OCTOBER 23, 1995

Business Insurance®

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

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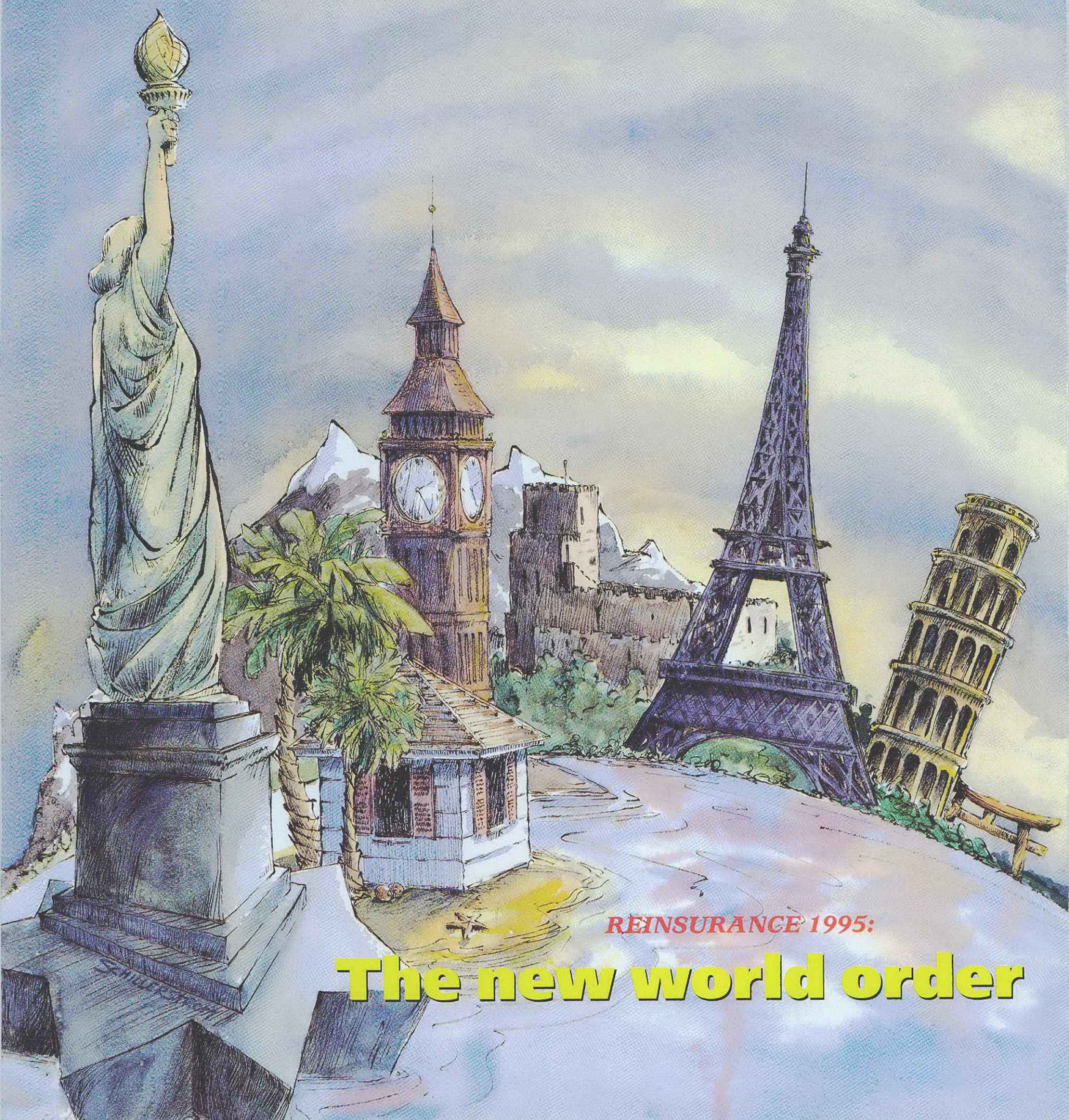

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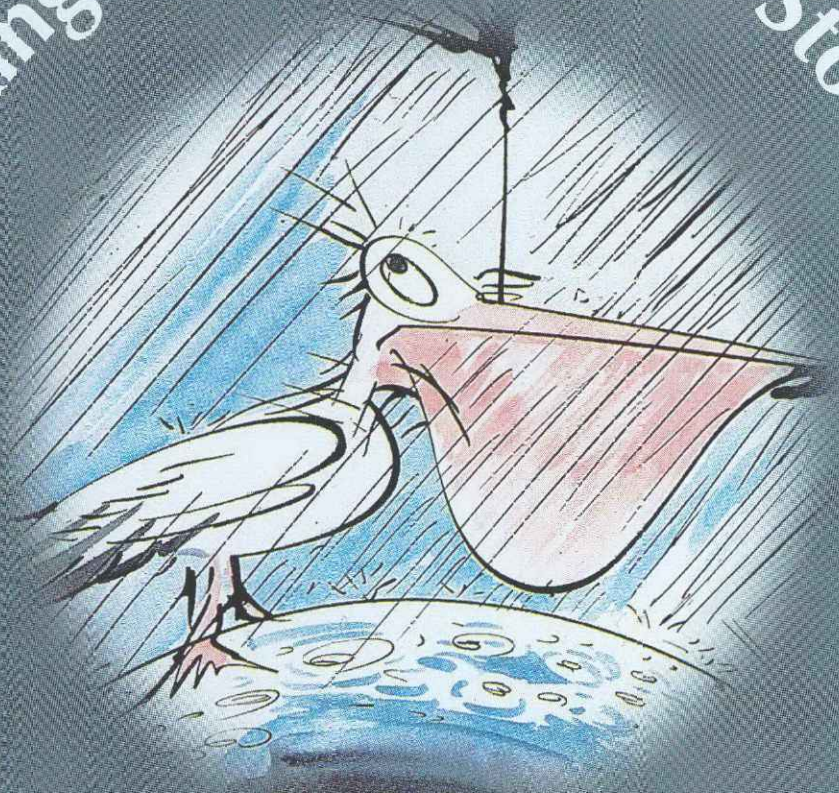
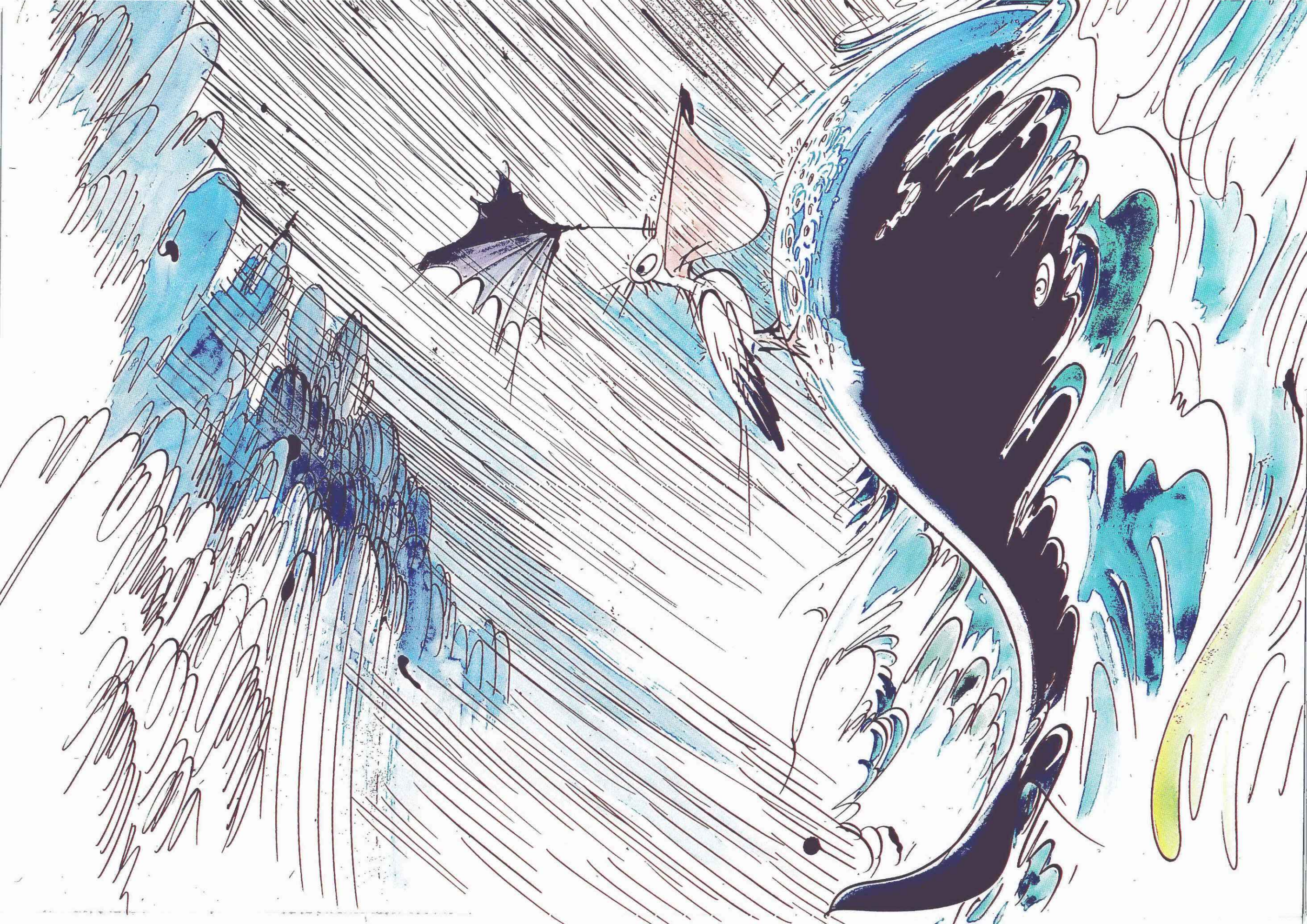
Seeking Shelter from the Storm?





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Updates

Third-quarter catastrophe toll among insurers' worst in years

RAHWAY, N.J.—Insured property losses in the third quarter of 1995 will cost insurers about $1.6 billion—the third-highest total for that period since 1982, according to the Rahway, N.J.-based Property Claims Service division of the American Insurance Services Group Inc.

PCS reported seven catastrophes affecting 15 states from July through September, including hurricanes Erin and Marilyn.

The $1.6 billion in third-quarter catastrophe losses ranks behind the $17.4 billion re-

See **Updates** *on next page*

Bermuda Fire to sue over spunoff entity

Liquidators claim asset transfer improper

By DAVE LENCKUS

HAMILTON, Bermuda—In an unusual move to recover assets for the immensely insolvent Bermuda Fire & Marine Insurance Co. Ltd., the insurer's provisional liquidators are turning to the shareholders of the company that assumed Bermuda Fire's profitable business.

The joint liquidators are attempting to reclaim the value of the shares in the spinoff company, BF&M Ltd., that Bermuda Fire disbursed to its shareholders through a 1991 dividend. The liquidators claim the transaction was a "wrongful transfer" of assets and that the shareholders should reimburse Bermuda Fire, said a source close to the liquidation.

The liquidators also want to recover gains realized by any of those original BF&M shareholders if they sold any of their holdings in the spinoff company.

BF&M shares closed at $6.75 on Oct. 11, the last day it was traded on the Bermuda Stock Exchange. Its high for the year was $9.50; its low value was $6.12.

The liquidators late last week were seeking permission from a Bermuda judge to pull current and former BF&M shareholders into the fray. The judge was still hearing arguments on Friday.

BF&M already has been served with writs seeking the recovery of

See **BF&M** *on page 102*

Full Senate to consider bill with broad benefit reforms

Pension reversions, 401(k) rules win business praise

By JERRY GEISEL

WASHINGTON—Tax legislation with a slew of employee benefit provisions welcomed by employers is headed to the Senate floor.

The Senate Finance Committee approved a major tax bill last week that includes many provisions long sought by employers.

Among other things, the measure would allow employers to remove surplus assets from ongoing pension plans to pay other benefit costs and would simplify 401(k) non-discrimination testing procedures and other pension rules.

Other provisions would, in certain situations, allow employees to defer more funds to their 401(k) plans and give favorable tax treatment to long-term care insurance and medical savings accounts.

Employer groups that have lobbied Congress for many years to reduce the maze of complex pension rules applauded the committee action.

"These provisions will help clear some of the deadwood from the Tax Code and will encourage the growth of pension plans. That is very welcome to us," said James Klein, president of the Assn. of Private Pension & Welfare Plans in Washington.

But, it is uncertain whether the Finance Committee bill or a similar measure approved earlier by the House Ways and Means Committee will be enacted into law.

President Clinton last week warned that he would veto the measure if, as expected, a Medicare overhaul package is attached to the bill. The administration also strongly objects to provisions in both the Ways and Means and Finance Committee measures that would allow employers to remove surplus assets from overfunded pension plans.

Among the two measures' employee benefit pro-

See **Tax bill** *on page 104*

Huge privatization yields risk management challenge

Federal uranium agency's size, exposure require unique program built from scratch

By RODD ZOLKOS

Designing any company's risk management program from scratch is a sizable challenge.

Imagine, then, the scope of that task when the company is the world's largest producer of uranium fuel for nuclear power plants, has a 20-year contract to reprocess nuclear material from dismantled Soviet missiles and is scheduled to be sold early next year in what will probably be the largest privatization of a U.S. government-owned operation.

It was its looming privatization that prompted U.S. Enrichment Corp. to address the need for risk financing and risk management programs, according to attorney William C. Bruce of Bruce & Associates in Glastonbury, Conn., who has served as USEC's outsourced risk manager for the past year.

David Lubarsky

"We took the entire operation apart from a risk standpoint and asked, 'What if?' " says William Bruce, risk manager for U.S. Enrichment Corp.

"What really is the issue is you've got a 50-year-old government operation that suddenly is converting to a private entity," Mr. Bruce said. "When I came in here they were saying, 'We don't have any insurance. We don't need any because we, of course, are a government entity,' " Mr. Bruce said.

Since then, he's seen the attitude at USEC go from "We don't need insurance," to "We might need it some time in the future," to "We really need a risk manager."

Expected to draw $1.8 billion either through an initial public offering of stock or acquisition by an existing company, the U.S. Enrichment privatization should top the $1.65 billion sale of the Consolidated Rail Corp. in 1987.

Punitive damages ruling in Three Mile Island case.....Page 101

But developing a risk management program to deal with the extensive litany of exposures at USEC is critical to the success of the deal, which will likely serve as a model for future privatizations of government enterprises.

According to Hal Shelton, USEC's chief financial officer, establishing a risk management program is important not just in privatizing a government operation, but anytime a business goes

See **Uranium** *on page 101*

Experts criticize ergonomic efforts

Firms urged to do more for workers

By MICHAEL BRADFORD

SAN DIEGO—Narrowly focused on the bottom line, most companies are doing less than they should to improve ergonomics, say experts who give employers poor marks for their efforts.

"I give them an incomplete," said Robert Mogg, environment, health and safety coordinator at the San Diego facility of AT&T Global Information Solutions, which recently reduced its workers compensation costs sharply with an ergonomics plan. "Most of them don't know what we're talking about."

"I give them a C," said Jacqueline Nowell, assistant director of the Office of Occupational Safety & Health at the United Food & Commercial Workers International Union in Washington.

THE THIRD ANNUAL *Business Insurance* WORKERS COMPENSATION CONFERENCE

Retailers are redesigning checkout stands, while meat packers have bowed to pressure from the Occupational Safety & Health Administration to make changes that are reducing incidents of cumulative trauma, according to Ms. Nowell. But poultry processors are "off the scale as an F," she added.

"I see a range of anywhere from F to B," said Barbara Thompson, manager of the Occupational Performance Center at Sharp Rees-Stealy Medical Center in San Diego. "I don't see too many companies that I would consider A in terms of their ergonomic intervention, but probably the trend has been moving up."

"I give them a D," said David Cochran, an industrial engineering professor at the University of Nebraska in Lincoln. "There are some companies that are doing very well and discovering that it's profitable," he noted, but most "are looking at this as another burden, something else that's not going to help them."

Mr. Cochran, who said he is "not very encouraged" about the prospects for ergonomics among U.S. companies, was among the experts who spoke earlier this month on a panel at the Third Annual *Business Insurance* Workers Compensation Conference.

Ergonomics actually can be defined quite simply, said Mr. Mogg: "It's comfort. If I have a worker who's having to lift very heavy objects all the time, they're going to be in pain."

And if employees are in pain, he added, "productivity, quality, morale—everything—drops through the floor."

See **Ergonomics** *on page 85*

Updates

Costly third-quarter losses

Continued from previous page

ported for the third quarter of 1992, with hurricanes Andrew and Iniki, and the $4.4 billion in 1989 with Hurricane Hugo.

For the first nine months of 1995, estimated insured property losses from 29 reported catastrophes total $5.7 billion.

Year-end totals will include Hurricane Opal, which pummeled the Gulf Coast earlier this month, causing an estimated $2.1 billion of damage (*BI*, Oct. 16).

Louisiana-Pacific to settle suit

PORTLAND, Ore.—Louisiana-Pacific Corp. could pay as much as $375 million over seven years to settle two class-action lawsuits alleging that its "oriented strand board" siding material collects water and rots.

The Portland, Ore.-based wood product manufacturer is exploring its insurance options, a spokesman said. He would not elaborate.

Under a settlement agreement, which received preliminary approval last Wednesday from a U.S. District Court judge in Portland, Louisiana-Pacific will pay up to $275 million to cover the claims over the next seven years, with the option to add up to $50 million in the sixth and seventh years, if needed. If unfunded claims exist after seven years, the company may elect to pay those claims over two more years. If the company elects not to pay those claims, customers may pursue other legal remedies.

The company will take a still-undetermined third-quarter charge for the settlement. The settlement, which covers two nationwide class actions—one filed in Oregon, the other a consolidated three-state suit filed in Washington state—is designed to cover any damages from an estimated 1 million homes with the plywood siding alternative.

The agreement is subject to a hearing on April 15, 1996. If approved, all claimants with the siding installed prior to Jan. 1, 1996, will receive an amount sufficient to replace the damaged siding, taking into account the age of the boards.

Court denies asbestos award

BALTIMORE—Plaintiffs attorneys are asking Maryland's high court to reconsider its decision denying punitive damages to some 8,500 plaintiffs involved in a consolidated asbestos trial.

The Maryland Court of Appeals unanimously ruled Oct. 18 that the standard had not been met to award punitive damages, reversing a Baltimore city circuit court's $3.5 million award.

"There is want of clear and convincing evidence that (the companies) marketed asbestos products in bad faith," the court said.

But, the high court upheld about $5 million in compensatory damages awarded to three plaintiffs—Leggette McNiel and the families of Ira Russell and Lawrence Leaf—who had been chosen as sample plaintiffs in a consolidated trial involving 8,555 cases. The suits were consolidated under the title ABATE I in 1992.

"The ruling is significant in our view because the court has found that there are no punitive damages to be awarded in these 8,500 cases," said Lewis G. Close, an attorney at Whiteford, Taylor & Preston in Baltimore who represented asbestos installer and distributor Porter Hayden Co., one of three defendants remaining after a six-month trial.

Originally, 15 defendants were named in the lawsuit, *AC&S Inc. et al. vs. Thomas Godwin et al.* All but three either settled or sought bankruptcy protection during the litigation. The punitive award against asbestos installer AC&S was dismissed at the trial court level, leaving Porter Hayden Co. and asbestos manufacturer Pittsburgh Corning Corp. to appeal the verdict.

The decision also could remove the threat of punitive damages in other asbestos cases, Mr. Close said.

Plaintiffs lawyer Patricia Kasputys, of the Towson, Md., office of the Law Offices of Peter G. Angelos, was less certain the ruling would have such widespread effect but said, "The court's analysis does tend to make one less than optimistic about how the court would review similar evidence against other asbestos defendants."

Orange County to revise suit

SANTA ANA, Calif.—Orange County, Calif., officials may file a revised suit against Merrill Lynch & Co. this week after an earlier suit seeking $2.4 billion in damages from the New York-based brokerage was dismissed Oct. 17.

A U.S. Bankruptcy Court judge in Santa Ana, Calif., dismissed the county's claim after ruling that Orange County had not established it was the rightful plaintiff in a suit alleging that Merrill Lynch sold the county illegal high-risk investments. The investments in question ultimately resulted in $1.7 billion in losses to a $21 billion investment pool run by former county treasurer Robert L. Citron, prompting Orange County to declare bankruptcy last December (*BI*, Dec. 12, 1994).

Merrill Lynch argued that the pool members would be the rightful plaintiffs in the suit. However, the brokerage has consistently denied any wrongdoing in connection with the Orange County investments and contends that Mr. Citron was responsible for the failed investment strategy.

See **Updates** *on page 102*

Errors & omissions

• *Business Insurance* inadvertently omitted Crawford & Co.'s listing from the Oct. 9th directory of safety consultants. The full listing appears on page 80.

Lowering costs onsite

Employer aims to duplicate success of earlier medical clinic

By ROBERT KAZEL

PEWAUKEE, Wis.—Having set up a now-flourishing onsite medical facility five years ago, a major Wisconsin printing company is hoping to reproduce its success with a second facility—this time with a health plan as partner.

Believing that managed care intermediaries, such as health maintenance organizations, cost employers and employees too much money, Pewaukee, Wis.-based Quad/Graphics Inc. is planning to build its second onsite medical facility in five years. But, while the company went solo in operating its first clinic, Quad/Graphic's newest facility in suburban Milwaukee will be a joint venture with a Milwaukee-based health care provider that will offer a broad spectrum of services, from medical to dental care.

In 1990, in response to escalating health insurance costs, Quad/Graphics opened its first employee clinic, located in Pewaukee. Running its own ship has successfully kept health insurance costs down, and has satisfied em-

See **Clinic** *on page 104*

Benefits overlooked in mergers

By ROBERT KAZEL

SAN FRANCISCO—Even though planning employee benefits changes during a corporate takeover can seem as long and complex as the Middle East peace process, few companies hire the expert help they need to negotiate effectively.

Benefits experts are being left out of corporate acquisitions teams until late in the bargaining process because companies are treating acquisitions just like they did in simpler days, said Richard A. Hackett, a principal with Gray, Plant, Mooty, Mooty & Bennett in Minneapolis. He spoke earlier this month at a benefits symposium sponsored by the International Society of Certified Employee Benefit Specialists.

But whether the deal is a merger, stock acquisition or assets acquisition, the changing of corporate hands can be arduous for the benefit department and unnecessarily confusing for workers, Mr. Hackett said.

"For companies with relatively simple benefits, like an old-fashioned profit-sharing or 401(k) with relatively few participants, the process usually is pretty straightforward," he said. "(But) as the organizations get bigger, projects can be enormous and take a year. It's become more difficult over the years."

For an acquired company, the most basic tasks are to make sure its employees will receive roughly comparable benefits, to make sure that its strong benefits program will not be used to prop up an acquirer's weaker program, and to try to ensure that its employees will be fully

See **Mergers** *on page 100*

Medicare bill shifts costs to employers

WASHINGTON—Legislation passed by the House of Representatives last week to overhaul the Medicare program would directly shift health care costs to employers from the government.

Under the legislation, which President Clinton says he will veto unless the bill is modified, costs would be shifted by:

• Increasing to 24 months from 18 months the period during which employer health care plans are the primary payer of health care bills for individuals with end-stage renal disease. After 24 months, Medicare would become the primary payer.

Treatment costs for individuals with this kidney impairment, often cost about $50,000 a year.

• Giving the Health Care Financing Administration up to three years from the time a service is performed to recover funds from an employer or insurer for a health care bill that an employer plan, not Medicare, should have paid.

Under a 1994 appeals court decision, HCFA cannot recover improperly paid funds from group health care plans if a beneficiary or provider did not file a claim within the plan's deadline, typically a year after a service was performed.

Employers are likely to welcome other provisions of the bill.

The measure would eliminate the federal data bank law, which requires employers to compile and send to the government health care coverage enrollment information and employees' and dependents' Social Security numbers.

The measure also would cap noneconomic damage awards in medical malpractice suits to $250,000 and would limit punitive damage awards to $250,000 or three times compensatory damages, whichever is greater.

The biggest unknown in the legislation is whether the legislation contains sufficient incentives for retirees to move to managed care plans from the traditional Medicare program. Large numbers of retirees moving to managed care plans that offer enriched benefits would reduce the costs of employers offering health care plans that supplement the traditional Medicare program.

—By Jerry Geisel

Ruling to offer guidance in pollution cover battles

By MICHAEL SCHACHNER

SEATTLE—In one of the first rulings of its kind, a judge has rejected several defenses that first-party, all-risk insurers are using to deny policyholders coverage for multi-site environmental damage.

In denying dozens of insurers' pre-trial motion seeking the dismissal of portions of a coverage lawsuit filed by the Aluminum Co. of America and its subsidiary, Northwest Alloys Inc., Washington State Superior Court Judge J. Kathleen Learned's Oct. 10 ruling sets out for insurers and policyholders how certain insurer defenses for first-party environmental damage claims potentially apply or do not apply.

By defining "damage," "fortuitous loss," "loss in progress," and "loss during policy period," the judge provided significant guidance on substantive defenses in cases involving first party, all-risk insurers and industrial policyholders seeking coverage for damage to owned-property.

It is believed that Judge Learned's 17-page ruling, despite being a pre-trial ruling on a motion for summary judgment, is the first of its type with respect to an industrial policyholder seeking coverage for multi-site environmental damage under first-party, all-risk policies.

Therefore, policyholder and insurer attorneys say it will be a key case to watch, because many industrial companies have purchased first-party, all-risk coverage. Most

See **ALCOA** *on page 102*

Inside

• The Supreme Court has a good chance to set punitive award limits, one of this week's editorials says. **PAGE 8**

• Thefts are rising at high-tech industries. **PAGE 78**

• Eastern European insurance markets are slowly but surely emerging. **PAGE 95**

• A state court jury hands down a conviction for criminal activity in connection with a Texas insurer. **PAGE 103**

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Reinsurance a buyer's market

Consolidation, innovation and new capital to benefit cedants

By JUDY GREENWALD

Consolidation in the reinsurance market continues, and reinsurers, primary insurers and, ultimately, policyholders may be the better for it.

Although reinsurance risks are now being concentrated in fewer and fewer hands, those hands are stronger and more financially viable than ever before.

These reinsurers also are better equipped to meet the needs of an increasingly global business.

Meanwhile, the demand for reinsurance continues to outpace growth in the primary insurance industry. While there are numerous theories explaining this increasing demand, there is general agreement it is likely to continue—at least for the near future.

In this environment, reinsurers are forging closer ties with their ceding insurers by, in some cases, directly investing in them. Observers describe this as a natural outgrowth of the reinsurer-insurer relationship (see story, page 24).

At the same time reinsurers are taking this step, investors' indiscriminate enthusiasm for the stocks of reinsurers themselves has cooled, though they remain receptive to selected offerings (see story, page 27).

The "classic model" of insurance and reinsurance is to spread the underlying risk, said Peter A. Cheney, executive vp and chief financial officer of Stamford, Conn.-based National Reinsurance Corp.

"Having said that, companies have to make a return in order to make it economically viable to remain in business. There's a practical limit, I believe, as to how many reinsurance entities can be supported."

While it is helpful to have more companies sharing the risk, insurers do not have to diversify among 30 companies to achieve that spread, he said. From an industry standpoint, the same probably can be accomplished with five or 10 reinsurers if they have sufficient capacity.

Ceding insurers will be better off, Mr. Cheney added, because cost efficiencies will lower product prices, yet reinsurers' larger capital base means there will be enough capacity to take care of cedants' needs.

"I think you can have consolidation and yet spread the risk at the same time," agreed Tom Walsh, associate director with Standard & Poor's Corp. in New York. There are a "multitude of broker markets out there that expect to stay in the market," said Mr. Walsh. "But. . .you're going to have the stronger players surviving" consolidations among reinsurers, he said.

A reinsurance buyer could argue there are "fewer choices and not as much flexibility," said John Smithson, chairman, president and CEO of Philadelphia-based PMA Reinsurance Corp.

However, "I would say that's more of a long-term issue," he said. In the short run, "the buyers of reinsurance now have plenty of willing capacity to accommodate what they're trying to do."

Furthermore, reinsurers' capital "needs to be fed by writing business and, to the extent pretty much all of the major companies are under-leveraged right now, that just creates a competitive environment, and that is very good for the buyers," he said.

"I think it's actually a healthy phenomena because the resources that larger reinsurers can apply to exposure analysis are greater, and also it reduces the expense component of the business in general," said Mark Hinkley, executive vp at TIG Reinsurance Co. in

See **Consolidate** *on page 20*

SPOTLIGHT ON

Reinsurance Trends & Issues

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London optimism abounds London and Lloyd's expect to regain stature in market ..... **Page 72**

Life of the party Managed care spawns interest in life/health reinsurance ..... **Page 76**

Spotlight Report Editor: Judy Greenwald

Intermediaries keeping pace with changing market

By SARA MARLEY

The broker reinsurance market remains undeterred by consolidation, downgrades of reinsurers or the continuing soft market, intermediaries report.

Ceding insurers are making some minor adjustments in their programs, including increasing their retentions and favoring domestic, Bermuda-based, European and Australian reinsurers over London on some lines.

Intermediaries are making adjustments, too, by finding new methods of serving their clients as well as finding new sources of business, including captive insurers, risk purchasing groups and insurance program business.

Several reinsurance brokers are forming units to explore financial alternatives to traditional reinsurance and some are expanding divisions that offer unbundled reinsurance services on a fee basis.

There were no changes in the order of the top 10 U.S.-based reinsurance intermediaries, which posted an average revenue increase of 11.7% in 1994, nearly double the average increase of the previous year.

The total number of employees among the top 10 fell by 4.1% during the same period, with several intermediaries reducing their workforces.

Business Insurance ranks the 10 largest intermediaries based on reinsurance brokerage revenues generated by all companies that report to that U.S.-based entity. Revenues from affiliates that do not report to the company are not included.

As a result, brokers whose reinsurance operations have headquarters in the United States can report their global reinsurance brokerage revenues, while others report only their North American revenues.

For example, Minet Re and Sedgwick Re have similar international structures, but all of Minet's reinsurance operations report to Chairman Mark Hvidsten in New York, while Sedgwick Re's U.S. division reports to London.

Willis Faber North America Inc., Willcox Inc. Reinsurance Intermediaries and Alexander Reinsurance Intermediaries Inc. represent only a portion of the reinsurance business placed globally by their parent companies.

While there has been some consolidation among retail insurance brokers, it has not yet engulfed any of the leading reinsurance intermediaries.

"There's going to be some consolidation of intermediaries, but there's not that many of us to start with," said Peter T. Pruitt, chairman and chief executive officer of Willis Faber in New York.

"The changes that will take place in the property/casualty reinsurance brokerage sector should not impact the top 10 or 12 intermediaries," agreed John P. Woods, president of New York-based John P. Woods Co. Inc.

Brokers with revenues of less than $10 million may be targets, he added.

"I don't think there will be consolidation in the top 10," agreed William R. Coleman, president of Alexander Re in Stamford, Conn. "There may be some acquisitions in the next couple of tiers."

With intermediaries expected to offer more and more services, "the cost associated with building this necessary infrastructure must mean that small brokerage companies will likely merge with larger companies," said Paul Davies, chairman of Aon Re Inc. in Chicago.

"We undoubtedly expect consolidation to take place at the brokerage level as the needs of the major ceding companies become ever more complex," Mr. Davies said.

Some Top 10 reinsurance brokers may grow through consolidation.

"As the broker community consolidates, Sedgwick Re will consider and, where appropriate, act on growth opportunities within the reinsurance broking community," said Salvatore D. Zaffino, president and chief executive of Sedgwick Re in Hartford, Conn.

When insurers consolidate, intermediaries say they win some clients and they lose some.

"It's a question of being at the right place at the right time," said Chris L. Walker, chairman and CEO of Minneapolis-based E.W. Blanch Co. "Sometimes you're on the right end, sometimes you're on the wrong end," he said.

"We're no different from a CPA or law firm," which will also lose a client in an acquisition, said Willis Faber's Mr. Pruitt.

"We are going to have substantial consolidation in the primary insurance business at every level," said Jacobus Van de Graaf, managing director and CEO of Towers Perrin Reinsurance in Stamford, Conn. "In five years, there may be 50% fewer insurance companies in existence. That has been the trend in every other financial business."

An intermediary's mix of business also determines the effect of consolidation.

"The consolidation is focused on commercial insurance," said Willis T. King Jr., chairman and CEO of Willcox. "There is not a lot within small and medium stock companies or mutual insurers."

Consolidation among reinsurers has not made placements more difficult, intermediaries say.

"There is ample capacity out there, but it has shifted," said

See **Brokers** *on next page*

10 largest U.S.-based reinsurance brokers

Gross revenues are in millions

Company (Parent)	Gross revenues 1994	1993	% chg.	Employees 1994	1993	% chg.	% Treaty 1994	1993
Guy Carpenter & Co. Inc. (Marsh & McLennan Cos. Inc.)	$299.6	$284.7	5.2%	1,437	1,624	-11.5%	NA	NA
Aon Re Worldwide Inc. (Aon Corp.)	156.0	120.0	30.0	599	528	13.4	96	97
Minet Re (Minet Group)	82.2	75.0	9.6	498	549[2]	-9.3	90	91
E.W. Blanch Co. (E.W. Blanch Holdings Inc.)	76.6	64.7	18.4	391	349	12.0	99	99
Sedgwick Re (Sedgwick Group P.L.C.)	75.6[1]	64.7	16.8	375	395	-5.1	75	75
Willis Faber North America Inc. (Willis Corroon Group P.L.C.)	45.9	46.6	-1.5	272	326	-16.6	95	95
Willcox Inc. Reinsurance Intermediaries (Johnson & Higgins)	44.0	40.5	8.6	230	221	4.1	99	99
Towers Perrin Reinsurance (Towers Perrin)	40.2	39.0	3.1	204	204	0.0	95	95
Alexander Reinsurance Intermediaries Inc. (Alexander & Alexander Services Inc.)	30.9	28.9	6.9	132	129	2.3	100	100
John P. Woods Co. Inc. (Privately held)	21.3	17.6	21.0	62	55	12.7	100	100

[1] *BI* estimate of North American operations only [2] Restated
Source: *BI* survey

GRAPHIC BY MIKE GARVEY

Brokers

Continued from previous page

John R. Cashin, executive vp with Willis Faber. "We have to place more business with fewer markets."

"I really believe consolidation in the reinsurance broker market is a very positive force," said Mr. Coleman of Alexander Re. "Now on many covers we can divide placement among three to five very strong markets and be competitive in all respects with the direct market."

Calling consolidation "a fact of life," Richard H. Blum, chairman and CEO of Guy Carpenter & Co. Inc. in New York, said the intermediary is "dealing with markets consisting of fewer, stronger and more sophisticated players."

"To try to meet the challenges of consolidation in the reinsurance markets, we have always maintained a highly selective marketing policy," to place business with the markets that will be surviving entities, said Brian Stewart Brown, director of London-based Nicholson Leslie Group, which is part of Aon Re Worldwide.

More important than consolidations is the influx of capital to the reinsurance market through new companies and initial public offerings.

"New reinsurers are being launched fully funded into the marketplace," Willcox's Mr. King said. "I see billions jumping into the market."

Even direct reinsurers are investing in broker market companies, he noted.

While security is a major concern to insurers, "I have not seen a reluctance to use a new company," Blanch's Mr. Walker said.

Security concerns about rating downgrades of several broker market reinsurers also have not put a crimp in reinsurance brokers' business.

"The downgrading that has occurred seems to be part of the rating agencies' desire to create a more realistic curve of all markets," said Mr. Blum.

"Whether more downgrades can be expected in the future is a function of loss experience, particularly in the property catastrophe arena," said Sedgwick's Mr. Zaffino.

While "a company that is 'A' rated does not want to transfer risk to a lesser rated company," ample "A" rated reinsurers are available, Willis Faber's Mr. Cashin said.

Aon Re's Mr. Davies characterized the downgrades as a "market cleansing" that allows the intermediary "to promote a smaller in number but larger in capacity market. A further cleansing/consolidation is inevitable, as the flight to quality reinsurers continues."

Ratings aren't the only factor ceding companies look at, Mr. Woods noted.

Management quality, parent company, underwriting, product lines and dependence upon retrocessions also must be considered, he said.

"The 'housekeeping' rating is also an important factor as it addresses the particular market's ability to process documents, the timeliness of reports, remittances and overall general conduct," Mr. Woods said.

Downgrades are not causing any shortage of capacity, intermediaries stressed.

"There is a very adequate market that is very well financed and willing to write business," Towers Perrin's Mr. Van de Graaf said. "I believe increasingly over time, ceding companies will look for higher thresholds of ratings and surplus."

Ceding companies are scrutinizing their reinsurers closely, the intermediaries say.

While most business is placed with reinsurers in the same geographic areas as the clients, "we are seeing clients being more willing to consider business being placed outside their normal market sphere," Mr. Davies observed. "The overriding factors still come down to security, capacity, cost-efficiencies and innovative solutions."

"There is a lot of capacity around domestically, and many clients want to place their business domestically if they can," Minet's Mr. Hvidsten said. "When there is a great shortage, they take what they can get. Some people retain business loyalties, others go for convenience tied with price considerations."

"Ceding companies are most definitely expressing a preference for certain markets," said Mr. Stewart-Brown of Nicholson Leslie. "The major reinsurers want bigger relationships with fewer players."

Personal relationships between senior executives play a part in these decisions.

"While it is becoming increasingly evident that corporations look for what could only best be described as strategic alliances with their key reinsurers, the personal element still remains of significant importance," Mr. Stewart-Brown said.

'The major reinsurers want bigger relationships with fewer players,' says Brian Stewart Brown of Nicholson Leslie.

Sedgwick Re has placed less reinsurance outside the United States over the last three years for U.S.-based cedants, particularly casualty pro rata and excess-of-loss reinsurance.

"On the whole, U.S. ceding companies have expressed an interest in ceding to U.S. reinsurers or U.S. branches or subsidiaries of alien reinsurers," Mr. Zaffino explained.

Concerns about security are particularly prevalent when it comes to placing reinsurance with Lloyd's of London, but ceding insurers are evaluating each syndicate individually and continuing to buy coverage.

"U.S. ceding companies are trying to make sure they are well informed who they are buying reinsurance from in London," Minet's Mr. Hvidsten said. "They're being very selective and displaying as much clear-headed judgment as they can."

Ceding companies also are more comfortable placing aviation, marine and energy risks at Lloyd's than other risks.

One factor that has not caused ceding companies to make significant changes in their reinsurance programs is the competitive reinsurance market.

"Most of our clients continue to take a long-term view of their reinsurance program and reinsurance relationships," Guy Carpenter's Mr. Blum said. "In some segments, the market offers opportunities to our clients and we encourage our clients to take all aspects into account in determining market opportunities. We anticipate that clients will be seeking to reduce reinsurance costs, especially in the property catastrophe area."

Cycles usually do not influence changes, except when reinsurance prices increase significantly, Mr Woods said. "In those situations, the tendency is to retain more or participate in the ceded reinsurance."

See **Brokers** *on page 6*

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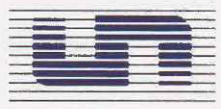

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Brokers

Continued from page 4

Many ceding companies are retaining more risk but generally only in the hard property catastrophe market.

"In the casualty market, ceding companies are taking advantage of favorable terms and conditions and available capacity to purchase more reinsurance," Sedgwick's Mr. Zaffino said. "As respects property insurance, companies are increasing retentions in response to higher prices and reduced capacity among quality reinsurers."

The general movement toward higher retentions is likely to continue, Towers Perrin's Mr. Van de Graaf said.

"Particularly on the traditional side, there is an unwillingness on the part of ceding companies to trade dollars," he observed. "They only buy reinsurance in the areas that are less predictable. I don't think well-reserved, well-financed companies will reduce their retentions. Once they get comfortable with higher retentions, they will stay with them."

The need for higher retained income is driving up the attachment point of treaty programs in many cases, Mr. Stewart-Brown said.

"In the property arena, this is often offset by the purchasing of new 'top' layers," he said. "In the casualty arena, we are seeing cedants, in addition to retaining more at the 'primary' level, requiring higher profit and ceding commissions to further enhance their potential retained income."

The pressure to increase retentions does not apply to casualty because of the soft pricing in that area, said Robert F. O'Leary, Willcox's president and chief operating officer.

"There is still a lot of competition in the reinsurance marketplace on casualty business," Blanch's Mr. Walker said. "There is no sign of that tightening up."

"There is a strong market available for good casualty business," Mr. Coleman of Alexander Re agreed. "If it's well underwritten, it can command good reinsurance terms."

In casualty, however, reinsurance programs have been shifting out of pro rata and into excess-of-loss, Willis Faber's Mr. Cashin said.

"Reinsurers are trying to protect themselves from the continued slide in U.S. casualty rates," he noted.

In property catastrophe, ceding companies are looking for ways to supplement the inadequate capacity in the conventional market, including financial reinsurance programs, Mr. Coleman said.

"Ongoing interest in capital markets and the extent to which they are of value and interest to the insurance industry in the future is a hot topic," Mr. Hvidsten added.

Another area of growth for reinsurance intermediaries is program business, in which property/casualty insurance is written for individual risks through an association or affinity group.

"A lot of that is backed up by reinsurance, and the reinsurance market is getting involved in the process much earlier," Mr. Hvidsten said. "Reinsurance brokers are getting involved."

Willis Faber has also been developing program business, Mr. Pruitt said, noting that each program depends on reinsurance support.

"Five years ago, it was very difficult to find paper to write program business," said Towers Perrin's Mr. Van de Graaf. "Today, reinsurance is quite available. A lot of reinsurers want to get closer to the original source of the business. They have more influence and a greater ability to price the business. A lot of barriers are down."

Intermediaries, insurers and reinsurers generally are working together more on product development.

"Reinsurance brokers today are much more involved and knowledgeable about insurance products," Mr. Pruitt said. "There is a partnership with the insurance company in the development of products. A new product line has a lot to do with what reinsurance is available."

Intermediaries should be involved from the beginning of product development, although it does not always happen, he added.

"We can offer suggestions as to what markets are receptive to product lines," Willis Faber's Mr. Cashin said.

In all, Sedgwick's Mr. Zaffino said, "Companies continue to demand value for their reinsurance dollar."

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

Guy Carpenter & Co. Inc.

Guy Carpenter & Co. Inc. is attracting record levels of new business while expanding its products and capabilities.

The New York-based unit of Marsh & McLennan Cos. Inc. handily maintained its position as the largest U.S.-based reinsurance intermediary, still nearly twice as large as its nearest competitor. Gross revenues increased 5.2% to $299.6 million in 1994, while premiums remained at more than $5 billion.

In 1994, Carpenter continued a downsizing trend begun in 1991. Its headcount of 1,437 at year-end 1994 was 11.5% lower than 1993 and down one-third from 1991.

"New business is at an all-time high," said Richard H. Blum, chairman and CEO of Guy Carpenter. "This business has been produced from a broad range of clients and countries with our non-U.S. business segment growing at a faster pace."

Guy Carpenter has also expanded its capabilities in several areas, including health care, professional liability and agribusiness, Mr. Blum said.

"Guy Carpenter also has taken the lead role in developing and using financial products, accessing the capital markets for our clients," he added.

The intermediary's traditional clients include major property and casualty insurers in the United States, ranging from global multiline to local specialty insurers.

"Our revenue from North American clients is about 60% of the total, with the balance coming mainly from the United Kingdom, Europe and the Far East," he said. "We also have important business connections in Australia, South America and Puerto Rico."

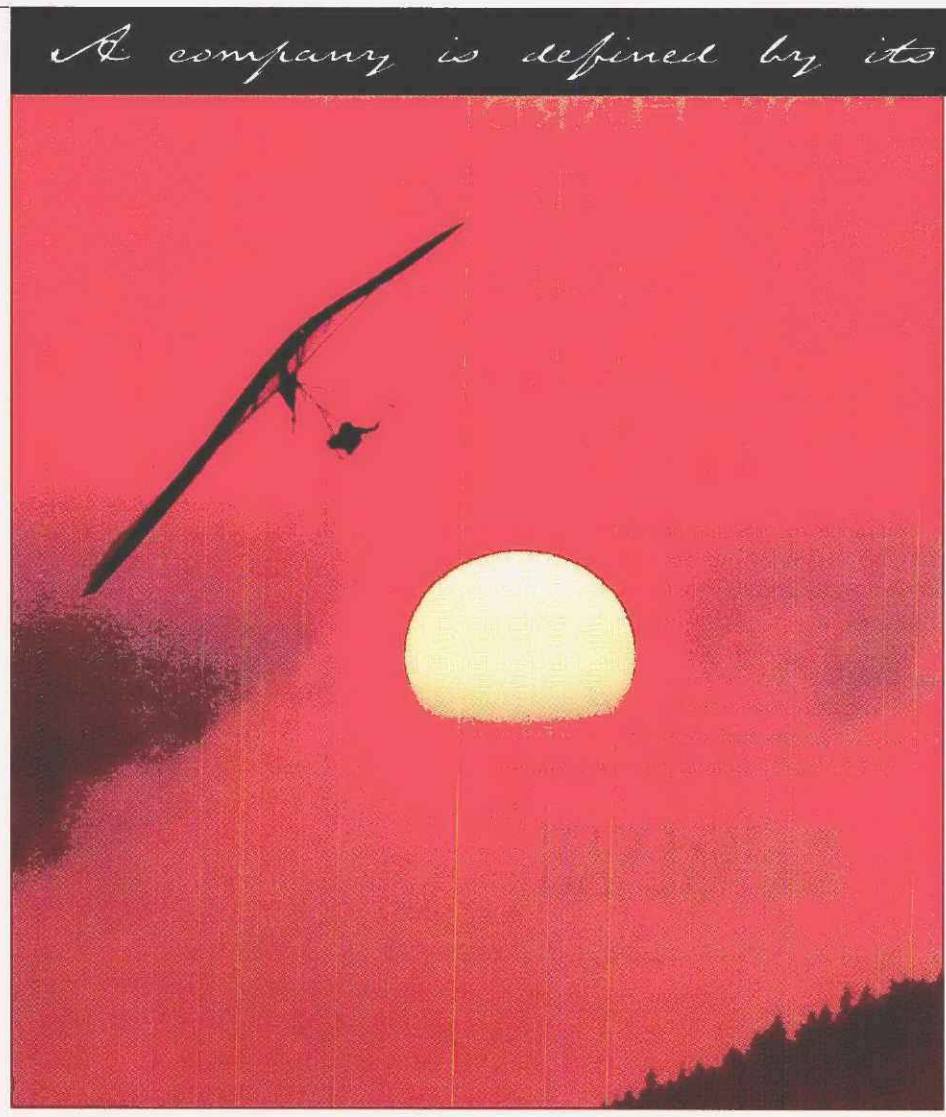
The intermediary recently established Guy Carpenter Risk Management, a unit with more than 60 full-time risk management professionals who perform quantitative analysis, catastrophe management and product development.

"This unit will continue to focus on accessing new sources of capital from outside the insurance industry and new risk financing techniques to address the reinsurance needs of our clients," Mr. Blum said.

Guy Carpenter also has a new Bermuda subsidiary, Normandy Reinsurance Co. Ltd., which markets financial products that can be used to cover catastrophe risks.

In addition to Mr. Blum, Guy Carpenter's management committee includes President Hady Wakefield

See **Brokers** *on page 12*



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Opinions

Another chance to get it right

WHEN IS A punitive damage award so excessive that it violates the Constitution?

The U.S. Supreme Court will revisit that question during its current term as it reviews *BMW of North America Inc. vs. Ira Gore Jr.* It's a question the court has considered several times before and artfully dodged. But this case provides the justices with perhaps the best chance yet to offer guidance on punitive damages.

Ira Gore, an Alabama physician, bought a $40,000 BMW and drove it for nine months. He then discovered that a small portion of the paint job had been refinished before the car was bought. Dr. Gore sued BMW, charging it had committed fraud by not informing him of the paint touchup. Dr. Gore sought punitive damages of $4 million for a paint job that cost $601 and which allegedly cut the value of his car by $4,000.

His attorney suggested that jurors multiply Dr. Gore's $4,000 loss by 1,000, the approximate number of people who had unknowingly purchased similarly repainted cars across the United States.

The jury complied, BMW appealed the case to the state Supreme Court and the state justices said that the out-of-state sales shouldn't be taken into account. But rather than drastically reduce the punitive award, they arbitrarily cut it in half and declared it constitutional.

Now the matter confronts the U.S. Supreme Court.

During oral arguments in the *BMW* case earlier this month, Justice Stephen Breyer asked the critical question: "Is a jury free to transfer the entire gross national product, or any significant portion thereof, under a standard that has no limits?"

"THIS TRICK-OR-TREAT STUFF IS REALLY GETTING OUT OF HAND!"

Common sense dictates that the answer be a resounding "No!" But as *BMW vs. Gore* amply demonstrates, common sense doesn't dictate the outcome of every case.

Fortunately, the U.S. Supreme Court has yet another chance to apply some common-sense guidelines to the vexing question of disproportionate punitive damage awards. This is the time to make the most of that chance.

Reinsurers can't turn back

THE REINSURANCE industry today is responding more quickly and creatively to coverage needs and risks than it ever has.

This week's Spotlight Report on Reinsurance Trends shows several examples of this new flexibility and responsiveness.

The creation of the Bermuda catastrophe reinsurance market is one example. Another is Lloyd's of London's ongoing effort to reshape its capital base and remain competitive. Another is the continued development of financial reinsurance products. And yet another is the exploration of derivatives like the Chicago Board of Trade's catastrophe options.

These developments show that the reinsurance market has new options and alternatives when faced with old problems like difficult risks.

In the case of traditional catastrophe reinsurance, the availability of which may be limited for certain high-risk areas, companies are looking at alternatives to continue meeting cedants' needs.

One example is Normandy Reinsurance Co. Ltd., set up by Guy Carpenter & Co. Inc. to market financial products that can be used to cover catastrophe risks.

If the market continues to develop new means of financing and spreading cedants' risks, we think the ultimate consumer—the policyholder—will benefit because of more stable pricing of primary coverages.

In fact, we think the reinsurance market will be forced to continue innovating and exploring new solutions.

The primary market has learned that it cannot afford to alienate its customers with sharp price swings or unresponsive service without driving more of them to the alternative markets.

We think reinsurers now will find that they can't rely on the old, traditional way of doing things without driving customers to more creative and flexible competitors.

Letters

More options available for covering Russian risks

To the editor: I take exception to Sarah Goddard's article in the Sept. 25 issue of *Business Insurance*, "Russia Policy Aims to Improve Security," which describes Johnson & Higgins' new insurance product for clients in Russia.

The article describes RUSPAC as "a new policy designed to comply with requirements to use Russian insurers" and quotes J&H's Paul Merlino several times as saying that it "solves risk managers' problems" and that it will "change the way of doing business in Russia." However, the other side of the coin is not mentioned.

Yes, there are concerns on the part of Western companies insuring assets in Russia—notably the solvency of local insurers and their ability to pay claims, as well as the crime rate and the ruble's volatility. It is precisely for these reasons that the general recommendation has been to insure assets on a non-admitted basis back in the United States regardless of admitted regulations, preferably under the client's existing worldwide property or casualty program insured by a Western company.

This approach reduces the client's uncertainty due to the above factors, while maintaining tighter control over the overall insurance program. As the article mentions, it is now, has been for years and will continue to be extremely unclear when Russia will properly address its insurance laws and regulations.

Of course there are exceptions when going the locally admitted route may in fact make sense. However, your article does not present all options, a characteristic of any responsible journalistic endeavor. Rather, it is a blatant free advertisement for Johnson & Higgins, which may prove misleading to clients.

As Russia's government goes through its drastic (and exciting) economic evolution, insurance regulation seems to be last on its list of concerns. Based on your article, J&H's new product appears to be a public relations tool and nothing more.

