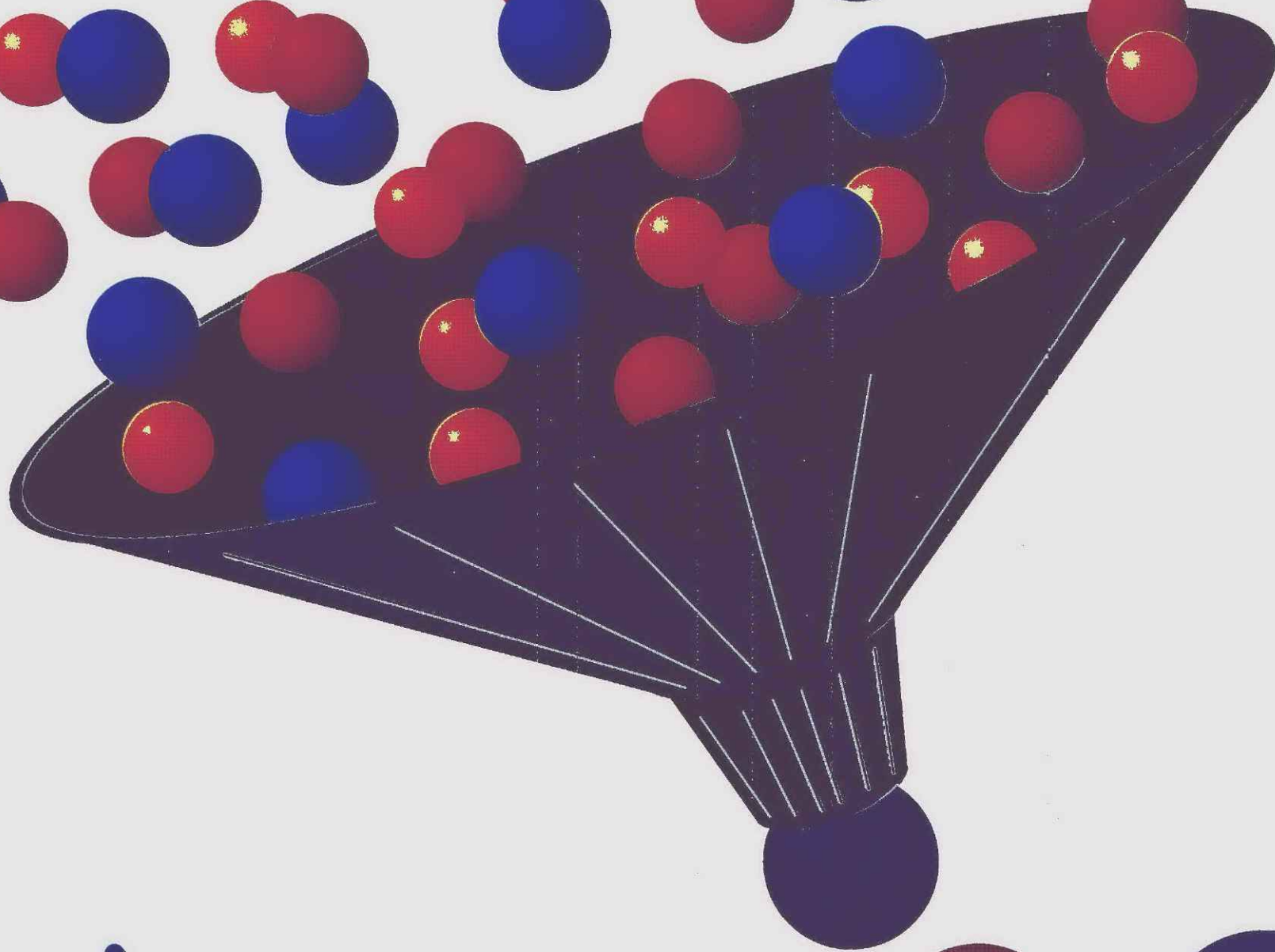


OCTOBER 14, 1996

Business Insurance

Reporting Weekly on Corporate Risk, Employee Benefit and Managed Health Care News/\$4

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Seeking Shelter from the Storm?





Business Insurance

Reporting Weekly on Corporate Risk, Employees Benefit and Managed Health Care News / \$4

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AIG strikes deal over Coral Re

By DOUGLAS MCLEOD

NEW YORK—American International Group Inc. is declaring victory in a shoving match with Delaware regulators over its extensive use of a thinly capitalized Barbados reinsurer.

The reinsurer is Coral Reinsurance Co. Ltd., created in an unusual 1987 private stock offering expressly "to permit (AIG's) U.S. companies to write more U.S. premiums," offering documents said.

In an examination report on AIG's Lexington Insurance Co. unit released last week, the Delaware Insurance Department found that much of the Coral reinsurance does not transfer risk and suggested that AIG—despite its strenuous denials—may actually control Coral.

Delaware examiners did not deny Lexington credit for its Coral reinsurance, though, noting instead that the AIG unit has agreed to stop ceding new business to Coral and to commute \$100 million of existing liabilities.

AIG, which disputed virtually every finding of the examination, does not see the agreement as a concession. "That agreement was only done from our end because that's what we planned to do anyway," said Howard I. Smith, AIG's chief financial officer.

Most of the business Lexington and other AIG units ceded to Coral dates from before 1990, when AIG's premium volume "exploded" and it needed the reinsurance capacity, Mr. Smith said. AIG no longer needs that capacity, and its use of Coral has fallen off, he noted.

Indeed, while Coral assumed about \$1.6 billion in premiums from 1987 to 1993, \$1.1 billion dates from Coral's first three years of operation. The reinsurer—which covered AIG units for uncol-

See Coral on page 103

Lawsuits coming in TWA 800

With no cause cited, underwriters face difficulty paying claims

By STACY SHAPIRO

LONDON—There is an eerie silence in aviation insurance circles surrounding the destruction of Trans World Airlines Flight 800, which killed 230 people last July.

The airline's \$10.7 million hull claim hasn't been paid. There's no official liability claim reserve set aside by leading insurers. No passenger claim has been negotiated or paid. And, to date, there isn't even one lawsuit filed in the United States by victims' families, ac-

cording to TWA's insurers.

The silence may be broken in the next few weeks, when 24 families file the first lawsuits in the United States surrounding the ill-fated flight against TWA, The Boeing Co. and the Federal Aviation Administration.

However, as a result of federal investigators' blackout on the cause of the Boeing 747 disaster, it's been difficult for underwriters to get the ball rolling on getting claims paid.

A spokeswoman for the Nation-

al Transportation Safety Board in Washington confirmed that investigators are looking into three theories behind the loss of Flight 800: that it was a mechanical failure; that a U.S. military missile strayed off course and hit the plane by accident; or that there was a terrorist bomb on board.

But they are only theories at the moment. "If we knew what the cause was, we would definitely tell people," the NTSB spokeswoman said.

See TWA on page 104

Issues await states, nation



Reforms' fate tied to races

By MARK A. HOFMANN

WASHINGTON—How such important risk management issues as Superfund liability reform and product liability reform, as well as the broader question of health care reform, ultimately will be resolved depends in large part on the composition of the 105th Congress.

Democrats hope President Clinton's continued double-digit lead over GOP presidential hopeful Robert J. Dole will help them regain control of the House and Senate that they lost two years ago.

Republicans hope public distrust of an overly powerful federal government will allow them to retain their lease on both houses for at least another two years.

Right now, risk management and health issues aren't particularly high on the political radar screen, which stands in marked contrast to two years ago. In 1994, the Republican House leadership's "Contract With America" made tort reform a national issue.

But, in this year's elections, tort reform is barely a whisper, despite Mr. Dole's cracks about trial lawyers during his Oct. 6 debate with President Clinton.

Health care reform, one of the banner issues of the 1994 elections because of the collapse of President Clinton's comprehensive health insurance plan, is similarly on the back burner.

That's due in large part to passage of incre-

See Congress on page 85

L.A. group fighting health proposals

By ROBERTO CENICEROS

LOS ANGELES—The Employers Health Care Coalition of Los Angeles will oppose two propositions on California's November election ballot that coalition leaders say would drive up medical plan costs.

The two competing initiatives—Proposition 214 and Proposition 216—share some similarities in their proposals to regulate health maintenance organizations and other health care companies, though 216 is a more expansive measure and would impose a tax on health care organizations.

Both proposals would prohibit gag orders preventing medical providers from criticizing hospitals and HMOs. They would ban financial incentives for doctors to deny health care and would require plans to provide a second opinion when insurers deny medical treatment recommended by a doctor.

The propositions also would require hospitals and other care facilities to maintain minimum "safe and adequate" staffing levels, with the state responsible for overseeing standards.

Coalition leaders announced their opposition after a recent forum that presented speakers on both sides of the measures. The forum was sponsored by the employer coalition, the National Business Coalition on Health and Garner Consulting, a Pasadena, Calif.-based employee benefit consulting company.

See California on page 86

Employers praise flexibility with MSAs

By JERRY GEISEL

For Doug Kimball, sales manager of Gates Insurance Inc., an insurance agency in Bloomington, Ind., passage of legislation this summer that will allow small employers to establish tax-favored medical savings accounts for their employees is one of the smartest things Congress has done in a long time.

For employers, MSAs—linked to high-deductible insurance plans—offer a way of providing health care coverage at a substantially lower cost than traditional indemnity or managed care plans, Mr. Kimball said.

And for employees, MSAs allow them to choose their health care providers. "The biggest attraction is flexibility. You can go to any doctor or hospital you want. Employees appreciate that," he said.

In moving to high-deductible health plans from low-deductible plans, employers can substantially reduce their premiums. To make the switch palatable to employees, some employers—even without the upcoming change in tax law—have transferred a portion of their premium savings to employees' MSAs.

Starting next year, MSAs will

enjoy a new feature that will make them even more appealing to employees. Employer contributions, which employees can withdraw to pay for uncovered health care-related expenses, will carry powerful tax advantages.

Starting Jan. 1, employer contributions to MSAs linked to high-deductible health insurance plans will be tax-free for employees. That's a big change from current law, in which employer contributions to MSAs are added to employees' taxable income.

That isn't the only big change in tax law to benefit MSAs and their policyholders. Investment income earned on assets held by MSAs will not be taxed so long as the funds remain in the accounts.

Money can be taken out of the accounts tax-free to pay for health care expenses. That not only includes expenses that fall under a plan's deductible, but also health care-related expenses, such as dental care bills and eyeglasses, which an employer's benefit package does not cover. It can include payment of COBRA premiums when employees terminate employment and want to continue their health care coverage with their former employer's plan.

See MSAs on page 102

- Securities measure stirs up Silicon Valley ...page 86
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- Wisconsin tort reform chances teetering ...page 92

Updates

Allstate boosts reserves

Continued from previous page

lows several repositioning activities we've recently undertaken to enhance our financial position—and focus on the company's core businesses of auto, home and life insurance," Allstate Chairman and Chief Executive Officer Jerry Choate said last week in a written statement.

In July, Allstate sold its Allstate Reinsurance unit to SCOR U.S. Group. Earlier in the summer, Allstate sold its Northbrook Property & Casualty Insurance Co. unit to St. Paul, Minn.-based St. Paul Fire & Marine Insurance Co. (BI, July 29).

"The charge is not surprising and is a positive step toward increasing shareholder value in the future," said Alice Schroeder, senior vp at Oppenheimer & Co. in New York.

"This removes lingering issues relating to their commercial operations, and in that sense it's clearly positive," she added.

"It's a good move on their part," said Eric Simpson, vp with A.M. Best Co.'s property/casualty division in Oldwick, N.J. Both Best and Standard & Poor's Corp. said the move will not affect their ratings of Allstate.

IIE unit declared insolvent

CHICAGO—The board of directors of the Illinois Insurance Exchange took steps last week to bolster its ailing operations by choosing a new president and declaring its second-largest syndicate insolvent, though courts have merely placed the syndicate in conservation.

Tapped to serve as the IIE chief executive officer was James E. Tait, a Lake Forest, Ill., consultant who retired recently from a 25-year career at Coopers & Lybrand L.L.P. in Chicago. He was managing partner overseeing a wide range of financial services for Midwestern clients.

He succeeds James M. Skelton, who announced last month that he was planning to resign effective Jan. 1 (BI, Sept. 2).

In addition, the board voted that First Oak Brook Corp. Syndicate Inc. was insolvent. That syndicate wrote \$34.8 million in gross premiums in 1995.

According to exchange rules, the second insolvency finding within 90 days of the July insolvency of Geneva Assurance Syndicate Inc. allows the board to limit payouts from the IIE's \$35 million guaranty fund to a total of \$15 million for both, rather than \$15 million each, according to Gordon Teach, board chairman.

The board has not decided whether it will exercise that option, he said last week.

Kartchner joins Gulf Group

NEW YORK—Gulf Insurance Group has hired Vickie F. Kartchner as president of Gulf Underwriters Insurance Co., an excess and surplus lines insurer owned by Travelers/Aetna Property Casualty Corp.

In conjunction with Ms. Kartchner's hiring to the newly created post, Gulf and TIG Holdings Inc. announced an excess and surplus lines partnership.

Ms. Kartchner had previously been president and chief operating officer of Phoenix-based TIG Excess & Surplus Lines (BI, June 26, 1995). About 20 TIG E&S professionals will join her at Gulf as part of the venture, under which TIG E&S will quota share the existing book of business with Gulf and TIG Reinsurance, which have a longstanding business relationship. The business will operate out of Phoenix.

A TIG spokesman said the company has not determined the future of any remaining staff at TIG E&S.

WellPoint buys Hancock unit

WOODLAND HILLS, Calif.—WellPoint Health Networks Inc. said last week it has signed a definitive agreement to acquire the group health and related life business of John Hancock Mutual Life Insurance Co. in a deal valued at \$86.7 million.

A deal between the insurer and the managed care firm had been rumored for several weeks, and WellPoint had denied news reports it was close to a deal only earlier this month (BI, Oct. 7).

John Hancock's 1.4 million medical members will increase WellPoint's size to more than 5.5 million medical members throughout the country, according to WellPoint, which also acquired the group life and health business of Massachusetts Mutual Life Insurance Co. earlier this year (BI, Jan. 15).

WellPoint's estimated \$4.2 billion in 1996 revenues and the John Hancock businesses' estimated \$800 million would give the combined company revenues of \$5 billion this year. The deal is expected to close by Jan. 31.

Leonard D. Schaeffer, WellPoint's chairman and chief executive officer, said he believes the acquisition "will capitalize on our track record of revitalizing indemnity-based organizations by providing customers with a continuum of managed care options, not simply a single limited option."

"Our experience demonstrates that, over time, customers choose Well-
See Updates on page 102

Errors & omissions

- E.W. Blanch Co. reported an incorrect amount for its 1994 gross revenues in the directory of reinsurance intermediaries on page 41; the correct figure appears in the chart on page 3. Also, due to an editing error, Willcox Reinsurance Intermediaries' directory listing contains only U.S. revenues; the correct figure appears in the page 3 chart.

- Steven H. Newman, chairman and CEO of Woodland Hills, Calif.-based Underwriters Reinsurance Co., says that because there appears to be a significant level of overcapacity, new reinsurers are unlikely to be formed. Because of a typographical error, this was incorrectly stated in an article on page 70.

- An article on page 78 misstated the company affiliation of Jay Cohen. Mr. Cohen is an insurance analyst at Merrill Lynch in New York.

- An Oct. 7 story incorrectly stated that the District of Columbia was not accredited by the National Assn. of Insurance Commissioners. Only Nevada and New York are not accredited.

ERISA and any-willing-provider law

Supreme Court considers reviewing the relationship

By MARK A. HOFMANN

WASHINGTON—The U.S. Supreme Court could for the first time decide whether the Employee Retirement Income Security Act of 1974 pre-empts state "any-willing-provider" laws that prevent managed care networks from limiting the number of health care providers who are members of such groups.

Both sides in *State of Louisiana vs. CIGNA Healthcare Plan of Louisiana Inc. and Connecticut General Life Insurance Co.* have

asked the high court to review an appeals court ruling that held that ERISA does indeed pre-empt Louisiana's any-willing-provider law. The Supreme Court justices have not yet decided whether they will review the case.

The Supreme Court has never ruled on the relationship between ERISA and any-willing-provider laws. Lower courts are divided on how far the pre-emption extends.

"Absent review by this court, litigation over ERISA pre-emption and any-willing-provider laws will only increase and the

conflicts among the lower courts will likely only deepen. Without this court's resolution of the issue, employee benefit plans will be free to adopt limited provider networks in some states but not in others, and ERISA's goal of promoting uniform national regulation of such plans will remain elusive," said CIGNA in its brief.

Louisiana holds that it has the right to require that managed care plans abide by any-willing-provider laws. The state's brief notes that the law does not ad-

See Supreme on page 92

Panel to rule on Superfund

By MARK A. HOFMANN

ATLANTA—It's up to three federal judges to decide whether Superfund's retroactive application of liability for toxic waste cleanup is legal.

A trio of judges from the 11th U.S. Circuit Court of Appeals heard arguments on Oct. 4 in the federal government's appeal of U.S. District Court Judge W.B. Hand's decision in *United States vs. Olin Corp.*

Judge Hand, of Mobile, Ala.,

held earlier this year that Stamford, Conn.-based Olin could not be subject to retroactive liability for cleaning up a former plant site in McIntosh, Ala., for two reasons (BI, Sept. 16; June 3). First, Congress did not specifically spell out that Superfund's liability is retroactive when it passed the Comprehensive Environmental Response, Compensation and Liability Act in 1980, Judge Hand said. Second, in the case of the McIntosh site, the federal government has no constitutional au-

thority to dictate cleanup because pollution from the site crossed no state lines, said Judge Hand, noting that the Constitution's commerce clause regulates interstate, but not intrastate, commerce.

Arguing for the federal government before the appeals court, Assistant Attorney General Lois Schiffer noted that no other court has ruled that the commerce clause impacts application of Superfund or that liability could not be imposed retroactively. "Only

See Superfund on page 84

New product trades cap cover for stock

By GAVIN SOUTER

NEW YORK—Centre Reinsurance Co. of New York is offering to buy shares in insurers and corporations hit by large catastrophes in a new twist on reinsurance products.

Market observers expect similar equity products to be unveiled in the next year as an alternative to catastrophe bonds and other new capital market reinsurance tools.

In the first deal, announced last week, Centre Re will buy up to \$50 million in non-voting shares of RLI Corp. of Peoria, Ill., in the event of a California earthquake blowing through RLI's existing catastrophe reinsurance program.

The arrangement gives RLI low-price extra catastrophe reinsurance protection and a competitive advantage if an earthquake devastated the insurance industry, both companies say. The cash would go into RLI's surplus.

RLI will pay Centre Re about \$1 million a year for the options.

The product, Catastrophe Equity Puts, was developed by Aon Re Inc. and RLI, which was seeking additional catastrophe reinsurance to cover a major one-in-500-years California earthquake.

RLI, through its subsidiaries RLI Insurance Co. and Mount Hawley Insurance Co., writes specialty property and casualty insurance. Last year, the RLI group wrote gross premiums of \$275 million, and about \$90 million of that was derived from California exposures, said Jonathan E. Michael, president and chief operating officer of RLI Insurance.

See Centre Re on page 93

Runoff ordered for two union trusts

By DOUGLAS McLEOD

CHICAGO—A court-appointed liquidator is trying to untangle the affairs of two purported union-sponsored insurance trusts that have left \$3.6 million in unpaid health and workers compensation claims.

A federal judge has entered a liquidation order against Chicago-based International Professional, Craft & Maintenance Employees Assn. Trust and a spinoff entity, Professional Employees and Affiliates Assn. Trust.

The U.S. Department of Labor had earlier won an injunction against the trusts, several purported unions and employer associations sponsoring the plans, and their operators.

The Labor Department charged in a lawsuit that trustees of the IPCMEA Trust diverted employer contributions to their own use under the guise of fees, commissions, union dues and other charges.

The plans' operators "conducted no apparent legitimate union activities" besides offering health insurance through 12 "service centers," which essentially acted as insurance brokers, the Labor Department alleged.

U.S. District Judge David H. Coar in August named an independent fiduciary to oversee the trusts. The fiduciary—Betty Cordial, a principal of Vista Consulting Group Inc. in Glenview, Ill.—concluded last month that the trusts could not be rehabilitated, and Judge Coar ordered her to liquidate them Oct. 2.

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Inside

- Congress gets good grades for its efforts on benefits issues, this week's editorial says. **PAGE 8**

- U.K. lawyers have agreed to handle plaintiffs' lawsuits against tobacco manufacturers on a contingency fee basis. **PAGE 95**

- Low prices and comprehensive policies are the current trend in the D&O coverage market. **PAGE 101**

- The United States has tentatively approved a waiver of passenger liability limits on international flights, but only under specific conditions. **PAGE 104**

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COVER ILLUSTRATION: TONY BUCCINI

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Spotlight report

More strategic combinations may funnel through the reinsurance industry

By JUDY GREENWALD

About all that can be said for sure about merger and acquisition activity in the domestic insurance market is that it is going to continue, say reinsurance executives and analysts.

But who the potential players will be remains very much in the air.

About the only possible combination dismissed is M&A activity among the major direct reinsurers, and that is only because previous consolidation has resulted in just four of them left: General Re Corp., Employers Reinsurance Corp., Swiss Reinsurance Co. and Munich Reinsurance Co.

But some market observers believe that despite the possible inherent difficulties involved in combining two different distribution systems, combinations between direct and bro-

ker market reinsurers remain a possibility.

And certainly mergers between broker market reinsurers are possible as well, though even these combinations face their own particular challenges.

There is also the possibility of ownership changes in reinsurance facilities owned by primary insurers, though officials of the facilities themselves deem this unlikely.

Market observers say that merger and acquisition activity among reinsurers is likely to benefit insurers and also the ultimate policyholders because of the strong entities that will result.

Recent major M&A activity includes Munich Reinsurance Co.'s deal to buy American Re Corp. (*BI*, Aug. 19) and General Re Corp.'s acquisition of National Reinsurance Co. (*BI*, July 8), among others.

The activity is expected to continue, though not at the pace or size seen in the last several months.

"I think that the real heavy M&A activity is probably behind us, and that the pace will slow with respect to reinsurance companies," said Philip W. Mitchell, senior vp at Towers Perrin Reinsurance in Philadelphia.

However, "I don't think we're done with it. There are a few more out there," said Tal P. Piccione, president and CEO of U.S. Re Corp. in New York.

James F. Duffy, president and CEO of

St. Paul Re, which is based in New York, said that while there is already a significant amount of concentration within the top five reinsurers in the world, "I don't see any movement to put the brakes on in regard to that. It's just that the size of transactions won't be quite as large as they've been," and will now involve smaller or medium-sized reinsurers.

"I think it will be among those companies that currently, let's say, have less than \$200 million in surplus," agreed William R. Coleman, president and CEO of Alexander Reinsurance Intermediaries Inc., based in Stamford, Conn. "I think you're seeing companies move toward the \$500 million mark, and I think you're going to see that continue," he said.

The M&A activity is "a by-product not of the recent mergers on the direct reinsurance side, but rather of the continued pressure to generate higher and higher levels of financial security and service to customers," said Steven H. Newman, chairman and CEO of Woodland Hills, Calif.-based Underwriters Reinsurance Co.

Craig Elkind, associate director with Standard & Poor's Corp. in New York, said every reinsurer "has to do a gut check and ask, 'Am I in this for a long term?'" If the answer is "yes," then it is a buyer. If it is not, the question becomes whether it is interested in selling now and for what price. The third option is to pool together with another reinsurer so the

See M&A on next page

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Spotlight Editor: Judy Greenwald

Reinsurance alternatives await in capital markets

By RODD ZOLKOS

A soft reinsurance market may have delayed insurers' embrace of capital market alternatives to traditional reinsurance, but it appears inevitable that the capital markets ultimately will play a role in reinsurance programs.

While capacity in the traditional market appears more than adequate at present, many point to the considerably larger capacity offered by the capital markets in arguing that by necessity the capital markets will eventually figure in reinsuring global catastrophe risk.

Many in the insurance industry are teaming with capital market players to find ways to use such tools as "Act of God" bonds, the Chicago Board of Trade's catastrophe futures contract, over-the-counter derivatives or other securities to transfer risk to investors and provide customized reinsurance solutions that address specific client needs at lower costs than in the traditional reinsurance market.

"There's a major difference in the capacity of the capital markets and the insurance markets," said Peter Densen, senior vp-risk management consulting at Alexander & Alexander of New

York Inc. "There's a tremendous amount of capacity in the capital markets that people continually think about bringing to bear in terms of risk transfer."

The activity in that area may be small today, Mr. Densen said, but the anticipation is that over the next 10 to 15 years it will "grow to be something meaningful."

"Is it beyond the talking stage? Yes. Is there significant use? Not yet," said Morton N. Lane, president of both Chicago-based Lane Financial Inc. and a recently formed joint venture with Sedgwick Re Insurance Strategy Inc., Sedgwick Lane Financial L.L.C.

"If there was a harder market, the pace of the adaptation of these instruments would've been faster," Mr. Lane said.

"But anybody who thinks this is just a hard market phenomenon is missing the big picture. What this effort is likely to result in is nothing less than a new way to finance insurance and reinsurance of risk," he said.

"If you had a very hard market, people would be looking for alternatives," Mr. Densen agreed.

"I think now people are doing things because they know someday (the capital markets will be involved), so they are experimenting," he said.

"You have some reinsurance
See Capital on page 62

Simple service no longer sufficient

By SALLY ROBERTS

Reinsurance buyers are holding their brokers to a higher standard than ever before, demanding more services at cheaper prices.

The soft insurance pricing environment pressures ceding insurers to reduce overall expenses to produce a profit, prompting many to look to their reinsurance programs for savings.

Reinsurance buyers also have gained increased sophistication and are looking at all available options to transfer or limit their risk,

reinsurance brokers report.

As a result, intermediaries are offering a broad range of traditional reinsurance, alternative risk transfer and financial products as well as catastrophe modeling, financial profiling, claims consulting and other services (see story, page 12).

At the same time, consolidation within the primary and reinsurance markets is presenting intermediaries with challenges as well as opportunities.

Some brokers report gaining new business from ceding insurers unhappy with consolidation in the direct writer market, while others say consolidation in the primary mar-

ket has resulted in lost business.

Overall, tough market conditions hampered growth at many of the largest U.S.-based reinsurance intermediaries in 1995. The top 10 reinsurance intermediaries reported revenue gains in 1995, with aggregate gross revenues increasing 6.3% from 1994 levels.

Aon Re Worldwide Inc. reported the largest increase among the top 10 as revenues jumped 23% to \$192 million in 1995. Alexander Reinsurance Intermediaries Inc., on the other hand, reported only a 1% increase to \$204.0 million. Guy Carpenter & Co. Inc. and
See Brokers on page 14

10 largest U.S.-based reinsurance brokers

Gross revenues are in millions

Company (Parent)	Gross revenues			Employees			% Treaty	
	1995	1994	% chg.	1995	1994	% chg.	1995	1994
Guy Carpenter & Co. Inc. (Marsh & McLennan Cos. Inc.)	\$320.9	\$315.8	1.6%	1,389	1,437	-3.3%	NA	NA
Alexander Reinsurance Intermediaries Inc. (Alexander & Alexander Services Inc.)	204.0	202.0	1.0	1,575	1,651	-4.6	80.3	80.7
Aon Re Worldwide Inc. (Aon Corp.)	192.0	156.0	23.1	824	599	37.6	98	96
Minet Re (Minet Group)	83.5	82.2	1.6	486	498	-2.4	88	91
Sedgwick Re ¹ (Sedgwick Group P.L.C.)	81.1	75.6	7.3	375	375	0.0	87	87
Willcox Inc. Reinsurance Intermediaries (Johnson & Higgins)	80.0	68.0	17.6	235	230	2.2	99	99
E.W. Blanch Co. (E.W. Blanch Holdings Inc.)	79.8	76.6	4.2	395	391	1.0	99.5	99
Willis Faber North America Inc. ¹ (Willis Corroon Group P.L.C.)	47.3	45.8	3.3	250	272	-8.1	95	95
Towers Perrin Reinsurance (Towers Perrin)	41.5	40.2	3.2	206	204	1.0	95	95
John P. Woods Co. Inc. (Woods Corp.)	22.5	21.3	5.6	62	62	0.0	100	100

¹ Figures reflect U.S. business only ² BI estimate NA=Not available
Source: BI survey

Spotlight report

M&A

Continued from previous page
reinsurer has "a long-term viable strategy and commitment to the market," he said.

While combinations between broker reinsurers are expected, market observers disagree as to whether the acquisition of broker market reinsurers by direct reinsurers is likely.

They point out that among direct reinsurers, only Employers Re—with its First Excess & Reinsurance Corp. unit—now has a substantive broker reinsurance subsidiary among the major direct writers, though Munich Re also operates a relatively small broker market reinsurer, Great Lakes American Reinsurance Co.

However, Kaj Ahlmann, chairman, president and CEO of Overland Park, Kan.-based Employers Re, said, "I don't think we will actually buy com-

panies to any large extent" in the broker market. While it could happen, it is "not what we're focusing on," he said. Buying blocks of business in that market could be an option instead, said Mr. Ahlmann.

Others also predict other direct reinsurer-broker reinsurer combinations are unlikely, based on recent history.

"What we've seen so far is even a trend away" from combinations of direct and broker market reinsurers, said Paul Ingrey, chairman of F&G Re Inc., a Morristown, N.J.-based unit of USF&G Corp. Among other examples, he pointed to General Re's sale of Signet Star Reinsurance Co. to W.R. Berkley Corp.

Steven J. Bensing, president of Stamford, Conn.-based Chartwell Reinsurance Co., agreed.

While there may be specific circumstances where a broker market reinsurer may have developed attributes

that would interest a direct writer, "We've seen at least a tendency for direct writers to say we're not making it on both sides of the fence, so to speak, and let's concentrate on our core," he said.

'I think there are two distinct markets and at this point in time they'll remain two distinct markets,' John F. Donahue says.

"I think there are two distinct markets and at this point in time they'll remain two distinct markets," said John F. Donahue, senior vp, reinsurance and international property and casualty operations for ITT Hartford Group Inc. in Stamford, Conn.

"I think very definitive choices are being made as to which distribution channels one is going to be in and their choices seem to be rather stark," said James F. Dowd, chairman and CEO of Odyssey Reinsurance Corp. in New York. "They go one way or the other."

However, others disagree.

"Given the fact that the broker market is a very substantial part of the distribution system in this country and if it's true that the direct writers have run out of other direct writers to buy, then it would seem to me that the direct writers are going to be looking for opportunities that could range from looking to acquire broker market reinsurers or even brokers as well," said Mr. Piccione.

While there has been little success in "cross-pollinating" distribution systems over the past 25 years, "I think the future is wide open for changes in the distribution system,"

he said.

Russell R. Miller, chairman of Russell Miller Corporate Finance Inc., an insurance investment banker in San Francisco, said he, too, would not be surprised to see reinsurers become involved in multiple distribution systems. The direct writers, in some way or another, are already using different distribution methods, even if it is through ownership of a broker, said Mr. Miller.

While they may not face the issue of multiple distribution channels, there are also inherent problems with broker reinsurers merging with one another, say some market observers.

"I think the principal problem is retaining all of the business of the combined organizations," said Underwriters Re's Mr. Newman. Among the reasons insurer ceding companies choose the broker market is a desire to distribute their business to a number of qualified reinsurers, rather than to concentrate it with one, he explained.

Therefore, he said, "logically, if some of the reinsurers were to become one, a buyer might under that logic find it appropriate to reduce the amounts that organization is participating in."

Normally in a merger situation between broker reinsurers one and one equals not two, but one and a half, "as a result of clients wishing to hedge their bets and spread risk around to a certain extent," agreed Mark E. Hvidsten, president and CEO of Minet Re International Ltd. in New York.

"I think against that is a desire by clients to rationalize their placements to a controllable number of reinsurers," said Mr. Hvidsten. "Clients generally don't want the big subscription placements that used to characterize reinsurance placements, but quite a lot of that has shaken out already," so quite often when there is a merger, the new entity winds up with "a smaller combined share than some of the parts before that," he said.

This could impact the price of a deal involving broker reinsurers.

"I do think it's a legitimate point that acquiring a broker market as an acquisition candidate probably presents somewhat less value per dollar of premium than a direct by virtue of the somewhat lesser degree of control over its business and somewhat smaller degree of relationship with its clients," said Mark D. Mosca, president and CEO of Greenwich, Conn.-based Risk Capital Reinsurance Co.

"I think that is one of the potential inhibitions to what I would call major M&A activity among the broker market players," said Mr. Mosca.

"The question always has to come up: What are you paying for, how much business can you expect to retain, how much business are you getting access to that you might not already have had access to?" he asked.

As a result, said Mr. Mosca, "The general value to a potential acquirer of a potential acquisition target is less immediately apparent, a little less tangible and maybe less realizable in general."

"The values are different," agreed Gary Ransom, senior vp at Conning & Co. in Hartford, Conn. "The direct writing reinsurers in a sense own their business in that the relationships with the clients are with the employees of their company."

For broker market reinsurers, though, the "relationships are with the brokers and the clients," he said.

However, Chartwell's Mr. Bensing said value is "very much dependent specifically on the transaction basis."

"There are organizations that have developed outstanding infrastructures and there are organizations that have a tremendous amount of embedded value, both financially and also in terms of human capital. In any industry, I think, there's a very diverse

See M&A on page 6

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Spotlight report

M&A

Continued from page 4

range of those values among companies and to try to generalize that statement to the broker market as a whole, I think, would be a big mistake," said Mr. Bensinger, adding, "a lot of intangibles must be assessed."

Strong personalities could become an issue in these mergers as well, said Mr. Ransom.

While some CEOs may be willing to step aside if they were well compensated, "most of them want to be the person in charge of the merged entity," said Mr. Ransom.

At least one other potential area of deal activity is insurer-owned reinsurance facilities. But there is disagreement as to how likely insurer-owned reinsurance operations will follow the lead of Allstate Corp., which sold its U.S.-based reinsurance

operations to SCOR U.S. Group (BI, July 29).

Officials of the reinsurance units themselves say any change in ownership is highly unlikely.

"I don't think St. Paul, Kemper or USF&G are interested at all in selling their reinsurance operations for two reasons," said F&G Re's Mr. Ingrey. "One is, they're among the most profitable things they've got."

Secondly, he said, Allstate sold Allstate Re because the operation had cat exposure, which Allstate wanted to reduce.

The other insurers with reinsurance operations do not have a significant catastrophe exposure, said Mr. Ingrey.

Officials of other insurer-owned reinsurance facilities concur.

"We don't expect to be spun off," said Michael R. Pinter, Kemper Reinsurance Co.'s chairman and CEO.

William J. Adamson, CEO of CNA Reinsurance, said his unit is one of six

operating units for CNA, and he does not anticipate any change.

And St. Paul's Mr. Duffy said, "I would never rule out anything, but certainly it's not in our plans."

"We consider the business to be one of our key areas of growth in the Hartford," said Mr. Donahue. "We're looking for additional growth and to be a major player in the broker market reinsurance community," he said.

"There's nothing to indicate to me that all those entities aren't fully committed to staying in the business," said John Smithson, chairman, president and CEO of Philadelphia-based PMA Reinsurance Corp.

CNA Re, F&G Re, St. Paul Re and Hartford Re "are all significant and respected players in the reinsurance market. They all have very strong security, they have good reputations, they have experienced staff, they're well known to brokers and clients" and are apparently very successful, he

said.

"I think that the principal property/casualty carriers that have reinsurance companies will not consider selling them because it's a different but important line of business that allows them not only profits, but a unique understanding of what is going on in the day-to-day marketplace," said Mr. Miller.

In addition, financial reinsurance is probably going to become a growing segment of the reinsurance business "and hence most large companies will want to be active in those new developing areas," said Mr. Miller.

"As long as they can write on the back of a good A.M. Best rating of their parent company, it really doesn't serve them a lot of purpose to be incorporated," said Bard E. Buanes, chairman and CEO of Constitution Reinsurance Corp. in New York.

However, he added, "Seen from the company's side, there may be certain

risks in having a reinsurer as part of the corporate structure since results come in more slowly and the exposure generally may be a little greater than they are in the primary business."

"The considerations in regard to that are always multifaceted," said St. Paul Re's Mr. Duffy. "Are the operations a vital part or a core aspect producing increased revenues and products or is it a fringe part of the overall organization?"

Another consideration, he said, is whether the parent organization is seeking to conserve its capital in relation to its overall portfolio, which could put it into more of a position to sell rather than buy.

Mr. Duffy noted that St. Paul's reinsurance operation is performing well and, in fact, would be interested in becoming a buyer if the right opportunity emerged.

Jerome Karter, president and CEO of SCOR U.S. Group, which bought Allstate Re's U.S. operations, said a decision on this issue "depends on whether or not those primary companies consider the ownership of a reinsurance department to be strategically important to them.

"It's a very different business, it has different capital requirements—more and more every day—and on that basis, they may well ask themselves at some point whether or not they are prepared to play the game to keep those departments relevant in the market. I think some of them may well feel that it's not important to them. But then, one man's meat is another man's poison," said Mr. Karter, quoting E.B. White.

Risk Capital Re's Mr. Mosca agreed that it depends on the particular insurer's situation. "I think there are some insurer-owned reinsurance operations, or aspects of their operations, that I would expect to continue under their current ownership," he said.

"Others, I think are at least more likely to be sold or spun off in some way, and it's very much a matter of the individual circumstances and respective attitude of the insurance owner or controllers. I find that very difficult to generalize because I could see very different potential outcomes among them," Mr. Mosca said.

Mr. Bensinger of Chartwell said he believes that particularly publicly traded stock companies with reinsurance operations that can stand on their own will assess the value of retaining these operations as a core business going forward vs. realizing their shareholder value and either spinning off or selling the entity.

Whatever the M&A activity, corporate policyholders are likely to at least emerge even and perhaps even come out ahead.

The M&A activity "hasn't really filtered down to the policyholder as I see it, not in any meaningful way," said F&G Re's Mr. Ingrey.

Also, fewer reinsurers to choose from is not seen as a problem.

"They're not hurt. There's still plenty of choice left," said SCOR's Mr. Karter. "Even if 10 companies disappear, you've still got a choice of somewhere between 30 and 40 reinsurers in the market, all of whom will be better capitalized. That can only be positive for the buyers as they can feel more secure with the companies that stick around."

"I think buyers to a certain extent have been driving the whole consolidation trend over the course of the past few years" as they try to limit the number of programs and deal with larger, more secure players, said Mr. Bensinger.

"I think that's a positive" because what you will wind up with over time is fewer reinsurers that are larger and better capitalized with a better ability to develop new products and more capital committed to research and development, said Mr. Bensinger. **BI**



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Opinions

Mixed marks for 104th Congress

LOOKING BACK on the now-concluded 104th congressional session, we think Congress, for a change, gets high marks—somewhere between an A- and a B+—for its actions on employee benefit issues and more than a passing grade on risk management issues.

Actions that deserve an A include the long-overdue passage of pension simplification and health care portability legislation.

Passage of the pension legislation—a testimony to the persistence of employer groups that had been lobbying for it for six years—begins to peel away at the layers of complex and often needless rules that have raised the cost of administering pension programs.

Its enactment will encourage more employers to start new pension programs and retain existing ones.

The health care legislation is a welcome break from the overreaching proposals Congress considered in the previous session. This one is neatly targeted at a specific problem: workers who can't get health insurance for pre-existing medical conditions from their new employers when they change jobs. The measure will end an outrageous underwriting practice and will give employees health insurance protection—at little additional cost to their companies—for when they really need it.

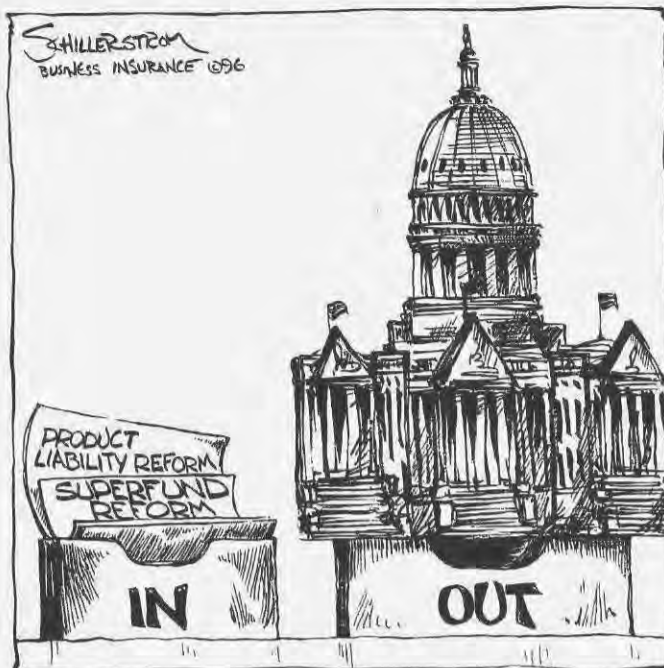
Its passage shows that meaningful health care reform is possible when legislators and the executive branch work together on a bipartisan basis.

Top marks also go to Congress for repealing the Medicare Data Bank, the federal law that would have required employers to generate millions of health care coverage enrollment reports no one would have ever read.

Actions that occurred at the 11th hour—passage of legislation that will outlaw inequitable annual and lifetime health care plan limits for mental disorders as well as require group health care plans to offer at least 48 hours of inpatient coverage for mothers and their newborns after a normal, vaginal delivery and 96 hours after a Caesarean section—are more of a mixed bag.

On the positive side, Congress set a far off enough effective date—Jan. 1, 1998—to give regulators enough time to provide the guidance employers will need to comply with the new law. That's a pleasant change from other benefit laws—COBRA is perhaps the best example—where Congress has given employers just a few months to comply with sweeping changes in benefit rules.

On the other hand, as we wrote before, we are disturbed at the way legislators passed the mental health benefits parity and maternity measures. Both proposals were tacked on to an unrelated appropriations bill



and skipped the normal consideration process of hearings and committee and floor votes. Measures of this importance need more scrutiny and consideration than can be afforded when they are attached to broader bills.

On the risk management ledger, we are pleased that Congress reauthorized the underwriting authority of the Overseas Private Investment Corp. for another year. OPIC is a vital player in the political risk insurance market and is, we might add, a positive contributor to the U.S. Treasury.

Alas, Congress took no action to reform the federal Superfund law. But, we have to admit, our expectations of reform were never very high to begin with.

The defeat of federal product liability legislation was no fault of Congress. For the first time, Congress passed a product liability reform measure, a very modest one, we think. But the measure died when President Clinton vetoed it and Congress was unable to override the veto.

While the presidential veto was a disappointment, we take comfort in the fact that President Clinton left open the possibility in the debate Oct. 6 that he is not necessarily opposed to liability reforms at the federal level. He noted that in 1994 he signed a tort reform measure that gives manufacturers of general aviation aircraft immunity from product liability suits after the aircraft reach a certain age.

And if challenger Robert J. Dole is elected, he left no doubt that he would sign—enthusiastically—federal product liability reform legislation.

Letters

Taxpayer shouldn't shoulder business risks

To the editor: I was disappointed to read your Sept. 3 editorial, "Taking a Good Idea Too Far," in defense of the Overseas Private Investment Corp.

Too many people excoriate wasteful government spending in the abstract but quickly rise to the spirited defense of a particular pet project.

I will not question your assertion that

the existence of political risk coverage makes it easier for companies to do business abroad. There is no doubt that this program, along with many of the other programs in OPIC, helps companies do business abroad. The question that needs to be asked is why the taxpayer should subsidize this insurance.

Your editorial suggests that the program is not a handout for the corporate well-to-do because it actually generates revenue. You also note that private insurers do not seem willing to play in this market.

This should be a red flag to alert readers. Are insurance companies deliberately avoiding a potentially profitable opportunity? Or is it that the revenues from the insurance coverage are counted but government accounting does not post the necessary liabilities associated with a very risky 20-year guarantee?

If private insurers are unwilling to ac-

cept the premiums in return for the risk, then the federal government (and taxpayers) are effectively subsidizing this activity. While many are quick to point to the benefits accruing from the existence of insurance, Henry Hazlitt pointed out forcefully in his excellent book "Economics In One Lesson" the economic fallacy of such reasoning.

I have no doubt that there is considerable political risk associated with major infrastructure projects. But transferring this risk to the taxpayer is not the right answer. I applaud Congress for finally stepping up and saying no to this example of corporate subsidy.

Stephen W. Philbrick
Weatogue, Conn.

Editor's note: In the closing days of the session, Congress agreed to reauthorize OPIC for one more year.

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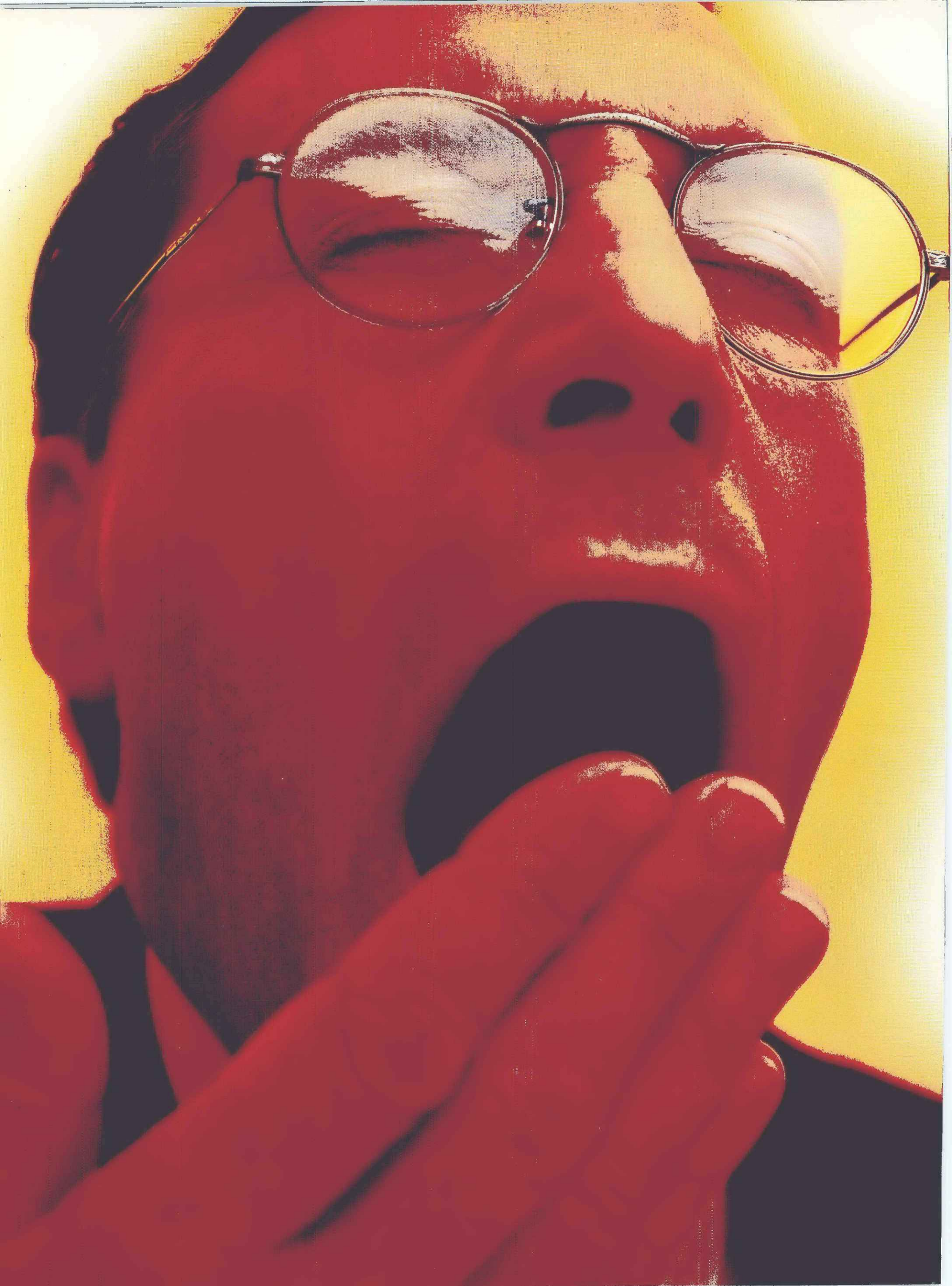
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Brokers broaden their menus

Insurer clients now look for creativity, more services

By SALLY ROBERTS
and JUDY GREENWALD

Reinsurers and reinsurance brokers are finding offering pure reinsurance transactional services does not cut it with today's more sophisticated buyers and more competitive market.

Insurers are looking for a full range of value-added services from their brokers and reinsurers to creatively solve their unique insurance needs.

And brokers and reinsurers are differentiating themselves from their competition based on these services.

Reinsurance intermediaries are offering a variety of consulting services as well as financial and catastrophe modeling services. Many also are developing new software products and others are forming new units to track and educate clients on capital market and other finite-risk reinsurance solutions.

Reinsurers also are active in providing their clients with a full range of services.

Many report offering underwriting and claims-audit services as well as actuarial, catastrophe-evaluation and various support services.

There has been major growth in this area among the larger reinsurers, both broker and direct, under the auspices of "value-added" services, said William J. Adamson, chief executive officer of CNA Reinsurance, based in Chicago.

"I think we're all in the service business at the same time we're in the business of risk bearing," said James F. Dowd, chairman and CEO of Odyssey Reinsurance Corp. in New York. "I think we are all in it because one needs to distinguish themselves," as well as provide the same services as competitors.

Reinsurance buyers "are becoming very selective regarding the financial integrity and value-added services of their reinsurers and reinsurance intermediaries," added Rocker Channell, president of Aon Re Worldwide Inc. in Chicago.

Insurers selecting reinsurance intermediaries "are looking not just for the placing of business and transactions, but for a much broader consultative and advisory role ranging from helping them with catastrophe-exposure management to financial planning to helping them find capital," said Jacobus Van de Graaf, managing director and CEO of Towers Perrin Reinsurance in Stamford, Conn.

Indeed, "when we walk in the front door, we don't want to be viewed as a reinsurance broker, we want to be viewed as a business consultant with a variety of services," said Chris L. Walker, president and CEO of Bloomington, Minn.-based E.W. Blanch Co.

