	0.00	0.00	21	3.54	12.29
HMO America Inc.	OTC	6.75	10.20	619.62	10.63	0.81	1080	0.00	0.00	-15	1.12	6.03
Pacificare Health Sys.	OTC	24.50	-3.92	96.00	30.38	5.75	57	0.00	0.00	30	6.35	3.86
Saleguard Health Enter.	OTC	9.38	-11.72	74.51	12.50	4.50	139	0.00	0.00	15	2.99	3.14
Sierra Health Services	ASE	7.13	3.71	338.77	8.25	1.25	155	0.00	0.00	-6	1.59	4.48
United Healthcare Corp.	OTC	11.00	3.53	158.82	12.63	3.88	368	0.00	0.00	-5	0.31	35.48
United Medical Corp.	ASE	6.63	2.00	23.35	7.25	4.25	9	0.00	0.00	24	4.11	1.61
U.S. Healthcare	OTC	14.50	0.00	157.78	15.50	5.25	1416	0.23	1.59	47	2.87	5.05
HMOs	AVERAGE		-0.4	217.4					0.2	14		
ALL COMPANIES	AVERAGE		1.1	25.9					2.5	8.7		

System design: Nordby International Inc.

US International Re Salutes the Spirit of Challenge . . .

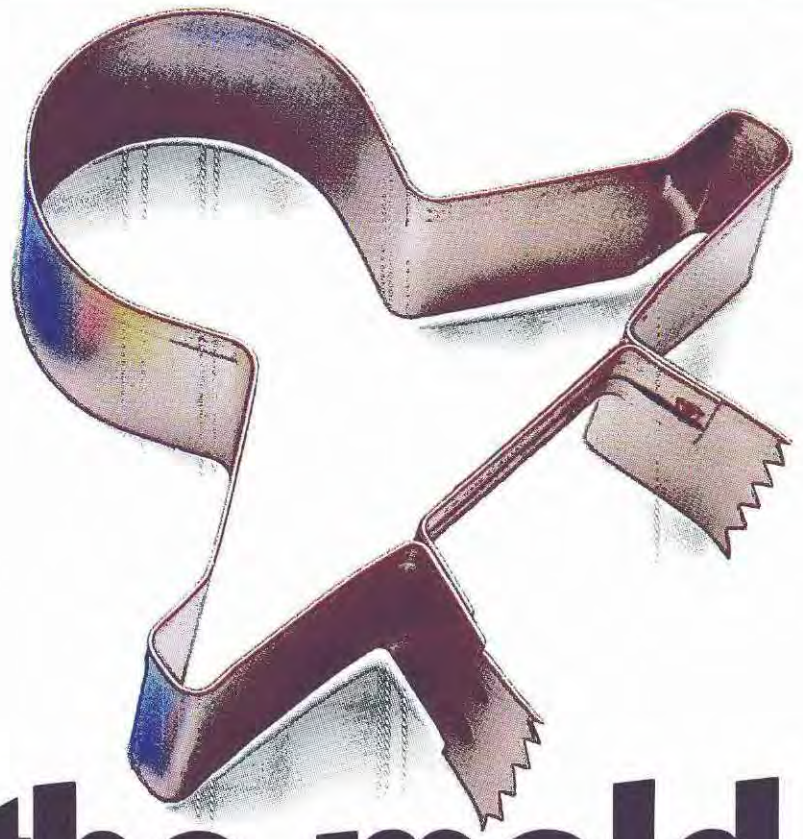
Last spring a team of twelve climbers, sponsored in part by US International Re, rose to the challenge of standing on top of the world.

Following the famed South Col route, the ON TOP EVEREST '89 team members fought oxygen deprivation and bitter cold. Despite these obstacles the expedition successfully brought their eldest climber to 27,000 feet—the oldest person ever to stand so high on Everest. In addition, among other expedition members to reach the summit was the first Mexican national to achieve this feat. US International Re salutes the efforts and achievements of all the members of ON TOP EVEREST '89.

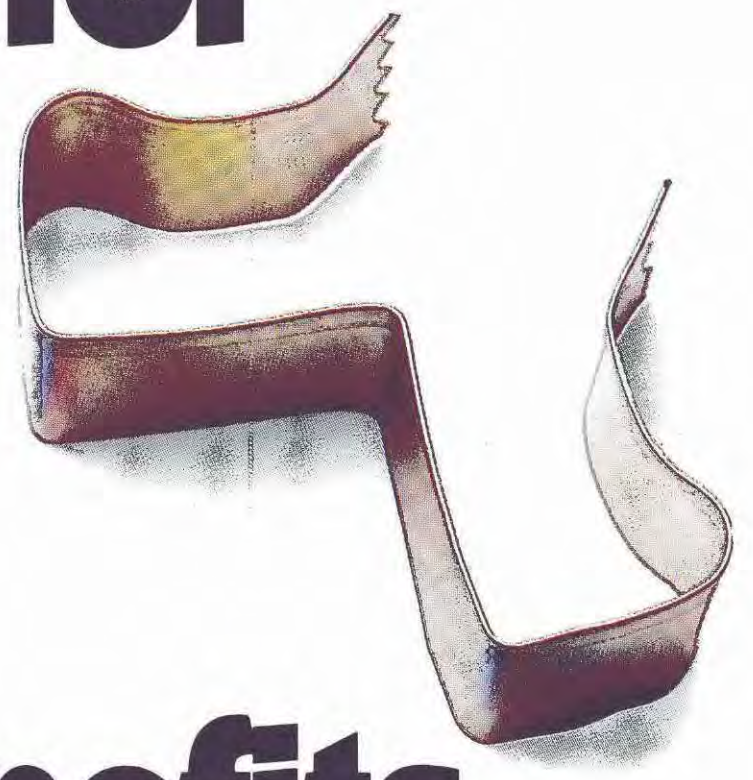
The spirit to seek the highest level of achievement reflects the mission of US International Re—
to provide the foremost in service to its clients.

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