Robert C. Meder
New York

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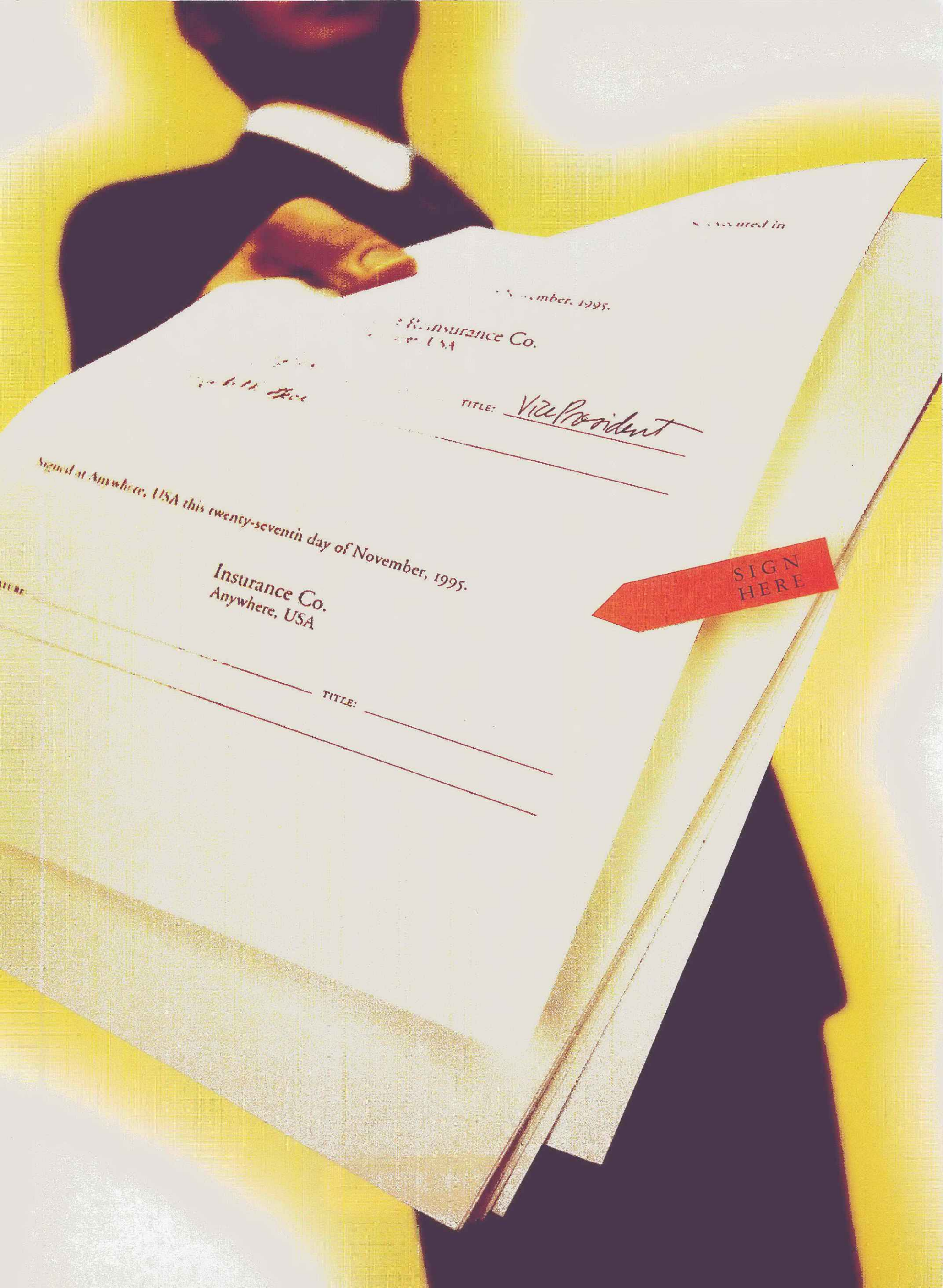
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Brokers

Continued from page 6
and four executive vps: Clement S. Dwyer, Richard C. Kane, Brandon W. Sweitzer and Gabriele J. Troiano.

Aon Re Worldwide Inc.

Aon Re Worldwide Inc. is expanding both geographically and in expertise.

Aon Re remains the No. 2 U.S.-based intermediary, with $156 million in gross revenues in 1994, up 30% from 1993, which is the largest increase among the top intermediaries. Its premium volume also rose 30% to $3.9 billion.

"Our company is growing very fast, particularly in the North American reinsurance market," said Paul Davies, chairman of its U.S. operating subsidiary, Aon Re Inc. "We are also continuing to build our very strong position in worldwide aviation reinsurance business."

Aon Re Worldwide's 1994 acquisition of British intermediary Jenner Fenton Slade strengthened its marine business, he added.

Aon Re also is turning to financial solutions to attract new business. "The advent of financial reinsurance has become a very valuable and important new market in which Aon Re Worldwide is one of the leading specialists," Mr. Davies said.

Aon Re's client base is major insurance companies in North America, Europe, the Middle and Far East and Australia, writing all classes of business.

Michael D. O'Halleran is chairman of Aon Re Worldwide.

Minet Re Worldwide

Minet Re Worldwide's gross revenues from North American business jumped more than 9% last year, though strong growth also came in other markets.

Gross revenues at New York-based Minet, a unit of The St. Paul Cos. Inc., increased 9.6% to $82.2 million, retaining its spot as the third-largest U.S.-based intermediary. Premium volume increased 4.6% to $1.3 billion, while the number of employees rose 13.4% to 599.

"There was pretty solid growth everywhere," said Mark T. Hvidsten, president and CEO of Minet Re North America Inc. in New York. Mr. Hvidsten also has been named chairman of Minet Re International Ltd. in July, so all of Minet's worldwide reinsurance brokering operations report to him.

U.K. growth was fueled by Minet's June 1994 acquisition of Wackerbarth Hardman Insurance Brokers Ltd. of London, which specializes in marine and energy reinsurance. With that deal, marine and energy reinsurance now accounts for 35% to 40% of Minet's London business.

At Minet Re North America Inc., revenues increased 9.2% to $33.3 million while premium volume rose 9% to $713.3 million. Facultative reinsurance placements increased four percentage points to account for 20% of North American business placed. "We grew very well in the U.S. on the facultative side, partly because there are not that many national facultative brokers operating," Mr. Hvidsten said.

Minet Re North America reorganized from a decentralized branch system, with services like claims and accounting offered in each office, to a central servicing office in Atlanta. The other branches will remain purely production offices, he said.

It also moved its New York branch to Murray Hill, N.J. Headquarters and global business like marine and aviation remain in New York.

The intermediary also changed its name in North America to Minet Re, though Intere and RFC—the names of two former Minet units—are still used as trade names.

"We try to set up shop as an all-encompassing reinsurance broker," Mr. Hvidsten said. Minet Re is particularly strong, though, in property and specialty liability lines like directors and officers and environmental, he said.

Minet Re's other officers are: Wallace E. Winter, chairman; Charles Caporale, executive vp and chief financial officer; and Albert T. DeVon Jr. and Thomas F. McGrath III, executive vps.

E.W. Blanch Co.

E.W. Blanch Co. continues to post impressive results two years after its initial public offering.

Gross revenues increased 18.4% to $76.6 million and premium volume leapt 23.5% to $2.1 billion. The Minneapolis-based unit of E.W. Blanch Holdings Inc. remains the No. 4 U.S.-based intermediary.

Blanch's staff grew 12% to 391.

"Our company is growing in all areas: property, casualty and specialty," said Chris L. Walker, chairman and CEO of the intermediary, as well as president and chief operating officer of the holding company.

Blanch's specialty department focuses on professional liability, medical and life and health reinsurance.

Its diverse business includes large stock companies, large specialty companies and regional insurers. Mr. Walker also expects growth from alternative risk financing.

"We continue to place business on behalf of our clients in other markets: London, Australia, Asia, Europe and Bermuda," he said. Partner company Swire Blanch Holdings Ltd. makes the majority of those placements with non-U.S. markets. "We also work hard to produce business in Europe, Australia, Asia and Europe."

Swire Blanch opened an office in Singapore last year.

Both Mr. Walker and E.W. Blanch Jr., chairman and CEO of E.W. Blanch Holdings, are based in San Antonio, home of the company's wholesale unit, Elton George & Co.

Sedgwick Re

Sedgwick Re expects to benefit from its parent's consolidation of worldwide reinsurance brokerage operations this year.

"This new structure will provide Sedgwick Re with greater access to the Sedgwick Group's worldwide re-

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Brokers

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insurance broking resources, including London, Australia, Europe and the Pacific Rim," said Salvatore D. Zaffino, president and CEO of the North American operations.

Mr. Zaffino serves on Sedgwick Group P.L.C.'s global reinsurance committee, along with the heads of its other reinsurance divisions.

Earlier this year, Sedgwick restructured its North American reinsurance units, combining the treaty operations of Sedgwick Payne with the facultative operations of Crump Re under the new name Sedgwick Re (*BI*, July 17).

Revenues from U.S.-based operations increased 16.8% to an estimated $75.6 million in 1994, making it the fifth-largest U.S.-based intermediary. Worldwide, Sedgwick's reinsurance brokerage revenues totaled $119 million last year.

Growth in marine, property, accident and health and professional liability contributed to Sedgwick Re's growth, said Mr. Zaffino.

Sedgwick Re has also expanded its fee-for-service consulting operation, Reinsurance Solutions International. CIGNA Property & Casualty Co. recently bought 50% of the shares of RSI, which will manage all of CIGNA's reinsurance operations.

While RSI will provide CIGNA P&C's reinsurance services, "the main emphasis will be on developing third-party sales," Mr. Zaffino said.

"We try to be generalists, but we have specialists in each area," he said. "There is no one line of business or single geographic area where growth has been focused."

Sedgwick Re's client base ranges from small and medium-size regional insurers to some of the largest insurers in the country. North American clients also include state compensation funds, municipalities, legislatively created risk-bearing entities, risk retention groups and managing general agencies.

About 5% of the North American operation's clients are based outside the United States.

In 1995, Sedgwick Re added three new actuarial staff with experience in finite risk, capital markets and derivatives.

Willis Faber North America Inc.

Willis Faber North America Inc. posted the only revenue decrease among the 10 largest U.S.-based reinsurance brokers, but the intermediary's top executive predicts steady growth in the future.

The slide in 1994 revenues should turn around to a minimum compounded growth of 15% over the next two to three years, said Peter T. Pruitt, chairman and chief executive officer of the New York-based unit of Willis Corroon Group P.L.C.

"We are very solidly growth-oriented," he said. The intermediary has already landed "substantial new business" in the marine, aviation and international arena that will show up in its 1996 results, he added.

Willis Faber's gross revenues declined 1.8% to $45.8 million in 1994, though it remains the No. 6 U.S.-based intermediary. Premium volume inched up 1.2% to $1.3 billion.

In addition to the "very visible marine accounts," Willis Faber has also added business in its Minneapolis-based life, health and accident reinsurance division.

A Denver office that had been handling errors and omissions and directors and officers liability reinsurance for some time, but which was affiliated with a retail Willis Corroon office, recently joined the intermediary's organization.

James F. Dowd earlier this year resigned as Willis Faber's chairman and CEO to return to his former post as chairman and CEO of Skandia America Reinsurance Corp. (*BI*, July 10).

Mr. Pruitt was president and chief operating officer of Frank B. Hall & Co. Inc. prior to that brokerage's acquisition by Aon Corp. (*BI*, July 27, 1992). He later joined Willis Corroon as executive vp (*BI*, Nov. 15, 1993).

Willcox Inc. Reinsurance Intermediaries

Willcox Inc. Reinsurance Intermediaries reports "broad-based" growth in business across the board and new opportunities on the horizon.

The reinsurance brokerage, a unit of Johnson & Higgins, celebrated its 100th anniversary last fall and posted an 8.6% increase in gross revenues in 1994 to $44 million, which makes it the seventh-largest U.S.-based reinsurance broker.

Willcox's premium volume remains unchanged at more than $1 billion and its employee count rose 4% to 230.

"We have maintained broad-based growth" in all classes and lines of business, said Robert F. O'Leary, president and chief operating officer.

To take advantage of computer technology, the intermediary has formed some joint ventures with software vendors to create databases to serve specific clients, said Willis T. King Jr., chairman and CEO.

An office opened in Singapore in 1994 "is doing very well," he said.

So far this year, new offices have been opened in Dallas and Seattle.

About 15% to 20% of Willcox's clients are based outside the United States.

Towers Perrin Reinsurance

To take advantage of reinsurance trends such as consolidation and alternative risk financing, Towers Perrin Reinsurance is looking to expand its capabilities to serve non-traditional business.

The intermediary generated a 3% increase in gross revenues last year to $40.2 million, which makes it the eighth-largest U.S.-based reinsurance broker. The unit of consultant Towers Perrin reported $598 million in premium volume.

"We are refocusing," said Jacobus Van de Graaf, managing director and CEO of Towers Perrin Re. "Historically, Towers Perrin has been more in the 'traditional' business, which is not growing. Companies are taking bigger retentions and buying less reinsurance. There's been some consolidation."

Instead, the intermediary is branching out into niche, program and alternative risk business like captive insurers and underwriting pools.

"There's no question that the alternative risk business is here to stay," he said. "We're trying to access business in a variety of ways," including through other Towers Perrin units that may help clients establish alternative risk financing mechanisms.

Mr. Van de Graaf became head of the reinsurance unit on Jan. 1. He was previously COO and manager of the Stamford, Conn., office, where he is still located. Philip W. Mitchell stepped down as CEO and remains a senior vp in the Philadelphia office.

While "the vast majority of our business is in the U.S.," the intermediary recently established two producers in Canada. Peter Bassel has

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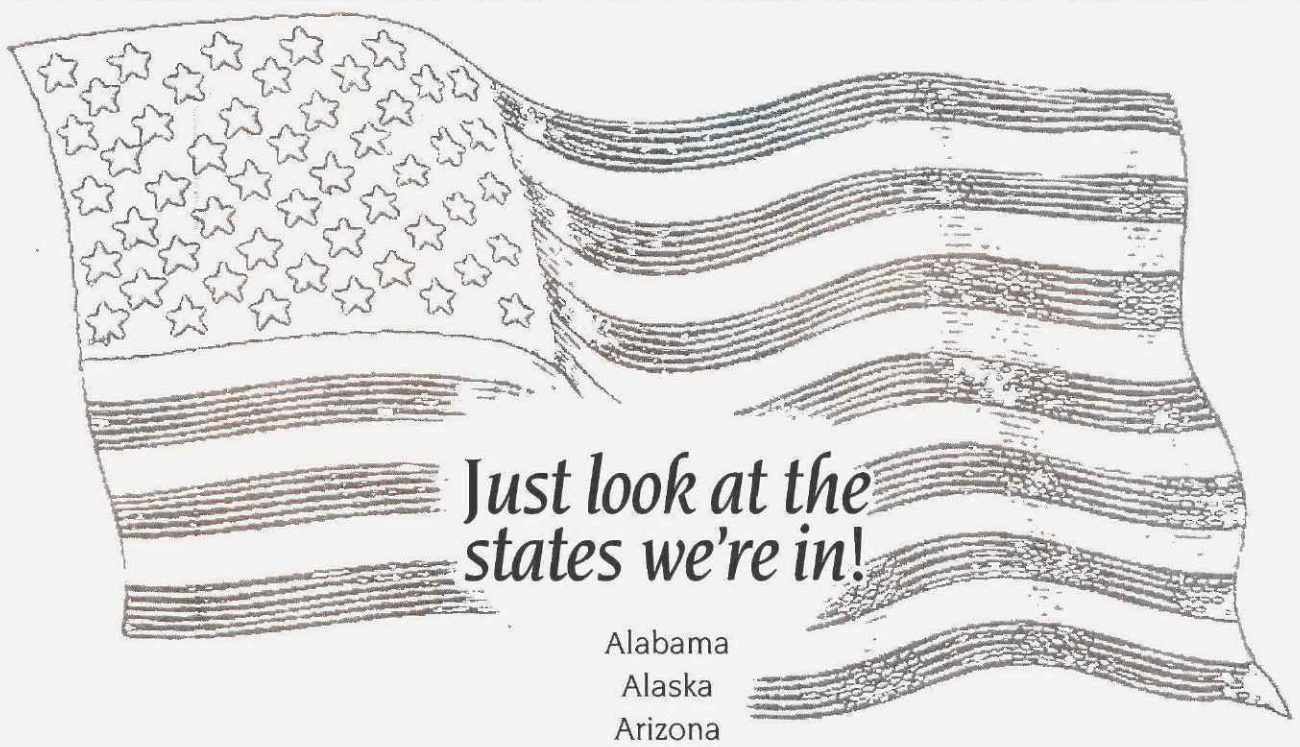

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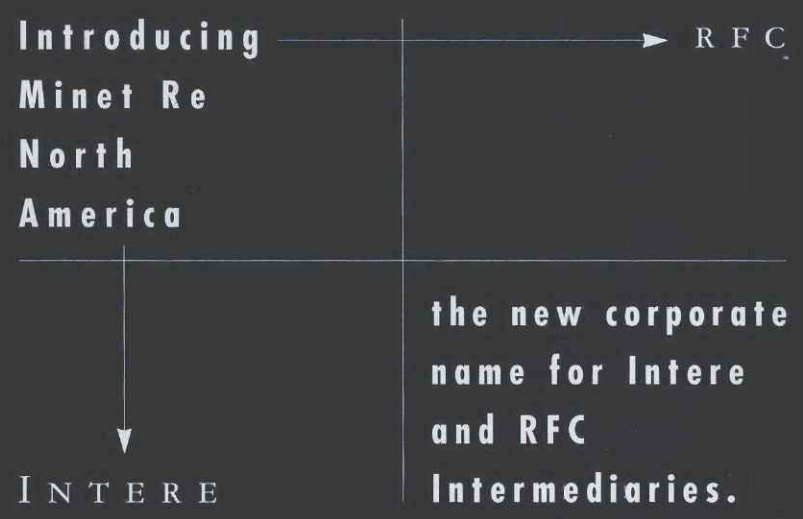

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Brokers

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joined the company in Toronto and Alain Perreault will direct efforts in Montreal. Both men came from Los Angeles-based G.J. Sullivan Co.

In addition, Ray Dowling, hired from American International Group Inc., will focus on security risk and developing access to capital markets.

Also this year, Towers Perrin established Integrated Reinsurance Risk Management to provide unbundled reinsurance services on a fee basis. The unit performs catastrophe modeling, financial analysis and reinsurance program analysis.

Alexander Reinsurance Intermediaries Inc.

Experienced staff and the resources of a large affiliated international reinsurance broker help Alexander Reinsurance Intermediaries Inc. stand out in the reinsurance market. With 6.9% growth in gross revenues to $30.9 million, Alexander Re is the ninth-largest U.S.-based intermediary. Its premium volume climbed 10.5% to $680 million.

"Our company is heavily involved in the reinsurance of working casualty business," said William R. Coleman, president and CEO of the Stamford, Conn.-based unit of Alexander & Alexander Services Inc. "It's also been a good year for our life reinsurance division and financial products area."

"We are a deep firm and a very focused firm," Mr. Coleman said. "We have a very experienced staff. Many of our brokers have underwriting backgrounds."

The affiliation with A&A's Alexander Howden Group Ltd. unit also lends prestige. London-based Alexander Howden comprises A&A's global wholesale brokerage and reinsurance brokerage operations (*BI*, July 17).

Alexander Re this year opened a branch office in Atlanta headed by Kenneth R. Fewell, senior vp.

In addition to Mr. Coleman, the senior management team includes: Robert T. Mobyed, executive vp and chief operating officer; and John T. Roby, senior vp and chief financial officer.

John P. Woods Co. Inc.

Strong growth in life/health and property/casualty business is expected to keep revenues rising at John P. Woods Co. Inc.

Gross revenues increased 21% to $21.3 million in 1994, while premium volume increased 14.3% to $600 million, helping New York-based Woods to maintain its spot as the 10th largest U.S.-based intermediary. Woods added seven employees last year to bring the total to 62.

"We are experiencing dramatic growth in the life, accident and health areas," said President John P. Woods. "In combination with our property/casualty initiatives, the number of new reinsurance opportunities for us at year end is unprecedented."

The intermediary is also working with investment bankers to access capital markets to develop reinsurance programs.

Opportunities for new property/casualty business are coming from the direct writers of reinsurance, Mr. Woods said.

"It appears that some of the directs have changed focus, particularly with respect to regional writers, and our marketplace is very keen to write this business," he noted. The Midwest, West and Southeast represent a greater percentage of the new business opportunities.

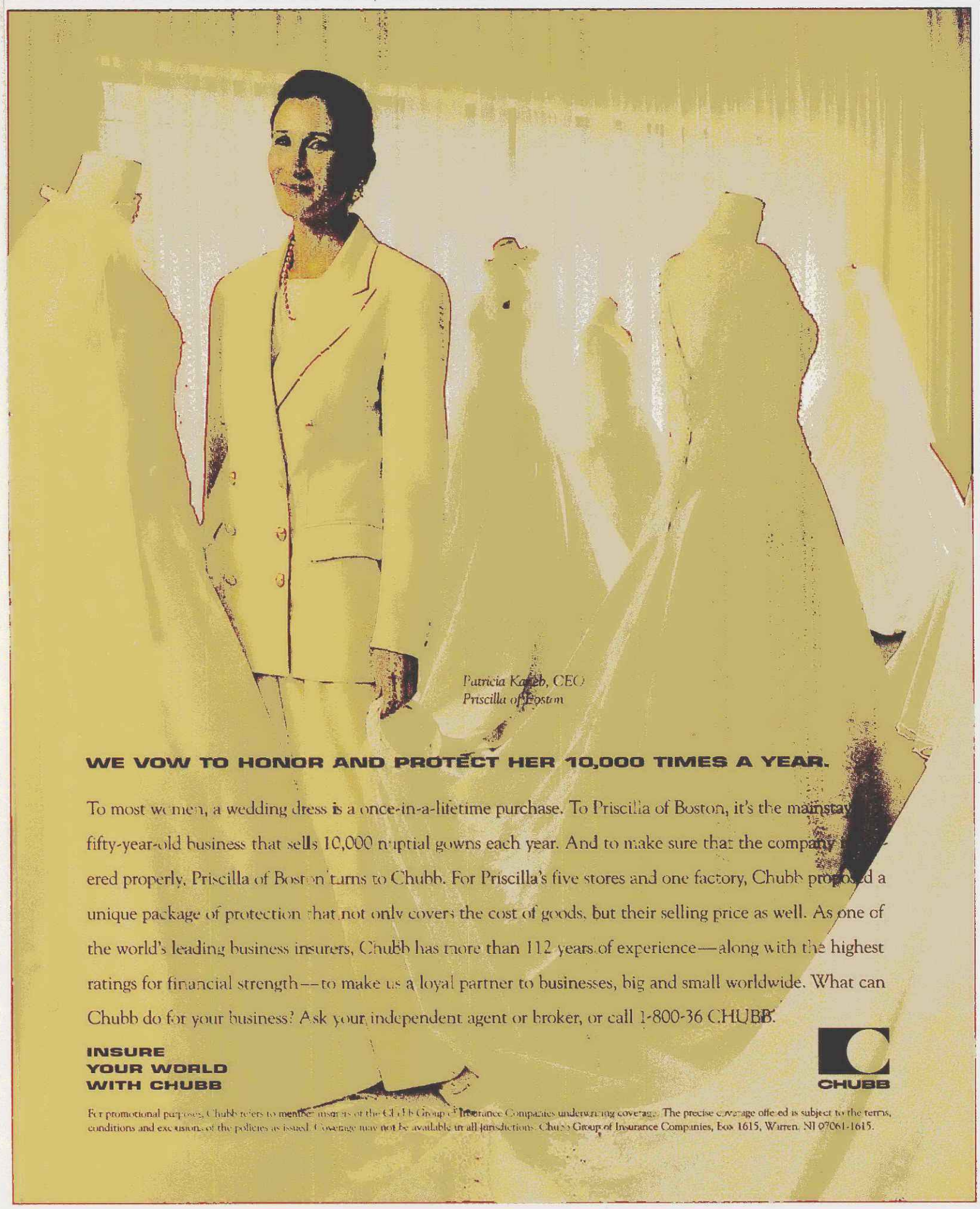
Woods' business mix is evenly distributed between regional insurers, "super regionals," national insurers and specialty writers.

"Currently, less than 5% of the revenues are derived from international sources," Mr. Woods said. "Over the next two to three years, it is anticipated that this percentage will be in the 10% to 15% range."

The intermediary formed Allegiance Inc. in Mount Laurel, N.J., in March 1994 and opened another branch office in Atlanta in March 1995.

The intermediary made several key hirings in 1994, including: Harry J. Larzelere as executive vp in the Mount Laurel office; and Edward S. Rankin was named senior vp in Atlanta.

Other top officers are: Josephine P. Hoey, senior executive vp; Roderick P. Thaler, Ellsworth P. Whiteman and John P. Woods III, executive vps; and John N. DiBlanda, vp and chief financial officer. BI



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Catering to ceding companies

Brokers, reinsurers striving to meet increasing demands

By SARA MARLEY and JUDY GREENWALD

Insurers continue to demand more and more services from their reinsurers and intermediaries.

Ceding companies require "access to decision-makers, the top people in the reinsurance company and the broker community," said Chris L. Walker, president and chief operating officer of Minneapolis-based broker E.W. Blanch Co. "They are demanding more, and rightfully so. It's a positive move for the industry."

"Companies are looking for advice and counseling on a broader range than ever before," agreed Jacobus Van de Graaf, managing director and chief executive officer of Towers Perrin Reinsurance in Stamford, Conn.

Competition based on service, in fact, may drive consolidation among reinsurance brokers.

"It's very hard for small organizations to survive when the services that companies are looking for today cost more to provide," said Mr. Van de Graaf.

Reinsurers are also under pressure to provide more.

Reinsurers are continuing to help on the underwriting side, in the rating process and from an actuarial standpoint, advising companies on reserves and claims handling, said Richard Cole, chairman and CEO of Stamford, Conn.-based Chartwell Reinsurance Co.

"I think ceding companies are looking more and more for reinsurers' help on how they handle the larger claims," he added.

"I think the style of doing business is changing and the style is very much geared toward a risk management approach," said John Smithson, chairman, president and CEO of Philadelphia-based PMA Reinsurance Corp. "The reinsurer and the reinsurance intermediary are putting themselves into the shoes of the management of the ceding company and identifying the range of alternatives. The financial input and the actuarial input is heavier."

"I do think what we're seeing, at least on the part of our customers, is an increasing respect for our auditing ability and the intelligence that they get about their own operations when our underwriters visit with their underwriters and our claims people visit with their claims people," said Steven H. Newman, chairman and CEO of Woodland Hills, Calif.-based Underwriters Reinsurance Co.

Underwriters Re's underwriting and claims people can determine whether their counterparts in a ceding company are carrying out their management's philosophy, as well as "how they stack up skill-wise in this increasingly competitive business."

"Very often, we're able to give a splendid report card," said Mr. Newman. However, he added, "Every once in a while we have to say that 'No, your folks are paying lip service to your underwriting criteria.' "

Insurers are changing their distribution systems and exploring capital markets and the information superhighway as vehicles to market and sell insurance in the future. But reinsurance brokers differ whether they, too, will adopt those channels.

"There will undoubtedly be changes in the way we do business," said Blanch's Mr. Walker. "Everyone is looking to become more effective, to streamline processes, reduce or eliminate redundancies and to get closer to the customer."

"As the distribution system of our clients changes, it has no effect on us," countered Peter T. Pruitt, chairman and CEO of Willis Faber North America Inc. in New York. "We have clients that are agent-oriented, that do business with brokers and that are direct writers."

"While reinsurance brokers have emphasized the need for strategic alliances with retail and wholesale brokerage operations for the past few years, it is unlikely that the traditional reinsurance distribution system will change dramatically in the near future," said Salvatore D. Zaffino, president and CEO of Sedgwick Re's North American operations in Hartford, Conn.

However, Sedgwick Re's affiliation with the retail and wholesale brokering divisions within Sedgwick Group P.L.C. position the intermediary well, he added.

Most appealing to Sedgwick Re is the possibility of electronic reinsurance transactions. "This distribution channel is, however, in its infancy and will undergo substantial development," Mr. Zaffino said.

Those channels will reduce the number of intermediaries that ceding companies need to do place their business.

"Fewer markets, serviced to a higher standard, seeking fewer but much more significant across-the-board client relationships, should change the structure and complexion of today's reinsurance broker," said Brian Stewart-Brown, director of London-based Nicholson Leslie, an Aon Re Worldwide Inc. affiliate. "Gone is the need for teams of market brokers. In their place, highly proficient and therefore senior account handlers are required, clearly enjoying the understanding and confidence of client and market alike."

Aon Re has the advantage of being a relatively new intermediary, "free from the historical and rapidly outdated structures prevalent in nearly all our competitors," he said.

New methods for delivering services also call for changing how intermediaries are compensated.

"There is no doubt there is an increasing pressure in the marketplace to perform certain kinds of business for fees," said Mark E. Hvidsten, president and CEO of Minet Re North America Inc. "In today's tough business world, companies want to know what they are paying for. This will be part of the ongoing transformation of the industry."

Brokers have become more like investment bankers, giving advice rather than distributing products.

"In five year's time, brokers will be more oriented to provide things they can command a price for than the simple distribution of risk in the marketplace," Mr. Hvidsten said. "Our job is to allow insurers to manage their business better."

"I believe there is a trend in the reinsurance brokerage business for either fee-for-service or negotiated brokerage," Towers Perrin Re's Mr. Van de Graaf said. "But. . .it's confined to larger accounts, mega-accounts. I don't believe in the midterm it will be done much in small- to medium-sized accounts. It's an evolutionary process." BI

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Spotlight report

Consolidate

Continued from page 3

Stamford, Conn.

"I think it is probably advantageous as long as we don't get too much concentration in too few hands," suggested John Gilbert, president of New York-based HolbornCorp., a reinsurance intermediary.

"Obviously, the strength of our market is to have numerous avenues for placing different types of risk and we want very much for that to continue. On the other hand, our clients want stronger reinsurers who will play a larger role, so there will continue to be fewer participants, but they will be stronger," Mr. Gilbert explained.

Reinsurance market observers also note there is little nostalgia for the days when buyers could choose from many more reinsurers.

"You had all kinds of horror shows developing in the early '80s, when insurance companies, particularly small insurance companies that were relying heavily on reinsurance, suddenly found that when they were calling up their reinsurers for claims reimbursement they were getting a message back, 'Nobody home,' " said Michael Smith, a New York-based analyst with Lehman Bros.

Some of those reinsurers were capitalized with just $10 million to $20 million, said James R. Fisher, division president and chief financial officer of Princetor., N.J.-based American Re-Insurance Co.

"I don't believe that's enough. . .capital to actually be in the business, so consolidation in and of itself may be just a way, if you will, of culling out the weak players in the herd. So, from that perspective, it's the right thing to happen," Mr. Fisher said.

"Security in the reinsurance marketplace is a lot better than it was, say, 10 years ago," said Jack Snyder, senior vp at A.M. Best Co. in Oldwick, N.J.

"Buyers will benefit from more professional, more committed, longer-term players that will have better security," Mr. Snyder observed.

However, Tal P. Piccione, president and CEO of U.S. Re Corp. in New York, suggested that market consolidation is not necessarily all positive.

"I think it would be healthier if it wasn't consolidating so much because spread is an important component of the industry and having more than a few players tends to keep the intellectual wits sharpened, both in broking and underwriting.

"It's the old law of supply and demand. If there's very little supply, people can afford to be a little less concerned from a competitive perspective, and the very thought there would be just a very small number of companies is anathema to getting the most out of the free enterprise system," Mr. Piccione said.

"Frankly, I think it's a pretty overrated topic," said Paul Ingrey, president of Morristown, N.J.-based F&G Re, a unit of USF&G Corp.

"It makes a lot of sense to consolidate somewhat," but fewer placements and less spread is not going to have a material impact on the reinsurance market, said Mr. Ingrey.

"Things will still get done more or less the way they have in the past," he added.

Meanwhile, as they consolidate, reinsurers are continuing to take more of a global focus.

Examples of this include: General Re Corp.'s 1994 agreement to take control of Cologne Reinsurance Co. (*BI*, Oct. 31, 1994); and Employers Reinsurance Corp.'s acquisition of Aachen Re Group and a majority stake in Frankona Reinsurance Co. (*BI*, March 27).

"I believe what we're seeing happening is a recognition of the overall globalization of the entire property/casualty marketplace, and a need for consideration of expanding businesses beyond current geographic boundaries," said Frederick Kist, Atlanta-based head of Coopers & Lybrand's casualty actuarial and risk management consulting practice.

'Our clients want stronger reinsurers who will play a larger role, so there will continue to be fewer participants, but they will be stronger,' says John Gilbert.

Reinsurance buyers are following a strategy of finding healthy, sound partners with whom to expand their operations, according to Mr. Kist.

"I think globalization of insurance actually happened first on the reinsurance level," said Gary Ransom, senior vp at Conning & Co. in Hartford, Conn.

"Gen Re buying Cologne or American Re opening up offices around the world, or Swiss Re putting in more capital," said Mr. Ransom, "all of those are symptoms of trying to meet the broader global demands placed on reinsurance."

Low growth is expected in the U.S. insurance industry in the foreseeable future, and many of the larger insurers have realized that long-term growth will require looking toward the less mature international markets.

As these insurers grow in international scope, they want international services from their reinsurers, he explained.

"Certainly, the top-tier players are looking to be global competitors and follow the trend," said S&P's Mr. Walsh. "Quite frankly, I think they're the only ones who are largely equipped to compete on that level."

Smaller niche players will find it difficult to commit capital to developing markets or previously unfamiliar territories, Mr. Walsh added.

Globalization "just raises the bar for reinsurers," agreed Dan Eudy, executive vp of Hartford Re Co. in Hartford, Conn. "Smaller reinsurers are unable to compete in the international arena."

Meanwhile, the demand for reinsurance continues to outpace growth in the primary insurance industry. In first-half 1995, for instance, net premiums written by U.S. reinsurers rose 15.9% (*BI*, Sept. 4), while premiums written by primary insurers rose just 3.5%.

Several factors may help explain this discrepancy, including: the growth of small regional primary companies; greater demand for catastrophe reinsurance; more affordable reinsurance pricing; and successful efforts by reinsurers to reinsure managing general agency business.

National Re's Mr. Cheney pointed to the growth of small regional companies. "The primary business is shifting from the bigger national agency companies to the smaller regional companies that have bigger reinsurance requirements relative to their own premium base," he said. A large insurer might cede 5% of its premium, while a regional specialty insurer might cede 30%, he explained.

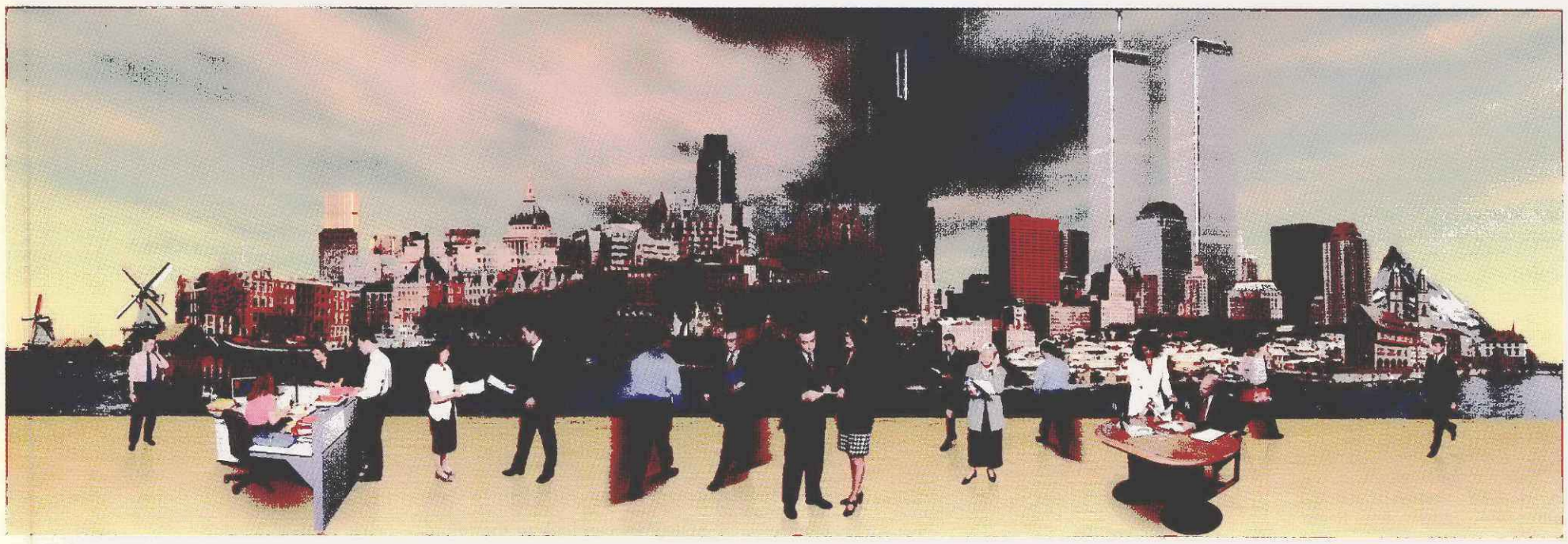
S&P's Mr. Walsh agreed this is a factor.

As the large multiline insurers leave certain lines of business, smaller regional companies have grown, and they need more reinsurance, "and so the reinsurers have certainly picked up premium because of that," Mr. Walsh observed.

The property cat business could be playing a role, as well.

In fact, a recent study by Con-

See **Consolidate** *on page 22*



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Consolidate

Continued from page 20

ning & Co., called "Outlook for the Reinsurance Industry, a New Definition of Quality," found that about half of the 15 fastest-growing reinsurers primarily write property catastrophe coverage.

"I do believe there's still a very high degree of interest in property cat reinsurance and probably the property cat rates are partially responsible for that continuing increase we're seeing," said Cooper & Lybrand's Mr. Kist.

"Primary companies are buying more pro rata property protection than they did before. . .and even though the property pro rata treaties are all capped on an occurrence basis," it is still a component in the reinsurance sector's growth, according to FMA Re's Mr. Smithson.

"The very large losses that have taken place in recent years have demonstrated that what was normally considered to be substantial catastrophe protection is no longer the case for large insurance companies," said U.S. Re's Mr. Piccione.

"Companies that were in the past content with $300 million of cat protection are now recognizing the need for $600 million to $1 billion worth of cat protection," he added.

At the same time, "there's a lot more sophistication in the analysis of exposure, particularly when it comes to catastrophe exposure," Mr. Piccione said.

Other reinsurance market observers also point to the currently soft reinsurance pricing.

"I think that the market is somewhat soft and the ceding companies are taking advantage of it and reducing their retentions" to purchase more reinsurance coverage, suggested Richard Cole, chairman and CEO of Stamford, Conn.-based Chartwell Reinsurance Co.

"More and more companies appreciate that commercial liability rates are very weak, and there's a certain amount of price-risk transfer going on," agreed Bard Bunaes, who is chairman and CEO of Constitution Reinsurance Corp. in New York.

Paul R. Davies, chairman and CEO of Aon Reinsurance Inc. in Chicago, pointed to greater recognition of risk as a factor.

"I think the reason is that in the late '80's and maybe early '90's, financial officers were not evaluating the true risk factors in the business and, now that some of the losses are coming out, they're realizing there is volatility and retentions are starting to become reasonable again, they're going down," he said.

"Some of the consolidation and some of the reserve strengthening that's been going on have left some insurance companies with the desire to make sure there are no major surprises in the future, and I think that has lead to some of the increase in activity," said Holborn's Mr. Gilbert.

'I think that the market is somewhat soft and the ceding companies are taking advantage of it,' says Richard Cole.

"There is considerably greater emphasis by the rating or regulatory organizations on catastrophe quantification and mitigation and to some extent ceding companies are wanting to make sure that they have adequate protections in place, which can be accomplished through traditional catastrophe reinsurance means or other forms of (reinsurance) protection," Mr. Gilbert added.

Some observers say reinsurers increasingly are seeking out managing general agency business.

If reinsurers can find an MGA writing a lot of business, they arrange to have it insured through one of their own companies, and then reinsure it, said Albert P. Amato, senior vp of C.L. Frates Reinsurance Intermediary Inc. in Greenwich, Conn.

TIG Re, for instance, actively seeks out underwriting manager business, though it works with numerous insurers in this area in addition to its own affiliates, said Mr. Hinkley, who also believes this is a factor in other reinsurers' premium growth. BI

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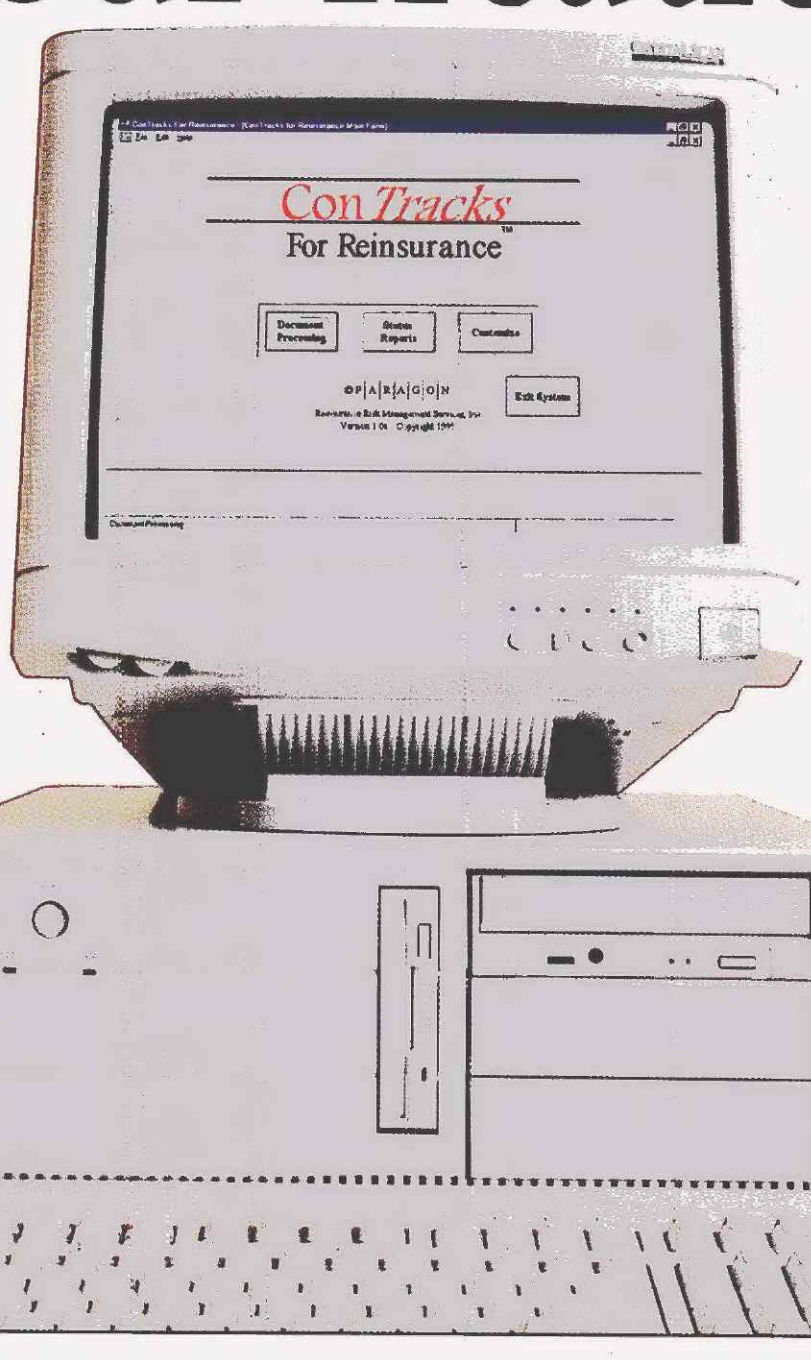

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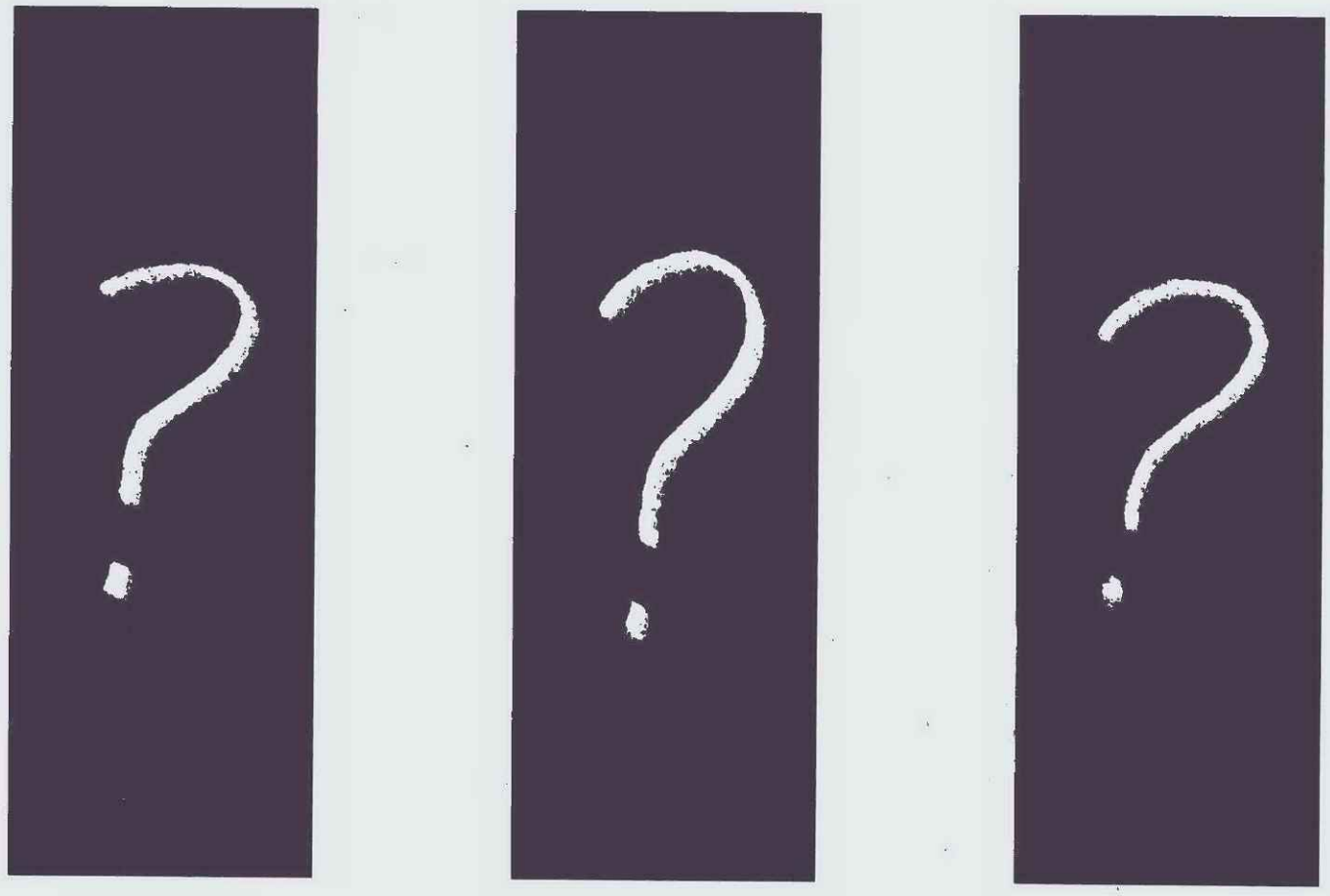


Reinsurers invest in cedants

Firms weigh risks of being exposed to losses on two fronts

By JUDY GREENWALD

More reinsurance companies are beginning to invest in the primary insurers with which they do business.

While only a handful of reinsurance companies have invested in their clients, there is a definite increase in activity in this area, say reinsurance market observers, who describe the trend as a natural outgrowth of reinsurers' effort to forge closer ties with their cedants.

The investments generally are conservative, with reinsurers keenly aware of the potential "double jeopardy" of both reinsuring and investing in a ceding insurer that develops financial problems.

Such holdings also account for a relatively small percentage of reinsurers' total investment portfolios.

In the prospectus for its September initial public offering, Risk Capital Holdings Inc. said most of its investments will be in equity securities, principally issued by insurance companies and reinsurers.

Risk Capital also stated that it may, "in some cases," provide reinsurance to insurers in which the company invests.

Other reinsurers say they also are investing in ceding insurers or are actively exploring the possibilities. The reinsurers generally are reluctant, though, to identify their investments, which can be in the form of either equity investments or debt instruments.

"I think almost all of us are doing that, but in modest ways," said Peter A. Cheney, executive vp and chief financial officer of Stamford, Conn.-based National Reinsurance Corp.

National Re will acquire no more than 10% of an insurer's shares, he said. By holding a significant stake in a company that is also a cedant, "you're compounding in a very big way your underwriting risk and your investment risk," he noted.

If there is a bad underwriting result and you own 50% of the company, "then your investment goes bad, too. Having said that, we're only too happy to participate in a very modest way in helping our clients meet their financing needs," Mr. Cheney said.

"We have looked at probably over 25 of these so far, and we have done a minuscule amount," or fewer than five, said Peter R. Porrino, senior vp and chief financial officer of Zurich Reinsurance Centre Inc. in New York.

One issue accounting for the relatively small number of such deals is that ZRC seeks to have an "absolute alignment" organizationally between it and the insurance companies in which it is investing, Mr. Porrino explained. "You want to be make sure you're investing side by side with the people who are running these companies."

While "that sounds pretty easy," it actually is not because many of these companies have complicated organizational structures, "where it is not only just the insurance companies that the executives are running," he said.

Another issue is the duration match, said Mr. Porrino. "By that I mean, what you try not to do is to have a one-year reinsurance program and a 10-year investment. We are in the reinsurance business, not the investment business, and that's a very important fundamental decision that you need to make within your own company when you think about doing these things."

Berkshire Hathaway Inc. is also willing to consider these investments, says Ajit Jain, president of its Stamford, Conn.-based reinsurance division. "That's certainly a trend that is becoming fashionable these days," he said.

"I can tell you from our own perspective, we really look at each one as a separate, stand-alone transaction, and we're not looking to have one subsidize the other."

James R. Fisher, division president and chief financial officer of Princeton, N.J.-based American Re-Insurance Co., which began making these investments in 1989, said: "When we look at these opportunities, the investment decision has to stand on its own two feet. In other words, it's not a subsidized investment decision that says we make 'X' amount of money on the reinsurance, therefore, we can afford to have the investment not perform."

A different approach is taken by Woodland Hills, Calif.-based Underwriters Reinsurance Co., said Steven H. Newman, chairman and CEO. He explained that the reinsurer does not compartmentalize the financial and reinsurance elements when it invests in a ceding company. While Underwriters Re examines both factors, "when it comes to quoting the deal, we look at it as a whole, integrated package."

Reinsurers that have made these investments include Employers Reinsurance Corp.

"We have not done a lot of it, but we do have investments in some of our clients," said Kaj Ahlmann, chairman, president and CEO of the Overland Park, Kan.-based company.

"We are looking at making investments like that," said Richard Cole, chairman and CEO of Stamford, Conn.-based Chartwell Reinsurance Co.

Others that have made these investments include Bermuda-based Centre Reinsurance Holdings Ltd. and American International Group Inc. of New York.

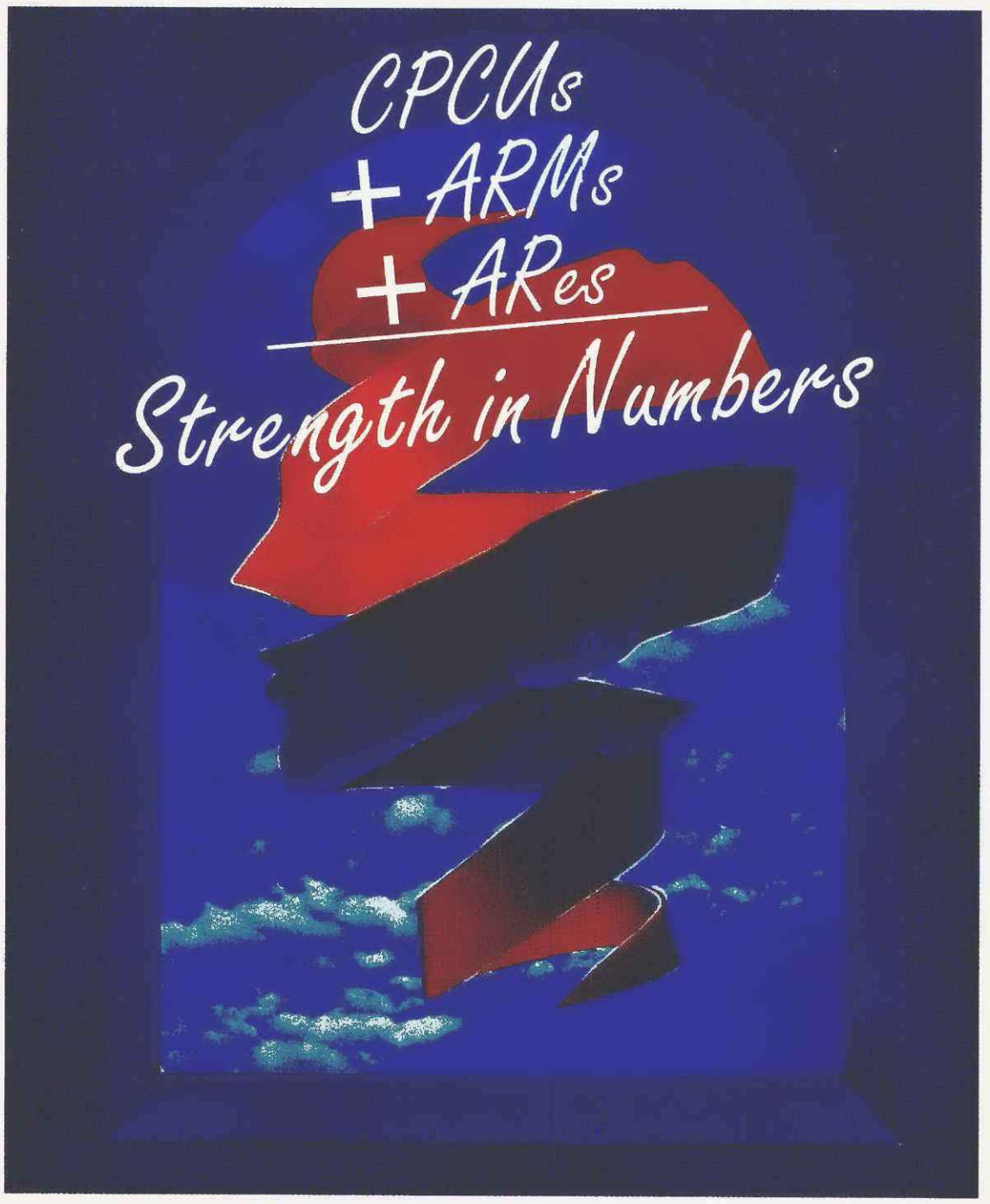
"In general, you would look to companies that have good future earnings prospects and choose those kinds of companies," said Jon Roberts, senior vp with AIG Reinsurance Advisors Inc. in New York.