To do this, reinsurance brokers continue to widen their breadth of services often times on an unbundled fee-basis.

In some cases, reinsurance brokers are looking to draw off of other units to enhance their knowledge and service base.

"One thing we're trying to do is work in a much more integrated fashion" with other Towers Perrin units, Mr. Van de Graaf said. "We want to tap into the knowledge

and services of Towers Perrin and Tillinghast" for instance, to help solve a client's need.

The reinsurance intermediary and its actuarial consulting sister company, Tillinghast, for example, are developing biannual joint catastrophe exposure management seminars for insurers to discuss such topics as capital market solutions and catastrophe modeling, Mr. Van de Graaf said.

In addition to Towers Perrin, Willis Faber North America Inc. will look to other units in the group to integrate services, whether it's the retail brokerage unit, excess and surplus lines unit

or captive management unit, said John R. Cashin, executive vp of

'When we walk in the front door...we want to be viewed as a business consultant with a variety of services,' says Chris Walker of E.W. Blanch Co.

the New York-based intermediary. All units are "constantly looking at opportunities to feed

other elements of the organization."

Among the variety of new consulting services intermediaries are offering, Alexander Reinsurance Intermediaries Inc. recently began offering claims consulting services through its London-based

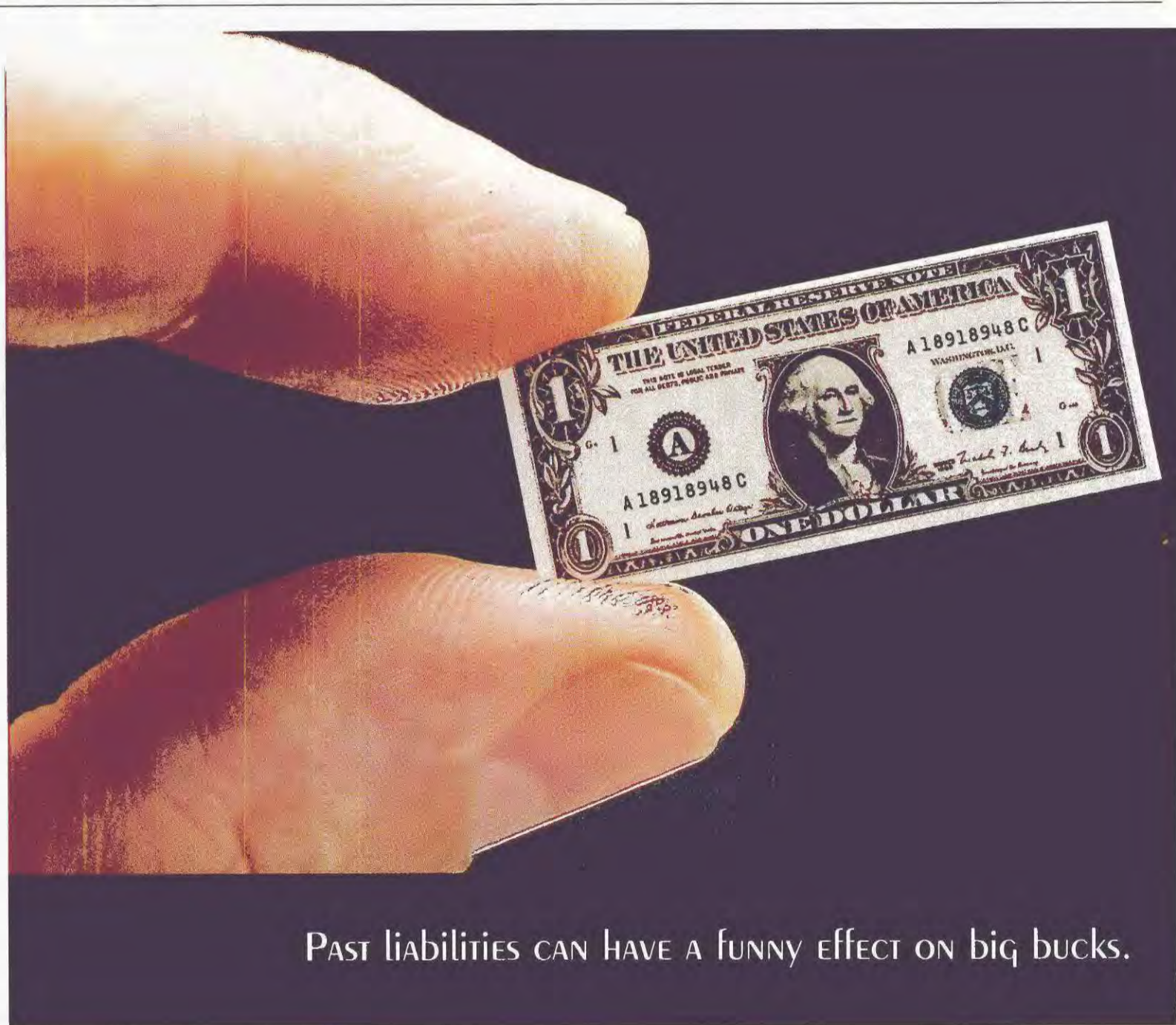
Coleman, president and CEO of Alexander Re in New York.

Sedgwick Re also formed a new unit late last year that offers consulting and fee-based services to insurance, reinsurance and regulatory clients, said Salvatore D. Zaffino, chairman and CEO. The unit, Reinsurance Solutions International L.L.C., is based in Philadelphia.

And E.W. Blanch established a new unit—Paragon Reinsurance Risk Management Services Inc.—to provide clients consulting and other products and services including accounting and claims software and catastrophe modeling services.

In addition to new consulting units, Sedgwick Re and E.W. Blanch also established new units to explore reinsurance options in

Continued on next page



PAST LIABILITIES CAN HAVE A FUNNY EFFECT ON BIG BUCKS.

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Continued from previous page
the capital market and other finite-risk reinsurance arrangements.

Not only are intermediaries establishing new units, many also are developing new software to assist clients with a variety of needs.

For example, Guy Carpenter & Co. Inc. developed a new software product—called EQECAT—last year that offers such capabilities as portfolio analysis, financial modeling and wind, flood and earthquake catastrophe modeling, said David Priebe, a managing director at the New York-based intermediary.

Towers Perrin Reinsurance developed two software products that will estimate an insurer's potential range of investment securities returns with respect to catastrophe-exposed risks and one that assists Towers Perrin Reinsurance

consultants in evaluating the financial consequences of alternative property catastrophe reinsurance programs.

Reinsurance intermediaries also are establishing new offices overseas, expanding the base to provide these services.

John P. Woods Co. Inc., for example, recently opened an office in Rio de Janeiro, Brazil; Guy Carpenter opened a new office in Zurich, Switzerland; Willcox Inc. Reinsurance Intermediaries opened new offices in Buenos Aires, Argentina, and has plans to open offices in Mexico City and in Hamburg, Germany, this year; and E.W. Blanch, through a joint venture, established new offices in Hong Kong; Paris; Rome; Mexico City; Sydney, Australia; and Singapore during 1995 and so far in 1996.

Reinsurers also report offering a

full range of services to provide value-added solutions to their clients.

The broker market reinsurer works in conjunction with the bro-

Many reinsurance intermediaries are developing new software to assist clients with a variety of needs.

ker, said John F. Donahue, senior vp-reinsurance and international property and casualty operations, for the Hartford Insurance Group in Stamford, Conn.

"I think you'll find that Hartford Re has a full array of services and that is augmented by whatever

services the broker community brings to the table, and between the two of them they focus on what does the client really want and what do they really need."

He noted also that "a major part of Hartford's game plan has always been to provide the services needed," including catastrophe evaluation services, actuarial, claims-audit services "and beyond that even to claims administration if that's what the clients happens to need," he said.

"There's a shift to basically a solution-oriented marketing among larger reinsurers who have those services rather than sort of a product orientation, so I think specific services that are required within the broker market are actually quite available between broker companies and underwriting companies," said Mark W. Hinkley, executive vp of TIG Reinsurance Co.

in Stamford, Conn.

Steven H. Newman, chairman and CEO of Woodland Hills, Calif.-based Underwriters Reinsurance Co., said, "I guess you could classify the reinsurers in two categories: Those that provide the contract and capacity and those that provide solutions, and I count ourselves in the latter.

"We are capable of leading and restructuring entire reinsurance programs. We routinely perform underwriting and claims audits of our clients for both their benefit and our own. We allow our clients to access our actuarial capabilities, which provide them with some significant pricing support.

"We also have primary insurance company charters in our organization which we also use to assist our clients in operating in areas or in classes for which they are either not licensed or filed."

Jerome Karter, president and CEO of SCOR U.S. Group in New York, said, "That's one thing that we have been doing more and more of."

SCOR has offered services in areas including underwriting audits and claims "and just in general is making services available which support the management of primary companies to meet their objectives.

"I think you'll see that growing, and that that is going to be capable of being offered only by those that have or are prepared to put the resources in place."

Steven J. Bensinger, president of Stamford, Conn.-based Chartwell Reinsurance Co., said the reinsurer can offer its clients primary paper through its acquisition of the Reinsurance Corp. of New York, whose name has now been changed to the Insurance Corp. of New York. The Insurance Corp. of New York writes property/casualty coverage for specialty program administrators.

In addition, Chartwell Re is among the investors in an investment fund formed in July, High Ridge Capital, that targets property/casualty insurers.

The Stamford, Conn.-based fund, whose other major investors are Charlotte, N.C.-based First Union Bank and Bermuda-based Western General Insurance Ltd. in Bermuda, has a total of \$56 million, says its president, Jim Zech, who noted the fund has not yet made any investments.

"We're targeting middle-market types of property/casualty insurers that are in need of capital and those leads are (being generated from) our traditional reinsurance community," said Mr. Bensinger. High Ridge's investments are separate from Chartwell Re's reinsurance operations.

In addition, Chartwell Re has a wholly owned subsidiary, Chartwell Advisers Ltd., a licensed Lloyd's adviser to New London Capital P.L.C., a corporate capital vehicle that provides capital to select Lloyd's syndicates. The reinsurer is also now in "exclusive discussions" on the possible acquisition of Archer Group Holdings P.L.C., parent company of Archer Managing Agents Ltd., a Lloyd's managing agency that manages a group of 11 Lloyd's syndicates.

At the same time, some reinsurers are choosing to solely focus on reinsurance underwriting.

Paul Ingrey, chairman of F&G Re Inc. in Morristown, N.J., a unit of USF&G Corp., said just as his personal investment philosophy calls upon him to invest only in things he understands, F&G focuses just on reinsurance underwriting. **B**

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CAPITAL YOU CAN BANK ON.

Spotlight report

Brokers

Continued from page 3

Minet Re both reported modest 1.6% increases to \$320.9 million and \$83.5 million, respectively.

The total number of employees among the top 10 increased by 1.4%, as nearly half the brokers reduced their workforces last year.

Business Insurance ranks the 13 largest U.S. intermediaries based on reinsurance brokerage revenues generated by all companies that report to that entity.

Brokers whose headquarters are in the United States report their global reinsurance brokerage revenues, while others based outside the United States report only their U.S. revenues.

For example, Minet Re and Sedgwick Re have similar inter-

national structures, but all of Minet Re's reinsurance operations report to New York and its ultimate parent is The St. Paul Cos. Inc. of St. Paul, Minn.; Sedgwick Re's U.S. division reports to London and its parent is London-based Sedgwick Group P.L.C.

As a result, revenues shown for Sedgwick Re and Willis Faber North America Inc. represent only a portion of the reinsurance business placed globally by their U.K. parent companies.

Based on information reported by their parent companies for the annual agent/broker profiles issue (BI, July 22), BI estimates that Sedgwick's global reinsurance revenues for 1995 were approximately \$130 million, while Willis Corroon's were \$188 million.

In the past, Alexander Re and Willcox Inc. Reinsurance Intermediaries reported only their North

American revenues, but because the intermediaries both have New York-based parent companies, their global reinsurance broker-

largest U.S.-based reinsurance intermediary, and John P. Woods Co. Inc., which remains the 10th largest intermediary.

'The real trick as a brokerage operation is trying to get the value equation understood by clients and to position ourselves so we can be able to sell those services,' Mark T. Hvidsten says.

age revenues have been included in the 1995 rankings.

Alexander Re moves up seven spots in the chart to No. 2 from No. 9, moving the remaining intermediaries down one notch with the exception of Guy Carpenter, which remains unchanged as the

With the addition of its global revenues, Willcox surpasses E.W. Blanch Co. and Willis Faber North America Inc. to take the No. 6 spot, while the others moved down to No. 7 and No. 8 respectively.

The lackluster results at many

of the largest intermediaries—Aon Re and Willcox were the only brokers to report double-digit increases—is reflective of a marketplace that brokers describe as going through a watershed change.

Reinsurance buyers are keeping a close eye on their expenses, which often translates to retaining more risk.

As a result, brokers are changing how they do business, realizing they can no longer just handle reinsurance transactions if they want to grow. They must also provide value to their clients, offering experienced advisers, financial stability and a wide range of products and services tailored to clients' specific needs, they say.

"The market is in a great deal of transition at the moment," said Mark T. Hvidsten, president and CEO of Minet Re Worldwide in New York. "The real trick as a brokerage operation is trying to get the value equation understood by clients and to position ourselves so we can be able to sell those services."

Indeed, "ceding companies are not using the continuing soft market to buy 'cheap' insurance," said Salvatore D. Zaffino, chairman and CEO of Sedgwick Re in Hartford, Conn. "Reinsurance buyers demand value for their reinsurance premium and do not commit to reinsurance programs until they are convinced that adequate value is present."

"I think reinsurance intermediaries have never been held to a higher standard than they are today," agreed William R. Coleman, chairman and CEO of Alexander Re. "We have to demonstrate our value-added services to clients."

"Our clients expect more," echoed Chris L. Walker, CEO and president of Bloomington, Minn.-based E.W. Blanch Co. "The cookie cutter approach doesn't work any more. Brokers need to tailor products to what the buyer wants. It's a different process of distributing risk."

The changing marketplace has hampered many reinsurance brokers' top lines as buyers continue to retain more risk and become more price sensitive.

"Ceding companies are more concerned than ever with price," said Jacobus Van de Graaf, managing director and CEO of Towers Perrin Reinsurance in Stamford, Conn. This is a result of the pressure they have to improve their margins, he said. Essentially, insurers "are passing on to reinsurers the soft market conditions in the primary market."

"Insurers continue to look at ways to enhance the value of reinsurance and risk management strategies," echoed David Priebe, managing director at Guy Carpenter. "This translates to client companies taking on more risk. Reinsurance intermediaries, therefore, create more efficient reinsurance products, which has a residual impact on revenues."

Indeed, "there is pressure on everyone to reduce costs, increase revenues and grow profits," said Blanch's Mr. Walker.

As market conditions continue to challenge intermediaries, so too does the rapid consolidation in the primary and reinsurance marketplace.

Intermediaries report varying effects from the consolidation trend.

However, they do agree that the consolidation, while challenging, presents opportunities and will continue in the future.

See Brokers on page 16



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Aon Re Worldwide

Spotlight report

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"Certainly, consolidation has presented new challenges. Invariably someone's reinsurance program is dropped," said Blanch's Mr. Walker. "If you're an incumbent, you probably will struggle to make up for the loss. Fortunately for us, we haven't had very many situations where we've lost a significant reinsurance program through consolidation."

At Towers Perrin Re, however, "the only real account we lost in '95 was a company that was acquired by someone else," Mr. Van de Graaf said. "Those things are going to happen."

And because of Guy Carpenter's extensive client base, "in many cases we find ourselves on both sides of the (acquisition) equa-

tion," Mr. Priebe said.

And "one plus one doesn't always equal two. It usually equals one and a half or just one," he said, referring to combined reinsurance programs.

"While, in theory, consolidation

N.J.-based intermediary also came from consolidation among direct writer reinsurers, Mr. Woods said.

Within the last four months, the number of direct writers has decreased to four from six.

'While, in theory, consolidation could limit the number of prospective clients for us, it actually has presented opportunities,' says John P. Woods.

could limit the number of prospective clients for us, it actually has presented opportunities," said John P. Woods, president of John P. Woods Co.

Opportunities at the Jersey City,

Most recently, Munich Reinsurance Co. announced it would acquire American Re Corp. (BI, Aug. 19) and General Reinsurance Corp. said it would acquire National Reinsurance Corp. (BI, July

8).

Mr. Woods said his brokerage is gaining new business from regional insurance companies in the Midwest and East "who have expressed concern with the mergers between some of the direct writers."

However, Mr. Coleman of Alexander Re said he has seen no fallout from the direct writer consolidation.

"We had six direct writers, and now we have four, and there is no signal of any change in the reinsurance premium pie," he said.

Reinsurance brokers do agree that consolidation will continue.

"I think there is going to be continued consolidation in the primary market. Consolidation in the reinsurance business, I think, there will be some continuance of that. And frankly, I think the same thing will happen to bro-

kers," Mr. Van de Graaf said.

Intermediaries agree that consolidations among reinsurance brokers will be more frequent among smaller brokers, and also to a more limited degree among the larger reinsurance intermediaries that are units of larger retail brokerages.

"Consolidation among reinsurance brokers will continue as very small brokers that do not offer specialized expertise and efficient back office processing capabilities will be absorbed by the larger brokers," said Mr. Woods, who echoed sentiments of other brokers.

The future of reinsurance intermediaries that are part of larger, international brokerage firms will be a function of those firms as a whole, said Sedgwick Re's Mr. Zaffino.

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"With various global brokers currently examining restructuring or merger options, it would seem likely that there will be consolidation among the largest insurance and reinsurance broking firms as well," he said.

"It's no mystery that Aon is sitting on spare capital and is ready to spend," said John R. Cashin, executive vp of Willis Faber in New York. As a result, "one of the top five or six brokers is going to be a target," which in turn affects the future of some of the top 10 reinsurance intermediaries, he said.

Willis Faber's parent, London-based Willis Corroon Group P.L.C., is just one broker that has been rumored to be a possible acquisition candidate for Aon Corp., Aon Re Worldwide's parent company.

The St. Paul Cos. Inc.'s recent decision to retain Goldman Sachs International to assist in examining strategic alternatives for Minet Group puts Minet Re's future up in the air (BI, Sept. 2).

Willcox acquired another reinsurance brokerage in 1995—Dallas-based H.S. Fox Corp.

Many brokers say, however, they have their "radar scopes" out looking for possible acquisition

port much interest on the part of ceding insurers to learn about capital market options for transferring risk, not much has come to fruition.

"There has been more activity in development than in implementation," said Alexander Re's Mr. Coleman. "It's still an effort being made though."

"We continue to watch the development of capital markets" as an alternative to traditional reinsurance, Towers Perrin's Mr. Van de Graaf said.

"There is lots of talk, but not much has happened yet," he added.

"Insurance companies, other than some with very large catastrophe exposures, do not appear to be rushing to embrace capital market alternatives because traditional catastrophe reinsurance is decidedly more competitive at

this time," Mr. Woods said.

"No major deal has been consummated to date," echoed Mr. Priebe of Guy Carpenter. "There have been serious discussions in exploring a variety of avenues. It's like a dam waiting to break. It's not a question of will it happen, it's a question of when."

Profiles of the largest U.S.-based reinsurance intermediaries follow:

Guy Carpenter & Co. Inc.

Tough market conditions stymied growth at Guy Carpenter & Co. Inc. during 1995, but not enough to jeopardize its ranking as the largest U.S.-based reinsurance intermediary.

Premium volume was down slightly to \$4.9 billion from \$5 billion in 1994. Likewise, gross revenues were down 1.1% to \$295.1 million from \$298.5 million in 1994. Including investment income, however, revenues rose 1.6% to \$320.9 million from \$315.8 in 1994.

"It's a tough market," said David Priebe, a managing director at Guy Carpenter in New York.

However, "we're making positive headway in many areas." This includes increasing the broker's value-added services, such as financial modeling and claims consulting, as well as its niche businesses, such as professional liability and health care, Mr. Priebe said.

Guy Carpenter also strengthened its international capabilities in 1995 by opening a representative office in Zurich, Switzerland, and increasing the number of employees in its U.K. office, Carpenter Bowring Ltd.

In 1995, Guy Carpenter, through a joint venture with EQE International of San Francisco, developed EQECAT, a software product that offers such capabilities as portfolio analysis, financial modeling, and wind, flood and earthquake catastrophe modeling, Mr. Priebe said.

The reinsurance broker also "beefed up" its financial modeling capabilities to offer clients "quantitative assessments to examine their volatility" of risk in terms of underwriting exposure, reserves and investments, Mr. Priebe reported.

Headcount at the Marsh & McLennan Cos. Inc. unit was down 3.3% in 1995 to 1,389 from 1,437 in 1994. While the number of employees has been decreasing steadily, Mr. Priebe said there is "no major on-going effort" to downsize the company.

Most of the intermediary's client mix is domestic; however, it expects its international base to increase.

In addition to the new Zurich office, Guy Carpenter recently opened a new office in Atlanta.

Richard H. Blum, former chairman and chief executive officer of Guy Carpenter, is now responsible for the integration of insurance and reinsurance services at the parent company. He is operating under no title. Brandon W. Sweitzer became CEO and president and G.H.C. Wakefield became chairman.

Other executive vps at Guy Carpenter are: Stanley C. Allain, Geoffrey I.K. Bromley, Richard C. Kane, Edmund R. Megna Jr., and Gavriale J. Troiano.

Alexander Reinsurance Intermediaries Inc.

Alexander Reinsurance Intermediaries Inc. is looking to life, accident and health reinsurance, See Brokers on Page 20

'We continue to watch the development of capital markets' as an alternative to traditional reinsurance, says Towers Perrin's Jacobus Van de Graaf.

Minet Re's Mr. Hvidsten would not comment about the future of the broker.

While the intermediaries predict smaller brokers will be acquired by larger brokers, only

targets.

Another trend that is more talk than action at the moment is capital market alternatives for funding reinsurance risks.

While reinsurance brokers re-

"A regional company considering entry into a new market asked our advice. We presented a clear picture that helped them make the right move.

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Spotlight report

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program business and specialty casualty programs for continued growth in 1996.

However, the soft pricing environment plus consolidation in the insurance marketplace held back any substantial growth in 1995 at the New York-based unit of Alexander & Alexander Services Inc. Gross revenues rose only 1% to \$204 million, compared with \$202 million in 1994. Headcount is down 0.46% to 1,575 from 1,651 in 1994.

Alexander Re became the second-largest U.S.-based reinsurance broker with the addition of its global reinsurance revenues, including revenues generated by its Alexander Howden affiliate. Previously, Alexander Re reported only North American revenues, which

made it the ninth-largest reinsurance intermediary.

Alexander Re seeks to provide comprehensive solutions to clients by offering services such as catastrophe profiling, financial modeling and actuarial analysis, said William R. Coleman, president and CEO of the intermediary.

"More than ever before, we can't be the plager of reinsurance business. We have to help clients with their business problems," he said. This consultative approach "not only involves catastrophe profiling but also financial modeling."

In 1996, Alexander Re began offering claims consulting services through its London-based Alexander Howden Group Claims Consultants, which opened an office in New York.

Alexander Reinsurance made "two significant hires" in 1995, according to Mr. Coleman. Dave Sul-

livan and Andy DeLoreto, both senior vps, are now heading up the intermediary's program business.

'More than ever before. . . , we have to help clients with their business problems,' says William Coleman.

In addition to Mr. Coleman, other executives at Alexander Re are: Robert T. Mobyed, executive vp and chief operating officer; and John T. Roby, senior vp and chief financial officer.

Aon Re Worldwide Inc.

Strong internal growth and ac-

quisitions proved to be the right ticket for Aon Re Worldwide Inc., which posted the largest revenue increase among the top 10 reinsurance intermediaries.

Gross revenues leapt 23.1% in 1995 to \$192 million from \$156 million in 1994, making the Chicago-based broker the third-largest U.S.-based intermediary.

"Our growth is a combination of good, strong organic growth together with a number of acquisitions we made in '94 that are showing up in our '95 numbers," said Rucker Channell, recently appointed president of Aon Re.

For example, Aon Corp. acquired London reinsurance broker Jenner Fenton Slade Group Inc. in 1994, but the London broker's revenues were not included in Aon Re's until 1995.

In addition, "Aon Re is growing in a number of areas, particularly

marine reinsurance," added Brian Stewart-Brown, chairman of Aon Re Aviation and Aon Re Marine.

Executives also point to the strength of its parent company, Aon Corp., as a growth generator.

Aon Corp. "gives us a significant advantage in our ability to invest funds and resources in both traditional and non-traditional client services," said Michael G. Bungert, vice chairman of Aon Re Inc.

For example, "as the needs of our property clients become more demanding, we are investing in services such as 'impact forecasting,' which provides state-of-the-art risk and catastrophe modeling that is used in conjunction with our other catastrophe modeling techniques," according to Mr. Bungert.

Aon Re added 225 new people, the largest addition among the top 10, bringing its headcount to 824 from 599 in 1994. Mr. Channell attributes the headcount increase to the "lag time" associated with the 1994 acquisitions.

While the number of employees assigned to facultative reinsurance dropped to 30 in 1995 from 62 in 1994, Mr. Channell said there has been no decrease in its facultative business or staff.

The headcount difference "is reflective of a realignment with various brokerage operating groups," he said, adding it is still "a very important and integral part of our operations."

In 1995, Aon Re globally integrated all its reinsurance operations under the Aon name.

Aon Re specializes in property/casualty, marine, aviation, energy and accident/health business.

Mr. Channell succeeds Stephen L. Lunsford, who left Aon Re as president at the end of 1995 to become chairman and chief executive officer of SLE Worldwide Inc., Aon's sports, leisure and entertainment unit in Fort Wayne, Ind.

In addition to Mr. Channell, Mr. Bungert, and Mr. Stewart-Brown, other Aon Re executives are: Michael D. O'Halloran, chairman; Paul Davies, vice chairman; Colin Bryan, Alan Colls, David Kelley and Antony Pinsent, directors.

Minet Re Worldwide

Significant growth in facultative reinsurance was not enough to offset the soft pricing environment at Minet Re Worldwide in 1995.

Revenues increased a modest 1.6%, rising to \$83.5 million from \$82.2 million in 1994, making Minet Re the fourth-largest intermediary.

"The relatively small growth reflects the rating pressures in all lines of all classes of business," said Mark T. Hvidsten, president and CEO of Minet Re in New York. Marine business is "a significant part of our operation" and rates "took a real nose dive in 1995," and are still "under a lot of pressure" today, he said.

One bright spot, however, is facultative reinsurance, which Mr. Hvidsten said is at the same level as in the early 1980s in terms of business growth but "in a market that rivals the softest ever seen."

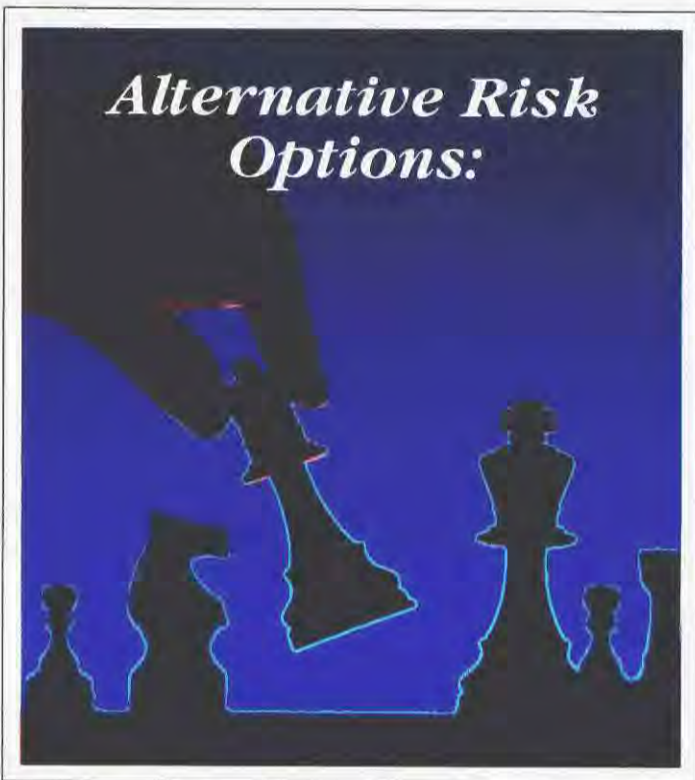
Of Minet Re's \$1.4 billion in premium volume, 12% comes from facultative business, up from 10% in 1994.

"I'm very confident about the future growth in facultative business," he said.

The number of Minet Re employees dropped 2.4% in 1995 to 486 people from 498 in 1994. However, the intermediary assigned 22 new employees to facultative reinsurance business, bringing the total

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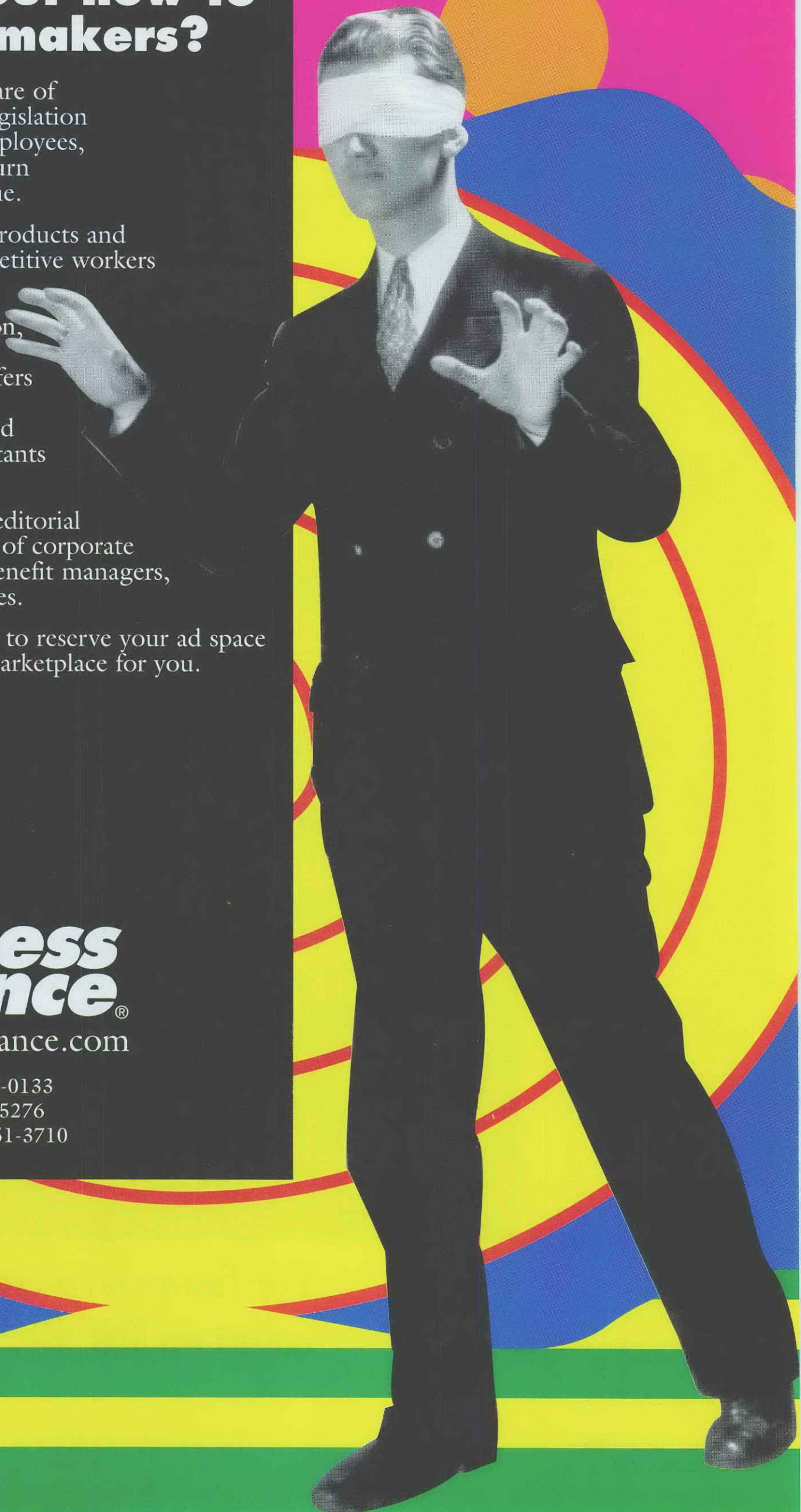
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Spotlight report

Brokers

Continued from page 20
number to 84.

Minet Re's main client base consists of small to medium-sized insurers, "with some striking exceptions," Mr. Hvidsten said.

Minet Re is a unit of The St. Paul Cos. Inc.

In addition to Mr. Hvidsten, other executives at Minet Re are: Wallace E. Winter, chairman; Charles Caporale, executive vp and chief financial officer; Albert T. DeVon Jr., executive vp; and Gary J. Jackson, facultative senior vp.

Sedgwick Re

One year after its global reinsurance brokerage consolidation, Sedgwick Re posted a 9.2% growth in worldwide revenues to \$130 million from \$119 million in 1994.

Revenues from its U.S.-based operations increased 7.3% in 1995, to \$81.1 million from \$75.6 million in 1994, making it the fifth-largest U.S.-based intermediary.

"There is no single segment of the market or geographic area responsible for our growth," said Salvatore D. Zaffino, chairman and CEO.

However, "Sedgwick Re's facultative division continues to demonstrate impressive growth," he said.

In 1996, the intermediary created a new facultative earthquake facility, which has "provided significant opportunities to quote property cat business," he said. Sedgwick Re also is seeing growth in property catastrophe treaties.

Sedgwick Re's treaty and facultative reinsurance operations, formerly Crump Re and Sedgwick Payne, were combined in early 1995 (BI, July 17, 1995).

Late last year, Sedgwick Re formed Reinsurance Solutions International L.L.C. The Philadelphia-based unit offers consulting and fee-based services to insurance, reinsurance and regulatory clients.

And in 1996, Minet Re formed Sedgwick Lane Financial Services in Chicago, "a significant development for Sedgwick Re," according to Mr. Zaffino. The unit explores reinsurance options in the capital market and provides alternative risk transfer products. Morton Lane was named president of the new venture.

Sedgwick Re's U.S. clients range from major stock property/casualty insurance companies to regional and specialty insurers.

"While Sedgwick Re has always benefited from the Sedgwick Group P.L.C. relationship, which provides access to some of the finest reinsurers in the world, we find ourselves placing more business domestically than abroad," Mr. Zaffino said. "U.S. ceding companies have not expressed a clear desire to limit placement to U.S. reinsurers, but with the increased capacity in the U.S. and the commitment of additional capital to quality U.S. reinsurers, a substantial portion of our placements remain within the U.S.," he said.

In addition to Mr. Zaffino, other executives at Sedgwick Re are: Charles A. Higham, executive vp and chief operating officer; and Gerald W. Browning, executive vp-facultative.

Willcox Inc. Reinsurance Intermediaries

Growth from "all over the

world" contributed to Willcox Inc. Reinsurance Intermediaries improved results in 1995, according to Willis T. King Jr., chairman and CEO of the New York-based intermediary.

Revenues increased 17.6% to \$80 million from \$68 million in 1994. Willcox became the sixth-largest U.S.-based reinsurance broker with the addition of its global reinsurance revenues. Previously, it reported only North American revenues, which made it the seventh largest reinsurance broker.

Willcox' premium volume remains unchanged at more than \$1 billion, and headcount increased to 235 from 230.

In March, Willcox acquired H.S. Fox Corp. in Dallas.

The acquisition "broadens our worldwide capabilities in the areas of life and accident and

health reinsurance," said Mr. King in a release.

Willcox opened new offices in Buenos Aires, Argentina and Dallas in 1995 and has plans in the "immediate future" to open offices in Mexico City and in Hamburg, Germany, Mr. King said. Other executives at Willcox are: Charles P. Griffin, executive vp; John N. Reinman, executive vp; and Timmothy C. Rivers, executive vp.

E.W. Blanch Co.

With the approach that providing only pure reinsurance services is passe, E.W. Blanch Co. continues to diversify, expand and integrate its services in order to provide clients the most creative solutions.

"While reinsurance is key to our success—it's the engine that

drives the train—we are looking to integrate all of our services to provide solutions to our clients... to find creative solutions to the whole idea of distribution of risk and mitigating volatility," said Chris L. Walker, president and CEO of the Bloomington Minn.-based reinsurance broker.

The approach seems to be working for the sixth-largest U.S.-based intermediary, a unit of E.W. Blanch Holdings Inc., the only U.S. publicly traded reinsurance broker.

Revenues increased 4.2% in 1995, to \$79.8 million on \$2.3 billion in premium volume. In 1994, the broker reported \$76.6 million or \$2.1 billion premium volume.

"Overall, we're really pleased with the company and what's taken place in the total operation," Mr. Walker said.

While 75% of its revenues is still

derived by pure reinsurance, the broker established a new fee-for-service unit that contributed to its results, Mr. Walker said. Paragon Reinsurance Risk Management Services Inc. provides insurers consulting services and reinsurance accounting and claims software.

However, a big component of the unit is its catastrophe modeling services.

"We've really gone out of our way to use the information that comes out of the models as an underwriting tool for clients," Mr. Walker said.

The broker also formed Capital Risk Solutions in 1995 to track and to educate its clients on capital market solutions and other finite risk reinsurance arrangements.

Earlier this year, Blanch formed

Continued on next page



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Continued from previous page
Rockwood Programs Inc., a marketing and distribution subsidiary within E.W. Blanch Wholesale Insurance Services Inc. unit that provides insurers assistance in marketing their programs in the primary market, Mr. Walker said.

In addition, through a 50-50 joint venture with Swire Fraser Insurance (Holdings) Ltd., a unit of Hong Kong-based Swire Pacific Ltd., Blanch expanded its international scope. During 1995 and so far in 1996, the partners, which established the venture two years ago, have established offices in Hong Kong; Paris; Rome; Mexico City; Sydney, Australia; and Singapore.

In addition to Mr. Walker, E.W. Blanch's other officers are: Daniel O'Keefe, secretary; Tom Nelson, treasurer; Rodman Fox, Ralph Flum, Jack Graham, Arthur Ho-

witz and Cliff English, directors and executive vps.

E.W. Blanch Jr. is chairman and CEO of E.W. Blanch Holdings.

Willis Faber North America Inc.

Rebounding from its revenue drop in 1994, Willis Faber North America reported a 3.3% increase in 1995 revenues to \$47.3 million on \$1.33 billion in premium volume, compared with \$45.8 million on \$1.28 billion in premium volume in 1994.

The growth is mainly attributable to new business development, both within the United States and outside, in its marine and aviation divisions, said John R. Cashin, executive vp and director of marketing in New York. "Willis Faber is the leading reinsurance intermediary in both lines

of business," he said.

It also is the eighth-largest U.S.-based reinsurance intermediary.

In addition, the reinsurance brokerage unit of London-based Willis Corroon Group P.L.C. achieved growth from its new errors and omissions and directors and officers liability unit acquired from Willis Corroon early last year.

The unit offers the liability coverages to the primary market, providing Willis Faber opportunities to place reinsurance to that client base, Mr. Cashin said.

In addition to placing reinsurance, the broker also provides consultative services to clients.

"We have to deliver our value, and we do that by providing consultative services," said Mr. Cashin. "We have to provide more than just placement of reinsur-

ance."

While the broker provides reinsurance, actuarial and D&O consulting services, among others, it does not provide catastrophe modeling services on a large-scale basis.

The jury is still out on whether to insource or outsource catastrophe modeling, Mr. Cashin said. "The investment we would have to make to offer equivalent services (to professional modelers) would be considerable," he said.

While Willis Faber has the capability to provide cat modeling for smaller clients, professional cat modelers "provide more value" to larger clients, Mr. Cashin said.

In 1995, Willis Faber opened a Minneapolis office and hired David TenHoor as a senior vp to run the office.

In addition to Mr. Cashin, other

officers at Willis Faber are: Peter T. Pruitt, chairman and CEO; Horace Johnson, executive vp; George Reeth, executive vp; and Richard Swager, president of Reinsurance Alternatives Inc.

Towers Perrin Reinsurance

Towers Perrin Reinsurance reported marginal growth in 1995, with most of the improvement coming from serving non-traditional business.

As insurers take larger retentions, buy less insurance and continue to consolidate, the Philadelphia-based intermediary is focusing on reinsurance-intensive business—areas where insurers are more reliant on reinsurance—and on integrating its strategies with other Towers Perrin units to offer clients more creative solutions.

This strategy, under way for more than a year, produced a 3.2% increase in gross revenues in 1995, to \$41.5 million from \$40.2 million in 1994.

The unit of consultant Towers Perrin reported \$630 million in premium volume and ranks as the ninth-largest U.S.-based reinsurance intermediary.

The traditional reinsurance business, "if anything, is shrinking," Managing Director and CEO Jacobus Van de Graaf said.

"Until recently, we focused on more traditional buyers," he said. However, "over the past year, we've broadened our base considerably."

Not only is growth emanating from such "reinsurance intensive"

The traditional reinsurance business, 'if anything, is shrinking,' says Jacobus Van de Graaf.

areas as professional liability, excess and surplus lines and program business, but also from its accident and health unit and its Integrated Reinsurance Risk Management unit.

Established in 1995, IRRM provides unbundled reinsurance services such as catastrophe modeling, financial analysis and reinsurance program analysis on a fee basis.

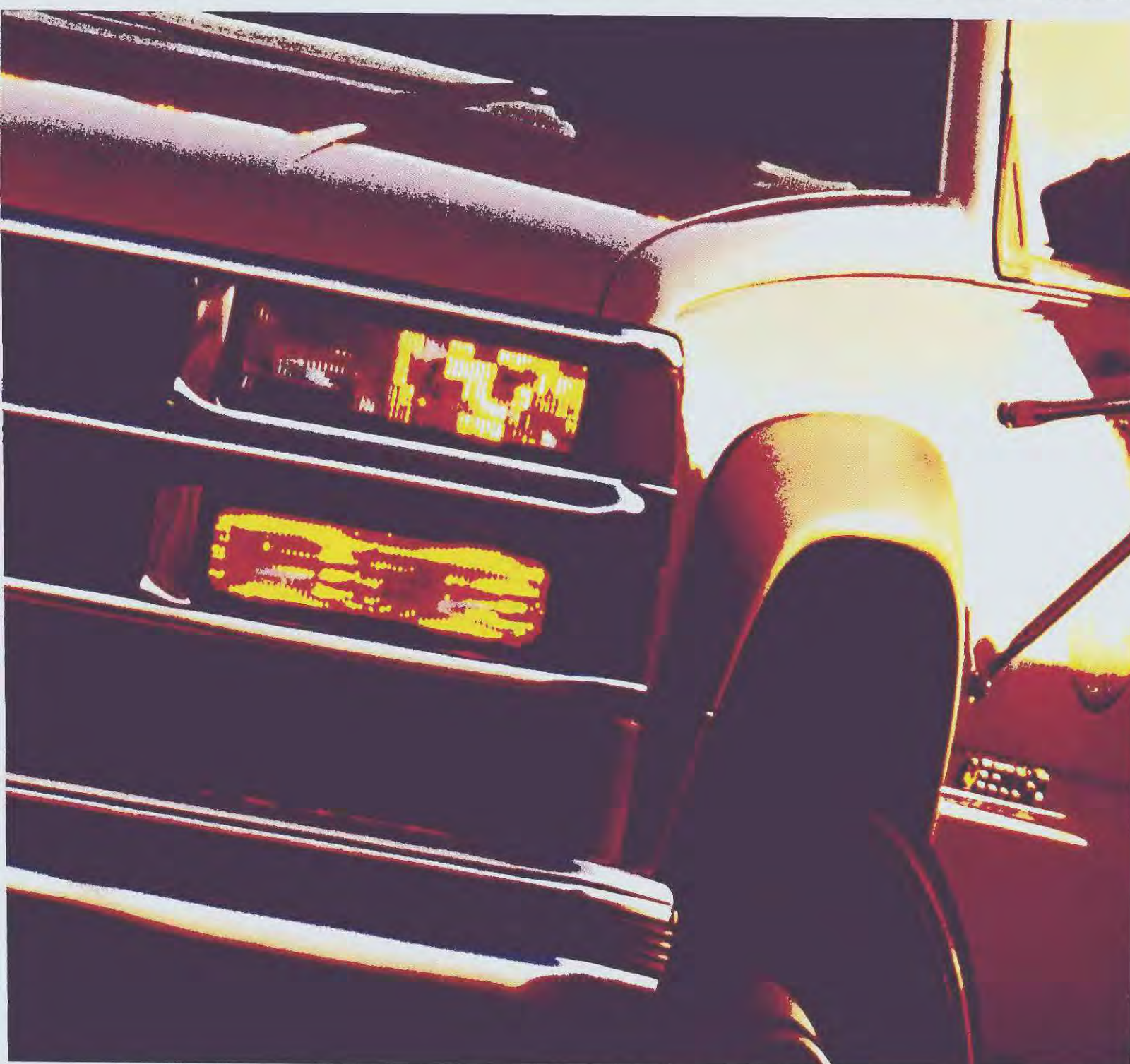
The unit also is staying abreast of opportunities in the capital markets, Mr. Van de Graaf said. However, while there is lots of talk, not much has happened yet, he said.

In addition, "one thing we're trying to do is to work in a much more integrated fashion" with Tillinghast, its actuarial sister company, to offer more consultative services to insurers, like financial planning and catastrophe modeling, he said.

Towers Perrin Reinsurance recently developed two new software products. SIRE, or Securitized Insurance Risk Evaluator, uses probability of loss distributions relating to an insurer's portfolio of catastrophe-exposed risks to estimate the potential range of returns on investment securities linked to these risks.

ReQuest, or Reinsurance Quantitative Underwriting Evaluation Software Tool, assists Towers Perrin Reinsurance consultants in evaluating the financial consequences of alternative property catastrophe reinsurance program structures.

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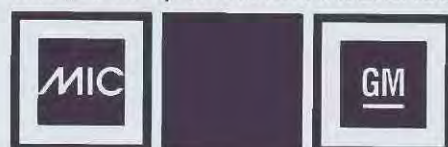


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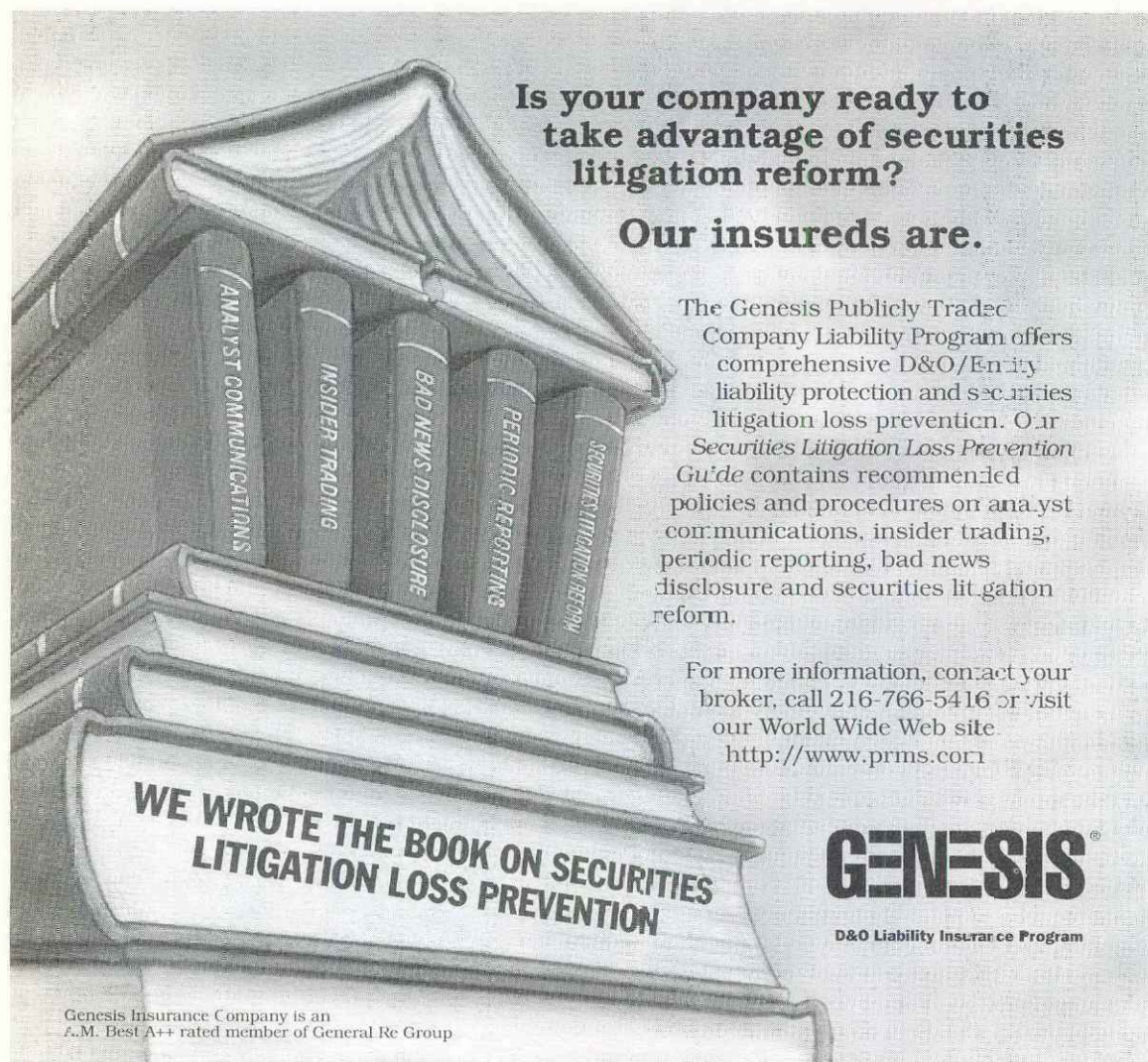
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Brokers

Continued from page 23

In addition to Mr. Van de Graaf, the senior management team includes Sr. Vps Chris T. Brackett, Daniel R. Colello, William H. Eyre Jr., Philip W. Mitchell, Mary K. O'Garman and Edwin W. Reynolds.

John P. Woods Co. Inc.

Growth in its three principal product lines—property, casualty, and life, accident and health—kept revenues growing at John P. Woods Co. Inc. in 1995.

Revenues increased 5.6%, to \$22.5 million from \$21.3 million in 1994, making it the 10th-largest U.S.-based reinsurance broker. Premium volume was up 8.3% to \$650 million from \$600 million in 1994. Headcount remained the same at 32 employees.

John Woods, president of the Jersey City, N.J.-based intermediary, said new business opportunities are coming from new personal lines insurers being created in the North and Southeast regions of the United States as well as from regional insurers unhappy with the consolidation among the direct writing reinsurers.

"We enjoyed very significant successes during the past 10 months in being designated broker of record on six prominent property/casualty and life, accident and health accounts," Mr. Woods said. "In some of these cases, we replaced 25-plus-year reinsurance intermediary relationships."

In the future, Mr. Woods is look-

ing to its new joint venture—John P. Woods Latin America L.L.C.—with INTOCO Integrated Services Inc. to generate new business in Latin America.

"We have just received our first order on business from Brazil," he said.

In addition, "we were involved in the first international syndication of a group of reinsurers in each of

'Brazilian insurers in the future will be able to directly access reinsurers throughout the world,' says John Woods.

the major worldwide markets outside of Brazil working directly with the local insurance company and the (Instituto de Resseguros do Brasil)."

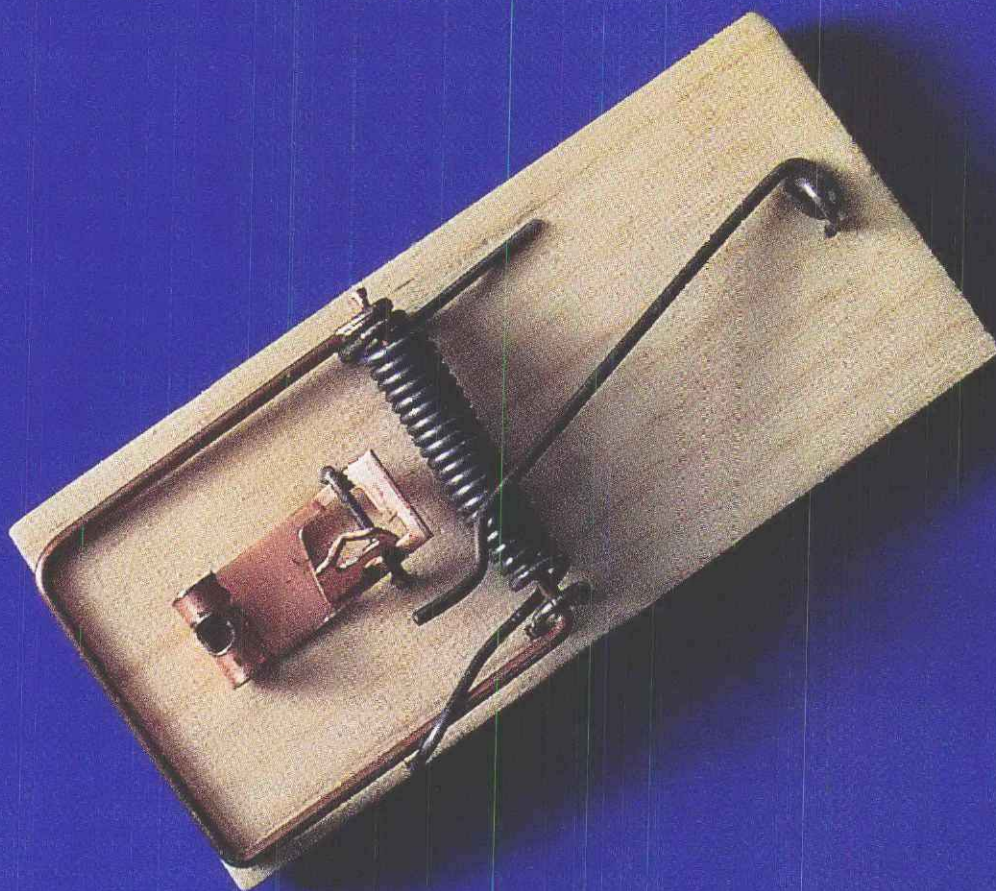
"We view this as a harbinger of good things to come, as Brazilian insurers in the future will be able to directly access reinsurers throughout the world," Mr. Woods said.

Up until now, the IRB has had a monopoly in Brazil.

Woods' business mix is fairly evenly distributed among national insurers, regional insurers, "super regionals" and specialty writers.

In addition to Mr. Woods, other executives at the brokerage are: Josephine A. Hoey, senior executive vp; Roderick P. Thaler, executive vp; Ellsworth P. Whiteman, executive vp; John P. Woods III, executive vp; Harry Larzelere, executive vp. **BI**

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Consolidation doesn't threaten reinsurance association

By MARK A. HOFMANN

The wave of consolidation that is sweeping over the reinsurance industry isn't threatening to capsize the Reinsurance Assn. of America.

Instead, the frenzy of mergers has resulted in a "smaller number of members, stronger, more capitalized members" with greater international presence, said Franklin W. Nutter, president of the Washington-based trade association.

The 27-member RAA lobbies on behalf of the reinsurance industry at both the state and national levels, is involved in educational efforts and promotes effective use of electronic data transmissions. And it is operating in a business environment that seems to change almost daily.

"The restructuring of the business is remarkable. In July and August of 1996 alone, you had at least four

partments of primary companies must write at least \$250 million in annual unaffiliated domestic reinsurance premiums to be eligible for membership.

Thus far, two reinsurance departments have joined the RAA: F&G Re Inc. and St. Paul Re.

The RAA is holding discussions with other potential members, but probably fewer than a half-dozen reinsurance departments would meet membership criteria, Mr. Nutter said.

According to the FAA's mission statement, the group's primary purpose "is to advance the interests of the U.S. property and casualty reinsurance industry through effective government relations with state and federal regulatory agencies, legislators and other elected or appointed officials, and representation before judicial bodies."

Reforming Superfund's liability system will be among the association's top legislative priorities in the 105th

Congress, Mr. Nutter said. "It's disappointing to say that in the last two years we were not successful in reforming the Superfund program," he said. Like other insurance trade associations, the RAA supports eliminating as much of Superfund's imposition of retroactive liability as possible.

The fact that reform got "hung up on the politics in 1996 was a disappointment for all of us" he said.

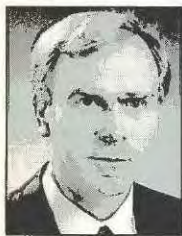
"I do think that the presidential election will be somewhat determinative

of what our prospects are to do that in the future, but it remains a priority for us," he said. One issue that may not command as much attention in future Congresses is creating a federally backed natural catastrophe insurance or reinsurance pool.

"We have expended a lot of resources on a very targeted lobbying effort," said Mr. Nutter.

"Having done all that, and finding that at best the industry was lukewarm in support of a legislative proposal that didn't have political viability, we're in a period of reassessment,"

Continued on next page



The Reinsurance Assn. of America has been 'really reaching out' to other professional reinsurers that have not been members, President Frank Nutter says.

major consolidations or affiliations. That was on top of two major affiliations in 1995," said Mr. Nutter.

This summer, General Reinsurance Corp. announced it would buy National Reinsurance Corp; Munich Reinsurance Co. announced it would buy American Re-Insurance Co.; Swiss Reinsurance Co. announced it would buy Mercantile & General Reinsurance Co.; and SCOR U.S. Group announced it would buy Allstate Corp.'s U.S. reinsurance operations (*BI*, July 8; Aug. 19; Sept. 2; July 29).

In 1995, Employers Reinsurance Corp. acquired Aachen Re Group and acquired a majority stake in Frankona Reinsurance Co.

Mr. Nutter noted that some of the consolidations have no impact on the RAA, such as when U.S. reinsurers acquire European companies, because the RAA is committed to advancing the interests of U.S. reinsurers.

But even when two RAA members merge, such as General Reinsurance Corp. and fellow RAA member National Reinsurance Corp., the financial impact on the association is limited because the RAA is funded by dues based on premiums, not head count, said Mr. Nutter.

In addition, the RAA expanded its potential membership late last year by changing its bylaws to permit certain reinsurance departments of primary insurers to join the association, provided that they meet the same criteria as other members.

The RAA also is "really reaching out to some of the other professional reinsurers" that have not been members, said Mr. Nutter. At last month's board meeting, PXRE Reinsurance Co. was approved for membership.

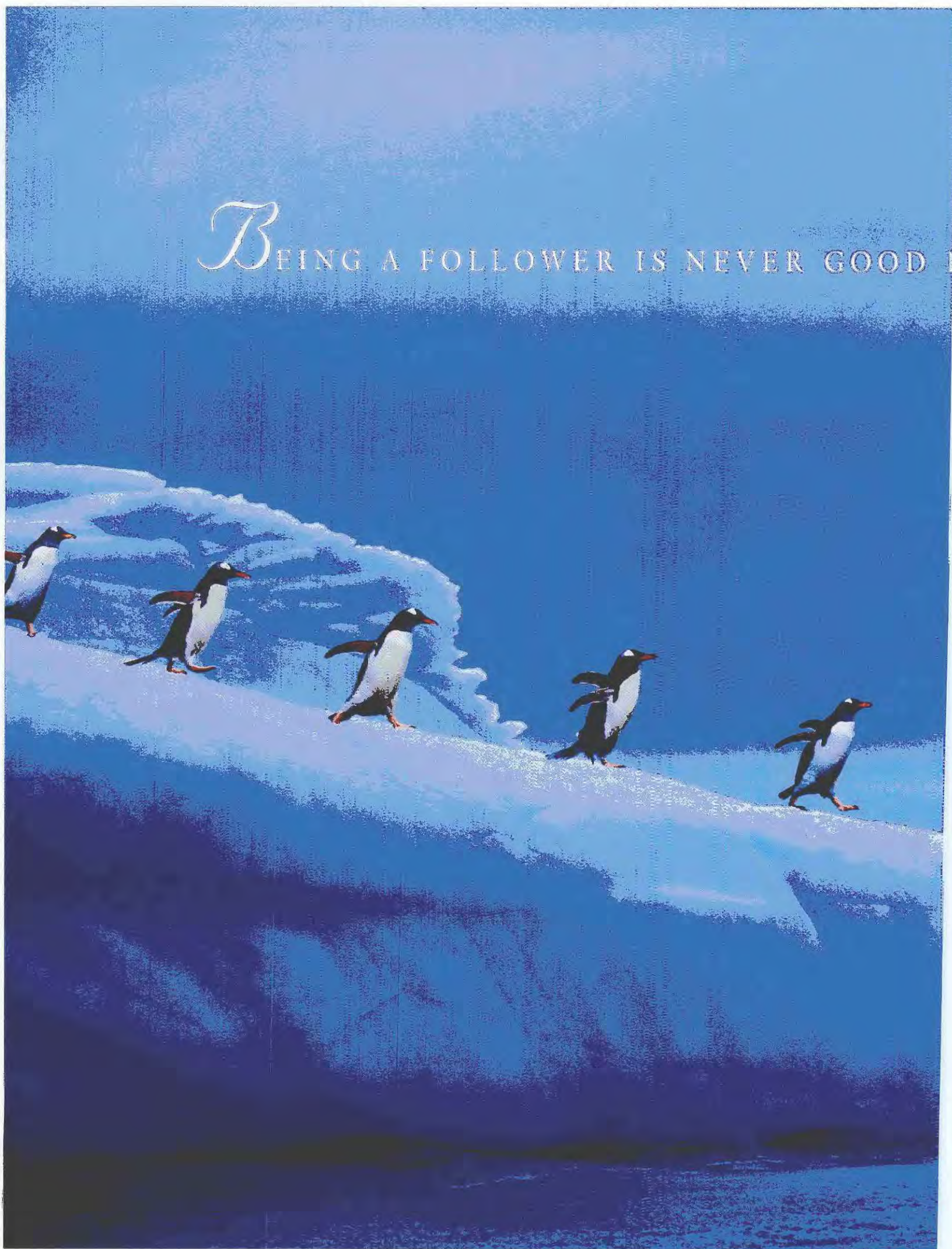
Mr. Nutter doesn't expect the RAA's ranks to swell dramatically, given its criteria for membership.

To become a member of the RAA, a corporation must:

- Be engaged in the assumption of property/casualty reinsurance from non-affiliated companies and retain substantial risk.

- Operate as a licensed, authorized or accredited reinsurer in at least 25 states.

- Have capital and surplus of at least \$100 million. Reinsurance de-



Continued from previous page

he said. In fact, the Natural Disaster Coalition's board met late last week to discuss what the future role of the coalition would be.

Mr. Nutter noted that not all the RAA's efforts are aimed at Capitol Hill.

"While we are in Washington, and the Washington issues tend to be the headline grabbing issues, the fact is that the states are where we spend most of our resources," he said.

In the states, the RAA deals with "certain bread and butter issues, such as credit for reinsurance statutes," he said, referring to laws that govern

under what conditions an insurer can take credit on its balance sheet for reinsurance purchases.

In addition, Mr. Nutter noted, "we're seeing liquidators move more aggressively to collect reinsurance prematurely in insolvencies, inconsistent with the contractual relationships between companies and reinsurers."

And, he said he expects to see a push in more states next year to collect reinsurance prematurely. While that issue is not glamorous, it's a "real money issue" for RAA members, he noted.

The RAA staff reviews every state

bill that has a reinsurance component and files amicus briefs in court cases involving reinsurance issues, he said.

The RAA retains local counsel in some states to deal with legislative issues. In others, it works through state primary insurance associations. In still others, it uses both avenues.

Another state initiative by the RAA is to hold reinsurance educational seminars for state regulators. Executives from member companies conduct the seminars, which have been held in 16 states since the program began in 1992.

The RAA's educational efforts are not confined to regulatory matters. A

few weeks ago, Mr. Nutter accepted an award from the Climate Institute for speaking out on issues related to the climate.

Mr. Nutter made clear that the association's interest in climate changes is no passing concern.

"It's one of those long-term issues that's not so much legislatively focused as it is raising the consciousness of the insurance community about concerns of the effect weather and climate are having on the bottom line of the insurance industry. The reinsurance community, particularly the European reinsurance community, has taken a leadership role in speaking

out about concerns about what the scientific community is saying about changes caused by global warming and maybe even just natural variability.

"We have been part of that outreach to try and make certain that the industry recognizes that it's just not a matter of dealing with the effects of climate, meaning building codes and building materials and paying claims and that kind of thing, but it's also to step back and take a look at the causes of climate change and evaluate those fully. I'd expect the RAA to continue to be a voice on the climate issue." BI

EDI project in final phase

The Brokers & Reinsurance Markets Assn.'s effort to establish standards for conducting reinsurance business electronically is entering the home stretch.

After completing standards for the electronic transmission of accounting and claims information, the one major segment left in this multi-year project is creating a standard for how to electronically transfer underwriting and placement information.

The electronic data interchange project is "a long-term commitment," said Robert Gilligan, presi-



The purpose of the EDI project is to eliminate redundancy and inaccuracy, BRMA President and CEO Robert Gilligan says.

dent and chief executive officer of BRMA.

Systems issues comprise the single largest area of BRMA's operations, although the group also is involved in accounting and contract writing matters, he said.

This final phase of the EDI project involves developing an electronic standard for "gathering the information that will ultimately become a treaty or a reinsurance placement and being able to include all the technical and statistical information that is used in that process," said Mr. Gilligan.

In addition to BRMA and the Reinsurance Assn. of America, the effort includes LIMNET and RENET, two European organizations. Mr. Gilligan said World Insurance Network, which represents large primary brokers, has requested to join.

Mr. Gilligan noted that BRMA has formed an in-house consulting group of five reinsurance professionals, which doubled BRMA's staff to 10. This systems services team, known as "S squared," will go in to members' offices as a team to help them become proficient at EDI, he said. The team sets up hardware and software and carries out the analytical processes so members can use the EDI, he said.

By midyear 1997, BRMA hopes to have a dozen companies trading EDI messages, he said. "The point is to be able to eliminate a lot of redundancy and inaccuracy that is very expensive," said Mr. Gilligan.

BRMA has 38 members: 12 brokers and 26 underwriting firms.

—By Mark A. Hofmann

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Broker market has strength, opportunities

By JUDY GREENWALD

How good a job is the broker reinsurer market doing in holding its own vs. the direct market? "Pretty darn good," say broker reinsurers, intermediaries and other market observers.

The conventional wisdom in past years has been that direct reinsurers

have an advantage over broker market reinsurers because of their larger size. But the broker market is more than holding its own. Many reinsurance buyers continue to be attracted to the ability to diversify risk that the broker market offers. In fact, the decreasing number of direct reinsurers may be helping the intermediary market in this respect by presenting it with new opportunities.

Market observers also say the once-

clear distinctions between the broker and direct market are also fading in any case. Furthermore, they say, the broker markets themselves are growing in size.

The intermediary market is "quite strong," said Tal P. Piccione, president and chief executive officer of U.S. Re Corp. in New York. "A lot of shakeout has already taken place in the broker market, so most of the companies that are in there are

strong," he said.

"I think there are some well-established players in the broker market" and it continues to be successful, said the head of one direct reinsurer Kaj Ahlmann, chairman, president and CEO of Overland Park, Kan.-based Employers Reinsurance Corp. These include Employers Re's own broker market subsidiary, First Excess & Reinsurance Corp., he noted.

Based on Reinsurance Assn. of America results for the first half of 1996, the major direct reinsurers who participated in the RAA survey—General Re Corp., American Re Corp.,

Employers Re, Swiss Re America, Munich American Reinsurance Co. and National Re Corp.—accounted for about 43.4% of the total market, or \$4.12 billion of the total of \$9.48 billion in net reinsurance premiums written in the United States (*BI*, Sept. 2). "The brokers vs. direct market share hasn't changed dramatically overall in a long period of time," said Gary Ransom, senior vp at Conning & Co. in Hartford, Conn.

"The broker companies are still a major force out there because there's still a lot of reinsurance that needs to be purchased on a syndicated basis. There's a lot of reinsurance where you need more than one reinsurer to fill their needs, and that's not where direct writers' strengths are," he said.

"Their strengths are dealing with customers where they can do the whole deal," though direct reinsurers are participating in syndicated treaties a "little more than they might have done before," he said.

The broker reinsurers "have rebounded since Andrew and Northridge, where they disproportionately got stuck with a larger share of the losses because they're more property-oriented," said Jack Snyder, senior vp at A.M. Best Co. in Oldwick, N.J.

"We view the direct market as an existence hazard and not a threat" to the broker market's long-term viability, said William R. Coleman, president and CEO of Alexander Reinsurance Intermediaries Inc. in Stamford, Conn.

Meanwhile, the direct market's consolidation has presented the broker reinsurance market with new opportunities. "There's a feeling within the broker market that there's an opportunity to test the relationship that exists between the ceding companies and the new owners of the (direct) reinsurers that they used to have relationships with," said John Smithson, chairman, president and CEO of Philadelphia-based PMA Reinsurance Corp.

Furthermore, reinsurance buyers are concerned about the possibility of conditions being dictated to them by the direct market, "whereas in the broker market you spread it among enough hands that you achieve a balance of ideas and strength," said John N. Gilbert Jr., president of reinsurance intermediary Holborn Corp. in New York.

"One of the major obstacles to the direct market increasing market share has been the reluctance among its clients and potential clients in concentrating their reinsurance with one or two companies," said Mark D. Mosca, president and CEO of Greenwich, Conn.-based Risk Capital Reinsurance Co.

"As the population of directs shrinks, that becomes a more critical issue. There are fewer choices among directs to diversify" while their size raises the "old bugaboo" among some insurers of "not wanting to be dominated and controlled by one large reinsurance source. I think that creates opportunities for the broker market," Mr. Mosca said.

No matter what anyone says, giant companies have difficulty maintaining an entrepreneurial perspective, so when an entrepreneurially oriented company such as National Re disappears, it means more business is available and "a lot of it finds its way into the broker market," said Mr. King.

There are other benefits of dealing with brokers, say observers.

"The broker community is a little bit like a bee flying from flower to flower, transferring knowledge and information, going from company to company, passing on what they understand with respect to product design and development and pricing," said James F. Dowd, chairman and

See *Broker* on page 36



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Spotlight report

Redirect

Continued from page 34

CEO of Odyssey Reinsurance Corp. in New York. This does not occur to the same degree in the direct market, he added.

Furthermore, "The direct writer represents itself," said Mr. Piccione. "His primary interest is to secure a profitable account for himself and he's not going to be as objective as the broker is going to be or his client because the broker represents the buyer of reinsurance," he said.

The broker market continues to respond very well to its perceived strengths, which include flexibility and objective advocacy by the broker, agreed Mark T. Hvidsten, president and CEO of Minet Re International Ltd. in New York.

In addition, its perceived balance sheet strength, which had been viewed as a relative disadvantage, "has been addressed quite significantly recently" and consolidation in the broker market continues to deal with that issue, he said.

The once-clear distinction between the broker market and direct reinsurers may be fading anyway.

In fact, it is probably a misnomer to say there is such a thing as an absolute direct reinsurer any more, said William L. Munson, president and chief operating officer of the Morristown, N.J.-based Mercantile & General Reinsurance Co. of America.

"Certainly outside the U.S. the distinction between direct and broker market gets blurrier," he said, adding the client will be the party to dictate how he wants distribution, not the reinsurer. **BI**

Decoupling profits not without problems

By DOUGLAS McLEOD

Reinsurers may be having too much success decoupling their own fortunes from those of the primary insurance industry.

With changes in reinsurance products and buying habits over the past several years, reinsurers have managed to produce considerably better operating results than their ceding insurer clients.

They've done so well, in fact, that their gains may be creating problems: Reinsurer profits may encourage weaker reinsurance pricing and could even be contributing to the softness in underlying property/casualty insurance pricing, some reinsurance observers say.

Still, market observers predict no change in the general move toward excess-of-loss reinsurance products and away from proportional covers, a move largely responsible for insulating reinsurers from the worst primary market losses.

"That trend has not reversed itself at all," said Willis T. King Jr., chairman and chief executive officer of Willcox Inc. Reinsurance Intermediaries, the reinsurance brokerage unit of Johnson & Higgins.

"I don't see reinsurers writing more proportional business," agreed Shaun Flynn, senior vp with Gray Carpenter & Co. Inc., the reinsurance intermediary unit of Marsh & McLennan Cos. Inc.

The decoupling of reinsurance and

insurance markets has its roots in the huge losses suffered by many ceding insurers in the 1980s, culminating in the devastating losses of Hurricane Andrew in 1992.

Large shares of these losses were passed directly to reinsurers under proportional treaties, in which reinsurers assume a percentage of a ceding company's losses in return for a

percentage of its premium.

That's all changed, as reinsurers over the past several years have withdrawn from writing proportional business and shifted to writing excess-of-loss covers. Excess-of-loss reinsurance attaches only above a defined level of ceding company loss, and reinsurers set their own price rather than taking a proportional share of the underlying premium.

The loss-limiting features of excess covers and the larger premiums in pro-rata business 'are two opposing forces pulling (reinsurers) in opposite directions,' says Ajit Jain.

percentage of its premium.

At the same time, many ceding insurers have moved to retain more of their business, keeping a larger share of the premium and buying more reinsurance at higher levels than in the past.

One result of all these changes has been an insulation of reinsurers from ceding company losses. Reinsurers

more from reserve additions and restructuring costs than from cat losses (*BI*, April 1).

This doesn't mean reinsurers have not had second thoughts about the move to excess-of-loss covers: While the covers have succeeded in limiting reinsurers' exposure and give them direct control of pricing, premiums generated by excess covers are typically lower than for pro-rata business.

"The premiums are really in pro-rata," noted Ajit Jain, president of Berkshire Hathaway Inc.'s Reinsurance Division in Stamford, Conn.

The loss-limiting features of excess covers and the larger premiums in pro-rata business "are two opposing forces pulling (reinsurers) in opposite

directions," he observed.

Still, excess-of-loss covers will likely continue to be the standard for the reinsurance market, even though the resulting improvement in reinsurer results is creating its own problems.

In short, the problem is that reinsurers' results have been too good: "It is unrealistic for reinsurers to have a rate of return that is two to three times that of their customers," pointed out Mr. King of Willcox.

The result will be that reinsurance prices will continue to soften, he predicted.

Unlike the "poor primary companies" that have cut prices in the face of fierce competition, reinsurers are in the much different position of "lowering prices because they're making too much money," Mr. King said.

Opinions differ on the impact of lower reinsurance prices on the primary insurance market.

Berkshire's Mr. Jain expressed the fear that reinsurers have "influenced primary pricing in a negative way": The availability of cheaper reinsurance may be encouraging insurers to offer their own products more cheaply, even though the nature of their reinsurance protection has changed.

Mr. King, however, noted that because reinsurers have separated their own exposure and pricing from that of primary insurers, they have less influence on the market than when proportional reinsurance was the norm.

"Because of the decoupling phenomenon, it is very difficult for reinsurers to have any real effect on the cycle we see in the insurance marketplace," Mr. King said. "It's just not a healthy market now at all." **BI**

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Business Insurance's annual directory of reinsurance brokers

A

Agnew International Inc.

14 Washington Road, Princeton Junction, N.J. 08550-1034; 609-799-7373; fax: 609-799-2265

	1995	1994
Premium volume	\$9,000,000	\$13,000,000
% Treaty	10%	10%
% Facultative	90%	90%
Gross revenues	\$809,000	\$990,000
Total employees	7	8

Brokering began: 1976.

Specialties: Property (worldwide).

Licensed in: New York.

Conducts business: Worldwide.

Officers: Patrick Agnew, president; W. James Cook, vp; Paul S. Kasian, assistant vp; Gustavo Bravo, broker.

Contact: Patrick Agnew.

Alexander Howden Canada Ltd.

150 King St. W., Suite 1900, Box 24, Toronto, Ontario M5H 1J9, Canada; 416-979-3300; fax: 416-979-7724

	1995	1994
Premium volume	\$241,630,000	\$248,930,000
% Treaty	97%	97%
% Facultative	3%	3%
Gross revenues	\$12,583,010	\$12,759,670
Total employees	89	84
Treaty	25	23
Facultative	5	4

Brokering began: 1940.

Parent: Alexander & Alexander Services Inc.

Branch offices: Montreal, Toronto and Vancouver, Canada.

Licensed in: New York; Ontario, Canada; Jamaica.

Conducts business: Primarily Canada; also conducts business in Antigua, Barbados, Bahamas, Bermuda, Jamaica, Panama, Puerto Rico, Trinidad & Tobago and English-speaking Caribbean.

Contact: John Holmes, CFO.

Alexander Howden Reinsurance Intermediaries Inc.

1 Whitehall St., New York, N.Y. 10004-2109; 212-859-2040; fax: 212-859-2127

	1995	1994
Premium volume	NA	\$30,000,000
% Treaty	95%	95%
% Facultative	5%	5%
Total employees	16	14
Treaty	11	11
Facultative	5	3

Brokering began: 1989.

Parent: Alexander & Alexander Services Inc.

Branch offices: Coral Gables, Fla.

Specialties: International treaty.

Conducts business: Nationwide.

Contact: Joseph Artel, senior vp.

Alexander Reinsurance Intermediaries Inc.

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

	1995	1994
Premium volume	NA	NA
% Treaty	80.3%	80.7%
% Facultative	19.7%	19.3%
Gross revenues	\$204,000,000	\$202,000,000
Total employees	1,575	1,651
Treaty	1,137	1,180
Facultative	438	471

Brokering began: 1980.

Parent: Alexander & Alexander Services Inc.

Branch offices: San Francisco; Stamford, Conn.; Atlanta; Chicago; Boston; New York.

Specialties: Property and casualty working, catastrophe, clash, contingency covers; fidelity and surety; accident and health; life; programs; alternative risk.

Licensed in: Arkansas, California, Colorado, Delaware, Illinois, Louisiana, Mississippi, Missouri, Nevada, New York, Ohio, South Carolina, Texas.

Conducts business: Nationwide.

Membership: Brokers & Reinsurance Markets Assn.

Officers: William R. Coleman, president/CEO; Robert T.

Mobyed, executive vp/COO; John T. Roby, senior vp/CFO.
Contact: William R. Coleman.

Am-Re Brokers Inc.

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

	1995	1994
Premium volume	\$370,000,000	\$335,000,000
% Treaty	100%	100%
Gross revenues	\$20,415,000	\$7,655,000
Total employees	32	39
Treaty	32	39

Brokering began: 1985.

Parent: American Re Corp.

Licensed in: New Jersey, New York, South Carolina.

Conducts business: Nationwide.

Officers: Paul H. Inderbitzin, chairman/CEO; Mahmoud M. Abdallah, president/director; John Varca, senior vp/actuary; Donald F.

Merkel, Robert Henry, senior vps.
Contact: Timothy J. Schmidt, 609-243-4921.

Andrew Edwards & Co. Inc.

100 Crossways Park Drive W., Woodbury, N.Y. 11797-2012; 516-364-3700; fax: 516-364-3791

	1995	1994
Premium volume	\$60,000,000	\$40,000,000
% Treaty	100%	100%
Total employees	8	6
Treaty	8	6

Brokering began: 1977.

Parent: AANA Holding Co. Inc.

Specialties: Professional liability, umbrella and excess liability, specialty program business, casualty, non-traditional reinsurance.

Licensed in: California, New York.

Conducts business: Worldwide.

Officers: Edward J. Mallozzi, president/CEO; Roland A. Stollsteimer,

vp/marketing director; Teresa A. Giampaolo, operations manager.
Contact: Roland A. Stollsteimer.

Aon Re Worldwide Inc.

123 N. Wacker, Chicago, Ill. 60606; 312-701-3000; fax: 312-701-3100

	1995	1994
Premium volume	NA	NA
% Treaty	98%	96%
% Facultative	2%	4%
Gross revenues	\$19,598,000	\$156,000,000
Total employees	824	569
Treaty	794	527
Facultative	30	62

Brokering began: 1945.

Parent: Aon Corp.

Subsidiaries: Aon China (Beijing), China; Aon Re Inc.: San Francisco; Stamford, Conn.; Chicago; New York; Philadelphia. Aon Re Ltd.: Argentina, Italy, Japan, Netherlands, Turkey, United Kingdom. Aon Re Asia Ltd.: Hong Kong, Malaysia, Philippines,

Singapore, Thailand. Aon Re Latinoamericana S.A., Mexico.

Specialties: Property, casualty, marine, aviation, energy, accident, health.

Licensed in: Alaska, Arizona, California, Colorado, Connecticut, Delaware, Florida, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Maine, Maryland, Michigan, Minnesota, Mississippi, Montana, Nebraska, New Hampshire, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Texas, Utah, Virginia, Washington, Wisconsin, Wyoming.

Conducts business: Worldwide.

Membership: Brokers & Reinsurance Markets Assn.

Officers: Michael D. C'Halloran, chairman; Paul Davies, vice chair

Continued on next page

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 man; Rocker Channell, president; Colin Bryan, Mike Bungert, Alan Colls, David Kelley, Antony Pinsent, Brian Stewart-Brown, directors.
Contact: Rocker Channell, 312-781-8818.

Armrisk Corp.

115 Broadway, 15th Floor,
 New York, N.Y. 10006;
 212-285-1144; fax: 212-285-1119

	1995	1994
Premium volume	\$180,000,000	\$170,000,000
% Treaty	85%	85%
% Facultative	15%	15%
Total employees	11	10
Treaty	7	7
Facultative	4	3

Brokering began: 1988.

Parent: International Risk Management Group.

Subsidiaries: J.K. Battershill Inc., New York.

Acquisitions: J.K. Battershill Inc., New York, 1995.

Specialties: All property and casu-

alty lines, including workers compensation; programs for alternative risk market.

Licensed in: New York.

Conducts business: Worldwide.

Officers: D. Jay Carbine, president; Drew Beauchamp, executive vp; Peter V. LeResche, senior vp; Terence J. Reilly, vp-facultative.

Contact: D. Jay Carbine.

Associated Intermediaries Inc.

P.O. Box 907427 Gainesville,
 Ga. 30501; 770-536-9800;
 fax: 770-536-0093

	1995	1994
Premium volume	\$9,500,000	\$8,000,000
% Treaty	100%	100%
Total employees	5	5
Treaty	4	4

Brokering began: 1982.

Parent: Associated Reinsurance Management Corp.

Branch offices: Welaka, Fla.; Waynesville, N.C.

Specialties: Specific and aggregate medical stop loss; alternative risk

funding; excess workers compensation; special risk, including aviation.

Licensed in: New York.

Conducts business: Nationwide, excluding Hawaii.

Officers: Alph H. Browne, president; Diana D. Browne, corporate secretary; Alice Williams, vp.

Contact: Alph H. Browne



BEP International Holding Inc.

1801 McGill College Ave., Suite 1450,
 Montreal, Quebec H3A 3P5, Canada;
 800-361-1003 or 514-288-1133;
 fax: 514-982-4863

	1995	1994
Premium volume	\$459,900,000	\$401,500,000
% Treaty	98%	98%
% Facultative	2%	2%
Total employees	141	140
Treaty	125	123
Facultative	6	6

Brokering began: 1960.

Parent: Sodarean Inc.

Subsidiaries: BEP International Corp.; Minneapolis; Jersey City, N.J.; Seattle. BEP International (Canada) Holding Inc., Toronto.

Specialties: Property, casualty, workers compensation, life, marine, aviation, surety, bonds, finite risks, accident and health, crop-hail.

Licensed in: 24 states, including New York.

Conducts business: Nationwide, excluding Hawaii.

Officers: Raymond Gilbert, chairman/president/CEO; Robert W. Bailey, president/COO-U.S. operations; Peter V. Dale, executive vp-U.S. operations; Peter M. Bennett, executive vp-Canadian operations; Christopher J. Robey, senior executive vp-technical services.

Contact: Robert Lirnoges, senior vp-finance.

Bates Turner L.L.C.

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

	1995	1994
Premium volume	\$233,000,000	\$215,000,000
% Treaty	100%	100%
Total employees	35	30
Treaty	35	30

Brokering began: 1982.

Parent: Employers Reinsurance Corp.

Branch offices: Atlanta; Chicago; Mahwah, N.J.

Specialties: Property catastrophe, workers compensation, professional liability, accident and health, non-standard auto, financial reinsurance products, program/captive business.

Licensed in: Illinois, Kansas, New Jersey, New York, South Carolina, Texas.

Conducts business: Nationwide.

Officers: C. Alan Mauch, chairman/CEO; John W. Colmer, president/COO; James C. Blanton III, vp; David Gilligan, vp-New Jersey; John M. Ganter, vp-Atlanta.

Contact: John W. Colmer.

E.W. Blanch Co.

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

	1995	1994
Premium volume	\$2,300,000,000	\$2,100,000,000
% Treaty	99.5%	99.0%
% Facultative	0.5%	1.0%
Gross revenues	\$79,800,000	\$73,700,000
Total employees	395	391
Treaty	391	387
Facultative	4	4

Continued on next page

Explanation of terms

Information in the 14th annual directory of reinsurance intermediaries was gathered from responses to questionnaires sent to companies by *Business Insurance*. The directory is published as an editorial service; there is no charge to be included.

The directory lists companies that provide reinsurance brokerage services. Companies must provide premium volumes or revenue information to be included in the directory.

Following the **name** and **address** of the company, financial and operational information for 1995 and 1994 is given, including the **premium volume** related to reinsurance, **percent of treaty** and **facultative** business (as a percent of reinsurance premium volume), and **gross revenues** related to reinsurance. The number of total **employees** and those assigned to treaty and facultative reinsurance also is given on a full-time equivalent basis.

Next, the year **founded** and **parent** company (if any) are noted, as well as locations of **branch offices** and **subsidiaries** brokering reinsurance. **Acquisitions** in 1995 and so far in 1996 follow. Particular types of reinsurance risks a company specializes in placing are noted under **specialties**.

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

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

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

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Continued from previous page

Brokering began: 1957.
Parent: E.W. Blanch Holdings Inc.
Branch offices: Los Angeles, Menlo Park and San Francisco, Calif.; Sarasota, Fla.; Atlanta; Chicago; Boston; Minneapolis; New York; Philadelphia; Dallas.

Specialties: Property, casualty.
Licensed in: California, Colorado, Florida, Illinois, Minnesota, New York, Ohio, Pennsylvania, South Carolina, Texas.

Conducts business: Nationwide, excluding District of Columbia, Montana, Nevada, South Dakota, Virginia and Wyoming.

Membership: Brokers & Reinsurance Markets Assn.

Officers: Chris Walker, CEO/president/director; Daniel O'Keefe, secretary; Tom Nelson, treasurer; Rodman Fox, Ralph Flum, Jack Graham, Arthur Horwitz, Cliff English, directors/executive vps.

Contact: Timothy McGrath.

Bott & Associates Ltd.

Sterling House, Wesley St., P.O. Box HM 1087, Hamilton HM EX, Bermuda; 441-292-6564; fax: 441-292-5796

	1995	1994
Premium volume	\$11,000,000	\$10,500,000
% Treaty	90%	95%
% Facultative	10%	5%
Total employees	7	7
Treaty	2	2

Brokering began: 1979.

Specialties: Captive reinsurance, excess property and casualty, finite risk.

Licensed in: Bermuda.

Conducts business: Worldwide.

Officers: Michael F. Bott, president; Roy V. Bray, executive vp-broking; Scott W. Nickerson, CFO.

Contact: Roy V. Bray.

See page 3 for a ranking of the top 10 U.S.-based reinsurance intermediaries based on gross revenues from reinsurance broking.



Guy Carpenter & Co. Inc.

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

	1995	1994
Premium volume*	\$4,900,000,000	\$5,000,000,000
Gross revenues	\$320,900,000	\$315,800,000
Total employees	1,389	1,437

* Estimate.

Brokering began: 1923.

Parent: Marsh & McLennan Inc.

Branch offices: San Francisco; Hartford, Conn.; Coral Gables, Fla.; Atlanta; Minneapolis.

Subsidiaries: Balis & Co. Inc., Philadelphia; Guy Carpenter Advisors, New York; Carpenter Bowring Ltd., London; Carpenter Bowring (U.K.), London; Guy Carpenter & Co. Inc.; Tokyo; Seoul, South Korea; Zurich, Switzerland. Guy Carpenter & Co. (Asia) Ltd., Hong Kong; Guy

Carpenter & Co. (Canada) Ltd., Toronto; Guy Carpenter & Cia. S.A., Madrid, Spain; Guy Carpenter & Co. S.A., Brussels, Belgium; Guy Carpenter & Co. (Stockholm) A.B., Stockholm, Sweden; Gradmann & Holler-Guy Carpenter GmbH, Munich, Germany; Paul Napolitan Inc., New York; Sellon Associates Inc., New York; Union Francaise de Reassurances, Paris.

Licensed in: California, Colorado, Minnesota, New York, Ohio, South Carolina, Texas.

Conducts business: Nationwide.

Membership: Brokers & Reinsurance Markets Assn.

Officers: G.H.C. Wakefield, chairman; Brandon W. Sweitzer, CEO/president; Stanley C. Allain, Geoffrey I.K. Bromley, Richard C. Kane, Edmund R. Megna Jr., Gabriele J. Troiano, executive vps; Paul Berges, Michael H.P. Handler, Anthony C. McCallum, managing directors.

Contact: Nathan J. Sambul, marketing, 212-323-1333.

Herbert Clough Inc.

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

	1995	1994
Premium volume	\$1,000,000,000	\$748,000,000
% Treaty	99%	99%
% Facultative	1%	1%
Gross revenues	\$15,000,000	\$11,400,000
Total employees	48	48
Treaty	46	45
Facultative	2	3

Brokering began: 1926.

Parent: General Reinsurance Corp.

Specialties: Property and casualty occurrence, excess business, financial reinsurance, accident and health, aviation and marine, workers compensation, professional liability.

Licensed in: Connecticut, New York.

Conducts business: Nationwide.

Officers: Alistair D. Johnston, president; Lawrence C. Magnant, executive vp; Roger J. Bel, Theresa N. Becker, Kathleen M. Perlman, vps.

Contact: Alistair D. Johnston, 203-328-6609.

John B. Collins Associates Inc.

8300 Norman Center Drive, Suite 1275, Minneapolis, Minn. 55437; 612-820-0012; fax: 612-820-2700

	1995	1994
Premium volume	\$327,000,000	\$261,100,000
% Treaty	100%	100%
Total employees	38	34
Treaty	38	34

Brokering began: 1987.

Branch offices: East Granby, Conn.; Marshall, Minn.; Whitefish, Mont.; Columbia, S.C.

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

Licensed in: California, Colorado, Connecticut, Delaware, Illinois, Minnesota, Mississippi, Montana, New York, Ohio, Pennsylvania, South Carolina, Texas.

Conducts business: Nationwide.

Officers: John B. Collins, president; James A. Brost, vice chairman; Gregory L. Brettingen, Daniel J. Burke, Patrick J. Denzer, Timothy J. Pawlik, executive vps.

Contact: Gregory L. Brettingen.

Cooper Gay Steele & Co. Ltd.

120 Wall St., New York, N.Y. 10005; 212-248-1150; fax: 212-248-1181

	1995	1994
Premium volume	\$44,000,000	\$39,000,000
% Treaty	20%	10%
% Facultative	80%	90%
Total employees	16	16
Treaty	2	2
Facultative	14	14

Brokering began: 1988.

Parent: Cooper Gay (Holdings) Ltd.

Specialties: Property, including technical lines; casualty; marine and energy; aerospace; captive programs; domestic, foreign and global/multi-national business.

Licensed in: Connecticut, New York.

Conducts business: Worldwide.

Officers: Michael Jones, chairman; R. Patrick Steele, president; Stephen S. Brewer, vp/director; Peter J. Gorman, vp-finance/secretary/director.

Contact: Patrick Steele.

Cravens & Co. Inc.

555 California St., Suite 3333, San Francisco, Calif. 94104; 415-433-6161; fax: 415-433-1434

	1995	1994
Premium volume	\$40,000,000	\$38,000,000

Brokering began: 1978.

Specialties: Treaty, property and casualty.

Licensed in: California, New York.

Conducts business: Nationwide.

Officers: Hartley D. Cravens, president; James R. Leffler, Michael Reynolds, senior vps; Carol Cravens, vp; Kenneth R. Davis, treasurer.

Continued on next page

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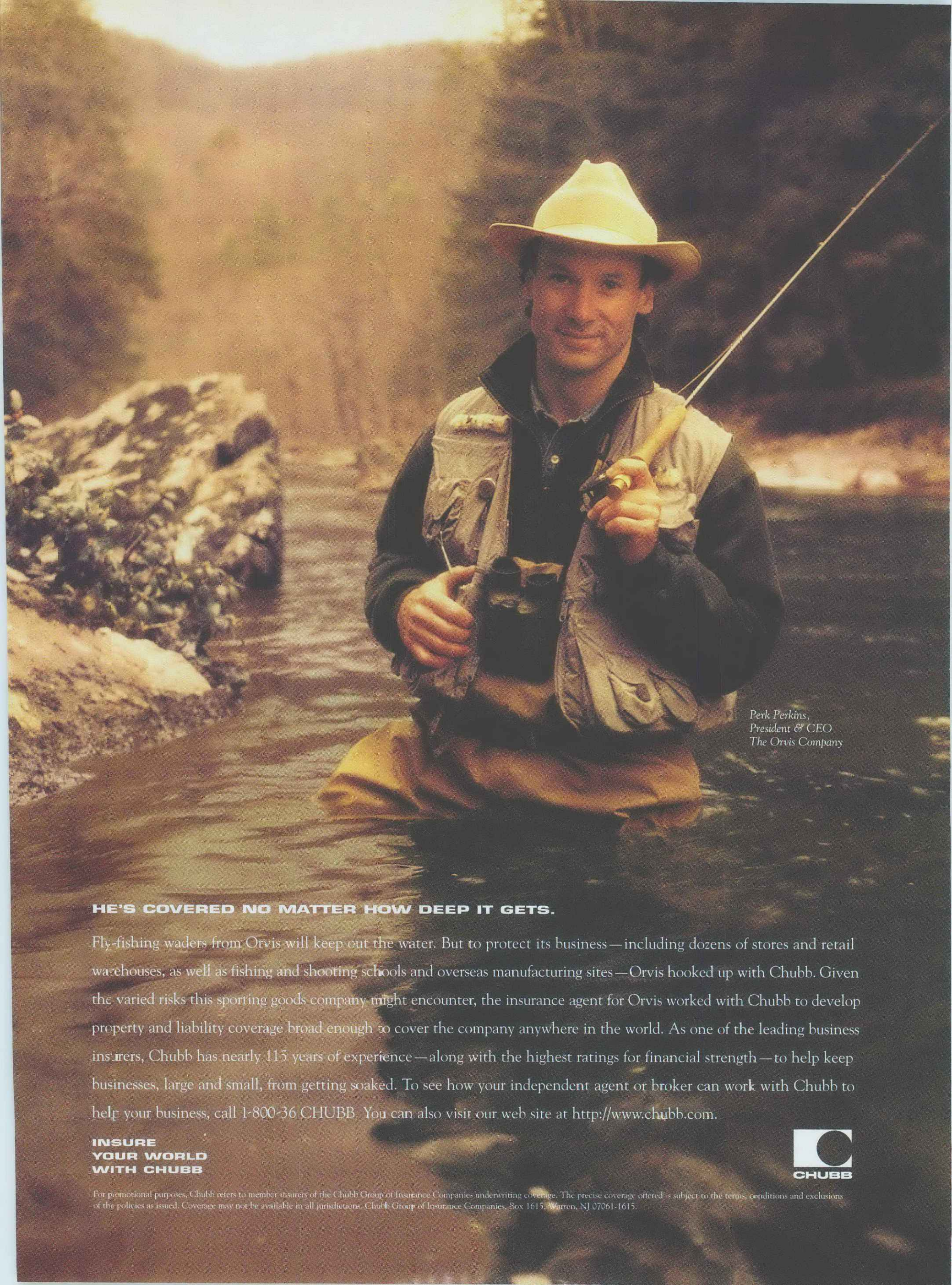
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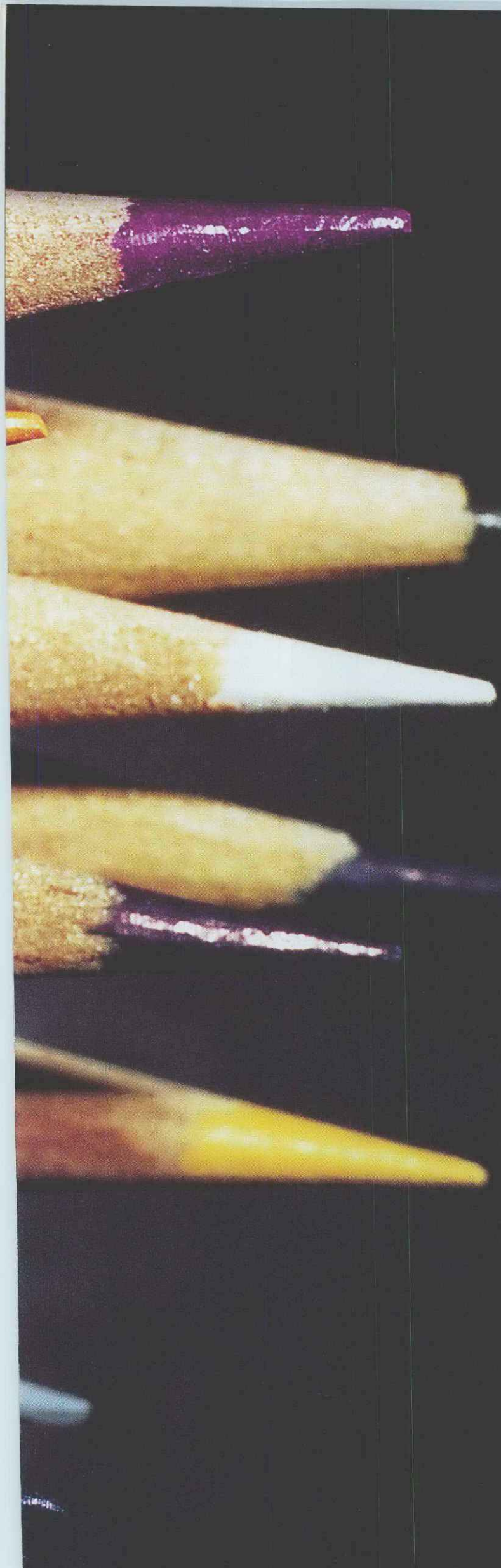
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Continued from page 42

Cypress Creek Intermediaries Inc.

680 Stonefield Loop, Heathrow
Fla. 32746; 407-333-9002;
fax: 407-333-9105

	1995	1994
Premium volume	\$37,000,000	\$24,000,000
% Treaty	95%	35%
% Facultative	5%	5%
Total employees	4	4
Treaty	3	3
Facultative	1	1

Brokering began: 1934
Specialties: Property, casualty, including automobile marine, liability and agri-business; accident, life, health, including student accident business, group health and disability.
Licensed in: Florida, New York, Pennsylvania, Texas.
Conducts business: Worldwide
Officers: Michael T. Pyle, president; Peggy B. Pyle, vp; Andrew T. Pyle, Laurie P. Langston, assistant vps.
Contact: Michael T. Pyle.

E

EWI RE Inc.
63 Wall St., 30th Floor,
New York, N.Y. 10005;
212-248-3980; fax: 212-248-3981

	1995	1994
Premium volume*	\$60,000,000	\$55,000,000
% Treaty	90%	98%
% Facultative	10%	2%
Gross revenues	\$3,000,000	\$2,300,000
Total employees	14	12
Treaty	11	8
Facultative	3	0.1

* Estimate.
Brokering began: 1938.
Branch offices: New York, Dallas, Seattle.
Licensed in: New York, Texas, Washington.
Conducts business: Nationwide.
Officers: James C. Epstein, president; Vaughn V.R. Harris, Michael D. Elliott, senior vps; Jorge I. Cardona, vp/controller.
Contact: Jorge I. Cardona.