Not everyone is enchanted with the idea, however.

Greenwich, Conn.-based NAC Re Corp., for instance, has no intention of making these investments, said Martha Bannerman, executive vp and general counsel.

"We don't do it because you're just doubling up on risk," she said. "We have our assets invested very carefully and very conservatively. We take our risk on the liability side of the balance sheet.

See **Cedants** *on page 26*



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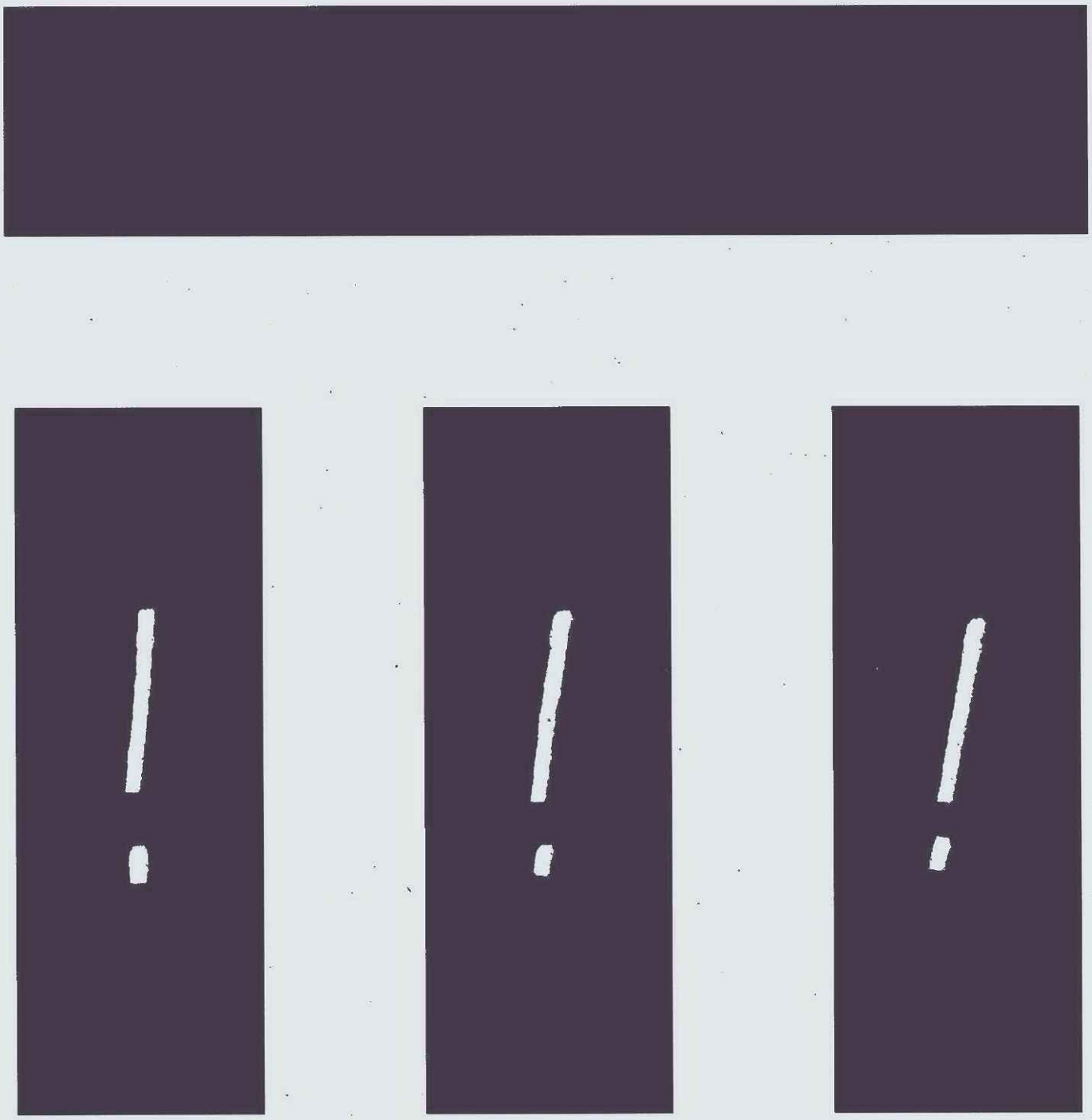

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Cedants

Continued from page 24

We have enough risk."

However, the practice is expected to continue at other companies.

"Many reinsurers have investment capital available to complement their reinsurance involvement in an account," said Steve Patterson, executive vp at intermediary Sedgwick Re in New York.

"It almost is becoming standard," he said. "They're interested in doing it to tie themselves closer to the client and to be able to. . .have a better knowledge of the client's operations and to be able to influence those operations.

"I see it growing. However, I can't predict the permanency of the trend," said Mr. Patterson. "It does create sort of a double jeopardy situation. It could, in effect, just be a trend that may die back over time."

William L. Munson, president and chief operating officer of the Morristown, N.J.-based Mercantile & General Reinsurance Co. of America, which also will consider these investments in ceding companies, said, "I think that's becoming more and more common where there's a need, because as banks and other institutions get more involved in the insurance business, it's only natural the stronger insurers and reinsurance parents are going to compete on their turf, too. So if someone needs capital and a reinsurer can provide it. . .why not?"

For many years, direct writers have helped out troubled ceding companies by heavily reinsuring their books, said Robert N. Tremelling II, president of the Tretis Group Inc., a San Francisco-based intermediary.

As the ceding company gets stronger and healthier, it buys less reinsurance, though the reinsurer has created a loyal client. Directly providing capital "is a natural outgrowth of that," Mr. Tremelling said.

American Re's Mr. Fisher noted the reinsurer first made such an investment in 1989, when a client company had a problem. "It wasn't life-threatening, but they needed to shore up their capital and, given their size, raising capital was something that was foreign to them."

Chris L. Walker, chairman and CEO of intermediary E.W. Blanch Co. in Minneapolis, said, "We all talk about forming partnerships, integrating ourselves and understanding clients' needs and helping them plan for the future. The fact reinsurers are willing to make a financial investment in the clients is a sound strategy."

"I think it pulls the parties together and creates a stronger bond," said Mr. Walker. "It also clearly identifies that the reinsurer is truly interested in becoming part of the solution to the problem if they're willing to step up and perform," he said.

"Reinsurance is capital, and there's much more to the reinsurance business than simple risk transfer," said Michael Smith, an analyst with Lehman Bros. in New York. Reinsurers are effectively bankers, and investing in the client is just providing it with one more product, he said.

"Reinsurance is becoming not only an underwriting tool to manage your underwriting results, but it's also a tool to manage your capital," said Jack Snyder, senior vp at A.M. Best Co. of Oldwick, N.J.

When going to the capital markets is not a reasonable option for insurers, short-term capital either in the form of quota-share reinsurance or an outright capital investment made by a reinsurer can help, he said.

"I would view the investments that have been made to date as short-term or intermediate, mezzanine financing that's being made until the company's in a better position to access the (capital) market," said Mr. Snyder.

American Re's Mr. Fisher noted that recent accounting and regulatory changes, including those in the financial reinsurance area, have made it difficult for the reinsurer to provide its clients with capital through financial reinsurance products. Therefore, American Re has turned to making direct investments instead, in the form of either senior debt, subordinated debt or preferred stock. "They're mostly small, regional companies that can't easily access capital," he said.

'Reinsurance is becoming not only an underwriting tool to manage your underwriting results, but it's also a tool to manage your capital,' says Jack Snyder.

These investments also can help reinsurers protect their business, said Frederick Kist, the Atlanta-based head of Coopers & Lybrand's casualty actuarial and risk management consulting practice.

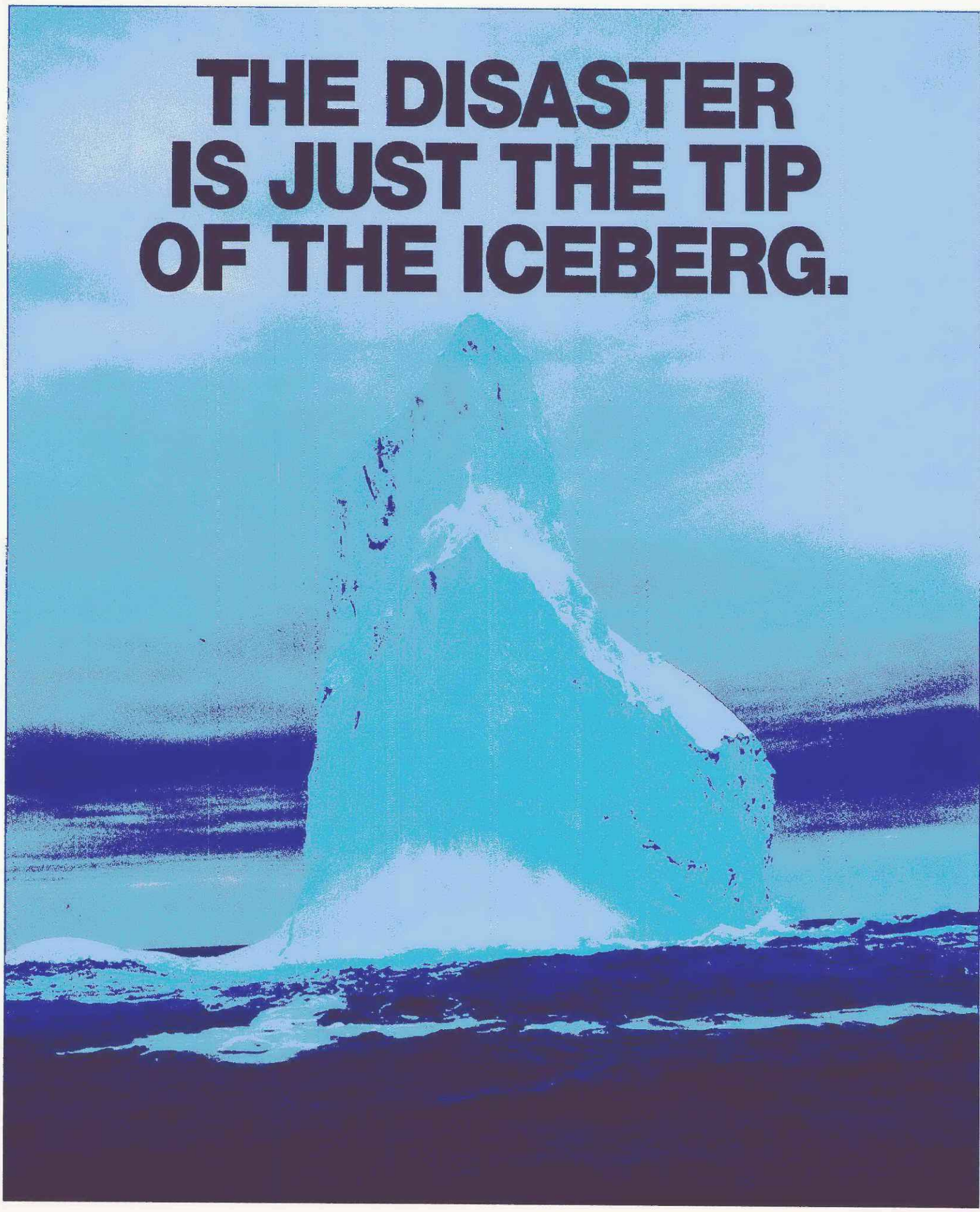
Some executives "believe that it is a way to bolster a particular niche market which had been profitable for them to make sure, if in fact mergers occur, they keep the risk rather than lose the risk," he explained.

In one case, said Mr. Kist, reinsurers considered providing capital to some cedants to facilitate a merger of the entities, rather than run the risk of losing the reinsurance program if there was a merger with a third party.

While it can be risky, "it's a good thing to the extent it facilitates the existence and viability of operations that have something to offer the market," with reinsurers having the advantage of a better understanding of the insurance market than the capital markets do, said Mark Hvidsten, president and CEO of Minet Re North America in New York.

Despite their allure, investments in clients still account for only a small portion of reinsurers' investment portfolios, noted Tom Walsh, associate director at rating agency Standard & Poor's Corp. in New York. "Certainly there are reinsurance companies out there that have participations in insurance investments."

But, he added, "If you look at the investments of most reinsurance companies, they're not at all disproportionately weighted toward the insurance industry," but instead are much more entrenched in government securities. BI



'Stock' answer no longer no

Stock market hasn't turned its back on reinsurer stock offerings

By JUDY GREENWALD

The stock market is apparently still receptive to reinsurance stock offerings, albeit on a more selective basis.

Reinsurance executives and analysts point to recent stock market activity as proof: a successful effort by Renaissance Holdings Ltd. to raise capital (*BI*, July 17); the failure of Normandy American Inc.'s planned offering (*BI*, Aug. 21); the off-again, on-again Risk Capital Holdings Inc. initial public offering, which ultimately succeeded with a kick start from EXEL Ltd. (*BI*, Sept. 18); and also Prudential Insurance Co. of America's sale of its entire stake in Prudential Reinsurance Co. (*BI*, Oct. 9)

Clearly, the stock market is not giving reinsurers as warm a welcome as only a few years ago, say many reinsurers.

The stock market's recent activity is "a reflection of the fact that a lot of investors feel that the jury is still out," said Tal P. Piccione, president and CEO of U.S. Re Corp. in New York. "The stock market operates in peaks and valleys when it comes to different industries. Several years ago, reinsurance was the flavor of the month. Now it's sporadic."

"My sense is it's not as easy for them to raise capital as it was a few years ago," Mr. Piccione said of new reinsurer offerings.

Risk Capital was the "only real new, significant capital that's come in since early '94," said Gary Ransom, senior vp at Hartford, Conn.-based Conning & Co. "We've had almost a year-and-a-half where not a heck of a lot happened."

However, "we're seeing a little bit of signs of life again," he said. While more issues can be expected to be brought to market, it is likely to be in the form of existing shareholders selling their stock, rather than new capital, said Mr. Ransom. "I wouldn't imagine a whole lot of new capital formations like Risk Capital."

"I think the market seems reluctant to accept new IPOs," said Richard Cole, chairman and CEO of Stamford, Conn.-based Chartwell Reinsurance Co.

"Witness the problem Normandy Re had, even though there were some other unrelated issues there, and Risk Capital Holdings had great difficulty and would not have been done without friends of the family, so to speak."

The market is saying there are already good reinsurers there and new ones are not needed, though it does seem to like existing players, said Mr. Cole, noting that publicly traded reinsurer stocks have done well recently.

"The market's becoming very intelligent about whom they're letting into the community," according to Mr. Cole.

"I think the capital market's still somewhat fickle when it comes to reinsurance," said Tom Walsh, associate director with rating agency Standard & Poor's Corp. in New York, pointing to the recent stock market activity.

In the future, there will be support for the reinsurance industry when there is an opportunity for an attractive return, but it will not be an "overwhelming commitment" because of the industry volatility, difficult market conditions and the fact that the general business environment is not an easy one, said Mr. Walsh.

If a company "had a story to tell, that they could demonstrate their ability to differentiate themselves in the marketplace and bring to their potential owners a good return, then I think the market would probably be receptive to it," said Richard E. Smith, president and chief operating officer of New York-based Zurich Reinsurance Centre Inc.

William L. Munson, president and chief operating officer of the Morristown, N.J.-based Mercantile & General Reinsurance Co. of America, agreed the stock market is selective. "The stock market certainly has welcomed what it perceives are interesting new opportunities and does not seem afraid of the issue that there's overcapitalization."

However, it has also shown an ability to differentiate between different offerings, said Mr. Munson. Whether that attitude will continue indefinitely or not remains to be seen, he added. Like all other industries, reinsurance will eventually fall out of investors' favor as well, he predicted.

"I think the marketplace right now has a pretty good appetite, for well-positioned, well-run reinsurers," said Jack Snyder, senior vp with Oldwick, N.J.-based A.M. Best Co. This is reflected in the movement of the stocks, many of which have had 52-week highs consistently in the past couple of months, Mr. Snyder said.

Neither the Normandy Re nor the Risk Capital offerings "are representative of what we call traditional reinsurance companies," said George Cochran, managing director in corporate finance for Coopers & Lybrand in Chicago.

The stock market "would respond very well to top tier companies," though second-tier companies have a more difficult time. He added that stocks of the top-tier, better-quality companies have a much higher stock valuation than do those in the second tier.

However, Michael Smith, an analyst with Lehman Bros. in New York, said he believes the reinsurance stocks' valuations could be even higher than they are, given the rise in the bond market.

"I don't think the insurance stocks in general—or the reinsurance stocks—reflect the strength we see in the bond market," he added.

"Typically, they march almost in step," said Mr. Smith. "By all measures I've taken, they now fall a little bit short. I still think there's quite a bit of room at the top. I don't think that the stock market fully understands yet the rather fundamental changes in economics in the insurance industry that are forcing insurance companies to buy more reinsurance" and the resulting very strong demand for reinsurance, he said.

The stock market's receptiveness to new IPOs is difficult to gauge, said Kaj Ahlmann, chair-

See **Stock** *on next page*

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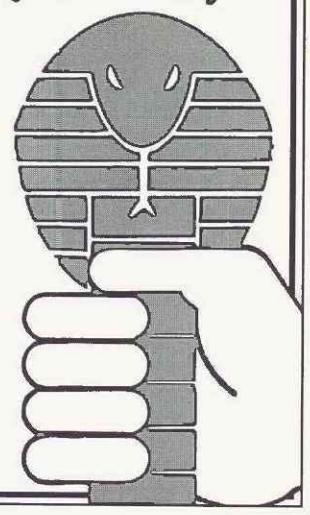

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Stock

Continued from previous page
man, president and CEO of Employers Reinsurance Corp. in Overland Park, Kan.

"I think the stock market got a little bit frightened by the end of '93," when a lot of capital poured into Bermuda, and non-insurance investors may have been expecting higher returns than they received, he said. "It might be difficult to do IPOs at this point in time" in the reinsurance sector, he added.

Others are more optimistic about continued opportunities.

The recent successful offerings, including Risk Capital's, "all point to a successful market," said David Charleson, a director with the investment banker Russell Miller Corporate Finance Inc. in San Francisco.

Normandy Re's failed IPO, he added, was "only an event to the extent there were discrepancies in its prospectus."

"I think the IPO market, while not the hottest it's ever been, is certainly enjoying a very good year," said Peter A. Cheney, executive vp and chief financial officer of Stamford, Conn.-based National Reinsurance Corp. "Clearly, there's an appetite in the market for new reinsurance stocks. In the future, there's no question in my mind that reinsurance stocks will be well-received in the marketplace."

We have been dealing with special situations recently, said Mr. Cheney, noting that Risk Capital has a different operating concept from many other reinsurers due to its planned strategy to invest in ceding companies.

"But I think for regular reinsurance, the stock market will be very receptive in the future because of the demonstrated superior growth returns and profits of the property/casualty reinsurance sector, in general, and, more specifically, the property/casualty direct-writing reinsurers."

"As of this minute, there's a perception that the IPO window is still open for some reinsurance issues that haven't come to market yet," said John Smithson, chairman, president and CEO of Philadelphia-based PMA Reinsurance Corp. The reinsurance sector "is considered a great business to invest in because the profitability record for the reinsurance sector for the last several years for the most part has been very good," he said.

"I think the market looks very optimistic for reinsurance stocks," agreed John L. Ward, chief executive officer of Ward Financial Group, a research and consulting firm in Cincinnati.

Over the past year, on the basis of their multiple price-to-earnings ratios and their market-to-book value premiums, "they're doing exceptionally well as a segment, and are significantly outperforming the industry in general," Mr. Ward said.

The stock market views reinsurers as good performers and as a good investment opportunity, he said. "All of that makes sense to me because from a strategic point of view there's never been a time when the industry at large is as reliant on reinsurance as it is now."

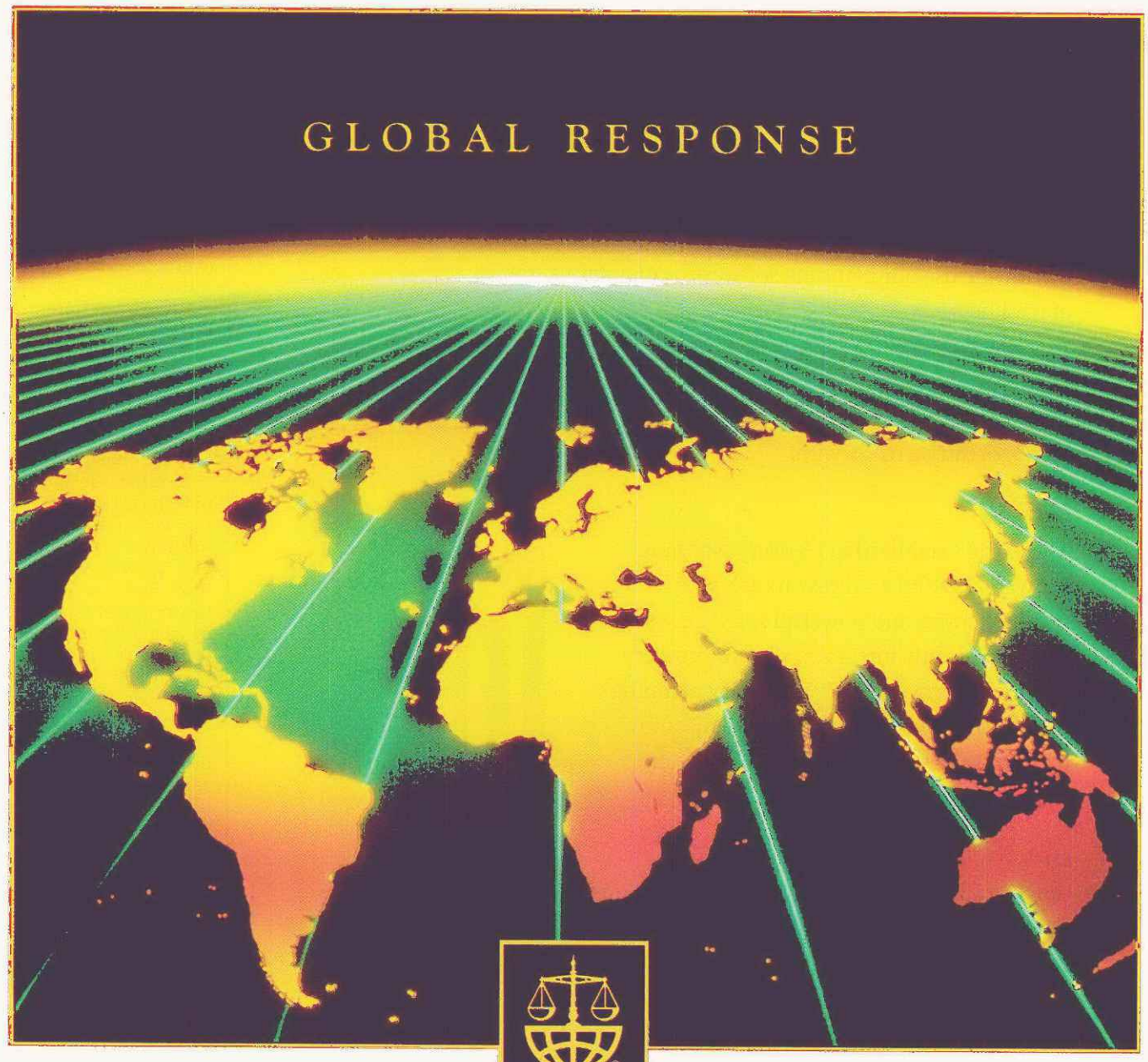
This means "they have a product where demand far exceeds supply and, as a result, the stocks are performing well and there is more capital available to come into that segment pretty much as needed," he explained.

"The reinsurance companies lately have been doing fairly well vs. the rest of the market," concurred Joanne Morrissey, a principal with Firemark Consultants in Morristown, N.J.

The stock market looks at the reinsurance market as "the most sophisticated of the insurance entities," she added. There is the perception that the "best and the brightest" of the insurance industry is found in the reinsurance sector.

In fact, while in other segments of the industry investors tend to focus on established companies, in the reinsurance sector they are willing to invest in relatively new companies, such as Renaissance Re and Mid Ocean Ltd., Ms. Morrissey observed.

"I think there's a lot of faith in the reinsurance industry right now," she said. BI



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Reinsurers rising in the ranks

Variety of factors cited for emergence of new leading companies

By JUDY GREENWALD

Hefty amounts of capital, talented executives and good timing are all factors that have allowed several reinsurers to recently join the ranks of the industry's most prominent and promising companies.

Relatively new reinsurers that appear among the leading companies of Reinsurance Assn. of America members when ranked based on net premiums written include: Greenwich, Conn.-based NAC Reinsurance Corp.; Woodland Hills, Calif.-based Underwriters Reinsurance Co.; New York-based Zurich Reinsurance Centre Inc.; and Stamford, Conn.-based TIG Reinsurance Co.

Although the list of top reinsurers is expected to remain relatively stable for the near term, it's possible that more new names will emerge. These rising stars could be either brand-new reinsurers or reinsurers now on the lower tier of companies that grow because of consolidation or capital infusions from their parents.

Executives of some of these reinsurers attribute their companies' success to a variety of factors, including good timing, an effective strategy, adequate amounts of capital and good relationships with their ceding insurers.

"I think there's no one answer for anyone's successful development," said Mark Hinkley, executive vp of TIG Re. Among the factors behind TIG Re's success, he said, are timing, underwriting background in excess casualty skills, and a strong capital base.

In addition, he said, "We actually moved the way the marketplace was going, which was to follow risk segmentation into different lines of business."

For instance, when an insurer used to say, "We write casualty business," it would not historically discriminate among lines such as directors and officers liability and architects errors and omissions.

TIG Re sought out clients that were either specialists in those niche lines or had divisions that specialized in these lines. The theory is that "reinsurers have sort of a horizontal knowledge of a lot of exposures, and what we're looking for is specialists with vertical knowledge of single lines of exposure."

ZRC has become successful by following the strategy outlined in its initial public offering prospectus, said Richard E. Smith, president and chief operating officer.

This strategy includes: building its organization with the best people in the underwriting, actuarial, legal, claims and financial areas; having a strong capital base; and being a lead underwriter, which is now the case on 80% of its business.

"We think that's extremely important," said Mr. Smith, explaining that ZRC believes this helps establish the right relationship with the client.

Other tenets, said Mr. Smith, include setting aggregate limits on its liabilities, carefully studying the risk profile before assuming business and capitalizing on its affiliation with other units of Zurich Insurance Co., in particular Centre Reinsurance Holdings Ltd., he said.

ZRC also has hired "extremely experienced" people in its casualty facultative operations, which has "helped us build some very strong and significant relationships," Mr. Smith said.

In addition, ZRC emphasizes its relationship with its clients, he said. It tries to give them not just an answer to a proposal "but, rather, alternative answers and other ways to do that." And, when it does turn down business, it does so with a "full and clear explanation."

Steven H. Newman, chairman and CEO of Underwriters Re, said one factor in his company's success has been its focus on "non-traditional sources and non-traditional markets."

'You create your own luck. All these companies have had good, sound strategies,' says Jack Snyder.

The reinsurer "has started clicking" in areas like reinsuring captives and risk retention groups and working with specialty brokers that focus on non-traditional client needs, such as providing financing as part of the reinsurance transactions (see story, page 24).

Martha Bannerman, NAC Re's executive vp and general counsel, also stressed the reinsurer's strategy as a factor in its success.

"We started out 10 years ago with a small company, with a small surplus and a small, if any, client base," she said.

"We established a strategy that was built. . .to serve us for the long term. It involves developing the infrastructure of a major reinsurer, including a facultative branch office structure, and it included projecting an image of being large, established and very secure. We have always sold security.

"We have a pristine balance sheet, and we have grown gradually but steadily over the 10 years. We have done that by being very focused in developing a core group of very solid customers that were interested in a mutually profitable relationship over the long term. We have been very disciplined in our underwriting," focusing significant resources on analyzing the risk before accepting it, said Ms. Bannerman.

Jack Snyder, senior vp at A.M. Best Co. in Oldwick, N.J., also pointed to these companies' strategies as factors in their success. "I think you create your own luck. All these companies have had good, sound strategies and people, and remain very consistent with those strategies, and basically the marketplace responded."

These top performers have been able "to differentiate themselves and attract a lot of business and generate very good results, very

See **Newcomers** *on page 32*

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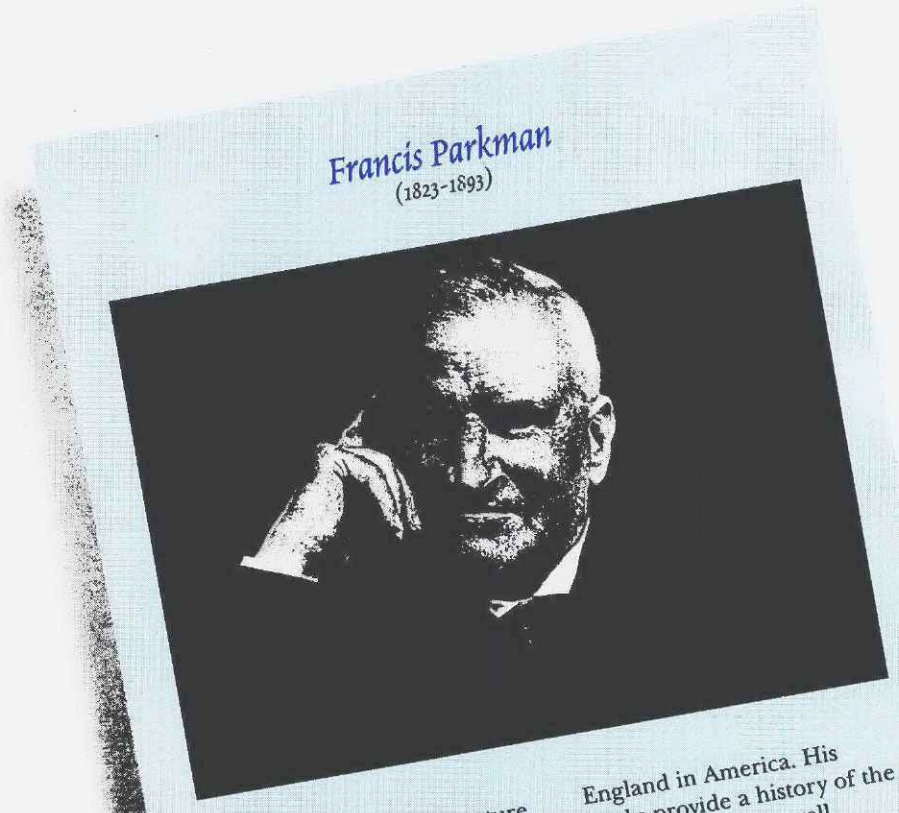

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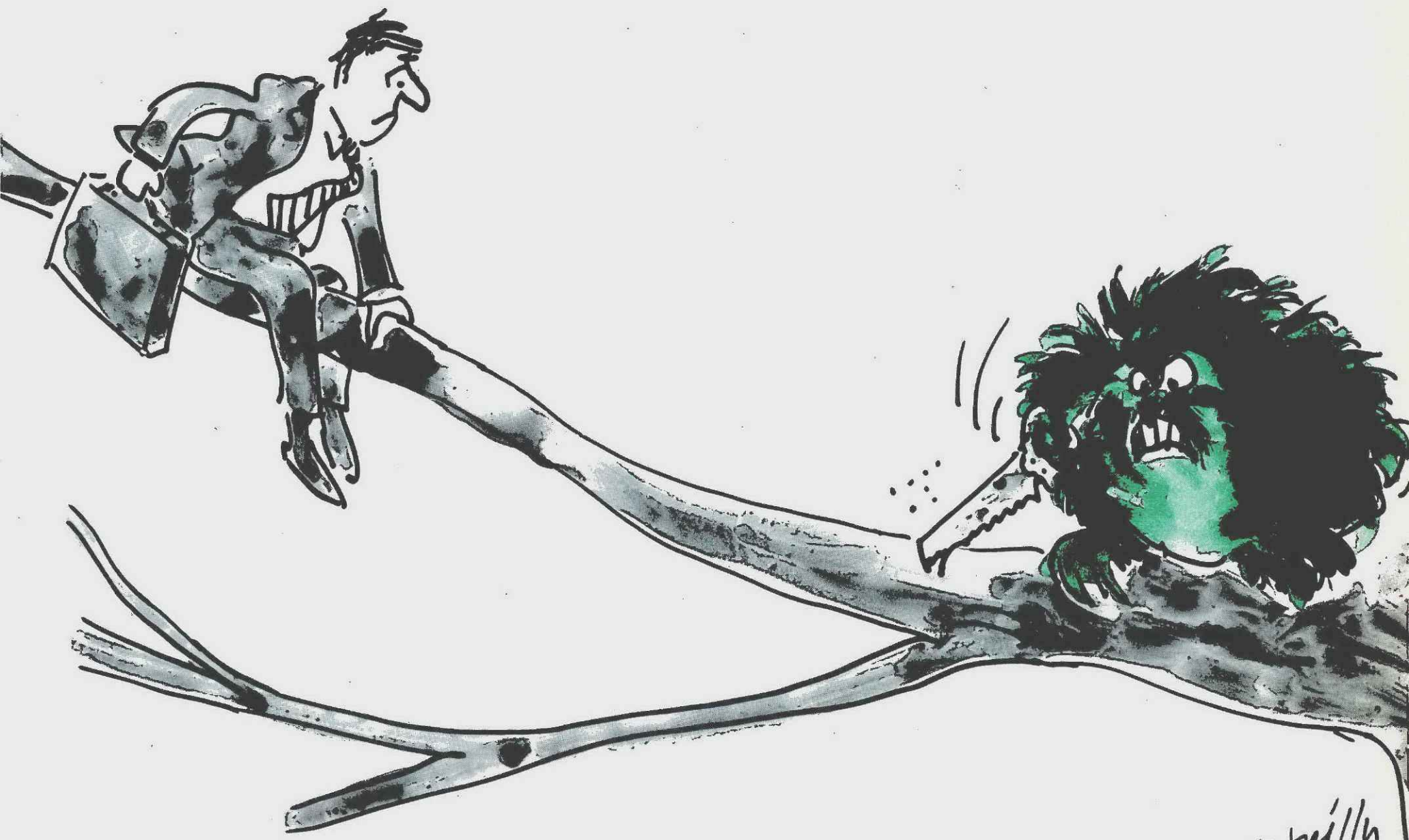

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Newcomers

Continued from page 30

stable results, and provide a consistent presence in the marketplace," Mr. Snyder said.

"Consistency and capacity are time-honored traditions of the reinsurance marketplace," Mr. Snyder said. "Those are critical characteristics that reinsurers must have if they're going to be stable over the long run."

William R. Coleman, president and chief operating officer of Alexander Reinsurance Intermediaries in New York, called the successful companies "well conceived."

"Their game plans are well conceived, their capital base is solid, their underwriting strategies are based upon experience and they're aggressive, so I think all those things contribute to their success ultimately," he said.

Capital has been a factor, as well, say observers.

Certainly, after 1992, if you had an initial public offering, it had better be of a significant enough size to put the company on the map and give it a competitive advantage, said Tom Walsh, associate director with Standard & Poor's Corp. in New York, who said ZRC fit this description.

Chris L. Walker, chairman and CEO of E.W. Blanch Co. in Minneapolis, also stressed capitalization.

"I think certainly the fact that these companies are very well capitalized is a critical part of their success," according to Mr. Walker.

With buyers more sophisticated, to be a significant market these days you must have a large capital base, he said.

Underwriters Re's Mr. Newman noted, for instance, that since the reinsurer's acquisition by New York-based Allegheny Corp. two years ago, the reinsurer's capital has grown to about $450 million from about $170 million.

That capital "has opened doors to us that had previously either been only partially opened or had not opened at all," said Mr. Newman.

Furthermore, the capital boost came "at a time when other markets are being used with less and less enthusiasm, such as Lloyd's," as well as some "old prominent reinsurers operating here," he said.

Management also plays a critical role at these up-and-coming companies.

Each of the companies is characterized by prudent underwriting and has an organization that is professional "from top to bottom," said Mr. Walsh.

Others agreed. "I think they've got very good, forward-thinking, aggressive management," said John Gilbert, president of New York-based Holborn Corp., a reinsurance intermediary.

"You've got first-class people with tremendous skills that recognize opportunities. They recognize what their clients need," said Mr. Walker. "They're not afraid." Rather than starting off with products, they look at buyers' needs and try to come up with products that meet those needs.

"They're bringing top talent into the industry in terms of actuarial services and underwriting services," said Paul R. Davies, chairman and CEO of Aon Reinsurance Inc. in Chicago.

Freedom from the liabilities of the past also has been a factor in the reinsurers' success.

"Many of them bring fresh capital to the business that is not tainted by the old losses and old thinking," Mr. Davies said.

Their timing was "certainly very good," according to Mr. Gilbert.

"Certain markets have run into problems, which have created opportunities for those that don't have the sins of the past on their shoulders or their balance sheet," he said.

New names may eventually appear on the Top 20 list, observers say, though dramatic changes are not anticipated.

"There is obviously going to be some shifting in the ranks and one or two may slip from grace as new companies merge or become bigger though consolidation, but I don't think there's going to be a wholesale re-distribution of that list," said Mr. Gilbert.

"I think the way the companies in the lower tier climb up is the way some of them have already, and that is to look to their parents for big capital infusions," Mr. Smith said.

'I think certainly the fact that these companies are very well capitalized is a critical part of their success,' says Chris L. Walker of E.W. Blanch Co.

Another way some may be able to climb up is to find a merger partner, he said. "Absent those two activities, it's going to be pretty difficult for those companies in the lower tier to climb up," he said. "If they do it, they must do it quickly before the market shuts them out completely and they find themselves out of business."

It is also possible that a brand-new company could be created, he said. ZRC, for instance, "put a huge amount of money into the reinsurance pool and said, 'Here we are,' " Mr. Smith said.

"Without consolidation, I don't see the top tier changing much," said Aon Re's Mr. Davies. Unless "someone comes along and puts a billion dollars into it, or something like that, I just don't see anything like that."

But, Alexander Re's Mr. Coleman said: "I think you're going to see some more consolidation, so that could change the profile of the Top 20. I think there's still capital available for the right game plan. I think that's been proven recently with the Risk Capital Re situation."

Best's Mr. Snyder questioned the premise of looking at the Top 20 reinsurers based on either premiums or surplus.

CIGNA Reinsurance Co. was in the Top 20, but "is it there today? No. There are other examples of Top 20 reinsurers that have fallen from grace," he said. "Big companies can run into problems."

"The industry can still accept start-ups that have good concepts and provide good services, enabling them to break into the Top 20 or Top 10, although I grant you that the initial capitalization companies must have is a minimum $100 million.

"I think the Top 20 list is going to continue to change over time," Mr. Snyder said. BI

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Small reinsurers urged to specialize

Lack of capital endangers small, non-niche players

By MICHAEL SCHACHNER

Primary insurers' flight to quality is expected to continue taking its toll on smaller non-specialist reinsurers.

Reinsurance buyers are expected to continue seeking coverage from companies with high levels of capital and surplus, strong track records and value-added services.

To even get the attention of primary insurers today, a general reinsurer needs $200 million to $500 million in capital, reinsurance experts say. And with the demand for minimal capital expected to get more intense in the near future, companies with less than $200 million in capital could be in for a rocky period unless they make some adjustments.

Experts are considerably more optimistic about specialty companies. Reinsurers that cover, for instance, sub-standard automobile liability risks or that write various forms of finite or financial reinsurance will be able to prosper with $200 million in capital or less, they say.

"Clearly, the flight to quality trend is underway. We're down to about 55 reinsurance companies with meaningful ratings from 125 in the mid-1980s, and that will continue. Of all the segments in insurance, reinsurance is on the consolidation fast track," said Eric Simpson, a vp in the property/casualty division at A.M. Best Co. in Oldwick, N.J.

Most reinsurance company officials agree that buyers prefer reinsurers with more capital, and there are few opportunities for smaller reinsurers.

"I think anyone with less than $200 million in working capital is trying to figure out what they will look like tomorrow. I believe they are looking for more capital," said Steven Gluckstern, chairman of Centre Reinsurance Holdings Ltd. in New York, the parent of Zurich Reinsurance Centre Inc. "I'd be stunned if anyone in this situation would say they are right where they want to be."

Mr. Gluckstern sees three probable scenarios for smaller companies in the future. Many will go into runoff. Others, he said, will merge with companies roughly their size to form larger, more viable companies. And the remainder will seek either to be acquired outright by a larger reinsurer or to sell a larger company the renewal rights on ongoing business.

Western Atlantic Reinsurance Co. chose the latter route. Recently the Swiss Reinsurance Co. unit sold the renewal rights to its book for $170 million to NAC Reinsurance Corp. (*BI*, Oct. 9).

That sort of deal will probably be more typical in the future than outright acquisitions of smaller companies by larger ones, said Mr. Gluckstern.

"I don't foresee a lot of buying of reinsurance companies because it's difficult. You don't necessarily want to take on liabilities that are there from before you own the company. Very few smaller reinsurers don't come without that problem attached," he said.

Meanwhile, an example of a smaller company intent on merging with companies of its size in order to get up to the industry's so-called viability point is Chartwell Reinsurance Co. of Stamford, Conn.

Chartwell recently merged with the Reinsurance Co. of New York, which took Chartwell from $115 million in capital to $180 million. Richard E. Cole, chairman and CEO of Chartwell, said the merger between the two companies exemplifies what companies of Chartwell's size must do to compete.

"I fully agree that the market will consolidate considerably over the next few years. Smaller companies have to look to become an acquirer or an acquiree. Primary companies want fewer reinsurers on their programs, so there really is no place in the market for smaller companies. That's why our No. 1 priority is to get bigger, and it's why there will be another acquisition in our future. There's a limited life span—maybe two or three years—for smaller companies," said Mr. Cole.

'The market will reward smaller specialty companies that handle a niche well,' says Michael Satz.

Reinsurer executives aren't the only people saying that big is better.

Hartford, Conn.-based Conning & Co., an insurance industry consulting firm, reports in its 1995 "Outlook for the Reinsurance Industry," that it expects "further consolidation to take place in the reinsurance industry as the weaker players are acquired or cease operations. This is an evolutionary process that could happen merely through increasing concentration of business in the major reinsurers rather than through mergers or acquisitions."

Niche players may be an exception to this rule.

"In the long-term, large, global companies that can control or strongly influence the general market will be rewarded. They have the economies of scale and diversification necessary to make it," said Michael Satz, chief executive officer with Capital Reinsurance Co., a New York-based financial guarantee reinsurer. "However, the market will also reward smaller specialty companies that handle a niche well."

Mr. Satz said companies that "fall between these two categories are in for difficult times. For them, I cannot see anything more than mediocre results."

Capital Re has dedicated about $200 million of its capital to writing reinsurance for municipal bond insurers as well as other types of financial reinsurance. "But for mortgage reinsurance, you're credible with about $100 million and for credit reinsurance, the number is more like $50 million" Mr. Satz said. "But to be a major property/casualty reinsurer, you need $300 million to $500 million before the market will accept you."

See **Small** *on next page*

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Small

Continued from previous page

Other reinsurance executives said capital requirements are shaped by competition.

In the finite risk marketplace, for example, Commercial Risk Reinsurance Ltd. has nearly doubled its capital since Jan. 1.

From $107 million at year-end 1994, the Hamilton, Bermuda-based company expects its capital to exceed $200 million at the end of 1995 after shareholders of its parent, Commercial Risk Partners Ltd., earlier this month agreed to make an infusion.

Commercial Risk is a joint venture of SCOR S.A., SCOR U.S. Corp. and Western General Insurance Ltd.

"We have talked to many people and their word is that $200 million is adequate for us. As a non-traditional, finite risk reinsurer, this gives us a tremendous opportunity to increase our writings," said Graham C. Pewter, who is president and chief executive officer of Commercial Risk Partners.

The infusion will enable Commercial Risk to write more business and make it a more attractive reinsurer, he said.

Reinsurance companies active in an area without overwhelming competition can make it with less capital.

"For smaller reinsurers, you must do something to differentiate yourself. You can probably make it with $100 million in capital if you're a niche insurer," said Daniel Gross, president and CEO of Enhance Financial Services Group Inc. of New York, the parent of financial guarantee reinsurers Enhance Reinsurance Co. and Asset Guaranty Insurance Co.

"For us, size isn't an issue because along with Capital Re we dominate our market. Together, we probably control 70% of a $150 million market niche. But beyond this—and maybe stop-loss coverage for the health care industry—I'm at a loss to identify other (low-capital) opportunities," said Mr. Gross.

Niche reinsurers generally outperform broad-line companies, but there are very few reinsurance niches available, he added.

But one official, Jeremy Wallis, president and CEO of Chatham Reinsurance Corp. of Chatham, N.J., which has about $30 million in capital, dismissed much of the talk that small companies have no future.

"It's mostly self-serving rhetoric on the part of large players that want to dominate the market. We certainly believe we do have a future, and we expect it to be bright. The approach we have adopted is to be open-minded with our underwriting. We'll take on the troubled account and we don't need to be large to be profitable," he said.

Mr. Wallis acknowledged that Chatham Re is a specialty insurer, but not a monoline specialty company.

"We write ocean marine reinsurance, some accident and health, monoline casualty, local surety business and crop reinsurance," he said. "Basically, we compete by hustling. You don't need capital to provide service and to be smart. Expense ratios are manageable; loss ratios are far less manageable." BI

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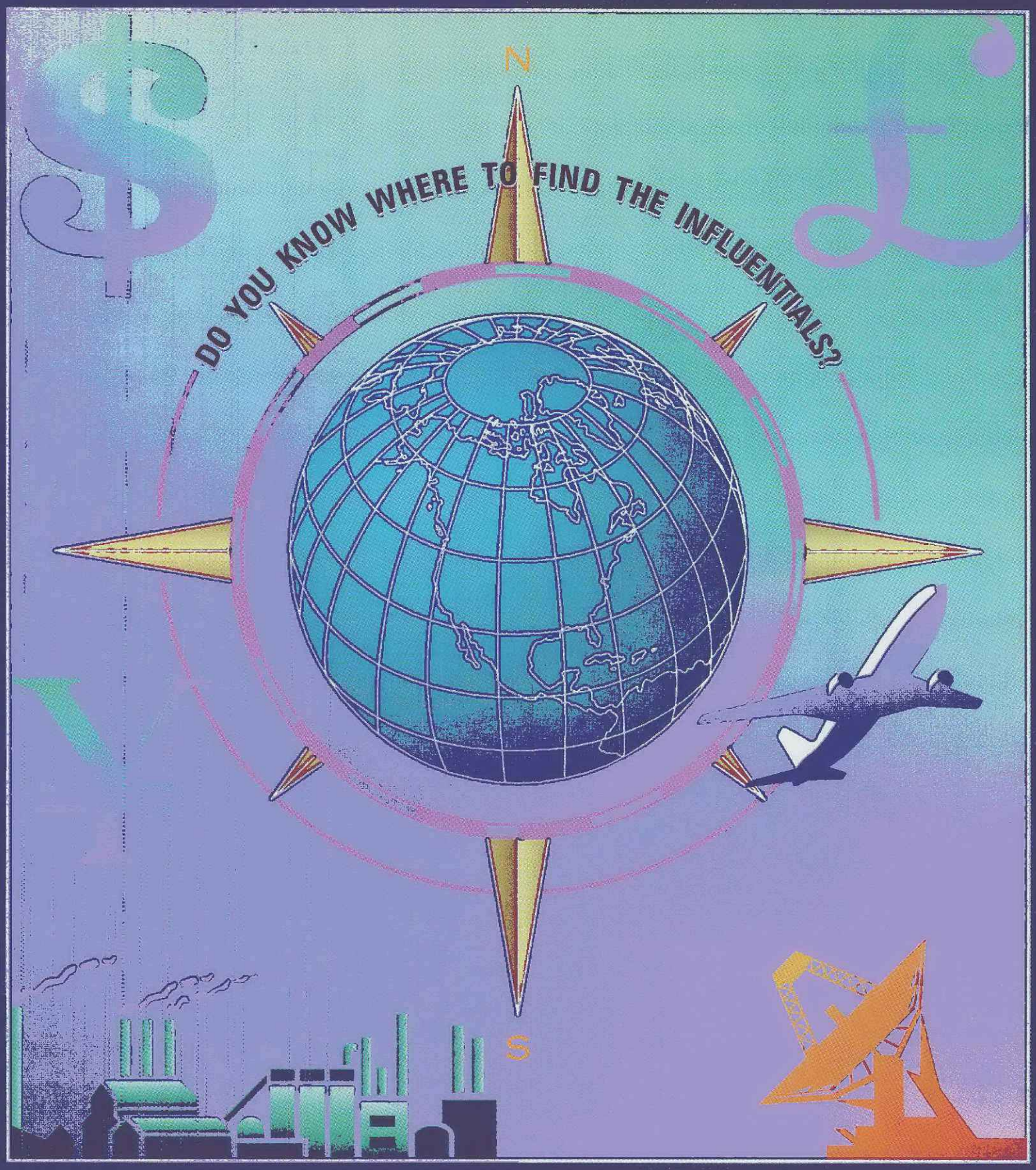

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Financial reinsurance thrives despite change

Products fill gaps in traditional market

By JUDY GREENWALD

Financial reinsurance continues to flourish even as its precise definition changes and expands.

Financial reinsurance has moved closer to traditional reinsurance as it incorporates more underwriting risk in response to accounting and regulatory changes in recent years (*BI*, Oct. 31, 1994).

Certain risk transfer techniques, such as loss caps, still remain closely identified with financial reinsurance. And more insurers are turning to these mechanisms to fill their reinsurance needs, particularly in the catastrophe area.

However, the "old days"—when financial reinsurance meant the reinsurer would assume little or no underwriting risk—clearly are gone forever.

"Financial reinsurance is alive and well. Reinsurance is happening all the time that has financial elements to it," said Gary Ransom, senior vp at investment and research firm Conning & Co. in Hartford, Conn.

"It's certainly getting more attention from reinsurers," said Tom Walsh, associate director at Standard & Poor's Corp. in New York. "I think it's certainly a growth area for many of the larger players, and the professional players that are focused on it already are obviously looking for strong growth."

Given that traditional reinsurance is perceived to be in short supply for many areas with large property catastrophe exposures, "people on the financial side are looking to find ways to bridge that gap," said Mr. Walsh.

At Reliance Reinsurance Corp., "we are seeing more submissions now than we ever have before," said Ed Stanco, senior vp of customized reinsurance products for the Reliance Group Holdings Inc. unit in Philadelphia. "I believe the reason for this is that, as people realize they have to have risk transfer, with finite risk mechanisms they can buy products more efficiently."

In addition, as companies take on greater risks at lower prices in the soft primary market, they "are looking toward their reinsurers to provide them relief," he said.

"There's a significant amount of activity in (financial reinsurance), and we think it's a pretty exciting solution to a lot of problems," said Chris L. Walker, chairman and CEO of reinsurance intermediary E.W. Blanch Co. in Minneapolis.

"I would characterize the market as stable, with encouragement that it is growing," said Steve Patterson, executive vp at reinsurance intermediary Sedgwick Re in New York, a unit of the Sedgwick Group P.L.C.

"Finite risk is now routinely considered as part of overall treaty structures by ceding companies, and we're certainly seeing the demand stabilize, if not increase," he said.

However, one intermediary sees little growth in financial reinsurance.

Both the volume and number of financial transactions are flat or down from previous years, said David Koegel, senior vp at reinsurance intermediary Gill & Roeser Inc. in New York. This could be partly because of the regulatory changes and partly because casualty rates are fairly soft, while property rates have hardened less than anticipated.

"I don't think you have a lot of obvious disenchantment with reinsurance pricing these days," said Mr. Koegel, adding that companies become interested in financial reinsurance when they feel it can help their bottom line. "Obviously if rates harden in a hurry, then we'd see a pick-up in activity," he said.

"It's not exploding like it might otherwise have exploded if the accounting rules had not changed," said John Smithson, chairman, president and CEO of Philadelphia-based

Continued on next page

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Continued from previous page

PMA Reinsurance Corp. "It's still a very active marketplace, and there's still a fair amount of premiums being written in the finite risk products, but clearly the new accounting rules have created a deterrent for some of the kinds of products that were available before the rules were changed."

Two recent Financial Accounting Standards Board rules discouraged use of several popular products.

First, in 1992, came FAS 113, which governs the reporting of transactions by publicly-traded insurers using generally accepted accounting principles. A contracts is considered reinsurance only if it transfers "significant insurance risk" to the reinsurer and it is "reasonably possible" the reinsurer will suffer a "significant loss" under the contract.

Then, in 1993, the board virtually eliminated insurers' ability to use funded cat covers to "smooth out" balance sheet volatility over several years. Under a rule known as EITF 93-6 obligations owed to reinsurers under multi-year contracts must be reported as liabilities by ceding companies and assets by reinsurers. If a ceding company stands to profit under a multi-year contract because of good loss experience, that amount must be booked as an asset while the reinsurer reports it as a liability.

The market is continuing to adapt to those changes, said Paul Ingrey, president of Morristown, N.J.-based F&G Re, a unit of USF&G Corp. where financial reinsurance accounts for an estimated 40% of business.

"The product has changed," observed Peter Gentile, senior vp at the New York-based Atrium Corp., a reinsurance intermediary subsidiary of Swiss Reinsurance America Corp. that operates as a finite risk facility.

"The products that are written today do transfer significant insurance risk," he said. "They generally are done on a prospective basis, they deal with losses that have not yet been incurred, and we like to think they're very strong."

While today's products do "contain more significant risk than the previous products, I think they're still variations on similar themes, in that their primary focus is really the ceding company's financial objective," said Mr. Gentile.

The market is actually better off with the new rules, Mr. Gentile contends. "I think knowing what the rules are and knowing how to comply with the rules has given companies a greater comfort level.

"When companies are dealing in a state of lack of knowledge, there was certainly more reluctance to get involved because they didn't know what the ultimate rules would be. There's not a transaction that we enter into that is not signed off by the cedant's accountants and, in some cases, by other interested parties like the regulators," Mr. Gentile said.

"I think it's a better market now," said Jon Roberts, senior vp at AIG Reinsurance Advisors Inc. in New York, which arranges financial reinsurance programs reinsured by other American International Group Inc. units. "I think in the past there were some abuses which were addressed by the new regulations."

"We don't feel (the rules are) a constraint," said Michael Cascio, a founder of Stockton Reinsurance Co. in Hamilton, Bermuda.

"We know the rules, whereas a few years ago, the rules were changing almost monthly or daily. Although I am in personal disagreement with some of the accounting standard proclamations, the reality is, as a person in the reinsurance business, I can conduct my business as long as I know what the rules are. From that standpoint, I do believe the playing field has been defined, and now we are able to design products that meet accounting standards and that also met the needs of our clients," he said.

At the same time, the distinction between traditional and finite coverage is becoming blurred.

Today all financial contracts have to have risk in them, said Robert N. Tremelling II, president of the Tretis Group Inc., a San Francisco-based reinsurance broker.

The further one goes in satisfying the FASB standards "the less of a 'financial reinsurance' deal you have," he said.

However, "there will always be a need for deals that fit within the umbrella," he said.

For example, getting rid of discontinued lines of business, dealing with mergers and acquisitions, and aggregate risk transfer concepts, "are typically not very well understood or handled by the traditional reinsurance market," which is not as well equipped to deal with financial issues, such as net present value concepts, said Mr. Tremelling.

"The people who know about these things are still involved and the need is still there, but they are being blocked into a risk-type of framework by the FASB," he said.

The probable result is that fewer deals are being done, but they are more credible, meaning there are fewer of the "fringe element deals" without risk transfer, he said.

At the same time, traditional reinsurance being written today has more elements of finite risk reinsurance, such as limited reinstatements and aggregate caps on how much the reinsurer will pay, he said.

"Clearly, the traditional business is adopting more of the techniques adopted by people like Centre Re," such as aggregate caps and exposures, agreed David Brown, president of Centre Reinsurance Holdings Ltd., a major finite risk reinsurer in Hamilton, Bermuda.

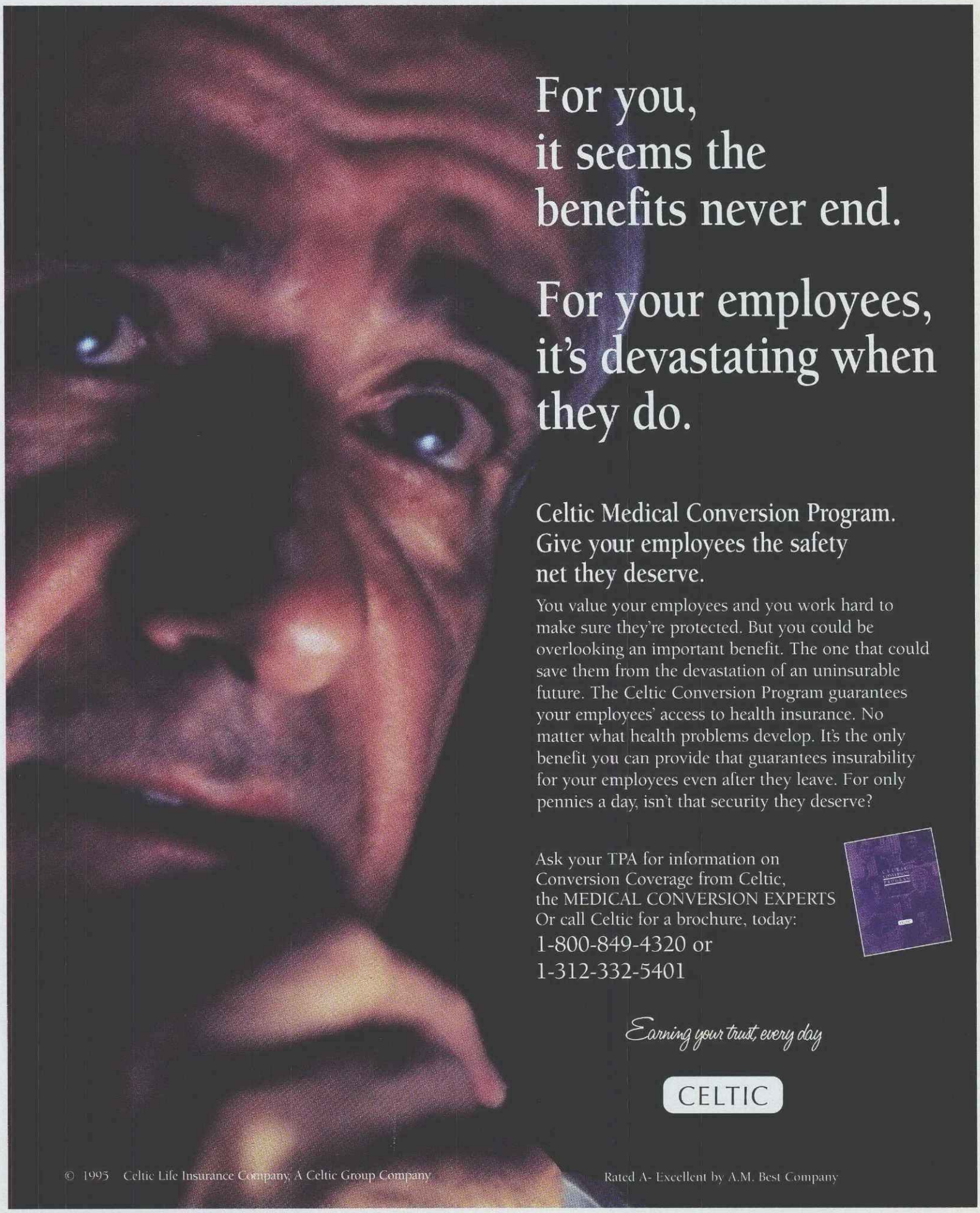
The further one goes in satisfying the FASB standards 'the less of a "financial reinsurance" deal you have,' says Robert N. Tremelling II of Tretis Group Inc.

"People are beginning to understand it really is very difficult to write unlimited cover," while the client does not want to have to pay for it, he said.

"We think that what has happened is that the pricing and underwriting techniques that were previously part of the strictly financial reinsurance area have now been incorporated into the traditional pricing mechanisms for the sophisticated reinsurers," said Reliance's Mr. Stanco.

At one time the market was polarized: at one end was traditional reinsurance, at the other financial reinsurance. "Now, after the accounting changes that have taken place, those two markets have gotten closer together, so in effect much of the financial reinsurance that is done is very similar to the traditional business that's already been out there for years," said Mr. Stanco.

See **Financial** *on page 41*



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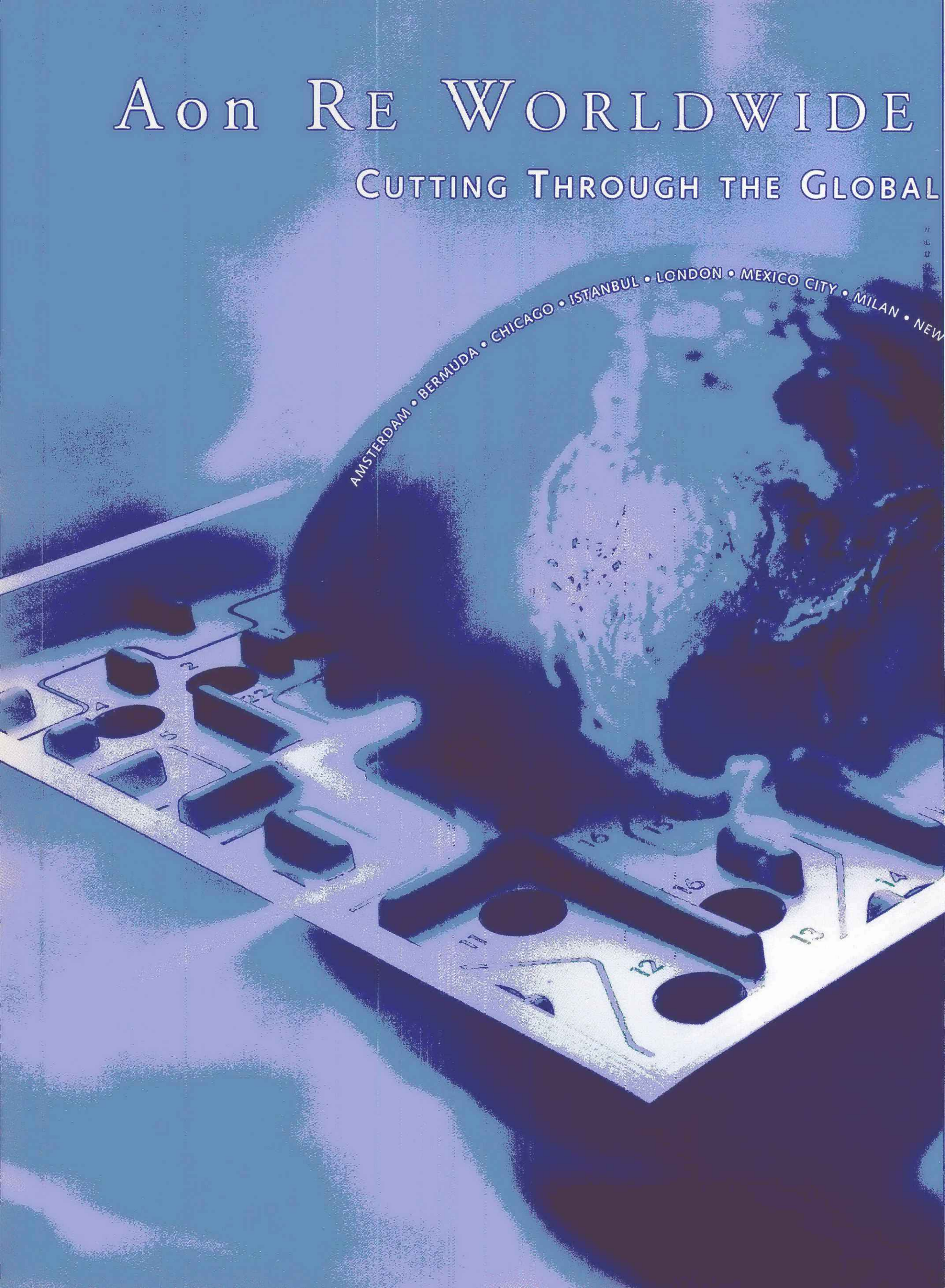

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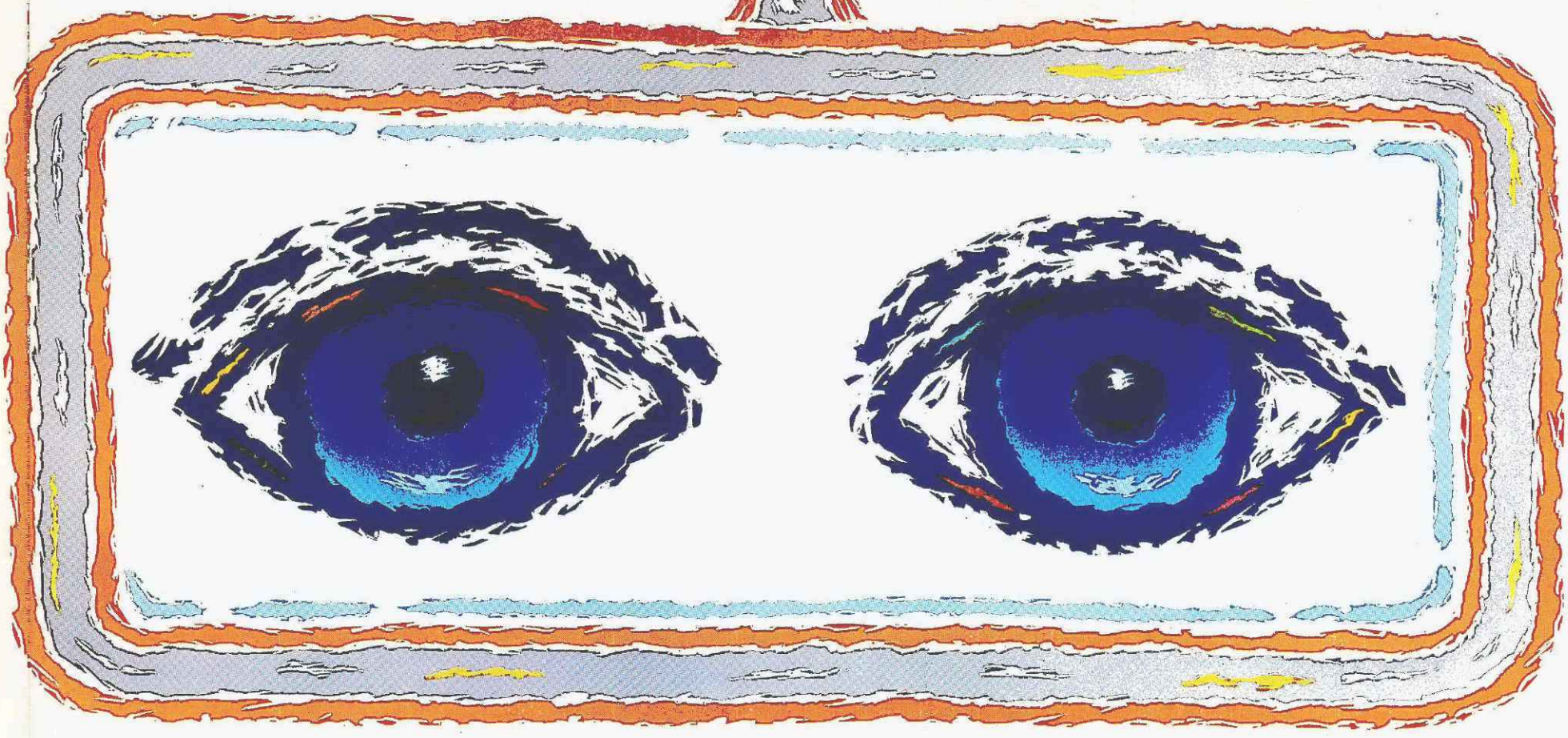

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Financial

Continued from page 37

"It's a matter of the perspective of the buyer," said Mr. Stanco. "For example, a traditional buyer may have quota share in place for several years, but think of it as traditional reinsurance.

"Another buyer may decide he needs an immediate change to his balance sheet and wants to buy quota share reinsurance," said Mr. Stanco. "His perspective is he's buying a finite risk cover."

Other executives say that there is more to it than perspective.

"I still believe that there's some considerable gap between the overall exposures a true finite risk market is assuming during the writing of their business compared to the risk that a so-called traditional reinsurer is assuming in any similar time period," said W. Dave Brining, senior vp and chief financial officer of Scandinavian Reinsurance Co. Ltd. in Hamilton, Bermuda.

"I still believe you won't see a finite risk player in and of itself putting unlimited risk on the table, whereas you have a chance of getting that from a traditional player," Mr. Brining said.

Though the distinctions have narrowed a lot, it's still "pretty easy for someone to tell the difference between the portfolio of a mainly non-traditional company like Centre Re and a more traditional company like the standard broker markets," said Michael Palm, chief executive officer of Centre Reinsurance Holdings Ltd. of Hamilton, Bermuda.

Still, "on a contract-by-contract basis there is more risk now in structured products, alternative products than there was three or five years ago," he said.

"From Centre Re's point of view, it's hard to tell whether that is simply a shift in the marketplace, or a shift in our own risk appetite" as the company has grown, said Mr. Palm.

Today, with capital that has tripled from its original level and the support of a much larger parent organization and a maturing portfolio of transactions, Centre Re "can afford to take more risk and is happy to do that if we think the risk is well-priced," he said.

Reliance Re's Mr. Stanco observed that the newer financial reinsurance products being written today, "while having a significant element of risk, may have certain policy conditions which limit some of the risk element, such has an aggregate loss ratio cap or sliding scale ceding commission, and. . .reinsurers must evaluate the probability of a significant loss under the contract."

These newer financial reinsurance products "are designed for where the traditional market either doesn't exist, or exists in a way that, either because of price or available coverage, it does not respond to the client's needs," said Sedgwick Re's Mr. Patterson.

"For instance, in some of the lower layer property catastrophe exposures, where the rate on line in the traditional market is just so high that it isn't economically feasible for a client to buy traditional, often there is an effective finite solution to that problem," he said.

If a client has a property catastrophe layer that is rated, for example, at a 40% rate on line, a finite program might be designed that would stand for three years with only one reinstatement.

A rate on line is a way of comparing rates by dividing premiums by the indemnity limits.

The initial premium might still be the 40% rate on line, but some of the premium could be returned if loss experience were good—or, if experience were bad, more premium could be due, Mr. Patterson said.

One of the popular products being written today, said Atrium's Mr. Gentile, is accident stop-loss reinsurance. With this product, an insurer decides it will accept a loss ratio of, for instance, 95% in a particular accident year based on its projection.

The reinsurer essentially protects against adverse development if the loss ratio exceeds that level. There may also be a buffer layer, where the reinsurance still does not take effect until the loss ratio reaches, for instance, 105% to 110%, with the ceding insurer itself absorbing the losses in that layer.

"The analysts and the stock market don't like significant deviation from plan over an extended period," said Mr. Gentile, explaining the product's appeal.

Increasingly popular at Centre Re are multi-year products that cover multiple lines, said Centre Re's Mr. Brown.

In the future, the "blended" product "will become more and more significant," predicted Roger Beach, president of financial reinsurer Accord Re Ltd. of Hamilton, Bermuda.

These are products where the boundaries of financial reinsurance and conventional reinsurance are melded together "so as to provide one blended, and highly effective product," said Mr. Beach.

Meanwhile, competition in the financial reinsurance market "still is driven by the ability of companies to create custom products," said Mr. Patterson, who noted, "I have not experienced what you would call price competition.

"In the final analysis, if a client ends up with two proposals that they like, unquestionably cost is a major determining factor in the final decision," but what is driving the competitiveness is experience and ability to design effective programs, Mr. Patterson said. BI

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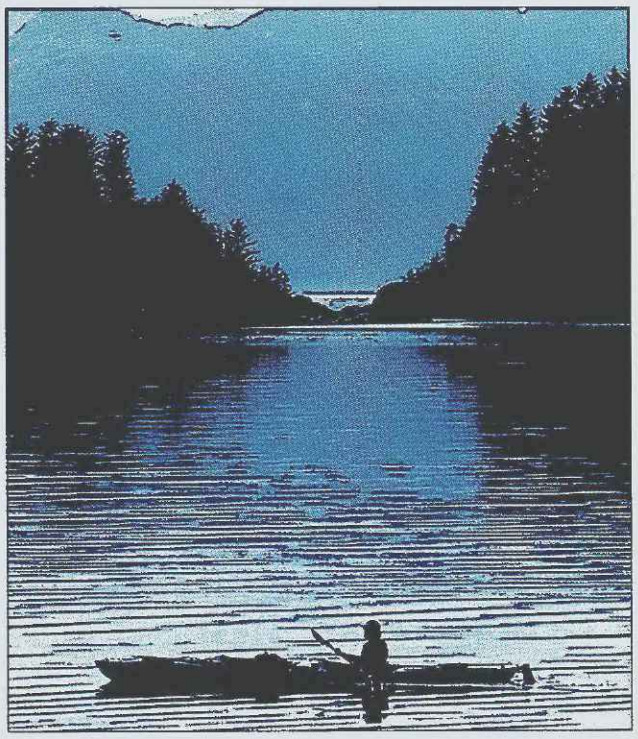

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	1994	1993
Premium volume...	$13,000,000	$11,250,000
% Treaty.....	10%	10%
% Facultative.	90%	90%
Gross revenues.....	$999,999	$925,000
Total employees....	8	8

Reinsurance brokering began: 1976.

Specialties: Property.

Licensed in: New York.

Officers: Patrick Agnew, president; W. James Cook, William F. Milcarer, vps; Paul S. Kasian, assistant vp.

Contact: Patrick Agnew.

Alexander Howden Canada Ltd.

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

	1994	1993
Premium volume...	$232,000,000	$252,000,000
% Treaty.....	97%	97%
% Facultative.	3%	3%
Gross revenues.....	$17,478,000	$15,000,000
Total employees....	84	85
Treaty.....	29	29
Facultative.....	2	2

Reinsurance brokering began: 1940.

Parent: Alexander & Alexander.

Branch offices: Montreal.

Licensed in: New York; Canada; Jamaica.

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

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Contact: Malcolm Thorn or John Holmes.

Alexander Howden North America Inc.

200 North Creek, 3715 Northside Parkway N.W., Atlanta,
Ga. 30327-2884; 404-240-5200;
fax: 404-240-5393

	1994	1993
Premium volume...	$20,000,000	$7,000,000
% Treaty.....	20%	NA
% Facultative.	80%	100%
Gross revenues.....	$1,500,000	$475,000
Total employees....	8	5
Treaty.....	2	0
Facultative.....	6	5

Reinsurance brokering began: 1993.

Parent: Alexander & Alexander Services Inc.

Branch offices: New York.

Specialties: Large property/casualty facultative risks, multinational and global programs, semi-automatics, group treaty program reinsurance.

Licensed in: New York.

Conducts business: Nationwide.

Officers: Randolph Roppelt, regional director/senior vp; Joseph P. Filardo, senior vp; Kevin Kennedy, vp.

Contact: Randy Roppelt.

Alexander Reinsurance Intermediaries Inc.

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

	1994	1993
Premium volume...	$680,000,000	$615,000,000
% Treaty.....	100%	100%
Gross revenues.....	$30,900,000	$28,900,000
Total employees....	132	129
Treaty.....	132	129

Reinsurance brokering began: 1980.

Parent: Alexander & Alexander Services Inc.

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

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

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

Conducts business: Nationwide.

Officers: William R. Coleman, president/CEO; Robert T. Moybed, executive vp/COO; John T. Roby, senior vp/CFO.

Contact: William R. Coleman.

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Continued on page 47

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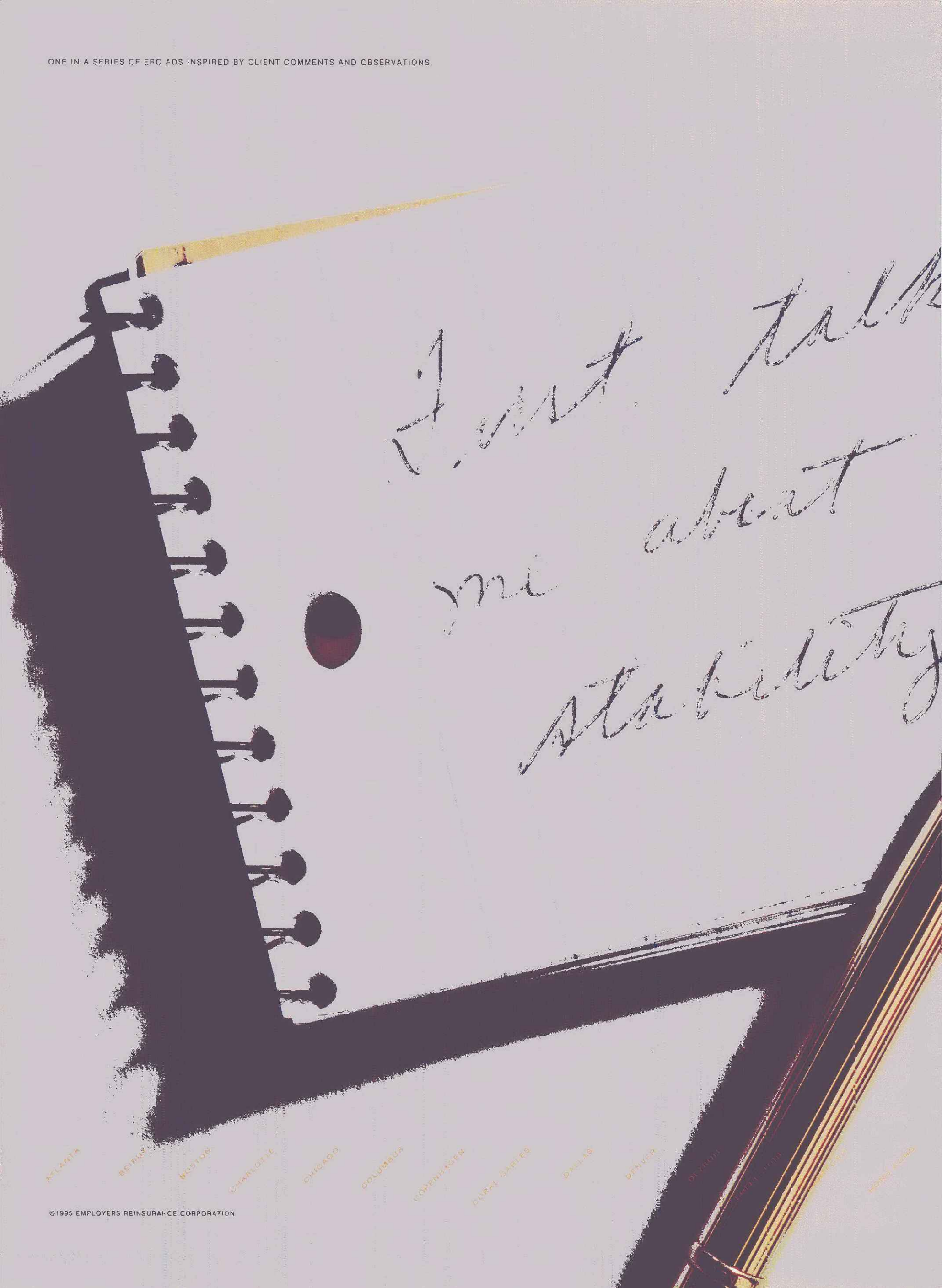

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Spotlight report

Continued from page 47

Reinsurance brokering began: 1977.

Parent: AANA Holding Co. Inc.

Specialties: Professional liability, umbrella and excess liability, specialty program business, preferred and non-standard auto, non-traditional reinsurance, property, general liability.

Licensed in: California, New York.

Conducts business: Nationwide, excluding Alaska and Hawaii.

Officers: Edward J. Mallozzi, president/CEO; Roland A. Stollsteimer, assistant vp/marketing director.

Contact: Roland A. Stollsteimer.

Aon Re Worldwide Inc.

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

	1994	1993
Premium volume...	$3,900,000,000	$3,000,000,000
% Treaty.....	96%	97%
% Facultative.	4%	3%
Gross revenues	$156,000,000	$120,000,000
Total employees	599	528
Treaty	537	500
Facultative	62	28

Reinsurance brokering began: 1945.

Parent: Aon Corp.

Subsidiaries: Aon Re Inc., San Francisco; Stamford, Conn.; Chicago; New York and Philadelphia. Aon Re (Bermuda) Ltd., Bermuda. Aon Re LatinoAmericana, Mexico City. Jenner Fenton Slade, London. Nicholson Leslie, London; Hong Kong; Milan, Italy; Tokyo; Amsterdam, Netherlands; Singapore; Istanbul, Turkey.

Acquisitions: Jenner Fenton Slade, London, November 1994.

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

Licensed in: Arizona, California, Colorado, Connecticut, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Minnesota, Mississippi, Montana, Nebraska, New Hampshire, New York, North Carolina, North Dakota, Ohio, Pennsylvania, South Carolina, South Dakota, Texas, Utah, Washington.

Conducts business: Worldwide.

Officers: Michael D. O'Halleran, chairman; Paul Davies, chairman-Aon Re Inc.; Mike Bungert, David Kelley, vice chairmen-Aon Re Inc.; Alan Colls, chairman/director-Nicholson Leslie; Brian Stewart-Brown, Colin Bryan, directors-Nicholson Leslie; Antony Pirsent, deputy chairman/director-Nicholson Leslie; Richard Cunis, director-Jenner Fenton Slade.

Contact: Michael D. O'Halleran, 312-701-3065.

Membership: Brokers & Reinsurance Markets Assn.

Armrisk Corp.

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

	1994	1993
Premium volume...	$170,000,000	$163,000,000
% Treaty.....	85%	85%
% Facultative.	15%	15%
Total employees	10	9
Treaty	7	6
Facultative	3	3

Reinsurance brokering began: 1988.

Parent: International Risk Management Group.

Specialties: All property and casualty 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

	1994	1993
Premium volume...	$8,000,000	$8,000,000
% Treaty.....	100%	100%
Total employees	5	5
Treaty	5	5

Reinsurance 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, including Alaska.

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

Contact: Alph H. Browne.

Atlantic Security Ltd.

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

	1994	1993
Premium volume ..	$7,000,000	$6,600,000
% Treaty..	40%	40%
% Facultative.	60%	60%
Total employees	10	10
Treaty	1	1
Facultative	1	1

Reinsurance brokering began: 1974.

Parent: ASL Holdings Ltd.

Specialties: Ski area liability, workers compensation for captives/rent-a-captives.

Licensed in: Bermuda.

Conducts business: Nationwide.

Officers: Colin E. James, president; Richard Witkowski, senior vp; Hal Forkush, chairman.

Contact: Colin C. James.

B

BEP International Holding Inc.

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

	1994	1993
Premium volume*.	$401,500,000	$402,430,000
% Treaty.....	98%	98%
% Facultative.	2%	2%
Total employees	140	141
Treaty	123	124
Facultative	6	6

* Converted to U.S. dollars using the rate of Canadian dollar = $0.730 U.S. dollar (1994); Canadian dollar = $0.774 (1993).

Reinsurance brokering began: 1960.

Parent: Sodarcan Inc.

Subsidiaries: Minneapolis; Jersey City, N.J.; Seattle; Toronto.

Specialties: Property, casualty, workers compensation, life, marine, aviation, surety, bonds, finite risk.

Licensed in: 24 states, including New York.

Conducts business: Nationwide, including Alaska.

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, executive vp-technical services.

Contact: Robert Limoges, senior vp-finance/administration.

Adrian Baker Intermediaries Inc.

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

	1994	1993
Premium volume...	$20,000,000	$20,000,000

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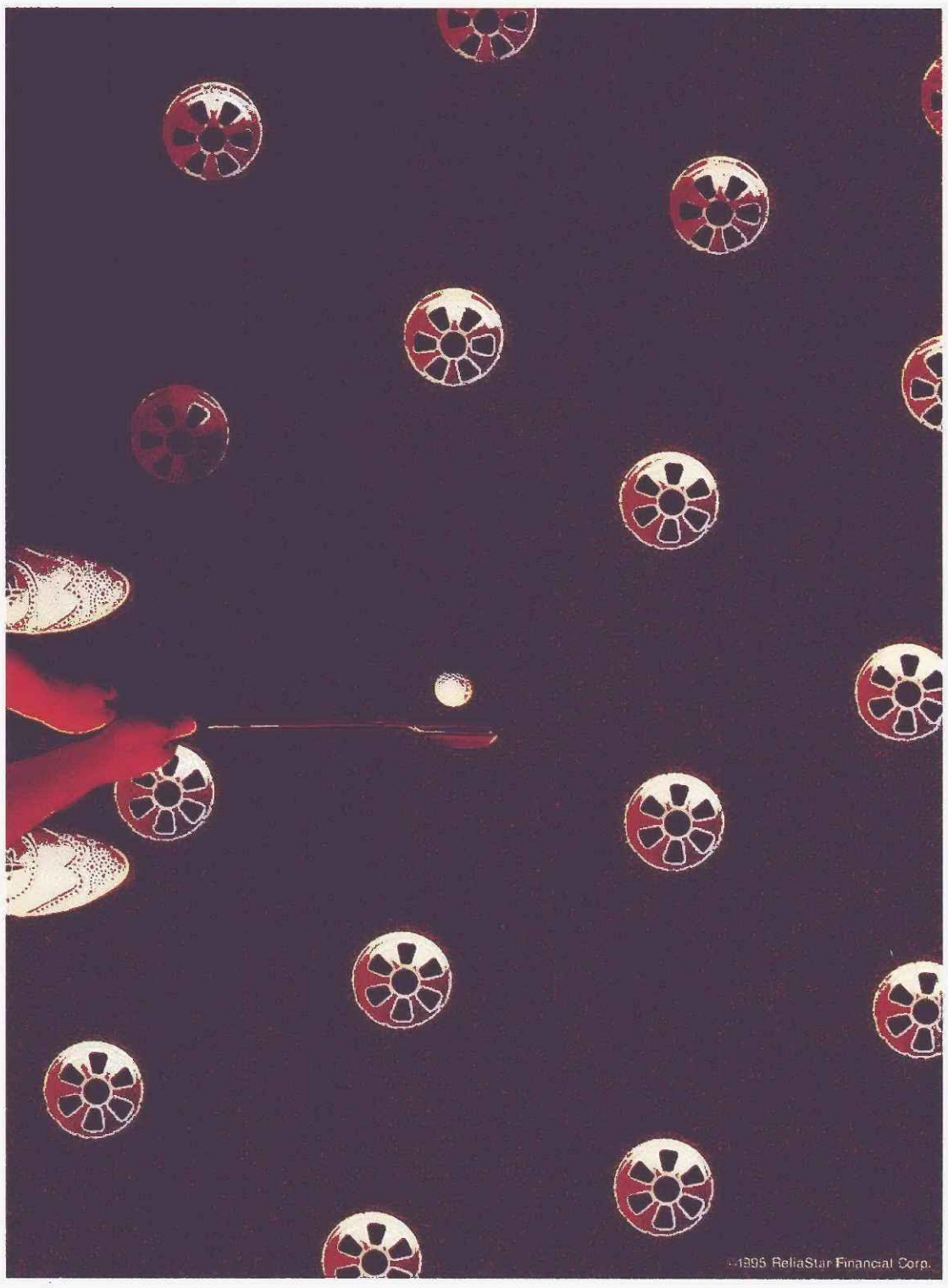

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	1994	1993
% Treaty	80%	80%
% Facultative	20%	20%
Total employees	6	6
Treaty	5	5
Facultative	1	1

Reinsurance brokering began: 1974.

Parent: Great Rivers Holding Co.

Specialties: Accident and health, property catastrophe.

Licensed in: Missouri, New York.

Conducts business: Worldwide.

Officers: Donald E. Burk, president; Paul W. Sprouse, vp; Charles V. Basuino, vp/treasurer.

Contact: Donald E. Burk.

Andrew Barile Associates

7 Broadway, New York, N.Y. 10004; 212-786-1300; fax: 212-786-1900

	1994	1993
Premium volume	$10,000,000	$10,000,000
% Treaty	100%	100%
Total employees	5	5
Treaty	4	4

Reinsurance brokering began: 1991.

Specialties: Financial reinsurance, alternative risk transfer reinsurance, programs, agency captive, fronting.

Licensed in: California, Florida, New York.

Conducts business: Nationwide.

Officers: Andrew Barile, president.

Bates Turner Inc.

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

	1994	1993
Premium volume	$215,000,000	$231,000,000
% Treaty	100%	100%
Total employees	30	21
Treaty	30	21

Reinsurance brokering began: 1982.

Parent: Employers Reinsurance Corp.

Branch offices: Atlanta; Mahwah, N.J.

Acquisitions: J.L. Kelley, Franklin Lakes, N.J., 1994; Aachen Reinsurance Intermediaries Inc., Atlanta, 1995.

Specialties: Property catastrophe, workers compensation, professional liability, accident and health.

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

Conducts business: Nationwide.

Officers: Kaj Ahlmann, chairman/CEO; Michael E. Fisher, president/COO; John W. Colmer, James C. Blanton III, vps; David Gilligan, vp-New Jersey.

Contact: John W. Colmer, 913-676-5810.

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

	1994	1993
Premium volume	$98,000,000	$62,000,000
% Treaty	100%	100%
Gross revenues	$1,396,408	$884,359
Total employees	5	6
Treaty	5	6

Reinsurance brokering began: 1986.

Parent: Le Blanc de Nicolay Reassurance.

Specialties: Property catastrophe, automobile, credit/surety/political risk, professional liability/indemnity, international, marine, aerospace.

Licensed in: New York, Texas.

Conducts business: Worldwide.

Officers: Olivier du Passage, president; William H. Asay, executive vp; Ryoko Mochizuki, vp.

Contact: William H. Asay.

E.W. Blanch Co.

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

	1994	1993
Premium volume	$2,100,000,000	$1,700,000,000
% Treaty	99%	99%
% Facultative	1%	1%
Gross revenues	$76,582,000	$64,674,000
Total employees	391	349
Treaty	387	345
Facultative	4	4

Reinsurance brokering began: 1957.

Parent: E.W. Blanch Holdings Inc.

Branch offices: Los Angeles, Menlo Park and San Francisco, Calif.; Atlanta; Chicago; Boston; New York; Philadelphia; Dallas.

Specialties: Life, accident and health, professional liability, program business.

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

Conducts business: Nationwide, excluding Alaska.

Officers: E.W. Blanch Jr., chairman/CEO; Chris L. Walker, president/COO; Frank S. Wilkinson Jr., executive vp; Tom S. Nelson, executive vp/CFO; Arthur C. Schmalbach, senior vp/director-organizational development.

Membership: Brokers & Reinsurance Markets Assn.

Bott & Associates Ltd.

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

	1994	1993
Premium volume	$10,500,000	$9,300,000
% Treaty	95%	95%
% Facultative	5%	5%
Total employees	7	7
Treaty	2	2

Reinsurance 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; Scott W. Nickerson, CFO.

Contact: Roy V. Bray.

Guy Carpenter & Co. Inc.

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

	1994	1993
Premium volume*	$5,000,000,000	$5,000,000,000
Gross revenues	$299,600,000	$284,700,000
Total employees	1,437	1,624

* Company estimate.

Reinsurance brokering began: 1923.

Parent: Marsh & McLennan Inc.

Branch offices: San Francisco; Hartford, Conn.; Minneapolis.

Subsidiaries: Balis & Co. Inc., Philadelphia; Carpenter Bowring Ltd., London; Guy Carpenter & Co. Inc., Seoul, Korea; Guy Carpenter & Co. A/S, Copenhagen, Denmark; Guy Carpenter & Co. (Asia) Ltd., Hong Kong; Guy Carpenter & Co. (Canada) Ltd., Toronto; Guy Carpenter & Cia. S.A., Madrid, Spain; Guy Carpenter & Co. S.A., Brussels, Belgium; Guy Carpenter & Co. (Stockholm) A.B., Stockholm, Sweden; Gradman & Holler-Guy Carpenter GmbH, Munich, Germany; Sellon Associates Inc., White Plains, New York; Union Francais de Reassurances, Paris.

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

Conducts business: Nationwide.

Officers: Richard H. Blum, chairman/COO; G.H.C. Wake-

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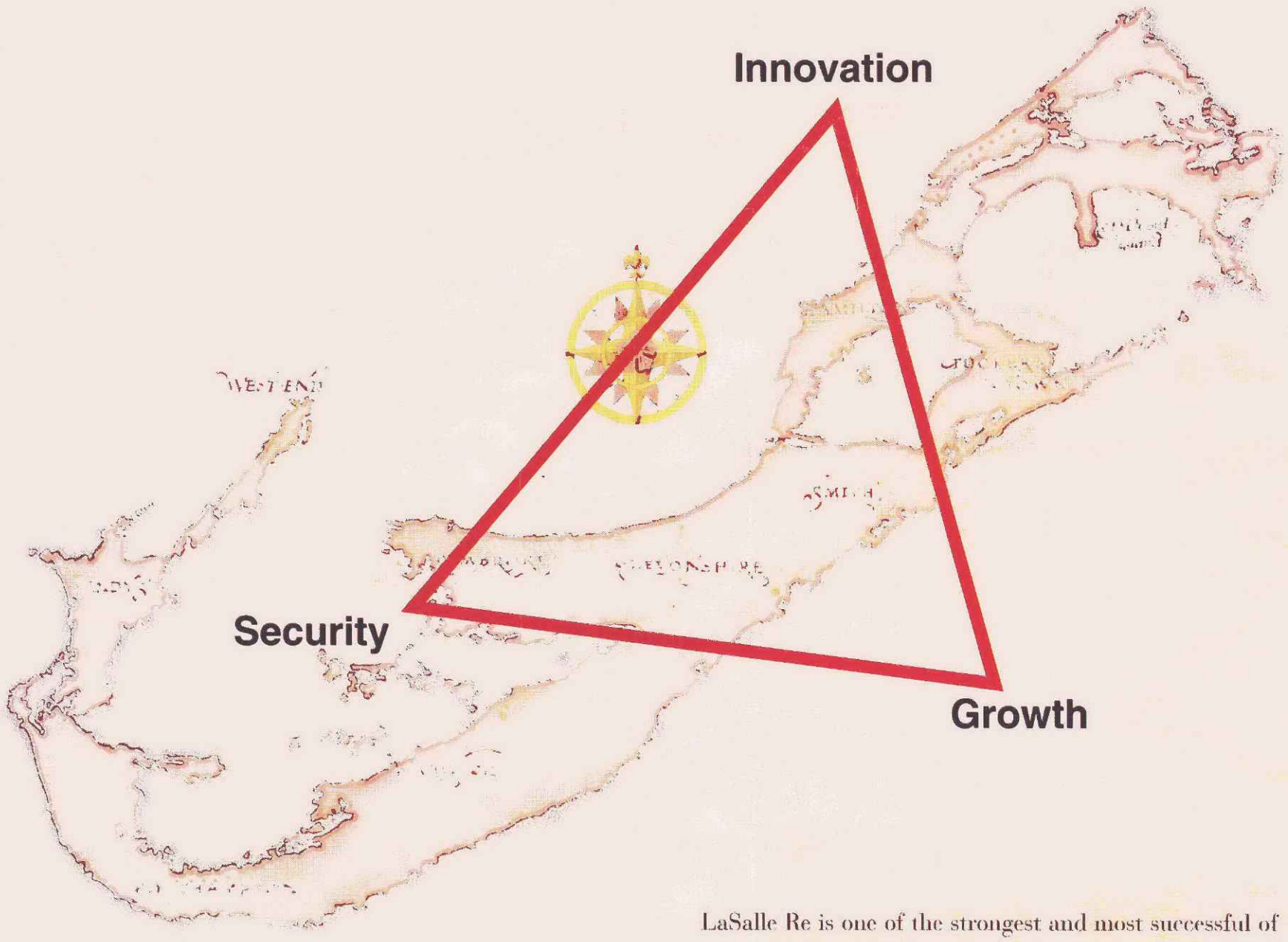
THE NEW BERMUDA TRIANGLE



LaSalle Re is one of the strongest and most successful of the new wave of Bermudian catastrophe reinsurers. But there's a lot more to it than that. Our unusually accommodating and imaginative attitude to the business marks us out from the competition. A high degree of underwriting flexibility, backed by substantial reserves, allows us to write tailor-made multi-line packages satisfying a wide range of reinsurance needs. We are continually striving to expand and enhance the range of our operations. Our uncompromising commitment to answering cedants' real needs has helped to put us where we are today: at the apex of the new Bermudian market.

LaSalle Re Limited

Pioneering spirit

A model for hurricane preparation

Computer models can help assess windstorm insurance needs

By Gary G. Gagnon

TODAY, A GREAT DEAL of emphasis is being placed on computer modeling techniques as a panacea for determining all windstorm insurance needs.

In addition to the widespread use of these models for insurance purposes, many insurance buyers could find them useful in evaluating their businesses' vulnerability to windstorm losses, as well as in gauging how such events could affect their ability to maintain market share or take advantage of competitors exposed to the same catastrophe.

In this manner, the models could be used to help devise an aggressive business development strategy.

Even after the devastation of Opal and a series of lesser storms this year, many people in hurricane-prone areas have drifted to an unrealistic level of comfort about the likelihood of a disaster occurring in their area and its impact on their businesses or personal lives.

Today, individuals need to begin thinking more of Hurricane Andrew as a wake-up call; the damage it caused was not as extensive as it might have been had it hit a major city.

At present, it appears only the insurance industry has raised its level of consciousness in the aftermath of Hurricane Andrew—and not society at large. Many individuals continue to have a false sense of security regarding such events.

Climate changes, population density increases in hurricane-prone areas, inadequate windstorm design codes and compliance, as well as insurance capacity limitations, all affect the way we now need to approach windstorm exposures.

Historically, global climate changes that affect the potential for windstorms have been cyclical. Experts' long-range predictions imply that the globe is in a renewed era of more frequent and intense storms. All the climatological factors are combining to create serious windstorm concerns for the next few decades.

And while this climatological profile is not without historical precedent, major U.S. storms of the past didn't occur with the high population and industry density that exists today. Consequently, at that time, the risks of major financial losses weren't as significant as was the loss of life. Today, however, improvements in advanced storm warning and tracking systems have all but eliminated the risks of severe loss of life in the United States.

If the trend follows expert predictions, it will have serious implications for insurance buyers. Indeed, some insurance markets have already begun charging higher premiums, offering lower limits of liability, imposing coverage exclusions, higher deductibles and construction upgrade requirements.

How can policyholders address these issues aggressively to ensure that a realistic analysis of their unique exposure and risk are presented for market review?

Several hurricane modeling programs are in use today, with some being better than others, or more suited to a given task. The programs are designed to help users evaluate the numerous storm, geographic, construction and code design variables that previously had been too complex to assess all at once through manual calculation. This is particularly true of large portfolios.

Insurance companies now use these computer models to analyze their entire book of business for reviews of reinsurance accumulation, or attachment points, or both. These reviews are based on relatively scant information. Basic address and ZIP code, construction and values are input. These programs tend to default on the conservative side should detail be lacking. And the output results are often very conservative—high probable maximum losses—due to the lack of detailed analysis.

Engineering consulting firms also use models. Their focus typically is on performing needed retrofitting of construction to minimize windstorm damage.

Other providers and users of modeling techniques include companies specializing in risk analysis. They have varying approaches, accuracy and intent. However, they are focused on the individual location and client portfolio analysis.

Improvements in advanced storm warning and tracking systems have all but eliminated the risks of severe loss of life in the United States.

Since insurers use a broad-brush approach in analyzing an entire book of business, many insurance buyers fall victim to extremely conservative loss estimates. Lack of detail forces the program model to default to typical or conservative specifications. Analyses using primary data input, as well as secondary and unique data, will refine the PML to a lower estimate than the insurer's if favorable factors can be input.

Insurers can't economically focus on individual risks. Even if they perform an analysis on an individual risk, their model is still based on primary

See **Windstorms** *on next page*

Insurers rising to RMIS challenge

By David A. Tweedy

Stand-alone vendors may find insurers tough competition

RMIS Commentary

They're back! . . .After years of passive inactivity, the service providers (mostly insurers, some brokers and third-party administrators), have begun to make significant investments in providing state-of-the-art risk management information systems.

They seek to challenge the independent and stand-alone vendors that have dominated the RMIS landscape for the last decade in offering *unbundled* systems. Such systems will be user friendly; utilize powerful database engines (from Oracle Corp., Microsoft Corp., SyBase Inc.); operate in a client/server environment; and be equipped with their owner's most valued commodity—data.

How is this possible? Insurers long have been accused of myopia, bureaucratic delay and inaccurate loss runs. Much of this is true and their systems have mirrored these weaknesses.

I know that this statement will bring cries of protest from insurers, brokers and third-party administrators who have been providing "RMIS" for several years. Yet the truth is that these systems have been mostly superficial, non-user friendly, and utilized old and frequently errant data. They tended to be reactive rather than proactive. True decision support capabilities valuable to risk management professionals were lacking. And such continues to be the case for much of the service provider industry.

Why is the situation different now? After all, don't insurers shoot themselves in the feet when asked to do something truly innovative? Not this time, I think.

One has only to look at the success of the large-deductible programs and preferred provider organizations, of which insurers were the primary architects. Several reasons present themselves as to why service providers, and especially insurers, are seriously returning to the RMIS industry at this time:

- **Available dollars and name recognition.**

There are few new entrants into the RMIS industry due to high entry costs in technology, staffing and marketing. The only ones with a chance to make a desired impact are those offering unique technical or functional capabilities, having significant financial resources or having a very low price. Insurers and major brokers, however, have a pre-existing market recognition. Now, this can be both good and bad—but that's another topic. The point is that the major service providers are well poised for a significant re-entry. Many of them have much more financial resources to devote to a RMIS than the small vendor which, in the 1980s, started as small entrepreneurs.

Insurers and TPAs that effectively leverage their vast storehouses of data will have great control over the flow of information to their clients.

- **Data.**

Insurers have more than financial resources. More than any other organization (except large TPAs) they possess a very valuable asset that few of the other competitors have: raw data. Even the independents like Corporate Systems Ltd. and large broker-based systems must rely on insurers to supply the claims data. Insurers have always had this resource; they've just not been able to utilize it to the fullest. With sophisticated systems brandishing powerful relational databases, this data can be useful in benchmarking and best practices studies.

- **Informational control.**

This is the information age. Those service providers which have recognized that, and those organizations which best control and manage information, are those that will profit the most. Insurers and TPAs that effectively leverage their vast storehouses of data (claims, exposure, engineering, safety, premium, etc.) will have great control over the flow of information to their clients. Other organizations are interested in their data from benchmarking perspectives.

- **Win back market share.**

Insurers took a beating in the 1980s. Self insurance, TPAs, risk retention groups, and self-insured groups were the rage and insurers lost significant market share. Now, with a continued soft cycle, a lessening of the workers compensation crisis and the advent of the successful fronting and large deductible programs (quasi self-insurance) insurers look for another way to improve their market share. Brokers, too, are looking for ways to augment their revenues in the face of shrinking commissions. TPAs want to hold on to what they have. RMIS is that area offering a potential strategic advantage as it directly ties to the client's basic needs. Risk managers are in need of sophisticated systems.

The new entrants face some challenges:

- **High investment.**

The RMIS industry is mature with few newcomers each year. Out of 50 acknowledged vendors in the annual *Business Insurance* survey, about 12 are currently the key players in terms of system functionality and technology. None of the top vendors, in my opinion, have been insurer-based systems. It takes a real commitment to research and development to combine both technology and insurance-industry related advances into system

See **RMIS** *on next page*

Windstorms

Continued from previous page
data that defaults conservatively with respect to the parameters of location and construction factors.

Some computer modeling programs use both deterministic and probabilistic approaches to loss analysis. The deterministic approach is a predetermined analysis of actual storm events that can be modified as input into the model. The probabilistic approach considers all historical events and uses an event-tree decision process to determine the probable worst-case event for the portfolio in question.

These models can indicate damage that would result from various storm scenarios aside from the worst case. The 500-year, 250-year, 100-year and annual return period loss estimates can be provided. The loss estimates could also be based on different storm intensities, such as Category 5, 4, 3, 2 and 1 hurricanes.

The output data can be structured or analyzed according to the insurance buyer's needs.

A growing number of risk managers, concerned about windstorm losses, are arranging for hurricane modeling for all their properties to facilitate strategic business planning. The analysis helps determine non-functional use of properties, which can provide the framework for business continuation planning.

A complete emergency response/disaster recovery plan for hurricane disaster represents the most challenging of business continuation plans. It must address a regional disaster and infrastructural/community loss. Under such scenarios, all resource needs come into play, and governmental authorities could regulate recovery. Pre-planning for such catastrophes is essential given the many recovery strategies needed to address a company's ability or inability to implement recovery effectively.

Businesses also might consider using their plans to foster active approaches rather than only reactive/recovery approaches.

If an event strikes a geographical region in which a firm has no loss but its competitors do, the business can use the plan as a tool to increase its market share by escalating its resources to increase services and/or operations.

After all, in an economic environment that has been exhibiting slow growth, one way that companies are able to grow is to take business away from the competition. BI

Gary G. Gagnon is a vp in Johnson & Higgins' national loss control network in Nashville, Tenn., and is the manager of the J&H windstorm damage analysis program, which performs individual risk assessments of individual account portfolios.

RMIS

Continued from previous page
functionality. Independents like Pyramid Services Inc., Risk Services Group Inc., Dorn Technology Group Inc., Corporate Systems Ltd. and Anistics have made those investments over the years and provide systems reflective of consumer demand.

- **Poor image.**

Insurer-based systems in the past have been reactive, simplistic and fraught with data problems. The insurers have reputations of being bureaucratic and unimaginative. Image, therefore, is a definite barrier to overcome. Brokers and TPAs have less baggage here. However, the fact that most insurers and brokers left the RMIS industry during the 1980s during the severe market conditions remain in the minds of most buyers.

- **Data accuracy/integrity.**

This is a universal problem shared by all vendors alike. However, it is one of the most critical to solve. It is a fact that there is no standard way of collecting claims data; each insurer, broker, TPA and self-administered company seem to do things differently, causing tremendous problems when converting from one service provider to another.