F

Financial Reinsurance Inc.
140 S. Atlantic Ave., Suite 400, Ormond
Beach, Fla. 32176-6600; 904-677-4453;
fax: 904-673-1630

	1995	1994
Premium volume	\$2,650,000	\$2,430,000
% Treaty	3%	3%
% Facultative	97%	97%
Total employees	3	3
Treaty	1	1
Facultative	2	2

Brokering began: 1960.
Parent: Ormond Re Group Inc.
Specialties: Property facultative, crop-hail.
Licensed in: Florida, New York.
Conducts business: Nationwide.
Officers: W. Lockwood Burt, president; John B. (Jay) Deiner, executive vp/general counsel; A.L. DiPardo, senior vp-claims; William T. Long, senior vp/treasurer.
Contact: John B. (Jay) Deiner.

First Reinsurance Intermediaries Corp.

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

	1995	1994
Premium volume	\$50,000,000	\$55,000,000
% Treaty	100%	100%
Total employees	5	5
Treaty	5	5

Brokering began: 1983.
Specialties: Financial reinsurance, medical malpractice.
Licensed in: New Jersey, New York.
Conducts business: New Jersey, Pennsylvania.
Officers: Stephen M. Edwards, president; Paul G. Curtis, senior vp; Denise D'Arco, corporate secretary; Roger J.B. Beach, director.
Contact: Stephen M. Edwards.

C.L. Frates Reinsurance Intermediary Inc.

2 Greenwich Plaza, Greenwich,
Conn. 06830; 203-629-5600;
fax: 203-622-0777

	1995	1994
Premium volume	\$30,000,000	\$29,000,000
% Treaty	100%	100%
Gross revenues	\$1,491,000	\$1,410,000
Total employees	5	4
Treaty	5	4

Brokering began: 1986.
Specialties: Casualty, professional liability, fidelity, excess workers compensation, captive reinsurance.
Licensed in: New York.
Conducts business: Worldwide.
Officers: Albert P. Amato, senior vp; Dina M. Cardinal, account service manager.
Contact: Albert P. Amato.



Arthur J. Gallagher Intermediaries Inc.

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

	1995	1994
Premium volume	\$40,600,000	\$31,600,000
% Treaty	7%	NA
% Facultative	93%	100%
Total employees	22	16
Treaty	3	NA
Facultative	19	16

Brokering began: 1987.
Parent: Arthur J. Gallagher & Co.
Specialties: Facultative property, casualty, program business, financial/finite, treaty.
Licensed in: New York, Rhode Island.
Conducts business: Nationwide.
Officers: Randall S. Jensen, president; Robert L. Osborne Jr., Gerald F.X. Caffrey, senior vps; Craig Darling, Kevin Denike, vps.
Contact: Randall S. Jensen, Robert L. Osborne Jr., Gerald F.X. Caffrey.

Arthur J. Gallagher Intermediaries (Bermuda) Ltd.

P.O. Box HM 2000, Hamilton HM HX,
Bermuda; 441-292-4654;
fax: 441-292-8231

	1995	1994
Premium volume	\$22,000,000	\$20,000,000
% Treaty	2%	2%
% Facultative	98%	98%
Total employees	13	9
Treaty	1	1
Facultative	10	8

Brokering began: 1972.
Parent: Arthur J. Gallagher & Co.
Specialties: Reinsurance of self-insurance mechanisms, including financial and finite risk.
Licensed in: Bermuda.
Conducts business: Nationwide.
Membership: Brokers & Reinsurance Markets Assn.
Officers: David J. McManus, president; Peter J. Mullen, executive vp; Wayne L. Brown, vp-broking.
Contact: Peter J. Mullen.

Gill & Roeser Inc.

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

	1995	1994
Premium volume	\$100,000,000	\$100,000,000
% Treaty	100%	100%
Total employees	8	11
Treaty	8	11

Brokering began: 1983.
Specialties: Traditional, finite risk, alternative risk, mergers and acquisitions, communication, novation.
Licensed in: New York.
Conducts business: Nationwide.
Officers: Kirk Roeser, president; Steven Bolland, David Koegel, senior vps; Peter Larsen, vp.
Contact: Robert Wick, 212-682-3131.

Greig Fester Inc.

1700 Market St., Suite 3100,
Philadelphia, Pa. 19103;
215-241-8700; fax: 215-241-5220

	1995	1994
Premium volume	\$152,000,000	\$144,000,000
% Treaty	90%	90%
% Facultative	10%	10%
Gross revenues	\$7,300,000	\$7,200,000
Total employees	29	25
Treaty	22	21
Facultative	7	4

Continued on page 50

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Continued from page 46

Brokering began: 1981.
Branch offices: New York.
Specialties: Property, casualty, crop, credit, surety.
Licensed in: Minnesota, New York, Pennsylvania.
Conducts business: Nationwide.
Membership: Brokers & Reinsurance Markets Assn.
Officers: Dieter Losse, chairman; James Buysse, president/CEO; Terrence Rose, chief administrative officer; Robert Byrne, Joseph Curcio, senior vps; Robert Duffield, John Kwaak, vps.
Contact: Terrence Rose.



H&H Re-Insurance Brokers Ltd.

Chevron House, 11 Church St., P.O. Box HM 1861, Hamilton HM HX, Bermuda; 441-295-3343; fax: 441-295-4065

	1995	1994
Premium volume	\$18,000,000	\$15,000,000
% Treaty	95%	90%
% Facultative	5%	10%
Total employees	6	6
Treaty*	3	4

* Same employees also assigned to facultative.

Brokering began: 1977.
Specialties: Captive, financial and commercial reinsurance, excess liability, property, D&O.
Licensed in: California, New Jersey, New York; Bermuda.
Conducts business: Bermuda.
Officers: Simon C. Everett, president; W.H. (Cotty) Outerbridge, David W. Harris, vps.
Contact: W.H. (Cotty) Outerbridge.

Holborn Corp.

Wall Street Plaza, 88 Pine St., New York, N.Y. 10005-1801; 212-797-2285; fax: 212-964-0919

	1995	1994
Premium volume	\$500,000,000	\$500,000,000
% Treaty	100%	100%
Total employees	45	56
Treaty	45	56

Brokering began: 1920.
Specialties: Property, casualty.
Licensed in: New York, South Carolina, Texas.
Conducts business: Nationwide, excluding Alaska and Hawaii.
Membership: Brokers & Reinsurance Markets Assn.
Officers: John N. Gilbert Jr., president; Michael S. White, Keith D. Gillies, Frank T. Harrison, David W. Melrose, John A. Pagliaccio, senior vps.
Contact: Michael S. White.



Independent Brokers Ltd.

20 Reid St., P.O. Box HM 2070, Hamilton HM HX, Bermuda; 441-295-1646; fax: 441-292-8062

	1995	1994
Premium volume	\$2,100,000	\$2,500,000
% Treaty	75%	75%
% Facultative	25%	25%
Gross revenues	\$100,000	\$120,000
Total employees	5	6
Treaty	2	2
Facultative	2	2

Brokering began: 1984.
Parent: Independent Management Group Ltd.
Specialties: Medical malpractice, excess liability, workers compensation, residual value, credit enhancement.
Licensed in: Bermuda.
Conducts business: Bermuda.
Contact: Peter Strong, president.

Industrial RE International Inc.

1 Wall Street Court, Suite 403, New York, N.Y. 10005; 212-425-4683; fax: 212-425-4340

	1995	1994
Premium volume	\$4,600,000	\$15,000,000
% Treaty	7%	55%
% Facultative	93%	45%
Total employees	6	7
Treaty	2	2
Facultative	1	2

Brokering began: 1987.
Specialties: Traditional non-marine classes.
Licensed in: New York.
Conducts business: Worldwide.
Officers: Rene A. Gutierrez, president; Richard Durett, vp; Francisco A. Padilla, CFO.
Contact: Francisco A. Padilla.

Innovative Reinsurance Group

1 Penn Square W., Suite 800, Philadelphia, Pa. 19102; 215-564-1511; fax: 215-564-1235

	1995	1994
Premium volume	\$34,000,000	\$32,000,000
% Treaty	99%	99%
% Facultative	1%	1%
Gross revenues	\$1,300,000	\$1,200,000
Total employees	13	12
Treaty	12	11
Facultative	1	1

Brokering began: 1993.
Specialties: Accident and health, including medical, disability, accidental death and dismemberment; group life, mortality stop-loss.

Licensed in: Minnesota, Mississippi, Nebraska, Ohio, Pennsylvania, Texas.
Conducts business: Nationwide.
Officers: Thomas F. Conners, president; Stuart B. Grodzan, Christopher J. Pfeifer, vps.
Contact: Thomas F. Conners.

International Managers & Intermediaries Inc.

20301 Angelina Place, Woodland Hills, Calif. 91364; 818-598-0909; fax: 818-598-8558

	1995	1994
Premium volume	\$7,000,000	\$2,000,000
% Treaty	100%	100%
Gross revenues	\$200,000	\$60,000
Total employees	6	3
Treaty	6	3

Brokering began: 1991.
Specialties: Medical, dental, ERISA single employer units.
Conducts business: Nationwide.
Contact: Martin Levine, chairman.

INTERRA Reinsurance Group

3449 Priority Way, West Drive, Indianapolis, Ind. 46240; 317-581-0657; fax: 317-574-3944

	1995	1994
Premium volume	\$46,300,000	\$22,500,000
% Treaty	91%	90%
% Facultative	9%	10%
Gross revenues	\$1,398,000	\$902,711
Total employees	10	5
Treaty	9	4
Facultative	1	1

Brokering began: 1993.
Branch offices: Chicago.
Specialties: Life; personal accident, including sports, marine, aviation and workers compensation; health, including indemnity and managed care; carve-outs; casualty, including E&O, D&O and medical malpractice.
Licensed in: Illinois, Indiana, Minnesota, Ohio, Pennsylvania.
Conducts business: Worldwide.
Officers: Mark A. Carney, CEO; Russ Jehs, vp-marketing/communications; Richard Parks, CFO; Kathleen

Stah, vp-administration/audit; Leslie Young, vp-operations.

Contact: Russ Jehs, vp-marketing/communications.



Jardine Sayer & Co. Inc.

Princeton Pike Corporate Center, 1009 Lenox Drive, P.O. Box 6400, Lawrenceville, N.J. 08648-0400; 609-896-0555; fax: 609-896-2666

	1995	1994
Premium volume	\$248,000,000	\$226,000,000
% Treaty	99%	99%
% Facultative	1%	1%
Gross revenues	\$9,200,000	\$10,800,000
Total employees	29	34
Treaty	28	33
Facultative	1	1

Brokering began: 1979.
Parent: JIB Group P.L.C.
Specialties: Property, accident and health, medical, workers compensation, aviation and marine, life, auto-
Continued on next page

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 matic facultative, warranty specialty.
Licensed in: New Jersey, New York, Ohio.
Conducts business: Nationwide.
Officers: John D. Sayer, president; John E. Januszewski Jr., COO/controller; Richard C. Moody, Joseph A. Zaffarese, senior vps; Alfred H. Blanton, vp.
Contact: John E. Januszewski Jr.

J.B. Johnson Intermediary Inc.
 1775 Woodstead Court, Suite 228, The Woodlands, Texas 77380; 713-292-4023; fax: 713-292-1106

	1995	1994
Premium volume	\$20,000,000	\$20,000,000
% Treaty	100%	100%
Total employees	3	3
Treaty	3	3

Brokering began: 1979.
Specialties: Accident and health, alternative workers compensation.
Licensed in: Mississippi, New York, Texas.

Conducts business: Arizona, Florida, Kentucky, Louisiana, Minnesota, New Jersey, New Mexico, Oklahoma, Pennsylvania, Texas, Utah.
Officers: Joel B. Johnson II, president; Molly K. Johnson, secretary/treasurer.
Contact: Joel B. Johnson II.



Le Blanc de Nicolay U.S. Inc.
 140 E. 45th St., 41st Floor, New York, N.Y. 10017; 212-972-7090; fax: 212-687-4852

	1995	1994
Premium volume	\$84,000,000	\$98,000,000
% Treaty	100%	100%
Gross revenues	\$1,210,530	\$1,396,408
Total employees	5	5
Treaty	5	5

Brokering began: 1986.
Parent: Le Blanc de Nicolay Reinsurance.
Specialties: Property catastrophe,

auto, aerospace, credit, surety, political risk, professional liability, marine.
Licensed in: New York, Texas.
Conducts business: Worldwide.
Officers: Olivier du Passage, president; William H. Asay, executive vp.
Contact: William H. Asay.

W.J. Lehrke Co.
 6600 France Ave. S., Edina, Minn. 55435; 612-920-1667; fax: 612-920-2039

	1995	1994
Premium volume*	\$20,000,000	\$19,000,000
% Treaty	98%	98%
% Facultative	2%	2%
Total employees	10	10
Treaty	9	9
Facultative	1	1

* Estimate.
Brokering began: 1973.
Specialties: Catastrophe or loss ratio reinsurance, variable retention per risk or occurrence excess of loss reinsurance.
Licensed in: Minnesota, New York.
Conducts business: Nationwide.

Officers: Thomas A. Lehrke, president; S.P. Sorensen, vp; Mark F. Noack, assistant vp; W.J. Lehrke, chairman.
Contact: Thomas A. Lehrke.

Lincoln National Intermediaries Inc.
 1 Reinsurance Place, 1700 Magnavox Way, P.O. Box 7808, Fort Wayne, Ind. 46801-7808; 219-455-3290; fax: 219-455-9040

	1995	1994
Premium volume	NA	NA
% Facultative	100%	100%
Gross revenues	\$5,851,793	\$7,365,804
Total employees	23.5	22.5
Facultative	23.5	22.5

Brokering began: 1982.
Parent: Lincoln National Corp.
Specialties: Financial reinsurance, including life, health and property/casualty; annuity reinsurance, mergers and acquisitions.
Licensed in: Indiana, New York.
Conducts business: Nationwide.
Officers: Kenneth J. Clark, presi-

dent; Thomas E. Skillman, Mark R. Troutman, Todd Spooner, Melvin C. McFall, vps.
Contact: Kenneth J. Clark.

Edward Lloyd Ltd.
 100 Merrick Road, Suite 510 W., Rockville Center, N.Y. 11570; 516-763-9320; fax: 516-763-6722

	1995	1994
Premium volume	\$9,750,000	\$6,000,000
% Treaty	10%	2%
% Facultative	90%	98%
Gross revenues	\$975,000	\$600,000
Total employees	6	6

Brokering began: 1983.
Parent: Lowndes Lambert Group.
Specialties: International global and reverse flow business, property and casualty, energy.
Licensed in: New York.
Conducts business: Worldwide.
Officers: John M. Mannix, president; Richard Lang, senior vp; Rambha A. McCanless, vp.
Contact: Noel Ulrich.



Meadowbrook International Ltd.
 P.O. Box HM 2340, Hamilton HM JX, Bermuda; 441-292-7569; fax: 441-292-3299

	1995	1994
Premium volume	\$4,880,000	\$3,000,000
% Treaty	100%	100%
Total employees	2	2
Treaty	2	2

Brokering began: 1982.
Parent: Meadowbrook Insurance Group.
Specialties: Property and casualty treaty reinsurance, including captive, financial, self-insured workers compensation, surety, low-level casualty, Bermuda market property catastrophe reinsurance.
Licensed in: Bermuda.
Conducts business: Worldwide.
Officers: Mert Segal, chairman; Michael Woodroffe, president; Marc Willner, vp.
Contact: Michael Woodroffe.

Minet Re (Worldwide)
 199 Water St., New York, N.Y. 10038; 212-809-3900

	1995	1994
Premium volume	\$1,400,000,000	\$1,343,900,000
% Treaty	88%	90%
% Facultative	12%	10%
Gross revenues	\$83,513,000	\$82,200,000
Total employees	486	498
Treaty	402	436
Facultative	84	62

Brokering began: 1919.
Parent: Minet Group.
Branch offices: Minet Re North America: Glendale and San Francisco, Calif.; Hartford, Conn.; Atlanta; Chicago; Boston; St. Paul, Minn.; Murray Hill, N.J.; Philadelphia; Dallas. Anglo Swiss Reinsurance Brokers Ltd., Muchenstein, Switzerland; IOC Reinsurance Brokers Ltd., Toronto; JH Minet (Inter-Grenium) A.G., Zurich, Switzerland; JH Minet Reinsurance Brokers Ltd., London; Minet GmbH, Munich, Germany; Minet Burn & Roche, Sydney, Australia; Wellington, New Zealand. Minet Re (Bermuda) Ltd., Hamilton, Bermuda; Minet Re International Ltd., London; R&M Reinsurance Intermediaries Ltd., Port of Spain, Trinidad.
Licensed in: California, Connecticut, Georgia, Illinois, Massachusetts, Minnesota, New Jersey, New York, Ohio, Pennsylvania, South Carolina, Texas.

Conducts business: Nationwide.
Officers: Mark T. Hvidsten, president/CEO; Wallace E. Winter, chairman; Charles Caporale, executive vp/CFO; Albert T. DeVon Jr., executive vp; Gary J. Jackson, facultative senior vp.
Contact: Mark T. Hvidsten.

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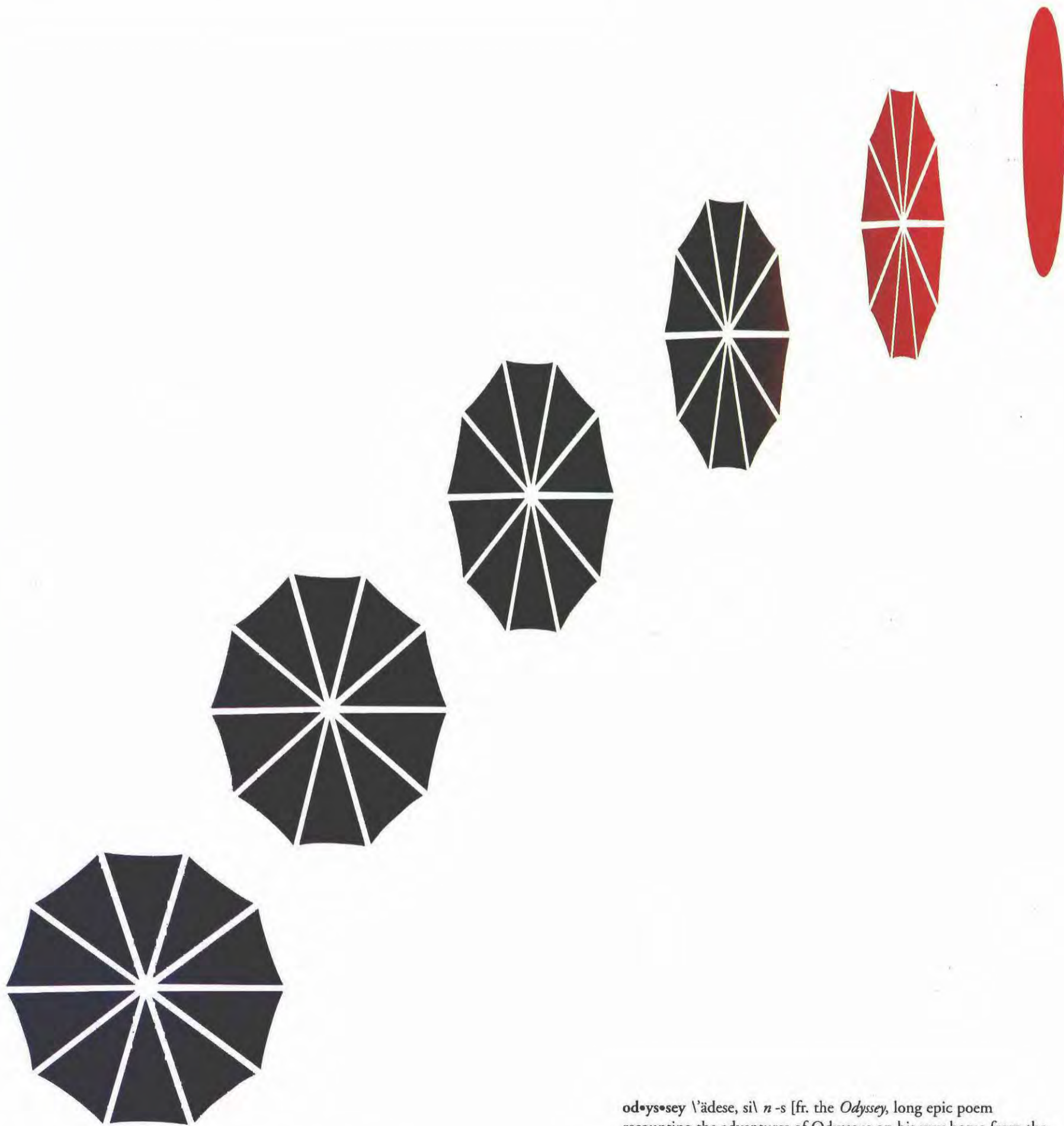
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od•ys•sey \ 'ädese, si\ n -s [fr. the *Odyssey*, long epic poem recounting the adventures of Odysseus on his way home from the siege of Troy and attributed to Homer, 8th cent. BC. Greek poet, fr. L. *Odyssea*, fr. Gk *Odysseia*, fr. *Odysseus*, it's hero + Gk -ia -y] : an extensive intellectual or spiritual journey or quest.



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Minet Re North America Inc. dba Intere, RFC, IOC Re

199 Water St., New York, N.Y. 10038; 212-809-3900; fax: 212-514-5959

	1995	1994
Premium volume	\$844,526,000	\$713,330,000
% Treaty	72%	80%
% Facultative	28%	20%
Gross revenues	\$34,619,000	\$33,300,000
Total employees	218	236
Treaty	155	174
Facultative	63	62

Brokering began: 1919.
Parent: Minet Group.
Branch offices: Glendale and San Francisco, Calif.; Hartford, Conn.; Atlanta; Chicago; Boston; St. Paul, Minn.; Murray Hill, N.J.; Philadelphia; Dallas; IOC Reinsurance Brokers Ltd., Toronto.
Licensed in: California, Connecticut, Georgia, Illinois, Massachusetts, Minnesota, New Jersey, New York, Ohio, Pennsylvania, South Carolina, Texas.

Conducts business: Nationwide.
Officers: Mark T. Hvidsten, president/CEO; Wallace E. Winter, chairman; Charles Caporale, executive vp/CFO; Albert T. DeVon Jr., executive vp; Gary J. Jackson, facultative senior vp.
Contact: Mark T. Hvidsten, president/CEO.

Morgan International Marketing Inc.
 P.O. Box 3016, Boone, N.C. 28607; 704-265-1823; fax: 704-262-1321

	1995	1994
Premium volume	\$80,000,000	\$100,000,000
% Treaty	95%	90%
% Facultative	5%	10%
Gross revenues	\$200,000	\$250,030
Total employees	2.5	2.5
Treaty	1.5	1.5
Facultative	0.5	0.5

Brokering began: 1992.
Specialties: Alternative risks, workers compensation, products, professional.
Licensed in: North Carolina.

Conducts business: Nationwide.
Officers: Anne O. Morgan, president; C. Fred Morgan, vp/secretary.
Contact: C. Fred Morgan.



Park International Ltd.
 P.O. Box HM 2062, Hamilton HM HX, Bermuda; 441-295-7396; fax: 441-295-4622

	1995	1994
Premium volume	\$14,000,000	\$13,500,000
% Treaty	85%	85%
% Facultative	15%	15%
Total employees	6	6
Treaty	3	3
Facultative	3	3

Brokering began: 1992.
Parent: Mutual Risk Management Ltd.
Specialties: Bermuda reinsurance market, catastrophe.

Licensed in: Bermuda.
Conducts business: Bermuda.
Officers: Paul Scope, president; Michael G. Foulger, Michael Jenkins, executive vps; Stephen C. Dean, Nan P. Griffiths, vps.
Contact: Stephen C. Dean.

Donald B. Peat & Associates Inc.

2201 Cantu Court, Suite 200, Sarasota, Fla. 34232; 941-379-9122; fax: 941-379-6167

	1995	1994
Premium volume*	\$17,000,000	\$10,000,000
% Treaty	100%	100%
Total employees	7	4
Treaty	7	4

* Estimate.
Brokering began: 1991.
Licensed in: Florida, New York.
Conducts business: Nationwide.
Officers: Donald B. Peat, president; Gerard Coutu, assistant vp.
Contact: Donald B. Peat.

Pegasus Advisors Inc.
 2 Northington Place, 35 Tower Lane, Avon, Conn. 06001-4241; 860-678-5140; fax: 860-678-5137

	1995	1994
Premium volume	NA	NA
% Treaty	100%	100%
Gross revenues	\$1,740,000	\$1,750,000
Total employees	6	5
Treaty	6	5

Brokering began: 1989.
Parent: Medical Underwriters Inc.
Specialties: Non-traditional customized reinsurance, including finite re and capital reinsurance arrangements.
Licensed in: Connecticut.
Conducts business: Nationwide, excluding Alaska and Hawaii.
Officers: Greg Leonard, president; Larry Frank, Jim Hall, vps; Joe Abbot, assistant vp.
Contact: Rose Komanetsky.

Preferred Reinsurance Intermediaries Inc.
 14 Monckton Blvd., Columbia, S.C. 29206; 803-790-4800; fax: 803-790-4825

	1995	1994
Premium volume	\$75,000,000	\$80,000,000
% Treaty	100%	100%
Total employees	16	19
Treaty	16	19

Brokering began: 1983.
Branch offices: Port Washington, N.Y.
Licensed in: California, Florida, Indiana, New York, Ohio, South Carolina, Texas.
Conducts business: Nationwide.
Officers: Robert H. Sanders, president; Karen N. Basso, Robert P. Hodson, senior vps; David L. Coulter Jr., Veritha W. Lee, vps.
Contact: Charles W. Perry.



Re Advisory Services Inc.
 1 Morningside Drive N., Westport, Conn. 06880; 203-222-8776; fax: 203-226-1881

	1995	1994
Premium volume	\$51,000,000	\$82,000,000
% Treaty	99%	99%
% Facultative	1%	1%
Total employees	11	11
Treaty	10.5	11
Facultative	0.5	NA

Brokering began: 1991.
Subsidiaries: Risk Advisory Services L.C., Winter Park, Fla.
Specialties: Property and casualty catastrophe, municipal, medical malpractice, workers compensation, alternative markets, finite and financial.
Licensed in: Connecticut, New York.
Conducts business: Nationwide, excluding Alaska and Hawaii.
Officers: Peter B. Scanlan, president; Roland M. Pike, executive vp; Robert M. Whitney, Anthony H. Klettner, vps; Jeanne C. Kehoe, controller.
Contact: Peter B. Scanlan.

The Reassurance Group
 545 Mira Vista Ave., Oakland, Calif. 94610-1936; 510-839-6100; fax: 510-839-9998

	1995	1994
Premium volume	\$11,000,000	\$8,500,000
% Treaty	100%	100%
Gross revenues	\$225,000	\$170,000
Total employees	4	2
Treaty	4	2

Brokering began: 1981.
Specialties: Accident and health, life, financial.
Conducts business: District of Columbia, Georgia, Hawaii, Illinois, Indiana, Maryland, New Jersey, Virginia, Washington.
Officers: Donald K. Anderson, president.

Reinsurance Associates Inc.
 1670 Fenpark Drive, Fenton, Mo. 63026; 314-349-1234; fax: 314-349-3169

	1995	1994
Premium volume	\$45,000,000	\$44,000,000
% Treaty	95%	95%
% Facultative	5%	5%
Gross revenues	\$757,242	\$726,293
Total employees	7	7
Treaty	6	6
Facultative	1	1

Brokering began: 1979.
Specialties: Credit life and disability.
 Continued on page 56

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Continued from page 54
ty, gap, individual unemployment insurance, product guarantee, workers compensation, impaired risk ordinary life, used car garage liability.

Licensed in: Arkansas, Mississippi, Wisconsin.

Conducts business: Nationwide.

Officers: Richard Banks Croak, president/secretary; Michael A. Gardner, vp.

Contact: Michael Gardner.

Re/Insurance Brokers Inc.

100 Brookwood Place, Suite 605, Birmingham, Ala. 35209; 205-871-4949; fax: 205-871-4950

	1995	1994
Premium volume	\$4,000,000	\$4,100,000
% Treaty	100%	100%
Total employees	2	2
Treaty	2	2

Brokering began: 1990.

Specialties: Professional liability, accident and health, disability.

Licensed in: Alabama, Texas.

Conducts business: Alabama,

Florida, Georgia, Idaho, Missouri, South Dakota, Texas.

Contact: Dale Busby, president.

Reinsurance Partners Inc.

670 Mason Ridge Center Drive, St. Louis, Mo. 63141; 314-523-2200; fax: 314-523-2211

	1995	1994
Premium volume	\$20,000,000	\$20,000,000
% Treaty	80%	80%
% Facultative	20%	20%
Total employees	5	5
Treaty	4	4
Facultative	1	1

Brokering began: 1974.

Parent: Fairfield Management Group Inc.

Specialties: Accident and health, property catastrophe.

Licensed in: Missouri, New York.

Conducts business: Worldwide.

Officers: David Q. Wells Jr., president; Charles V. Basuino, vp/treasurer.

Contact: Charles V. Basuino, 314-523-2204.

Russ Re-Insurance Services

P.O. Box 60093, Pasadena, Calif. 91116-6093; 818-351-8832; fax: 818-351-8832

	1995	1994
Premium volume	NA	NA
% Treaty	100%	NA
Total employees	1	NA
Treaty	1	NA

Brokering began: 1995.

Specialties: Casualty, marine, surety, finite risk.

Licensed in: California.

Conducts business: Nationwide, excluding Alaska and Hawaii.

Contact: K. Mark Russ III, president/CEO.



Sedgwick Re

55 Farmington Ave., Suite 501, Hartford, Conn. 06105; 860-251-6750; fax: 860-293-0755

	1995*	1994*
Premium volume	\$2,400,000,000	\$2,175,000,000
% Treaty	87%	87%
% Facultative	13%	13%
Gross revenues	\$81,100,000	\$75,600,000
Total employees	375	375
Treaty	704	736
Facultative	136	114

* Figures reflect worldwide business, except revenues and total employees, which reflect U.S. operations only.

Brokering began: 1928.

Parent: Sedgwick P.L.C.

Branch offices: Tempe, Ariz.; Los Angeles; San Francisco; Hartford, Conn.; Atlanta; Chicago; Boston; Minneapolis; New York; Charlotte, N.C.; Philadelphia; Dallas; Seattle; Toronto.

Subsidiaries: INSTRAT, Seattle; Reinsurance Solutions International, Philadelphia; Sedgwick Lane Financial, Chicago.

Specialties: Facultative property and casualty, international, program business, financial reinsurance.

Licensed in: More than 20 states, including California, Connecticut, Illinois, Minnesota, New York, Penn-

sylvania, Texas and Washington.

Conducts business: Nationwide.

Membership: Brokers & Reinsurance Markets Assn.

Officers: Salvatore D. Zaffino, chairman/CEO; Charles A. Higham, executive vp/COO; Gerald W. Browning, executive vp-facultative.

Contact: Salvatore D. Zaffino.

Sentry Intermediaries Ltd.

Skandia International House, 16 Church St., Hamilton HM HX, Bermuda; 441-295-2185; fax: 441-292-1143

	1995	1994
Premium volume	\$7,000,000	\$7,100,000
% Facultative	100%	100%
Total employees	3	3
Facultative	3	3

Brokering began: 1985.

Parent: Skandia Group.

Specialties: Bermuda market placement.

Licensed in: Bermuda.

Conducts business: Worldwide.

Officers: Nicholas S. Dove, president; Robert J. Rosser, Robert W. Eastham, senior vps.

Contact: Robert J. Rosser.

Smyth, Sanford & Gerard (C.C. King & Co.)

135 William St., 12th Floor, New York, N.Y. 10038; 212-374-1323; fax: 212-857-4170

	1995	1994
Premium volume	\$180,000,000	\$110,000,000
% Treaty	52%	40%
% Facultative	48%	60%
Total employees	22	21
Treaty	10	7
Facultative	12	14

Brokering began: 1987.

Branch offices: Coral Gables, Fla.

Specialties: Engineering, machinery breakdown, oil and gas, industrial property, international.

Licensed in: Florida, New York.

Conducts business: Worldwide.

Officers: Douglas L. King, president; Carl J. Casale, executive vp; Thomas C. Chiappa, senior vp; Geraldine Froget, executive vp-Florida; Eugene R. Melski, senior vp-Florida.

Contact: Douglas L. King.

G.J. Sullivan Co.

800 W. Sixth St., Los Angeles, Calif. 90017; 213-626-1000; fax: 213-622-5921

	1995	1994
Premium volume	\$334,000,000	\$278,000,000
% Treaty	100%	100%
Total employees	55	65
Treaty	55	65

Brokering began: 1980.

Parent: Gerald J. Sullivan & Associates.

Branches: Stamford, Conn.; Atlanta; Chicago.

Specialties: Surety and fidelity, workers compensation, finite and financial, non-standard auto.

Licensed in: California, New York.

Conducts business: Nationwide, excluding Alaska and Hawaii.

Officers: Gerald J. Sullivan, chairman/CEO; Ronald J. Taylor, president/COO; Julius Friedman, executive vp; William M. Allen, George J. Biehl, Steven V. Moccardini, senior vps.

Contact: Ronald J. Taylor, 203-363-5000.

Swiss Re Atrium Corp.

380 Madison Ave., 16th Floor, New York, N.Y. 10017; 212-973-5800; fax: 212-973-5083

	1995	1994
Premium volume	\$548,365,590	\$270,779,436
% Treaty	100%	100%
Total employees	32	28
Treaty	32	28

Brokering began: 1983.

Parent: Swiss Re Group.

Specialties: Surplus relief, finite risk, life.

Licensed in: Connecticut, New York.

Conducts business: Worldwide.

Officers: Jay A. Novik, president/CEO; Peter A. Gentile, executive vp/CFO; Owen Whitby, Bruce P. Reich, Mary Ann Brown, executive vps; Joan M. deLemps, Carla D'Andre, senior vps.

Contact: Joseph R. Barkley, 212-973-5810 or Jacqueline Walsh, 212-973-5065.

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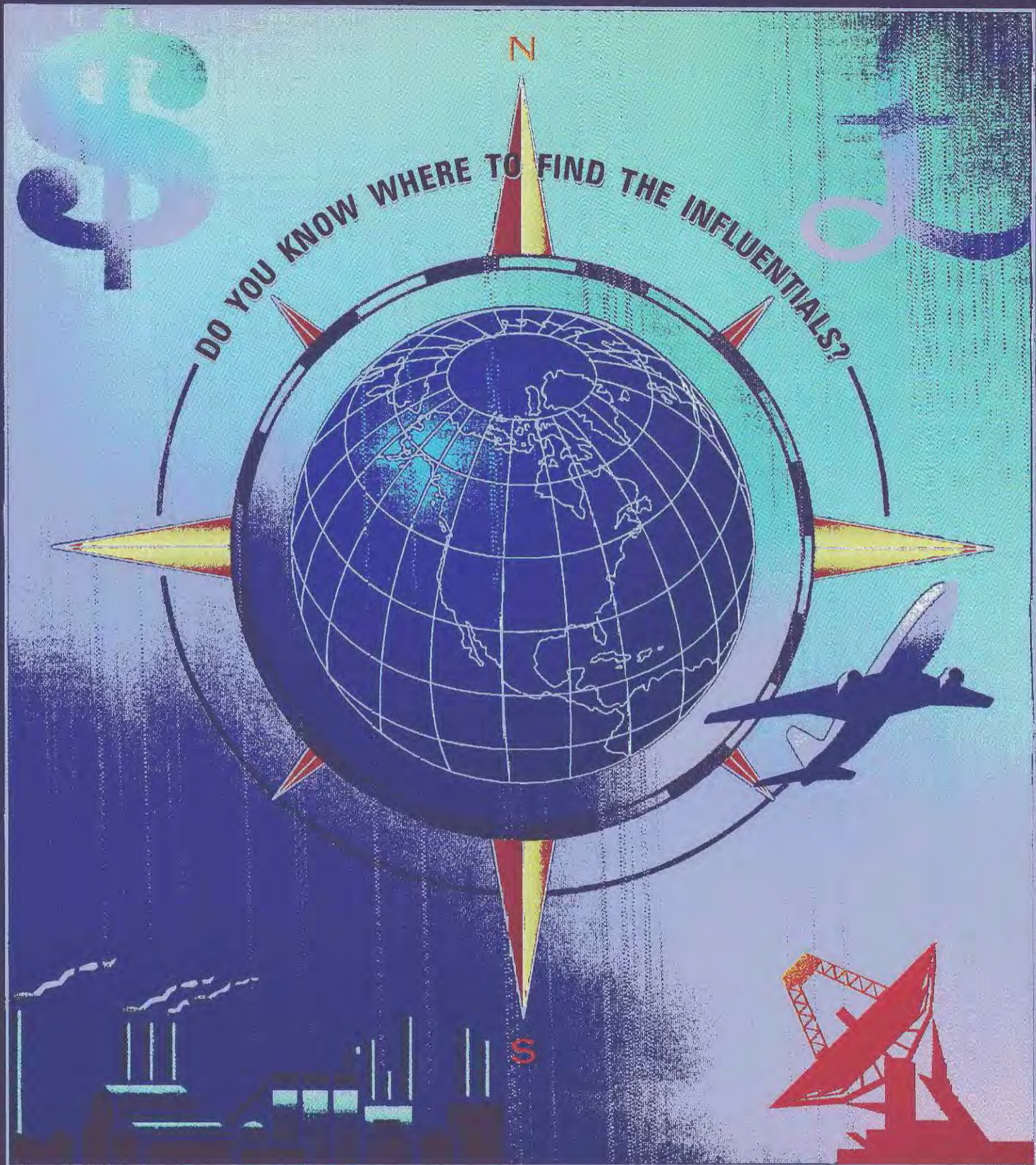
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THB Intermediaries

Broad Financial Center, 33 White Hall St., New York, N.Y. 10055-0002; 212-558-6630; fax: 212-269-4990

	1995	1994
Premium volume	\$35,000,000	\$32,000,000
% Facultative	100%	100%
Gross revenues	\$3,000,000	\$2,162,250
Total employees	26	24
Facultative	26	24

Brokering began: 1984.
Parent: Near North National Group.
Branch offices: Los Angeles; Chicago.
Specialties: Property and casualty facultative, program and national accounts.
Licensed in: California, Illinois, New York.
Conducts business: Nationwide.

Officers: Richard DiClemente president; Lisa Miles, CFO. Larry S Parks, Robert Brookshire, senior vps; Paul Amidei, v.p.
Contact: Richard DiClemente.

Tanenbaum-Harber Reinsurance Intermediaries Inc.

320 W. 57th St., New York, N.Y. 10019; 212-503-0365; fax: 212-582-5256

	1995	1994
Premium volume	\$21,000,000	\$27,000,000
% Treaty	100%	100%
Gross revenues	\$1,002,000	\$1,021,000
Total employees	1	5
Treaty	1	5

Brokering began: 1986
Parent: Tanenbaum-Harber Co. Inc.
Specialties: Property, casualty, health.
Licensed in: Florida, New York.
Conducts business: Nationwide
Officers: Walter L. Harris, CEO;

Ronnie Eller Raymond, president; Juan Carlos Maldonado, CFO.
Contact: Ronnie Ellen Raymond, 212-603-0362.

Totsch Enterprises Inc.

8745 W. Higgins Road, Suite 320, Chicago, Ill. 60631; 312-380-8040; fax: 312-380-8054

	1995	1994
Premium volume	\$68,000,000	\$67,000,000
% Treaty	95%	35%
% Facultative	5%	5%
Gross revenues	\$1,800,000	\$1,670,000
Total employees	5	5
Treaty	4.5	4.5
Facultative	0.5	0.5

Brokering began: 1978
Specialties: Property, crop-hail, multiple peril crop insurance.
Licensed in: New York
Conducts business: Nationwide, excluding Alaska and Hawaii.
Officers: Marvin D. Totsch, president; Mary Ellen Totsch, secretary/treasurer; Robert L. Totsch, William E. Totsch, vps.

Towers Perrin Reinsurance

Mellon Bank Center, 1735 Market St., Philadelphia, Pa. 19103-7501; 215-963-7700; fax: 215-963-7873

	1995	1994
Premium volume	\$630,000,000	\$598,000,000
% Treaty	95%	95%
% Facultative	5%	5%
Gross revenues	\$41,500,000	\$40,200,000
Total employees	206	204
Treaty	197	195
Facultative	9	9

Brokering began: 1934.
Branch offices: Los Angeles; San Francisco; Hartford and Stamford, Conn.; Chicago; New York; Montreal; Toronto.
Specialties: Integrated reinsurance risk management services, professional liability, accident and health, managed care, program unit.
Licensed in: California, Colorado, New Jersey, New York, Ohio, Pennsylvania, South Carolina, Texas.
Conducts business: Nationwide.
Membership: Brokers & Reinsurance Markets Assn.
Officers: Jacobus Van de Graaf,

managing director/CEO; Chris T. Brockett, Daniel R. Colello, William H. Eyre Jr., Philip W. Mitchell, Mary K. O'Gorman, Edwin W. Reynolds, senior vps.
Contact: Jacobus Van de Graaf, 203-363-1900.

Tretis Group Inc.

451 Pacific Ave., San Francisco, Calif. 94133; 415-495-3555; fax: 415-495-6735

	1995	1994
Premium volume	\$32,000,000	\$30,000,000
% Treaty	100%	100%
Gross revenues	\$2,600,000	\$2,000,000
Total employees	10	10
Treaty	10	10

Brokering began: 1986.
Specialties: Property, casualty, finite financial risk, life, workers compensation.
Licensed in: California, New York.
Conducts business: Nationwide.
Officers: Robert Tremelling II, president; John Peeke-Vout, Urban Koagadal, directors.
Contact: John Peeke-Vout.

Triangle Reinsurance Intermediaries Ltd.

The Phoenix Building, 2 Reid St., Hamilton HM HX, Bermuda; 441-292-4364; fax: 441-295-3982

	1995	1994
Premium volume	\$4,500,000	\$4,300,000
% Treaty	92.5%	99%
% Facultative	7.5%	1%
Gross revenues	\$165,000	\$150,000
Total employees	2	2
Treaty	2	2

Brokering began: 1993.
Parent: Triangle Holdings Ltd.
Specialties: Property and marine treaty, financial and captive reinsurance.
Licensed in: Bermuda.
Conducts business: Worldwide.
Officers: Thomas W.M. Masters, president; Giles B. North, executive vp.
Contact: Thomas W.M. Masters.



D.W. Van Dyke & Co. of Connecticut Inc.

95 Rowayton Ave., Rowayton, Conn. 06853; 203-865-0499; fax: 203-852-6776

	1995	1994
Premium volume	\$1,600,000,000	\$1,500,000,000
% Treaty	98%	98%
% Facultative	2%	2%
Total employees	33	29
Treaty	13	13
Facultative	1	1

Brokering began: 1978.
Parent: DDR Holdings Inc.
Specialties: Physician/hospital organizations, provider excess, credit reinsurance, international reinsurance, special risk, workers compensation carve-out, surplus relief, capital risk transfer, individual life coinsurance and yearly renewable term life, excess and pro rata on special risk, accidental death and dismemberment, group life, long-term disability, medical, occupational and catastrophe accident, abnormal mortality stop-loss.
Licensed in: Arkansas, California, Connecticut, Minnesota, Mississippi, Nebraska, New York, North Carolina, Ohio, Pennsylvania, South Carolina.
Conducts business: Worldwide.
Officers: Donald W. Van Dyke II, chairman/CEO; Donald K. Drelich, president/COO; Lauren M. Kennedy, senior vp/CFO; Christopher Koehler, senior vp; Peter L. Craft, general counsel.
Contact: Lauren M. Kennedy.

Vermont Insurance Management Inc.

P.O. Box 306, Montpelier, Vt. 05601; 802-229-5042; fax: 802-229-6280

	1995	1994
Premium volume	\$11,250,000	\$11,000,000
% Treaty	70%	70%
% Facultative	30%	30%
Total employees	27	27
Treaty	2	2
Facultative	2	2



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Continued from page 58

Brokering began: 1987.
Parent: USA Risk Group.
Specialties: Captive insurance, risk retention group and alternative market business.
Licensed in: Vermont.
Conducts business: Nationwide.
Officers: H. Lincoln Miller Jr., chairman; Andy Sargeant, COO; Gary Osbourne, vp; Edward E. Meehan, executive vp.
Contact: Andy Sargeant or Gary Osbourne.



Willcox Inc. Reinsurance Intermediaries

180 Maiden Lane, New York, N.Y. 10038; 212-952-0650; fax: 212-952-0295

	1995	1994
Premium volume	\$1,000,000,000	\$1,000,000,000
% Treaty	99%	99%
% Facultative	1%	1%
Gross revenues	\$48,004,000	\$44,000,000
Total employees	235	230
Treaty	231	226
Facultative	4	4

Brokering began: 1994.
Parent: Johnson & Higgins.
Branch offices: Los Angeles; Indianapolis; Philadelphia; Dallas; Buenos Aires, Argentina; London; Singapore.
Acquisitions: H.S. Fox Corp., Dallas, March 1996.
Specialties: Treaty property and casualty, marine, aviation, fidelity, surety, financial reinsurance, accident and health, life, international.
Licensed in: California, Indiana, New York, Ohio, Pennsylvania, Texas.
Conducts business: Nationwide.
Membership: Brokers & Reinsurance Markets Assn.
Officers: Willis T. King Jr., chairman/CEO; Charles P. Griffin, John

N. Reinman, Timothy C. Rivers, executive vps.
Contact: Lawrence P. Johnson, 212-530-2779.

Willis Faber North America Inc.

Wall Street Plaza, 26th Floor, New York, N.Y. 10005; 212-820-7600; fax: 212-344-4646

	1995	1994
Premium volume	\$1,331,000,000	\$1,281,000,000
% Treaty	95%	95%
% Facultative	5%	5%
Gross revenues	\$47,300,300	\$45,820,000
Total employees	250	272
Treaty	243	264
Facultative	7	8

Brokering began: 1924.
Parent: Willis Corroon Group P.L.C.
Branch offices: San Francisco; Denver; Stamford, Conn.; Miami; Atlanta; Minneapolis; New York; Stoney Creek, N.C.; Philadelphia; Nashville, Tenn.; London.
Subsidiaries: Reinsurance Alternatives Inc., Minneapolis

Specialties: Accident and health, aviation, alternative risk transfer, commercial and non-standard auto, financial reinsurance, property and casualty (treaty and facultative), professional liability, surety and fidelity, retrocession, marine, political risk, trucking and transportation, health care services, workers compensation, life.

Licensed in: California, Colorado, Connecticut, Florida, Illinois, Minnesota, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Texas.

Conducts business: Nationwide.
Membership: Brokers & Reinsurance Markets Assn.
Officers: Peter T. Pruitt, chairman/CEO; John R. Cashin, executive vp/director-marketing/midwest region manager; Horace Johnson, George Reeth, executive vps; Richard Swager, president-Reinsurance Alternatives Inc.
Contact: John R. Cashin.

WinterBrook RE Intermediaries L.L.C.

205 Highway 9, Freehold, N.J. 07728; 908-431-2406; fax: 908-431-3543

	1995	1994
Premium volume	\$13,420,000	\$12,300,000
% Treaty	100%	100%
Gross revenues	\$500,000	\$490,000
Total employees	4	4
Treaty	4	4

Brokering began: 1991.
Parent: WinterBrook Holdings Ltd.
Specialties: Property and casualty, accident and health.
Licensed in: New York, Texas.
Conducts business: Nationwide.
Officers: W. Brian Harrigan, president; Kenneth H. French, executive vp; Irene Bekech, secretary.
Contact: Kenneth H. French.

John P. Woods Co. Inc.

Newport Tower, 525 Washington Blvd., Jersey City, N.J. 07310-1607; 201-216-9600; fax: 201-610-9555

	1995	1994
Premium volume	\$650,000,000	\$600,000,000
% Treaty	100%	100%
Gross revenues	\$22,500,000	\$21,300,000
Total employees	62	62
Treaty	62	62

Brokering began: 1978.
Parent: Woods Corp.
Branch offices: Atlanta; Mount Laurel, N.J.
Subsidiaries: John P. Woods Latin America, Jersey City, N.J.; Rio de Janeiro, Brazil.
Specialties: Property and casualty, life, accident and health.
Conducts business: New York.
Officers: Josephine A. Hoey, senior executive vp; Roderick P. Thaler, Ellsworth P. Whiteman, John P. Woods III, Harry Larzelere, executive vps; John N. DiBlanda, vp/CFO.
Contact: John P. Woods.



H.E. Yerkes & Associates Inc.

127 John St., New York, N.Y. 10038; 212-344-1707; fax: 212-422-8473

	1995	1994
Premium volume	\$36,742,500	\$35,919,425
% Treaty	100%	100%
Total employees	5	5
Treaty	5	5

Brokering began: 1979.
Specialties: Ocean marine, offshore and energy risks.
Licensed in: New York.
Conducts business: New York.
Officers: Harry E. Yerkes III, president; Ann R. Kaplan, vp.
Contact: Ann R. Kaplan. **BI**

Deadline nears

On Nov. 11, Business Insurance will publish its seventh annual Directory of Environmental Risk Management Consultants, which includes a Spotlight report on the professional and environmental liability market. In addition, the annual Directory of International Insurers and Benefit Networks will run in the Nov. 18 issue, which contains a Spotlight report on international benefits and risk management.

Listings in these directories are printed as an editorial service and there is no charge to be included. Companies need only fill out and return a BI questionnaire. If your company has not received a questionnaire for either directory, please contact Assistant Directory Editor Rich Trout at 312-649-5483.

Oct. 23 is the extended deadline for the Environmental Risk Management Consultants Directory. Oct. 30 is the extended deadline for the International Insurers and Benefit Networks Directory.

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Capital

Continued from page 3

companies experimenting with derivatives," he said. "The Act of God bonds, you have several deals out there that haven't been sold yet."

For some reinsurers, one forum for experimentation is the CBOT's catastrophe futures contract, which is based on indexes derived from property damage estimates compiled by the American Insurance Service Group's Property Claim Services division.

While trading in the contracts is still limited to an average of several hundred, proponents say it is significant that volume on the CBOT cat contract reached record levels in the week that ended Sept. 6. Some 3,308 contracts exchanged as Hurricane Fran neared the North Carolina coast, matching the trading volume for the previous three months (BI, Sept. 9).