- **Sophisticated buyers.**

A common theme I have echoed over the past few years is that risk managers are much more sophisticated, in systems, than they were 10 years ago. They have specific demands, expectations and requirements. Insurers which really want to get back into this market must take this fact into consideration.

- **Stiff competition.**

Wresting control from the independent and stand-alone vendors will not be a cake walk. They have amassed significant experience during their reign and will continue to offer major competition. Besides, if the major insurers and brokers all decide to re-enter the market, they will be competing against themselves, as well.

A walk through the Risk & Insurance Management Society Inc. exhibition hall in San Francisco last spring gave inklings of this move. Insurers like Liberty Mutual Insurance Co. (RiskTrac) and American International Group Inc. (IntelliRisk) displayed Windows-based products with greater functionality and user-friendliness.

More options and stiff competition means better products, innovative technology, and reasonable pricing structures.

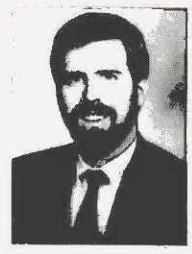
In addition, CIGNA Corp.'s ESIS subsidiary is committed to a substantial rewrite of its CRIS and CRIS Advanced Function systems. Its objective is to provide a client-based unbundled RMIS which is more user friendly, functional, and based on state-of-the-art technology.

Its initial client system, RiskView, was on display in San Francisco and is a hint of the newer, ultimate system in the planning stages. They are also providing one of the most advanced safety-related software packages available today, called SafetyView, which was developed in a joint venture with a private software developer. ESIS plans a careful phase-in process with a pilot program, prototyping and ultimate phase-ins from 1996 through 1997.

Brokers have not been complacent either. Sedgwick Group P.L.C. is revising its series of systems—JIMI and INFORM—to provide more client-oriented and functional capabilities. Anistics has upgraded its systems, too, to the OMEGA series in a similar move.

What does this all mean?

It's great news for the consumer. More options and stiff competition means better products, innovative technology, and reasonable pricing structures. To those who are cynical about whether the insurers and brokers are truly committing themselves to this investment, I believe it's legitimate. The insurance world has changed forever, but one thing has become clear: information control and management is one of the best ways to attract and keep happy clients. Providing solid information systems is a key strategy to achieve this end and ensure a better opportunity for profits. BI



David A. Tweedy is a senior manager at Deloitte & Touche in Hartford, Conn. Mr. Tweedy's column on risk management information systems appears quarterly.

Intangible damages not covered by CGL policy

A comprehensive general liability insurance policy did not cover the diminution in value of products containing defective components supplied by an insured manufacturer, according to the Court of Appeals of Indiana.

Patrick Industries purchased particle board from Ponderosa Products, a manufacturer of particle board. Patrick glued a vinyl covering onto the particle board and sold the vinyl covered four-foot-by-eight-foot sheets to Fleetwood Folding Trailers Inc.

Fleetwood, in turn, used the particle board in various furniture products it installed in its folding camper trailers. Thereafter, Fleetwood discovered that the vinyl that Patrick glued to the particle board was peeling off. Fleetwood incurred expenses of about $200,000 in replacing the defective furniture products in campers throughout the United States.

Patrick paid Fleetwood $210,000 in settlement of Fleetwood's claim against it. Thereafter, Patrick forwarded a proof of loss to its CGL insurer, Aetna Life & Casualty Co. Aetna denied the claim.

Patrick sued and won in the trial court.

The appellate court concluded that the comprehensive general liability policy, which provided coverage for physical injury to tangible property, did not extend to coverage for diminution in value of products containing defective components supplied by the policyholder. According to the court, intangible damages such as diminution in value do not constitute property damage. The court emphasized that the definition used in Aetna's policy required physical injury to tangible property.

The decision of the trial court was reversed on appeal.

Aetna Life & Casualty Co. vs. Patrick Industries, Court of Appeals of Indiana, Jan. 17, 1995 (*BI*/03/Ju.-$10).

Pension/bankruptcy laws

In a case that clarifies the relationship between bankruptcy laws and pension laws, the 5th U.S. Circuit Court of Appeals has ruled that a bankrupt employer's estate cannot merely abandon an ERISA-qualified pension plan.

In 1990, Esco Corp. filed for Chapter 11 bankruptcy protection and a trustee was appointed for the Esco estate. Prior to the bankruptcy, Esco had established a pension plan for its employees. At the time of the bankruptcy, the plan had reported assets of about $527,000, and liabilities of about $748,000 in the form of vested benefits owing to employees.

During the bankruptcy proceedings, neither Esco nor the trustees notified the Pension Benefit Guaranty Corp. of Esco's bankruptcy, as required by the Employee Retirement Income Security Act.

In 1991, the trustee filed a notice of intention to abandon the pension plan. The PBGC filed an objection. The bankruptcy court ruled for the trustee but the district court reversed that ruling.

The appellate court concluded that a bankruptcy trustee cannot avoid its obligations to the employer's pension plan by abandoning that plan. "The administrative procedures for proper termination of a pension plan must be complied with," the appeals court said, "whether by the plan sponsor, or upon his accession to control of the corporation by the bankruptcy trustee." The trial court decision was affirmed.

Matter of Esco Mfg. Co., 5th U.S. Circuit Court of Appeals, Sept. 29, 1994 (*BI*/01/A.-$10). BI

Legal Briefs

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

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field, president; Clement S. Dwyer Jr., Brandon W. Sweitzer, Richard C. Kane, Gabriele J. Troiano, executive vps.

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

Membership: Brokers & Reinsurance Markets Assn.

Herbert Clough Inc.

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

	1994	1993
Premium volume...	$748,000,000	$682,000,000
% Treaty.....	99%	99%
% Facultative.	1%	1%
Gross revenues.....	$11,400,000	$11,500,000
Total employees....	48	50
Treaty	45	47
Facultative	3	3

Reinsurance 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, Roger J. Bel, Theresa N. Becker, Kathleen M. Perlman, vps.

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

John B. Collins Associates Inc.

8500 Normandale Lake Blvd., Minneapolis, Minn. 55437; 612-820-0012; fax: 612-820-2700

	1994	1993
Premium volume...	$261,100,000	$226,500,000
% Treaty.....	100%	100%
Total employees....	34	34
Treaty	34	34

Reinsurance brokering began: 1987.

Branch offices: East Granby, Conn.

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

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

Conducts business: Nationwide.

Officers: John B. Collins Jr., president; James A. Brost, Daniel J. Burke, Gregory L. Brettingen, executive vps; Timothy J. Pawlik, senior vp.

Contact: Gregory L. Brettingen.

Cooper Gay Steele & Co. Ltd.

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

	1994	1993
Premium volume...	$39,000,000	$26,000,000
% Treaty.....	10%	10%
% Facultative.	90%	90%
Total employees....	16	17
Treaty	2	3
Facultative	14	14

Reinsurance brokering began: 1988.

Parent: Cooper Gay (Holdings) Ltd.

Specialties: Property, including technical lines; casualty; marine and energy; aerospace; domestic, foreign and global/multinational business.

Licensed in: New York.

Conducts business: Nationwide, Puerto Rico and overseas.

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

Contact: R. Patrick Steele.

Cravens & Co. Inc.

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

	1994	1993
Premium volume...	$40,000,000	$38,000,000

Reinsurance brokering began: 1978.

Specialties: Treaty reinsurance, property and casualty.

Licensed in: California, New York.

Conducts business: Nationwide.

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

Cypress Creek Intermediaries Inc.

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

	1994	1993
Premium volume...	$27,000,000	$24,000,000
% Treaty.....	100%	100%
Total employees....	4	4
Treaty	4	4

Reinsurance brokering began: 1984.

Specialties: Property/casualty, including agri-business, catastrophe covers and liability; accident/health/life, including student accident medical, group programs and life products.

Licensed in: Florida, New York, Pennsylvania.

Conducts business: Worldwide.

Officers: Michael T. Pyle, president; Peggy B. Pyle, vp/treasurer; Laurie P. Langston, vp.

Contact: Michael T. Pyle.

F

Financial Reinsurance Inc.

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

	1994	1993
Premium volume...	$2,430,000	$8,780,400
% Treaty.....	3%	86%
% Facultative.	97%	14%
Total employees....	3	5
Treaty	1	4
Facultative	2	1

Reinsurance 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

	1994	1993
Premium volume...	$50,000,000	$50,000,000
% Treaty.....	98%	100%
% Facultative.	2%	0%
Total employees....	4	4
Treaty	4	4

Reinsurance brokering began: 1983.

Parent: Risk Distribution Services Inc.

Specialties: Financial reinsurance, medical malpractice.

Licensed in: New Jersey, New York.

Conducts business in: Arizona, New Jersey, New York, Pennsylvania.

Officers: Stephen M. Edwards, president; Paul G. Curtis, senior vp.

Contact: Stephen M. Edwards.

H.S. Fox Corp.

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

	1994	1993
Premium volume...	$286,000,000	$285,000,000
% Treaty.....	100%	100%
Gross revenues.....	$6,700,000	$6,500,000
Total employees....	24	26
Treaty	24	26

Reinsurance brokering began: 1985.

Specialties: Special type health risks, professional liability.

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

Conducts business: Nationwide, excluding Alaska and Hawaii.

Officers: Donald M. Fox, chairman/CEO; Alan R. Sheppard, president/COO; Robert C. Henderson, executive vp; Larry L. Collins, Robert M. Hodge, senior vps.

Contact: Anne Marie Roberts, vp.

C.L. Frates Reinsurance Intermediary Inc.

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

	1994	1993
Premium volume...	$29,000,000	$28,000,000
% Treaty.....	100%	100%
Gross revenues.....	$1,410,000	$1,313,000
Total employees....	4	4
Treaty	4	4

Reinsurance brokering began: 1986.

Specialties: Casualty, professional liability, fidelity, excess workers compensation, captive reinsurance.

Licensed in: New York.

Conducts business: Nationwide and internationally.

Officers: Albert P. Amato, senior vp; Dina Cardinal, account service manager.

Contact: Albert P Amato.

G

Arthur J. Gallagher Intermediaries Inc.

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

	1994	1993
Premium volume...	$31,600,000	$33,570,000
% Treaty.....	0%	12%
% Facultative.	100%	88%
Total employees ...	16	19
Treaty	0	3
Facultative	16	16

Reinsurance 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: Robert L. Osborne Jr., president; Randall S. Jensen, executive vp; Gerald F.X. Caffrey, senior vp; Kevin Denike, John M. O'Reilly, vps.

Arthur J. Gallagher Intermediaries (Bermuda) Ltd.

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

	1994	1993
Premium volume...	$20,000,000	$10,000,000
% Treaty.....	2%	4%
% Facultative.	98%	96%
Total employees....	9	7
Treaty	1	1
Facultative	8	6

Reinsurance brokering began: 1972.

Parent: Arthur J. Gallagher & Co.

Specialties: Reinsurance of self-insurance mechanisms, including financial and finite risk reinsurance.

Licensed in: Bermuda.

Conducts business: Nationwide, including Alaska and Hawaii.

Officers: David J. McManus, president; Peter J. Mullen, executive vp; Wayne L. Brown, vp-brokerage.

Contact: Peter J. Mullen.

Membership: Brokers & Reinsurance Markets Assn.

Gill & Roeser Inc.

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

	1994	1993
Premium volume...	$100,000,000	$100,000,000
% Treaty.....	100%	100%
Total employees....	11	11
Treaty	11	11

Reinsurance brokering began: 1983.

Specialties: Traditional, finite risk and alternative risk reinsurance; mergers and acquisitions, commutation, novation.

Licensed in: New York.

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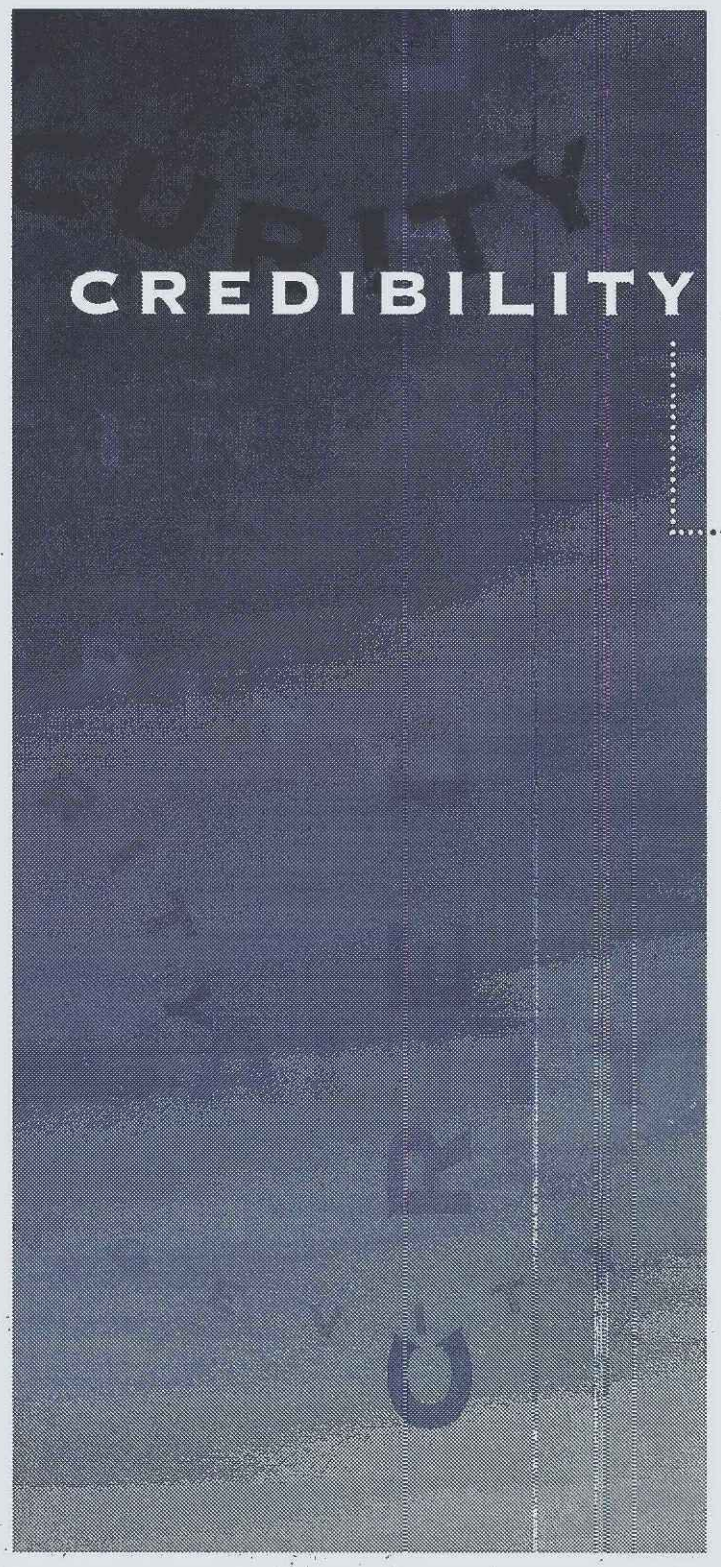

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Officers: Kirk Roeser, president; Steven Bolland, David Koegel, senior vps; Peter Larsen, vp.

Contact: Robert Kaufman, president-Creative Strategies, 212-682-2977.

Greig Fester Inc.

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

	1994	1993
Premium volume...	$144,000,000	$123,000,000
% Treaty.....	90%	85%
% Facultative.	10%	15%
Gross revenues.....	$7,200,000	$6,400,000
Total employees....	25	29
Treaty	21	23
Facultative.....	4	6

Reinsurance brokering began: 1981.

Parent: Greig Fester Group Ltd.

Specialties: Property, casualty, crop, credit, surety.

Licensed in: Minnesota, New York, Pennsylvania.

Conducts business: Nationwide.

Officers: Dieter Losse, chairman; James Buysse, president/CEO; Terrence Rose, chief administrative officer; Robert Duffield, John Kwaak, vps.

Contact: Terrence Rose.

Membership: Brokers & Reinsurance Markets Assn.

Griffiths & Wanklyn Reinsurance Brokers Ltd.

Craig Appin House, 8 Wesley St., P.O. Box HM 658, Hamilton HM CX, Bermuda; 809-295-1639; fax: 809-295-1638

	1994	1993
Premium volume...	$21,950,000	$12,800,000
% Treaty.....	90%	90%
% Facultative.	10%	10%
Gross revenues.....	$1,410,000	$813,000
Total employees....	4	3
Treaty	3	3
Facultative.....	1	0

Reinsurance brokering began: 1990.

Parent: Griffiths & Wanklyn Management Ltd.

Specialties: Casualty working layers, finite risk reinsurance, reinsurance of captives and self-insured entities, rent-a-captive programs.

Conducts business: Internationally.

Officers: Julian M. Griffiths, William A. Wanklyn, Lisa S. Skinner.

Contact: William A. Wanklyn or Julian M. Griffiths.

H

H&H Re-Insurance Brokers Ltd.

P.O. Box HM 1861, Hamilton HM HX, Bermuda; 809-295-3342; fax: 809-295-4065

	1994	1993
Premium volume...	$15,000,000	$12,000,000
% Treaty.....	90%	90%
% Facultative.	10%	10%
Total employees....	7	6
Treaty	3.5	3
Facultative.....	3.5	3

Reinsurance brokering began: 1977.

Specialties: Captive, financial and commercial reinsurance; excess liability, property, directors and officers.

Licensed in: California, New Jersey, New York; Bermuda.

Officers: Simon C. Everett, president; W.H. (Cotty) Outerbridge, David 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

	1994	1993
Premium volume...	$500,000,000	$500,000,000
% Treaty.....	100%	100%
Total employees....	56	52
Treaty	56	52

Reinsurance brokering began: 1920.

Specialties: Property and casualty reinsurance.

Licensed in: New York, South Carolina.

Conducts business: Nationwide, excluding Alaska and Hawaii.

Officers: John N. Gilbert Jr., president; Michael S. White, Keith D. Gillies, senior vps; Frank T. Harrison, David W. Melrose, vps.

Contact: Michael S. White.

Membership: Brokers & Reinsurance Markets Assn.

I

Independent Brokers

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

	1994	1993
Premium volume...	$2,500,000	$3,100,000
% Treaty.....	75%	80%
% Facultative.	25%	20%
Gross revenues.....	$120,000	$144,000
Total employees....	6	7
Treaty	2	2
Facultative.....	2	2

Reinsurance brokering began: 1984.

Parent: Independent Management Group Ltd.

Specialties: Medical malpractice, excess liability, workers compensation, marine.

Licensed in: Bermuda.

Conducts business in: Bermuda.

Officers: 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

	1994	1993
Premium volume...	$15,000,000	$9,200,000
% Treaty.....	55%	38%
% Facultative.	45%	62%
Total employees....	7	8
Treaty	2	2
Facultative.....	2	3

Reinsurance brokering began: 1987.

Specialties: Traditional nonmarine classes.

Licensed in: New York.

Conducts business: Internationally.

Officers: Rene A. Gutierrez, president; Richard Durett, Mark S. Andrews, vps; 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

	1994	1993
Premium volume...	$32,000,000	$15,000,000
% Treaty.....	99%	99%
% Facultative.	1%	1%
Gross revenues.....	$1,200,000	$650,000
Total employees....	11	8
Treaty	10	7
Facultative.....	1	1

Reinsurance brokering began: 1993.

Specialties: All types of accident and health, including medical, disability, AD&D, group life and mortality stop-loss.

Licensed in: Arizona, Minnesota, Pennsylvania.

Conducts business: Nationwide.

Officers: Stuart B. Grodanz, Christopher J. Pfeifer, vps.

Contact: Thomas F. Conners, president.

INTERRA Reinsurance Group Inc.

9449 Priority Way W. Drive, Suite 150, Indianapolis, Ind. 46240; 317-581-0651; fax: 317-574-3944

	1994	1993
Premium volume...	$32,000,000	$6,000,000
% Treaty.....	100%	100%
Gross revenues.....	$903,000	$184,000
Total employees....	8	2
Treaty	8	2

Reinsurance brokering began: 1993.

Specialties: Accident and health, including human organ and tissue transplant, HMOs, state Medicare; professional and general liability, including blood center risk retention groups.

Licensed in: Indiana.

Conducts business: Worldwide.

Officers: Mark A. Carney, president/CEO; Richard A. Parks, vp-administration/CFO; Kathleen J. Stahl, vp-operations.

Contact: Mark A. Carney.

J

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

	1994	1993
Premium volume...	$226,000,000	$172,000,000
% Treaty.....	99%	99%
% Facultative.	1%	1%
Gross revenues.....	$10,800,000	$8,200,000
Total employees....	34	26
Treaty	33	25
Facultative.....	1	1

Reinsurance brokering began: 1979.

Parent: JIB Group P.L.C.

Specialties: Property, accident and health, workers compensation, aviation and marine, life, automatic facultative, warranty.

Licensed in: New Jersey, New York, Ohio.

Conducts business: Nationwide.

Officers: John D. Sayer, president; John E. Januszewski Jr., COO; John S. Yeuroukis, executive vp; Richard C. Moody, Joseph A. Zaffarese, senior vps.

Contact: John E. Januszewski Jr.

J.B. Johnson Intermediary Inc.

1776 Woodstead Court, Suite 228, The Woodlands, Texas 77380; 713-292-4023; fax: 713-292-1106

	1994	1993
Premium volume...	$20,000,000	$20,000,000
% Treaty.....	100%	100%
Total employees....	4	4
Treaty	4	4

Reinsurance brokering began: 1979.

Specialties: Accident and health, alternative workers compensation.

Licensed in: Mississippi, New York, Texas.

Conducts business in: Arizona, Florida, Kentucky, Louisiana, Minnesota, New Jersey, New Mexico, Oklahoma, Pennsylvania, Texas, Utah.

Officers: Joel B. Johnson II, president; Molly K. Johnson, secretary/treasurer.

Contact: Joel B. Johnson II.

L

W.J. Lehrke Co.

6000 France Ave. S., Edina, Minn. 55435; 612-920-1667; fax: 612-920-2039

	1994	1993
Premium volume...	$23,000,000	$20,000,000
% Treaty.....	95%	95%
% Facultative.	5%	5%
Total employees....	10	10
Treaty	9.5	9.5
Facultative.....	0.5	0.5

Reinsurance brokering began: 1973.

Specialties: Catastrophe or loss ratio reinsurance, variable retention excess-of-loss reinsurance.

Licensed in: Minnesota, New York.

Conducts business: Nationwide, excluding Alaska and Hawaii.

Officers: Thomas A. Lehrke, president; Soren P. Sorensen, vp; Mark F. Noack, assistant vp; Walter J. Lehrke, chairman.

Lincoln National Intermediaries

1 Reinsurance Place, 1700 Magnavox Way, P.O. Box 7808, Fort Wayne, Ind. 46801-7808; 219-455-3290; fax 219-455-4000

	1994	1993
Premium volume...	NA	NA
% Facultative.	100%	100%
Gross revenues.....	$7,365,804	$6,069,578
Total employees....	22.5	26.5
Facultative.....	22.5	26.5

Continued on next page

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Reinsurance brokering began: 1982.

Parent: Lincoln National Corp.

Specialties: Financial reinsurance, annuity reinsurance, mergers and acquisitions.

Licensed in: Indiana, New York.

Conducts business: Nationwide.

Officers: Kenneth J. Clark, president; Thomas E. Skillman, Mark R. Troutman, Todd Spooner, 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

	1994	1993
Premium volume...	$6,000,000	$6,000,000
% Treaty.....	2%	2%
% Facultative.	98%	98%
Gross revenues.....	$550,000	$500,000
Total employees....	5	5

Reinsurance brokering began: 1983.

Parent: Lowndes Lambert Group.

Specialties: International, global and reverse flow business.

Licensed in: New York.

Conducts business: Worldwide.

Officers: John M. Mannix, president; Rhamba A. McCanless, vp.

Contact: Noel Ulrich.

M

M.I.M. Inc.

P.O. Box 3016, Boone, N.C. 28607; 704-262-1322; fax: 704-262-1321

	1994	1993
Premium volume...	$100,000,000	$75,000,000
% Treaty.....	95%	95%
% Facultative.	5%	5%
Gross revenues.....	$200,000	$150,000
Total employees...	2.5	2.5
Treaty.....	2	2
Facultative.....	0.5	0.5

Reinsurance brokering began: 1992.

Specialties: Alternative risk financing, workers compensation, product liability, professional liability.

Licensed in: Colorado, North Carolina

Conducts business: Nationwide.

Officers: Anne O. Morgan, president; C. Fred Morgan, secretary.

Contact: C. Fred Morgan.

Meadowbrook Intermediaries Inc.

144 E. 44th St., 3rd Floor, New York, N.Y. 10017; 212-297-1800; fax: 212-297-1802

	1994	1993
Premium volume...	$11,800,000	$8,000,000
% Treaty.....	100%	100%
Total employees....	6	5
Treaty.....	6	5

Reinsurance brokering began: 1985.

Parent: Meadowbrook Insurance Group.

Specialties: Alternative risk, professional and product liability, workers compensation, surety, property.

Licensed in: New York.

Conducts business: Nationwide excluding Alaska and Hawaii.

Officers: Merton J. Segal, chairman; Marc S. Willner, Robert S. Cubbin, senior vps; Laura M. Segal, vp.

Contact: Laura M. Segal.

Meadowbrook International Ltd.

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

	1994	1993
Premium volume...	$3,500,000	$3,000,000
% Treaty.....	100%	100%
Total employees....	2	2
Treaty.....	2	2

Reinsurance brokering began: 1982.

Parent: Meadowbrook Insurance Group.

Specialties: Property/casualty treaty reinsurance, including captive, surety, low-level casualty, and Bermuda market property catastrophe.

Licensed in: Bermuda.

Officers: Michael Woodroffe, president.

Median Re Inc.

98 Cutter Mill Road, Suite 346S, Great Neck, N.Y. 11021; 516-482-2111; fax: 516-482-2133

	1994	1993
Premium volume...	$38,000,000	$17,500,000
% Treaty.....	100%	100%
Gross revenues.....	$380,000	$175,000
Total employees....	2	2
Treaty.....	2	2

Reinsurance brokering began: 1993.

Branch offices: Stamford, Conn.

Specialties: Loss portfolio transfers, finite reinsurance, finite acquisition financing reinsurance.

Licensed in: Connecticut, New York.

Conducts business: Nationwide.

Officers: Henry H. Treandly, president; B. Cadwaller, R.M. Christie, J. Milne, vps.

Contact: Robert M. Christie.

Minet Re

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

	1994	1993
Premium volume...	$1,343,900,000	$1,284,836,000
% Treaty.....	90%	91%
% Facultative.	10%	9%
Gross revenues.....	$82,200,000	$75,000,000
Total employees....	498	531
Treaty.....	436	454
Facultative.....	62	77

Reinsurance 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.; New York; Philadelphia; Dallas; Minet Burn & Roche, Sydney, Australia; Intere Ltd., Hamilton, Bermuda; I.O.C. Reinsurance Brokers Ltd., Toronto; J.H. Minet Reinsurance Brokers Ltd., Minet Re International Ltd., London; Minet GmbH, Munich, Germany; Minet Burne & Roche, Wellington, New Zealand; Anglo Swiss Reinsurance Brokers Ltd., Munchenstein, Switzerland; J.H. Minet (Inter-Grenium) A.G., Zurich, Switzerland; R&M Reinsurance Intermediaries Ltd., Port of Spain, Trinidad.

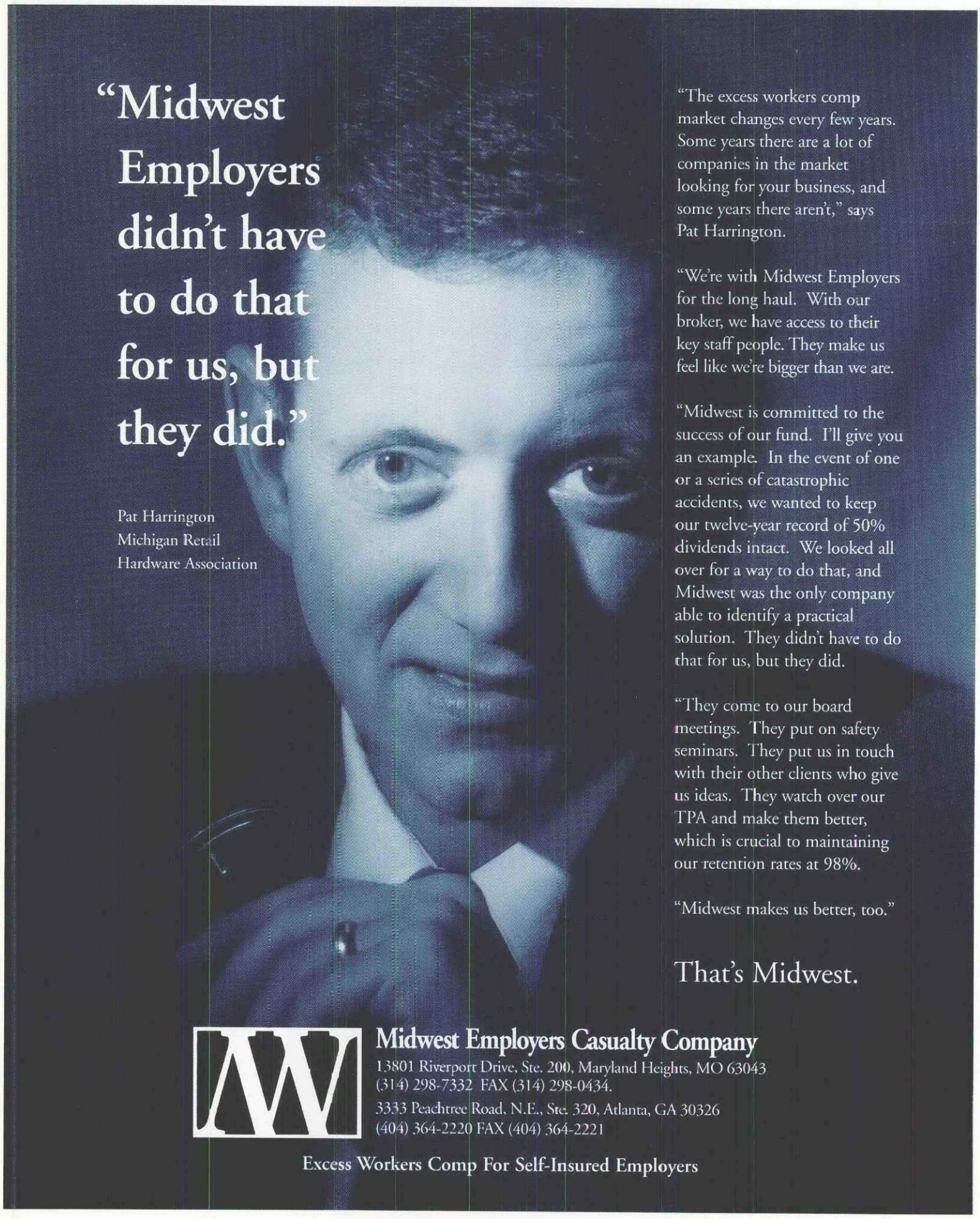
Acquisitions: Wackerbarth Hardman Insurance Brokers Ltd., London, June 1994.

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., Thomas F. McGrath III, executive vps.

Contact: Mark T. Hvidsten.



N

National Intermediaries Inc.

777 Long Ridge Road, Stamford, Conn. 06904; 203-329-7700; fax: 203-329-5222

	1994	1993
Premium volume...	$55,000,000	$45,000,000
% Treaty.....	99%	99%
% Facultative.	1%	1%
Total employees....	7	7
Treaty.....	7	7

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Reinsurance brokering began: 1976.

Parent: National Reinsurance Corp.

Branch offices: Los Angeles; Hartford, Conn.; Atlanta; Chicago; New York, Columbus, Ohio; Dallas.

Licensed in: New York.

Conducts business: Nationwide and Canada.

Officers: Robert W. Eager, president; Carl J. Zuanelli, executive vp.

Contact: Carl J. Zuanelli.

Northern States Intermediaries Inc.

206 S. Main St., Stowe, Vt. 05672; 802-244-8607; fax: 802-253-6987

	1994	1993
Premium volume...	$4,500,000	$5,100,000
% Treaty.....	30%	25%
% Facultative.	70%	75%
Total employees	2	2
Treaty	1	1
Facultative	1	1

Reinsurance brokering began: 1988.

Parent: Northern States Management Inc.

Specialties: Workers compensation; errors and omissions; professional liability; alternative insurance markets, including all forms of captive insurance companies, risk retention groups, self-insurance trusts and pools.

Licensed in: Colorado, New York, Vermont.

Conducts business: Nationwide.

Officers: John J. Middleton, president; Michael G. Geferer, secretary.

Contact: John J. Middleton.

P

PWS Holdings P.L.C.

52-56 Minories, London EC3N 1JJ, England; 44-171-480-6622; fax: 44-171-480-7470

	1994	1993
Premium volume...	$325,000,000	$271,000,000
% Treaty.....	12%	6%
% Facultative.	88%	94%
Gross revenues	$23,000,000	$25,500,000
Total employees	253	274
Treaty	20	20
Facultative	60	60

Reinsurance brokering began: 1964.

Branch offices: New York; Toronto; Amsterdam, Netherlands; Singapore.

Subsidiaries: PWS Asia Pacific Reinsurance Brokers Pte., PWS Canada Inc., PWS International Ltd., PWS Life & Pensions Ltd., PWS (USA) Inc.

Specialties: All classes of international facultative and treaty reinsurance, including property, marine, casualty, personal accident, bankers blanket bonds and construction/engineering.

Licensed in: New York.

Conducts business: Worldwide.

Contact: U.S.: Ann Marie Sharp-McManus, senior vp-PWS (USA) Inc., 212-791-9350; London: Peter Smith, group managing director-PWS Holdings P.L.C., 44-171-480-6622.

Park International Ltd.

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

	1994	1993
Premium volume...	$13,500,000	$12,500,000
% Treaty.....	85%	92%
% Facultative.	15%	8%
Total employees	6	5
Treaty	3	2
Facultative	3	2

Reinsurance brokering began: 1992.

Parent: Mutual Risk Management.

Specialties: Catastrophe reinsurance facilities.

Licensed in: Bermuda.

Conducts business in: Bermuda.

Officers: Paul Scope, president; Stephen C. Dean, Nan P. Griffiths, vps; Martyn Svensen, assistant vp.

Contact: Steven C. Dean.

Donald B. Peat & Associates Inc.

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

	1994	1993
Premium volume...	$15,700,000	$10,500,000
% Treaty.....	100%	100%
Total employees	6	6
Treaty	2	2

Reinsurance brokering began: 1991.

Specialties: Property/casualty treaty reinsurance, specialty insurance consulting.

Licensed in: Florida, New York.

Conducts business: Nationwide, excluding Alaska and Hawaii.

Officers: Donald B. Peat, president.

Pegasus Advisors Inc.

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

	1994	1993
Premium volume...	NA	NA
% Treaty.....	100%	100%
Gross revenues	$1,740,000	$1,455,300
Total employees	5	5
Treaty	5	5

Reinsurance brokering began: 1989.

Parent: MBI Inc.

Specialties: Non-traditional, finite reinsurance, especially casualty business.

Licensed in: Connecticut, New Jersey, New York.

Conducts business: Nationwide.

Officers: Gregory E. Leonard, president; Larry G. Frank, James A. Hall III, vps; Joseph Abbott, assistant vp.

Contact: Rose Komanetsky.

Preferred Reinsurance Intermediaries Inc.

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

	1994	1993
Premium volume...	$80,000,000	$75,000,000
% Treaty.....	100%	100%
Total employees	16	19
Treaty	16	19

Reinsurance brokering began: 1983.

Branch offices: Boca Raton, Fla.; 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, Oliver Hines, senior vps; Robert P. Hodson, David L. Coulter Jr., vps.

Contact: Charles Perry.

Q

QSX Re (North America) Inc.

120 Wood Ave. S., Suite 613, Iselin, N.J. 02230; 908-494-4560; fax: 908-494-4565

	1994	1993
Premium volume...	$5,000,000	$4,500,000
% Treaty.....	0%	20%
% Facultative.	100%	80%
Total employees	3	3
Facultative	3	3

Reinsurance brokering began: 1991.

Parent: QSX Holdings B.V.

Specialties: Property, liability, marine, treaty.

Licensed in: New York.

Conducts business: Nationwide.

Officers: Willem P. Schuil, president; James P. Kelly, vp; Brian J. Waters, assistant vp.

R

Re Advisory Services Inc.

1 Morningside Drive N., Westport, Conn. 06880; 203-222-8776; fax: 203-266-1881

	1994	1993
Premium volume...	$82,275,434	$65,769,965
% Treaty.....	100%	100%
Gross revenues	$3,227,134	$1,864,968
Total employees	11	7
Treaty	11	7

Reinsurance brokering began: 1991.

Subsidiaries: Risk Advisory Services, Winter Park, Fla.

Specialties: Medical malpractice, property, catastrophe, municipal liability, professional liability.

Licensed in: Connecticut, New York.

Conducts business: Nationwide.

Officers: Peter B. Scanlan, president; Roland M. Pike, senior vp; Thomas Houldsworth, president-Risk Advisory Services.

Contact: Teri Richards.

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Continued from page 61

Reinsurance Associates Inc.

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

	1994	1993
Premium volume...	$44,000,000	$40,000,000
% Treaty.....	95%	95%
% Facultative.	5%	5%
Gross revenues.....	$726,293	$653,354
Total employees....	7	7
Treaty	6	6
Facultative.....	1	1

Reinsurance brokering began: 1979.

Specialties: Credit life and disability, gap, individual unemployment insurance, product guarantee, workers compensation, impaired risk, ordinary life, used car garage liability.

Licensed in: Illinois, Mississippi, New York.

Conducts business: Nationwide.

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

Contact: Michael A. Gardner.

Re/Insurance Brokers Inc.

100 Brookwood Place, Suite 605, Birmingham, Ala. 35209-6811; 205-871-4949; fax: 205-871-4950

	1994	1993
Premium volume...	$7,168,000	$10,522,500
% Treaty.....	100%	100%
Total employees....	2	2
Treaty	2	2

Reinsurance brokering began: 1990.

Specialties: Professional liability and pilot disability.

Licensed in: Alabama, Texas.

Conducts business: Nationwide.

Officers: Dale Busby, president.

Reinsurance Brokers Co.

3545 N. I-10 Service Road, Suite 300, Metairie, La. 70002; 504-455-4545; fax: 504-455-9449

	1994	1993
Premium volume...	$4,000,000	$4,000,000
% Facultative.	100%	100%
Total employees....	3	3
Facultative.....	3	3

Reinsurance brokering began: 1965.

Parent: Hilb, Rogal & Hamilton Co.

Specialties: International, construction, marine, oil industries, liability.

Licensed in: Louisiana.

Conducts business: Nationally and internationally.

Officers: J. William Sherar, senior vp; William G. Sherar, vp; Virginia M. Baber, assistant vp.

Contact: J. William Sherar, ext. 232.

Russ Re-insurance Services

P.O. Box 60093, Pasadena, Calif. 91116-6093; 818-356-9648; fax: 818-356-9648

	1994	1993
Premium volume...	NA	NA

Reinsurance brokering began: 1995.

Specialties: Casualty, marine, surety, finite risk.

Licensed in: California.

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

Sedgwick Re

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

	1994*	1993
Premium volume...	$2,175,000,000	$1,200,000,000
% Treaty.....	87%	75%
% Facultative.	13%	25%
Gross revenues.....	$71,500,000**	$61,500,000
Total employees....	375	395
Treaty	736	292
Facultative.....	114	103

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

Reinsurance brokering began: 1928.

Parent: Sedgwick Group P.L.C.

Branch offices: Los Angeles; San Francisco; Atlanta; Chicago; Boston; Minneapolis; New York; Philadelphia; Dallas; Seattle; Toronto.

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

Licensed in: Over 20 states.

Conducts business: Nationwide.

Officers: Salvatore D. Zaffino, president/CEO; Charles Higham, executive vp/COO.

Contact: Salvatore D. Zaffino.

Membership: Brokers & Reinsurance Markets Assn.

Sentry Intermediaries Ltd.

Skandia International House, 16 Church St., Hamilton HM HX, Bermuda; 809-295-2185; fax: 809-292-1143

	1994	1993
Premium volume...	$6,700,000	$7,000,000
% Facultative.	100%	100%
Total employees....	2	2
Facultative.....	2	2

Reinsurance brokering began: 1985.

Parent: Skandia Group.

Specialties: Bermuda market placements.

Licensed in: Bermuda.

Conducts business in: Bermuda.

Officers: Nicholas S. Dove, president; Robert J. Rosser, vp.

Contact: Robert J. Rosser.

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

135 William St., 12th Floor, New York, N.Y. 10038; 212-473-1323; fax: 212-857-4170

	1994	1993
Premium volume...	$110,000,000	$65,000,000
% Treaty.....	40%	32%
% Facultative.	60%	68%
Total employees....	21	19
Treaty	7	6
Facultative.....	14	13

Reinsurance brokering began: 1987.

Branch offices: Coral Gables, Fla.

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

Licensed in: Florida, New York.

Conducts business: Nationally and internationally.

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

Contact: Douglas L. King.

G.J. Sullivan Co.

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

	1994	1993
Premium volume..	$278,000,000	$264,000,000
% Treaty.....	100%	100%
Total employees...	65	70
Treaty	65	70

Reinsurance brokering began: 1980.

Parent: Gerald J. Sullivan & Associates.

Branch offices: Stamford, Conn.; Atlanta; Chicago.

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

Licensed in: California, New York.

Conducts business: Nationwide excluding Alaska and Hawaii.

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

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

Swiss Re Atrium Corp.

200 Park Ave., 16th Floor, New York, N.Y. 10166; 212-973-5000; fax: 212-973-5083

	1994	1993
Premium volume..	$270,779,436	$578,370,456
% Treaty.....	100%	100%
Total employees...	28	23
Treaty	28	23

Reinsurance brokering began: 1983.

Parent: Swiss Re Group.

Branch offices: Stamford, Conn.

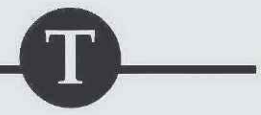
Specialties: Surplus relief, finite risk reinsurance, life reinsurance.

Licensed in: Connecticut, New York.

Conducts business: Worldwide.

Officers: Jay A. Novik, president/CEO; Frank T. Buziak, Owen Whitby, executive vps; Peter A. Gentile, senior vp/CFO; Bruce P. Reich, senior vp; Joan M. deLemps, Gerald F. Fisher, vps.

Contact: Jay A. Novik or Bruce P. Reich.



THB Intermediaries Inc.

3333 Wilshire Blvd., Suite 711, Los Angeles, Calif. 90010; 213-388-6630; fax: 213-388-9117

	1994	1993
Premium volume...	$32,000,000	$26,500,000
% Facultative.	100%	100%
Gross revenues.....	$2,600,000	$2,162,250
Total employees....	24	22
Facultative.....	24	22

Reinsurance brokering began: 1984.

Parent: Near North National Group.

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New York, NY 10005-1934 Telephone: 212-820-7600

Continued from page 63

Branch offices: Los Angeles, Chicago, New York.

Specialties: All lines, property and casualty facultative, programs, national account specialists.

Licensed in: California, Illinois, New York.

Conducts business: Nationwide.

Officers: Victor H. Thompson, CFO; Richard DiClemente, executive vp; William Ullmann, Larry S. Parks, senior vps; Lisa A. Miles, vp/CFO; Charles E. Taylor, vp-claims.

Contact: Richard DiClemente, 212-558-6630.

Tanenbaum-Harber Reinsurance Intermediaries Inc.

320 W. 57th St., New York, N.Y. 10019; 212-603-0362; fax: 212-582-6256

	1994	1993
Premium volume	$51,000,000	$50,000,000
% Treaty	95%	94%
% Facultative	5%	6%
Gross revenues	$2,000,000	$2,000,000
Total employees	5	5
Treaty	5	5

Reinsurance brokering began: 1986.

Parent: Tanenbaum-Harber Co. Inc.

Specialties: Property, casualty, life/health, small companies, risk retention groups, specialized casualty products, managed care.

Licensed in: Florida, New York.

Conducts business: Nationwide, excluding Alaska and Hawaii.

Officers: Walter L. Harris, chairman; Ronnie Ellen Raymond, president; Juan Carlos Maldonado, controller; Donna L. Fertel, assistant vp.

Contact: Ronnie Ellen Raymond.

Totsch Enterprises Inc.

8745 W. Higgins Road, Suite 320, Chicago, Ill. 60631; 312-380-8040; fax: 312-380-8054

	1994	1993
Premium volume	$67,000,000	$65,000,000
% Treaty	95%	95%
% Facultative	5%	5%
Gross revenues	$1,600,000	$1,500,000
Total employees	5	5
Treaty	4.5	4.5
Facultative	0.5	0.5

Reinsurance brokering began: 1978.

Specialties: Properties, 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.

Contact: Marvin Totsch.

Towers Perrin Reinsurance

Mellon Bank Center, 1735 Market St., Philadelphia, Pa. 19103; 215-963-7700; fax: 215-963-7873

	1994	1993
Premium volume	$598,000,000	$575,000,000
% Treaty	95%	95%
% Facultative	5%	5%
Gross revenues	$40,200,000	$39,000,000
Total employees	204	204
Treaty	195	194
Facultative	9	10

Reinsurance brokering began: 1934.

Parent: Towers Perrin.

Branch offices: Los Angeles and San Francisco; Hartford and Stamford, Conn.; Ronkonkoma, N.Y.; Philadelphia; Montreal; Toronto.

Specialties: Integrated reinsurance risk management services, professional liability, accident and health, managed care.

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

Conducts business: Nationwide.

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. Raynolds, senior vps.

Contact: Jacobus Van de Graaf, 203-363-1900.

Membership: Brokers & Reinsurance Markets Assn.

Triangle Reinsurance Intermediaries Ltd.

The Phoenix Building, 2 Reid St., P.O. Box HM 1838, Hamilton HM HX, Bermuda; 441-295-3973; fax: 441-295-3982

	1994	1993
Premium volume	$4,300,000	$4,500,000
% Treaty	92%	93%
% Facultative	8%	7%
Gross revenues	$150,000	$160,000
Total employees	2	2
Treaty	2	2

Reinsurance brokering began: 1993.

Parent: Triangle Holdings Ltd.

Specialties: Property and marine treaty, financial and captive reinsurance.

Licensed in: Bermuda.

Officers: Thomas W.M. Masters, president; Giles B. North, executive vp.

Contact: Thomas W.M. Masters.

V

D.W. Van Dyke & Co. of Connecticut Inc.

95 Rowayton Ave., Rowayton, Conn. 06853; 203-865-0499; fax: 203-852-6776

	1994	1993
Premium volume	$1,500,000,000	$1,500,000,000
% Treaty	98%	98%
% Facultative	2%	2%
Total employees	29	19
Treaty	13	9
Facultative	1	1

Reinsurance brokering began: 1978.

Parent: DDR Holdings Inc.

Specialties: Physician/hospital organization, provider excess, credit 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, fully insured and high deductible medical, self-insured medical expense, occupational accident, 24-hour medical, catastrophe accident, abnormal mortality stop-loss.

Licensed in: California, Connecticut, Delaware, Illinois, New York, Oregon, South Carolina, Texas, Virginia.

Conducts business: Nationally and internationally.

Officers: Donald W. Van Dyke II, chairman/CEO; Donald K. Drelich, president/COO; Robert A. Welke, Christopher Koehler, senior vps; Lauren M. Kennedy, senior vp/CFO.

Contact: Donald W. Van Dyke II.

Vermont Insurance Management Inc.

P.O. Box 306, Montpelier, Vt. 05601; 802-229-5042; fax: 802-229-6280

	1994	1993
Premium volume	$11,000,000	$10,500,000
% Treaty	70%	68%
% Facultative	30%	32%
Total employees	27	27
Treaty	2	2
Facultative	2	2

Reinsurance 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; Michael T Rogers, president/CEO; G. Wayne Harris, vp.

Contact: Michael T. Rogers.

W

Willcox Inc. Reinsurance Intermediaries

180 Maiden Lane, New York, N.Y. 10038 212-952-0650; fax: 212-952-0295

	1994	1993
Premium volume	$1,000,000,000	$1,000,000,000
% Treaty	99%	99%
% Facultative	1%	1%
Gross revenues	$44,000,000	$40,500,000
Total employees	230	221
Treaty	226	217
Facultative	4	4

Reinsurance brokering began: 1894.

Parent: Johnson & Higgins.

Branch offices: Los Angeles; Indianapolis; Philadelphia; Dallas; Seattle; London; Singapore.

Specialties: Treaty property and casualty, including marine, aviation, fidelity, surety, financial reinsurance, accident and health, life and international.

Licensed in: California, Indiana, New York, Ohio, Pennsylvania, Texas, Washington.

Conducts business: Nationwide.

Officers: Willis T. King Jr., chairman/CEO; Robert F. O Leary, president/COO.

Contact: Lawrence P. Johnson, senior vp.

Membership: Brokers & Reinsurance Markets Assn.

Willis Corroon (Bermuda) Ltd.

P.O Box HM 1995, Hamilton HM HX, Bermuda 441-295-1272; fax: 441-295-4143

	1994	1993
Premium volume	$43,000,000	$44,000,000
% Facultative	100%	100%
Total employees	12	10

Reinsurance brokering began: 1933.

Parent: Willis Corroon Overseas Holdings Ltd.

Specialties: International reinsurance.

Licensed in: Bermuda.

Conducts business in: Bermuda.

Officers: P. Obolensky, president; H. Scully, vp.

Willis Faber North America Inc.

Wall Street Plaza, 28th Floor, New York, N.Y. 10005; 212-820-7600; fax: 212-344-4646

	1994	1993
Premium volume	$1,281,000,000	$1,266,000,000
% Treaty	95%	95%
% Facultative	5%	5%
Gross revenues	$45,820,000	$46,639,000
Total employees	272	326
Treaty	264	319
Facultative	8	7

Reinsurance brokering began: 1924.

Parent: Willis Corroon Group P.L.C.

Branch offices: San Francisco; Stamford, Conn.; Denver; Miami; Atlanta; Chicago; 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, insurance company errors and omissions and directors and officers, property/casualty (treaty and facultative), professional liability, surety and fidelity, retrocession, marine, international, political risk, trucking and transportation, health care services, municipal liabilities, workers compensation, life.

Licensed in: California, Minnesota, New York, Texas.

Conducts business: Nationwide.

Officers: Peter T. Pruitt, chairman/CEO; John R. Cashin, executive vp/director-marketing; Horace Johnson, executive vp; George Reeth, executive vp-marine, aviation, international & surety division; Richard Swager, chairman/CEO-Reinsurance Alternatives Inc.

Contact: John R. Cashin.

Membership: Brokers & Reinsurance Markets Assn.

Continued on next page

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Continued from previous page

WinterBrook RE Intermediaries L.L.C.*

205 Highway 9, Freehold, N.J. 07728; 908-431-2406; fax 908-431-3543

	1994	1993
Premium volume	$12,300,000	$9,600,000
% Treaty	100%	100%
Total employees	4	4
Treaty	4	4

Reinsurance brokering began: 1991.

Parent: WinterBrook Holdings Ltd.

Specialties: Accident and health, property and casualty.

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.

** Formerly Westport Reinsurance International.*

John P. Woods Co. Inc.

90 William St., New York, N.Y. 10038; 212-785-2500; fax: 212-269-4138

	1994	1993
Premium volume	$600,000,000	$525,000,000
% Treaty	100%	100%
Gross revenues	$21,500,000	$17,600,000
Total employees	62	55
Treaty	62	55

Reinsurance brokering began: 1978.

Branch offices: Atlanta.

Subsidiaries: Allegiance Inc., Mount Laurel, N.J.

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

Licensed in: New York, Pennsylvania, South Carolina, Virginia.

Conducts business: Nationwide.

Officers: John P. Woods, president; Josephine A. Hoey, senior executive vp; Roderick P. Thaler, Ellsworth P. Whiteman, John P. Woods III, Harry Lazzelere, executive vps; John N. DiBlanda, vp/CFO.

Contact: John P. Woods.

Y

H.E. Yerkes & Associates Inc.

127 John St., New York, N.Y. 10038; 212-344-1707; fax: 212-422-8473

	1994	1993
Premium volume	$35,919,425	$35,252,500
% Treaty	100%	100%
Total employees	5	5
Treaty	5	5

Reinsurance brokering began: 1979.

Specialties: Ocean marine, offshore and energy risks.

Licensed in: New York.

Conducts business in: New York.

Officers: Harry E. Yerkes III, president; Ann R. Kaplan, vp.

Contact: Ann R. Kaplan.

Z

George G. Zimmerman & Co. Inc.

101 Gibraltar Drive, Suite 3E, Morris Plains, N.J. 07871; 201-292-0101; fax: 201-292-0057

	1994	1993
Premium volume	$12,000,000	$22,000,000
% Treaty	100%	100%
Total employees	9	15
Treaty	9	15

Reinsurance brokering began: 1980.

Parent: Zimmerman Reinsurance Group.

Branch offices: Sarasota, Fla.

Specialties: Major medical risks, HMOs, PPOs, life stop-loss, H.I.V stop-loss.

Licensed in: New York.

Conducts business: Nationwide.

Officers: George G. Zimmerman, president/CEO; Charles J. Sharkey, vp; Thomas D. Kinney, vp/controller; Norbatine A. Forrest, secretary; Cynthia L. Kreckmann, assistant vp.

Contact: Cynthia L. Kreckmann.

Due to an editing error, BI was unable to include the following listings in the alphabetical section.

Alexander Howden Reinsurance Intermediaries Inc.

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

	1994	1993
Premium volume	$30,000,000	$30,000,000
% Treaty	95%	95%
% Facultative	5%	5%
Total employees	14	13
Treaty	11	11
Facultative	3	2

Reinsurance brokering began: 1989.

Parent: Alexander Howden Group Ltd.

Branch offices: Coral Gables, Fla.

Specialties: International treaty business.

Officers: Joseph Artel, senior vp.

Contact: Joseph Artel.

Heddington Brokers Ltd.

P.O. Box HM 1187, Hamilton HM EX, Bermuda; 441-295-3063; fax: 441-292-3548

	1994	1993
Premium volume	$70,000,000	$68,000,000
% Treaty	5%	5%
% Facultative	95%	95%
Total employees	16	18

Reinsurance brokering began: 1981.

Parent: Heddington Insurance Ltd.

Specialties: All classes of international reinsurance.

Licensed in: Bermuda.

Conducts business in: Bermuda.

Officers: J.B. Cartmell, president/CEO; M.A. Dobbie, senior vp; M.G. Randall, senior vp-casualty; E.A. Brewin, senior vp-property.

Contact: Monica A. Dobbie. BI

Nov. 6 directory deadline today

Deadlines are here for two *Business Insurance* directories.

Questionnaires are due today for the annual directory of global property/casualty insurers and international benefit networks, which will appear in the Nov. 6 issue.

If your company is a P/C insurer or an employee benefit network that does business in countries other than the one in which you are based, and you have not yet received a questionnaire, please call Assistant Directory Editor Rich Trout at 312-649-5483. It must be completed and returned immediately.

In December, *BI* will publish its Managed Care Market Report, containing the ninth annual directory of health maintenance organizations, preferred provider organizations and point of service plans.

The directory will include information on contacting the managed care companies, as well as data on model type; number of participating physicians, hospitals and pharmacies; service areas; and services offered and rating options.

HMOs, PPOs and POS plans must return completed questionnaires by the extended deadline of Oct. 31. For a questionnaire, call Directory Editor Sandra Budde, 312-649-5279. BI

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Banks eager to enter market for financial coverage solutions

Banks offering insurers alternatives for protecting surplus

By RODD ZOLKOS

Banks' interest in offering alternatives to traditional reinsurance continues to grow, with financial institutions looking at various ways of getting involved in reinsuring risk.

Their involvement is a logical extension of a growing recognition of the financial aspects of reinsurance, some market observers say, and a natural step following the development of such products as finite risk insurance.

"There certainly is an interest on the part of the banks to either directly or indirectly get into the reinsurance business," said David Koegel, a senior vp at reinsurance intermediary Gill & Roeser Inc. in New York.

"Right now I don't believe there are a whole lot of these transactions going on," Mr. Koegel said. "But the banks are continuing to call on primary insurers."

"I think clearly we're seeing the evolution of how insurers manage their risks and a recognition that traditional reinsurance is essentially one form of financing almost more than it is risk transfer," said Scott Levine, a managing director at J.P. Morgan & Co. in New York who has been involved in structuring non-traditional transactions for insurers. "And I think insurers are saying to themselves that there may be more efficient ways of doing business."

"If you view reinsurance as a way of protecting surplus, protecting your viability, there are other ways of doing it than traditional reinsurance," Mr. Levine said.

Banks are interested in the whole process of securitizing risks—that is, transferring underwriting and timing risk in the form of a security. That can be done two ways. Insurers could transfer risks directly by selling certain types of securities to investors. Or transfers could be done indirectly, by selling securities to raise money to allow reinsurers to increase their capacity.

"We seem to be in the insurance industry where the thrift industry or the banking industry were 15 years ago or so," said Bob Arvanitis, managing director at Guy Carpenter & Co. Inc. in New York. "That is, it's time to blow out of the little box for the big box."

Reinsurers have roughly $20 billion dedicated to reinsuring U.S. risks. Potentially, capital markets offer a much greater capacity for absorbing risk.

"Just as they've securitized mortgages it's time to securitize insurance risk," Mr. Arvanitis said. "Toward that end we've done an awful lot of catastrophe modeling."

The actual securities can take two forms. One is experience-linked debt financing, such as "act of God" bonds—high-yield debt instruments issued by insurers that, in the event of catastrophe losses, let the insurer forego part or all of the payment to investors. The other is what Mr. Koegel calls "the dreaded D-word, derivatives."

In the area of debt financings, "Up until now I think it's been more talk than action," Mr. Koegel said, with most of the transactions being private placements of surplus notes intended to provide liquidity in the event of a catastrophe.

'Just as they've securitized mortgages it's time to securitize insurance risk,' says Bob Arvanitis.

One deal widely seen as a model of what banks can do in the reinsurance arena is an arrangement between Nationwide Mutual Insurance Co. of Columbus, Ohio, and Morgan Guaranty Trust Co. (*BI*, May 29).

Nationwide has the option to sell Morgan Guaranty up to $400 million in surplus notes—promises by an insurer to pay out a certain portion of its excess surplus at a certain time—if needed to fund catastrophe losses or expand its business.

That option to sell is designed to supplement Nationwide's existing reinsurance.

Morgan, in turn, would sell the notes to a newly formed trust, Nationwide CSN Trust, capitalized with an offering of trust notes and certificates to investors, with the proceeds of that sale invested in $490 million of U.S. Treasury securities. Morgan is paid a commission on the deal.

If Nationwide sells surplus notes the notes will be exchanged with the trust for an equivalent amount of Treasury securities, which will then be contributed to Nationwide. That whole process could take less time than settling a traditional reinsurance claim, say proponents of these deals.

The Nationwide deal "accomplished surplus protection for a lot cheaper than traditional reinsurance," Mr. Levine of Morgan Guaranty's parent J.P. Morgan said. "It was right in their case. Every case is different."

Even that deal, though, may not be properly considered securitized reinsurance, says Guy Carpenter's Mr. Arvanitis. Instead, he considers it simply a line of credit Nationwide can tap whenever it chooses.

"It would be more like reinsurance is if had a trigger," he said, meaning that a certain loss would be required to occur before Nationwide could tap the proceeds. "And in that case it would probably be cheaper."

Accounting rules would make Nationwide-like deals attractive to mutual insurers, which can use statutory accounting principles, rather than the generally accepted accounting principles that public companies must follow.

Under SAP rules, surplus notes are tantamount to equity, said Mr. Koegel. "So from a statutory regulator's point of view even though it's a loan it's really not. It's considered equity."

Under GAAP rules, by contrast, the notes are considered debt.

Many investment banks have been working closely with insurance brokers in order to tap the expertise they need to develop securitized reinsurance products better suited to stock companies, said an insurance industry executive who has been working with the banks.

Morgan, for example, is actively trying to replicate the Nationwide approach for other insurers.

"They basically put together and engineered the Nationwide deal and I know they've been call-

See **Banks** *on next page*

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Banks

Continued from previous page
ing on other insurance companies around the country, trying to do things," said the executive. "It seems like they're trying to target themselves to the mutual companies."

"They're trying to come up with a securitized product and what they're trying to do is tap into the technology so they can come up with a pricing mechanism," he said.

'I don't for a second predict the financial markets will replace reinsurance markets,' says Scott Levine.

"There are a lot of people jockeying right now and a lot of these investment banks don't want anybody to know what they're up to," the executive said. "Some want to play it closer to the vest than others."

Though few deals have been done, activity continues to grow among the big New York financial institutions.

Citibank N.A., CS First Boston Inc., Chase Manhattan Bank N.A., Salomon Brothers Inc. and Merrill Lynch & Co. Inc. are among others who've been involved in reinsurance liquidity transactions, though most have been surplus note deals.

Swiss Reinsurance Co., together with CS Holding and it CS First Boston unit, is trying to develop products that blend banking and reinsurance, securitize insurance risks and help finance new reinsurers (*BI*, Dec. 12, 1994).

And reinsurance broker Guy Carpenter plans to establish a catastrophe risk index based on data from its own clients that would be used as a basis for pricing new products designed to offer additional catastrophe capacity (*BI*, July 24).

Guy Carpenter is also examining an approach that would essentially create a personal reinsurer for individual clients. According to Mr. Arvanitis, the approach would involve creating a special purpose reinsurer which would issue act of God bonds or other securities to fund itself and then write a treaty for the client.

The move to financial alternatives from traditional reinsurance is "an inevitable next phase," said J.P. Morgan's Mr. Levine. Still, like others, he doesn't see the alternatives ever replacing traditional reinsurance.

"I don't for a second predict the financial markets and bank markets will replace reinsurance markets," he said.

"But I do think it gives buyers and insurers a number of different alternatives," according to Mr. Levine.

Ultimately, most say, sophisticated buyers will see a marketplace for reinsurance products in which they will be able to structure their programs to suit their particular needs by picking appropriate pieces from a wide range of available coverage options. BI

Derivatives making progress toward a role in reinsurance

Market seen devoting more resources to developing contracts

By RODD ZOLKOS

Derivatives are not yet a major factor in reinsurance, though many in the market say the day when they will be is drawing ever nearer.

As evidence of the future of what awaits instruments that will let insurers and reinsurers transfer risk, those developing them point to the level of resources that investment banks, insurance brokerages and insurance and reinsurance companies have committed to these projects.

And they note that slow starts were common to some of the derivatives markets that are now taken for granted—commodities futures, interest rate swaps and Treasury futures.

One development that many supporters of derivatives consider significant happened recently at the Chicago Board of Trade.

On Sept. 29, the CBOT introduced new loss-estimate index-based catastrophe options contracts, based on loss estimates provided by the Property Claim Services unit of American Insurance Services Group Inc.

The contracts trade alongside, but are expected to eclipse, existing contracts based on loss ratios. The new contracts are expected to be easier to understand and cover a far broader area of the catastrophe exposures in the United States (*BI*, July 24) (see story, page 69).

The development of insurance derivatives "continues to move forward slowly but it continues to move forward inexorably," said Morton N. Lane, president of Lane Financial in Chicago. "The way to look at it is there's an animal out there called derivatives and securitization and it is rooting around reaching for the right form to take."

"A year or so ago, if you sort of counted the headlines and looked at the seminars you'd say, 'Hey, this is really going someplace.' But, if you looked at the dollars involved, you wouldn't see very much," Mr. Lane said. "What's different a year later is that there really are some resources being devoted to this area."

"The more you work on this, the more you see the hurdles and the longer the time frame becomes," said Bob Arvanitis, managing director at reinsurance intermediary Guy Carpenter & Co. Inc. in New York. "But the more real it becomes."

David Koegel, senior vp at reinsurance brokerage Gill & Roeser Inc. in New York, said he sees several reasons for the slow development of reinsurance derivatives.

"It's the same old story. Primary companies are a little bit reluctant to enter into the really non-traditional ways to transfer insurance risk," he said. "And derivatives have had a little bit of a bad rap over the last couple years."

Another factor is limited investor capacity in the infant market, which means any deals can be done only a relatively small scale.

While Mr. Koegel thinks insurers should be experimenting with the vehicles, "because of limited capacity any of these kinds of things have to be done initially on a pilot program basis, and a lot of companies say, 'Well, if I can't get $50 million capacity, why bother?' "

One factor that may have hindered the growth of insurance derivatives is the fallout over huge derivatives losses at British bank Barings P.L.C. (*BI*, March 6), as well as losses by Procter & Gamble Co. and other U.S. companies (*BI*, May 9, 1994).

"Some people joke, 'How do you define derivatives? It's a thing you lose money on,' " said Mr. Lane. "And the sad part of that joke is it's true because a derivative is a way to transfer risk and whenever you transfer risk someone loses money."

But if high-profile losses have hindered growth, other factors may be prompting it.

By taking a cautious approach—such as raising interest rates to keep the country's robust economy from overheating—the Federal Reserve Board has reduced somewhat the volatility in interest rate-sensitive in-

See **Derivatives** *on next page*

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REGARDS INTERNATIONAL / Illustration : F. LECOINTE

Jury is still out on catastrophe options

By DOUGLAS McLEOD

Recent changes to CBOT's cat contracts may attract more interest from market

Boosters of the Chicago Board of Trade's catastrophe options market are encouraged by the market's recent response to Hurricane Opal, though many reinsurance observers continue to question the market's capacity and prospects.

Trading volume in the CBOT's recently introduced cat option contracts jumped earlier this month as Opal neared the Gulf Coast, providing a textbook example of how the market is designed to respond to companies' reinsurance needs, CBOT participants say.

"We are very comfortable and very pleased with the way the market reacted," said Dena Kotsores-Karras, a CBOT product manager.

The capacity provided in that spurt of trading totaled less than $1 million, though, and the amount provided by CBOT contracts during the 1994 and 1995 hurricane seasons combined adds up to about $25 million, estimates J. Michael Crouch, vp and treasurer of Kottke Associates, a Chicago-based CBOT member firm.

While CBOT supporters predict a bigger role for the exchange's products in the future, others point to the small capacity and more attractive alternatives.

"There's enough reinsurance capacity in the normal market to satisfy 99.9% of the market," said Willis T. King Jr., chairman of Willcox Inc. Reinsurance Intermediaries in New York. Prices for cat reinsurance will probably fall 15% to 25% in January because of favorable loss experience, further reducing the need for alternatives, he added.

Reinsurers seeking the equivalent of retrocessional coverage have been the biggest CBOT players so far, and observers expect this to continue.

The CBOT expanded its cat futures products late last month, creating nine new regional and single-state contracts based on loss data from the Property Claims Services division of the American Insurance Services Group Inc. (*BI*, July 24).

These new products supplement four existing regional contracts based on loss data from ISO Data Inc., a unit of New York-based Insurance Services Office Inc.

The PCS index, based on actual catastrophe loss estimates representing about 90% of U.S. cat losses, should be easier to understand than the ISO index, which is based on loss ratios from a sample group of insurers representing 25% to 30% of cat losses, CBOT officials say.

The new contracts have optional loss development periods of six months and 12 months, up from three months in the earlier contracts.

One impetus for the changes, market observers say, was the Northridge, Calif., earthquake of January 1994. While a number of option contracts were open at the time, many did not respond to quake losses because the losses did not emerge until after the three-month development period had expired, Mr. Crouch confirmed.

The new PCS contracts are a big improvement, said Christopher McGhee, a senior vp with Guy Carpenter & Co. Inc. in New York and a member of an advisory committee that helped design them.

Not only is the PCS index easier to use and understand, Mr. McGhee said, but it was also already being used by cat reinsurers in such products as market loss warranty covers, which are reinsurance products that are triggered by the industry's total losses in a given event.

"There is some familiarity with transactions constructed in this way," he observed.

While the CBOT markets its new products, it remains a bit player on the global reinsurance stage.

The CBOT "does not have enough risk-taking capacity to meet the needs of most clients," Mr. McGhee said, citing several reasons for this shortcoming.

One is the problem of educating potential participants who "are not used to using these kinds of instruments," he noted.

Another problem has been the contracts' unwieldy loss index, a problem that has been reduced by the new PCS index.

Regulatory constraints have posed a third difficulty, he added, noting that many states limit insurers' use of derivative products.

CBOT critics point to these hurdles while expressing doubts about the chances for significant growth.

If the CBOT had used the PCS index from the beginning, it might have developed more widespread interest, said Paul Ingrey, president of F&G Re Inc., a Morristown, N.J.-based unit of USF&G Corp.

"The bloom is off the rose," Mr. Ingrey said.

"To make it a really liquid market, you would have to get a lot of speculators in there," said Jay A. Novik, president of Atrium Corp., a New York-based intermediary unit of Swiss Reinsurance Co.

Saying he's not sure why anyone would speculate on catastrophe losses, Mr. Novik added, "on the other hand, I've never understood why people would want to bet on pork bellies or cocoa futures."

Still, CBOT supporters express confidence that given time, the market will become a much larger source of capacity for both reinsurers and insurers.

Many potential participants are actually already well-informed about the futures products, Mr. Crouch observed. "They know not only the gross aspects of the contracts but also the fine details," he said.

The hurdle, he added, is the cautious nature of much of the insurance industry. "They are exceedingly conservative organizations, and it's just a matter of time" before they become more comfortable with the CBOT concept, Mr. Crouch said.

While CBOT options have initially been attractive to reinsurers as an alternative to expensive or unavailable retrocessional protection, use of the products will eventually "filter down" to primary insurers, he said.

Trading action the day before Hurricane Opal hit showed that the market reacted as it was designed to, Mr. Crouch said (*BI*, Oct. 9).

Even though the capacity provided in the trades was small, he added, "on that particular day, you could not have bought anything in the traditional markets." BI

Derivatives

Continued from previous page

vestments and this, said Mr. Lane, might have had the beneficial effect of prompting more industry talent to migrate to derivatives.

With many of the new risk-financing ideas only at the theoretical stages, the derivatives market could take some time to develop.

"I think you'll need not only a certain stamina to stay with this and make it happen. . .(but also) a certain coherent program to make it happen," said Guy Carpenter's Mr. Arvanitis.

Leading that program at Guy Carpenter is Normandy Reinsurance Co. Ltd. of Hamilton, Bermuda, a unit set up in 1994 with $5 million in capital to market products that can be used to cover catastrophe risks. Recently the brokerage also announced plans to develop a catastrophe index based on data from its customers to use in pricing the products.

Guy Carpenter's approach is based on four "legs," Mr. Arvanitis said: catastrophe modeling; financial engineering to create vehicles to match investors with insurers or reinsurers; creating different indices to trade against; and cost of capital modeling programs.

"We've put together some fairly sophisticated cost-of-capital models," he said. With clients facing the choice of funding risk with debt, equity, securitized reinsurance or traditional reinsurance, a method of quantifying the cost of the various techniques in different situations is essential, Mr. Arvanitis said.

Mr. Lane cited Guy Carpenter's work as serving some essential functions in the reinsurance derivative market's development.

"What they have done is to begin to analyze the area and show that there are opportunities for superior returns and there are characteristics of insurance that ought to go into pension funds and other areas as a vehicle for diversification," he said.

"That business of establishing the appropriateness of these investments is extremely important foundational work," Mr. Lane said. "Once one or two of the big pension funds (invest in reinsurance derivatives) it won't be long before some of the others do as well, to try to get that benefit."

While acknowledging the reinsurance derivatives market has had a "prolonged period of development," Gill & Roeser's Mr. Koegel said he thinks it might soon begin taking shape.

"There's a lot of inertia out there going on and you never know what a lot of these are going to look like in a year or two," he said. "(But) I think a lot of this is going to be told between now and the next hurricane season." BI

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Outpacing the Competition

London: To be or not to be?

Despite changes, market predicted to stay a top reinsurance center

By STACY SHAPIRO

In 10 years, the London market still will be a leader in global reinsurance, but the market's fabric will be different, many predict.

There will be fewer underwriters and brokers, backed by larger pools of capital. Many mainstream risks will be placed electronically, reducing the number of employees in the market. And Lloyd's of London will be made up of quasi-insurance companies backed by corporate capital.

London's reputation may even have improved by the next century, London market executives predict. Business, particularly from the United States, has been leaving London since 1989, and Lloyd's current troubles are hindering premium growth in the market. By 2005, executives say, controversies will have settled and the London market will attract more business than ever.

"London will once again be a large center," predicted Dennis Mahoney, deputy chairman of Alexander Howden Group Ltd. in London.

Of course, by then, electronic placement could make company location all but irrelevant. For example, with the click of a mouse, someone in Omaha, could place reinsurance programs in global markets without a broker walking the pavement anywhere.

This may not be as far-fetched as it sounds. Some of the world's largest brokers are planning to launch an electronic network in the next few weeks (*BI*, Sept. 11).

"It won't matter where (a risk) is located or where the (reinsurance) capital is," said Ron Forrest, chief executive of Bain Hogg Ltd. in London. Brokers and underwriters all over the world will be able to strike a deal over video links and computer screens.

Because of electronic transmissions, it also won't matter where the claims and policy administration are handled, said Mr. Forrest. A brokerage based in London, for example, could do all its administration in the Far East.

Even now, "the reinsurance market is an international market (and) the location of the capital backing that market doesn't really matter," added Nick Bunker, an analyst for Hoare Govett Ltd. in London.

These days, for example, new catastrophe reinsurance capital is based in Bermuda, but most of the Bermuda-based companies have at least a contact office in London, if not an underwriting office. "The physical location of the capital is not that important."

But, by many measures, London's status among world reinsurance markets is ebbing.

For example, the market's premium income is declining.

Premium income from reinsurance and international business accounted for on a three-year basis has "dropped significantly" since 1992 for London-based insurance companies, according to the Assn. of British Insurers. Net premium income for three-year business for reinsurance has dropped more than 20% to £2.2 billion ($3.44 billion) at year-end 1994 from £2.8 billion ($4.24 billion) two years earlier. And net premium income for marine/aviation/transport business has decreased 40% to £1.4 billion ($2.19 billion) from £2.3 billion ($3.48 billion) in 1992.

These drops reflect in part some London insurers' switch to one-year accounting from three-year accounting since 1993. Indeed, one-year reinsurance net premium income increased nearly threefold to £910 million ($1.4 billion) at year-end 1994 from £391 million in 1993 ($578.5 million). This would mean that total reinsurance net premium income fell 10% from 1992 to £3.1 billion ($4.9 billion) in 1994.

Aside from accounting changes, though, more than 30 companies have withdrawn from the London market since 1990, and others have scaled down their operations, the ABI noted.

Between 1989 and 1993, about 70 companies withdrew from the market, according to a report prepared by the ABI, the London Insurance & Reinsurance Market Assn. and the Institute of London Underwriters.

Similarly, at Lloyd's, gross premium volume for treaty reinsurance fell to £2.2 billion ($3.44 billion) last year from £2.6 billion ($3.85 billion) in 1993 and nearly £3 billion ($4.54 billion) in 1992.

Insurance and facultative reinsurance premiums, though, were £5.7 billion ($8.92 billion) in 1994, the same as 1992 levels, though off slightly from £6 billion in 1993.

In terms of the number of policies, the London reinsurance market also looks to be on the retreat.

At the ILU, the number of reinsurance treaties fell 12% to 58,448 at year-end 1994 and the number of treaties dropped 7% at LIRMA in 1994 to 73,561, according to the London Processing Centre, which processes all policies for ILU and LIRMA underwriters.

London market executives downplay the importance of those statistics.

The same number of clients could have placed their business in London, but premium income declined between 1992 and 1994 because a hard market in London softened, they say.

If anything, premium income may drop again in London between 1994 and 1995 because rates are softening, noted Chris Hitchings, stock analyst for UBS Securities in London. But the amount of business actually may be rising, he said.

Players in the London market admit that London has reduced its share of "internationally traded business" since 1989, primarily because it couldn't compete on rates.

But, London executives still insist that theirs is one of the world's most important reinsurance markets—for information gathering, claims and policy administration and infrastructure, as well as capacity.

"There isn't an alternative to the London market," said John Engestrom, managing director of The Mercantile & General Reinsurance Co. P.L.C.

London has a greater concentration of clients, brokers, underwriters and insurance accountants, lawyers and consultants than anywhere else in the world, he said.

That London's stature has declined recently "is wishful thinking

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on the part of other markets," said Mr. Engestrom. Even Bermuda, he said, "is just a niche market."

Still, uncertainty at Lloyd's has caused a "slowdown of new business to the market" and has caused other business to switch from Lloyd's to the London company market, admitted Victor Blake, chairman of CNA International Reinsurance Co. Ltd.

Revised Lloyd's trust fund requirements in the United States are putting significant pressure on syndicates to increase their non-U.S. writings, Mr. Blake added.

Others disagree. "Lloyd's still has a leading role on U.S. placements," said Lloyd's catastrophe underwriter Cliff Simmonds of Tower Underwriting Agents Ltd. He admitted, though, that Lloyd's may be losing market share on catastrophe reinsurance in territories like Israel or the United Kingdom.

"Considering we've come this far retaining business, we've done very well for ourselves," added Mr. Simmonds. "Lloyd's share will increase again once our problem are past. The world will be rosy then."

Lloyd's has lost market share in the soft market but will regain it when the market turns, said Lloyd's underwriter Tony Taylor.

"In 1993, we were the only game in town" when the catastrophe reinsurance market collapsed, said Mr. Taylor. "London quoted (on coverage) when no none else in the world would. So watch this space."

"Whilst Lloyd's has problems, I am encouraged by the way things are being tackled," added Mr. Forrest of Bain Hogg, referring to Lloyd's current reconstruction and renewal package. However, "I don't think they will be the power of the future that they were in the past."

But the London company market has become "more robust over the years," Mr. Forrest added, referring to the ILU and LIRMA. "Even if Lloyd's went under, there would still be a market in London."

London's loss of market share has less to do with Lloyd's reputation than the growth of domestic reinsurance markets worldwide and the move by brokers to tap those markets locally, some London executives say.

"The big change is there is so much capacity locally that (buyers) don't need to come to London," said Michael Lange, senior vp of ACE Ltd.'s London office.

London has been a big market for facultative reinsurance because many domestic companies worldwide front coverage before it is reinsured into the market, Mr. Lange explained. But there is now more local capacity to write these coverages, particularly in the United States and Europe, so not as much of that business comes into London as it used to.

But "people still view London as a major reinsurance market," added Mr. Lange, who's been in London for a year to develop international business for ACE. The office was set up in London because there is a tremendous amount of information on international business, he added.

Some North American clients still come to London because they appreciate the long-term relationships that have been developed with underwriters, said Mr. Lange. Others, who are more price-sensitive, are probably placing business domestically, he said.

Has the rise of capital in Bermuda hurt the London market? "I don't think so," Mr. Lange said. "Bermuda has complemented London in what it couldn't do," he said. "It's not us vs. them."

There are a lot of British-born executives in Bermuda now, too, who are "good guys" and "know what they're doing," said Mr. Lange. As a result, there are a lot of close relationships between Bermuda and London, he said.

Most recently, for example, Mid Ocean Reinsurance Co. Ltd. opened a branch office in London.

Bermuda is attractive to new capital now because of its advantageous tax and regulatory climate, said Dennis Mahoney, deputy chairman of Alexander Howden Group Ltd. But Bermuda doesn't have the right environment to service insurance and reinsurance packages for large, complicated risks, which are "people-intensive," said Mr. Mahoney.

In 10 years, the capital that is now in Bermuda may have moved elsewhere because the tax and regulatory environment is right somewhere else or for other considerations, like the ability to access business, said Mr. Mahoney. "These things wax and wane."

By then, London will be made up of fewer, larger brokers and underwriting units with larger chunks of capital, Mr. Mahoney predicts. "That's not a bad thing, because the more capital we have, the more professional we'll be."

Brokers and underwriters also worldwide will have to reduce their "friction costs," that is, the amount it costs to transfer risk, said Mr. Mahoney. The biggest competition to the insurance and reinsurance industry worldwide is self-insurance/reinsurance, which is growing because the cost to transfer risk is too high.

"But changing the way we do business after 300 years isn't an easy thing," he said. "It requires a tremendous joint effort to lower the cost of doing business. And part of that is electronic placing."

Mr. Mahoney believes there will always be a need for the London market, however. "Even with technology, people still choose to be in proximity with each other" to gather information, throw around ideas and gossip, he said. "People create a market in the coffee bars and bars. It's the fabric."

Stephen Riley, managing director of Swiss Reinsurance Co. Ltd., also agrees there will be "a small number—about 25—of large underwriting operations" in the London company market in 10 years. They may either be foreign-owned or U.K.-owned, he said.

There also might be a number of smaller specialty companies focusing on certain types of coverages, Mr. Riley added.

In addition, "Lloyd's will be made up of incorporated capital," Mr. Riley predicted. And there will probably be no more than 25 underwriting operations in Lloyd's, namely managing agencies that could control more than 25 syndicates, he said.

There also will be one policy processing center, which continental European companies also could tap into, said Mr. Riley.

And there will be a need for a London market because there "will always be business placed outside its home boundaries," he added. "There is no reason why London shouldn't continue to be an influential and important center."

One possible threat to what reinsurers do now, though, may come from the derivatives market, which could grow "and replace our main preserve," Mr. Riley noted.

"Our challenge is to develop complicated and diverse (coverages) for clients," he said. BI

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London losing some allure

Electronic links shorten distance to other reinsurance markets

By GAVIN SOUTER and JUDY GREENWALD

While the London market remains an important reinsurance center, most reinsurance executives agree it does not hold the pivotal position it once did.

Lloyd's of London and the London market reinsurance companies continue to offer ceding companies a unique mix of diverse personalities, specialties and expertise, but they are no longer the dominant players in reinsurance they once were, executives say.

Although London has a marketplace atmosphere that is attractive to many reinsurance buyers, new technology means it is easier to place business with numerous markets throughout the world, they say.

As a result, rather than migrate to a new, stronger hub, the business increasingly is spread throughout the world and is creating a much more global market, they add.

Reinsurers in the United States, Bermuda, continental Europe and Australia all have a different emphasis and they all contribute to the new global market.

"There is not a center anymore, there is a global market and it's all over the place," said Richard Youell, director and underwriter at Lloyd's managing agency Janson Green Ltd. in London.

While London probably maintains the single largest concentration of reinsurance expertise in one location, the diverse reinsurers throughout the United States, the property catastrophe reinsurance market in Bermuda and other reinsurers elsewhere in the world also are important, he said.

"There may be some nervousness about security in London, there may be some opportunism by the U.S. market, and the comparatively less regulated Bermuda market with its offshore location has its benefits. But London is still a very significant part of the market," contends Mr. Youell.

Steven H. Newman, chairman and CEO of Woodland Hills, Calif.-based Underwriters Reinsurance Co., stressed that reinsurance is going global, however, moving away from London and "to a very considerable extent" to the U.S. reinsurers and to Bermuda, as well as to continental European companies.

"I think the consequences are not so much that there will be another city that takes London's place. . .as it's moving toward more of a globalization of the business itself, a multimodal industry," said Mr. Newman. "There isn't any one market that is dominant in general terms, but each emerges as dominant for some of the things that it's able to do most effectively."

The importance of London has diminished, said Mark Hinkley, executive vp at TIG Reinsurance Co. in Stamford, Conn.

"I think London has just maybe become an important financial center, instead of a pre-eminent financial center for reinsurance, and that all buyers are looking to sort of diversify their market," he said.

The London market is undoubtedly continuing to lose business and the beneficiaries are often the U.S. and Bermuda reinsurers, said Robert N. Tremelling II, president of the Tretis Group Inc., a San Francisco-based reinsurance intermediary.

"The ships are full sail, and they are moving away from the Old Country and they're docking in Bermuda, and some of them are also reloading and coming to the United States," he said.

"Clearly, London is shrinking," but it remains an "extremely viable market," said Mr. Tremelling.

Property catastrophe reinsurers in Bermuda have surfaced as an attractive market following the reduction of capacity in London, observed Neill A. Currie, senior vp at Renaissance Reinsurance Ltd. in Bermuda.

But, at the same time, the nature of underwriting the business has changed to reflect the global reinsurance market, he said.

"One of the things that we have seen emerging on the catastrophe side is that there is now a consensus approach to leadership and pricing mechanisms and most prudent buyers would run their account past the four major markets in London, the U.S., Bermuda and continental Europe," Mr. Currie said.

Outside of catastrophe reinsurance, some of the other companies in Bermuda also are taking an increasing share of London's other traditional reinsurance business, such as marine and aviation reinsurance, he said.

Reinsurers in other locations also are increasing their share of the market that was once dominated by London, Mr. Currie said.

'There may be some nervousness about security in London. . . .But London is still a very significant part of the market,' contends Lloyd's underwriter Richard Youell.

"There are some financial behemoths appearing in the U.S., there's a lot of expertise in Europe and we mustn't forget the boys in Australia, as well," he said.

All of the major markets now contribute to property catastrophe capacity, agreed Lawrence S. Doyle, president and chief executive officer of Global Capital Reinsurance Ltd. in Bermuda.

"It's become a very global business, and London, the U.S. and Bermuda are having a significant say in establishing terms and conditions," he said.

The markets have different ap-

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petites for types of reinsurance, according to Mr. Doyle.

Bermuda now offers the most property catastrophe capacity, the U.S. market is the main casualty reinsurance market, and London continues to be the main marine and specialty lines reinsurance market, he said.

"All of the markets have experts working there, so you benefit from worldwide expertise," Mr. Doyle said.

The diversification of the reinsurance market is encouraged by buyers who wish to spread their risks around, said Max Taylor, chief operating officer of Willis Corroon P.L.C. in London.

"They want to take advantage of quality security when the opportunity presents itself," he said.

But London's reinsurance market still has history on its side, Mr. Taylor said.

Buyers seek continuity and, as a long-established market, London can offer evidence of continuity as well as a long track record of expertise, he said.

While the U.S. reinsurance market has grown, the London market and other reinsurers still have long-term relationships with reinsurance buyers that U.S. reinsurers may find hard to break, said Tom Walsh, associate director with Standard & Poor's Corp. in New York.

"I would say the U.S. companies have certainly gained stature" because of the wealth of capital they have—and cedants are very focused on capital, he said.

However, that will not necessarily facilitate the U.S. market—other than the top-tier companies—being able to attract a global spread of ceding companies, said Mr. Walsh. The European reinsurers are very well entrenched in their markets and their relationships are very strong, he added.

"I wouldn't say that the U.S. and Bermuda in the short term are going to dominate the larger global market," said Mr. Walsh.

The vibrancy of the London market also continues to attract reinsurance buyers, said Hady Wakefield, president of Guy Carpenter & Co. Inc., who works in both London and New York.

"The particular property that London has is that it's a marketplace. We have many reinsurance buyers coming here, and 50% of the reason they come is to hold discussions with the leaders. The other 50% of the reason they come is to visit the marketplace and get a real feel for what is happening," he said.

But other markets have their own attractions to woo reinsurance buyers, noted William R. Coleman, president and chief operating officer of Alexander Reinsurance Intermediaries Inc. in New York.

The trend away from the London market "has been going on in working reinsurance for quite some time, and in property catastrophe I think the Bermuda market is a very interesting alternative in terms of its high-tech capabilities, in particular in catastrophe modeling," he said.

Other observers note that the U.S. reinsurance market is not constrained by financial troubles, as is Lloyd's.

Kaj Ahlmann, chairman, president and CEO of Employers Reinsurance Corp. in Overland Park, Kan., said if he were a U.S.-based ceding company, he would prefer to have a U.S. reinsurer. People are concerned about Lloyd's problems and, as a result, a lot of business is staying in the U.S. market, he said.

Behind much of the shift to other markets, though, is a larger trend: the use of advanced technology.

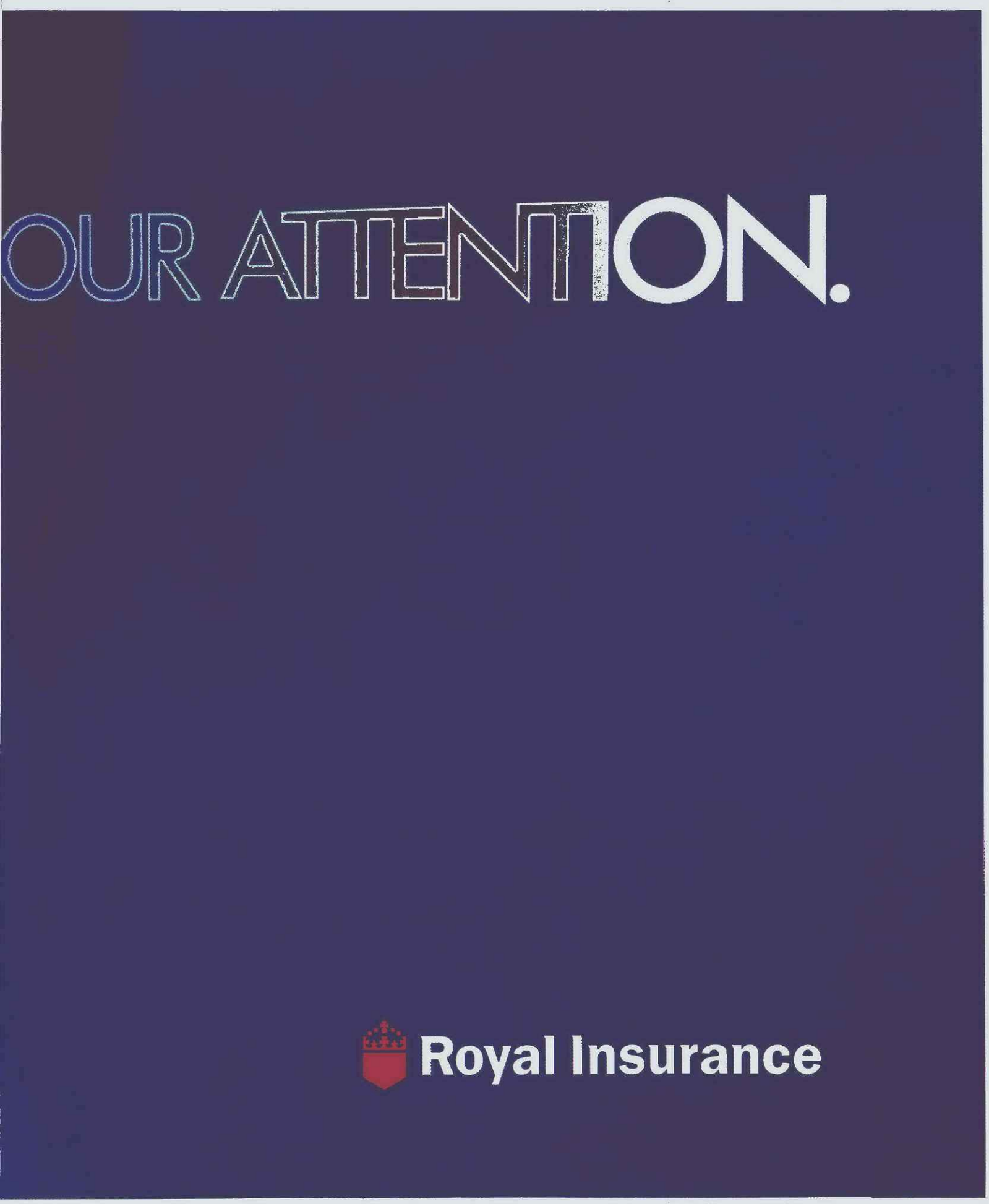
With today's communication technology, there is no longer any need for a center where people have to walk around and show their risk to underwriters, said Mr. Ahlmann.

The business now can be placed electronically. "It can be New York, Kansas City, Paris or London. It doesn't matter," he said.

However, because reinsurance is a relatively conservative business, it has been slow to react to this trend, said Mr. Ahlmann.

William L. Munson, president and chief operating officer of the Morristown, N.J.-based Mercantile & General Reinsurance Co. of America, also stressed the role of technology in the global reinsurance market.

"Capital is very mobile through technology," he said. The reality is that it is fairly easy to provide capital anywhere that capital is welcomed. Bermuda simply became a convenient recipient, Mr. Munson said. BI



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Life/health risks luring reinsurers

Growth of managed care drawing players to stop-loss market

By MICHAEL SCHACHNER

Fueled by the proliferation of managed care, the group health reinsurance market is very active, though some observers predict that the potential for continued growth is limited.

In particular, the market is saturated with stop-loss underwriting capacity.

An increasing number of participants in the managed care industry—health maintenance organizations, physicians and hospitals—are now involved in contracts that place them at risk for higher-than-expected costs, thus the need for stop-loss reinsurance has never been greater, according to group health reinsurers.

Group life and health reinsurers are concentrating most of their efforts on covering HMOs and the physicians and hospitals being reimbursed under capitated payment programs.

But competition among stop-loss reinsurers for this business is so hot that there may not be enough pie for everyone wishing a slice.

One reinsurer estimated there are currently more than 20 major stop-loss players, and at the pace managed care is growing, that number could reach 60 by the end of next year. Another executive said there are probably more than 30 aggressive stop-loss reinsurers active in the market.

Group life reinsurance, meanwhile, remains a stable line without much new activity. Reinsurers say group life reinsurance is reinsurance in its truest form. Most of what primary group life insurers are asking for is coverage beyond retention levels with which they feel comfortable.

There is also some demand for reinsurance for accidental death or travel accident programs, because those lines of insurance tend to be low-premium, low-loss lines for the most part but can at times produce clusters of claims.

Beyond that, group life reinsurers say this $250 million market is flat. New activity, they say, is restricted to coverage of employers that offer employees the opportunity to purchase supplemental life insurance or to add an accelerated death benefit provision to existing programs. When this occurs, primary insurers that provide supplemental layers of life insurance have a greater potential for larger-scale payouts and, thus, the need for reinsurance protection grows, reinsurers said.

But, for the most part, life and health reinsurers are focusing on medical-related coverage.

"Managed care is what's driving everything," said Bill Salvanic, chief financial officer with CIGNA Reinsurance Life, Accident & Health in Bloomfield, Conn. "HMOs are really the health insurers of the 1990s. They're taking on the risk that traditional health insurers used to take."

Reinsuring HMOs has been the bread and butter of group health reinsurers for the past 20 years. But, today's market is growing to include physician groups and hospitals that are now at risk for costs that exceed what they are paid by HMOs under capitated payment agreements.

"With providers, the big issue is that they understand the risk they're taking. They haven't had this exposure before in most cases, even if they had capitation," Mr. Salvanic said. "They need help knowing what is a legitimate capitation rate and what an appropriate risk level is. That's where we come in."

CIGNA Re, in an annual study, estimated that the medical reinsurance market is now generating between $1 billion and $1.3 billion in gross premiums annually, with annual premium growth coming in the 10% range.

"There's clearly a movement under way where the financial risk of medical care costs is being shifted to the medical provider industry. Discounted fee schedules, diagnostic-related groups, per diems and capitation are all common ways of doing that and the providers are, in essence, getting into the insurance business," said Dave Koegel, senior vp with reinsurance intermediary Gill & Roeser in New York.

And, with that, they need protection for unexpected loss. Mr. Koegel said physicians are often buying stop-loss protection excess of $25,000 per patient but sometimes excess of as little as $5,000 per patient, while hospitals generally are looking for protection excess of $100,000 per patient.

Meanwhile, with HMOs, he said only the smaller ones are buying reinsurance. "The bigger your enrolled population, the less need there is for stop-loss. It's generally the smaller HMO firms buying this, as well as providers."

Mr. Koegel said traditional health care insurers no longer generate much reinsurance business.

"Traditional health insurers are trying to get out of the indemnity business, so they're selectively writing coverage or simply pricing themselves so high that they're either well protected or they push themselves out," he said.

The major problem for stop-loss reinsurers is that the market has become ultracompetitive, and pricing is cutthroat, said several leading medical reinsurers.

"We've seen a tremendous number of RFPs (requests for proposal) recently. I'd say it's an avalanche. But at the same time there has been a flood of reinsurers entering the area. We're seeing predatory pricing because there's too much capital chasing the market. I think we need to step back, and while we can still be aggressive, we have to be rational," said Jon Bjorlie, managing director of managed care reinsurance with Northwestern National Life Insurance Co. in Minneapolis.

Mr. Bjorlie said the stop-loss reinsurance market is getting help from consultants who are urging their provider clients not to accept stop-loss protection from HMOs without first checking out the open market.

"The role of the consultant is really new. They're telling providers not to settle for the HMO's stop-

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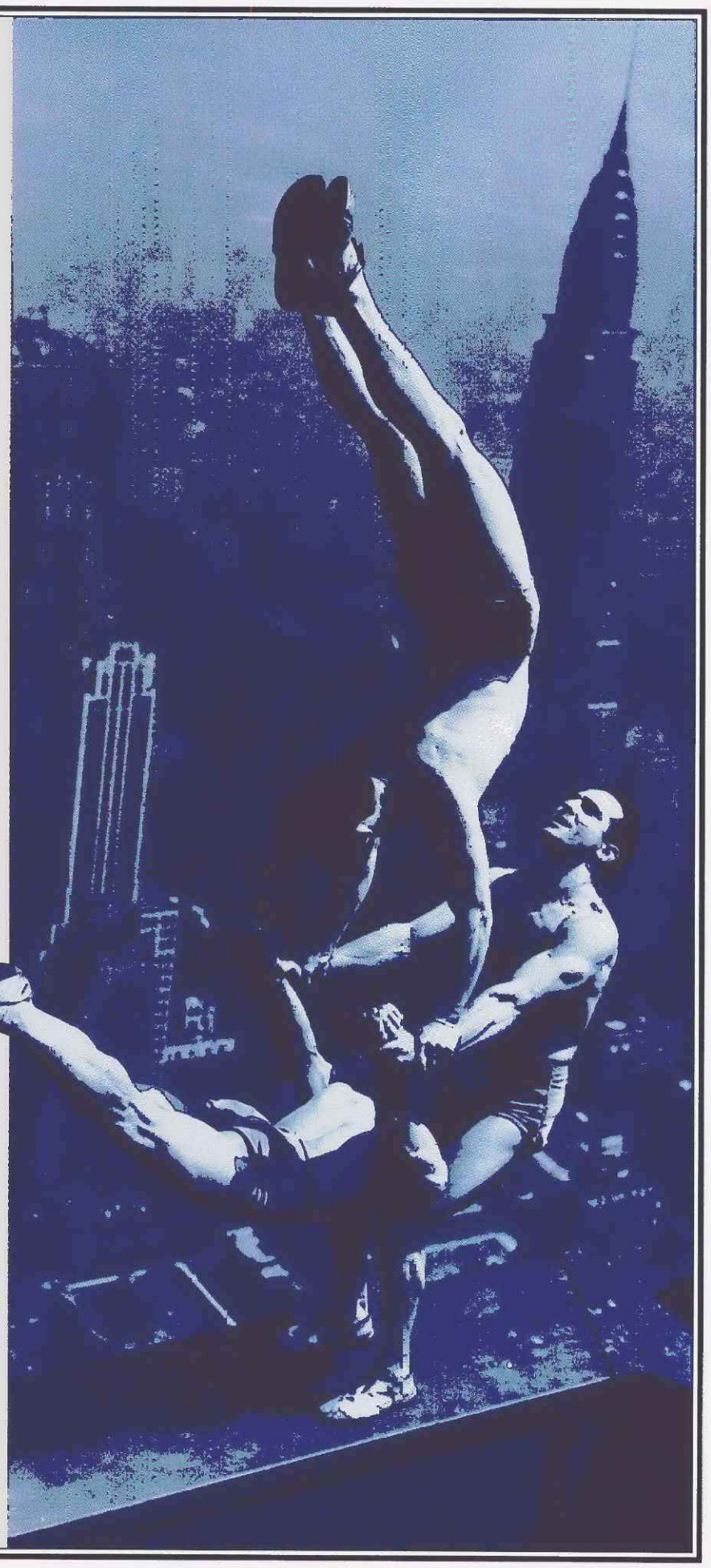

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loss offer before they call on the market. That's why we've gone from a few companies writing this to 20-something, to possibly as many as 60 by the end of 1996," he said.

Robin Ekwall, second vp-group reinsurance with Phoenix Home Life Mutual Insurance Co. in Hartford, Conn., said that reinsurers eager for stop-loss business are the victims of their own hype. "Everybody is saying that provider excess is huge, but providers don't like taking risk, and there is just too much capital competing for this business. Pricing is cutthroat. Even casualty companies are trying to get in," said Mr. Ekwall.

'Pricing is cutthroat,' says Robin Ekwall of Phoenix Home Life Mutual. 'Even casualty companies are trying to get in (to the stop-loss business).'

On the group life side, primary insurers are mostly looking for reinsurance protection against catastrophic and high-cost claims, but the market is very stable and is not growing significantly, reinsurers agree.

For example, Aetna Life Insurance Co. purchases reinsurance protection only for its "large-dollar exposures," said Michael Welsh, chief financial officer with the Hartford, Conn.-based insurer. When group life programs include several highly compensated executives whose death benefits can be as high as $5 million each, the need for reinsurance protection comes into play, he said.

"We buy reinsurance coverage for catastrophic cases. If you have one incident like a plane crash that takes the lives of several people, we'd like a cushion to protect earnings. It's a little like earthquake coverage," said Mr. Welsh.

Aetna is indicative of most companies' attitudes toward purchasing group life reinsurance.

"Companies want their retention, plain and simple," said Mr. Ekwall of Phoenix Home Life. "The need for group life reinsurance isn't that great, nor are the opportunities for the reinsurers. This line was a lot more profitable seven years ago when there were more smaller life writers. But with so much consolidation and capacity concentrated with the large insurers, group life reinsurance isn't that big. There's more reinsurance supply than demand."

One area where group life reinsurers say there is some growth opportunity is with group programs that include an option that allows employees to purchase supplemental coverage.

Under voluntary supplemental plans, employees can buy life insurance policies with death benefits as great as five times salary, and primary life insurers need some mechanism to protect themselves from paying benefits of that size all in one chunk, according to reinsurers.

"With voluntary life programs, a company is responsible for two, three, sometimes four times salary, so you're getting into high numbers. It's all a matter of capacity and what the underwriter is comfortable holding on to," said Gerald A. Levy, a senior vp with Swiss Re Life Co. America in New York, one of the largest group life reinsurers, with $45 million in annual premiums.

Tom Connors, president of Innovative Re Group in Philadelphia, a managing general agent for Northwestern National Life insurance Co., agreed that capacity dictates the need for reinsurance on group life and accident programs.

"When a company is holding onto $150,000 or $200,000 per life, that's a lot. Most prefer to only be responsible for about $50,000 per life," Mr. Connors said.

But Mr. Ekwall said growth in the voluntary supplemental group life market is "more talk than reality. I understand everyone is looking for an opportunity, but it's a hard sell."

Another area where life reinsurers are trying to capitalize is in accidental death and travel insurance programs.

Mr. Levy said rates are so low for most accidental death and dismemberment and travel accident programs that insurers are making up for that by retaining more of their standard group life programs. As a result, they need reinsurance protection to offset the potentially damaging exposure of an AD&D claim or multiple claims.

Mr. Connors agreed: "Companies writing a lot of AD&D or travel accident insurance almost have to buy reinsurance. Their exposure is very high in relation to premium intake, which is based on low frequency of claims." BI

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Insurer focused on high-tech heists

Risk managers urged to boost security to stem rise in thefts of computer chips

By ROBERTO CENICEROS

LOS ANGELES—Insurers covering high-tech electronic companies have taken some large "hits" from runaway growth in violent armed robberies, burglaries, truck hijackings and employee thefts aimed at plundering costly computer memory chips.

Policyholders are sure to feel the pinch as the number of claims and their values continue escalating, warned William E. Barr, a technical services division manager for Chubb Corp. in San Jose, Calif.

"You may be seeing higher deductibles," Mr. Barr told Los Angeles members of the American Electronics Assn. at a recent meeting. "You may be asked to restructure your insurance programs. You may be asked to harden your sites" to make them more difficult to burglarize. "All of these are options," he said.

Mr. Barr is among the Chubb representatives, law enforcement officials and leaders of the electronics association who have teamed up to teach loss prevention seminars to employers. The nationwide effort comes amid the surging theft of microprocessor chips that is costing the electronics industry and insurers billions of dollars (*BI*, June 12).

With worldwide demand for semiconductor chips outstripping current manufacturing capacity—and the existence of a "gray market" where buyers ask few questions—the thefts are expected to continue.

"The upward price pressure (or demand) is going to put upward pressure on the thieves and they are going to be taking more and more as the prices go up," Mr. Barr predicted. "Make no mistake about it: We the insurers, the manufacturers, and the users are under assault."

But there are steps risk managers can take to minimize their company's exposure. That, however, often requires staying ahead of the thieves, who tend to be well organized. For example, as high-tech firms have made their manufacturing or assembly sites harder to burglarize or rob, the thieves have increased the hijacking of truck chip deliveries.

Shipments should be treated just as if they were bundles of money, Mr. Barr said. Armored trucks or police escorts should be used and shipment sizes can be minimized.

Because of the escalation of thefts in the Silicon Valley, some delivery companies now will arrange decoys to confuse thieves, who often study their intended targets' schedules before a heist, Mr. Barr said.

Yet precautions often are absent.

"It is amazing to me that companies will send $10-, $15-, $20 million worth of memory in a panel truck from the airport to the facility because 'it's only a couple of miles,' " Mr. Barr said.

Concentrations of valuable electronic components should be minimized with just-in-time delivery. Some armored car companies will help parcel out deliveries of valuables for companies that need to buy in large quantities, Mr. Barr said. Off-site storage facilities should use security measures similar to those used by banks.

Companies that have yet to take steps to improve their facilities should adopt a military mentality. Bushes where thieves can hide should be cleared. Metal screens should be placed over shipping doors for those hot summers when employees prop open the doors for ventilation. Valuables should be stored away from windows to eliminate smash-and-grab robberies.

To discourage burglaries, comprehensive alarm systems should include motion detectors.

But all those precautions can be blown by just one unaware employee who steps outside for a smoke, as has happened in the past.

"All it takes is an armed robber to come up and put a gun to an employee's head," Mr. Barr said. "Take a look at your smoking issues. You may just be setting yourself up by allowing people to smoke outside the facilities."

Companies that control access to their buildings often overlook other opportunities for thieves, such as unsupervised contract custodians.

High-tech thieves will send in scouts ahead of time to learn floor plans and storage areas or to help demobilize alarm systems before a robbery or burglary. Their spies can be job applicants, employees and even temporary workers.