The busy trading day in connection with Hurricane Fran shows two things, Mr. Lane suggested: "People are willing to take risk when required and, two, people are willing to look to the contract for coverage."

While he conceded the PCS contract isn't likely to ever match the level of activity on the Eurodollar or Standard & Poor's 500 contracts at the CBOT, it is growing and likely will continue to do so. "I would expect to see 100,000 contracts traded in the next year," he said, compared with 11,540 in the first 12 months the PCS options were exchanged.

Also, the futures contracts seem to be growing in popularity along with the other capital market reinsurance alternatives. That parallel development is key to the successful development of the entire group of alternative products, Mr. Lane said.

Some investors clearly are looking at arbitrage opportunities that might exist between investments in other risk securitizations and the CBOT cat contracts, he says. That sort of activity can help spur the growth of the entire market for financial alternatives to reinsurance.

Another exchange for trading insurance risks, the Catastrophe Risk Exchange, or CATEX, was to begin operations this month.

The exchange provides a forum for subscribers to exchange insurance risk over a computerized network. CATEX would function as an online trading floor through which companies can exchange all or part of their risk for that of another company.

Frank Fortunato, a CATEX vp in Princeton, N.J., said the exchange hoped to install CATEX terminals the second week of October.

While the exchange had one announced subscriber, Everest Reinsurance Holdings Inc., on Sept. 30, Mr. Fortunato said CATEX had plans to announce "three or four" more subscribers in the near future and had considerable interest from other companies.

"We've got up to a dozen companies exploring subscription agreements as we speak," Mr. Fortunato said. "We're not getting any B-League teams."

"I think the game plan is that between now and January we're allowing companies to engage in simulated trading if they wish," he said. "They can also engage in live trading."

Mr. Fortunato sees the new exchange serving two roles. First is its role as a risk-for-risk exchange entity, under which companies can exchange all or a portion of their risk for all or a portion of another company's risk, with each participant paying CATEX a fee of \$150 per \$1 million of insured exposure exchanged.

The second role, and one he believes companies might be even more interested in, is as a market-

the exchange rather than going through a traditional reinsurance intermediary.

'We've got up to a dozen companies exploring subscription agreements as we speak. We're not getting any B-league teams,' says Frank Fortunato of CATEX.

place for catastrophe covers. As a forum for cash sales of risks, a reinsurer can place a cat cover through

Participants using the system for such cash-based risk transfer will pay CATEX a fee of 75 basis points

times the cash premium. "That compares very favorably, obviously, with traditional intermediary rates," Mr. Fortunato said, noting that not only are insurers and reinsurers interested in using CATEX in that fashion, "but it also has interested many intermediaries."

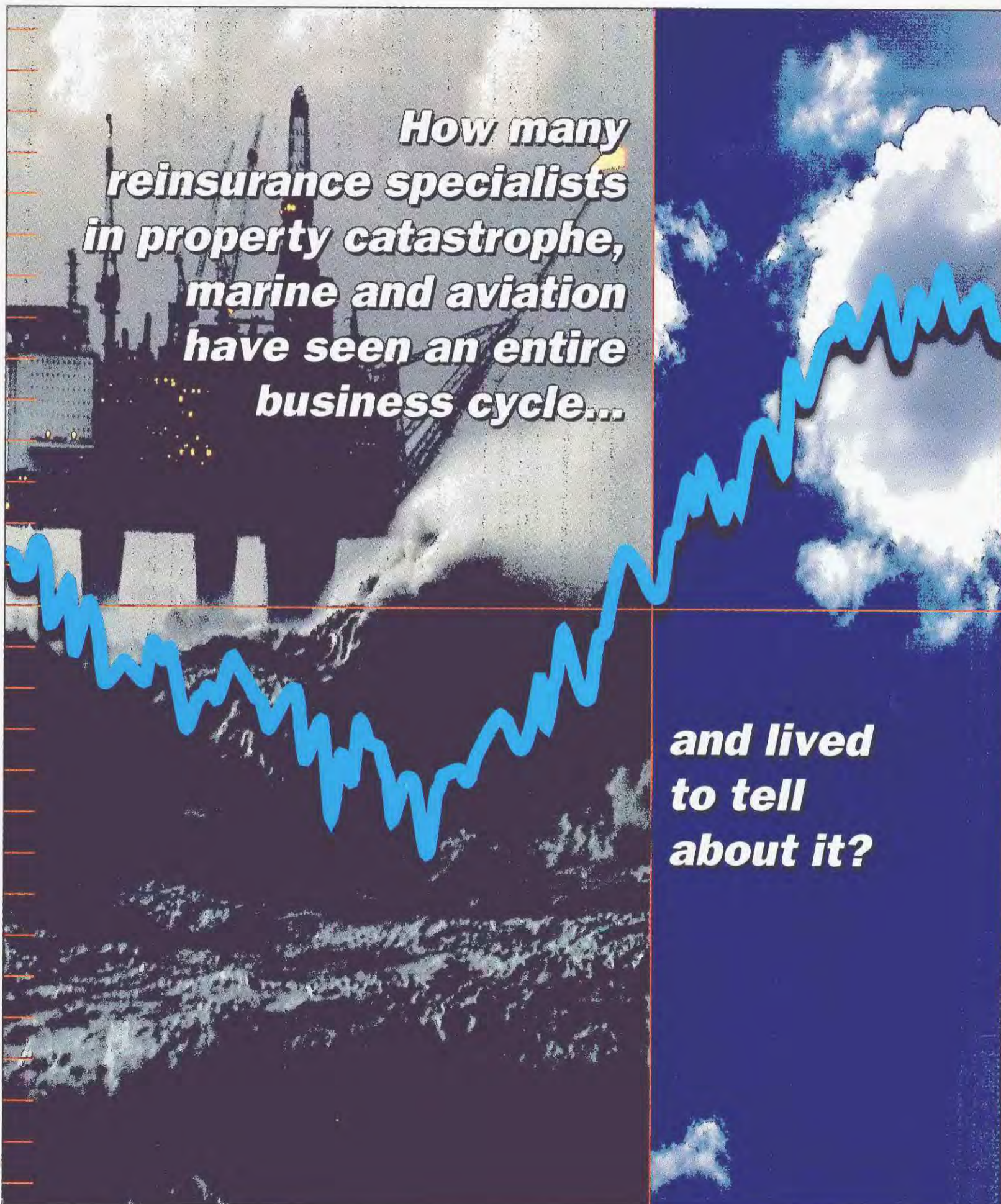
Those intermediaries recognize that by mastering the CATEX system, "there still is room for them to realize healthy profits," he said.

Mr. Lane suggested that the new joint venture with Sedgwick is an example of efforts to cobble capital markets vehicles with traditional reinsurance to provide the most efficient solutions to customers' reinsurance problems.

"I think you have to think about me as a new kind of hybrid," he said. "We are registered broker-dealers, registered futures brokers and registered intermediaries. So we try to provide the best possible package, the most cost-effective package that best meets the needs of the individual client."

Capital markets tools have "effectively been positioned as reinsurance products so, given that, they're either going to be competing with or complementary to" traditional reinsurance, said John B. Stites, vp in the risk management group of Chubb Corp. in Warren, N.J. With low pricing in the

Continued on next page



Continued from previous page
present reinsurance market, there's considerable incentive "to not mess around with more cutting edge/bleeding edge kinds of approaches," Mr. Stites said. As a result, investment banks try to avoid presenting themselves as direct competition to reinsurance "because there is so much capacity available and it's so cheap."

"Depending on what a customer's trying to accomplish, there may be room for a complementary kind of solution," Mr. Stites said, though noting, "The soft market will provide a tougher row to hoe for the capital markets followers."

The nature of derivative instruments and the risk involved may force many insurers to use them as a supplement to traditional reinsurance, however.

"There is basis risk. There is the risk that what the derivatives will respond to won't meet the losses of your portfolio," Mr. Densen said. Basis risk refers to the inherent risk that the pricing of such instruments will not correspond appropriately to the actual hedge. "The smaller a company is, the smaller the spread of risk is, the basis risk is larger and larger."

"I see at some point, maybe it becomes more than a small part, but I suspect (financial alternatives) will

always be supplemental or at least used in conjunction with some more

'The soft market will provide a tougher row to hoe for the capital markets followers,' says John B. Stites.

direct approach," he said. "All the Act of God bonds we've seen are structured that way as well."

Mr. Stites said he is presently in-

involved in his first possible deal involving a capital markets component, a program that is rumored to be looking to the capital markets for \$300 million to \$400 million in capacity beyond \$500 million in more traditional coverage.

He's skeptical the client's coverage needs will prompt it to tap the capital markets, however. "I'll believe it when I see it," he said.

According to Mr. Lane, over the past two years the volume of both talk and activity in the risk securitization area has picked up year by year "so that this year significant resources have been committed to this area."

"I now have a file of at least 10 se-

curities that have been offered to various parts of the capital markets," Mr. Lane said of proposals he has observed. "It's getting to be a thick and fat file of the various proposals."

One of the major risk securitizations on the horizon is the anticipated bond issue to finance the California Earthquake Authority. "We had hoped that would be a defining event this year," Mr. Lane said. "It looks like we're still going to get those, though it will be a 1997 time stamp."

While some have suggested that adequate capacity in the catastrophe reinsurance market will make the CEA issue unnecessary, Mr. Lane said the first tranche of those bonds is still expected to be issued March 31. Plans for the homeowners' earthquake insurance facility have called for issuing up to \$3.8 billion in "earthquake risk bonds" to fund an upper layer of coverage.

Another widely anticipated disaster bond issue is a deal being crafted by San Antonio-based United Services Automobile Assn. and Merrill Lynch & Co. The \$500 million deal would include some sort of provisions forgiving the insurer for repayment of principal if it should suffer catastrophe losses exceeding \$1 billion.

In September, the USAA deal was reported to have been put on hold, however, as the peak of the year's hurricane season arrived. USAA officials could not comment on the deal.

Much of the interest in those deals comes from investors waiting to see how traditional reinsurance companies respond to the bonds before deciding whether they should get involved in the catastrophe bond market, Mr. Stites said.

"You still have a lot of securitization and capital market solutions in the process of being validated or not validated by rather traditional reinsurers," he said.

In the case of the CEA deal, for example, "all of the investors who are sitting outside the insurance industry are kind of sitting around to see whether some of the insiders buy," Mr. Stites said. "If some of the insiders buy, I think you could see some progress very quickly."

As with other financial products in the early stages of their development, many potential participants in the markets for financial alternatives to reinsurance will want to see those products develop some history so they feel comfortable with their pricing and how they respond to events or market conditions.

"I think it will take a little while before people decide how much of what goes where," Mr. Densen said, noting for example, that it took five years before any significant volume developed in the now massive U.S. Treasury bond futures market, which has an average daily volume of \$34 billion.

And the market for reinsurance derivatives and other capital markets alternatives to reinsurance is new enough that traditional reinsurers haven't felt it necessary to mount too much of a response to the potential competition, Mr. Stites said.

"There certainly seems to be a potential level of competition between some of what the capital markets guys are doing and the larger finite risk programs," he said.

"Certainly most of the major reinsurers have increased their activity around the finite risk covers," he said. "Many are experimenting around the CBOT, for example" and there may be a move to broader policy forms among some reinsurers in response to the "holistic" approach to covering risk some of the financial alternatives offer.

But Mr. Stites said he can't say he has seen any major activity from reinsurers to meet a competitive challenge from the capital markets. "We're really not that far into it yet," he said. "I don't think the challenge is serious enough yet."

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Financial reinsurers target opportunities in soft market

By DOUGLAS McLEOD

NEW YORK—Financial reinsurers are holding their own in a soft market as some ceding insurers continue to look at alternative structures for their reinsurance programs.

Financial reinsurers say they are focusing on areas where market softness is less pronounced and are attracting interest in products that provide broader financial benefits to ceding companies than traditional monoline reinsurance can.

"The market for reinsurance is getting softer every minute, so most of the activity we've seen has been in the few areas that are not getting softer every minute, which are the property catastrophe and other catastrophe areas," said David Wasserman, chairman of Centre Reinsurance Co. of New York.

Weak reinsurance pricing hasn't helped financial reinsurance products, market observers agree: Ceding companies have little incentive to consider alternatives when capacity for many traditional covers is plentiful and cheap.

"The financial reinsurance marketplace has way, way more capacity than it needs," added Willis

T King Jr., chairman and chief executive officer of Willcox Inc. Reinsurance Intermediaries in New York.

"As rates soften on traditional covers, the attractiveness of finite deals will be less and less appealing," observed Glenn Hyman, vp with the finite risk management unit of CIGNA International in Philadelphia. "It's forcing the finite writers to become ever more creative."

"Reinsurance is really becoming a financial planning tool for a lot of insurance companies," said Jon Roberts, president of Enterprise Reinsurance Corp., a finite insurer and reinsurer being formed by Bermuda-based CAT Ltd. and Employers Reinsurance Corp.

"Instead of buying (reinsurance) to protect a particular line of business or a particular product area, companies are buying with the view of having an ongoing, flexible reinsurance program that manages the entire needs of the company in terms of both underwriting and financial objectives," Mr. Roberts said.

The most popular such products, observers agree, are various forms of aggregate excess protection that often are designed to kick in when

a ceding insurer's loss ratio exceeds an agreed-upon level.

The coverage may be triggered, for example, when a ceding insurer's loss ratio exceeds its expected loss ratio by a defined amount,

"The objective would be to protect the overall bottom line of the ceding company," he noted.

Property catastrophe exposures have recently driven the interest in these covers, some reinsurance

'Reinsurance is really becoming a financial planning tool for a lot of insurance companies,' says Jon Roberts of Enterprise Reinsurance Corp.

say, five to 15 percentage points, explained David Koegel, senior vp with Gil & Roeser Inc., a reinsurance intermediary in New York.

The attachment point is a matter of negotiation between the ceding company and the reinsurer, which would take into account the ceding insurer's track record in staying at or below its planned loss ratio, he observed.

These aggregate stop-loss covers—which may have other forms of triggers—can effectively reinsure a ceding company's entire book of business rather than individual lines, Mr. Roberts added.

market observers say.

As ceding company retentions have risen in recent years, insurers have become more concerned about accumulations of cat losses that are not large enough to pierce catastrophe reinsurance layers but remain within the insurer's retention.

Insurers worried about such loss frequency may combine several products like aggregate stop-loss reinsurance for property lines only, area-specific property reinsurance covers and whole-account property and casualty stop-loss protection, said Ray Dowling, vp

with the integrated reinsurance risk management unit of Towers Perrin Reinsurance in New York.

The stop-loss coverage also shows how the lines have blurred between traditional and financial reinsurance products: While it bears little relation to traditional monoline treaty reinsurance, it is also unlike early forms of financial reinsurance that involved little transfer of risk.

"I continue to see this type of business being harder and harder to define because of the elements of risk transfer that are in these products," Mr. Dowling said.

Finite reinsurance products—like the aggregate stop-loss product—have been around long enough that they have become "conventionalized" and are offered by a wider array of reinsurers, Centre Re's Mr. Wasserman agreed.

"Some portions of it have been so well defined that it's almost traditional," he said.

"If you take a traditional reinsurance contract and put a few bells and whistles on it, (you have) 'customized reinsurance,'" Mr. Koegel observed.

"This traditional vs. non-traditional (debate) just doesn't make any sense anymore," he added. "The issue really is the fragmented purchase of reinsurance vs. the

See Financial on page 70

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Spotlight report

Financial

Continued from page 66
integrated purchase of reinsurance."

Mr. Wasserman cited another multiline product that is much like a combination of traditional reinsurance treaties but with a common aggregate limit and single premium.

This product might cover several lines—property, aviation and casualty clash, for example—with reinsurance limits of \$10 million for each line, he explained.

While buying this same coverage separately in the "traditional" market would yield total reinsurance limits of \$30 million, the finite risk program might come with an annual aggregate limit of \$20 million, reducing the ceding company's cost but requiring it to

take an additional calculated risk.

"The only shortfall would be if all three (lines) blew up at once," Mr. Wasserman observed.

Aggregate stop-loss coverages aren't the only products in the marketplace.

Mr. Dowling, for example, said he has seen some interest in loss portfolio insurance and reinsurance, in which companies cede all of their liabilities on a book of business to get the business off their balance sheets. Companies interested in this have included large self-insurers of workers compensation coverage and state workers comp funds looking to cede liabilities on old years of coverage, he added.

Still, aggregate excess coverages account for the majority of programs written by finite reinsurers, reinsurance executives agree.

The popularity even of aggregate covers is partly a function of general market conditions, though, and observers differ on how much interest financial reinsurance actually is generating in the current soft market.

'It's no surprise that companies are moving into the non-traditional end of reinsurance,' says David Wasserman.

Centre Re last year recorded the largest written premium volume in its history, Mr. Wasserman said. Centre Re's total gross written premium was \$716 million last year. He added, though, "If the

market was hard, we would probably be going three times what we're doing now."

Mr. Wasserman also sees nothing unusual in the entry of new players like Enterprise Re to the finite risk market despite the competitive market.

"It's no surprise to me that companies are moving into the non-traditional end of the reinsurance business. It's where a lot of the growth is coming from," he said.

"Clearly, a hard market makes it easy to sell these products," added Shaun Flynn, senior vp with Guy Carpenter & Co. Inc. in New York.

Still, Carpenter has seen "a substantial uptick in activity in the finite risk area even though we're operating in a relatively soft market."

Willcox's Mr. King, however, said that most of the finite rein-

surance placements he has seen have been renewals of existing programs rather than new business.

"There is not much new business flowing into financial reinsurance," he said, noting that anything that can be done by finite reinsurers also can be done by traditional reinsurers at very competitive prices.

Mr. King also was perplexed at the new capital being committed to finite risk underwriting given the glut of existing capacity.

"There are more new players entering every day. I'm not sure what they're going to write or who's advising them," he said. **BI**

U.S. unlikely to see new reinsurers

By JUDY GREENWALD

The chance of a significant new reinsurance company being formed in the U.S. market is extremely slight, but some industry observers say don't rule it out entirely.

The last totally new major reinsurer to be formed in the United States was Greenwich, Conn.-based Risk Capital Reinsurance Co., a unit of Risk Capital Holdings Inc. (*BI*, Sept. 18, 1995). In addition, Employers Reinsurance Corp. and Bermuda-based CAT Ltd. are planning to establish Enterprise Reinsurance Corp. to write finite and financial reinsurance and insurance (*BI*, Sept. 16).

But no more new formations—at least for the near term—are expected, given the level of capital required and soft pricing in the business today.

While there was a very strong rationale for Risk Capital, "I think anyone that's going to start up a reinsurance company right now is pretty foolish. There are no prospects," said Paul Ingrey, chairman of F&G Re Inc., a Morristown, N.J.-based unit of USF&G Corp.

"At least with Risk Capital Re you're looking for the added...advantage of investments in the insurance business, which would be a plus. Anybody else would be less successful than Risk Capital Holdings is likely to be," said Mr. Ingrey, referring to Risk Capital's policy of investing part of its portfolio in equity securities issued by firms in the insurance industry.

"As long as the market is as soft as it is now, the market doesn't need any more reinsurers to deal with the demand," said Jerome Karter, president and CEO of SCOR U.S. Group in New York. "In fact, the market needs some weeding out, probably more than anything else, in order to stabilize."

"I think its going to take another major event or a change in the cycle to really re-motivate the capital markets," said Mark W. Hinkley, executive vp of TIG Reinsurance Co. in Stamford, Conn.

It is easier to buy than to build a book of business today, said Craig Elkind, associate director at Standard & Poor's Corp. in New York.

"It's very expensive. It take a lot of time to cultivate relationships," he said.

John F. Donahue, senior vp-reinsurance and international property and casualty operations for the ITT Hartford Group Inc. in Stamford, Conn., agreed. "It seems to me that there are quite enough companies.

See *Newcomers* on page 74

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Spotlight report

Newcomers

Continued from page 70

and that for the immediate future, I would be more inclined to believe that there'd be more M&A in the reinsurance industry's future and less brand new operations starting up," with the possible exception of a specialty company "of one kind or another," he said.

"I've been surprised before, but I would think that that is not a likely near-term scenario because there doesn't appear to be a significant level of overcapacity in the world in the insurance market today," particularly in the United States, said Steven H. Newman, chairman and CEO of Woodland Hills, Calif.-based Underwriters Reinsurance Co.

John N. Gilbert Jr., president of the New York-based Holborn Agency, a reinsurance intermediary, also pointed to overcapacity as a factor. "There's a lot of capacity out there right now, and a lot of capital chasing what is probably an overall diminished premium income of true traditional reinsurance as a result.

"I think there will probably be some attempts to form new organizations, but I don't think there's going to be a large flow of additional capital into the marketplace at this point until something happens to create a capacity crunch, and then fresh capital will flow in as we witnessed three, four, years ago," Mr. Gilbert said.

Another reason startups are less likely is that an increasing amount of capital is needed to form new reinsurers.

"I think it's always possible, but I think the bar certainly has been raised," said Michael R. Pinter, Kemper Reinsurance Co.'s chairman and CEO.

"The days are long gone when the new entrant can come into the marketplace with a minimal amount of capital and achieve revenue growth. You have to have a significant amount of capital to enter the marketplace today," he said.

In addition, Mr. Pinter said, the new company must deliver a set of products as well as services that distinguishes it from other reinsurers already in existence.

"I think the prospect of a new reinsurer without something sort of definably different about it, a la Risk Capital Re for instance, seems to me pretty remote," said Mark T. Hvitdsten, president and CEO of reinsurance intermediary Minet Re International Ltd. in New York.

"I think it's unlikely that a major new reinsurer will be formed unless it has a compelling and different story to tell and business strategy," agreed Risk Capital Re President and CEO Mark D. Mosca.

"I think that's why we were successfully created, because we had a very distinctive and...compelling business plan that distinguished us from more conventional reinsurers doing more of the same," said Mr. Mosca, adding: "What the likelihood is of somebody coming along with a distinctive new business plan, I just don't know."

Still, some reinsurance executives and analysts warn not to underestimate the ability of some entrepreneurs to come up with compelling, creative ideas for a new enterprise in spite of the prevailing market conditions.

"I think within a year or so we could well see some powerful players trying to do something different," said Kaj Ahlmann, chairman, president and CEO of Employers Reinsurance Corp. of Overland Park, Kans. "If there are people out there with money it might make sense," he said.

Despite the overcapitalization in the reinsurance industry, Wall Street and investors still have the perception that reinsurers have a

San Francisco investment banker specializing in the insurance industry. "It would appear as if that while the restructuring (of the reinsurance

'The days are long gone when the new entrant can come into the marketplace with a minimal amount of capital and achieve revenue growth,' says Michael R. Pinter.

particular insight into how the industry as a whole works, said James F. Dowd chairman and CEO of Odyssey Reinsurance Corp. in New York.

"There are innovative minds all the time ready to start new companies," said Russell R. Miller, of Russell Miller Corporate Finance Inc., a

industry) seems to be going on that it might not be the time to start a new company, but who knows?"

"Innovative people do innovative things at the most inopportune times, and they succeed. It's a fact," he said. "I mean, who would have thought what's happened in Bermuda would happen?" **BI**

London reinsurers quiet about market's rates and overseas investors

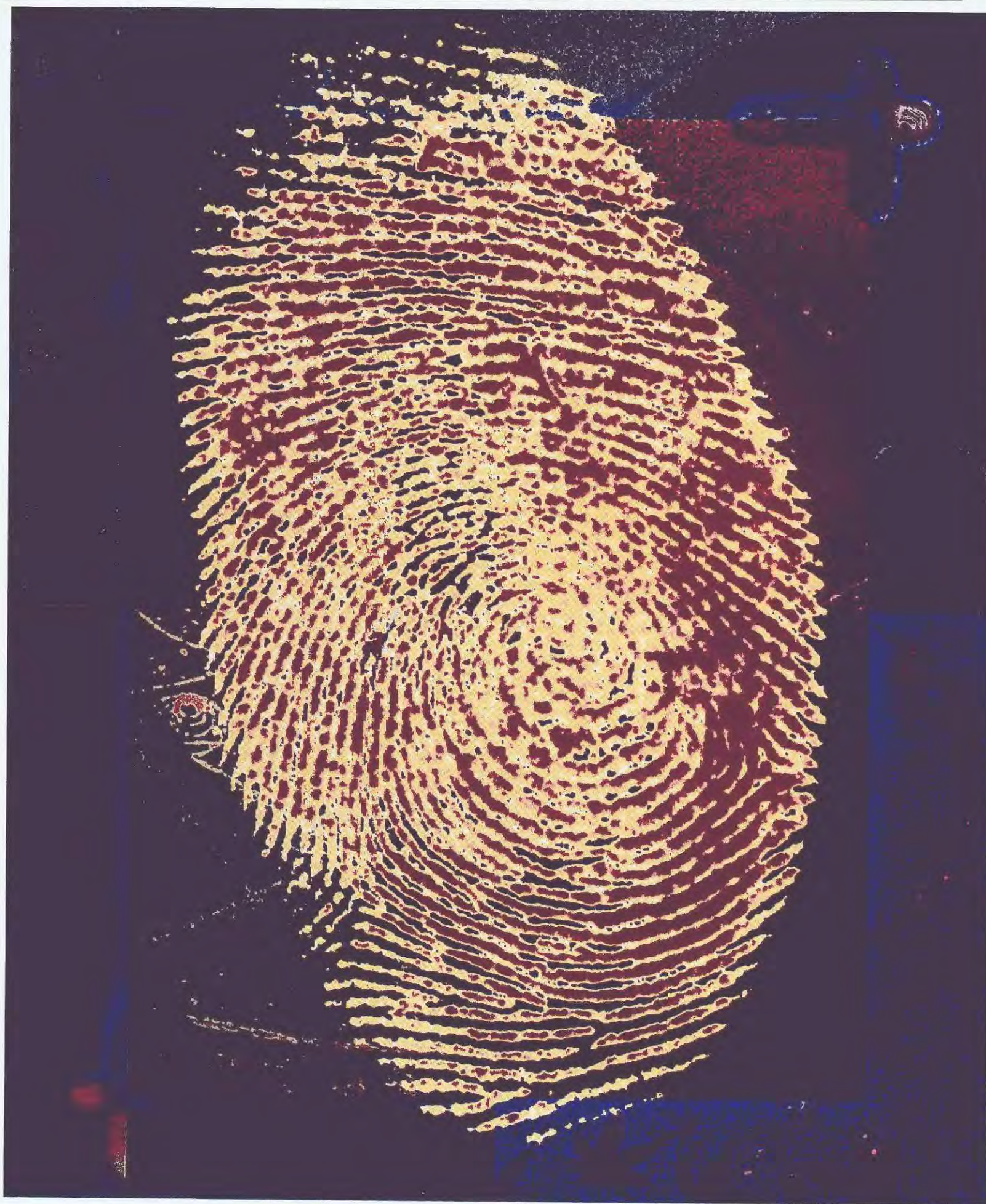
By SARAH GODDARD

LONDON—London reinsurers will talk about anything these days—except the state of the market. Reinsurance executives have watched rates drop to four-year lows with no signs of going anywhere but down and are afraid that loose tongues will push rates down even further. It's no secret that London is proving a buyer's delight, with its mixture of stiff competition and plenty of capacity available. The recent bumper

years have attracted more overseas investors—particularly with the change in the regulations surrounding investments in Lloyd's of London—and some high-profile names such as Bermuda's Mid Ocean Reinsurance Co. Ltd. have set up underwriting operations within the London market.

These investors were lured by a hard market and access to business not seen in other reinsurance centers. Though the market has softened, with premiums on re-

Continued on next page



Continued from previous page
newal last year falling between 10% and 20%, London still seems to attract risks that are not run-of-the-mill.

Though market executives are loathe to indulge in crystal ball-gazing, some are hopeful that the fall in premium rates is beginning to slow down.

"Underwriters are beginning to say that they won't drop rates any further," said Peter Thurner, a reinsurance broker with Morgan, Read & Sharman Ltd. But other executives are predicting another fall of about 20% when the reinsurance renewal season has finally settled at the end of the year.

The signs seem to be there. As with last year's renewals, the season has had a slow start.

"People are holding out as long as possible in the hope of getting bigger reductions," commented an

insurance analyst. And although some reinsurers are ignoring the bait, others are being drawn by the need for premium income, either dropping rates or extending coverage. For example, "machinery breakdown and boiler explosion (cover) is seeping back into the property market," said Mr Thurner. In the last hard market, reinsurers refused to give coverage, but now brokers have no problem. "People have very short memories," he said.

Those memories are unclouded by recent major losses—another contributing factor to the fierce competition around the market. While the loss experience remains low, few can see any reason for the market to harden. Ron Forrest, managing director of Bain Hogg Group P.L.C. and a veteran of the U.S. market, points out that the U.S. market has remained soft

for many years and shows no sign of hardening. Why, then, should London? he asks.

The London reinsurance market is seeing competition moving in from the major North American

predictions. Alternatively, others think a couple of major losses will focus people's thinking. The fire at Mexico's Petroleos Mexicanos gas processing plant earlier this year

London 'will continue to do well provided its constituents don't think parochially and work together to increase the size of the cake,' says Philip Marcell.

companies. The depressed domestic rates in the United States are motivating them to look elsewhere—to international business—but this in turn may depress the international rates, fulfilling Mr. Forrest's

could result in an insured loss of up to \$300 million, of which "there is a substantial share in London," according to Mr. Thurner (EI, Sept. 9).

But that on its own will not be enough—margins will need to feel

the brunt before a change comes around.

"Reinsurers are still making reasonable returns because the claims experience is good," said an investment analyst. The return on capital is looking quite healthy as a result, he said, but he warned that it is not necessarily higher than the risk the reinsurer is assuming.

A repeat of events similar to those of the late 1980s—including the 1987 European windstorms and the 1988 explosion of the Piper Alpha North Sea oil platform—which brought about the downfall of a number of London companies and Lloyd's syndicates could again have serious consequences for the London reinsurance market.

London is still in the process of rebuilding its reputation after the Lloyd's debacle and the company collapses of the late 1980s and early 1990s. But Philip Marcell, chairman of Unionamerica Insurance Co. Ltd. and the London International Insurance and Reinsurance Market Assn., is confident that it will regain its previous status.

"With Lloyd's reconstruction and renewal now on the path to completion and the desire of the London market as a whole to cooperate in a way so as to produce the best framework for the production and underwriting business at the lowest cost, I see no reason why London should not continue to be a key market for wholesale insurance and reinsurance in the future," he said.

Competition emanates from outside as well as inside the London market, and Bermuda is never far from people's lips when talking on the subject. But "there is a well trodden path from Bermuda to London" when catastrophe coverages are being discussed, observed Mr. Thurner.

Nevertheless, with highly specialized lines—"particularly where real innovation is called for," London remains the diva, according to Mr. Marcell.

"London is not dead," he added. "It is doing well and will continue to do well provided its constituents don't think parochially and work together to increase the size of the cake rather than competing internally for a larger slice of what might otherwise be a diminishing cake."

Others are not so sure. Recently a spokesman for the Assn. of Lloyd's Members recommended unlimited liability members of the market reduce—or even stop—their underwriting because of the severe market conditions.


And investment analysts are cautious in their recommendations to buy, despite the bullish London stock market. One described the current state of the reinsurance market as "grisly," while another saw no clear end to the soft pricing levels.

But Philip Maidens, Syndicate analysis director at Sedgwick Oakwood Underwriting Agents Ltd., pointed out that rate reductions were hardly surprising bearing in mind the profits coming out of Lloyd's for the 1993, 1994 and 1995 years of account—\$1.60 billion, \$1.57 billion and \$1.24 billion, respectively.

"There was a (rate) adjustment between 1995 and 1996 which was sensible," he said. He anticipates further falls across all classes of reinsurance in the current renewal season, but "I don't expect them to fall as dramatically as between 1995 and 1996."

Following the trend of last
See London on next page

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Spotlight report

London

Continued from previous page
year's renewals, reinsurers are continuing to write larger lines on each risk they decide to accept. "It is get what you can while the market's easy," said Mr. Thurner. It is also seen by many market practitioners as underlining the move toward "big is beautiful." Only those reinsurers of a certain size can compete for the major lines, and what broker is going to turn down the opportunity of placing a large risk with fewer reinsurers of better security?

Unionamerica's Mr. Marcell sees the reinsurance market polarizing at different ends of the spectrum rather than rushing headlong for size.

"If you want to hold yourself out as a major multiline...inter-

national reinsurance company in the future, then the amount of capital required is very significant," he said.

But, "you can survive at lower levels of capital if you are a specialist company with a history of

Nevertheless, the predictions are for consolidation among London market companies and Lloyd's syndicates, particularly in these days of increasing efficiency and lower costs. And until the market conditions begin to hard-

ent answer: when global reinsurance capacity has fallen, says one reinsurance executive; when some serious losses have reminded reinsurers that they are in a risk business, says another, though none will contest that the current state of premium rates has helped stave off the competition for alternative reinsurance products from other financial markets.

Analysts are expecting the turnaround to be slow in this cycle.

"1998/1999 should see the change," said one insurance analyst, though he added that this may be optimistic. "The ability to raise capital and come into the market is speeding up all the time," he pointed out. "It will need a couple of big (losses) for a change in rates. And people will always step in."

Although the current trading

conditions are "dog eat dog" according to Morgan, Read & Sharman's Mr. Thurner, the London market still has the lessons of the late 1980s staring it in the face, in the guise of schemes of arrangements of insurance companies such as the collapsed KWELM companies, and Equitas Ltd., Lloyd's runoff reinsurer.

"I am quite confident about the abilities of the London market as a place where reinsurance is lead from," said an investment analyst, "where packages are made up. The brains of the operations are in London."

The capital continuing to flood in from other competing areas such as Bermuda and the United States is coming to London for a reason. "It has the infrastructure and the expertise to be a good global center," explained the analyst. **BI**

'You can survive at lower levels of capital if you are a specialist company with a history of expertise and can focus your writings,' says Philip Marcell.

expertise and can focus your writings."

There is still a place for the niche player in the reinsurance market, capitalized between \$125 million and \$500 million, he said.

en, the smaller players may experience some pretty lean times.

For many, then, the magic question is, when will the market harden?

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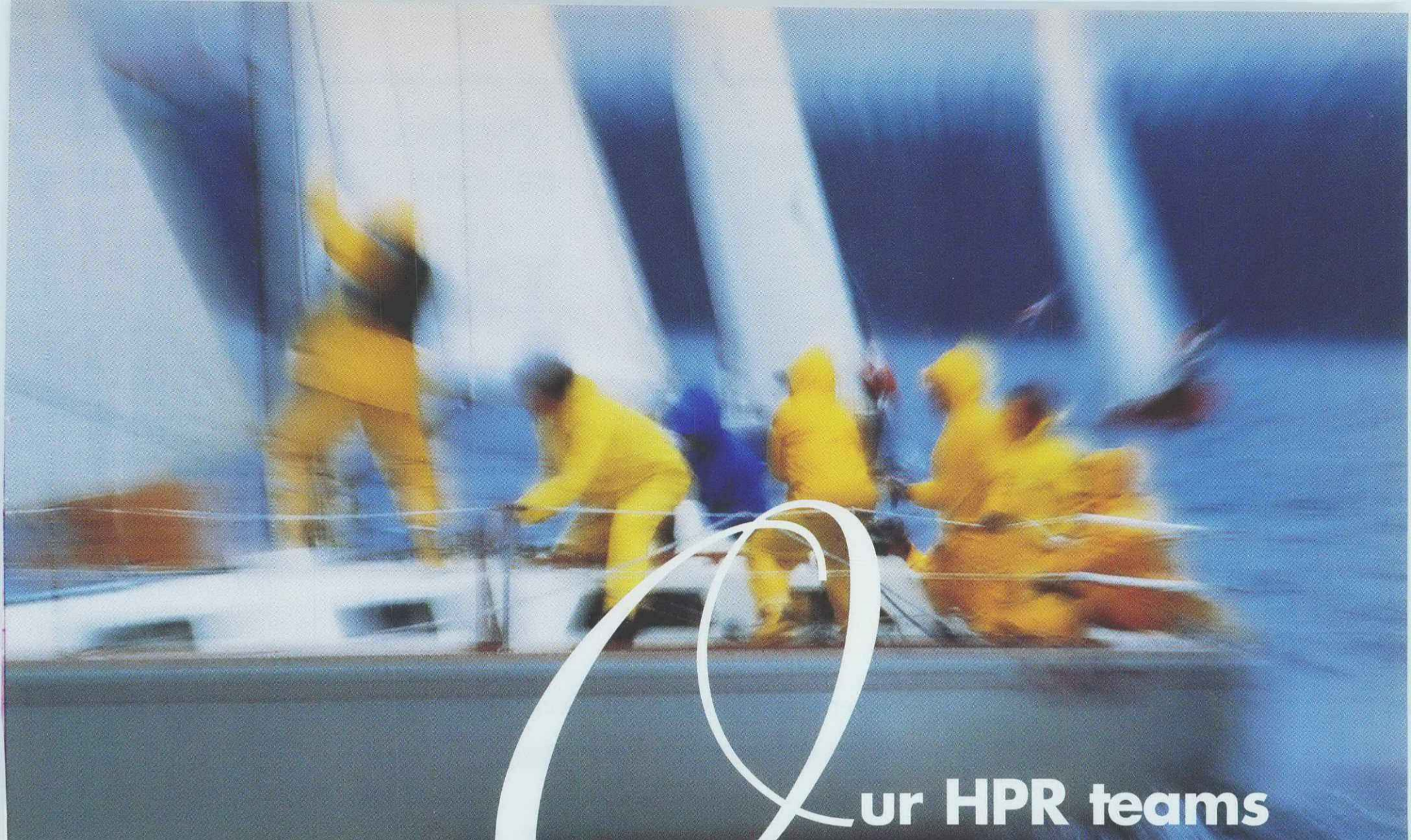
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Plentiful capital may drive cat consolidation in Bermuda

By GAVIN SOUTER

Property catastrophe reinsurers in Bermuda could soon contract the consolidation fever hitting other areas of the reinsurance industry, observers predict.

Some symptoms already showed up in the bidding contest that preceded ACE Ltd.'s purchase of Tempest Reinsurance Co. Ltd. earlier this year (*BI*, June 10). And the buying bug will likely infect other companies there within a year, some analysts predict.

The driving force behind the predicted consolidation is one of the strengths behind the success of the Bermuda property catastrophe reinsurers: capital.

When the eight reinsurers set up in 1992 and 1993, they had hundreds of millions of dollars in pristine capital that enticed many clients seeking secure reinsurers.

Behind that capital were many sophisticated investors hoping for large returns; those hopes were fulfilled, thanks to the high premiums and few losses the market enjoyed for the next three years.

The Bermuda catastrophe reinsurers wrote about \$1.7 billion in combined gross premiums in 1995. They also had low combined ratios. For example, Mid Ocean Reinsurance Co. Ltd., which has a longer history than the other companies, still only posted a combined ratio of 80.8%, and Partner Reinsurance Co. Ltd. had a com-

At least one of the reinsurers on the island will likely acquire or merge with another, several analysts say.

combined ratio of 39.7%.

However, with catastrophe reinsurance rates falling, those same investors will be pressing the reinsurers to find other ways of shoring up a dwindling return on equity, analysts say.

One way of doing that would be for one catastrophe reinsurer to buy another, they say.

But with many of the catastrophe reinsurers already writing similar and often the same accounts, there could be little incentive to take over a competitor, some say.

Alternatively, reinsurers could diversify, or increase stock buy-back plans or other capital return methods already implemented by some of the companies, they say.

But at least one of the reinsurers on the island will likely acquire or merge with another in Bermuda, several analysts say.

Analysts agree that the most likely candidates are the smaller reinsurers. The most often cited were Global Capital Reinsurance Co. Ltd.; International Property Catastrophe Reinsurance Co. Ltd.; Renaissance Insurance Co. Ltd.; and LaSalle Re Ltd.

The other smaller catastrophe reinsurer, Cat Ltd., is privately held and thought unlikely to be sold by its owners. Mid Ocean and Partner Re are considered too large.

In 12 months' time there will likely be fewer catastrophe reinsurers on Bermuda, said Peter Wade, vp at Lehman Bros. Inc. in New York.

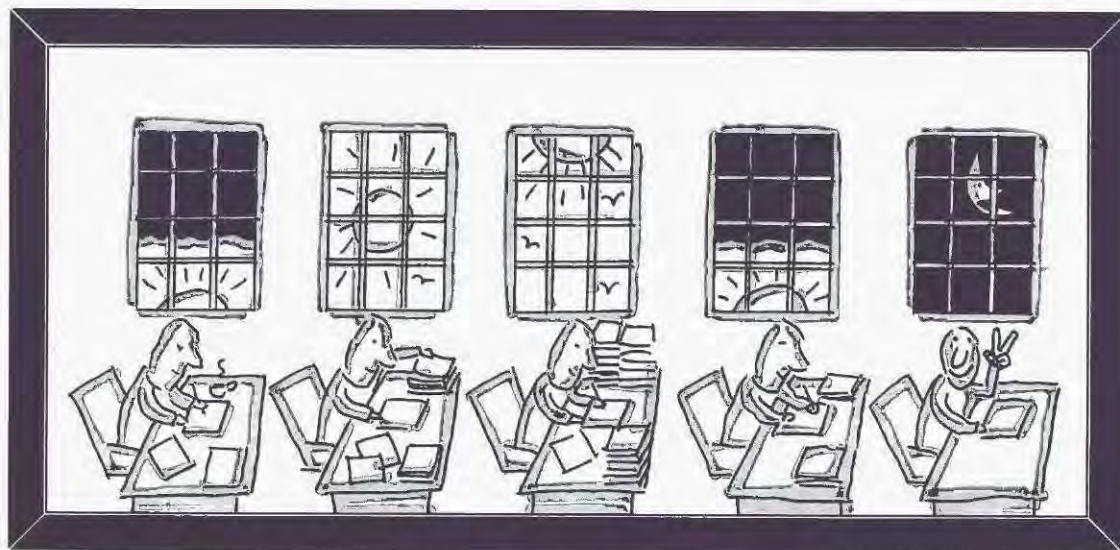
"I firmly believe that we will have at least one fewer Bermuda catastrophe reinsurer than we do today, and it will be due to a merger or acquisition," he said.

Several of the reinsurers have significant investors that are financial companies with little other interest in reinsurance, Mr. Wade said.

Those investors will see little strategic advantage in holding an investment in a company where

See *Bermuda* on page 80

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Bermuda

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returns are declining and will likely want to redirect their capital into another area, he said.

However, the reinsurers can only release a limited amount of capital back to the investors; otherwise, they will fall below the ever-increasing capital requirements of reinsurance buyers and rating agencies, Mr. Wade said.

"So you find you need \$500 million in capital to stay in business but you don't have the earnings to support it and generate high enough returns," he said.

There are some compelling business reasons for a merger, agreed John H. Snyder, senior vp at A.M. Best Co. in Oldwick, N.J.

"It is a very tough market, and although the companies like to feel that they have unique products and services, for most buyers it is a commodity-type product," he said.

With the absence of large catastrophes, the resurgence of Lloyd's of London and the growth of European reinsurers interested in catastrophe business, the pressure on Bermuda reinsurers will only grow, Mr. Snyder said.

And that pressure on rates could lead to lower profits and dissatisfaction among investors, he said.

Then an option could be to take over another reinsurer and write more business without greatly increasing capital, Mr. Snyder said.

The continued flight to quality could also lead to consolidation among the catastrophe reinsurers,

said Susan P. Spivak, vp at Donaldson, Lufkin & Jenrette Securities Corp. in New York.

With the accelerating capital requirements of cedents and the abundance of capacity, smaller catastrophe reinsurers in Bermuda may lose business to the larger rein-

some business, so you may end up with only one and a half," said James N. Stanard, chairman, president and chief executive officer of Renaissance Re.

Reinsurance buyers like to spread their risks among a wide variety of reinsurers, so they might withdraw

if they reject one it is usually because they want a higher rate, he said. So if they want to increase their premium volume they could do it by dropping their rates rather than acquiring a rival.

"Most of the companies get to see all of the business anyway, so they could write the business and not get the price they want so they would be buying the business in another way," Mr. Cohen said.

The duplication of business would deter Partner Re from buying another catastrophe reinsurer in Bermuda, said Executive Vp Graham Dimmock.

"We would simply be adding to our own accumulations, and because of our strict rules on the relationship between capital and exposure, we would not do that," he said.

Although, Partner Re has \$1.3 billion in capital it is not significantly overcapitalized because it also has extremely large exposures, Mr. Dimmock said.

However, in February the company did begin a share buyback scheme. So far 4.5 million of the 5 million shares authorized have been bought back.

The ownership of some of the companies also could stand in the way of consolidation, said an analyst who refused to be identified.

For example, CNA Insurance Co. owns a significant part of LaSalle, and American International Group Inc. owns a significant part of IPC.

"They use their parents to get a lot of the business, so they could lose that advantage if they were taken over," the analyst said.

A more likely scenario would be for a European reinsurer to buy a Bermuda reinsurer, the analyst said, noting that tax regulations stand in the way of U.S. reinsurers buying a Bermuda company.

The interest of European reinsurers in foreign business could lead to the purchase of a Bermuda catastrophe reinsurer, agreed Ms. Spivak of DLJ.

"You could have a foreign buyer who is not active in the cat market and looking for ways to access more U.S. business," she said.

Although there could be pressure for some consolidation, an alternative to mergers and acquisitions would be the continued diversification of business written by the Bermuda insurers, said Victor Blake, chairman, president and CEO of LaSalle Re.

"LaSalle was formed with a multiline mandate and we shall be diversifying into other lines with the same low-frequency, high-severity characteristics," he said.

About 12% to 15% of LaSalle's business is not property catastrophe reinsurance, and that amount will likely double over the next 18 months, Mr. Blake said.

Nevertheless, some reinsurers in Bermuda may still elect to consolidate, he said.

"You have \$4 billion in capital when maybe \$2 billion would be enough. Some companies are buying back their shares or growing by diversification so that situation is being addressed gradually. If you need to address it more quickly, then one way is through consolidation," Mr. Blake said. **B**

'If you can get the coverage you want from one of the better capitalized reinsurers, you might not want to go to one of the smaller ones,' says Susan P. Spivak.

surers on the island, she said.

"If you can get the coverage you want from one of the better capitalized reinsurers, you might not want to go to one of the smaller ones," Ms. Spivak said.

Therefore, strategically it could make sense for two of the smaller catastrophe reinsurers to unite, she said.

But other factors could keep the reinsurers independent of one another, some observers and reinsurance executives say.

The executives themselves are often entrepreneurial and fiercely independent and would resist being pushed into deals that might diminish their roles, and practical business reasons could also stand in the way of a merger, they say.

"The theory of consolidation makes sense, but in practice when you merge two companies you lose

some business from a merged company, and the different underwriting standards of the acquiring company may lead to a rejection of some of the business underwritten by the acquired company, he said.

Few of the companies would see a significant reduction in costs if they merged with or bought another reinsurer, said Jay Cohen, insurance analyst at Morgan Stanley in New York.

"Most of them only have 15 to 20 people, so if you combined two of them you would not have many redundancies," he said.

Also, many of the reinsurers on Bermuda are writing very similar books of business, so they may not benefit from an acquisition, Mr. Cohen said.

Most of the large property accounts are shown to all the catastrophe reinsurers in Bermuda, and

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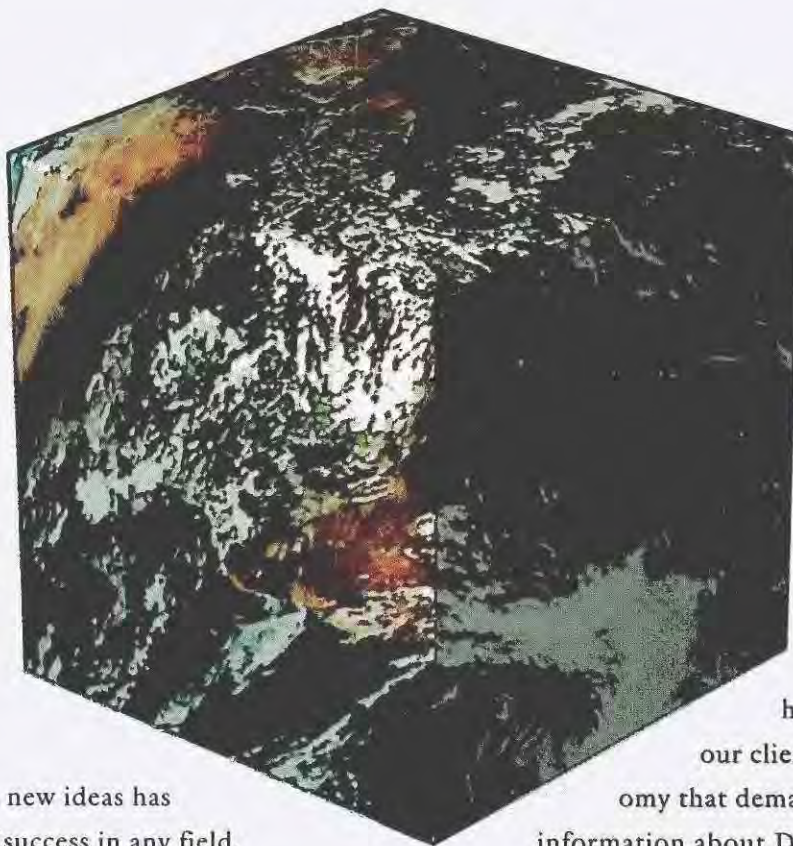
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Life and health reinsurance stays competitive

By ROBERT KAZEL

Competition continues to mark the health and life reinsurance industries, but so does innovation. Health and life reinsurance companies are adapting to a persistent atmosphere of heated rivalry and low prices with a multi-faceted strategy of mining traditional customers for more business, identifying new markets in the United States and reaching out in Latin America and Asia.

For many health reinsurers, the unpredictability of the market and falling prices are a reflection of the primary managed care market, which for years has been edging out traditional indemnity as the typical reinsurer's favored target. Health reinsurers, once reliant upon the traditional fee-for-service insurer world, have aligned with health maintenance organizations and in many cases slashed prices for the privilege of holding on to those relationships.

"It's pretty clear that the managed care market is here and here to stay for a while," said Claudia Johnson, vp of marketing of Philadelphia-based CIGNA Re. As Medicare and Medicaid recipients have begun to flow increasingly into managed care risk programs, some of that risk in turn is being covered by enterprising health reinsurers. At the same time, the market is starting to see more self-insured employers take their business to HMOs in pursuit of better prices, reducing the number of employers seeking stop-loss coverage. This is not offset fully by the increase in reinsurance demand by HMOs, which is unfortunate for reinsurers, said Ms. Johnson, though reinsurers have by no means given up on the self-funded employer market.

"I would say employer stop-loss is still a hot market," she said.

Group medical reinsurance premium volume increased roughly 6.3% from 1995 to 1994 industry-wide, according to an annual survey conducted by CIGNA Re.

While some reinsurers have used price slashing as a primary weapon in fighting competitors, other reinsurers are seeking an edge by simultaneously following several strategies: foreign expansion, strengthening of distribution channels, development of innovative products or services such as underwriting consulting, and joint ventures with both traditional and unconventional partners.

The changing nature of the medical marketplace, specifically, is creating crucial changes in the customers that reinsurers serve and the types of marketing in which reinsurers engage.

For instance, as providers such as hospitals, physician-hospital organizations and independent practice associations take on growing responsibility for patient care, reinsurers are learning to identify them and educate them about the need for reinsurer services. Unable to rely on actual growth in the direct insurance marketplace, reinsurers are gearing up to stimulate demand for reinsurance wherever possible by creating new awareness of need.

"As more providers enter into these (managed care) agreements, they're really grappling with managing that risk," Ms. Johnson said. "Not only are they providing medi-

cal care, but now they are learning how to manage the risk."

With keen interest, the reinsurance industry is watching as physicians align themselves with HMOs and design their own physician-controlled businesses in an effort to regain some control of health care delivery. These organizations may not be as well-funded as traditional HMOs but need reinsurance and related services as well as information on financial liability. "Physicians are very rapidly educating themselves about the business of managed care and the business of insurance," said Bob Hodge, senior vp of H.S. Fox Corp. of Dallas, a life and health reinsurance broker.

At the same time, traditional

managed care operators are becoming more aware of identifying and protecting themselves from

Physicians are educating themselves about the business of managed care and insurance, says Bob Hodge.

risk, whereas before, many thought they could handle the risk on their own, said Mr. Hodge. In the past, some in managed care also have simply been unaware that reinsurance was available to them, he

said. But the emerging market is characterized by stronger intermediaries with larger sales forces who are assisting in marketing.

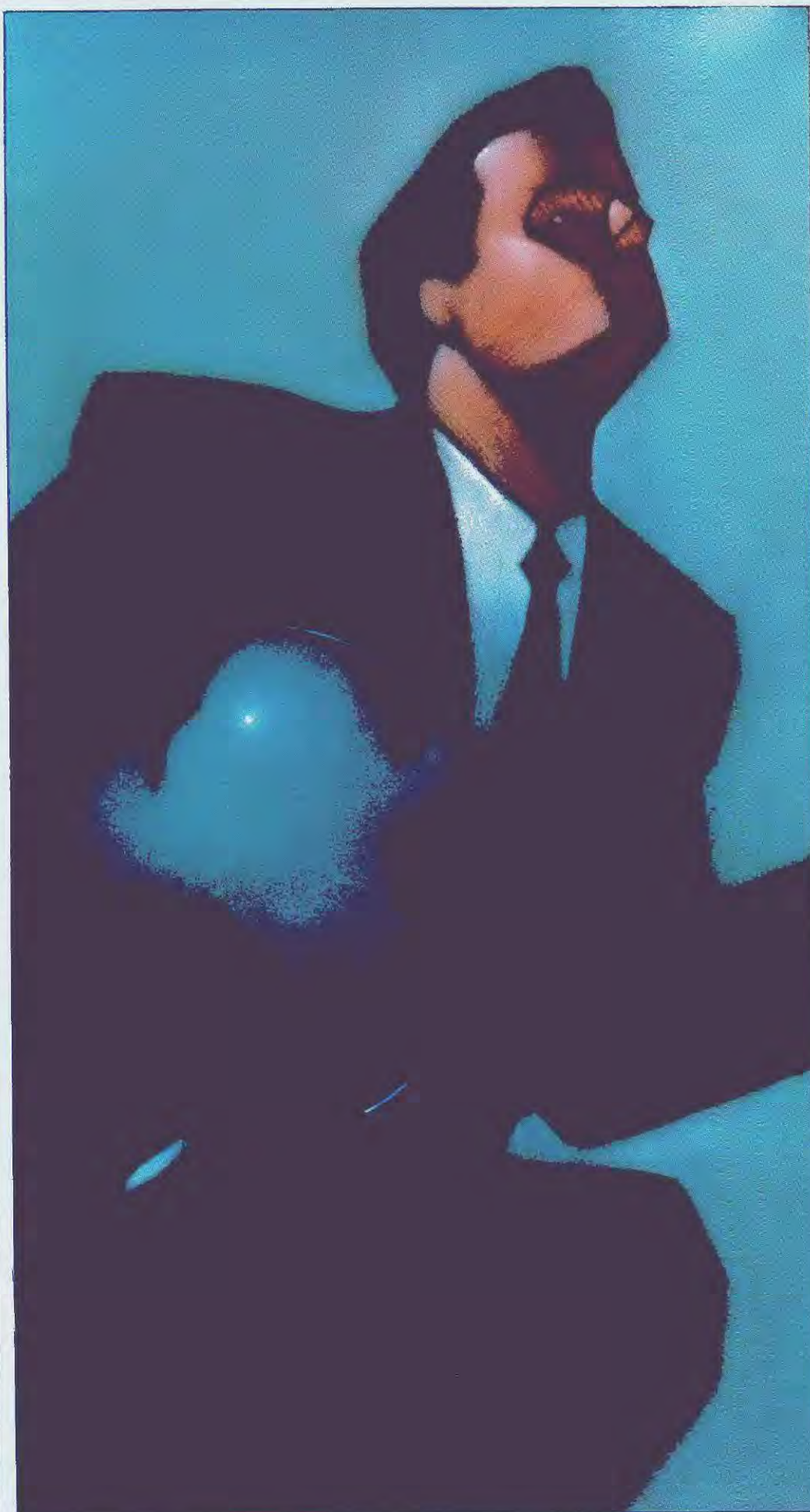
The challenge for the reinsurance market of today is to understand providers' risk issues and to support them, counseling them with expert advice as a true partner on the risk levels they face, Ms. Johnson said. "The provider must, when entering into a capitated contract (structure), know what types of patients they must see and what risks they are equipped to manage," she said. The burden on reinsurers, in turn, is to make an effort to understand "the monumental challenges that providers are faced with" in a new environment in which providers are taking

risks at the same time they are trying to manage costs, she said.

Opportunities in managed care reinsurance are looking more promising as the managed care system is restructured by market forces and power increasingly shifts to the medical profession, which actually is providing the care, said Jeff Hart, president of New York-based Swiss Re America Inc.

Swiss Re, which primarily writes life reinsurance, will likely become more interested in health reinsurance over the next five to 10 years as HMOs grow more stable and doctors, learning they must protect their business interests as well as practice good medicine, learn about what reinsurers can do. In the meantime, Swiss Re has little choice but to get involved in the health side:

See Life on next page



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GLOBAL CLAIMS MANAGEMENT

Life

Continued from previous page

Mercantile & General Reinsurance Co. Ltd., whose planned acquisition by Swiss Re was announced this year, is a leader in group medical premiums. The merger is awaiting approval from government agencies.

Reni Nellich, chief operating officer of Mercantile & General Life Reinsurance Co. of Canada in Toronto, a unit of London-based M&G Re, sees the merger with Swiss Re as culminating a long period during which the

health reinsurance market has been unduly competitive, medical inflation has been low and pricing has been kept unreasonably low regardless of the actual claims experience of clients.

Provider excess reinsurance—coverage to protect providers from a very large claim or several extensive claims at one time—particularly for doctors in capitated environments, has not been priced appropriately, and “the industry is still learning to deal with this product,” Ms. Nellich said.

Reinsurance marketing teams are

‘We have continued to see predatory pricing in the provider excess part of the business,’ says Jon E. Bjorlie, with ReliaStar Life Insurance Co.

vying for the largely untapped market for excess reinsurance to providers, many of which are in states that do not regulate them as risk-takers, said Jon E. Bjorlie, managing director of

managed care reinsurance with ReliaStar Life Insurance Co. of Minneapolis.

“We certainly have more carriers than we did a couple of years ago,” he

said. Capitated managed care organizations, PHOs, hospitals and physician groups are looking for coverage, and ReliaStar and its rivals are aggressively seeking customers “at least through 1997, until the market hardens,” Mr. Bjorlie said. The tightrope act is learning how to thrive in a highly crowded field without slashing prices as a marketing tool.

“We have continued to see predatory pricing in the provider excess part of the business,” Mr. Bjorlie said. “They want to grow quickly. They want market share.” That is truest for HMO reinsurance, with some reinsurers offering “really cutthroat rates” this year to managed care companies, he said. The trend can’t continue indefinitely, he added, predicting a shakeout of the market next year.

“I think by mid-1997 they will start pricing more sensibly,” he said. “By ’98 I think that it will be a very new market.”

Life reinsurers in 1996 have continued a recent trend of increasing coverage of foreign customers. “The North American market is one of the more mature markets, and I think our margins as a market are the thinnest on the globe now,” said Mr. Hart. Profit margins in European markets are wearing thin, too, he said, pushing U.S. reinsurers to explore more lucrative options in Southeast Asia.

St. Louis-based Reinsurance Group of America Inc., primarily a life reinsurer, sees strong opportunity for growth in international markets and has been committed to seeking foreign business since about 1993, said A. Greig Woodring, president and chief executive officer. “By simply following into these markets, the growth rates tend to be large,” he said. “The potential for growth eventually will be big in international markets.” Seventy percent of RGA’s business continues to be in the United States, however; 10% is in Canada.

The introduction of reinsurance to many nations is slow because primary insurance is so new there, and because of the lack of freedom often created by restrictive regulation in many developing nations, Mr. Woodring said.

Nonetheless, opportunities abound now in Argentina, Chile, Mexico, Hong Kong, Japan, Malaysia and Australia, he said.

Life reinsurers also are looking to offer more profitable ancillary services to customers because contracts for life reinsurance are long-term with no chance to reprice. At the same time, reinsurers are watching long-term mortality rates decline in the United States, lessening demand for coverage among insurers.

“Price levels have dropped a little faster than most (expectations) in the last five years, so there has been a little bit of squeezing,” he said. “Rationally, there should be some consolidation. What it should be I don’t know. But there really is too much competition for the size of the industry.”

But RGA’s premiums still have grown about 15% for each of the past two years, he said. “There’s growth in the reinsurance market in the U.S.,” he said. New opportunities also are emerging for reinsurers in the wake of the recently passed Kassebaum-Kennedy bill, which established tax deductions for U.S. employers that create long-term care insurance programs for employees. Ceding companies offering this benefit will seek out reinsurers to cover them for loss, some in the industry predict.

“The playing field changes to some extent because of Kennedy-Kassebaum,” said Paul V. Polachek, senior vp and chief operating officer of group reinsurance for Chicago-based CNA Insurance Cos.

Reinsurance companies are watching potential demand for LTC insur-

See Life on next page

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Life

Continued from previous page

ance carefully, and it has become an often-talked about topic in the industry. But certain aspects of reinsuring LTC give pause to health reinsurers accustomed to short-term contracts. "Reinsurance for LTC is a sobering thought," said Mr. Polachek, explaining that the extremely long tail of liability of LTC will cause reinsurers to be unable to assess their own risk until years after the insurance is written.

This uncertainty is creating an early sluggishness in LTC business, some say. "There's a lot of interest in LTC insurance, but nobody's writing a lot of it," said Fox's Mr. Hodge.

But new, emerging markets may well serve as the foundation of reinsurers' future, perhaps gradually supplanting old-style managed care organizations, which themselves replaced indemnity insurers as leading reinsurance candidates. Reinsurers know the increase in percentage of HMO business for health reinsurance actually has been "very modest," said Michael A. McCarney, senior vp and chief underwriting officer of the group insurance unit at CNA. And Swiss Re's Mr. Hart, whose company did about 15% more in LTC reinsurance premiums this year than last year, is also optimistic about diversifying into new areas.

"The direct (LTC) market is taking on a credible shape now," Mr. Hart said. Still, he added, "Those long tails are not insignificant."

Long-term disability reinsurance is also still being pursued by several companies, though cautiously, and others are thinking of entering that race.

"Obviously with keen competition, people are saying, 'How can we be different?'" said Chris Brocket, senior vp of Philadelphia-based broker Towers Perrin Reinsurance. "Some of our pure vanilla products have really been tweaked."

Towers Perrin sees potential in the LTD market and the integration of medical coverage with workers compensation in a single product.

"Both sides of the industry (life and health) are looking at 24-hour coverage," said Mr. Brocket.

According to a Standard & Poor's report this year, the global market for life reinsurance this year will amount to about \$15 billion in net premiums, with Munich American Reinsurance Co. in New York, Lincoln National Life Insurance Co. of Fort Wayne, Ind., and M&G in the lead.

Although optimistic on the future profitability of life reinsurance, the report said those specifically who stand to succeed are "those with highly specialized underwriting skills who exercise pricing restraint."

In addition, "low costs, state-of-the-art technology, and the ability to take the commodity element out of mortality reinsurance by having other services that direct companies need, provide the edge here." Low pricing for the sole purpose of drawing in clients will lead only to "empty relationships," the report said.

Still, the industry as a whole appears to be prospering. Group life/accidental death and disability reinsurance in force worldwide rose more than 20% between 1994 and 1995, according to the CIGNA Re survey.

"I think the level of competition is going to stay high," said Mr. Hart. "The competition will be intense, but I think it will be manageable."

MEWA

Continued from page 2

IPCMEA Trust was formed in 1993 and offered health benefits to employers whose workers joined IPCMEA's union "locals." The trust, which the Labor Department said is actually a multiple employer welfare arrangement, was self-insured but had specific and aggregate stop-loss coverage with Standard Security Life Insurance Co. of New York, according to court filings. The stop-loss coverage was canceled in May for non-payment of premium.

The program, which also offered

24-hour coverage to employers that did not have standard workers comp coverage, insured several thousand workers nationwide, most with small employers, according to the Labor Department.

By the summer of this year, though, the trust had collapsed and the Labor Department filed suit to place it in the hands of an independent fiduciary. In addition to the IPCMEA Trust itself, the suit named:

- John J. Wolfe, Gerald Lee, Richard Wesley, Frank L. Sutfin, Ronald D. Lauria, James W. Kennelly and Susan Espisito, all allegedly trustees of IPCMEA Trust.

- The IPCMEA international "union" formed by Messrs. Wolfe, Lee and Wesley; and its locals, Professional Craft & Maintenance Employees Local 3 and Local 100.

- American Service Contractors Assn., operated by Mr. Lauria and Mr. Sutfin; and American Assn. of Service Professionals, headed by Mr. Kennelly. Both are purported employer groups.

- Professional Employees and Affiliates Assn. Trust, allegedly a spinoff of IPCMEA Trust, which started operating July 1.

- Professional and Affiliates Union Local 1 and National Alliance of Business and Professionals


Local 100, two purported unions affiliated with the spinoff trust.

The Labor Department charged that the plans' operators never set adequate reserves or calculated premiums to ensure that the plans could provide the promised benefits.

None of the purported unions or employer groups had any meaningful purpose other than to help market the trusts' health coverage, the complaint also alleged.

"The sole reason for the creation of these entities was an attempt to evade state regulation as an unlicensed insurance company," the suit charged.

See MEWA on next page



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Trusts

Continued from previous page

The defendants also diverted employer contributions to themselves or companies they owned, disguising the payments as union dues, association fees and commissions.

Trust expenses, which should have totaled about 15% of contributions, ranged from 21.5% to nearly 56%, amounts the government labeled "egregious."

Around July 1, Messrs. Wesley, Kennelly and Lee broke with Mr. Wolfe and set up PEAA Trust and the "new" Locals 1 and 100, the Labor Department alleged. They then advised employers to send contributions to the new plan, leaving the old trust with only "minimal" income, the department charged.

As of Aug. 31, the two trusts had combined assets of about \$529,549 and liabilities estimated at \$4.1 mil-

lion, leaving a \$3.6 million shortfall, according to a report by the liquidator. The report also noted significant difficulties separating the assets and liabilities of the two plans.

In his Oct. 2 order, Judge Coar created a single estate, merging the claims, assets and liabilities of the two trusts.

In an earlier Aug. 23 injunction, Judge Coar also preliminarily barred Messrs. Wolfe, Lee, Wesley, Kennelly and Lauria and Ms. Espisito from acting as fiduciaries or service providers to benefit plans governed by federal law. Mr. Kennelly was allowed to sell insurance to such plans as long as he complies with state and federal law.

Meanwhile, some of the trusts' business may already have found a new home: AIA Inc., a Blytheville, Ark., producer for PEAA Trust, notified employers in an Aug. 29 letter that it had arranged replacement coverage with yet another union-sponsored trust through Thorndyke Inter-

national Inc., a Novato, Calif., intermediary.

The Illinois Insurance Department hit Thorndyke with a cease and desist order in May after finding that it had sold self-funded health plans to about 550 employers without setting up any of the trusts required to fund benefits (BI, July 22).

John B. Hyde, Thorndyke's president, was hit in 1989 with a \$1.8 million fraud judgment in his personal bankruptcy filing in California.

In addition, officials of two companies that provided claims and other services to Thorndyke—Martin Levine and Donald K. Anderson—previously helped operate a failed welfare fund sponsored by another allegedly bogus labor union. The Labor Department later won consent orders from the two men barring them from acting as fiduciaries or service providers for federally regulated benefit plans. (BI, May 18, 1992).

In its Aug. 29 letter, AIA notifies

members of the PEAA Trust that "we have secured a new health and welfare benefit plan with Local 122," a purported union that the letter does not identify further.

The benefits, identical to those provided by PEAA Trust, will be provided by Health & Welfare Trust Fund Inc. Health Benefits Trust, which the letter describes as a Taft-Hartley union trust governed by a board of trustees.

The letter provides no further information about the trust or its trustees, other than to say the trustees are not affiliated with the IPCMEA or PEAA trusts, Professional & Affiliates Local 1 or AIA.

"This is being set up for a Sept. 1, 1996, effective date so you will experience no break in coverage. Your continuity will remain constant," AIA tells its clients.

Neither David Abbott, AIA's principal, nor Mr. Hyde could be reached for comment. **BI**

Superfund

Continued from page 2

this district court has ruled differently," she said.

"Retroactivity issue is what the justices were most interested in," said Olin Corp.'s lawyer, Michael W. Steinberg, a partner in the law firm Morgan, Lewis & Bockius, L.L.P. in Washington.

Two insurance industry observers said that Appeals Court Judge R. Lanier Anderson III did most of the questioning.

"Judge Anderson started off asking 'where is the language that demonstrates this retroactive intent?'" said David Farmer, senior vp-federal affairs in the Washington office of the Alliance of American Insurers.

"The case was well-argued on both sides. Both the government and Olin's counsel were well-prepared. The judges, particularly Judge Anderson, asked a lot of questions that I thought were on

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'Clearly, the most favorable outcome would be if the law is declared unconstitutional,' David Farmer says.

point," he said.

"Judge Anderson was very aggressive in his questioning. "It looks very much as though he has an open mind," said John G. Arlington, senior counsel and vp of the American Insurance Assn. in Washington.

Both the Alliance and AIA filed briefs supporting Judge Hand's decision with the appeals court.

Mr. Arlington said the fact that the court engaged in the rare action of allowing both sides an additional 10 minutes to present their arguments underscored the judges' interest in the case.

"The first thing that struck me was it was very unusual that the court on the spot extended the time for arguments for each side. That's highly unusual. The court must be intensely interested in this case," he said.

Messrs. Farmer and Arlington stressed that no one should attempt to guess how the court will rule based on the Oct. 4 hearing.

Mr. Farmer pointed out that "the court could rule in a variety of fashions, all of which I believe will be helpful to supporters of reform."

"Clearly, the most favorable outcome would be if the law is declared unconstitutional, because there is no clear statement of retroactive intent," he said. A decision only upholding Judge Hand's commerce clause argument, would of course be "less sweeping but would cut toward supporters of reform," said Mr. Farmer.

"If they reject the arguments, I would think Olin would continue to pursue the case to the Supreme Court. That being the case, it would keep the issue of Superfund alive and in the public domain. All along, there are going to be other defendants in other district courts who are going to challenge this law on constitutional grounds."

Ms. Schiffer asked the court to rule as quickly as possible on the case.

AIA's Mr. Arlington noted that while the 11th Circuit has generally been handing down its opinions three to four months after oral arguments, there is no guarantee that will be the case in regard to *U.S. vs. Olin*. **BI**

Congress

Continued from page 1

mental health care reform this year (BI, Aug. 5). The measure, sponsored by Sens. Nancy Kassebaum, R-Kan., and Edward M. Kennedy, D-Mass., allows employees to change jobs with little fear of losing their health benefits and reduces the probability that employees with pre-existing medical conditions will be denied coverage.

But Sen. Kassebaum, chairman of the Senate Labor and Human Resources Committee, chose not to seek a fourth term in the Senate, thus creating a vacancy in a key position.

If Republicans retain control of the Senate, Sen. James Jeffords, R-Vt., one of the most liberal GOP senators, would be next in line to become chairman of the committee. Sen. Jeffords was the only Republican senator to support President Clinton's failed health insurance plan in the 103rd Congress.

If the Democrats should win, Sen. Kennedy—an advocate of an expanded federal role in health care matters—again could chair the committee.

Sen. Bill Bradley, D-N.J., chief backer of mandatory insurance coverage for at least 48 hours of maternity hospital stays, also is leaving the Senate.

Reps. Dick Zimmer, R-N.J., and Bob Torricelli, D-N.J., are battling in an extremely tight race to fill Sen. Bradley's seat.

The outcome of a close Senate race in Minnesota also could have an impact on health care issues. In a repeat of the 1990 Senate race, but with the roles of challenger and incumbent reversed, former Sen. Rudy Boschwitz, R-Minn., is running close to incumbent Sen. Paul Wellstone, D-Minn. Sen. Wellstone has been one of Capitol Hill's most vocal proponents of creating a Canadian-style, single-payer health insurance system in the United States.

Unfortunately for opponents of a single-payer system, another advocate of such radical change—Rep. Bernard Sanders, I-Vt.—looks like a sure bet to win re-election. Rep. Sanders, a self-described socialist, is currently the only independent member of the House and has been quietly supported by some Democratic lawmakers in his bid for re-election despite the fact that Rep. Sanders faces Democratic as well as Republican opposition in the general election.

Rep. James McDermott, D-Wash., and as outspoken an advocate of single-payer system as Rep. Sanders, also appears destined for re-election.

But a pair of key GOP House players in health care reform also appear likely to return to the 105th Congress. Both Reps. Dennis Hastert, R-Ill., and Bill Thomas, R-Calif., were proponents of benefits portability that became part of the health care bill.

Another critical figure in the debate over mandated benefits—Sen. Pete Domenici, R-N.M.—should have little problem winning a fifth term. Sen. Domenici has promised to revisit the question of equitable insurance coverage of mental health care expenses in the 105th Congress. Although legislation was enacted recently that requires employers to offer the same lifetime limits on coverage for mental and physical disorders, loopholes in that law remain (BI, Sept. 30).

Retirement will strip Capitol Hill of some of its best known pension reform advocates. Sen. David Pryor, D-Ark., one of the chief proponents of pension simplifica-

tion, chose not to seek a fourth term. In the House, Rep. Sam Gibbons, D-Fla., is ending a congressional career that began more than three decades ago. Although Rep. Gibbons has not been a major force in pension issues during the past few years, he was a vocal supporter of passage of the Employee Retirement Income Security Act of 1974.

Close races also could have an impact on how risk management issues fare.

For example, two races that could have a significant impact on Superfund reform efforts involve incumbent senators.

Sen. Robert Smith, R-N.H., is currently trailing his Democratic challenger, former Rep. Dick Swett. Sen. Smith, who chairs the Senate Environment and Public Works Committee's Subcommittee on Superfund, Waste Control and Risk Assessment, was the chief Senate sponsor of stillborn Superfund liability reform legislation in the 104th Congress. Although Sen. Smith's proposal stopped short of the full repeal of retroactive liability sought by the Risk & Insurance Management Society Inc. and insurer and agent trade groups, it was viewed as a step toward restricting retroactive liability.

In Montana, another key Superfund player, Democratic Sen. Max Baucus, currently leads Republican Lt. Gov. Dennis Rehberg. Sen. Baucus, who opposes repeal of Superfund's retroactive liability provision, is the ranking Democrat on the Environmental and Public Works Committee and would be first in line to be its chairman if the Democrats should win control of the Senate.

On another matter of concern to risk managers, the Senate's chief Democratic proponent of product liability reform appears likely to skate to victory. Sen. John D. Rockefeller IV, D-W.Va., should have no problem winning a third term over a weak Republican candidate in an overwhelmingly Democratic state.

November's elections also could double the number of former insurance commissioners in Congress. Popular Gov. Ben Nelson, D-Neb., leads Republican businessman Chuck Hagel in the race for the seat held by retiring Sen. James Exon, D-Neb. If he is successful, Gov. Nelson, once executive vp of the National Assn. of Insurance Commissioners, would join Rep. Earl Pomeroy, D-N.D., former North Dakota insurance commissioner and NAIC president, on Capitol Hill.

Rep. Pomeroy, one of the relatively few House Democrats to support comprehensive Superfund reform, is in a tight re-election race with Kevin Cramer, North Dakota's state tourism director and a former chairman of the state Republican Party.

A Missouri congressional race of interest to the insurance industry features independent candidate Jo Ann Emerson, who leads the race for the seat held by her late husband, Rep. Bill Emerson, R-Mo., who died in June. Rep. Emerson championed the creation of a federally backed insurance and reinsurance facility that would respond in the event of a natural catastrophe.

Mrs. Emerson is a former senior vp-public affairs of the American Insurance Assn. in Washington. Although she was forced to run as an independent because she did not decide to seek her husband's seat until after the filing date for the August primary had passed, Mrs. Emerson enjoys the backing of Missouri's Republican establishment. **BI**

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California

Continued from page 1

Under propositions 214 and 216, group premiums could rise by 15%, said Jim Barber, a forum speaker who opposes the measures. He is president and chief executive officer of Los Angeles-based Healthcare Assn. of Southern California, a trade organization representing hospitals and provider groups.

"Fifteen percent is not out of range, and that could be low as far as what it would cost us employers," agreed Monica Desmond, secretary and former chairwoman of the Employers Health Care Coalition. Ms. Desmond is also director of corporate benefits for Pasadena-based Avery Dennison Corp., a manufacturer of adhesive materials and other office products.

"Most employer coalition members agree the two ballot measures are not a positive way to influence health care

in California," she said in an interview after the forum.

A business group, Taxpayers Against Higher Health Costs, has estimated that the two measures would cost California employers between \$1.3 billion and \$2.7 billion in 1997.

Proposition 214 would prohibit HMOs and other medical companies from firing doctors and nurses without just cause. It is backed by the Service Employees International Union and the American Assn. of Retired Persons.

Proposition 216 differs greatly from 214 in that it is much broader and more complex. It was placed on the ballot by the California Nurses Assn. and Harvey Rosenfield, a Ralph Nader ally and author of the state's controversial 1988 ballot initiative, Proposition 103.

While Proposition 214 does not call for tax increases, 216 would tax health care organizations to pay for its implementation and to pay for an in-

dependent consumer association to monitor health insurer practices. Health care companies would be taxed for what supporters call executives' "excessive compensation." It would tax companies that merge, close hospitals or reduce the number of beds under their management, potentially raising hundreds of millions of dollars annually.

The proposition also would prohibit increases in medical insurance premiums, copayments and deductibles unless companies can show they are financially necessary. Amending it would require a two-thirds majority vote by the Legislature.

"The reason we do that is the insurance industry is very powerful," Jamie Court, director of Consumers for Quality Care, said during the forum. Consumers for Quality Care is a Los Angeles-based group backing Proposition 216. Without the two-thirds requirement, legislators lobbied by insurers could dilute the measure, Mr.

Court said.

Another speaker for Consumers for Quality Care told the audience anecdotes of HMO patient abuse. "People are dying. We have stories to prove it," said consumer advocate Elaine Burne.

But members of the Los Angeles employers coalition attending the forum were not swayed by such arguments.

Nor were they swayed by Maury Weiner, chairman of a health committee for AARP, which backs Proposition 214 but not 216. He said legislation recently signed by California Gov. Pete Wilson outlawing gag rules is "clearly intended to undermine the provisions in Proposition 214."

Employers have taken their own measures for improving quality as well as reducing health care costs, M. Angelina Guirindola, chairperson of the employer coalition said after the forum. For example, employers now are requiring health plans to include performance guarantees in purchas-

ing contracts.

The two propositions amount to a walk backward because they would undermine many of the gains employers have made through contracting with managed care companies, Ms. Guirindola said. She is also vp of employee benefits for California Federal Bank in Los Angeles.

While coalition leaders said after the forum that their organization will oppose both measures, the California Public Employees Retirement System is supporting Proposition 214 but opposing 216. However, CalPERS, which purchases health insurance for 1 million state employees and dependents, has not released a statement explaining its stance, a spokeswoman said.

Observers say the two propositions have failed to perk voter interest. Additionally, having two similar measures on the ballot is likely to confuse voters and thus encourage a no vote on both, observers say.

Proponents also charge that opponents have sought to further confuse the issues by sponsoring television and radio advertisements attacking the propositions jointly. The advertisements have been financed by Taxpayers Against Higher Health Costs, a coalition of health care companies. The advertisements are products of the Los Angeles-based political campaign management agency Goddard Claussen/First Tuesday. Goddard Claussen was responsible for the "Harry and Louise" advertisements that attacked President Clinton's health care program in 1993. **BI**

Companies fight measure on securities litigation

By ROBERTO CENICEROS

President Bill Clinton and Robert J. Dole might diverge on most issues, but as one television advertisement airing in California points out, they

both agree that a state ballot measure proposing to set new standards for securities litigation is bad for business.

It's a message that the state's high-technology

and biotechnology companies along with some national securities and accounting companies are helping finance in an attempt to defeat Proposition 211—which seeks to prohibit corporate executives from making misleading statements about future earnings.

Observers on both sides say it is aimed at circumventing the federal Securities Litigation Reform Act of 1995 by making it easier to sue and win in state court (*BI*, Jan. 8; and see story, page 100).

And just in case the proposition receives voter approval, some companies that could face increased exposure to shareholder lawsuits are already taking risk management steps, such as curtailing announced business forecasts that could be used against them in future suits.

For example, Intel Corp., the Santa Clara, Calif.-based computer chip manufacturer, announced last week that it canceled an upcoming meeting with stock analysts, and the company's third-

Continued on next page

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Continued from previous page
quarter report due out today will be missing a customary page outlining the outlook for the following quarter.

Such measures are prudent because even though polls show potential supporting votes lagging opposing votes by about 5%, nearly 40% of the state's voters remain uncertain on the matter, an Intel spokesman said.

Intel is among the many Silicon Valley companies that so far have helped amass a \$26 million dollar war chest to defeat the measure. Like other high-tech companies, Intel has fended off numerous shareholder lawsuits. In fact, since 1991 it has been sued 13 times, even though the company's stock has risen in value ninefold. And though none of those suits has made it to court, they have cost millions of dollars to defend against, the spokesman said.

High-technology companies are susceptible to suits filed by plaintiffs attorneys because their stocks experience market swings as new ideas and products emerge, Proposition 211 opponents say.

But it's not just stock price swings that touch off shareholder suits, proponents of the proposition argue. They say other factors, such as fraudulent financial statements that inflate prices and are followed by insider trading, bring on the suits.

"(Proposition 211 is) necessary because politicians at the federal and state level are repealing investor protections that have existed since the stock market crash of 1929," said a spokesman for Los Angeles-based Citizens for Retirement Protection and Security, which is funded by plaintiffs' attorneys who sponsored the measure.

"The U.S. Supreme court and state supreme court here have made decisions in recent years that have weakened investor protection," the spokesman said. "Congress passed the securities reform act which severely weakened those investor protections."

Proponents so far have spent more than \$6 million dollars on the high-stakes fight. They are supported by the California Democratic Party, and several organizations representing seniors, consumers and some county employee pension funds.

Observers say the law would make it easier to sue in California courts than in any other state or in federal courts. It eliminates an automatic stay of discovery while a judge is still determining if a suit has merit to go forward. The automatic stay is permitted in the 1995 litigation reform act.

In the case of egregious fraud, the measure would authorize punitive damages to be awarded without proof that plaintiffs relied on misleading statements provided by the company, as now required under federal and state laws.

Allowing for punitive damages encourages defendants to settle cases without defending themselves because there is more risk associated with going to trial, opponents argue.

Proposition 211 would also enable plaintiffs to go after the personal assets of corporate directors and officers by outlawing a company's ability to indemnify them for their legal costs.

However, companies could still purchase D&O coverage. Opponents, such as the spokesman for Intel, say they expect to see rates for D&O rise as a result. But proponents point out that most D&O policies do not cover fraudulent acts. They say directors and officers exposure increases under Prop 211 only if they make fraudulent statements. Therefore, the proponents say, insurance coverage is not likely to be triggered more often.

But 211 would allow for directors and officers culpability under a standard of less than intentional and willful misconduct, said Kevin M. LaCroix, president of advisory services in Beachwood, Ohio, for Genesis D&O Liability Insurance Program, a

unit of General Reinsurance Corp. That raises the possibility that it might be an insured loss and could potentially lead to a tightening of terms or capacity, he said.

However, brokers and insurers say that the D&O market remains highly competitive and it would take time to determine the impact of 211 just as the impact of the federal 1995 act has yet to be calculated.

Prop 211 is officially known as the "Attorney-Client Fee Arrangements Securities Litigation Initiative" because it also seeks to prohibit regulation of attorney fees.

Californians will also vote on Proposition 207—called "the Frivolous Lawsuit Limitation Act." It was written by California trial lawyers and seeks to prohibit state legislators from restricting plaintiffs attorneys from collecting a portion of settlements as pay. But the legislation is not garnering as much attention as Proposition 211.

BI

5 states electing commissioners

Challengers face incumbents in all the races

By MEG FLETCHER

Improving health insurance, market conditions and administrative efficiency are among the leading issues that candidates for insurance commissioner in five states are discussing in their campaigns.

On Nov. 5, voters will elect commissioners to four-year terms in

Delaware, Montana, North Carolina, North Dakota and Washington.

Incumbents are running in all races, with four of the five seeking re-election for the first time. Longtime Commissioner Jim Long of North Carolina is seeking re-election to his fourth term.

Business Insurance highlights the 10 candidates seeking the top insurance regulator post in those five states.

Delaware

Republican incumbent Donna Lee Williams is emphasizing her record in the face of a challenge from Democrat challenger Janice

"Jan" S. Almquist, a municipal management consultant and associate professor.

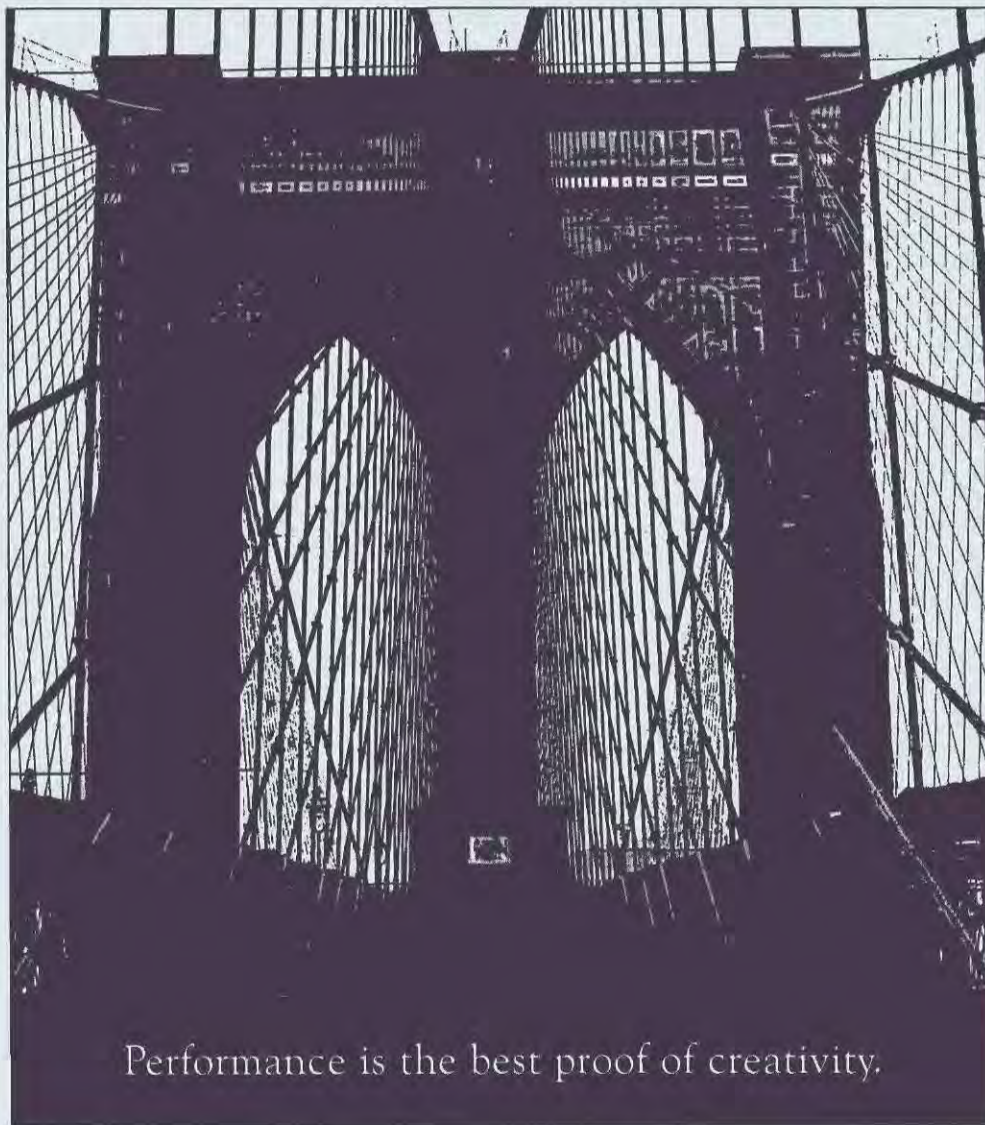
The two women previously faced off against each other over the Delaware Insurance Authority, a state agency created by David Levinson, Ms. Williams' predecessor, who did not seek re-election.

Ms. Almquist managed the authority, which was a self-insurance pool offering workers compensation and liability coverage to both public and private entities, from 1990 to 1993. Ms. Williams shut it down in 1993, charging its assets were inadequate. Litigation ensued, and the pool subsequently was ordered into receivership.

See Regulators on next page



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Regulators

Continued from previous page

Ms. Williams, 35, an attorney, has emphasized improvements in the state's health insurance market, which she says include expansion of



Ms. Williams

to enhance quality, promote fairness and protect consumers. They did not pass, though she intends to pursue them.

She also helped develop legislation that would prohibit insurance carriers from discriminating against victims of family violence.

In addition to establishing a seniors information program with the Department of Health and Social Services and a fraud bureau, Ms. Williams helped oversee programs that resulted in accreditation of the Delaware Insurance Department by the National Assn. of Insurance Commissioners in 1993.

Democratic challenger Ms. Almqvist, 46, questions Ms. Williams' commitment to serving consumers. Ms. Almqvist claims Ms. Williams represented insurance industry interests when in private legal practice before becoming commissioner.



Ms. Almqvist

educating them about new products and making the department's consumer services department more efficient.

Ms. Almqvist also said she was concerned about the need for the state and federal government to work closer together to coordinate regulation of the sale of insurance, including using banks as sellers, so there is "a level playing field."

If elected, Ms. Almqvist said she would constantly monitor and actively oppose so-called tort reform efforts, because she contends consumers are better served when manufacturers face the threat of liability. She also would like to improve departmental communication, including shortening the response time to all segments of the insurance industry, consumers and outside attorneys.

Montana

The insurance commissioner race in Montana is almost a repeat of 1992.

Democratic incumbent Mark O'Keefe is facing off against John Eric Larson, the same Libertarian candidate who ran against him four years ago using only his middle and last names. No Republican candidate is in the current race.

Mr. O'Keefe, 44, who holds a master's degree in science, was elected Montana's top insurance regulator by virtue of being elected state auditor. His other duties include regulating securities as well as participating in a board overseeing the use of state lands.

Accomplishments during his first term include making health insurance more accessible to small businesses,

access that will be expanded under the new federal health care law. In addition, he ordered coverage of maternity benefits and helped cut health insurance rates for insurers of last resort.

Other improvements include making the office more "customer friendly" by weeding out unnecessary rules and regulations and supporting a bill to hire a fraud investigator so the state could seek criminal sanctions.

He also appointed Montana consumers to insurance boards and oversaw the Montana Insurance Department's accreditation by the NAIC.

His opponent, Mr. Larson, 48, said he would like to see the auditor's office protect individuals "from corporate gangs like Wall Street."

He is running "an alternative campaign," which does not include providing copies of his photo to reporters.

North Carolina

Red tie, red suspenders and a red car are the trademarks of Jim Long, a Democrat seeking his fourth, four-year term as North Carolina's insurance commissioner.

The red may be explained by the fact that the post's duties also include state fire marshal, as well as overseer of the state's building code and manufactured housing.

During his 12-year tenure in office, Mr. Long, 56, says he has consistently challenged the insurance industry in battles over rates. That has helped the state achieve the sixth-lowest auto insurance rates and the eighth-low-



Mr. Long

est compensation rates in the United States, he said. In addition, he has worked to create an information program for senior citizens with Medicare questions.

Mr. Long said he also participated in campaigns to encourage seat belt usage and discourage drinking and driving.

Mr. Long, an attorney, also is a past president of the National Assn. of Insurance Commissioners.

His opponent is Mike Causey, 46, a farmer and former insurance agent who holds a bachelor's degree in business administration.

Mr. Causey is proposing several changes as part of his campaign, including instituting "an open door" for all residents, making the department more efficient and clearing up outstanding consumer complaints.

He also pledges to do a better job of enforcing existing regulations as well as reduce the amount of fraud and abuse in the system while keeping insurers solvent.

In addition, he proposes eliminating the North Carolina Rating Bureau, which gathers loss-related data and evaluates rate-related proposals from insurer information and data organizations.

"I would promote free enterprise by allowing each insurance company to set their own rates and take steps to stimulate competition," Mr. Causey said.

North Dakota

Incumbent Democrat Glenn Pomeroy is running against Claus Lembke, a self-described "conservative" Republican.

Mr. Pomeroy, 40, is an attorney who previously served as state securities

Continued on next page

Continued from previous page
commissioner, assistant attorney general and three-term state representative. He is the brother of U.S. Rep. Earl Pomeroy, a former North Dakota insurance commissioner.

"My approach is it is a consumer protection post. It's about fair and effective regulation and promoting a competitive marketplace," said Gleru Pomeroy.

During his first term, Mr. Pomeroy's accomplishments included implementing health insurance reforms to make it easier for people

to obtain coverage, helping consumers recover more than \$2 million in refunds or benefits in disputes with insurers and imposing a \$300,000 fine—the largest ever collected by the North Dakota Insurance Department—against an out-of-state company as a result of concerns with their market activity.

The total size of his office has expanded to 45 in recent years, primarily because the Legislature has assigned it extra duties, including boiler inspections.

To aid seniors, he created a senior health insurance counseling program, as well as "a very good database" that



Mr. Pomeroy



Mr. Lembke

provides quotations on the cost of various types of standardized Medigap policies monthly. About 50 insurers sell the various policies, though Blue Cross & Blue Shield of North Dakota is the only state-based company offering such a product.

Mr. Pomeroy also serves as the elected secretary/treasurer of the National Assn. of Insurance Commissioners and is heading up various health-related groups as well as a national industry-supported program to track insurance agents licensed by the various states.

Republican challenger Mr. Lembke, 53, is executive director of the North Dakota Assn. of Realtors and has been a Burleigh County commissioner since 1986. He graduated from agricultural college in Northern Germany, his native land.

Mr. Lembke criticizes Mr. Pomeroy for growth in the number of employees as well as the department's budget, though it is funded entirely by insurer assessments and fees. In addition, "I see a lack of a working relationship between the department and the industry," and would create a broad-based advisory committee.

Washington

Washington state's progressive health insurance market is an issue in the race between Democrat incumbent Deborah Senn and Republican challenger Anthony Lowe, a deputy prosecutor for King County, which includes Seattle.

Washington adopted far-reaching health care reforms in 1993, but most were repealed two years later by a more conservative Legislature.

In addition, Washington state's inability to obtain a waiver from the Employee Retirement Income Security

Act precluded its ability to regulate self-funded health care plans, thinning the pool of consumers buying health care coverage under the same rules to primarily individuals with an immediate need for health care services. Insurers complained that many people purchased coverage only to receive specific services and dropped it afterwards. Several sought rate increases.

Ms. Senn says the state's problem with some insurers seeking high health insurance rates stems from the Legislature unwisely removing cost-control measures, despite her objections. Her opponent places the blame more on her shoulders.

Ms. Senn takes pride in turning down hundreds of requests for rate increases by health insurers—which she contends were unjustified—and slowing increases in auto insurance premiums. Ms. Senn also is campaigning on her consumer-oriented accomplishments, including removing pre-existing condition barriers to health insurance.

In addition, workers can change jobs without losing health insurance as a result of rules and regulations she wrote. She also helped improve the quality of insurance coverage by including



Ms. Senn



Mr. Lowe

home care for long-term illnesses, giving women their choice of doctor, expediting the settlement of environmental cleanup claims and recovering more than \$7 million improperly paid to insurers by policyholders.

Ms. Senn said seniors have easier access to information about health insurance, and consumers generally have an expanded telephone hot line.

She also helped pass a fraud bill that increased penalties for criminals.

Anthony Lowe, 35, Ms. Senn's Republican challenger, said health insurers' requests for double-digit rate increases stem from her "misguided" policies that unduly increased costs. He favors a more competitive market

and hopes a health care "summit" will result in greater cooperation among insurers, providers and consumers.

Mr. Lowe's said his experience as a legislative aide to U.S. Sen. Slade Gorton and as a former legal counsel to the Washington State Senate should help him work with legislators to revitalize the state's health market.

Mr. Lowe also proposes introducing new regulations to speed up the approval of new property/casualty products that benefit consumers.

He also proposes better efforts to fight fraud and requiring insurance companies to develop mandatory mediation plans to reduce litigation costs associated with insurance claims. **BI**

Fear over Oregon measures

By ROBERTO CENICEROS

PORTLAND, Ore.—Employers fear ballot measures seeking to change Oregon's health care system would scuttle cost-saving workers compensation reforms and make employee medical benefits more expensive.

Both measures would be binding if voters approve them in November.

Measure 39 would amend the state's constitution to forbid laws and insurers from discriminating against any category of health care provider, such as massage therapists and acupuncturists.

The measure's supporters likely meant to impact health plans and not necessarily workers compensation, said Ross Dwinell, risk manager for Portland-based United Grocers Inc.

But Measure 39's broad wording—it does not exclude workers compensation—would allow any state-licensed health care provider to diag-

nose injured workers and authorize benefits such as time loss, disability and rehabilitation.

"Boy, they just shot (employers) right in the nose with a deadly bullet by taking in workers compensation," said Mr. Dwinell, who is also co-chairman of the Oregon Self-Insurers Assn. and chairman of the medical committee for Associated Oregon Industries.

Both employer groups are members of a Portland-based umbrella organization called Oregonians For Quality Health Care, which opposes measures 35 and 39.

The measures are supported by groups independent of each other, their chief signature-gatherers said. However, opposing media campaigns have targeted them jointly.

Measure 39 is particularly disturbing to employers because labor and management together helped craft 1990 workers comp reforms, Mr. See Oregon on Page 91



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Oregon

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Dwinell said.

Under that cooperative effort, workers comp benefits were increased for workers. Yet employers were able to reduce medical treatment costs because managed care practices were introduced into the work comp system and workers could only see specific attending physicians. Those physicians include medical and osteopathic doctors. Chiropractors also are included, but only for the first 30 days or 12 visits after an injury.

"The real problem with what (Measure 39) does is it says our definition of attending physician and the controls we placed on this are thrown out the window," Mr. Dwinell said. "The cost to the workers compensation system is going to be horrendous, because not only do we go back and add unlimited chiropractic treatment, we are going to add 13 to 18 other categories of health care providers. We are talking about masseuses, therapists and all types of psychologists who have never been able to authorize time loss. Even naturopaths."

The measure is vague and "it's going to be litigated from here to kingdom come before we find out what it really does," added Ken Rutledge, president of the Portland area-based Oregon Assn. of Hospitals and Health Systems, which represents organizations such as Kaiser Permanente and Blue Cross & Blue Shield of Oregon.

Insurers also don't want to see the gatekeeper system disrupted, Mr. Rutledge said.

The measure is supported by consumers and individual medical providers such as chiropractors,

naturopaths and acupuncturists, said Mary Alice Ford, a chief petitioner for Measure 39 and former state legislator from Portland.

The other proposal, Measure 35, would outlaw capitation by stipulating that medical providers can only receive payment on the basis of work performed, an hourly wage, prearranged salary or benefits, bonuses based on work performed, or reimbursement for expenses.

Medical providers who accept payment under any other methods would be subject to losing their business and professional licenses.

About 50% of the state's insured population, or about 1.4 million people, are enrolled in managed care programs, Mr. Rutledge said. "(Measure 35) is just going to be hugely disruptive as well as intervention into a fairly well functioning system," he said.

The measure was put on the ballot by Gordon Miller, a Salem ophthalmologist who finds capitation "slimy and unethical" because it encourages doctors to deny treatment, said Tom Mann, campaign manager for Measure 35. It is supported by alternative providers.