Some firms have learned to complete exhaustive background checks before hiring workers. But they drop their guard when contracting for temporary workers or consultants.

"If you are relying on your subcontractors to do thorough background checks for temps, then I have a bridge I would like to sell you," Mr. Barr said. "Make sure that you spend the money on (screening) the temps also. Contract workers and outside workers also. You have to check them out."

To thwart employee thefts, companies should have systems for tracking inventory from "cradle to grave," Mr. Barr suggests. Surprise inventory checks also are a good idea.

All high-tech companies are at risk and probably already are being victimized, law enforcement officers say. Theft rings often recruit employees to pocket parts daily—if not at the employees' facilities, then possibly at their subcontractors' locations.

And when contractors suffer losses, they file claims. Their increased insurance costs eventually will be passed on to the manufacturer, Mr. Barr said.

Increased insurance premiums are not the only cost that gets passed on that way.

There are plenty of indirect costs, including wrongful termination lawsuits by employees found to be stealing, workers compensation costs stemming from injured employees and lost productivity from workers who have been traumatized in robberies.

Security and precautions often cost money and require the commitment of upper management. That can take a convincing argument, such as pointing out the hidden costs of the thefts.

"For every dollar you're getting back for your insurance premium, you're losing at least $4 out the back door, right off the bottom line," Mr. Barr said. "It's pure profit. So when you are looking for those dollars to convince your senior management to give you more money, make sure you include examples of those loss costs, those indirect costs that are not reimbursed. It's a very effective tool for squeezing out more money."

Once a loss becomes evident, Mr. Barr and other experts from the insurance and law enforcement industries, recommend quickly notifying police and insurers.

"Many times it takes weeks for companies to tell police what they have lost," Mr. Barr said.

Any damage from burglaries should be documented before repairs are made to help the adjuster. Several departments often are affected, but one knowledgeable company representative should be assigned to help make the adjuster's task smoother.

A thorough, detailed inventory should be taken. Any upgrade costs should be segregated from the cost of items lost to thieves because most policies will only replace what is stolen and not upgrades.

"Finally, once you have done all of these things and you have caught the perpetrator, make sure you pursue them. Apprehension and prosecution. Many companies don't want to go through the hassle of following through. But if you don't, then that employee will walk and they will be hired by a competitor. They can also be hired by you again," Mr. Barr said. BI

Diving into marine liability

Line's coverages can be tough to navigate, expert says

By MICHAEL SCHACHNER

BOSTON—Marine-related liability insurance is one of the most misunderstood areas of insurance, even to those in the marine business because it is both specific and open to interpretation, according to a marine insurance broker.

Although marine liability is legal liability just like land-based liability, because there is uncertainty

about what insurance is appropriate for each individual maritime risk, it is far from a cut-and-dried field he says.

"There is not always a right and wrong answer. With marine liability coverage, there are probably a dozen or more applicable coverages, some of them intertwined," said Steve Macquarrie, an executive vp with International Special Risks Inc. in Boston.

Speaking earlier this month at the Society of Risk Management Consultants' annual fall conference in Boston, Mr. Macquarrie outlined several important marine liability coverages. He started with the most frequently written liability coverage in the marine industry, protection and indemnity coverage, which many ship and boat owners carry along with hull coverage.

"P&I goes hand-in-hand with hull protection and it's usually written by the same carrier. Generally it's layered coverage written on a quota-share basis. Claims are often fought individually by P&I slip members, but usually the companies fall in line and pay their share" once the lead insurer pays its portion of a claim, he said.

One commonly written form of P&I coverage on the market today is the American Institute of Marine Underwriters' "boilerplate" form, which protects against bodily injury aboard a vessel as well as any liability that occurs in conjunction with the vessel.

"Unlike general liability, which excludes bodily injury to employees, P&I covers all bodily injury, and P&I protection is readily available, albeit for a stiff price," Mr Macquarrie said. "Any vessel owner can buy this, and you don't have to own a huge tanker. Monoline P&I is also available, but it comes easier with hull protection."

For the operators of coastal brown water vessels, the domestic P&I market is the leader, he said.

"But for large blue water tonnage, options include the domestic U.K. or Norwegian P&I clubs,' where policyholders assume risk much like a group captive or mutual, Mr. Macquarrie said, adding that P&I clubs are "not for your average whale-watching boat."

"Before getting hooked in with a club, make sure it's right" for the buyer's needs, he warned.

"Look at membership and management closely and realize they charge large exit fees and sometimes can come back for additional (premium) calls. Clubs entail unlimited liability, except for limits on pollution," he said.

Another important coverage responds to Jones Act liability. The Jones Act, a section of the U.S. Merchant Marine Act of 1920, is similar to maritime workers compensation in that it can be invoked when a paid seaman is injured aboard a commercial vessel. The Jones Act allows for paid crewmen to bypass state workers compensation systems and file claims directly against the vessel owner.

"It's complicated, but if your client is engaged in any commercial effort, regardless of how small, you cannot overlook that person's Jones Act exposure," Mr. Macquarrie said, adding that like P&I coverage, Jones Act protection is "very expensive" in today's marine liability market.

Monoline Jones Act coverage is probably more appropriate for smaller commercial vessel owners that don't have an exposure beyond crew members.

Mr. Macquarrie said appropriate limits on these coverages "depends on the cost of coverage and exposure. It's like umbrella. You can't ever have enough of it, but it depends on what you can afford."

Mr. Macquarrie also discussed the strength of the U.S. marine insurance market.

"The U.S. market is stronger than ever It has more capacity than ever before. More and more large marine liability placements are going to the U.S. markets or are being shared with London," he said.

When insuring corporate yachts, Mr. Macquarrie urged the consultants to recommend that their clients procure coverage that responds to injuries to paid crew. "Many corporate yachts have budgets of $150,000 to go on top of the fact that they're worth $10 million. Otherwise you re looking at Jones Act liability because as soon as you have a paid crew, whether the boat is privately owned or not, that's Jones Act exposure."

Comprehensive general liability insurance also is sold in the marine insurance market, but Mr. Macquarrie said CGL should only be bought from marine underwriters when the policyholder has 80% of its business in the marine industry.

"There was a time when the CEO having a glass of water on his desk was enough to go into the marine market, but today, you should really have 80% of your business being marine-driven," he said.

Other "have to have" specific coverages in the marine liability field include: ship repairers legal liability protection; charter coverage; wharfingers legal liability which is good for municipalities that own docks; terminal operators legal liability, which covers damaged cargo and damaged ships; marina operators legal liability; pollution coverage and excess coverage.

"You're better off self-insuring your trip-and-fall exposure than marina operators liability, and on the excess, you should go with marine umbrella or a following-form policy if you're talking about a holding company with predominantly non-marine properties," he said. BI

60 attend SRMC meeting

BOSTON—About 60 members of the Society of Risk Management Consultants met earlier this month for the group's annual fall conference.

Session topics included marine insurance, excess liability protection, how to choose a third-party claims administrator, finite risk insurance products and National Assn. of Insurance Commissioners' initiatives.

The SRMC is an independent international organization of risk management consultants. Members provide advice on insurance, risk and related matters. The group seeks to provide members with a forum for the exchange of technical and educational information pertinent to risk management.

Its 1996 spring and fall conferences are scheduled for March 28-30 in Birmingham, Ala., and Oct. 2-5 in Victoria, British Columbia.

For more information, write the Society of Risk Management Consultants at 300 Park Ave., New York, N.Y. 10022.

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A top-shelf insurance resource

Boston library helpful for research on insurance industry

By MICHAEL SCHACHNER

BOSTON—Although not well known, the Insurance Library Assn. of Boston is one of the insurance industry's richest information resources.

While New York's College of Insurance has a much higher profile in the industry, increased membership and word of mouth are helping the Insurance Library Assn. become a leading source for educational materials, underwriting aids, key insurance law materials and many other insurance-related items.

Currently, the bulk of the 108-year-old library's membership is based in Massachusetts. But the Library will respond to requests for information via fax, express mail or phone, so members and information seekers nationwide are growing, said Director Jeanne Lucey at a recent Society of Risk Management Consultants meeting.

Insurance agents and brokers account for 36% of the members, and another 19% are lawyers. Insurance companies and consulting firms make up most of the remainder.

The library attempts to maintain a varied collection of old and new insurance information. One element of that collection is a series of maps from the Sanborn Map Co. that cover most of New England. Only the Library of Congress has a larger collection of these color-coded territorial maps, and it is on microfiche. Sanborn maps that show fire protection levels, building codes and square footage on every building in a specific area can be helpful underwriting and informational tools for insurance companies and insurance archaeologists, Ms. Lucey said.

The library also carries many volumes of insurance-related reference and educational books, case studies, all past volumes of A.M. Best Co.'s Reviews, court cases, proceedings from hundreds of meetings of the National Assn. of Insurance Commissioners and other organizations and much more, she said.

"There's really only us and the College of Insurance," Ms. Lucey said. "You don't have to physically come to our library to get information. We'll mail, fax, lend out via Federal Express or even provide over the phone what we can. Turnaround time is usually about five days. We also have a very large reference center, most of which consists of new books."

One specialty area is information on specific insurers. Old and current press releases, public relations materials, brochures, annual reports and old ads are all filed away.

Among the materials that have been requested recently are: Best's reports from 1962; the code of ethics for chartered life underwriters; information on additional insureds; a list of reinsurers based in Bermuda; various insurance-related court opinions; insurer policy forms of all types; a list of all insurance commissioners over the past 30 years in three specific states; and copies of liquor liability endorsements.

"Mostly we keep standard forms on file, but our collection of company forms is growing," she said.

Membership to the library, which currently has two-full time staffers including Ms. Lucey, is $170 to $550 per year for groups, varying by size, and $80 per year for an individual.

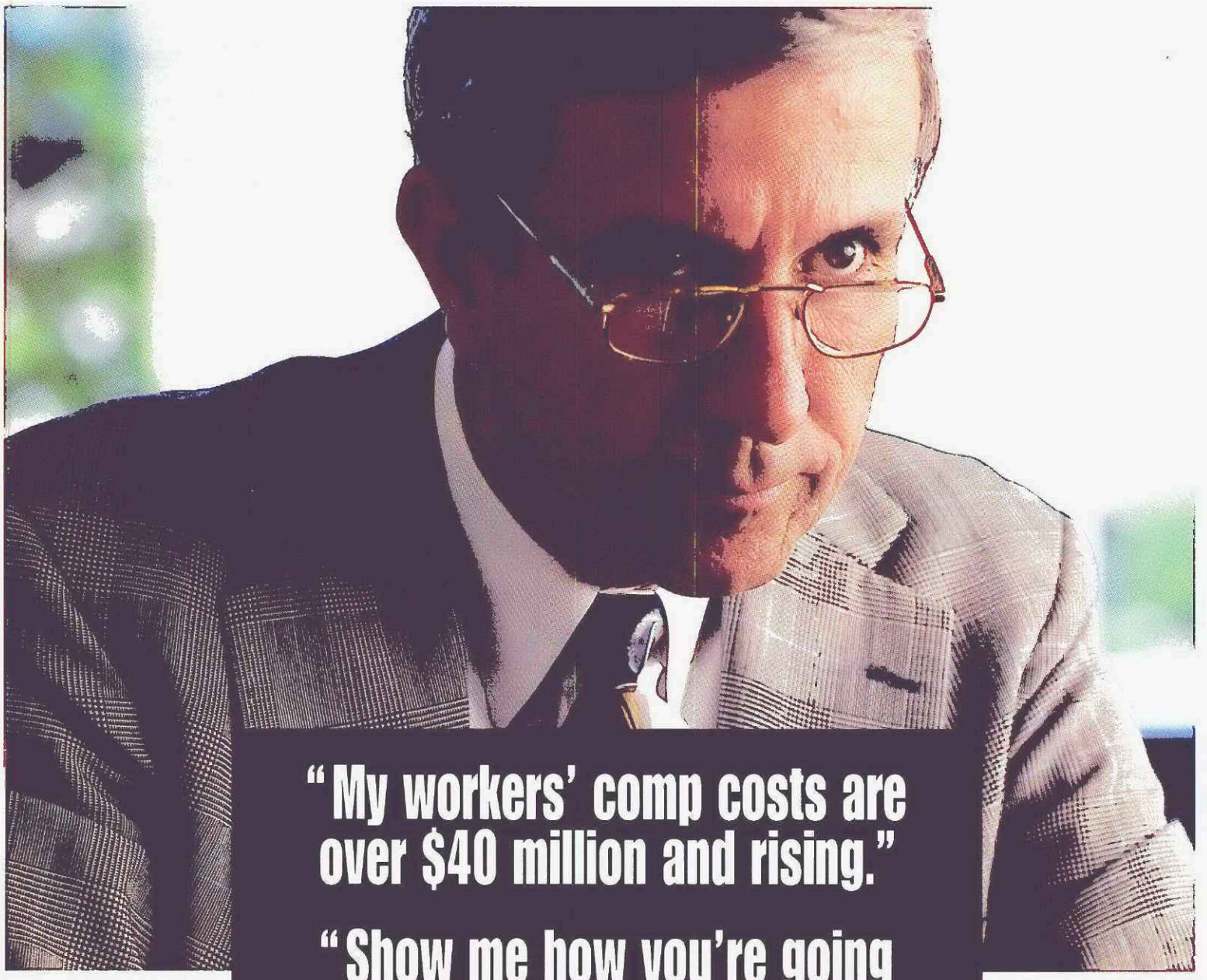
Searches cost $55 per hour for members and $85 per hour for nonmembers. "We always try to estimate our time of research and we will call you as soon as possible to let you know if something cannot be obtained," she said.

The Library also offers an education series. To date, about 1,500 people have taken a total of 119 courses.

"This is really an excellent resource facility," said Mike Rodman, an executive vp with J.H. Albert International Insurance Advisers Inc. in Needham, Mass.

Mr. Rodman said he most recently used the library to gather press reports on two insurer insolvencies prior to, during and after the insurer failures. "We were trying to ascertain whether an agent was at fault for not knowing about what these companies were doing before the insolvencies. They do a tremendous job and haven't failed very often to come up with something helpful."

For more information, contact Jeanne Lucey at the Insurance Library Assn. of Boston, 156 State St., Boston, Mass. 02109; 617-227-2087; fax: 617-723-8524.



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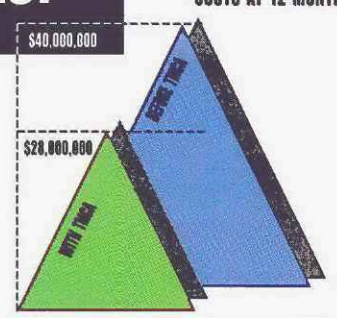

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Listing omitted

The following listing was inadvertently omitted from the Oct. 9 directory of safety consultants.

Crawford & Co.

5620 Glenridge Drive N.E., Atlanta, Ga. 30342; 404-256-0830; fax: 404-847-4127

Staff	
Total	57
Safety consultants	42
Occupational health consultants	1
Industrial hygiene consultants	14
ASSE members	43
Clients	
Total	270
Corporate/institutional clients	230
1994 revenues	
Safety consulting	$6,800,000

Founded: 1941.

Services: Safety audits/reviews or inspections; safety, ergonomic, industrial hygiene and occupational health program assistance; onsite and offsite training classes or seminars; safety business planning; product liability consultation; technical claims analysis; fleet consulting services.

Other services: Publication of safety materials or videos; training materials; rehabilitation; OSHA compliance; research in industrial hygiene, occupational health, ergonomics, product liability and noise and vibration; fire protection engineering; industrial hygiene laboratory*; fire protection systems design; boiler and machinery consulting.

Specialties: Manufacturing and distribution, food processing, health care, construction, marine, mining, restaurant chains.

Offices: Los Angeles and Oakland, Calif.; Hartford, Conn.; Orlando, Fla.; Chicago; Detroit; St. Paul, Minn.; St. Louis; Clifton, N.J.; Winston-Salem, N.C.; Youngstown, Ohio; Philadelphia; Dallas; Houston; Fairfax, Va.; Seattle.

Service area: Nationwide.

Officers: F.L. Minix, CEO; D.A. Smith, president/COO; J.B. Bryant, president-risk management services; J.G. Sybert, vp-risk control services.

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'KSOP's another incentive for savings

Programs allow employees to roll ESOP dividends into 401(k) plans

By CHRISTINE WILLIAMSON
Crain News Service

Some companies are considering allowing participants in employee stock ownership plans to reinvest the dividends in their 401(k) plans.

These "401(k) switchbacks" are being pitched by benefit consultanting and accounting firms as a kicker to established ESOP dividend pass-through programs. They encourage employees to keep the assets in the retirement system and defer taxes on the income.

So far, the Internal Revenue Service has issued at least six positive private letter rulings this year on the subject.

Section 404(c) of the U.S. Tax Code for years has allowed companies to deduct from their income taxes cash dividends on ESOP shares either paid directly to plan participants, or paid to the ESOP and distributed within 90 days to employees.

That way, the participant has the tax liability.

Now, however, some companies are converting the company stock portion of their 401(k) plans into unleveraged ESOPs, often known as KSOPs.

Under the switchback model, employees are allowed to choose whether they want to reinvest the dividends paid on the company stock back into the KSOP on a tax-deferred basis, or take a taxable cash payment.

If the employee elects to reinvest the dividends, the employee's contribution to the 401(k) generally is reduced by the amount of the dividend.

The advantage of the switchback is dividends are kept in the retirement system, rather than distributed to employees in cash payments, as in traditional ESOP dividend pass-throughs, said Linda P. Holleman, senior vp at Godwins Booke & Dickenson in Winston-Salem, N.C.

Bill Wilson, a partner in the Washington office of Deloitte & Touche, said that companies plan to use the 401(k) switchback to motivate employees and help them to save more for their retirement.

For example, an employee can often afford to increase the amount of salary deferred into the 401(k) by the amount of the dividends paid, enhancing the effects of long-term compounding.

Other companies are sharing the tax savings they gain by increasing employer contributions.

The switchback also can enhance diversification, assuming the employee may direct the investment of the dividends, even if the original company contribution was in company stock.

"I think the ability for employees to diversify out of company stock with a 401(k) switchback can really be persuasive for many human resources professionals who worry that company stock contributions may be too high for many of their employees' retirement accounts," said Duncan Harwood, a principal with Buck Consultants Inc. in Kansas City, Mo., and head of its national ESOP consulting practice.

Companies that would benefit most from the tax savings of a dividend pass-through would:

- Have a large amount of company stock in the defined contribution plan.
- Pay high dividends.
- Expect taxable income to exceed the expected dividend payment to the qualified plan.
- Have or be willing to implement an ESOP or KSOP plan.

The concept is not new, according to Michael Keeling, president of the ESOP Assn. in Washington.

"The ability to do this kind of thing...has been available since 1984," he said.

"Whenever you have a new, little wrinkle like this that someone figures out, it sounds sexy, but it's not something that's going to turn the world upside down."

But Corey Rosen, executive director of the National Center for Employee Ownership in Oakland, Calif., said: "I think the number of plans taking advantage of the dividend pass-through and the switchback will grow in the future."

Frank Roquet, a consultant and attorney at Hewitt Associates L.L.C. in Lincolnshire, Ill., agreed that the number of plans taking advantage of switchbacks could grow.

But he noted the plan design "is not for everybody."

"The company philosophy needs to center on the fact that company stock is important and that the company match should be made in stock. But I think many companies may be attracted by the ability to maximize their possible deductions."

The advantage of the switchback is dividends are kept in the retirement system, rather than distributed to employees in cash payments, says Linda P. Holleman.

Mr. Roquet said many corporate executives are hesitant to implement the switchback. "They're waiting to see how the early pioneers get on with the program before they follow. I think there's something of a 'this is too good to be true' mentality at work out there now."

Mr. Roquet has worked with two large companies this year to set up ESOP pass-through programs with 401(k) switchbacks but said he could not identify those companies.

Buck's Mr. Harwood has worked with about a dozen corporations to develop similar programs.

Mr. Harwood said his firm is getting inquiries all the time about the switchback concept, partly because corporations are being pushed by their accounting firms and partly because plan sponsors are talking about the idea among themselves.

"I think a lot of companies began to wonder why they weren't taking advantage of lower taxes. And for those that were paying cash dividends to employees, they began to worry about the leakage of dividends from the retirement system and the subsequent loss of compounding over the years of those dividend assets," said Mr. Harwood.

The switchback concept is still at "its very front edge," according to Deloitte & Touche's Mr. Wilson.

"The story really remains to be written. It depends on how employees react to the idea. Communicating the switchback may be complicated. If employees are lukewarm about it, they may not redirect what dividends they can back to the 401(k) plan, negating the principle.

"And if they aren't investing in the plan and getting company stock contributions, the tax savings to the company may not be significant enough and the company may modify or eliminate the plan altogether," Mr. Wilson observed. BI

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Datebook

OCTOBER

OCT. 29-NOV. 1. Fifth Annual World Captive Forum in Tarpon Springs, Fla. sponsored by *Business Insurance* Skandia International Risk Management/Sinser and Towers Perrin; $975 for full registration; $150 for Basics of Captives session only; $2,000 for exhibitors. Eileen Callahan Wroe, Conference Director, World Captive Forum, Towers Perrin, 100 Summit Lake Drive, Valhalla, N.Y. 10595; 914-745-4611.

OCT. 30-NOV. 1. Environmental Regulation Course in Dearborn, Mich., sponsored by Executive Enterprises; $1,195. Executive Enterprises, 22 W. 21st St., New York, N.Y. 10010-6990; 800-831-8333.

OCT. 31. Reinsurance Accounting and Auditing seminar in New York, sponsored by the College of Insurance; $325, with a 10% discount for College of Insurance employees and sponsors. The College of Insurance Center for Professional Education, 101 Murray St., Room 426, New York, N.Y. 10007; 212-815-9201.

NOVEMBER

NOV. 1. Personal Umbrella Coverage seminar/workshop in New York, sponsored by the College of Insurance; $95 The College of Insurance Center for Professional Education, 101 Murray St., Room 426 New York, N.Y. 10007; 212-815-9201

NOV. 1-2. Advanced Business Interruption course in Sevenoaks, England, sponsored by the Chartered Insurance Institute College of Insurance; £540 ($858). The Course Advisor, The CII College of Insurance, Churchill Court, 90 Knppington Road, Sevenoaks, Kent TN13 2LL, England; 01732-450888.

NOV. 1-4. Climate Prediction and Insurance Risk Conference in Bermuda, sponsored by Centre Cat and the Atlantic Global Change Institute; $600. Suzie McKeegan, Project Co-ordinator, Climate Prediction & Insurance Risk Conference, The Whitfield Building, 61 Front St. Penthouse, P.C. Box 2550 Hamilton HM KX, Bermuda; 809-292-6386.

NOV. 2. Pension & Retirement Savings Plan Fundamental Program in New York, sponsored by New York Metropolitan Area Chapter of ISCEBS; $175.00. Judith Besse, P.C. Box 307, Grand Central Station, New York, N.Y. 10017; 212-466-4100.

NOV. 2-3. Asbestos Personal Injury Litigation seminar in Scottsdale, Ariz., sponsored by the Defense Research Institute Inc.; $495 for members, $545 for non-members. DRI, 750 N. Lake Shore Drive, Suite 500, Chicago, Ill. 60611; 312-944-0575.

NOV. 5-8. The Risk Management Forum in Monte Carlo, Monaco, co-sponsored by the European Assn. of Risk Managers and the Risk & Insurance Management Inc.; $6,250 French francs ($1,259) for risk managers, $8,900 French francs ($1,793) for others. Risk Management Forum, SOCFI-14, rue Mandar-75002, Paris, France; 33-1-42-33-89-94.

NOV. 7. Fifth Annual Insurance Executive Forum in Chicago, sponsored by *Business Insurance*, the Illinois Insurance Exchange and the Katie Insurance School; $125. Illinois State University, Katie Insurance School, Campus Box 5490, Normal, Ill. 61790-5490; 309-438-7785.

NOV. 7. 401(k) Plans From A to Z seminar in San Francisco, sponsored by Corbel; $225. **Also Nov. 9** in Dallas, **Nov. 14** in New York, **Nov. 16** in Boston. Corbel, 1660 Prudential Drive, Jacksonville, Fla. 32207-3917; 904-399-5888.

Nov. 7-8. Disaster Planning & Preparedness seminar in Birmingham, Ala., sponsored by Factory Mutual Engineering & Research; $495. Seminar open to policyholders of Allendale Insurance, Arkwright and Protection Mutual Insurance only. **Also Nov. 9-10** in Charlotte, N.C. FME&R's Insured Education, 1151 Boston-Providence Turnpike, P.O. Box 9102, Norwood, Mass. 02062; 617-255-4606

NOV. 7-8. Midwest Regional Workshop in Chicago, sponsored by the Chicago, Wisconsin and Northeast Illinois Chapters of the Risk & Insurance Management Society Inc.; $225. Liz Fryen, Sherwood Group Inc., 60 Revere Drive, Suite 500, Northbrook, Ill. 60062; 708-480-9080 ext. 230.

NOV. 7-8. Safety & Health Program Management—The Principles course in Long Grove, Ill., sponsored by NATLSCO, a Kemper Risk Management Services company; $300. NATLSCO, 1 Kemper Drive, Long Grove, Ill. 60049-0075; 800-323-9585, ext. 4901.

NOV. 7-8. REBEX '95 conference in Chicago, sponsored by the Risk & Insurance Management Society Inc.; $225. Deb Pederson, REBEX '95, 60 Revere Drive, Suite 500, Northbrook, Ill. 60062; 708-480-9712.

NOV. 8-10. Captation and At-Risk Contracting conference in Cleveland, sponsored by CentraLink; $695. CentraLink Media Division, 1110 Mar-West St., Suite E, Tiburon. Calif. 94920; 415-435-9379.

NOV. 8-10. Crisis Management Planning course in Atlanta, sponsored by the Risk & Insurance Management Society Inc.; $700 for RIMS members, $800 for non-members. RIMS Professional Development Department, 655 Third Ave., New York N.Y. 10017; 212-286-9292.

NOV. 9. OSHA Compliance in the 90s course in Long Grove, Ill., sponsored by NATLSCO, a Kemper Risk Management Services company; $195. NATLSCO, 1 Kemper Drive, Long Grove, Ill. 60049-0075; 800-323-9585, ext. 4901.

NOV. 9-10. Meeting the Challenge of a Changing Insurance Environment in Charleston, S.C. sponsored by National Conference of Insurance Guaranty Funds; $250 for the first registrant, $200 for additional registrants, $40 for spouse/guest. NCIGF, The Market Tower Building, 10 W. Market St., Suite 1190 Indianapolis, Ind. 46204; 317-464-8199.

NOV. 9-10. Developing Outcomes Measures and Return-to-Work Guidelines seminar in Boston co-sponsored by International Business Communications and William M. Mercer Inc.; $1,195. IBC USA Conferences Inc., 225 Turnpike Road, Southborough, Mass. 01772-1749; 508-481-6400.

NOV. 9-10. Charting New Directions: Trends and Changes in Managed Care Purchasing in Washington, sponsored by the Managed Health Care Assn.; $450 for MHCA members, $550 for non-members. MHCA. 1225 Eye St. N.W., Suite 300, Washington, D.C. 20005; 202-371-8232.

NOV. 9-10. Winning Strategies in Patent Litigation seminar in Chicago, sponsored by the Practising Law Institute; $995. **Also Nov. 16-17** in New York, **Dec. 7-8** in Los Angeles. Practising Law Institute 810 Seventh Ave., New York, N.Y. 10019; 800-260-4754.

NOV. 9-11. ERISA Litigation National Institute in Chicago, sponsored by the American Bar Assn.; $650 for ABA members, $800 for non-members. American Bar Assn, Financial Services N1804, P.O Box 10078, Chicago Ill. 60610-9078; 312-988-5314.

NOV. 10-15. 41st Annual Employee Benefits Conference in Honolulu, sponsored by the International Foundation of Employee Benefit Plans; $795 Registrations Department, IFEBF P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710 ext. 257.

NOV. 12-17. Managing Operations: The College of Insurance Management Program in New York, sponsored by the College of Insurance; $3,295, includes accommodations. The College of Insurance Center for Professional Education, 101 Murray St., Room 426, New York, N.Y. 10007; 212-815-9201.

NOV. 13-15. Managed Health Care Congress Northeast in New York, co-sponsored by the National Managed Health Care Congress and the New York Business Group on Health; $1,195, $795 for government. NMHCC, 70 Blanchard Road, Suite 4000, Burlington, Mass. 01803; 617-729-3000.

NOV. 13-17. Fundamentals of EH Monitoring course in Long Grove, Ill., sponsored by NATLSCO a Kemper Risk Management Services company; $850. NATLSCO, 1 Kemper Drive, Long Grove, Ill. 60049-0075; 800-323-9585, ext. 4901.

NOV. 13-17. Intensive Workers Compensation Course in Glastonbury, Conn., sponsored by Aon Management Institute; $3,900. Aon Management Institute, 628 Hebron Ave., Corporate Center II, Glastonbury Conn. 06033; 203-659-6780.

NOV. 14. Washington Update Program: Qualified and Non-Qualified Plans: A Briefing from the Department of the Treasury and the IRS in Boston, sponsored by the New England Employee Benefits Council; $175 for NEEBC member, $210 for non-member. NEEBC, 62 Walnut St., Wellesley, Mass. 02181; 617-239-1767.

NOV. 16-17. Posttraumatic Stress Disorder conference in New Orleans, sponsored by the Defense Research Institute Inc.; $475 for DRI member, $525 for non-members. Defense Research Institute, 750 N. Lake Shore Drive, Suite 500, Chicago, Ill. 60611; 312-944-0575.

NOV. 15-17. Fourth Annual National Workers' Compensation & Disability Conference and Exhibit in Chicago, sponsored by the Axon Group, LRP Publications, Jury Verdict Research and the LRP Conference Group; $525 for government and non-profit organizations, $625 for others. LRP Conference Group, 1555 King St. Suite 200, Alexandria, Va. 22314; 800-727-1227 or 703-684-0510.

NOV. 17. FOJP Thirteenth Annual Conference "Managed Care, Managed Liability: Understanding the changing risks associated with the advent of managed care" in New York, sponsored by FOJP Service Corporation; $195, $145 for UJA-Federation Hospital and Agency members. FOJP Service Corp., 130 E. 59 St., New York, N.Y. 10022; 212-891-0709.

NOV. 17. New York No-Fault Insurance seminar/workshop in New York, sponsored by the College of Insurance; $95. The College of Insurance Center for Professional Education, 101 Murray St., Room 426, New York, N.Y. 10007; 212-815-9201.

NOV. 17-18. Non-Profit Risk Management Institutes in Arlington, Va., sponsored by the American Red Cross; $250. Non-Profit Risk Management Center, 202-785-3891.

NOV. 28-29. Emergency Response Planning seminar in Princeton, N.J., sponsored by the Factory Mutual Engineering & Research; $495. Seminar open to policyholders of Allendale Insurance, Arkwright and Protection Mutual Insurance only. **Also Dec. 5-6** in Norwood, Mass. FME&R's Insured Education, 1151 Boston-Providence Turnpike, P.O. Box 9102, Norwood, Mass. 02062; 617-255-4606.

NOV. 29. Workers Compensation Insurance seminar/workshop in New York, sponsored by the College of Insurance; $95. The College of Insurance Center for Professional Education, 101 Murray St., Room 426, New York, N.Y. 10007; 212-815-9201.

NOV. 29. ErgoPrime Interactive Ergonomics Training Program in Parsippany, N.J., sponsored by ErgoPrime Group; $249. **Also Dec. 7.** James Golden, ErgoPrime Group, 15 Orchard St., Madison, N.J. 07940; 201-402-4968.

NOV. 30-DEC. 1. Health Care Sponsored Captives seminar in Grand Cayman, sponsored by International Business Communications; $1,095. IBC USA Conferences Inc., 225 Turnpike Road, Southborough, Mass. 01772-1749; 508-481-6400.

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DEC. 4-5. Risk Management Institute in New York, sponsored by American Conference Institute; $1,095. Registrations Department, American Conference Institute, 175 Fifth Ave., New York, N.Y. 10010; 416-927-7936.

DEC. 6. Lloyd's and the London Insurance Market: How Recent Developments will Affect Your Clients conference in New York, sponsored by the Practising Law Institute; $995. PLI, 810 Seventh Ave., New York, N.Y. 10019; 800-260-4754.

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Nestle resorts to crisis plan

Hotel reservation helps company cope with disasters

By ROBERTO CENICEROS

DENVER—Should a disaster disable Nestle U.S.A. Inc.'s 21-story home office in Glendale, Calif., several hundred of its employees will find complete workstations waiting at a desert resort hotel 130 miles away.

As part of its contingency plan, Nestle has a contract stipulating the hotel has three days to empty out its ballroom if the food products manufacturer should need the space to resume its business, said Michael Mayhall, director of business interruption planning for Nestle Food Co., a division of Nestle U.S.A. A separate emergency operation center for key managers already would be in operation within a day of a disaster. If necessary, Nestle could operate from this arrangement for weeks on end.

LIBERTY MUTUAL RISK MANAGEMENT FORUM

In a presentation on disaster planning at the fourth annual Liberty Mutual Risk Management Forum held in Denver earlier this month, Mr. Mayhall explained that Nestle must be ready to resume many time-sensitive functions, such as releasing credit approval for high-volume customer orders.

Long delays could mean the food giant's name-brand products could lose customer loyalty—uninsurable losses that could give competitors an advantage.

Glendale is adjacent to Los Angeles. A 21-story building there is the central nervous system for several Nestle divisions and central functions. While the January 1994 Northridge earthquake did little damage to the building, it affirmed one of the principles of Mr. Mayhall's lecture: Concern for personnel in planning for business resumption is just as important as facilities or data recovery.

"Without the people, there is no business," Mr. Mayhall said. "You can have equipment, you can have everything else you want. If you don't have people there who know what you are going through, you don't have a business."

After the earthquake, about 25% of the company's 1,400 employees were "fairly well shaken up" due to concern for family members and loss of finances, homes and other personal property. Some employees wanted to flee the state, Mr. Mayhall said.

"I think everyone knows you can face injury, you can face death, and these are very difficult to deal with in the employee workplace," he said. "But the insidious one is psychological trauma."

After the Northridge quake, Nestle immediately provided counseling and financial assistance to its employees.

And, Nestle is taking its employees' well-being to heart in selecting the Stouffer Renaissance Esmeralda resort hotel for its business recovery site if Nestle's headquarters is disabled.

Located in Indian Wells, Calif., near Palm Springs, "it's close enough for employees to access," Mr. Mayhall said. "You want them out of zone. But you don't want them too far away from home. They will not go out of state. The location appeals to employees and families. You have a (swimming) pool there. It's really a nice place. It's a draw."

The potential for "just plain fun" influenced the selection of a resort hotel, but there are other considerations, Mr. Mayhall said. Hotels are already set up to provide comfort, food and beverages.

'I think everyone knows you can face injury, you can face death, and these are very difficult to deal with in the employee workplace,' says Michael Mayhall.

It is accessible from an airport in Palm Springs. That also makes it reachable from non-impacted areas such as Phoenix, should supplies need to come from elsewhere.

With the help of two furniture installation specialists and some hotel staff, the ballroom can quickly convert into 300 workstations complete with copy machines, computers, telecommunication cables, double-circuited power distribution panels and everything else office workers usually take for granted, such as sound barriers so business can be conducted with minimal distractions.

"It was designed this way. You don't need a lot of complex technical labor," Mr. Mayhall said. "It goes up fairly quickly. At our last exercise, we pulled together 100 workstations in 20 clock hours."

Once set up, the operation meets fire codes and other regulations, Mr. Mayhall said. A backup generator is used so Nestle will not have to depend on the hotel's power supply.

Mr. Mayhall refers to practice runs held at the hotel as "exercises" rather than tests because they actually involve employees conducting a full day of their regularly scheduled business. It adds a dose of reality and makes the exercises cost-effective.

Participating employees do not lose time from their everyday functions during the exercises. A two-day exercise costs the company about $1,000 per employee.

"When management first saw this, it was kind of interesting," he said. "Some of our senior management were walking around a little bit skeptical. But, when people were talking to customers, pulling up reports and delivering them to alternate locations and on the phone tying into the mainframe with their little PCs and all this good stuff, there was a big smile across their faces. Then all of a sudden they started coming up with design concepts for this."

Nestle's computer mainframe is housed in Tempe, Ariz.

While the hotel scenario has a 72-hour time frame for setup, a team of the company's key decision-makers already would be calling the shots from a temporary emergency operation center set up in Cypress, Calif., located just outside of Los Angeles in Orange County.

"That group is set up to handle 2,000 problems a day in a real crisis," Mr. Mayhall said. They would eventually migrate to the Indian Wells hotel and direct operations from there.

Good plans are site- and function-specific, or tailor-made for each business unit and facility, Mr. Mayhall advised. Plan for the worst-case scenario, but anything less than worst case can be handled by a part of the plan.

"The way to plan is to just pretend that if you drove up to your office, the area is a hole in the ground. How do you go back to work and what do you need?" he asked.

Nestle stocks some office equipment near the hotel in Indian Wells, Mr. Mayhall said. But, it is impractical to store some components, like computers, that can become obsolete while sitting in storage. So Nestle also has a contracts with work-area recovery vendors that have 72 hours to deliver office materials to the hotel. Other vendors have 24 hours to deliver needed materials to the Cypress location.

The plan has not been tested in a real disaster. But the desired results should come from sticking with the priorities planned ahead of time, Mr. Mayhall said. And, if adjustments are needed, those decisions will come not from individual business units but from senior management. BI

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Image is everything and talk is cheap

Risk management image relies on words

By ROBERTO CENICEROS

DENVER—Risk managers must spread the word about their contribution to their companies' bottom lines if the profession is to survive, says a former risk manager.

Reversing the image that risk management contributes little to company profit requires a plan to get the profession's story out, said Gretta Wray Burns, retired underwriting risk manager for The Coca-Cola Co. in Atlanta, where she is now a consultant.

LIBERTY MUTUAL RISK MANAGEMENT FORUM

It is up to risk managers to make sure upper management hears about their contributions, she said recently during a presentation at the fourth annual Liberty Mutual Risk Management Forum.

"We certainly don't want to be the Rodney Dangerfields of our business," she said. Failure to act could have dire consequences for the entire profession.

"We know of situations where whole departments have been abolished and brokers have been engaged to perform the risk management function," Ms. Burns said. "And talk about having (the fox) guard the hen house. I think that is the worst thing in the world that could happen. The risk manager is the one who has the heart of his company at stake. And I believe risk management is the proper place for these concerns."

To get their contributions noticed, risk managers need to get involved with other departments and their managers.

"You need to be in a continuing dialogue with front-line people to let them know what you are all about," she advised. "Ask to make a presentation at one of their departmental meetings and talk about risk management and what you do for the company. When you learn of some upcoming project, offer one of your staff members to participate. This will give you an opportunity not only to contribute to someone else's success, but you will also get that risk management story out there."

When delivering a presentation, risk managers should not use acronyms without explaining them. And, jargon should be eliminated so the audience will understand and buy into risk management.

"Keep your message as basic as possible," Ms. Burns said. "But do go with financial relativity and concentrate on success stories of how you reduced cost or broadened coverage or the kind of improvements you made in programs. The only insurance-ese that you need to use is just enough to get across your basic message."

Risk managers should let it show through their presentation that they are aware of the company's mission, successes, strengths and weaknesses, she advised. Relate to the company's chief concerns, whether they are volume, market share or profit.

"You have to acquire and demonstrate a knowledge of your company's business as well as all the interrelationships between headquarters management and the hierarchy there

See **Image** *on next page*

Forum accents need for globalization

DENVER—The U.S. insurance industry must expand internationally because a growing number of customers are participating in the globalization of trade at an astounding pace, says Edmund F. Kelly, president and chief operating officer for Liberty Mutual Insurance Cos.

"Clearly as with our competitors. . .the major impetus behind Liberty's own expansion internationally is the expansion of our U.S. customer base into international markets," he said during a keynote address at the fourth annual Liberty Mutual Risk Management Forum, which was held Oct. 8-10.

LIBERTY MUTUAL RISK MANAGEMENT FORUM

"At the same time, however, we have observed another development that is important to those of you who have international responsibilities and, hence, to us at Liberty. And that is the standardization of workplace safety expectations worldwide," he added.

The trend toward international health and safety standardization is being led by multinational companies and governments that realize the standards are critical to development, he said.

While the trend means more risk managers will be looking at worldwide exposures, Liberty Mutual's survey of 225 risk managers who planned to attend the conference also shed light on other topics of interest.

Eighty-three percent of risk managers believe that 24-hour managed disability programs would be helpful in controlling costs by eliminating duplicate efforts and by helping manage non-occupational injuries.

But conflicts between risk management and human resources remain a frequently cited barrier, the survey found. Statutory prohibitions and company information systems were also cited as barriers to 24-hour plans.

The survey also found 60% of the risk managers' companies have disaster recovery plans. But only 35% updated those plans in the last two years. Forty-five percent of companies with plans use all or part of them as a test.

Liberty Mutual also found that more than 50% of risk management departments have implemented new computer systems in the last two years. About 33% of those systems were "off-the shelf" packages, 33% were developed by insurers, 24% were developed by risk management departments and 10% were developed by in-house systems departments.

Next year's forum is being planned, but a specific site and date has not been determined, a company spokesman said.

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Ergonomics

Continued from page 1

There are ergonomics success stories in the corporate world, though. Among the companies that have embraced ergonomics, AT&T Corp.'s global information solutions division has shown that making workplace changes can produce significant savings.

After a study determined that its workstations contributed to the problem of repetitive motion injuries, the AT&T facility first made some quick-fix solutions like raising computer terminals with telephone books and adjusting the heights of tables by cutting off their legs.

Employees were trained to recognize problems that could lead to injuries and given advice on correcting those problems. The next step was to modify workstations and then to train workers to use them.

The facility's workers compensation costs—medical payments and disability payments, but not insurance premiums—for its 2,000 employees totaled $400,000 in 1990, according to Mr. Mogg.

"In '91, with very little hardware changes, mostly re-training and things like that, we were down to $94,000 worth of comp costs. The following year, with complete training and starting to get hardware in place, we were down to $14,000," he said.

Workers comp costs nearly vanished at $1,100 in 1993 and crept back up to $14,000 last year.

"This year, I had that one accident, an office worker falling down the stairs. It'll go $40,000 instantly. But those levels are still well below the hundreds of thousands of dollars that we had and the hundreds of thousands of dollars that typical companies like ours have all the time," he said. Today the facility employs about 1,500.

In another success story, a Southern California resort cut its work comp costs $350,000 and reported no new cumulative trauma injuries in the 12 months after its employees received training from Sharp-Rees Stealy Medical Center. That 1993 training covered 100 employees, said Ms. Thompson, and "probably cost all of $800." The resort's costs are continuing to fall.

Employers should know that "there's no reason not to do this," Ms. Thompson remarked. "You will save money by spending money up front. That, unfortunately, is the hard sell."

Yet companies are reluctant to invest heavily in ergonomics programs.

They seem not to mind spending money on problems like cumulative trauma injuries but don't want to spend it on the front end to prevent the injuries, said Ms. Thompson. "So until they really make that commitment that this is a priority—and in their organization it has to come from the top—it's not going to happen."

Mr. Cochran pointed out another problem. "There's a lot of management that thinks about bottom line this quarter. And this isn't going to show up this quarter. It may not show up this year," he said. "So we need some people who are willing to invest in the future in safety and health and it will pay off. It does pay. It is profitable."

Companies have taken as long as seven years to realize the full cost savings from ergonomic changes, said Ms. Nowell.

It doesn't take a lot of technical knowledge to sell ergonomics to top management, the panelists pointed out.

There is a technical side to ergonomics, but much of it is common sense, said Ms. Nowell. And the workers on the job are some of the best people to consult to determine problems and find solutions.

"I think you can sell it based on quality and based on productivity," said Mr. Cochran. "You can show if you're not giving a person enough time or if a job is awkward or if it's painful, they're not going to make as good a product as they would otherwise."

And, Mr. Cochran added, while ergonomics can be administered through a department in charge of safety and health, to have the greatest impact it should be the responsibility of personnel in charge of quality.

"If it's really going to last, it has to be under quality, the production manager. It has to be under people who are bottom-line oriented" and concerned with making a better, cheaper product, he explained.

Mr. Cochran also advised employers to always include maintenance people when planning ergonomic changes. "They're the ones who are going to have to make the physical changes in your plant," he said. "And if you don't get them to buy in, its real trouble." BI

Success stories yield tips for comp savings

By MICHAEL BRADFORD

SAN DIEGO—Ergonomic changes in the workplace, a return-to-work program and designing an effective cost allocation system all will reduce workers compensation costs, according to three risk managers experienced with these solutions.

Red Wing Shoe Co. eliminated many of its recurring workplace injuries by implementing some simple ergonomic changes, according to Gail Sater, risk manager at the Red Wing, Minn., shoemaker.

THE THIRD ANNUAL Business Insurance WORKERS COMPENSATION CONFERENCE

Brian Record, director of claims management at Harrah's Entertainment Inc. in Memphis, said a return-to-work program reduces litigation filed by dissatisfied workers, reduces rehabilitation and vocational re-training costs, avoids claims under the Americans with Disabilities Act and retains trained employees.

Arnold Davenport, vp-risk management at Marriott International Corp. in Washington, emphasized that "if you want to control losses, you've got to get them on an operating statement."

The three described their successful programs at the Third Annual *Business Insurance* Workers Compensation Conference held earlier this month in San Diego.

Red Wing, a 90-year-old company, was motivated to make ergonomic changes in its factory partly to remain competitive in a shrinking industry with aggressive overseas competition, said Ms. Sater. Red Wing's workers comp costs alone in 1988 were at about $4 million per year.

"My budget for 1996 is about $800,000," said Ms. Sater.

Changes in workplace philosophy and equipment modifications brought that figure down to its current level, she explained.

Much of the manufacturing at Red Wing was done on a piecework system, she said. "You were paid by how fast you could crank out those boots and you did the same job all day long.

"Three or four years ago we went off the piece-work system to continuous-flow manufacturing," which reduces repetitive strains.

But this switch meant a big change in ergonomic requirements, Ms. Sater said. While a machine was previously set for only one person who worked at it all day, adjustments had to be made because the new system requires rotating workers at least every two hours. "The new system of job flow created some brand new challenges."

Many of the changes to equipment were made in-house, said Ms. Sater. "Much of the construction was out of our own maintenance operation."

See **Success** *on next page*

Image

Continued from previous page

and your internal customers and your external service providers," she said. "You need to understand your company's direction and long-term goals."

Invite employees and managers from other departments to make presentations before your department. That can help risk managers learn more about their company, because interesting information is often passed along in informal settings.

One effective technique involves creating a report card so other departments can explain how risk management has helped them and how it might make a greater contribution to meeting their challenges.

"And what is the payoff for all of this? A positive image for risk management will come about when the company understands what risk management is," said Ms. Burns.

"We have to remove the mystique to show in very clear and practical terms how preventing losses and managing the losses that do occur as well as how we mitigate the disruptive (outcomes) of losses. These are the kind of things that get the risk management story out there and when the buy-in is achieved. When you have done that, then you have a risk management-mature organization."

Getting out the message can be difficult because the risk management department is not a profit center, making it difficult to quantify the contribution to company profits. But there are ways to show a correlation between reducing and controlling accidents and reducing an organization's costs, according to Ms. Burns, whose primary responsibilities at Coca-Cola were insurance negotiations and placement.

Compile statistics on how managed care or return-to-work programs, for example, have saved money.

"Talk about how you have increased deductibles and retentions, fees over commissions for compensating your service providers, consolidating programs that were fragmented and not necessarily efficient," she urged. "Talk about your structured-settlement cases and how effective that has been. Talk about your claims management process. Get with your claims and loss prevention people and make sure you coordinate your efforts.

"The main thing is to make sure you blow your own horn because you have to make the most of the savings or improvements that you made to your program. And you have to make sure your boss knows this. You have to demonstrate you are adding value to the bottom line or you just may not be around very long."

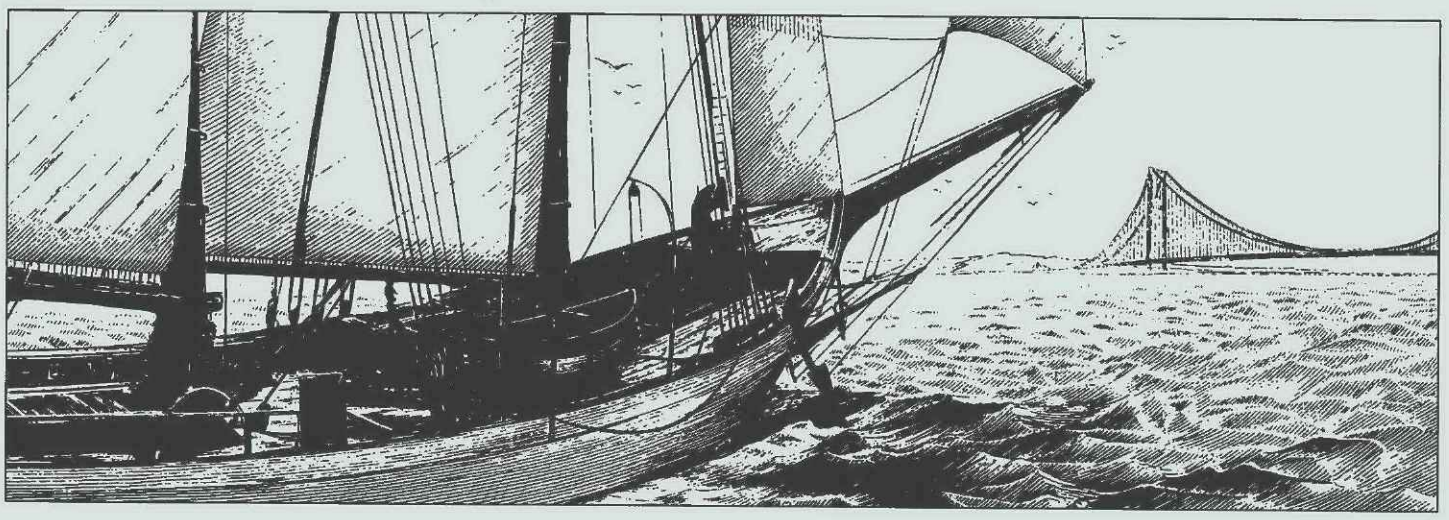
Honing the ability to relate to management and key people is essential, Ms. Burns said. Step back and evaluate those skills and your department.

"How do you measure up? Make sure you measure up ethically and professionally and that you are effectively using the tools of your trade," she said.

She explained that those tools include knowledge about the latest trends in insurance coverage, captives, environmental litigation and other areas that impact the company.

"Don't be on the defensive when one of your senior executives makes an inquiry about something that he has read in Fortune or Forbes," she urged. Be out there ahead of them and know about it." BI

Quality



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Success

Continued from previous page

For example, $5 worth of iron was used to make the treadle on a sewing machine adjustable.

Other ergonomic changes were made to reduce injuries. A hydraulic device was installed to make removing shoe molds easier and a machine using heat to remove strings from shoes instead of hand-cutting "reduced hand injuries dramatically."

And installation of a $3,000 lift for raising leather hides takes the strain off workers who were lifting the heavy pieces.

The changes eliminated much of the bending, stooping and twisting at the Red Wing factory. Laces now come pre-packaged from another manufacturer, a step that keeps workers from having to bend and tie laces on each pair of boots.

Despite companies' ergonomic efforts, however, workplace accidents continue to occur. When they do, getting injured workers back on the job as soon as possible is important in keeping down workers comp costs.

'It's very important to have a positive and supportive work environment,' says Brian Record.

'We feel that our return-to-work program is an integral part of our claims management program," said Mr. Record of Harrah's.

Much of the work involved in motivating employees to return to their jobs actually is done before the injury occurs, Mr. Record suggested.

'It's very important to have a positive and supportive work environment," he said. "In many cases, there is some type of stigma that is attached to a work-related injury. You need to have that removed and not allow the managers or direct supervisors of the injured employee to categorize everybody who's injured at work as somewhat of a fraud.

"You don't need to start off with a position of mistrust with the injured worker," according to Mr. Record.

Employers that pay workers a competitive salary are providing incentives for injured employees to return, Mr. Record noted.

Workers compensation benefits generally provide two-thirds of an injured worker's wage and if there is little difference in that amount and the worker's salary after taxes, there is little incentive for reporting to the job, he explained.

When an employee is injured, Harrah's wants the worker to know he is expected to come back to work and the company will help, Mr. Record said. An approximate date for the worker to return is set in consultation with health care providers.

A company providing early intervention services assigns a nurse to an injured Harrah's employee soon after the accident is reported, Mr. Record said. The nurse makes her case notes available through a computer link up to a third-party administrator.

"We have access to the claim file notes, so the employer knows exactly what the nurse has been doing and what the TPA has been doing," said Mr. Record.

For employees who cannot return to their previous jobs, Harrah's provides "restricted work," which is a permanent position with certain restrictions like limits on how much weight can be lifted.

"Light duty" is usually a temporary posting in a job that has been modified to accommodate a worker's restrictions.

Apart from dealing with equipment and employees, employers have to know how to allocate workers comp costs within the company to motivate managers to keep those costs down, says Mr. Davenport of Marriott.

Workers compensation claims costs should be part of an operating statement, Mr. Davenport stressed, and operations personnel should be able to view those costs as "manageable, the same as every other expense on their operating statement."