But doctors who wish to do so can always find a way to profit from unethical behavior, said Mr. Dwinell. If approved by voters, the outcome will be higher benefit costs borne by employers and employees, and less money will be available for pay raises, he added.

A poll conducted Sept. 16-22 by The Oregonian newspaper and television station KATU Channel 2 in Portland found that 19% of potential voters favor Measure 35, while 32% would vote no, and 49% said they don't know. The same poll found 57% in favor, 26% opposed and 17 undecided on Measure 39. **BI**

Texas judges have RIMS support

Keeping high court intact seen as key to preserving tort reforms

By MICHAEL BRADFORD

Risk managers and business groups are backing a slate of candidates for the Texas Supreme Court in an effort to preserve what is perceived as the court's pro-business majority and to protect hard-won tort reforms and changes to the state's workers compensation system.

The Risk & Insurance Management Society Inc. is urging Texas chapters to back the re-election efforts of state Supreme Court Chief Justice Tom Phillips, R-Houston, and three associate justices.

The associate justices are John Cornyn, R-San Antonio; Greg Abbott, R-Houston; and James A. Baker, R-Dallas.

RIMS said in a bulletin to members that the effort to preserve tort reforms in Texas "begins with maintaining a favorable Supreme Court."

"For many years, Texas had a terrible reputation as being a bad place to do business because of the out-of-control nature of the Supreme Court and appellate courts," said Jim Green, risk manager at Justin Industries Inc. in Fort Worth.

"We had a terrible Supreme Court," agreed Ralph Wayne, president of the Austin-based Texas Civil Justice League, whose members include businesses, trade and professional groups and

other organizations. "It was dominated by plaintiffs lawyers."

"That has changed in the last few years with the elections of Phillips and Cornyn," said Mr. Green, a member of the Dallas-Fort Worth Chapter of RIMS and an active participant in state and local business groups.



"We believe a well-balanced court like we have now will be far more likely to uphold tort reforms and other pro-business measures in place in Texas," Mr. Green added.

And because new tort reform measures are likely to be introduced in the 1997 Legislature, Texas businesses believe a Supreme Court like the one currently in place would be fairer in the event of future challenges to any reforms, Mr. Green said.

"These justices have supported various elements of tort reform in the past," Mr. Wayne pointed out. "The court doesn't always vote the way we want, but it's fairer."

"We finally got the court turned around," he added. "We don't

want to lose it to the plaintiffs lawyers."

The nine-member court currently is made up of seven Republicans and two Democrats.

Mr. Green referred to the outcome in the battle to preserve workers compensation reforms in Texas as an illustration of how Chief Justice Phillips' court has ruled in favor of business interests.

The Workers Compensation Act was passed in 1989.

"The challenge to the workers compensation reform act was filed shortly after the act was first put into place," Mr. Green noted.

It was filed in a "liberal venue deep in south Texas where it was ruled unconstitutional," he added (BI, Aug. 23, 1993).

On appeal, the state Supreme Court reversed the lower court decision and held that the law is constitutional.

The decision to uphold the law helped add "tremendous stability to the workers compensation system in Texas," Mr. Green stated.

Another case cited by the business community as an important victory was a decision earlier this year in which the Supreme Court ruled that the state's Deceptive Trade Practices Act may not be used to sue a "remote" product manufacturer like producers of raw materials if they are not involved in the sale of a finished product. **BI**

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Wisconsin tort reform hinges on races

By **RODD ZOLKOS**

MADISON, Wis.—Tort reform advocates in Wisconsin are keeping a close eye on this year's legislative elections, which they believe are critical to their cause in 1997.

With Democrats controlling the Wisconsin Senate by a single vote, a one-seat swing to a Republican majority could pave the way for tort reform passage, said Bill Smith, Wisconsin state director for the National Federation of Independent Business.

Conversely, with the GOP holding just a three-vote majority in the state's Assembly, it wouldn't take much for that chamber to swing to Democratic control. Such a move would likely dim tort reform hopes in the next legislative session, Mr. Smith said.

"Our tort reform agenda's going to depend on how the election comes

out," Mr. Smith said.

And, by all indications, the legislative election picture statewide is "highly competitive," said Donald



Kettl, director of the Robert LaFollette Institute of Public Affairs of the University of Wisconsin in Madison.

"It's going to be very, very close, in all likelihood, whichever way it goes," he said. And, a large margin of victory at the top of the ticket for President Bill Clinton, who holds sizable leads over

his Republican opponent Bob Dole in polls of Wisconsin voters, could help Democrats running for the state House and Senate, Mr. Kettl noted.

Among the state Senate races, one the Wisconsin business lobby has targeted as key is between Democratic Sen. Chuck Chvala of Madison, the Senate majority leader who has previously opposed tort reform, and Republican Mayor Tom Metcalfe of Monona, Mr. Smith said.

Mr. Smith, who also chairs the Wisconsin Coalition for Civil Justice, noted that while not every Democrat opposes tort reform, "It took us 10 years to get joint and several passed and it was only when Republicans took control."

Last year, Wisconsin lawmakers approved and Gov. Tommy Thompson signed a measure replacing joint and several liability in the state with a

system that limits defendants found less than 51% responsible for a negligent action to paying only a share of damages proportionate with their share of responsibility.

Mr. Metcalfe's campaign may get a boost from the Republican governor's support. On the other hand, with Sen. Dole trailing President Clinton by about 20 points in Wisconsin polls, state Sen. Chvala, who ran unsuccessfully to unseat Gov. Thompson in 1994, could get a Clinton coattail boost.

And, a state senator since 1984 after serving one term in the Assembly, Sen. Chvala has been a Republican target before and emerged victorious. Like the president, he enjoys a solid lead in polls of his district.

"He's been targeted before, and the Republicans haven't really come that close to beating him," Mr. Kettl said.

In hopes of capturing a Senate majority, Wisconsin Republicans have targeted three other Democratic in-

cumbents. One is Sen. Alice Clausing of Menomonie, whose district's Senate seat historically has moved back and forth between the two parties. Her GOP opponent is Jay Griggs of Hudson.

Democratic Sen. Roger Breske of Elderon is another target, with Republicans pinning their hopes in his district on Nancy Levanetz of Rhinelander. The fourth Democrat in the GOP's cross hairs is Sen. Lynn Adelman of Waterford, whose opponent is Republican Lisa Soik, also of Waterford.

Whatever the election's outcome, the state's Coalition for Civil Justice intends to continue its push for tort reform, Mr. Smith said. **BI**

Supreme

Continued from page 2
dress a plan's ERISA status.

"This contractual requirement operates without regard to whether the group purchaser is or is not a group purchaser for an ERISA plan. The requirement established does not depend upon ERISA status," said the state's brief. The state holds that the requirement does not single out ERISA plans for "special treatment."

Both the U.S. District Court for Eastern Louisiana and the 5th U.S. Circuit Court of Appeals held that Louisiana's any-willing-provider law is subject to ERISA pre-emption. Business groups would like the high court to give an identical ruling.

"This is a case where we feel it is important for the Supreme Court to rule on the question of ERISA pre-emption, so that we'll have a system that applies nationwide. If different states have any-willing-provider statutes, that is going to interfere with interstate commerce," said Quentin Riegel, deputy general counsel of the National Assn. of Manufacturers in Washington. NAM and Aetna Inc. filed a brief asking the high court to uphold pre-emption.

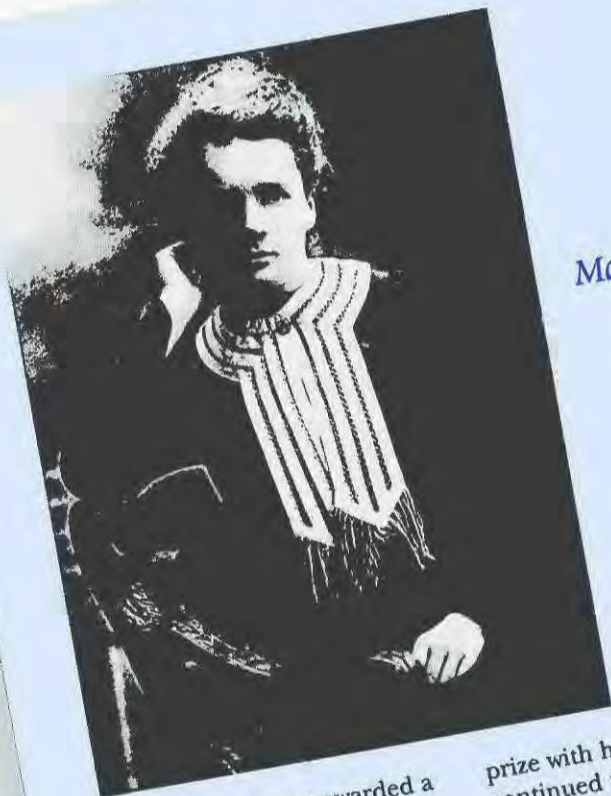
The justices have already declined to review a number of benefits and risk management-related cases for the court's 1996-1997 session, which convened last Monday. One of the more significant was *Unisys Corp. vs. Meinhardt*. In this case, Unisys employees sued the company for making what they regarded as bad investments for pension funds. The plaintiffs said Unisys breached its fiduciary duties by making the investments, which included guaranteed investment contracts issued by now-defunct Executive Life Insurance Co. The plaintiffs said Unisys failed to disclose the risks involved with its investments.

Unisys said it had met its responsibilities under ERISA and should not be sued. Although a U.S. District Court judge agreed with Unisys, the 3rd U.S. Circuit Court of Appeals in Philadelphia sided with the plaintiffs, clearing the way for a trial. Unisys appealed to the Supreme Court, which let stand the appellate court ruling.

In another benefits-related area, the justices also declined to review two cases dealing with same-sex sexual harassment. Both cases involved male-on-male sexual harassment. Lower courts had ruled in both cases that the Civil Rights Act of 1964 did not apply to the particular instances of misconduct.

Manufacturers won a series of victories when the court decided not to review several lower court decisions involving product liability. In *Schuerer vs. E.I. du Pont de Nemours & Co.*, the justices declined to review an Iowa Supreme Court decision that held that the Federal Insecticide, Fungicide and Rodenticide Act forbids strict liability and negligence actions against herbicide makers for alleged crop damage. The justices also declined to review liability cases involving air bags, animal vaccines, hazardous substances and prosthetic devices. **BI**

Inventive Life...



Madame Curie
(1867-1934)

The first woman awarded a Nobel prize (Physics, 1903), Marie Curie astounded the world eight years later by winning a second Nobel, this one in chemistry. She discovered the radioactive elements polonium (named after her birthplace of Poland) and radium. After the death of her husband, who shared the physics

prize with her, Madame Curie continued to lead research in a field traditionally dominated by men. In a life rich in laurels, Marie Curie provided an understanding of much of what is known today regarding nuclear physics.



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Reassuring the
Quality of Life

Centre Re

Continued from page 2

The company already has \$200 million in catastrophe reinsurance coverage, and with additional facultative and other coverages, the insurer could handle losses up to about \$300 million before they would begin to eat into its \$190 million surplus, Mr. Michael said. "And if we lost \$100 million of our surplus, it would affect our A.M. Best rating and our ability to do business," he said.

With the additional \$50 million, RLI could continue operating during a difficult period and take advantage of increased insurance rates without having to scramble to find expensive new capital, Mr. Michael said.

And the extra coverage comes at about 20% of the cost of purchasing an additional layer of catastrophe reinsurance protection, he said.

Under the terms of the three-year agreement, RLI would sign over \$50 million of its convertible preferred shares to Centre Re in the event of a loss pushing through RLI's existing catastrophe coverage. Half the shares would be convertible to common stock after three years, and half would be convertible after four years.

"It gives us three to four years to recover and pay Centre Re back. They don't want to be a significant shareholder in RLI," he said. RLI would buy back the shares at market price before they become voting shares.

One of the important features of the coverage is that under generally accepted accounting principles, equity can be attributed to surplus, whereas bonds and other debt-style catastrophe products cannot, said William M. Jewett, senior vp at Centre Re.

If the loss were so large that RLI's surplus fell below an agreed-upon \$60 million and the extra coverage would not likely be enough put the company back into a stable trading position, the coverage would be void and Centre Re would not have to buy the shares.

"So it gives about a \$140 million window of opportunity," Mr. Michael said.

In addition to the \$50 million, Centre Re would also have the option to participate on a quota-share basis on up to 25% of RLI's business after the event, he said.

RLI was partly prompted to look for extra coverage after it suffered a \$200 million gross loss from the Northridge earthquake in January 1994. At the time RLI had \$150 million in catastrophe coverage.

RLI looked into several ways to increase its coverage, including catastrophe reinsurance futures traded on the Chicago Board of Trade, but the Centre Re product is the most cost-efficient, Mr. Michael said.

The CatEPuts are sold as a supplement to—rather than a replacement of—catastrophe reinsurance, said Mr. Jewett of Centre Re.

"It is a supplement or an augmentation, because if they reduced their catastrophe reinsurance coverage, the fee would go up," he said.

Likely additional clients for the product would be large industrial and commercial corporations seeking catastrophe protection as well as medium-sized and large publicly traded insurance companies, he said.

Centre Re would only be able to sell a limited amount of the programs without raising additional capital itself, but similar products could be offered by investment banks with ready access to capital markets, said Craig Elkind, associate director at Standard & Poor's Corp. in New York.

Equity-type deals have advantages over catastrophe bond products, as they are more easily constructed to produce multiyear contracts, he said.

But over the next year, there will likely be several more catastrophe products launched that use debt and equity to produce extra coverage, Mr.

Elkind said. "You are hearing a lot about these new products, but so far we have not seen much," he said. "But I think in 1997 they are going to fly."

The CatEPuts are an innovative and effective way to secure extra cat coverage, said Jeanne Dunleavy, assistant vp at A.M. Best Co. of Oldwick, N.J. "If they have a large loss, they will not have to worry about the state of the (securities) market if they want to raise capital," she said.

The product will be more saleable and understandable than cat bonds, Ms. Dunleavy said. "It's just the kind of thing 20th Century would have loved to have had in place," she said.

In 1994, 20th Century Industries, an insurer in Woodland Hills, Calif., suffered huge losses from the Northridge earthquake, and in October of that year American International Group Inc. bought the option to take up to 40% of the company at what was considered a knock-down price of \$200 million (BI, Oct. 3, 1994). **BI**

New federal health laws will challenge commissioners

ANCHORAGE, Alaska—High employee expectations are only one of several challenges state insurance regulators face in meshing new federal health care reforms with state laws.

Passage of the Health Insurance Portability and Accountability Act of 1996 has prompted an increase in telephone calls to state insurance departments from people wanting to take advantage immediately of portability requirements and tax-favored medical savings accounts.

Callers are disappointed that the provisions do not begin to go into effect until July 1, 1997, say some state regulators who attended a recent quarterly meeting of the National Assn. of Insurance Commissioners.

In addition, "the public expects not only guaranteed issue, but that they will be able to afford it (coverage)," said NAIC Vp Josephine

Musser of Wisconsin, who chairs the NAIC's Accident and Health Insurance Committee. However, the federal act does not fully address both availability and affordability.

Regulators also are concerned about a high level of interest in MSAs, especially on the part of insurers. Regulators predict the number of plans insurers sell may quickly exceed the 750,000 cap on accounts agreed on as part of a federal pilot program, which will expire at the end of the year 2000 (BI, Aug. 5). However, halting sales in the federally regulated program is outside state regulators' authority.

State insurance regulators are pleased that the federal act generally retains the states' current role as the primary regulator of health insurance, while setting minimum federal standards and a new role for the federal government in overseeing those

standards, according to NAIC statements.

The act also "provides the states with significant latitude to go beyond federal standards."

For example, states are generally allowed to retain laws that are more generous to covered individuals than the federal requirements in many important areas, including the length of pre-existing condition exclusions.

The NAIC established a working group to help states interpret and implement the new federal law and act as liaison with federal authorities who are drafting extensive regulations.

NAIC Secretary/Treasurer Glenn Pomeroy of North Dakota is the working group's chairman, and Kathleen Sebelius of Kansas is vice chairman.

—By Meg Fletcher

Smart Moves to Fortis Benefits Provider Excess Insurance

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Linda Logan
Director of HMO Operations
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...and then a terrible ~~hot~~
heatwave came over the land.

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hannover re

INTERNATIONAL

Law firms accept suits on contingency against U.K. tobacco companies

Legal Aid Board denies money to help plaintiffs' cases

By CAROLYN ALDRED

LONDON—At least 40 lung cancer sufferers are planning to sue Britain's two largest tobacco companies in the first case to be brought in an English court against a cigarette manufacturer.

The case also will be the largest group action brought to date under England's contingency arrangements, introduced in July 1995, according to David Hartley, professional policy executive of the Law Society.

English and Welsh law last year for personal injury cases.

After the decision of the Legal Aid Board, "it was clear that the only way for the tobacco victims to gain access to justice in the British courts was for lawyers to take on the cases through the no-win, no-fee scheme," said Leigh, Day & Co. Partner Martyn Day, who said the plaintiffs' "claims are strong."

Despite the plaintiffs lawyers' offer to take on the case on a contingency fee basis, the plaintiffs still are at risk of

After the Legal Aid Board decision, it was clear that tobacco plaintiffs would get justice in the British courts only if lawyers took the cases on contingency, Martyn Day says.

A group action is like a class action but not the same.

The case will be "based on the alleged failure by the tobacco companies to comply with their duty to minimize risk by voluntarily reducing tar levels that was causing cancers in so many of their consumers," according to a statement released by London personal injury law firm Leigh, Day & Co.

"It is the victims' case that the failure to reduce the tar levels caused or materially contributed to the onset of their cancer," the statement continued.

Leigh, Day & Co. will handle the case on a contingency basis together with a team of specialist lawyers, including Dan Brennan, president of the Personal Injury Bar Assn. and Professor Mark Mildred of the Nottingham Law School.

Leigh, Day & Co. estimate the fees that would be lost if the claims do not succeed would be about £3 million (\$4.7 million).

The group action is being put together after the refusal in July by the Legal Aid Board to fund the cases against Bristol-based Imperial Tobacco Ltd. and Weybridge, Surrey-based Gallaher Ltd.

The Legal Aid Board is a government-funded agency that provides financial assistance to people who cannot afford legal fees. It said in a statement that it did not think the cases met the statutory criteria for aid outlined in the Legal Aid Act 1988.

Under the contingency fee arrangement, plaintiffs lawyers will waive their fees if they lose the case but will take a specified percentage of any damages awarded if the cases are successful. Contingency fee arrangements were introduced into En-

losing substantial amounts of money, as under the British legal system the loser of litigation usually pays the winning side's costs. A judge can rule that no such payment must be made, but the practice of paying the winning side's costs is part of the legal process.

To overcome this drawback for contingency fees, the Law Society helped develop an insurance policy that pays the opponent's costs in the event of a personal injury plaintiff losing a contingency case. Accident Line Protect is underwritten by Lexington Insurance Co. through London-based agent Abbey Legal Protection Ltd. The scheme's broker is Johnson & Higgins.

In order to insure through Accident Line Protect, plaintiffs must use a law firm with at least one partner who is a member of the Law Society's Personal Injury Panel. Currently the panel has 2,000 members in some 1,400 law firms throughout England and Wales, according to Mr. Hartley of the Law Society.

The scheme last year issued 10,000 policies for a premium of £85 (\$133), and the take-up rate currently is about 1,000 cases a month for the same premium, said Chris Ward, a director at Abbey.

However, the tobacco case plaintiffs will be unable to take advantage of the insurance, as the policy excludes pharmaceutical and tobacco products. Medical negligence cases also are excluded, although a separate policy for those cases is being developed, said Mr. Ward.

As a result, the plaintiffs in this case are taking a considerable financial risk, said Mr. Hartley.

See Tobacco on next page

German employers forced to scuttle sick pay cuts

By DON LEWIS KIRK

BONN—The plight of German employers burdened by high wage costs became evident last week after a failed attempt to reduce employee benefits.

German trade unions forced employer groups to back down from a move the previous week to implement benefit cuts as permitted by a new law allowing employers to reduce sick pay.

On Oct. 1, the German government implemented 70 billion DM (\$45.72 billion) in spending cuts aimed at trimming generous social welfare benefits that employers say burden industry. The package is aimed at creating jobs and lowering employers' labor costs.

One key element of Helmut Kohl's government's "Program for More Growth and Employment"

was a change in legislation enabling employers to reduce employee sick pay by 20%. Several corporations, led by Daimler-

A new law, part of a plan to create growth and jobs, allows German employers to reduce sick pay by 20%.

Benz A.G., moved quickly to implement those cuts.

Employees in Germany receive full salary for days they are sick, and there is no limit on how many days they can receive sick pay. Companies cover the cost for up to six weeks; after that, German so-

cial insurance kicks in.

Amid wide-scale worker protests, German banks and some leading corporations—including Siemens A.G. and Opel, a subsidiary of General Motors Corp.—said they would also enact cuts, in some cases ignoring existing labor contracts.

The hard line prompted more than 140,000 engineering workers across Germany to strike against Daimler and other companies. Threats of strikes in the bank and insurance industries followed.

Unions blasted employers for cutting benefits guarded by pay agreements, which require direct negotiations to change. Employers, on the other hand, argued that contracts refer to existing labor laws, which have now changed.

Last week, that massive union

See Sick pay on page 97

London welcomes more technology

By SARAH GODDARD

LONDON—Although London insurers are disappointed with the status of the market-wide system designed to speed up and reduce the costs of insurance transactions, they are embracing the electronic revolution with open arms.

And insurers and brokers are starting to work hand in hand to deliver cost-efficient, compatible market systems.

Implementation of electronic placing support was delayed twice, by a combination of reluctant users, poor delivery and inadequate systems.

Although the system is up and running now, the market's perception of it is poor.

"It just doesn't work," said one leading Lloyd's underwriter,

though "this sort of thing must be the way forward," the underwriter added.

The sponsors of EPS—now rather enigmatically called EPS support—have been forced to forsake the idea of any timetable, instead encouraging London market participants to adopt it at their own pace rather than ordaining the schedule.

In a joint statement issued last month, the four sponsors—the Institute of London Underwriters, the London International Insurance & Reinsurance Assn., Lloyd's of London and the Lloyd's Insurance Brokers Committee—addressed the London market's continued uncertain view of the EPS system, particularly in light of the perceived threat of the fast-moving major brokers' World Insur-

ance Network initiative (BI, Nov. 6, 1995).

They reiterated their commitment to electronic business and the streamlining that will eventually result from it.

"We support the need to develop a market-wide electronic system which fully supports the placing process and back office functions," said the statement, which was signed by the chairmen of all four organizations. "In this respect, we welcome the LIBC main committee's request that (the London Insurance Market Network) and WIN should work together to bring a practical and cost effective solution to the market."

Joint chief executive of WIN Richard Wales said that WIN is

See EPS on next page

Global Briefs

Standard & Poor's Corp. has raised its claims-paying ability rating for CNA International Reinsurance Co. Ltd., a London-based unit of Continental Casualty Co., to A+ from BBB+. The rating change reflects the credit rating agency's view that CNAI is a strategically important subsidiary of its U.S. parent and has a key role to play in its objective to expand into non-U.S. markets. S&P also believes CNAI is showing improved rating characteristics in its own right, such as a leading position in its specialized insurance and reinsurance fields, affording it "significant" influence over premium rates and policy terms and conditions. Keith White is to step down at the end of the year as managing director of BAI (Run-Off) Ltd., the company formed to pay claims for the defunct Builders' Accident Insurance Ltd. John Goodwin, currently the company's deputy managing director, will take over on Jan. 1, 1997, as managing director. The company was placed in voluntary run-off in June 1995. The London International Insurance & Reinsurance Market Assn. has appointed Brian Cornish to the new position of di-

rector of operations. Mr. Cornish will be responsible for overall administration of LIRMA's Secretariat and liaison with existing and prospective member companies. He previously was group personnel and administration director of Jardine Insurance Brokers P.L.C. Lloyd's of London has appointed Kunihiko Sasamoto, former deputy president of the Yasuda Fire & Marine Insurance Co. Ltd., as president of its newly formed Lloyd's Japan Inc., a Tokyo-based service company that is a wholly owned subsidiary of the Corporation of Lloyd's. Lloyd's approved the formation of Lloyd's Japan in September to develop, market and support Lloyd's underwriters' insurance business in Japan. Two new vehicles are available for Lloyd's names to convert to limited liability. Chariot Underwriting P.L.C. is designed for new and existing Lloyd's names, while Chariot Inc. P.L.C. is aimed at names belonging to the Members Agents Pooling Arrangements, whose members traditionally underwrite lower amounts in the market spread across a large number of syndicates. Both conversion vehicles were set up jointly by Bankside Members Agency Ltd. of London and Hodgson Martin Ltd., an Edinburgh-based investment company. Equitas

Holdings Ltd. has elected several non-executive directors: Michael Deeny, leader of the Gooda Walker Action Group and a member of the Council of Lloyd's of London; Richard Spooner, an Assn. of Lloyd's Members committee member; and Sir Bryan Nicholson, chairman of health care insurer British United Provident Assn. Ltd. French insurer Union des Assurances de Paris has increased its offering of shares in SCOR to 8 million shares from 7 million, in response to an oversubscription from U.S. and European investors. The public offering price has been set at 197 French francs (\$38.22) per share, and the shares will be listed on the Paris Bourse and The New York Stock Exchange. Up to 1.4 billion francs (\$271.6 million) from the sale will be used to reduce UAP's debt. Creditors of St. Helen's Insurance Co. Ltd., which ceased underwriting and went into runoff in 1968 as a result of losses from 1965's Hurricane Betsy, are set to receive another 10% dividend under a scheme of arrangement designed by London accountants Coopers & Lybrand. This brings the total payments through the scheme, set up in 1993, to £30 million (\$46.8 million), distributed among more than 200 creditors, against liabilities of £100 million (\$156 million).

INTERNATIONAL

Tobacco

Continued from previous page

Also, as in the United States, the tobacco companies named as defendants in the case are expected to defend themselves aggressively.

As in the United States, the tobacco companies named as defendants are expected to defend themselves aggressively.

Meanwhile, the case is one of several being pursued against tobacco companies worldwide, according to a spokeswoman with the London-based lobbying group Action on Smoking and Health.

Similar litigation is taking place in the United States, where several states and individuals are suing tobacco companies (BI, Sept. 23).

According to ASH, one case is

continuing in Scotland after a hearing in July.

In that case, Margaret McTear, the widow of lung cancer victim Alfred McTear, who died last year, is suing Imperial Tobacco.

Also, a case is continuing in Northern Ireland, in which John Dean, suffering from the rare condition of Buerger's Disease, which involves an inflammation of the blood vessels, is suing Gallaher, alleging that the condition was caused through smoking.

In France, meanwhile, Paris-based lawyer Francis Caballero is preparing two cases against the former French state tobacco company Seita, according to a spokesman from the National Committee Against Smoking, or CNCT.

CNCT, which is funding the litigation, is a private association partly funded by the French Ministry of Health and Social Security.

Mr. Caballero confirmed he is working on two possible cases but would not comment further until the cases are filed with the French courts. **BI**

EPS

Continued from previous page talking to all the existing networks already.

"We wish to cooperate, and if possible, provide interconnectivity, as long as it doesn't compromise security," explained Mr. Wales.

EPS has "not met market expectations," said the statement, and its future use will be scaled down to "those areas of business where practitioners can foresee achievable benefit."

The original intention was for EPS to be a universal market system.

Dieter Losse, the chairman of LIMNET, foresaw cooperation between LIMNET and WIN out of necessity, especially in areas such as data standards, the transmission of unstructured information and the development of applications.

A joint venture between the New York-based Brokers & Reinsurance Markets Assn., the Washington-based Reinsurance Assn.

of America, and Brussels, Belgium-based Reinsurance & Insurance Network will help with data standards, he added, a view echoed by WIN's Mr. Wales.

"There are already some standards agreed, particularly accounting data standards," said

newly launched newsletter, WIN-Scope, and information on its objectives.

Its first major product, a closed e-mail system for all broker and insurance company participants in the network, will be launched sometime next year, said Mr.

'There are still areas where the application is cumbersome and difficult...but EPS will gain more and more currency as it is used more and more,' says Dieter Losse.

Mr. Wales, "which are already widely used in the reinsurance community."

These standards, and the new electronic data interchange standards under development by the joint venture, will eventually spread to the rest of the insurance industry, predicted Mr. Wales.

As for EPS, "there are still areas where the application is cumbersome and difficult," Mr. Losse admitted.

However, Mr. Losse added, "EPS will gain more and more currency as it is used more and more."

European insurance companies accessing the London Processing Center systems through the recent LIRMA European initiative have been showing an interest in using EPS (BI, March 11). "That shows that EPS is a serious proposition which will not go away," concluded Mr. Losse.

While EPS finds itself in the position of "not going away," WIN is in the position of moving from strength to strength.

This week it launches its own Internet site at www.worldins.com.

The Internet site carries its

Wales.

This will allow any subscribing company that has Lotus Notes, CC:Mail or Microsoft Mail to send e-mails to another, with attached documents.

The attached documents can be viewed but not altered. Also supporting the e-mail feature will be a directory of all individual subscribers.

The next product to be launched on WIN will be based on EDI, giving subscribers the opportunity to process documents, rather than just to view them, eliminating rekeying and lowering the error rate.

"A lot of carriers are interested in joining WIN," said Mr. Wales, and "one or two" are assisting with systems design.

Initially, the system is being marketed to brokers and insurance companies in North America and Europe.

Other new insurance-related web sites include LIRMA, which is at <http://www.lirma.co.uk>; Consolidated Financial Insurance, a U.K. creditor insurance company, at www.cfi.co.uk; and the U.K. P&I Club at <http://www.uk-pandi.com>. **BI**



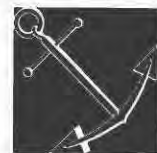
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Reinsurance Effected at Lloyd's, London

INTERNATIONAL

Sick pay

Continued from page 95

resistance forced companies like Siemens and Daimler-Benz to reverse their stand. A spokesman for Munich-based Siemens sees in the backdown the general plight of German companies.

"At issue is our competitiveness," he says. A large percent "of our labor costs now go for additional non-wage labor costs like these benefits."

Germany is Siemens's least bearable labor cost market, he says, and he admits the company has had no alternative but to export some production. "The trend is clear. If we can't reduce labor costs the jobs go—particularly lower-skilled jobs."

German unemployment has reached a near record post-war

Frankfurter Allgemeine.

Mr. Hamer fears that employers' groups now run the risk of not being taken seriously by politicians, who support improving the competitiveness of German business by lowering labor costs.

Small businesses are upset with Gesamtmetall because most do not have negotiated wage contracts but are free to apply the 20% sick pay reduction.

Meanwhile, the German Assn. of Middle and Small Businesses recommends companies cut sick pay "to acquire a competitive edge," said Stefan von der Heiden, head of public affairs.

The pressure on industry, however, is enormous, the Daimler spokesman says. "When the strike occurred it created for Daimler-Benz A.G. a multimillion-dollar loss. Under those circumstances we ask the question: Is it worth it?"

At least some employer federation leaders, such as Gesamtmetall Chairman Werner Stumpfe, say no. But he also had some unkind words for the government, which he said undermined its own reform.

Once the law was passed, some government representatives recommended that companies not use it. "It's unprecedented in the history of this country that a government passes a law only to warn against it being put into effect," Mr. Stumpfe said.

The irony of the situation is that unions openly support changes that lead to job guarantees. With up to 120,000 jobs lost in industry each year, unions support cost reductions but want to say how they should come.

Ursula Engelen-Kefer, deputy head of the trade union umbrella organization Deutsche Gewerkschaftsbund, said it was a question of sensibility. "The unions are aware of the need to reduce costs, but that shouldn't happen through unilateral measures such as sick pay cuts for employees," she said on German radio.

Unions support improvements in safety and other health measures at work and say it could ultimately result in savings of up to 100 billion DM (\$65.31 billion), compared with 60 billion DM (\$39.19 billion) expected to be saved by the 20% cut in sick pay.

The lower absenteeism created by such improvement measures is on a list of improvements employers want to see. The main problem confronting German companies is that there is too much incentive for workers to not work, the Daimler-Benz spokesman said.

"The cause of our problems is really the lack of incentive to work. We have to cut costs for not working. That's the point. That's why sick pay reduction is a good idea."

In many Daimler factories, new incentives are being tested to improve worker presence on the job, he said. "We've begun some countermeasures, which include increased worker counseling, but it's only part of the problem," he admits.

Regional employers' associations are now looking to reach new contracts with unions that would take such points into consideration. They have already canceled contracts that regulate vacation and Christmas bonuses.

In Germany, employees get six weeks of paid vacation and a bonus equivalent to a month's wages at Christmas. These privileges are now to be part of a new wage deal in 1997. At best, employers hope to make sick pay reductions—compromises have been proposed—another point of negotiation. Industry representatives hope for a final agreement sometime this year. **EI**

'The cause of our problems is really the lack of incentive to work,' says a Daimler-Benz spokesman.

high. The unemployment rate is about 12% or 13% in eastern Germany and 5% or 6% in the west; the total is 10%.

Last week, Siemens reversed itself and said it would continue to pay 100% of sick pay, but 20% of that amount will be paid into a neutral fund for now. Should further negotiations with unions not support a reduction in sick pay, the funds will be paid out to workers.

Some optimists, including Karl Feuerstein, who is head of Daimler-Benz' works council and a labor representative, see room for a final agreement "by the end of the month." Works councils are legally required company boards that are made up of management and labor and try to resolve problems in the companies.

The agreement is not likely to make Daimler-Benz and other German companies very happy. Unions want a 4.5% to 5% wage hike and no further discussion about cuts in sick pay, vacation or Christmas bonus cuts—exactly the opposite of what employers want.

Daimler-Benz points to a recent study that shows its metal workers earn 48 DM (\$31) an hour, of which 21 DM (\$14) is additional wage costs like benefits, meaning the employee takes home 27 DM (\$18) an hour. In the United States, the same worker would earn 27 DM, of which 8 DM (\$5) is benefits.

"Even other states like Sweden with a strong social market economy have comparable wages of only 30 DM (\$20) and 13 DM (\$8) benefits," a Daimler spokesman said.

Employers hope the new wage talks that began last week will improve their lot. However, they say the decision to back down from sick pay demands has weakened their position.

Another factor working against employers is dissension and mixed signals from within their ranks. That became evident last week, when Gesamtmetall, an association of German employers in the metals industry, reversed an earlier recommendation to immediately implement new laws to cut sick pay.

"It is an act of enormous stupidity to react in this way to political decisions favorable to business," wrote Eberhard Hamer, head of the Mittelstandsinstitut, a group representing small businesses, in an article critical of Gesamtmetall in the

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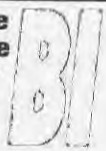
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LEGAL NOTICE

IN THE CIRCUIT COURT OF COLE COUNTY, MISSOURI IN RE TRANSIT CASUALTY COMPANY IN RECEIVERSHIP CAUSE NO. CV185-1206CC

NOTICE OF HEARING PARTIAL DISTRIBUTION

To: All Creditors of Transit Casualty Company in Receivership ("Transit")

Where: Division II, Cole County Courthouse, Jefferson City, Missouri
When: Wednesday, October 23, 1996 at 2:00 p.m., C.D.T.

PLEASE TAKE NOTICE THAT A HEARING WILL BE HELD BEFORE THE HONORABLE BYRON L. KINDER, CIRCUIT COURT JUDGE, ON THE APPLICATION OF TRANSIT'S SPECIAL DEPUTY RECEIVER, BURLEIGH ARNOLD, TO APPROVE A "THIRD DISTRIBUTION" OF TRANSIT'S ASSETS TO CLAIMANTS.

YOU MAY PARTICIPATE IN THIS HEARING IN PERSON OR BY TELEPHONE. IF YOU DESIRE TO PARTICIPATE BY TELEPHONE, PLEASE CONTACT RIC MUNOZ AT (310) 772-8355 AT LEAST 48 HOURS BEFORE THE HEARING AND HE WILL ACCOMMODATE. HE WILL ALSO GIVE YOU DIRECTIONS TO THE COURTHOUSE IF YOU DESIRE TO APPEAR IN PERSON.

Pursuant to the Court-approved Plan of Distribution and the formula for distribution, the Special Deputy Receiver will seek the Court's approval to make an interim, third partial distribution of the net available assets of the Receivership in order that Transit may pay certain claimants a percentage of their allowed claims in January 1997, in accordance with Section 375.700, Revised Statutes of Missouri.

The Special Deputy Receiver will present testimony to Judge Kinder from Transit's staff and consultants on the assets available for distribution, the present "allowed claims" against the estate and an actuarial estimate of the dollar amount of future claims still pending against the estate. This evidence of Transit's assets and liabilities will be considered by the Court, along with any evidence a claimant may wish to present, in determining the exact percentage of the allowed claims which may be paid to third-class creditors in this third distribution.

The Special Deputy Receiver anticipates that this third distribution will be an additional 3% on the claims which were previously paid a total of 13% in distributions, and 16% on claims newly approved and acknowledged after September 30, 1995.

LEGAL NOTICE

LEGAL NOTICE

COMMONWEALTH OF KENTUCKY FRANKLIN CIRCUIT COURT DIVISION NO. II CIVIL ACTION NO. 85-CI-0591

IN RE:

DELTA AMERICA RE INSURANCE COMPANY
IN LIQUIDATION

NOTICE IS HEREBY GIVEN that on September 20, 1996, George Nichols III, Commissioner of Insurance of the Commonwealth of Kentucky, in his capacity as Liquidator ("Liquidator") of Delta America Re Insurance Company, formerly known as Elkhorn Insurance Company and Elkhorn Re Insurance Company ("Delta"), submitted a proposed Creditors Dividend Payment Plan ("Plan") to the Franklin County, Kentucky Circuit Court ("Court") providing for the establishment of procedures and methodologies for the updating and allowance of claims and the subsequent distribution of the assets of Delta. Also on that day, the Court entered an order requiring the Liquidator to mail, on or before September 30, 1996, a copy of the Plan and certain other materials to each claimant of Delta that has previously filed an original, amended or supplemental proof of claim. The Court's order also required any claimant desiring to object to any provision of the Plan to file objections with the Court on or before November 1, 1996 and scheduled a hearing on the Liquidator's motion to approve the Plan on November 14, 1996 at 2:00 p.m., at the Franklin County Courthouse, 218 St. Clair Street, Frankfort, Kentucky. If approved, the Plan requires any claimant wishing to share in the assets of the estate to update its existing proof or proofs of claim by timely filing the applicable Final Update Valuation Form or omnibus filing with the Liquidator on or before December 2, 1996. Requests for copies of the Plan and further information should be directed to Delta America Re Insurance Company, In Liquidation, P.O. Box 1449, Frankfort, Kentucky 40602-1449, attention: Sandra A. Batts, Director of Estate Closure, telephone: (502) 223-4000; fax: (502) 223-4011.

LEGAL NOTICE

LEGAL NOTICE

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

LINDA S. KAISER, INSURANCE COMMISSIONER OF THE COMMONWEALTH OF PENNSYLVANIA, Plaintiff,

THE MUTUAL FIRE, MARINE AND INLAND INSURANCE COMPANY, Defendant,

NOTICE OF FILING OF PETITION TO TERMINATE REHABILITATION AND REQUEST FOR DISCHARGE

TO: ALL POLICYHOLDERS, CREDITORS OR OTHER PERSONS OR ENTITIES INTERESTED IN THE MUTUAL FIRE, MARINE AND INLAND INSURANCE COMPANY (IN REHABILITATION)

PLEASE TAKE NOTICE that the Honorable Linda S. Kaiser, Insurance Commissioner of the Commonwealth of Pennsylvania, as Rehabilitator ("Rehabilitator") of the Mutual Fire, Marine and Inland Insurance Company (in Rehabilitation) ("Mutual Fire") has filed a Petition to Terminate Rehabilitation and Request for Discharge (the "Petition") in the Commonwealth Court of Pennsylvania (the "Court") at the above docket number.

In addition to seeking termination of the Rehabilitation, restoring possession of its property and permitting Mutual Fire to resume operations as a mutual insurance company, the Petition requests the Court, inter alia, to order that only those obligations of Mutual Fire which have been established by the Plan and/or by an Order of the Commonwealth Court shall survive the termination of the Rehabilitation and discharge.

The procedures described below are to be followed by those filing objections to the Petition.

OBJECTIONS TO THE PETITION MUST BE IN WRITING, FILED WITH THE COMMONWEALTH COURT OF PENNSYLVANIA AT DOCKET NO. 3483 C.D. 1986, AND SENT TO: OFFICE OF THE PROTHONOTARY, COMMONWEALTH COURT OF PENNSYLVANIA, AT WIDENER BUILDING-9TH FLOOR, 1339 CHESTNUT STREET, PHILADELPHIA, PA 19107 OR SOUTH OFFICE BUILDING, ROOM 624, HARRISBURG, PA 17120.

OBJECTIONS MUST BE RECEIVED NO LATER THAN NOVEMBER 8, 1996 (THE RESPONSE DEADLINE). A COPY OF ANY OBJECTION FILED WITH THE COMMONWEALTH COURT MUST BE MAILED TO RICHARD DISALLE, ESQUIRE OF ROSE, SCHMIDT, HASLEY & DISALLE, P.C., COUNSEL FOR THE REHABILITATOR, LOCATED AT: 900 OLIVER BUILDING, PITTSBURGH, PA 15222-2310. FAILURE TO OBJECT TO THE PETITION ON OR BEFORE THE RESPONSE DEADLINE MAY RESULT IN YOUR NOT BEING PERMITTED TO BE HEARD IN ANY HEARING RELATED TO THE PETITION.

POLICYHOLDERS, PAYEES AND CREDITORS WHO WANT A COPY OF THE PETITION MAY OBTAIN ONE FREE OF CHARGE BY SENDING A REQUEST TO:

"PETITION TO TERMINATE"
THE MUTUAL FIRE, MARINE AND INLAND INSURANCE COMPANY (IN REHABILITATION)
1700 MARKET STREET, SUITE 1110
PHILADELPHIA, PA 19103
OR BY FACSIMILE TO: (215) 567-9300

You may direct questions concerning the Petition to Mutual Fire personnel by calling 1-800-583-8049. If you leave a message, be sure to give your name, address and telephone number, including the area code. Also, include the reference number which is on the mailing label of this notice.

RICHARD DISALLE, ESQUIRE
For and on Behalf of Linda S. Kaiser
Insurance Commissioner of the Commonwealth of Pennsylvania, as
Rehabilitator of the Mutual Fire,
Marine and Inland Insurance Company
(in Rehabilitation)
October 2, 1996

INTERNATIONAL

Lloyd's acts to collect debt

By EDWIN UNSWORTH

LONDON—Lloyd's of London is sending dunning letters to recover some £500 million (\$781.5 million) in outstanding underwriting debts from members who refused to participate in its £3.2 billion (\$5.01 billion) settlement offer.

Letters sent by its debt collector at the start of this month were followed up a week later by writs to some of those with debts still outstanding.

Lloyd's confirmed last week that its debt collection agency, Dibb Lupton Alsop of London, sent the letters Oct. 1 to 908 Lloyd's names. The letters threatened legal action unless the names paid their share of claims by Sept. 30.

The 908 letters sent so far cover almost half of the 1,836 "refuseniks," as the non-paying names who have outstanding debts at Lloyd's have been dubbed by in market.

A spokesman for Lloyd's said U.K. names had been told in the letters that they were expected to reply within seven days, while North American names were given two weeks to respond. On Oct. 10, some 207 writs were dispatched to U.K. names who had still not paid after receiving their letters.

A Lloyd's spokesman said these first writs are being sent to names Lloyd's deems can afford to pay but have refused to do so. Most of these names think they should not have to pay because many of the underwriting losses they share were chalked up in the period 1988-1992, when Lloyd's made huge losses, mainly in U.S. asbestos and pollution claims, largely as a result of what Lloyd's leaders have since admitted were negligent underwriting practices.

Lloyd's hopes to bring the first non-payers to court in so-called test cases, which would set precedent for subsequent legal action, before the end of the year.

Some of the names who have not paid include those who accepted the settlement offer. Philip Holden, head of the financial recovery department at Dibb Lupton Alsop, said by the middle of this week Lloyd's expects to know how many of the accepting names haven't paid, thereby breaking the terms of the settlement offer, and prompting Lloyd's to sue them.

The United Names Organisation and the Lloyd's Names Assn.'s Working Party, both of which represent names who have not paid debts, issued similar statements last week criticizing the letters for their "threatening" and intimidating tone and for overstating the outstanding debt of individual names. They said the letters ignore all the money owed to names in litigation credits won in past court cases against Lloyd's, which the United Names Organisation claimed amounted to "hundreds of millions of pounds," and from stop loss recoveries and profits on their underwriting. As part of the settlement, though, names accepting the offer agreed to forego receiving money they would otherwise have been due under court cases they won against Lloyd's.

The United Names Organisation said that it would be "very difficult" for Lloyd's to prove the sums it is seeking. "Not a single figure has been audited. None of it is being used to pay claims," the statement said.

It also stated it welcomed the opportunity to go to court as a means of further revealing "Lloyd's incompetence, duplicity, and willingness to mislead its names, its policyholders and the public." **BI**

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Law shifts securities litigation patterns

By MICHAEL PRINCE

WALTHAM, Mass.—Like water searching for the weak spot in a dam, plaintiffs attorneys are looking for ways to get over obstacles to lawsuits presented by the securities litigation reform law passed last year, two lawyers said.

While securities litigation is down slightly, the Private Securities Litigation Reform Act of 1995 has not shielded companies from

suits, but has changed the way those cases are brought, concluded Dan Bailey and Stan Bernstein, securities attorneys who spoke at the 29th Watson Wyatt Directors and Officers Liability Symposium in Waltham, Mass.

Among its provisions, the law changes the lead plaintiff of the case—and the lead attorney—from the first shareholder to file the suit to the one with the largest stake in its outcome; eliminates

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joint and several liability in favor of proportional liability; provides protections from liability for forward-looking statements that

contain a warning issued by a company that turn out to be inaccurate; raises the standards for the plaintiff making cases easier to dismiss; and changes the way damages are calculated that will result in lower damages to the plaintiffs.

The Act, passed last year by Congress over President Clinton's veto, applies to all suits filed after Dec. 22, 1995, and was designed to reduce the number of shareholder suits against companies. Its effect, however, may benefit plaintiffs, Mr. Bernstein said.

"The securities class-action field is alive and well," said Mr. Bernstein, a plaintiffs lawyer with New York's Bernstein Liebhard & Lifshitz.

"In reality, although the new law will significantly affect how securities claims against (directors and officers) and others are prosecuted, the legislation will likely result in only a modest change in the number of cases filed or dismissed," wrote Mr. Bailey, of Ater & Hadden in Columbus, Ohio, in a paper he presented.

With some of the once-common avenues to litigation pinched off or made more difficult to travel, some attorneys have found alternatives, according to the two experts. Because the new law applies only to suits filed in federal court under federal securities law, lawyers are bringing suits in state courts under statutes or common law. For example, under the laws governing corporate directors in most states, suits can be brought for breach of fiduciary duty and derivative suits can be filed, where the suit is brought by a shareholder against the directors in the name of the company.

One fruitful area, according to Mr. Bernstein, is state suits involving initial public offerings. An interesting wrinkle in federal law left unaddressed is that suits alleging misstatements in a company's initial public offering can be brought in state court, and cannot be sent to federal court.

One of the more effective

changes made by the law was ending the race to the courthouse, the lawyers agreed. Before the law, plaintiffs' attorneys raced to become the first to file suit after a company's stock price dropped. The first to file generally was chosen the lead plaintiff in the class-action suit, and the attorney was the lead attorney. The lawyers who filed later, even by a few minutes, were generally consigned to a secondary role and a smaller fee.

Now a race for the biggest client replaces the race to the courthouse. The new law states that the shareholder with the largest stake in the outcome, the one with the most shares, becomes the lead plaintiff. And to notify shareholders of the suit, the plaintiff's attorney now must advertise the suit's filing in a "widely circulated business-oriented publication or wire service."

At first plaintiffs were reluctant to do this, Mr. Bernstein said, because that would alert others to the suit and might bring in a larger plaintiff to take over the case.

What he has found, however, is that rather than leading to a large institutional investor coming forward to take over the suit from attorneys, many small shareholders are calling in response to the ads wanting to become the lead plaintiff. Plaintiffs firms then aggregate the shares of all their plaintiffs, and the firm possessing the largest total becomes lead counsel.

The result is that firms now extensively advertise their suits and issue news releases to draw in plaintiffs, Mr. Bernstein said.

"Now it's the first to advertise," he said.

This new procedure presents a drawback to companies, the lawyers said. Once they knew immediately if they would be sued, now it could be weeks or months for a suit to follow a drop in stock price. As a result, when renewing D&O policies, underwriters will conduct more thorough searches of the company's stock price than

See Litigation next page

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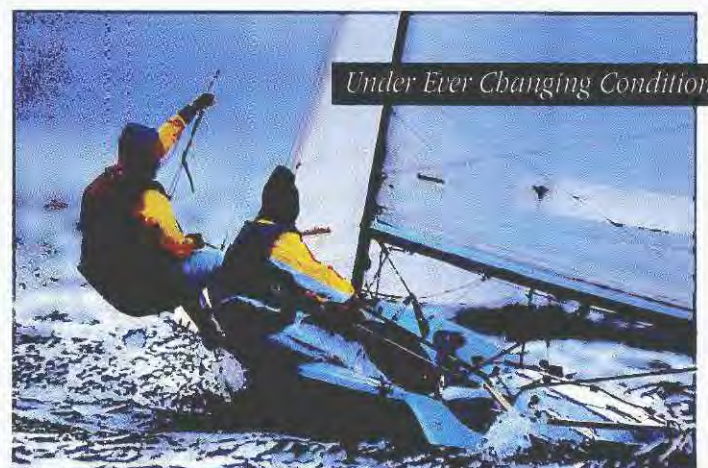
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Litigation

Continued from previous page
was previously done, Mr. Bailey said.

'In reality...the legislation will likely result in only a modest change in the number of cases filed or dismissed,' securities lawyer Dan Bailey wrote.

and the underwriter may look at a price drop several months prior to renewal as a source of potential claims.

A major provision of the reform act is aimed at protecting companies from statements they make about the future of the company.

Plaintiffs would use these statements, which often portrayed a strong future, as evidence of an attempt to mislead investors if the company's stock subsequently fell. The new law shields companies from liability if these "forward-looking statements" contain cautionary language saying actual results may differ from the projections, Mr. Bailey said.

But loopholes in the law prevent it from shutting out these types of claims, they said. For example, the law does not give protection to a company's financial statements. Plaintiffs attorneys now are using figures in the financial statements, which they say forecast the future, to support their cases, Mr. Bernstein

said.

The new rules on forward-looking statements can also be "a trap for the unwary," Mr. Bernstein said, as a company that fails to follow its re-

quirements won't benefit from its protections.

Overall, these heavily touted protections will have minimal effect, the lawyers concluded, and will not protect against the strong cases.

"It protects against the weakest cases we had to begin with," Mr. Bernstein said.

Another way the plaintiffs bar is circumventing the law is by changing state laws. California voters in November will vote on Proposition 211, which would liberalize the laws in California for securities class-action suits in state court (see story, page 1). The proposition is supported by plaintiffs securities lawyers and "would effectively undo at the state level all of the class-action reform provisions contained in the new federal legislation," Mr. Bailey wrote.

One unexpected change is that because plaintiffs firms have slightly fewer cases, they demand higher prices to settle the ones they do have in order to maintain their levels of income, the lawyers said. **BI**

More, cheaper D&O coverage

Large capacity chases smaller market demand

By MICHAEL PRINCE

WALTHAM, Mass.—The present directors and officers market is "nuts," with not only low prices but also comprehensive policies, says an underwriter.

More companies are writing D&O policies and doing it on a "kitchen sink approach," meaning they're offering virtually everything, Janet Carmichael, vp of the Crump Group in Nashville, Tenn., said at the 29th Watson Wyatt Directors and Officers Liability Symposium in Waltham, Mass.

Large capacity chasing smaller demand is the reason for the soft market, said Giovanni Fanizza, senior vp for General Reinsurance Corp. in Stamford, Conn., who also spoke at the symposium.

"The surplus that is there and available is simply outstanding," he said.

Part of the surplus is from companies entering the field in the past few years, when the market was stable, by luring away experienced managers from other carriers, he said.

The added competition did not, however, cause an immediate drop in prices but a gradual drop along with incremental increases in coverage. "It's never one big step but a series of many tiny steps," he said.

He called these increases in coverage, with no increases in premiums, "price reductions in drag."

An example of increased coverage: Since the 1980s it has become popular for companies to purchase "side A" policies that protect directors and officers where the company's indemnity plan doesn't, Ms. Carmichael said.

In recent years entity coverage for securities suits has become available that remains in place even if the individual director or officer is dismissed from the suit, Ms. Carmichael said.

The entity coverage addresses the problem of allocation. A major issue in D&O policies has been the allocation of any settlement be-

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tween the directors and officers on one hand and the company on the other where both are defendants in a suit, Ms. Carmichael said. Traditionally, companies purchased policies for their directors and officers, but the company was left uninsured for the part of any settlement allocated to the company.

Also growing in popularity in recent years are policies that offer entity coverage for employment practices liability and security suits while maintaining full D&O coverage.

This policy, however, is only available for privately held companies. "For the buyer it's a lot more comfortable because you have a variety of companies" that sell, she said.

One aspect of D&O coverage that has become more popular is employment practices liability coverage that is added to a D&O policy as an endorsement. "EPL coverage has exploded in the last few years," Mr. Fanizza said, though it is not always necessary.

"For large insureds you don't have to worry about EPL coverage because it's within the self-insured retention," he said, adding that for smaller companies and non-profits it is necessary because their D&O policies generally have a lower SIR.

One factor companies should keep in mind in buying comprehensive policies is combining D&O coverage with EPL coverage. Generally EPL coverage has much lower self-insured retention levels than D&O coverage, as employment suits result in lower settlement amounts.

If a company combines EPL coverage with D&O coverage, it might get hurt.

Complete SEC filings key to loss prevention, lawyer says

By MICHAEL PRINCE

WALTHAM, Mass.—Life as a defendant in a class-action securities suit presents the "difficulty of responsible commitment in an absurd universe," said Stephen Smith, general counsel for Exabyte Corp.

Exabyte, a Boulder, Colo.-based maker of data storage systems, was sued in 1992 after a company report of lower quarterly earnings led to a 38% drop in the stock price.

Within 48 hours the company was hit by eight shareholder class-action suits. Although a federal judge dismissed the suits in 1993, Mr. Smith calls defending them "a life-changing event" from which he has drawn lessons in preventing future claims.

An important part of any loss prevention program is careful drafting of yearly and quarterly Securities and Exchange Commission filings, he said.

These are a company's best friends, he said, especially the list

of risk factors, which should be as complete as possible.

"The amount of time you spend on that is insignificant compared to the amount of time you will

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spend with plaintiffs' attorneys on this issue," he said during a session at the 29th Watson Wyatt Directors and Officers Liability Symposium in Waltham, Mass.

When drafting documents for the public he uses the "100 to 1 rule."

"If there is a 100% chance of something good happening I will disclose it," Mr. Smith said. "Or if there is a 1% chance of something bad happening I will also disclose it."

Companies also should prevent company officials from issuing in-

formal fluff announcements to shareholders.

"This is the biggest danger you have out there," Mr. Smith said, as they are frequently cited by plaintiffs attorneys in their suits.

Examples of such fluff are letters from heads of the company to shareholders that discuss the future performance of the company.

Another concern is suits connecting the company to predictions made by stock analysts by saying the forecasts were based on information supplied by the company.

To avoid this problem, Mr. Smith prepares transcripts of all conversations between company officials and analysts and makes them available to potential investors.

Mr. Smith further advised that companies become partners with their D&O carriers prior to any suit being filed, as their interests are identical.

After a suit, "a carrier is nothing other than someone to sue," he said. **BI**

D&O claim frequency steady, study shows

Larger companies hit more often

WALTHAM, Mass.—Directors and officers liability claim frequency is steady, according to preliminary results from the 1996 Watson Wyatt Worldwide D&O Liability Survey.

Continuing the trend from

29th Watson Wyatt Directors & Officers Liability Symposium

earlier years, the 1996 results show that D&O claims are more frequent against larger companies than smaller ones. For companies with assets of more than \$1 billion, the 1996 survey found an average of 1.28 claims per company over the 10-year period dating from the first half of this year back to 1987. That figure was unchanged from the 1995 survey findings.

Smaller companies have claim frequencies of about one-sixth that rate, according to the survey that was presented at the 29th Watson Wyatt Directors and Officers Liability Symposium in Waltham, Mass.

Similarly, over the same period, companies with more than 500 shareholders had a claim frequency of 0.9 per company, about three times the claim frequency of companies with fewer than 500 shareholders, also unchanged from last year's survey.

Companies involved with merger, acquisition or divestiture activity had a rate of 0.84 claims per company in the 10-year period, compared with 0.34 for those without any activity.

The breakdown of claims shows more claims from shareholders and less from customers. Suits from shareholders rose to 50% of claims in the 1996 survey from 46% in last year's survey, while customer D&O suits dropped to 14% of claims from 18%. Employee claims dropped to 24% from 25% in the 1995 survey.

As for the cost of claims, that increased to \$6.3 million per closed claim in the 1996 survey from \$4.5 million in the survey last year.

The large increase may be due to one \$100 million claim in the 1996 study, said Mark Larsen, the Watson Wyatt survey director.

The D&O liability symposium drew about 80 attendees. The next Watson Wyatt D&O symposium will be held Feb. 6-7, 1997, in San Diego. For more information, contact, Mary Maze at Watson Wyatt Worldwide, 312-704-2483.

Copies of the D&O Liability Survey are available for \$300 on a prepaid basis. Checks should be made payable to Watson Wyatt Worldwide and sent to Mary Maze, Watson Wyatt Worldwide, 303 W. Madison, Suite 2400, Chicago, Ill. 60606-3308.

—By Michael Prince

MSAs

Continued from page 1

Unlike their distant cousin, flexible spending accounts, MSAs can accumulate unused funds. Employees do not have to forfeit funds in their MSAs at the end of the year, as they must with flexible spending accounts. When employees reach age 65, they can withdraw money in their MSAs for any purpose and pay only regular income taxes. Prior to that, a 15% excise tax, plus regular income taxes, are due on MSA withdrawals for non-health care expenses.

MSAs offer a double benefit to employees, said Mr. Kimball. "You can save money for medical expenses and for retirement."

Given all those features, Mr. Kimball said the insurance agency intends to convert its existing MSA program—underwritten by Golden Rule Insurance Co. of Indianapolis—into a tax-favored one next year when the new rules affecting MSAs take effect.

"This is something that makes perfect sense. Very seldom do you get something out of Washington that makes so much sense. This, undoubtedly is going to be a big hit," Mr. Kimball said.

Indeed, interest in MSAs—from employers and employees—already is high.

For example, after a local newspaper carried a story about a new MSA program Blue Cross & Blue Shield United of Wisconsin in Milwaukee will offer next year, the company was flooded with phone calls from employers and employees wanting more information, said Rebecca Rogers, director of marketing.

"We think this is going to be very popular with professionals, like attorneys and accountants, as well as employers who felt they could not afford to offer a health insurance plan," Ms. Rogers said.

"Once people understand the tax advantages involved, they become very interested," added Porter O'Meara, second vp-individual medical product development with Time Insurance Co. in Milwaukee, which next month will begin marketing MSA policies in the small group market in 40 states and the District of Columbia.

BC&BS United and Time Insurance aren't the only insurers who intend to take advantage of the changes in tax law and enter the tax-favored MSA market.

Other insurers that are readying tax-favored MSA policies for the small employer market include Indianapolis-based Golden Rule, an MSA pioneer, which aggressively lobbied Congress to give MSAs tax breaks;

CNA Insurance Cos. in Chicago; Employers Health Insurance Co. of Green Bay, Wis.; a Humana Corp. unit; and PFL Life Insurance Co. of North Richland Hills, Texas.

Other insurers, though, including CIGNA Corp., Prudential Insurance Co. of America and The Principal Financial Group, have no immediate plans to enter the tax-favored MSA market.

"We still feel there are enough regulatory uncertainties before we get real excited about the new MSAs," said Kraig Boysen, The Principal's director

to manage investment of employer contributions to the MSAs.

"The entire operation will be handled by CNA," said Zaven Kazazian, CNA's senior vp of group operations in Chicago.

By contrast, Blue Cross & Blue Shield United of Wisconsin has tapped FlexBen Corp., a benefits consulting firm in Mequon, Wis., to administer the MSAs, while Firststar Investment & Research Management Co. of Milwaukee will manage money deposited in the MSA.

Some insurers already are linking

'This is something that makes perfect sense. Very seldom do you get something out of Washington that makes so much sense,' says Doug Kimball.

of strategic development in Des Moines, Iowa.

One uncertainty—perhaps the biggest—is what happens if demand for MSAs exceeds the number of policies Congress agreed could be written.

Under a compromise reached with the Clinton administration, which opposed MSAs, Congress authorized tax-favored MSAs through the year 2000. But as part of that compromise, Congress limited the number of MSA policies that could be written during this pilot period to 750,000. The Internal Revenue Service is supposed to survey insurers to find out how many MSA policies they have written to see if the cap is hit.

But no one knows for sure—until federal regulations are published—what happens if this cap is hit as soon as the law goes into effect on Jan. 1 or shortly thereafter and before the IRS completes its MSA survey. The IRS survey isn't expected to be completed until the summer of 1997.

But MSA backers say it is unlikely that the IRS would force MSA policyholders to retroactively give up their MSAs if the IRS survey turns up more than 750,000 MSAs.

If that occurs, the most likely action would be that the IRS would bar new MSA policies from being sold but would allow existing MSA policies to continue, said Jack Strayer, director of federal affairs at the Council for Affordable Health Insurance, an MSA advocacy group in Alexandria, Va.

Insurers are taking different approaches in marketing and administering MSAs. For example, CNA says it will handle all administration of MSAs as well as using a CNA subsidiary—CalTrust Bancorporation—

up with trade associations to help them market the new MSA policies to their members. For example, the Metropolitan Milwaukee Assn. of Commerce will offer BC&BS United MSA products to its members, alongside other health plans it now offers.

"Our members are looking for another health insurance option," said Julie Granger, the association's communications director.

Despite their enthusiasm, insurers offering MSAs say they are not for everyone. "You have to determine if the product is right for your workforce," said Greg Rotherham, a Humana vp in Louisville.

Employers, MSA experts say, have to consider such variables as the strength of managed care in their markets as well as the health of their employees. In general, MSAs will be most attractive to companies with young, healthy employees because they would be most likely not to exhaust their MSAs paying for medical claims that fall under their high-deductible health care plans.

Employers also have to be careful to structure their MSA program so that the amount they pay in insurance premiums for a high-deductible plan and the amount they kick into employees' MSAs does not exceed what they previously were paying in health insurance premiums.

While it is likely to be years before it is known whether MSAs can hold down health care costs, some backers already are excited about the potential effects of MSAs.

"This is very exciting. We've never had the opportunity to reward employees for being good health care consumers," said Ms. Rogers. **EI**

Tax breaks limited for MSAs

WASHINGTON—While medical savings accounts will enjoy new tax breaks, Congress has set tough limits on who can have tax-favored MSAs and how they can be structured.

During a four-year pilot program, which begins Jan. 1, only employers with 50 or fewer employees will be allowed to have tax-favored MSAs.

At the end of the pilot period, Congress will decide whether to kill the program or expand it to larger companies.

However, if the MSA experiment is ended, employees with MSAs will be allowed to continue to contribute to their accounts.

Congress also made clear that MSAs must be linked to high-deductible health insurance plans—those with annual de-

ductibles of at least \$1,500 but no more than \$2,250 for individual coverage and a minimum deductible of \$3,000 and a maximum deductible of \$4,500 for family coverage.

The maximum annual out-of-pocket expense for those with individual coverage would be \$3,000, with a \$5,000 annual out-of-pocket limit for family coverage.

The maximum annual contribution an employer can make to an MSA is 65% of the deductible for individual coverage and 75% of the deductible for family coverage.

MSA backers say the MSA provisions—included in a broader health care portability bill Congress passed this summer—are only the starting point.

They intend to lobby Congress to expand the law to allow all employers to offer tax-favored MSAs.

"We are not stopping. This is only the beginning," said Jack Strayer, director of federal affairs of the Council for Affordable Health Insurance, an insurer group in Alexandria, Va., that advocates MSAs.

Other MSA advocates, while also wanting to see the law expanded, are excited that at least Congress has given the go-ahead to tax-favored MSAs.

"For the people of this country, this is great, but it could have been even better," said Dan Tepke, senior vp and chief operating officer with Golder Rule Insurance Co. in Indianapolis.

—By Jerry Geisel

Updates

WellPoint buys Hancock unit

Continued from page 2

Point's more managed, lower-cost products because we offer more customer flexibility."

Commenting on the deal, Doug Sherlock, an analyst with Sherlock Co. in Gwynedd, Pa., said, "Although it is always a tricky matter," WellPoint "has historically been unusually successful at converting indemnity insurance business to managed care."

Hancock, the nation's ninth-largest life insurer, is retaining its long-term care and stand-alone life insurance operations as well as its other financial services, including mutual funds, securities brokerage and venture capital.

Aetna takes \$307 million charge

HARTFORD, Conn.—Aetna Inc. will take charges against earnings of \$307 million and will cut about 4,400 jobs in a drive to restructure its units after the \$8.9 billion purchase of U.S. Healthcare earlier this year (BI, April 8).

In the third quarter, Aetna will take an aftertax charge of \$32 million related to the restructuring of its retirement services business, and in the fourth quarter it will take a \$275 million charge related to the integration of its health care business.

Additionally, it will cut 4,000 jobs in its health care division and 400 at its retirement services division. In total, the insurer plans to cut 8,200 jobs at both units, but the creation of new positions in other areas such as sales and marketing will lead to a net cut of 4,400, the company said in a statement.

The restructuring of Aetna-U.S. Healthcare will include the implementation of a new regional structure for the unit.

The six regional headquarters will be: Walnut Creek, Calif.; Middletown, Conn.; Atlanta; Chicago; Blue Bell, Pa.; and Dallas.

Additionally, the merged unit will drop the old Aetna managed care computer system and use the U.S. Healthcare system, and reduce the number of data centers to two from three. The combined company will retain the Aetna indemnity computer system.

"As we combine operations, we are establishing the cost structure, regional organization and systems and infrastructure needed to realize our full growth potential," said Michael J. Cardillo, co-president of Aetna-U.S. Healthcare.

The \$32 million charge to Aetna Retirement Services is largely due to the cut in the workforce and other expense-cutting efforts, the company statement said.

All of the changes at Aetna are expected to be implemented by 1998.

Value Health to spin off PBM

AVON, Conn.—Prescription benefit manager ValueRx will be spun off into a separate company by Avon, Conn.-based Value Health Inc.

Value Rx, the largest PBM not connected to a U.S. drug manufacturer, will be converted into an independent, publicly traded company focusing solely on prescription management, and Value Health shareholders will be issued ValueRx stock.

The parent company said the change is designed to allow it to concentrate its attention on services related to mental health and substance abuse management, workers compensation, disability and group health management, and disease management.

Robert E. Patricelli will stay on at Value Health as chairman and chief executive officer, and Steven J. Shulman, now head of Value Health's pharmacy and disease management group, will be chairman and CEO of ValueRx.

Value Health also announced it plans to acquire the stock of Farmington, Mich.-based Medview Services Inc., a provider of workers comp managed care services, for \$87.5 million from Fort Smith, Ark.-based Beverly Enterprises Inc.

Briefly noted

The California Insurance Department has extended until Oct. 15 the deadline for **Golden Eagle Insurance Co.** to provide a plan the department has requested for boosting the company's reserves. Meanwhile, Superior Court Judge William Cahill has set a Nov. 1 deadline for briefing on the issue of whether the department violated the insurer's constitutional due process rights by ordering it to boost its reserves without first holding a public hearing. . . . The Massachusetts Senate insurance committee has scheduled an Oct. 30 hearing on the redomestication of the defunct **Electric Mutual Liability Insurance Co.** to Bermuda last year. Meanwhile, a state senator and two state representatives have written to Insurance Commissioner Linda L. Rutherford urging her to reopen administrative hearings on EMLICO's move. . . . **Philip J. Brown Jr.**, former chairman of Marsh & McLennan Europe, died last week of leukemia in Morristown, N.J. Mr. Brown, 68, spent more than 40 years with M&M before he retired in 1995. . . . Florida Insurance Commissioner Bill Nelson ordered **workers comp rates** in the state reduced by an average 11.2% instead of a 0.6% increase requested by the National Council on Compensation Insurance. . . . All 2,900 U.S. names in **Lloyd's of London** will now be entitled to relief from their debts in the insurance market—provided they have voted to accept Lloyd's £3.2 billion (\$5.01 billion) settlement offer—after Arizona this month became the last U.S. state to settle its investment dispute with Lloyd's. The agreement extends to Arizona names the benefits of an agreement reached between Lloyd's and the Coordinating Committee of the North American Securities Administrators Assn. earlier this year (BI, July, 15). Separately, A trio of regulators from Alaska, Illinois and Louisiana recommended that Lloyd's of London receive an extension—but not the one-year exemption it requested—from filing actuarial certification of loss reserves for those syndicates writing U.S. business (BI, April 1). Talks continue about the duration of an acceptable extension and the types of certification regulators want.

Coral

Continued from page 1
 lectible reinsurance from other reinsurers—has reported only \$15 million in share capital since a 1991 reorganization (see chart).

Two other AIG units—National Union Fire Insurance Co. of Pittsburgh, Pa., and American Home Assurance Co.—have actually accounted for the bulk of Coral's business. For 1995, the two reported only \$25.4 million ceded to Coral, but still carried \$645.5 million in reinsurance recoverable from the Barbados company, compared with \$127.1 million recoverable by Lexington.

The Pennsylvania and New York insurance departments are now examining National Union and American Home, and Mr. Smith said he expects them to reach the same conclusions about Coral that the Delaware department did.

While National Union and American Home will probably commute some of their business with Coral, Mr. Smith said, "It's not our intention" to reach agreements with New York and Pennsylvania regulators similar to that reached with Delaware.

"I had no trouble doing that for Lex because that's our plan," he said. "If we did have any intention to cede (more business to Coral), I never would have agreed" to stop.

The Delaware exam report caps nearly two years of investigation into AIG's relationship with Coral, an inquiry that picked up steam with the disclosure last year of the 1987 offering documents used to raise capital for the reinsurer (BI, Feb. 6, 1995).

In a private placement managed by Goldman Sachs & Co., Coral raised \$60 million from a small group of investors that included the chairmen of several Fortune 500 companies and the Arkansas Development Finance Authority.

The individual investors—who included chairmen of Mennen Co., Morton Thiokol Inc.,

Comdisco Inc., Reynolds Metals Inc., Kraft Inc. and ITEL Corp.—bought their Coral shares with non-recourse loans from the Chicago branch of Sanwa Bank. The stock paid quarterly dividends designed to cover variable rate interest charges on the loans while also providing the shareholders a fixed payment.

Coral invested the proceeds of the offering in a Sanwa certificate of deposit.

In 1991, Coral bought out its original U.S. shareholders and issued a smaller number of new shares to a new investor group, reducing its share capital to only \$15 million from almost \$60 million. This group included French affiliates of Abeille General Insurance Co., which has been managed by an AIG management unit; Molson Cos. Ltd. of Toronto, whose president was named an AIG director in 1992; and a Canadian-owned Barbados captive managed by a Coral director, Martin Hole.

Mr. Hole and Barbados lawyer Trevor Carmichael both signed Coral's financial statements as directors. Mr. Hole could not be reached, and Mr. Carmichael declined to comment.

American International Management Co. (Barbados) Ltd. has managed Coral from its formation. Helen Roper, president of the AIG management unit, also declined to comment.

AIG has steadfastly maintained that it has an arms-length relationship with Coral, pointing out that it owns no Coral shares and has no representatives on its board; that Coral's contracts are all signed by a Coral director; and that New York law firm Cahill, Gordon & Reindel provided AIG with an opinion that the insurer does not control Coral within the meaning of New York insurance law.

In its exam report, though, the Delaware department cites several reasons for its concern that Coral "may be an affiliate" of AIG:

- The 1987 Coral private placement memorandum states that "AIG's interest in creating (Coral) is to create a reinsurance facility which

will permit its U.S. companies to write more U.S. premiums."

"For a U.S.-domiciled company, a high level of surplus is required to support insurance premiums in accordance with U.S. statutory requirements," the memo explains. "The statutory requirements in Barbados are less restrictive."

AIG was actively involved in lining up investors for Coral and played an integral part in designing the terms of Coral reinsurance treaties, samples of which were included with the offering documents, the department found.

- Coral was created only to reinsure AIG and "was not created to reinsure any other company or write reinsurance in the general marketplace."

- Coral's financial health depends on the reinsurance ceded by AIG units. At year-end 1992, Coral's assets consisted mainly of reserves ceded by AIG and related investment income, and most of the assets were pledged to secure letters of credit for AIG units, the report notes.

- Coral's original shareholders received a fixed return on their investment and did not expect any other profits based on Coral's performance, leaving them with "little or no interest in controlling and actively managing the reinsurance aspect of Coral Re's arrangements with AIG."

The Delaware department also concluded that much of Lexington's Coral reinsurance does not transfer underwriting risk, a requirement under current accounting rules for insurers to be given credit for reinsurance recoverable.

AIG units have several different treaties with Coral, the most significant of which is a so-called "quota share replacement treaty" covering AIG for uncollectible reinsurance and adverse development on commuted treaties with other reinsurers, the report says.

This treaty replaced a similar contract AIG units had before Coral's formation with Putnam Reinsurance Co., a New York-based AIG affiliate, the report says.

Under the Coral treaty with Lexington, the AIG unit had sole discretion in determining when its other reinsurers were "financially impaired," triggering Coral coverage.

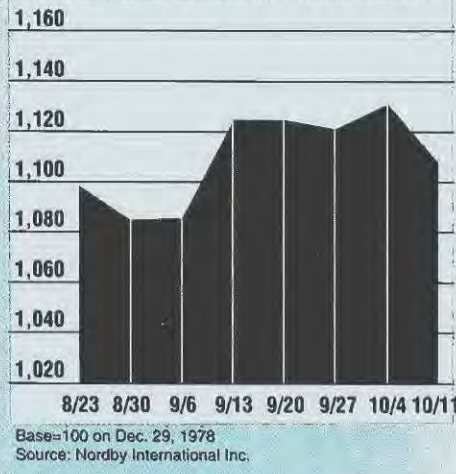
The Coral treaty also allowed Lexington to avoid recording losses on commutations with other reinsurers. Insurers would normally take a charge to surplus for the difference between payments received in commutations with reinsurers and the related liabilities reassumed. However, Coral would simply step into the shoes of Lexington's commuting reinsurers.

Delaware examiners concluded that the replacement treaty only transfers credit risk, a finding that Lexington hotly disputes in a rebuttal to the exam report.

AIG officials complain that regulators are retroactively applying restrictive accounting

See Coral on next page

BI Insurance Index



PCS catastrophe options

As of Oct. 11			
Call spread	Price bid/ask	Call spread	Price bid/ask
Eastern December 1996		California Annual	
10/30	3/3.5	40/60	5/1.3
20/40	2/-	80/100	3/1.1
30/50	1/-		
Southeast Dec. 1996		Western Annual 1997	
10/30	-/3	40/60	2.2/3.7
		80/100	1.9/2.0
National Annual 1997		Northeast Dec. 1996	
80/100	6/14.0	20/40	-/1
120/140	4.5/5.5		
Total volume: 2 Total open interest: 6,857			
For information on PCS cat options, call the Chicago Board of Trade at 312-435-3674.			
Source: Chicago Board of Trade			

British Issues

Oct. 10	Price	P/E	Div.	Yield	1 week
Companies	pence		pence %		high—low
Comm'l Union	645	12.3	35.3	5.5	645—617
Gen'l Accident	725	10.9	38.8	5.4	725—715
Gdn Royal Exch	265	9.8	11.3	4.3	265—257
Independent	567	10.6	14.1	2.5	567—566
Royal & Sun	419	10.0	21.6	5.2	419—412
Brokers					
Bradstock	65	10.8	7.1	10.9	69—65
Fenchurch	91	6.1	10.6	11.6	92—91
CE Heath	77	9.1	6.3	8.2	77—77
JIB Group	110	10.9	9.4	8.5	110—109
Lloyd Thompson	174	10.1	12.5	7.2	175—174
Lowndes Lmbt	123	8.0	10.5	8.5	125—123
Nelson Hurst	190	11.6	9.8	5.2	190—190
Sedgwick Grp	121	9.5	8.1	6.7	121—121
Steel Bri Jones	33	N/A	2.8*	8.5	33—33
Willis Corroon	130	11.7	8.3	6.4	133—129
Source: Philip Olsen, London					

Coral Reinsurance Co. Ltd. financial highlights

(Dollars in millions)

	1993	1992	1991	1990	1989	1988	1987
Earned premium	121.7	124.5	233.6	65.8	133.4	442.8	474.4
Reinsurance ceded	1.0	1.0	102.7	1.0	1.0	1.0	1.0
Net earned	120.7	123.5	130.9	64.8	132.4	441.8	473.4
Assets	989.6	945.2	1,074.7	1,069.7	1,080.8	1,020.3	529.0
Liabilities	974.6	930.1	1,059.6	1,017.0	1,028.0	967.1	475.8
Shareholders equity	15.0	15.0	15.1	52.8	52.8	53.2	53.2

Source: Coral Re financial statements

BI Industry Stock Report OCT. 7, 1996, THROUGH OCT. 11, 1996

BROKERS																
	Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)		Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)			
Accordia Inc.	NYS	30.375	-0.41	2.10	33.75	24.63	1	EMC Insurance Group Inc.	NDO	11	2.35	-20.00	14.50	10.13	8	
Alexander & Alexander	NYS	15.875	-2.31	-16.45	23.88	15.38	515	Everest Reinsurance	NYS	25.75	0.45	10.16	28.00	19.00	866	
E.W. Blanch Holdings Inc.	NYS	20.875	7.05	-10.70	25.50	17.75	63	Executive Risk Inc.	NYS	39.875	-3.33	37.50	41.63	22.00	81	
Gallagher Arthur J. & Co.	NYS	33.625	-2.18	-9.73	39.50	30.00	81	EXEL Ltd.	NYS	40.125	8.81	31.83	40.13	26.50	763	
Hilb, Rogal & Hamilton	NYS	13.25	0.95	-0.93	14.38	11.38	63	Fremont General Corp.	NYS	29	-2.52	18.37	30.25	18.25	128	
Kaye Group Inc.	NDO	6.25	0.00	-21.88	8.75	4.63	30	Frontier Insurance Group	NYS	37	-7.21	15.63	41.13	27.50	665	
Marsh & McLennan	NYS	99.75	-0.37	12.39	101.63	80.50	811	Gainsco Inc.	NYS	10.75	3.61	-5.49	12.38	8.31	85	
Poe & Brown	NDO	24.625	1.55	-1.01	25.50	22.75	77	GCR Holding Ltd.	NDO	24.625	-2.23	NA	27.25	19.75	192	
BROKERS AVERAGE 0.5 -5.8																
INSURERS/REINSURERS																
ACE Ltd.	NYS	56.125	-0.22	41.19	57.25	32.75	994	Harleysville Group	NDO	26.875	0.47	-16.99	30.00	24.50	54	
Acceptance Insurance Cos.	NYS	20.625	7.84	38.66	20.63	13.13	73	Hartford Steam Boiler	NYS	44.25	-0.84	-11.50	52.50	43.25	173	
AEGON N.V.	NYS	51.25	0.74	16.48	51.50	36.50	38	HCC Insurance Holdings	NYS	27.25	-2.88	47.30	32.75	12.38	257	
Aetna Life & Casualty	NYS	66	-5.88	-4.69	78.75	55.38	4952	IPC Holdings Ltd.	NDO	20.375	2.19	NA	22.25	19.00	77	
AFLAC Inc.	NYS	37	-1.99	27.59	38.50	27.13	589	ITT Hartford Group	NYS	60.25	-2.03	24.55	62.50	44.50	1418	
Allied Group Inc.	NDO	41.5	5.06	15.28	44.25	31.50	268	LaSalle Re Ltd.	NDO	23.75	3.26	NA	25.50	19.50	38	
Allmerica Prop. & Casualty	NYS	29.125	-1.27	7.87	30.50	21.88	61	Lincoln National	NYS	46.125	-1.34	-14.19	57.00	40.75	538	
Allstate Corp.	NYS	52.25	3.47	27.05	52.38	34.00	5680	Market Corp.	NDO	88	-1.12	16.56	94.50	67.50	9	
AMBAC Indemnity Corp.	NYS	58.25	-1.48	24.27	59.25	42.00	266	MBIA Insurance Group	NYS	91.75	2.09	22.33	91.75	69.25	476	
American Bankers Ins.	NDO	49.25	-2.96	26.28	50.75	32.50	248	Meadowbrook Insur. Group	NYS	28	0.45	-16.42	34.13	24.00	10	
American Financial Group	NYS	33.5	0.75	9.39	34.50	27.75	182	Mid Ocean Ltd.	NYS	46.375	2.49	24.92	46.50	32.63	360	
American General	NYS	38	-1.62	8.96	39.25	31.00	997	MMI Cos. Inc.	NYS	30.625	2.08	27.60	33.38	22.00	188	
American Heritage Life Ins.	NYS	20.75	1.22	-9.29	24.25	19.00	58	Mutual Risk Mgmt. Ltd.	NYS	31.875	2.82	-7.10	34.88	26.88	107	
American Indemnity/Finl	NDO	9.625	-6.10	-3.75	13.38	9.25	20	NAC Re Corp.	NYS	36.75	1.03	2.08	40.63	28.50	677	
American International	NYS	103.25	-1.43	11.62	104.88	81.88	2004	Navigators Group	NDO	19	2.70	7.80	20.25	15.63	24	
American Re Corp.	NYS	63.875	0.59	56.27	64.00	36.25	400	Nobel Insurance Ltd.	NDO	16.125	7.78	6.59	12.75	10.88	57	
Aon Corp.	NYS	54.625	-1.13	9.52	56.00	40.50	365	NYMAGIC Inc.	NYS	17.5	-0.71	2.94	22.00	15.38	10	
Argonaut Group	NDO	30.25	-5.47	-6.92	35.00	28.75	44	Ohio Casualty Corp.	NDO	34.25	1.48	-11.61	40.00	30.00	343	
AVEMCO Corp.	NYS	15.625	0.00	-2.34	17.50	11.75	14	Old Republic Int'l	NYS	25	-3.38	5.63	26.13	18.00	575	
Baldwin & Lyons Inc.	NDO	18.4375	0.34	13.46	20.75	14.25	62	Orion Capital Corp.	NYS	51.875	-0.72	19.60	52.38	39.88	101	
Berkley W.R. Corp.	NDO	51.125	5.41	-4.88	55.50	40.25	1353	Partner Re Ltd.	NDO	29.875	4.60	8.64	31.88	23.75	1036	
Berkshire Hathaway Inc.	NYS	321.00	-0.31	0.00	38000.00	28850.00	1	Penn-America Group Inc.	NDO	16.0625	2.80	12.72	16.75	10.50	5	
Capital RE Corporation	NYS	39.75	-2.75	29.27	40.88	28.00	80	Philadelphia Cons. Holding	NDO	23.25	0.00	-43.08	24.25	16.25	67	
CapMac Holdings Ltd.	NYS	34.75	-3.35	NA	35.00	21.13	98	PXRE Corp.	NDO	24	2.13	-9.43	28.00	22.25	161	
Capsure Holdings Corp.	NYS	8.25	3.13	8.20	18.88	8.00	466	Reliance Group Holdings	NYS	8.375	-2.90	-2.90	9.25	6.50	637	
Charwell Re	NYS	25	-3.85	NA	26.00	10.00	27	Reliastar Financial Corp.	NYS	50.75	4.84	14.37	51.63	40.00	597	
Chubb Corp.	NYS	48	-2.29	-0.78	52.25	40.88	1906	RenaissanceRe Holdings Ltd.	NYS	29.875	6.70	-1.65	33.13	22.88	135	
CIGNA Corp.	NYS	124.625	-1.09	20.70	124.63	12.75	516	Risk Capital Holdings	NDO	18	3.60	-22.99	23.38	16.50	111	
CNA Financial Corp.	NYS	97.125	-2.02	-14.43	123.25	95.75	123	RLI Corp.	NYS	27	1.41	8.00	27.13	21.75	10	
St. Paul Companies										NYS	57	0.88	2.47	60.50	50.00	499
SAFECO Corp.										NDO	36.875	1.03	6.88	39.75	30.88	1022
Seibels Bruce Group										NDO	2.5	-6.98	66.67	4.25	0.44	120
Selective Ins. Group										NDO	34.5	1.47	-2.82	38.75	31.00	123
Sphere Drake Holdings										NYS	8.5	-4.23	-39.29	15.13	8.13	185
TIG Holdings										NYS	29.875	-0.42	4.82	34.25		

Coral

Continued from previous page
guidelines for retrospective contracts that were not adopted by the National Assn. of Insurance Commissioners until 1994.

"These deals happened all over the industry (in the 1980s), and for them to isolate on this transaction is ludicrous," Mr. Smith charged.

"If (Lexington's) transactions from nine years ago are going to be measured for compliance against a relatively recently enacted pronounce-

ment, then the department has an obligation to hold the rest of the industry to the same standard," Lexington President Kevin H. Kelley wrote in a letter to Delaware regulators.

The Delaware department, meanwhile, complained throughout its report about the refusal of AIG and Coral to provide information requested by examiners.

The report notes, for example, that Coral's audited 1992 statement reported total liabilities of \$930.1 million, making for a remarkable ratio of liabilities to shareholder's equity of 62:1. Lexington's ratio of liabilities to

surplus, by comparison, was slightly over 2:1 that year.

When examiners asked for a copy of the actuarial opinion supporting Coral's reserves, though, Lexington said Coral's board had voted not to release it.

"The quantity and quality of information purportedly available at (Lexington) regarding Coral Re is severely lacking, considering the fact that it is one of the company's major reinsurers," the report says.

Mr. Smith countered that a demand for the actuarial opinion "is not a request we would make of any other

reinsurer, and no other reinsurer would give it to us. It's none of our business."

He added, "You might have a thinly capitalized entity (in Coral), but all our balances were supported" by letters of credit.

In spite of the exam report's generally critical tone, Delaware regulators are not denying Lexington credit for its Coral recoverables, with the agreement that Lexington will cede no new business, commute \$100 million of the existing liabilities and run off any remaining Coral treaties.

Mr. Smith said the impact of the

commutation on Lexington's surplus will be "totally immaterial." The insurer's surplus stood at \$966.6 million at the end of last year.

And despite the controversy that Coral has triggered, some regulators agree that the reinsurer has probably served its intended purpose of expanding AIG's capacity to write U.S. business while allowing investment income on ceded reserves to build up free from local tax in Barbados.

"It was just a brilliant strategy," one regulatory official said. "If they speak candidly, many of the regulators would concede the same point." **BI**

TWA

Continued from page 1

"No one has indicated what the cause of the crash is," said Russ Mirabile, senior vp and director of claims for United States Aviation Underwriters Inc. in New York, TWA's leading hull and liability underwriter. The crash is being investigated by the FBI and "is being treated as a crime scene."

As a result, insurance loss adjusters haven't been able to see the majority of the wreckage that's been recovered and make a determination of the cause of the loss.

Mr. Mirabile confirmed that as of early October the hull claim had not been paid, though he said the cause was not an issue and the underwriters would eventually pay it.

He also confirmed that no passenger compensation claims had been settled and no lawsuits had been filed. "On what theory do (the plaintiffs attorneys) promulgate their arguments" if the cause isn't known? he asked.

Underwriters are "looking after" relatives and paying their funeral and

other expenses as they would in any other disaster, noted Graham Nichols, chief executive/chief underwriter for The Westminster Aviation Insurance Group, which leads London's portion of TWA's all-risk hull and liability insurance.

But there is no formal liability reserve, confirmed Mr. Nichols. Informally, underwriters have said they expect liability losses to total between \$300 million and \$400 million, but Mr. Nichols declined to comment on any informal estimates.

The lack of any claims action is unusual in major U.S. air crashes, where by this time the victims' families typically have filed suit against the airline and underwriters have set up some type of reserve.

Indeed, when Pan American Airlines Flight 103 exploded in December 1988 over Lockerbie, Scotland, USAIG initially set up a liability reserve of \$60 million, though London underwriters on the risk estimated a reserve of about \$300 million. Eight years and many lawsuits later, all the passenger claims from the ill-fated Pan Am flight have been settled to the tune of about \$500 million, said Lee

Kreindler, plaintiffs' attorney for many of the Pan Am families.

"It is unusual for it to be so late in the game to know what happened" to TWA Flight 800, said Mr. Kreindler, of the law firm Kreindler & Kreindler in New York.

Mr. Kreindler's office has been conducting its own investigations on behalf of the families of 24 decedents and goes along with the mechanical failure idea.

"We are reasonably certain that it is not a bomb situation, but a structural, mechanical or electric failure causing an explosion," he said.

Mr. Kreindler thinks there is no evidence to support the bomb theory, and as for a rogue missile, "I don't see any hard evidence for it, and there is evidence against it."

In particular, his investigators think an Air Force satellite that flies over the crash area every eight seconds did not capture any pictures of a missile in the area.

Mr. Kreindler said his office plans to file suit in the next few weeks on behalf of the 24 families against TWA, The Boeing Co. and the Federal Aviation Administration for recertifying

the Boeing 747 aircraft. The jet was sold by TWA to the Iran air force in 1975, repurchased 12 months ago and recertified by the FAA to fly.

But there are people in aviation insurance circles in the United States and London who still believe a friendly missile caused the loss, which is why claims activity is so quiet.

"Investigators at this stage must know what happened by now and if it was a friendly missile, it may be hard to explain," said one U.S. insurance expert who wished to remain anonymous. "It wouldn't be the first time the U.S. government's covered up a situation."

If it is a missile, then under the Warsaw Convention, the airline would not be responsible for paying any of the hull or liability loss and the U.S. government would pick up the entire bill.

"If you agree with this theory, then insurers and the government probably already have agreed and the insurers could front for the government" to pay the claims quickly without the government being directly involved, said the source.

"I have no knowledge of that nor

have we had discussions with the government," Mr. Mirabile replied.

Mr. Nichols would not comment on the "friendly missile" theory. "It is an interesting theory, but we've never had a case like that before," he said.

If it is true, then underwriters would have to sit down with U.S. officials to discuss the case, but such discussions have yet to occur, he said.

Meanwhile, if there was a bomb on board—which aviation insurance sources think is unlikely—then Warsaw Convention liability limits of \$75,000 per passenger for international flights to, from and through the United States could apply. However, if TWA was found to be grossly negligent for failing to prevent a bomb from being placed on the plane—as was alleged in the Pan Am case—then Warsaw limits would not apply.

Shortly after the crash, TWA became one of 66 airlines to have signed the Intercarrier Agreement on Passenger Liability, which would waive the liability limitation under Warsaw. But, because the airline signed the agreement after the Flight 800 disaster, Warsaw limits still would apply in this case. **BI**

DOT conditionally approves passenger liability standards

By STACY SHAPIRO

WASHINGTON—The U.S. Department of Transportation last week gave its tentative approval to three agreements waiving airlines' passenger liability limitations for international flights.

But the department added conditions to its approval that the airlines' main trade association opposes, which may sound the death knell for the association's three-year attempt to reach an accord.

"We want enforcement of the agreements as soon as possible, but not at any price," said Lorne S. Clark, general counsel and secretary of the International Air Transport Assn. The Geneva-based association represents 90% of the world's airlines.

IATA will push the Department of Transportation to approve the agreements as they stand—even if only for a few years—so that the inadequate liability limitations can be removed as of Nov. 1, Mr. Clark told *Business Insurance*. If the department wants changes after that, the airlines can then discuss them, he said.

If the Department of Transportation does not allow the agreements to stand, then the airlines' efforts to introduce unlimited liability on international flights "dies," he said.

The airline agreements stem from IATA's Intercarrier Agreement on Passenger Liability, which was published last October (*BI*, Nov. 20, 1995; Nov. 6, 1995). So far, 66 air carriers representing 70% of the world's flights have signed on to this agreement to eliminate the limits—ranging from \$10,000 to \$145,000—under the Warsaw Convention.

IATA's intercarrier agreement notes that Warsaw's liability limita-

tion had not been amended since 1955 and was "grossly inadequate in most countries." The agreement requires airline signatories to waive Warsaw's liability limitation on recoverable compensatory damages and to implement this by Nov. 1.

Under the agreement, damages "may be determined" by the domicile of the passenger.

Thirty-nine of the 66 airlines that signed the IATA agreement also have signed an implementation agreement that makes the "law of the passenger's domicile" provision optional. The Air Transport Assn. of America's Agreement Relating to Liability Limitations of the Warsaw Convention also makes this provision optional.

The IATA implementation agreement and the ATA agreement also allow airlines the option of including strict liability up to 100,000 Special Drawing Rights (\$143,890), which has already been decided by the European Union, Australian governments and Japanese airlines.

The three agreements filed with the U.S. Department of Transportation this summer are supported for the most part by the Assn. of Trial Lawyers of America, the Aerospace Industries Assn., the International Chamber of Commerce and the Victims Families' Assns. However, ATLA and the Victims Families' group want all U.S. citizen cases to have the option to be heard in U.S. courts. This is known as the "fifth jurisdiction," as the Warsaw Convention defines four other jurisdictions: the country where the ticket was bought; the domicile of the airlines; the principal place of business of the airlines; or the country of the flight's ultimate destination.

On the face of it, the Department of Transportation tentatively ap-

proves the three agreements and will offer antitrust immunity to airlines who implement these agreements.

"With the worldwide waiver of the Warsaw passenger liability limits, the agreements have made a gigantic step toward creating an international liability regime under which carriers properly accept liability for death or injuries of passengers utilizing their services," said Patrick V. Murphy, the department's deputy assistant secretary for Aviation and International Affairs in the recent tentative approval document. "No longer must passengers suffer decades of litigation" in efforts to prove willful misconduct in order to waive Warsaw's liability limitation.

The DOT also approves of the airlines' strict liability up to 100,000 Special Drawing Rights set out in the IATA and ATA agreements, confirmed Donald H. Horn, the department's assistant general counsel for International Law.

"We would have preferred unlimited strict liability," but the approval was given in the interest of establishing a single, worldwide liability standard, he said.

However, the DOT has added conditions to its tentative approval that could collapse the entire effort.

"What a wonderful torpedo," said Sean Gates, partner and head of aviation claims at Beaumont & Son law firm in London. The conditions are "extraordinary and impossible to achieve."

At issue are five conditions set out by the Department of Transportation that may or may not be acceptable to non-U.S. airlines, said Mr. Clark.

For example, the department plans to make it mandatory for all airlines that fly to, from or through the United States to settle damages

according to the law of the passenger's domicile. The agreements make this provision optional.

Some non-U.S. airlines accept this while others oppose it, so IATA objects to the imposition of such a condition, said Mr. Clark.

Some carriers will not agree to this option, said George N. Tompkins Jr., senior partner at Tompkins, Harakas, Elsassner & Tompkins in New York.

"It would be a violation of the (Warsaw) treaty obligation of the United States for the DOT to require carriers to agree to the law of the domicile as a condition to fly" in U.S. airspace, said Mr. Tompkins. The applicable law of damages in a Warsaw case according to the U.S. Supreme Court is to be determined by the court where the lawsuit is filed, he added.

The Department of Transportation also plans to require U.S. carriers wherever they fly to submit to the fifth jurisdiction based on the domicile or permanent residence of the passenger. This would benefit not only U.S. citizens but other foreigners on U.S. airline flights.

"We like it," said Mr. Horn. "It's no secret. We're a fan." This issue was not included in the airline agreements, and "we regret that."

Mr. Tompkins said the DOT can't impose this provision on any airline. "If there is to be a fifth jurisdiction for Warsaw cases, it can only be accomplished by a (Warsaw) treaty amendment" which was attempted in Montreal Protocols III that the U.S. government never approved, he said.

IATA has no position on this condition for U.S. airlines as it would not interfere in a government's regulation of its national airlines, said Mr. Clark.

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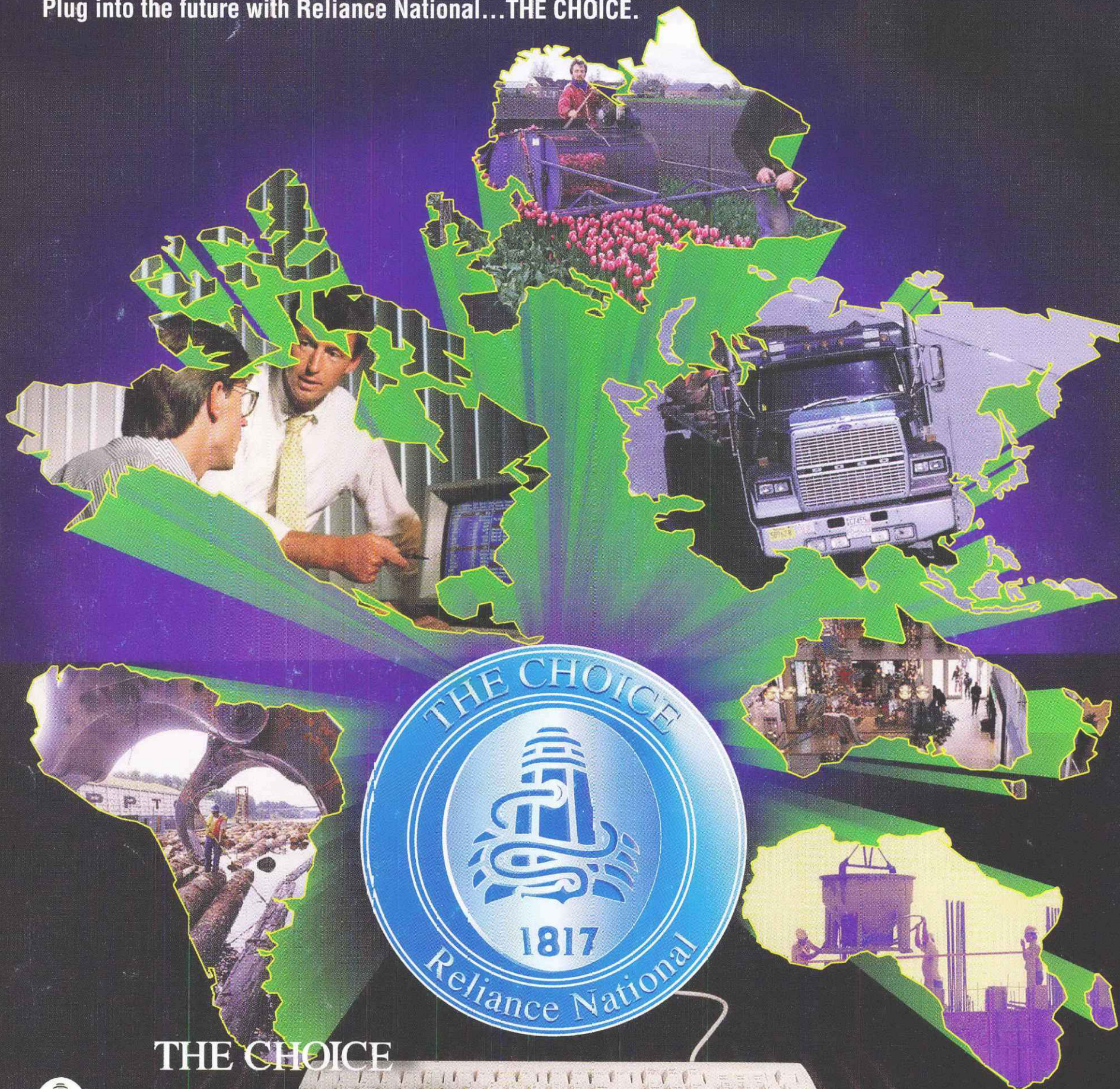
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