And the costs must be allocated to create an "immediate and cause and effect," he emphasized, or managers won't be motivated to try and control workers compensation claims. "You've got to give them something they can see immediately."

The system also should be simple to understand, simple to administer, impose painful but not unbearable costs, and must have top management support, he added.

Marriott's cost allocation system is not popular with managers, but for many years it has effectively controlled workers comp costs and has the support of top management.

"When we introduce it to new managers, it's like a state of shock. But it gets their attention, and it makes certain that they do manage their losses."

Under Marriott's system, any reserve up to $25,000 that is assigned to a claim is charged within 30 days to the unit where the injury occurred. "As the reserve moves up or moves down, they see that impact," Mr. Davenport explained.

"If they decide not to put a person back on modified duty, you can rest assured" that the reserve will be set at nearly $25,000, he added.

"They used to resist modified duty. We explained to them the cause and effect here," Mr. Davenport said, and workers began returning to work sooner.

Claim reserve adjustments are charged to units for up two years, and for those on which reserves are set too high, a reserve credit is issued. For coverage of claims excess of $25,000, the division is charged a premium calculated by the risk management department that include the division's work comp loss experience.

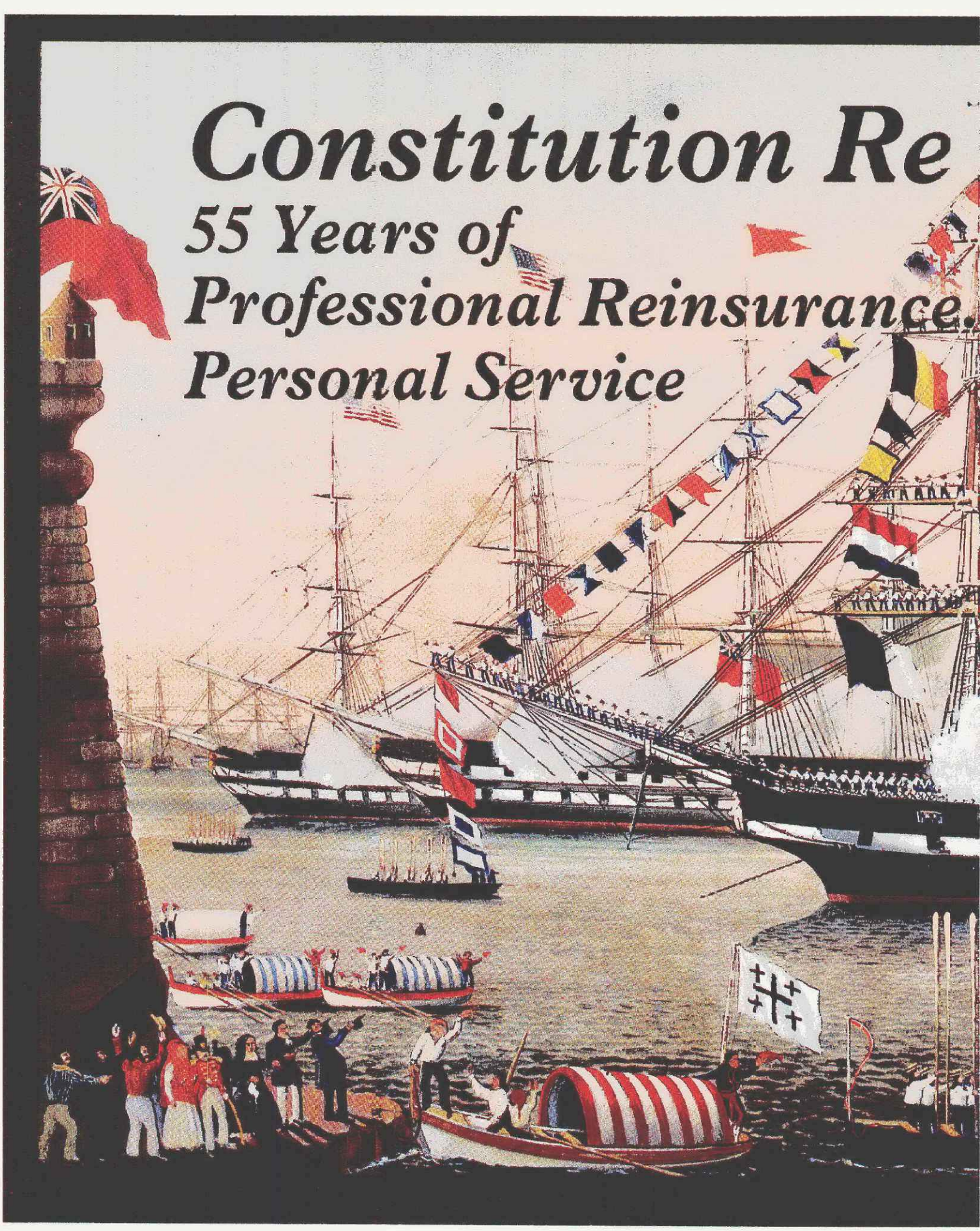
Marriott offers its managers an alternative system that sets a schedule of costs according to the type of injury. For example, a back injury is charged as $8,000 on a lost-time claim, regardless of when the worker returns.

Units also pay whatever weekly benefits are due the injured worker for up to two years, Mr. Davenport said. "That gives them the motivation to get people back to work."

And, if a worker retains an attorney, the unit is hit with an additional $4,000 charge. "That gets them to make sure they do the tender loving care and try to hold that person's hand and keep them from retaining an attorney," he said.

"I'm happy to say that our loss ratio is the lowest in the industry," Mr. Davenport said, crediting the cost allocation system and other loss prevention measures.

"You can talk about mom and apple pie and things that are good to do," Mr. Davenport said, but without charging workers compensation costs on operating units and hitting their bottom line, reducing work comp costs "just isn't going to happen." BI



Teamwork key to comp claims

Effective claims management requires cooperation

By MICHAEL BRADFORD

SAN DIEGO—Building a team to effectively manage workers compensation claims means pulling together a host of interested parties and convincing them they are working toward the same goal.

Getting the employer, health care provider, claims payer and other "stakeholders" to work together is perhaps the biggest hurdle facing employers that want to successfully manage those claims, according to Maddy E. Bowling, vp-workers comp managed care at Intracorp in Itasca, Ill.

Ms. Bowling was a member of a panel discussing how to build a successful claims management team at the Third Annual *Business Insurance* Workers Compensation Conference held earlier this month in San Diego.

She said difficulties often are compounded because partnerships among those involved must be developed in states where laws and regulations differ and where the claims may contain components of workers comp and health care. "It makes it very complex to pull all those stakeholders together."

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Panelists agreed that stakeholders should be unified in their efforts to make injured workers feel they are being treated with care and respect. Such an attitude can keep attorneys on the sidelines, they noted.

"Once you can implement a program that reduces that adversarial feeling so that the injured worker doesn't want to run to an attorney...and have good relationships among all the stakeholders, then you are going to have effective claims management," said Janis S. DiMonaco, president and CEO of Health Management Center Inc. in Springfield, Mass.

Communication between the two key stakeholders—the employer and employee—is critical, the panelists said.

"It goes back to the injured worker," said Ms. Bowling. "Making sure that the injured worker knows what to do when they get injured, that they know the employer cares about them when they get injured."

She said a study commissioned by Intracorp indicates that employees "do not feel that they get any communication from employers about what to do when they're injured" and that is a situation that drives injured workers to attorneys.

"We've worked a lot over the last year to develop communication materials," said Martin F. McGavin, manager of safety planning and claims at Johnson Controls Inc. in Milwaukee.

The company's efforts have included the production of videotapes for workers and supervisors that detail the workings of the system. "We also have a pamphlet that has rights and responsibilities for injured people; it has to work in all 50 states so it's somewhat generic," Mr. McGavin said.

Legislation that reforms workers comp systems to consider what's best for injured workers and employers is another way to bring unity to the workers comp claims management process, according to the panelists.

"When you look at legislation to change the work comp system, you've got to get back to the idea of the stakeholders," said Mr. McGavin.

Other system participants, including hospitals, insurance companies, medical clinics, claims adjusters and lawyers, all are lobbying to "preserve their territory," Mr. McGavin pointed out.

But, he added, "On the legislative side...you have to look at what's really good for employees, what's affordable for employers and that's what carries the day. If it cuts the lawyers out of some things, too bad. The hospitals can't make as much money in work comp, so be it. The system wasn't set up for that."

Passing legislation is not an easy row to hoe for those looking to bring some unity and efficiency into the workers comp system, the panelists noted.

"When you talk about eliminating the adversarial attitude in workers comp, you're talking politics," said Gus Vigil, claims manager for the New Mexico Municipal League Insurance Division in Santa Fe.

"Our Legislature is predominantly plaintiffs' attorneys," Mr. Vigil pointed out, "yet we have one of the best laws in the United States" to benefit workers and employers.

Mr. Vigil said New Mexico was able to eliminate much of the adversarial conditions in the state's workers comp system with reform legislation passed in 1991. The law was the result of five years of work by labor, management and other stakeholders to draft legislation that focused on taking care of injured workers while keeping the system affordable for businesses.

The difference in the makeup of legislatures in New Mexico and Georgia illustrates how complex the problem of developing a unified approach to workers comp issues can become for multistate employers.

"In the state of Georgia, business runs the Legislature; they are in control," said Stephen Dawkins, occupational health physician at Occupational Health International in Atlanta. Mr. Dawkins served as moderator of the panel.

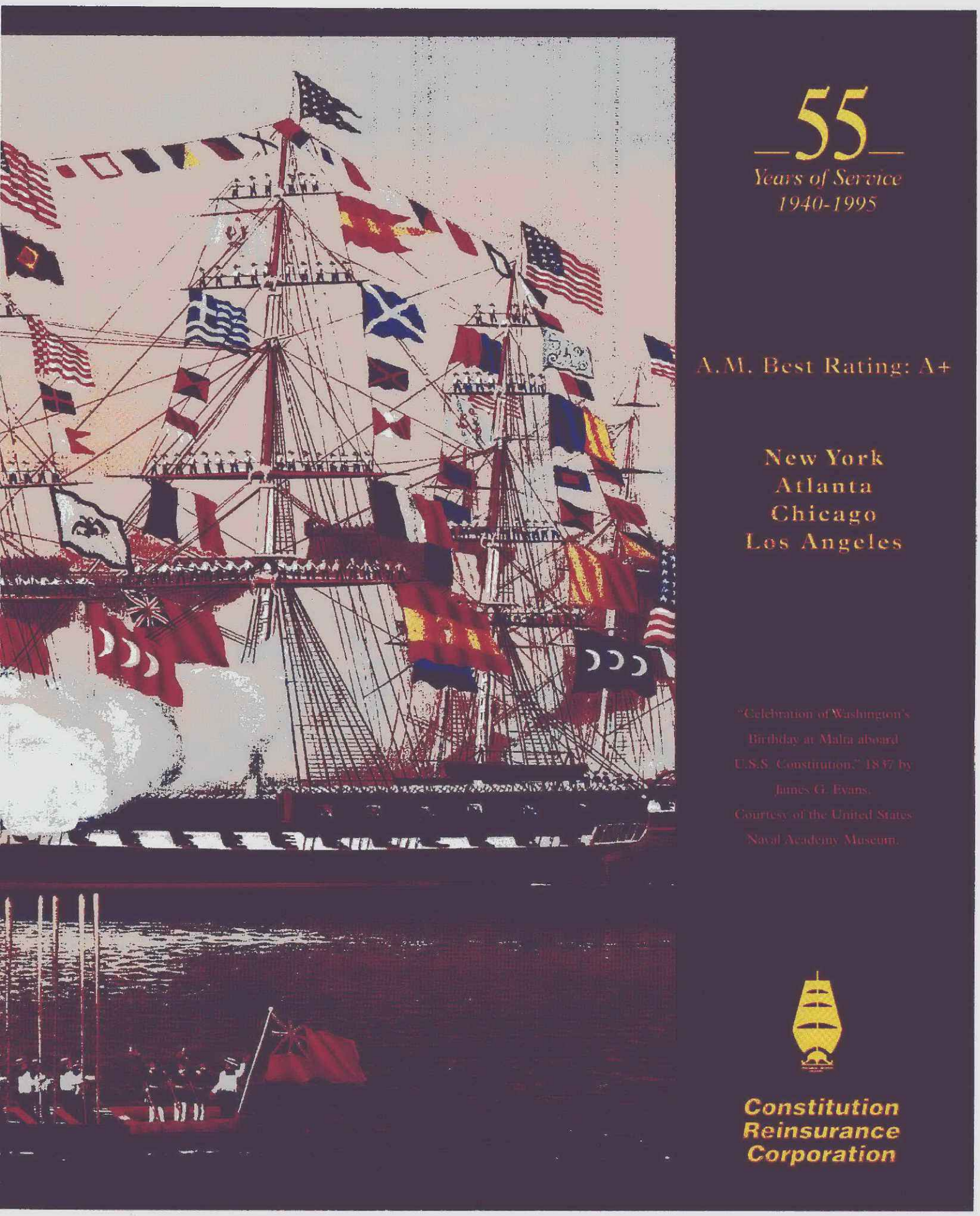
But, he pointed out, while "the claimants' attorneys are having a difficult time getting everything done," that situation could change in coming years if pro-attorney legislators control the statehouse.

Panelists pointed out that claims management faces new challenges as employers increasingly look to integrate managed care into their workers comp programs.

Mr. Dawkins said managed care presents the opportunity for employers to tie together information regarding injuries, medical treatment and the employee's ability to perform work. That information can be used to better track a claim through the entire system.

Mr. McGavin said Johnson Controls has had a managed care program in place for about a year and a half and is using information generated by the program to identify the approximately 3% of workers comp claimants who are not seriously hurt. Those claimants then are getting special attention to help them return to work.

"Even if I can cut that number down from 3% to 2% or 1½%, that's a big savings," Mr. McGavin remarked. BI



24-hour coverage in limbo?

Employers' interest waning as regulators' interest grows

By MEG FLETCHER

SAN DIEGO—Improved market conditions are making employers less interested in testing 24-hour coverage theory, but they still want to borrow managed care techniques that reduce the cost of workers compensation injuries and illnesses.

That is the consensus of an employer, a regulator and an insurer in a wide-ranging panel discussion of 24-hour coverage issues during the Third Annual *Business Insurance* Workers Compensation Conference recently in San Diego.

Definitions of 24-hour coverage vary, but most agree it is any combination of traditional health insurance and workers comp insurance that attempts to eliminate the occupational and non-occupational boundaries between the coverages.

While 24-hour coverage may not be top-of-mind for employers, interest among state insurance regulators is at an all time high, according to a summary of the National Assn. of Insurance Commissioners' periodic progress report. It was prepared by panelist Eric Nordman, a senior regulatory specialist with the NAIC.

At last count, 18 states have workers comp statutes that allow the use of some type of alternative products or programs for employers to meet their statutory obligation to provide benefits under workers comp law, the report said. However, those alternatives do not necessarily provide 24-hour-type products.

Sixteen states also have taken various steps to explore the topic, including three states—California, Georgia and Oregon—that are operating pilot 24-hour programs.

Employers generally are not eager to experiment, the panel agreed.

"I don't think there is much interest or mood for experimenting with workers comp," said Lee R. Coffey, vp-human resources for Fullerton, Calif.-based Day Runner Inc., a manufacturer of schedule planners and organizers.

"There is less drive to get involved," especially in California and Oregon, because workers comp insurance prices are falling, agreed Mr. Nordman. However, he said controlled tests are valuable because they help isolate factors that are causing the results.

Placing emphasis on measuring outcomes may not be necessary, said Ror. Field, senior vp and chief operating officer of Great States Insurance Co., an Anaheim, Calif., division of FHP International Corp. in Fountain Valley, Calif. The combined operations include a large health maintenance organization and a workers comp insurer that also provides related services.

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"There are so many things that influence total outcomes," including the type and age of the workers covered, as well as the litigation environment in which they operate, he said.

"What drives employers is price," Mr. Field said. Great States prefers to put itself "out on a limb" and offer premium discounts to employers that use its 24-hour program.

A major component of those savings stems from extending the HMO concept of directing patients to specific health care providers with whom the company has established a favorable price for their services.

Tailoring the system for workers comp injuries required screening HMO physicians with occupational expertise to identify those who could serve as gatekeepers for workers with job-related injuries, Mr. Field said.

"We've probably taken the 24-hour process as far as anyone else has," he said. His HMO company purchased a large workers comp insurer, underwrites both workers comp and employee benefit risks and connects both aspects for coverage verification and integrated reports.

Making integration work, though, requires that employers be able to direct the care of an injured worker.

California's rules make that easier than several other states, which limit an employer's ability to direct care.

Saving workers comp premium dollars made Day Runner's Mr. Coffey a convert to using 24-hour type managed care techniques.

In 1992, his company was facing numerous problems related to its on-the-job injuries. Workers comp premiums were rising 20% to 40% per year, it had a high accident rate, and claims were frequently litigated, in part because executives suspected many were fraudulent.

"It was a very unpleasant atmosphere," Mr. Coffey said.

Day Runner's broker, Alburger Basso de Grosz Inc. of San Francisco, then introduced the concept of 24-hour care to the company. At the broker's suggestion, Day Runner began using the services of Unicare Inc., a division of Blue Cross of California in Woodland Hills, Calif. Mr. Coffey credits a loss prevention program and an "excellent" return-to-work program with significant improvement since 1993.

For example, the frequency of injuries dropped to 10 to 15 annually from more than 100, and medical costs are down 40%. Also, the company's workers comp premium fell to $192,426 this year from $533,770 in policy year 1993, and it will be between $120,000 and $140,000 next year, Mr. Coffey estimates.

In addition, developing "a partnership" with medical providers has improved communication and helped make sure that injured workers are getting the best quality care possible, he says.

Using 24-hour-type programs to improve workers compensation results can help, though it still faces some regulatory barriers.

Foremost among those is the Employee Retirement Income Security Act, which exempts large self-insured employers from state regulation of their employee benefit plans, though it allows states to still regulate their workers comp plans.

The future of integrated managed care in workers comp appears bright, panelists said.

"The next step is getting managed care nurses out of the system," according to Great States' Mr. Field.

Workers comp insurers often hire nurses to make sure that physicians do not overtreat. But, such a role is unnecessary when HMO physicians are risk-sharing with insurers to determine cost-effective care. BI

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THAT WE HAVE A SPLIT PERSONALITY

Providers may be key to achieving 24-hour care

By ROBERTO CENICEROS

SAN DIEGO—Coordinating health care provider groups that can treat injuries that occur both on and off the job is the key to integrating workers compensation and group health benefit plans, an insurance company executive contends.

The goal is to improve the coordination of provider groups so there is more interaction among them whether they are treating employees under group health and disability plans or workers comp plans, said Dr. Dwight L. Robertson, president and chief executive officer of health and managed care operations in Woodland Hills, Calif., for Zenith National Insurance Co.

Dr. Robertson addressed managed care issues at a workshop presented by Travelers Insurance Co. immediately following the Third Annual *Business Insurance* Workers Compensation Conference held earlier this month in San Diego.

The integration of treatment in a sense creates a so-called 24-hour product, whose success lies with lessons learned from the workers comp and managed care fields.

Managed care has lent its expertise in creating provider networks, electronic information exchange, utilization review and other areas. Workers comp insurers bring experience in distribution, product pricing and claims management.

Better-coordinated provider networks means they now include medical experts capable of treating work-related injuries and non-work-related injuries, he noted. Regardless of the ailment or where the injury occurs, an employee's primary care doctor can refer the patient to specialists within the network.

Zenith is currently offering its SinglePoint Integrated Insurance Programs in California for groups of three to 500 employees. Other insurers are developing products that offer similar provider coordination.

"We fundamentally believe that it can be coordinated and you can add value," Mr. Robertson said. "So, first and foremost, you coordinate the medical side. But we have gone beyond that. We coordinate at the claims level, so the claims people work together and in particular this has a dramatic impact on the disability claims people. Imagine, for the first time ever, the disability people can understand and hear about a case on day one of an illness rather than six months into an illness."

As workers comp experience has shown, early intervention can mitigate the cost of a claim, Dr. Robertson added.

SinglePoint also integrates several administration functions such as billing, a customer service line, enrollment forms and identification cards.

"We have integrated everything we can possibly integrate under the umbrella of true 24-hour, except what we cannot under the law," Dr. Robertson said.

Complete integration is still limited by laws and other barriers. For example, he noted, workers comp medical bills must be paid in full without application of copayments or deductibles.

Consolidations, mergers and strategic alliances involving workers comp insurers and managed health care companies are driving the creation of such products, said Patrick J. Kinney, vp-managed care and new product development of property/casualty commercial lines for Travelers in Hartford, Conn., who also spoke at the workshop.

"New partnerships are being created that leverage the expertise of both organizations' claim and medical expertise to reduce payout," he said. "Presently, the main objectives of these partnerships are to attract the guaranteed-cost marketplace for employers with 50 to 500 employees. Products for self-insured/retrospectively rated customers are emerging more slowly." BI

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Antifraud efforts succeed despite a lower profile

Federal, state statutes help effort to combat bogus claims

By MEG FLETCHER

SAN DIEGO—Fraud fighters still must work to eliminate illegal workers compensation claims from the system, though they are making progress.

"Fraud remains a hot topic," though it may be discussed with less frequency in the media these days, said Jeff Maldonado, vp of the investigative services division at AIG Claim Services Inc. in Parsippany, N.J. He moderated a panel discussion of the topic at the recent Third Annual *Business Insurance* Workers Compensation Conference.

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Media attention has been reduced, panelists said, because there is greater acceptance of the need to fight fraud, and some of the worst abuses, such as Southern California's notorious doctor mills, have been reduced or eliminated through the combined efforts of prosecutors, employers, insurers and legislators.

In addition, the Washington-based Coalition Against Insurance Fraud is convincing some lawmakers to make insurance fraud a specific crime and a felony, said coalition co-chairman David Griffin, a senior vp with Fireman's Fund Insurance Co. in Novato, Calif.

For example, Congress passed a federal anti-fraud law in 1994 and some states have taken similar steps.

A model insurance fraud act that the coalition adopted in March emphasizes that "insurance fraud is pervasive and expensive, costing consumers and the business community...millions of dollars each year. Each family spends in excess of several hundred dollars each year in direct and indirect costs attributable to insurance fraud."

In addition, "insurance fraud increases premiums, places businesses at risk and is a leading cause of insurance company insolvencies," the model act states. Fraud also "reduces consumers' ability to raise their standard of living and decreases the economic vitality" of a state.

Currently, 72% of states have fraud statutes, including 54% that make insurance fraud a felony rather than a misdemeanor, he said. In addition, 70% of states have immunity acts, which protect persons reporting or investigating complaints of suspected fraud who are acting without malice, he said.

However, only 18% of states require insurers to have a plan to fight fraud, and only 10% require them to have a designated fraud-fighting unit, he said.

The coalition wants to raise the level of consciousness about the need to broadly fight insurance fraud perpetrated by: claimants operating individually or in organized rings; medical and legal providers; and employers that manipulate their operations so they can pay lower workers compensation premiums, Mr. Griffin said.

The coalition wants lawmakers to enact measures including automatically suspending the professional, business and occupational licenses of anyone convicted of insurance crime; requiring the printing of fraud warnings on all claims-related forms; and creating state fraud bureaus, he added.

In addition, insurance companies are being asked to create and implement anti-fraud plans, hire fraud investigators and train adjustors and underwriters in fraud detection. The coalition also would like them to cooperate fully with law enforcement and regulatory agencies in investigating fraud.

For every dollar spent in fighting fraud, the return can be as high as $10 to $13, though that may drop to $4 if the case involves litigation, the coalition's Mr. Griffin said.

San Diego County's Insurance Fraud Division operates effectively because it is given enough committed personnel, resources and time to do the job, said panelist John P. Massucco Jr., a deputy district attorney who is also chief of the division.

"It's the can-do attitude that sets us apart," though it also helps to have the division housed away from other legal departments, he said.

The unit has been successful in convicting perpetrators, including sending people to prison though they have had no prior criminal record, Mr. Massucco said.

Successfully fighting workers compensation claimant fraud also requires the active participation of employers, the panelists agreed.

Del Monte Foods Co. of San Francisco realized in 1993 that it had a problem with workers compensation claimant fraud and wanted to do something about it, said panelist Jeffrey R. Seilbach, assistant treasurer and director of risk management for the food processing company.

It was spending $10 million annually for workers compensation costs, and one national workers compensation data organization estimated that 25%—or $2.5 million—was probably due to fraud, he said.

In early 1994, Del Monte launched an anti-fraud campaign linked to improving job safety that included training of employees and supervisors, promotional literature and establishing a hotline for coworkers to use for reporting cheats.

His favorite banner read: "If you commit workers comp fraud against the company, God may forgive you—but Del Monte won't," he said.

The company backed up its words with actions when it helped investigate—using videotape surveillance—and prosecute a worker who filed a fraudulent workers comp claim that actually stemmed from an off-duty football game.

The company spent about $17,000 to fight the claim, which was worth about $10,000 to $12,000, he said.

Word of the company's efforts on that and other claims spread quickly through the plant. "It had an enormous effect on employees" as a deterrent for such claims, Mr. Seilbach said.

The need for the deterrent effect varies with the state in which the company's plants were located, he said. For example, there was a greater impact at Del Monte's California and Texas plants than at its Wisconsin operations.

The success of the program is seen in the near-halving of its annual workers comp claim costs to $5.2 million in the fiscal year ending June 30, he said.

Fighting workers comp claimant fraud as aggressively as Del Monte does is costly but worthwhile, he said. "You have to take a stand at some point." BI

Comp meeting draws 250

SAN DIEGO—About 250 people attended the Third Annual *Business Insurance* Workers Compensation Conference, held Oct. 11-13 at the Loews Coronado Bay Resort in San Diego.

Nearly 90 risk managers heard their peers discuss their experiences dealing with current workers compensation issues, such as savings from ergonomics programs, various options for 24-hour coverage, claims management, part-time employees, fraud and stress claims.

In addition, a new, private roundtable allowed them to air their major concerns.

Numerous panel discussions also benefited from a wide range of perspectives provided by representatives of labor unions, physicians, regulators, consumer coalitions, insurers, consultants and service providers.

The 1997 conference will be Nov. 4-6 at the Loews Santa Monica Beach Hotel in Santa Monica, Calif.

Actions on comp fraud set record

A record number of people are facing sanctions for workers compensation fraud, says an insurer-backed group.

The number of prosecutions and administrative actions against suspected workers' comp offenders through the first three quarters of 1995 have already surpassed the 1994 total, according to the National Insurance Crime Bureau in Palos Hills, Ill.

Specifically, the NICB reports 103 people were charged with involvement in workers compensation schemes as claimants, premium payers or providers as of Oct. 1. Only 99 people were charged in 1994.

The number is expected to rise by year-end because 650 investigations are still open.

Increased prosecution is a direct result of more sophisticated technology and the implementation of a 24-hour insurance crime hotline, says the NICB.

It is also indicative of attitude change.

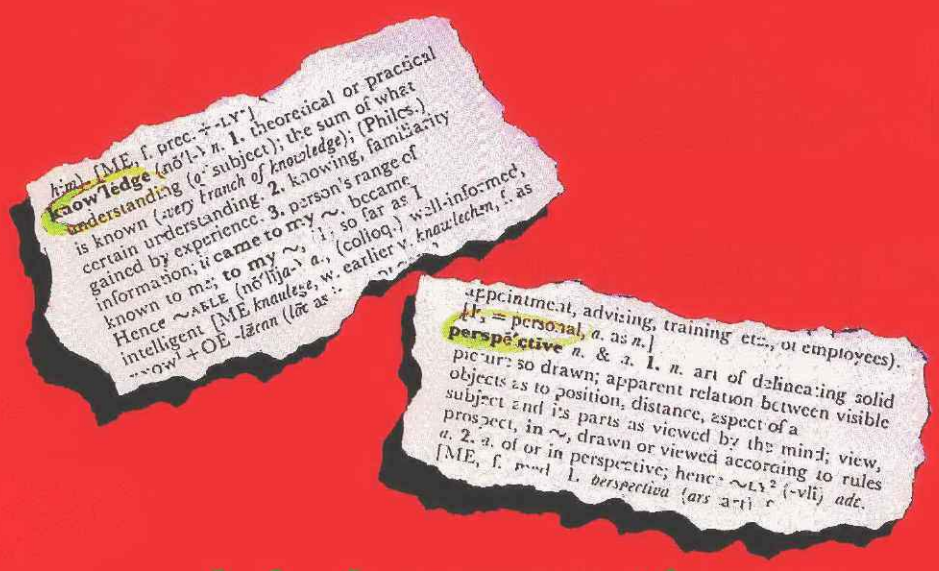
"Several years ago, insurance fraud wasn't prosecuted as aggressively as other crimes," said John G. Di Liberto, NICB's president and chief executive officer. "Today, people know just how seriously insurance fraud affects the cost of doing business. As a result, more workers comp schemers are being targeted, caught and prosecuted."

The NICB estimates that workers comp fraud costs insurers $5 billion annually. Fraud also costs American businesses billions of dollars each year in higher premiums and hidden expenses including equipment replacement costs and retraining costs.

The NICB is supported by property/casualty insurers and self-insured companies.

—By Meg Fletcher

Local knowledge,



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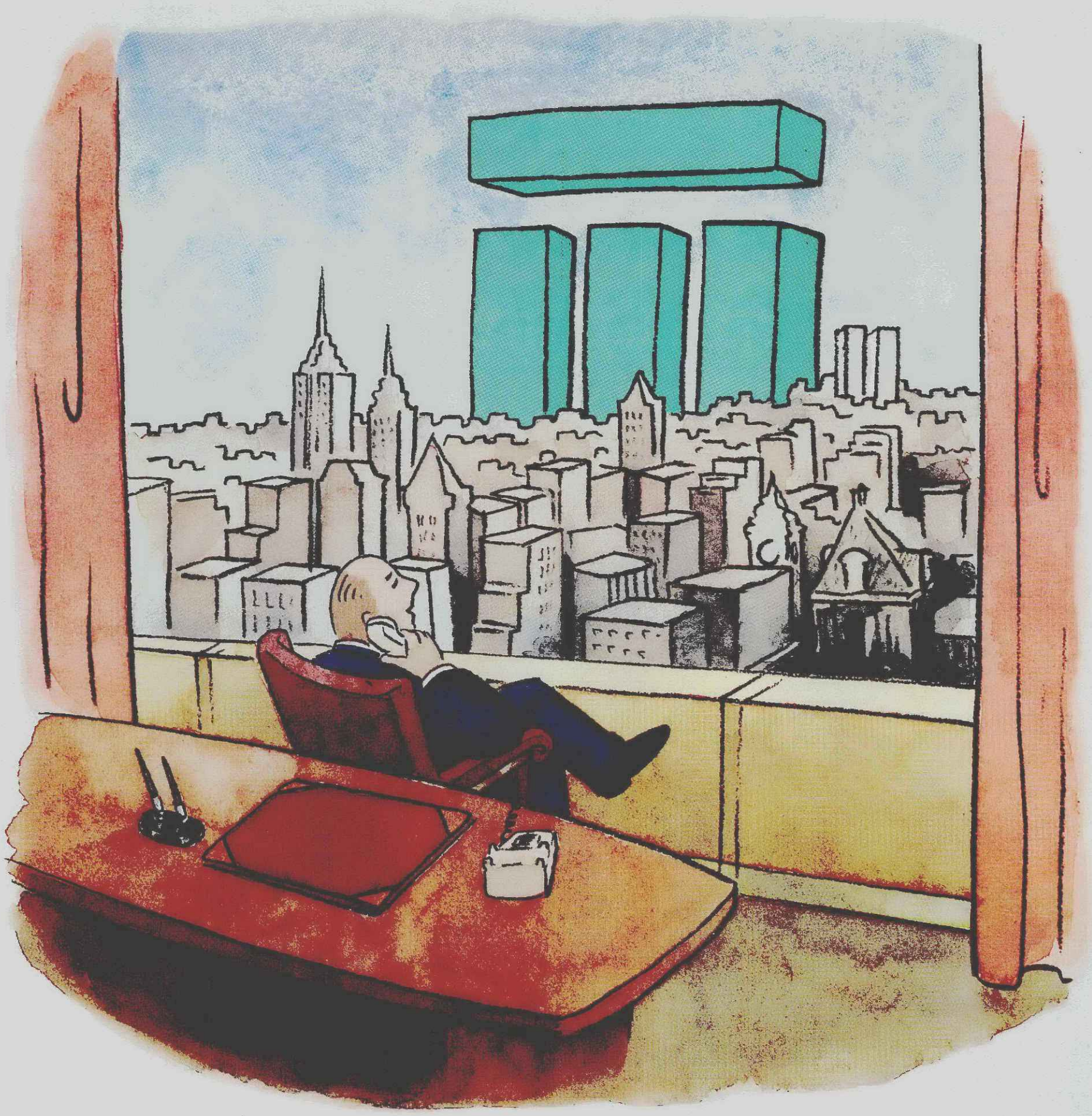

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Temporary dilemma?

Money saved by temps may be offset by unexpected comp liabilities

By ROBERTO CENICEROS

SAN DIEGO—Although independent contractors and temporary employees can save a company money and burdensome paperwork, they also can increase workers compensation and other liability claims when good risk management oversight is absent.

Some companies, such as IBM, have already experienced a rise in claims related to the increased use of outsource workers.

The need for caution and analysis is advised by all the members of a panel who discussed the challenges of a changing workforce at the Third Annual *Business Insurance* Workers Compensation Conference held earlier this month in San Diego.

THE THIRD ANNUAL Business Insurance WORKERS COMPENSATION CONFERENCE

The use of contract workers can improve a company's profits because their loss experience is generally passed on to the company that provides them, said Mary Stolk Dymond, director of risk management for ACX Technologies Inc., a manufacturing and research company in Golden, Colo.

But laws that vary from state to state dictate who is really an independent contractor. Someone claiming to be one may be classified as an employee according to the statutes.

"And if they are not carrying workers compensation coverage—and it depends on what state you are in, or whether they are sole proprietors as to whether or not they are going to be carrying workers compensation coverage—you are going to end up being their employer," Ms. Dymond warned. "And you're going to pick up paying those liabilities and your insurer is going to come in and audit and charge you a premium for it," she added.

More employers will confront this issue, said moderator Meg Fletcher, a *Business Insurance* senior editor. Contingent workers—which also include part-time employees, temporary employees, leased employees and other short-term employees—are projected to increase to 3.5% of the nation's work force by 2005. Currently, they comprise about 1.5 % of the work force.

Scrutinizing your relationships with contractors is vital, agreed Scott A. Wilson, a specialist in labor relations and employment law for the San Diego firm of Littler, Mendelson, Fastiff, Tichy & Mathiason.

"The relationships are great until something goes wrong," he said. "Something invariably goes wrong. Someone doesn't like the arrangement; primarily the contractor. And then all of a sudden that person is contending that he or she is an employee. You want to have a contingency plan as to how you will deal with these different arrangements."

Arrangements with contingent workers vary, advised Jeffrey W. Pettegrew, vp of risk management and insurance for Western Staff Services in Walnut Creek, Calif. Employers need to know that there are technical differences in the laws applied to these workers. The definition of the worker can determine the statutes that apply.

For example, the term temporary worker can apply to secretaries hired for a few days or an entire work force hired to start up a new plant operation. By state statute, they are usually hired for a finite time. The companies that provide them tend to accept the responsibility for workers comp claims.

In contrast, leased employees are provided under contract by a leasing company after an employer converts its workers to the leasing company and becomes the lessee, Mr. Pettegrew explained. The employees may be provided on a long-term basis.

More than 20 states require that employee leasing arrangements use the "multiple coordinated policies" approach to providing workers comp coverage. Under that plan, the leasing company may manage billing and administrative services, though each leasing firm customer has its separate policy of insurance, he said.

Using contingent workers can increase costs.

An internal study at IBM has revealed that workers comp-related accidents shot up from the mid 1980s to the 1990s, said James J. Conerty, manager of risk and insurance management for IBM. The type of accidents on the rise, such as chemical burns, are ones the company had successfully curtailed through safety programs for its employees.

But IBM found the "alarming" climb in accidents was linked to an increase use of temporary workers , Mr. Conerty said. The company has now made an effort to reduce the use of temporary employees.

"The other thing we have found, which may also have played a part with some of these workers that we took in, was that they were former IBM employees," Mr. Conerty said. "Some still had a grudge against the IBM company because: 'Hey, you told me my job was eliminated. You gave me a severance package, but then you hired me back to do the work.' So we knew we also had a morale problem, which you know is also a contributor."

Panel members also advised that OSHA considers a company using temporary workers to be a "co- or joint employer," regardless whether the workers are leased, temporary or independent contractors.

They advised employers to:

- Use reputable staffing companies and make sure they understand the tasks and the work environment.
- Extend safety procedures to temporary employees. BI

Future seems bright for managing comp care

By MEG FLETCHER

SAN DIEGO—Managed health care is one of several "heroes" in state workers compensation systems, helping rescue them from a morass of losses just a few years ago, an executive contends.

However, individual states' legislative and regulatory environments still determine which managed health care techniques can legally be used with workers comp claims, he notes.

The early part of this decade were particularly troubling to many states' workers comp systems because of huge losses, said Peter C. Madeja, president and chief executive officer of GENEX Services Inc. of Wayne, Pa., a managed care services company owned by First Financial Management Corp. of Atlanta.

For example, workers compensation insurers faced a combined ratio of 117% or greater in each of the years from 1984-1992, according to the National Council on Compensation Insurance in Boca Raton, Fla.

Other "evils" at that time, he said, included an overly generous benefit system. "It had grown far too liberal and far too broad," said Mr. Madeja, the keynote speaker at the Third Annual *Business Insurance* Workers Compensation Conference Oct. 11-13 in San Diego.

In addition, there was uncertainty on the part of employers and state legislators about what direction the systems should take and whether managed health care should be part of the solution.

In 1990, he said, their main concern about managed health care was that it might not provide "services that in the end the patient needs."

"The system needed heroes," Mr. Madeja said, and it found them among several groups.

Employers interested in their employees' welfare joined with legislators to pass realistic workers comp laws that would meet the needs of the 1990s as well as the 21st Century.

In addition, insurers played a role by developing innovative funding alternatives, he said.

Meanwhile, "managed care moved from the back room of workers comp to become a driving force," Mr. Medeja said.

As a result, employers and their insurers adopted a variety of managed care techniques, where allowed by law. For example, employers adopted injury management programs for workers as well as utilization review programs, which Mr. Madeja said should be mandatory.

Employers also endorsed other managed care techniques, including pre-certification, peer review, physician and facility panels, preferred provider organizations, fee schedules, audits of providers' bills, medical case management and vocational rehabilitation.

The heroes' combined efforts changed the tide of states' workers compensation systems, Mr. Madeja said.

For example, there was a 20.5 percentage point improvement in the combined ratio of workers compensation insurers, which dropped from 121.5% in 1992 to an estimated 101% in 1994, the NCCI reports.

Though much progress has been made, the job now is "to remain vigilant," Mr. Madeja said.

The old evils—or "monsters"—can return unless employers focus even more on managed care techniques, such as broadening networks, combining both clinical and behavioral case management, expanding on-line computer links between providers and payors as well as increasing usage of capitation and risk-sharing with providers.

"Managed care is becoming an issue in collective bargaining agreements," which appears to be a "positive" development, he said.

"The future of workers comp and managed care appears very bright," he said.

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Stress claims merit another look

Employers find it hard to cull fraudulent claims from legitimate ones

By MICHAEL BRADFORD

SAN DIEGO—Employers are at a big disadvantage when it comes to determining whether stress claims are legitimate, according to a doctor experienced in evaluating those claims.

The problem lies in judging the validity of complaints, said Dr. Barry G. Gwartz, who practices medicine in Los Angeles and is president and chief executive officer of Integrated Health Care Inc., a firm providing workers compensation software and consulting services.

"When you talk about the concept of stress, it almost becomes a ridiculous proposition to define it," Dr. Gwartz said. "Years ago we defined stress in terms of the old engineering concept of putting a strain on a structure causing that structure to bend. How do you measure the strain on a human mind?"

And, he asked, how does an employer or doctor know if the strain even exists when a stress claim is filed? "Very unfortunately, I must tell you that you don't. And that's why, I think, we are in the state we are in today" in trying to control fraudulent claims, Dr. Gwartz said.

In material accompanying his presentation at the Third Annual *Business Insurance* Workers Compensation Conference earlier this month in San Diego, Dr. Gwartz listed a number of points that should be considered when trying to assess the legitimacy of stress claims.

Timing, for example, can be a red flag in a stress case. A claim filed two or three months after termination or a layoff or one filed after unemployment benefits are exhausted is suspicious.

Employers also should be on the lookout for several other signs that could point to a fraudulent work-related stress claim. Dr. Gwartz listed those signs as:

- Subjective complaints of stress that don't relate to a claimant's lifestyle.
- Evidence, such as a lack of cooperation during an evaluation or not complying with treatment, of malingering or made-up symptoms.

The symptoms could be motivated not only by the desire to obtain financial compensation but also simply to avoid work.

- Drug and alcohol use before, during and after the claim is filed. "There's no question that a great deal of the complications in these cases are caused by drugs and alcohol," Dr. Gwartz said. "I would say 50% of the claimants I see are drinking heavily" or abusing medication, he added.
- A history of psychological stressors outside the workplace.
- A history of job dissatisfaction and lack of motivation to return to work.
- Previous workers comp claims filed by the claimant.
- A history of disciplinary actions.

While preventing fraudulent claims is difficult, employers can reduce the number through pre-employment screening that can help spot those who might be inclined to file bogus claims, according to Dr. Gwartz.

In addition, Dr. Gwartz noted, the use of "high-quality medical care providers" can help employers head off stress-related claims and spot the fraudulent ones that are filed. BI

Cologne Re's Zeller to head Hannover Re

Wilhelm Zeller, an 18-year veteran of Cologne, Germany-based Cologne Reinsurance Co.'s management board, is slated to become chief executive officer at Hannover Reinsurance Co. at year end. Mr. Zeller will also become chairman of Eisen & Stahl Re Group, a Hannover Re subsidiary.

Mr. Zeller replaces former Hannover Re/Eisen & Stahl Re Group Chairman **Michael Reischel**, who died in June (*BI*, June 12). Mr. Zeller will be replaced at Cologne Re by two executives from Stamford, Conn.-based General Reinsurance Co. and an officer of Cologne Re.

General Re Senior Vp **Franklin Montross IV** will assume Mr. Zeller's duties as chief of central treaty underwriting services. **Richard Hinchcliff Jr.**, a General Re vp, will be responsible for Cologne Re's liability reinsurance. **Hans-Peter Gehrhard**, currently head of financial reinsurance, will become head of domestic reinsurance business.

Mr. Zeller, 51, will take up his new post in Hannover on Jan. 1, 1996, pending approval from parent company Haftpflichtverband der Deutschen Industrie A.G.

In other reinsurance changes:

Kenneth J. Clark named senior vp of Lincoln National Reinsurance Cos. in Fort Wayne, Ind.

Peter J. Gakos Jr. and **Michael F. Turk** joined Centre Reinsurance Co. of New York as vps-underwriting. Previously, Mr. Gakos was with AIG Risk Management Inc., and Mr. Turk was with General Electric Capital Corp.

James R. Kroner named senior vp and treasurer of both American Re Corp. and its principal operating subsidiary, American Re-Insurance Co. in Princeton, N.J. Previously, he was a director in the financial institutions mergers and acquisitions group at Merrill Lynch & Co.

Robert W. Hedges named executive vp of The Mercantile & General Reinsurance Co. of America in Morristown, N.J., replacing **Kenneth J. Rutkowsky**, who joined Tempest Reinsurance Co. Ltd. as president and chief operating officer. Previously, Mr. Hedges was senior vp at The Home Insurance Co.

Anne Marie Gagnon joined Partner Reinsurance Co. Ltd. in Pembroke, Bermuda, as chief investment officer. Previously, she was vp and senior investment manager for X.L. Insurance Co. Ltd.

Other suppliers

Joseph A. LoCicero has been named president of Buck Consultants Inc. in New York. Mr. LoCicero, a consulting actuary and group executive, succeeds longtime president **William E. Giegerich**, who will retain his position as company chairman.

John A. Harvey joined Norwell, Mass.-based Alexander & Alexander Benefits Services Inc.'s health and welfare practice as a vp.

Arthur Charles Bredesen III named president of the managed care division of Minneapolis-based Health Risk Management Inc. Previously, Mr. Bredesen was president of HCM Inc., a managed care consulting company.

Joseph J. Koechler named vp-sales at the Insurance Services Office Inc. in New York.

Judy Koch Stromback named a principal in the employee benefit consulting group at Deloitte & Touche L.L.P. in Minneapolis.

Comings & Goings: Industry

Insurers

Charles Dangelo joined American International Group Inc. in New York as president of the primary casualty/risk management unit of its domestic general insurance operations. Previously, Mr. Dangelo was group vp-major markets and senior vp-national accounts at CNA.

Also at AIG, **Suzanne M. Petru** joined American Home Assurance Co. as president of the health care division. Previously, she was senior vp-finance and treasurer of SSM Health Care System. **Thomas Carpenter** named president and chief operating officer of American International South Insurance Co. in Charlotte, S.C. Previously, he was a general manager with Aetna Life & Casualty Insurance Co.

William A. Kerr joined The Hartford Steam Boiler Inspection & Insurance Co. as senior vp-engineering department. Mr. Kerr, previously with Pratt & Whitney, will assume the responsibilities of **T. Skipwith Kewis**, who is retiring at year end.

Julliette S. Tehrani named chief financial officer at MBIA Inc. and MBIA Insurance Corp. in Armonk, N.Y. Ms. Tehrani succeeds **Arthur M. Warren**, who is retiring.

William R. Yelverton, former chairman and CEO of New York Life Worldwide Holding Inc., was named president of Prudential Insurance & Financial Services in Newark, N.J.

Mark A. Schoder named senior vp-business development and communications and **Anthony J. Houghton** named senior vp and chief actuary at John Alden Financial Corp. in Miami.

Michele P. Gust named vp and actuary at Fremont Compensation Insurance Co. in Glendale, Calif.

Robert M. Reilley named vp-bank market for American Bankers Life Assurance Co. of Florida and American Bankers Insurance Co. of Florida, both in Miami.

William S. Becker named vp of Selective Insurance Co. of America and Selective Way Insurance Co. in Branchville, N.J.

Susan M. Benson named vp-accident and health reinsurance for Sun Life Assurance Co. of Canada in Toronto. And **Graham J. Bancroft** named vp-life and financial reinsurance.

HMOs/PPOs

Dr. David B. Pryor named system vp-information services for Allina Health System, the Minnetonka, Minn.-based integrated health care system. Previously, Dr. Pyror was president of the New England Medical Center in Boston. BI

October 5, 1995

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Get a lawyer. It pays.

At least in some comp cases, study finds

By MEG FLETCHER

Attorneys gain the most for injured workers when handling permanent partial disability settlements, a new study says.

Although attorney involvement generally increases indemnity payments, attorneys' success at obtaining higher benefits is less evident for soft-tissue injuries like sprains and strains than for fractures, the study by the National Council on Compensation Insurance Inc. found. Benefits for soft-tissue injuries were comparable regardless of whether the worker was represented by counsel.

"These findings suggest that injured workers may retain attorneys as much to help them navigate through the perceived shoals of claim filing, acceptance and negotiation as in the expectation that the lawyer is going to help them gain a large settlement," said NCCI President William D. Hager. "That has important implications for legislators and regulators alike, because if worker confidence in the system can be shored up, attorney involvement can be reduced."

The NCCI, which is based in Boca Raton, Fla., is the nation's largest workers comp information organization.

Its study, which was released earlier this month, reviewed a sample of more than 8,000 serious permanent partial disability claims from 13 states closing from 1989 to 1992. Although PPD claims in general account for less than 10% of total workers comp claims, they account for 66% to 75% of total workers comp system costs.

Attorney involvement in these cases is extensive, the study found. About 5% to 10% of all workers comp claimants overall retain attorneys. However, among claimants with high-cost PPD claims, 80% retain an attorney.

Illinois and Tennessee ranked highest for attorney involvement in PPD claims, at 92% and 90%, respectively. At the other end of the spectrum, those in North Carolina retained attorneys in only 53% of the cases while those in Wisconsin hired attorneys in 67% of cases.

"These are stunning rates for a no-fault system designed, in part, to minimize the costs and inefficiencies of a tort-based system," said David Durbin, an NCCI vp-research who helped write the study.

Women were more likely to hire lawyers than men, single people more likely than married people, and young people more than old people. In addition, claimants receiving outpatient care without surgery were more likely to hire lawyers than other claimants.

Consistent with previous NCCI research, claim costs are substantially higher when attorneys are involved. The median total claim cost for claims closing in 1991 were $55,695 with attorney representation and $45,622 without. Median indemnity payments are always higher when attorneys are involved. While median medical costs are usually slightly higher, sprains/strain claims closing in 1989 were lower.

"It is interesting to consider the impact of attorney fees on different kinds of claims," Mr. Durbin said.

"It is the fees received by the claimant attorneys that account for the difference in claim costs for sprain/strain injuries. Legal fees accounted for about a third of the higher median costs for fractures, but almost half for sprains and strains. They account for an even larger part of the difference in the lump-sum awards often used to settle claims. They added just under 20% for fractures, but 52% for sprains/strains. This is because fees for both kinds of injuries were about $4,000, but the fracture injuries received considerably higher awards.

"These findings indicate that attorney involvement has different effects on the costs of different injuries," he said. "For more objective injuries, like fractures, where key issues are not in doubt, attorneys help secure higher PPD awards. In more subjective cases, where there may be some argument about the nature or extent of the injury, attorney involvement seems to have a less significant effect on the size of negotiated awards.

"Interestingly, while legal fees were actually greater for the subjective injuries, workers with more objective injuries, like fractures, had greater gains in their settlements when they retained an attorney," he said.

The study is significant because "a better understanding of the system can help cut costs," Mr. Durbin said. "Clearer definitions of compensable injuries and streamlined statutes governing permanent partial disability would reduce both costs and attorney involvement without affecting benefits to injured workers."

The study is the first of two the NCCI is doing on attorney involvement in workers comp cases.

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A copy of "Attorney Involvement and Costs in High-Cost Workers Compensation Claims" is available for $35 by calling the National Council on Compensation Insurance at 1-800-622-4123.

Kellogg early retirement

BATTLE CREEK, Mich.—Kellogg Co. is offering early retirement incentives to workers as part of its plan to sharply reduce its workforce at cereal plants in Battle Creek, Mich., and Memphis, Tenn., and to close a San Leandro, Calif., plant in early December.

Kellogg has agreed to add six years to both age and seniority in determining eligibility for pension benefits beginning in 1996, a company spokesman said.

Workers will also receive $750 a month in supplemental income from Kellogg until they become eligible for Social Security, and company pension benefits will remain at standard levels, the spokesman said.

Workers will get $42,000 as severance, whether they leave voluntarily or lose their jobs. They also will receive company-paid health insurance until June 30, 1997. All employees are eligible for the early retirement program.

The plan, which is intended to improve efficiency and reduce capacity, is expected to cut the number of workers at the Michigan factory to 955 from 1,700 and at the Tennessee plant to 299 from 550, the Kellogg spokesman said. The California plant has 267 workers.

The positions will be eliminated over nine months starting at the beginning of 1996. The estimated savings to Kellogg will be $100 million to $120 million a year, he said.

—By Robert Kazel

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INTERNATIONAL

New day dawning in East

Insurance markets emerging in Eastern European nations

By SARAH GODDARD

BUDAPEST, Hungary—One of the side effects of the recent economic reforms in former communist countries in eastern and central Europe has been the emergence of distinct insurance markets in the region.

In only five years, relatively competitive and sophisticated insurance markets have emerged in countries where previously one or two state insurers had controlled the market. In some instances, countries had no insurers at all, since the state paid all "claims" anyway.

Although the transition has been less painful than it could have been, it has not been without its problems.

Last week, insurer company representatives and risk managers from all over Europe and the United States gathered in Budapest to review how far the industry has traveled since trade barriers were dismantled in 1990.

In a one-day seminar preceding the 25th International Insurance & Risk Management Conference, organized by Brussels-based Management Centre Europe, top insurance executives from Hungary, Poland and the Czech Republic not only were guardedly bullish about their countries' recent achievements but also practical about how much more has to be done.

As Bill Tompson, east Europe editor of Oxford, England-based research and consulting firm Oxford Analytica Ltd., said, the tasks involved in privatizing national economies are "enormous."

In the past five years, the region has been redrawn on the world map. Where there were once eight countries, there are now 28, with a combined population of 430 million. "This is possibly the most complicated transformation seen this century—politically, economically and psychologically," said Mr. Tompson. "It is remarkable how much has been achieved—and how well—since 1990. Given the scale and magnitude of the changes, it is extraordinary how far the countries have gone in five to six years."

Although the politics of the region are being increasingly dominated by the return to power of former communists, this shouldn't be seen as a threat to the economic progress of the nations. In fact, the parties "sometimes become even more committed to economic liberalization than their ousted opponents," Mr. Tompson said.

They have good reason to remain committed to the economic reform process. The enticement of closer links with the European Union and the North Atlantic Treaty Organization—with the possibility of full membership eventually—is the carrot dangling in front of many governments' noses.

Reflecting this to a degree, countries like Poland have taken their insurance laws directly from the various E.U. directives decreeing European insurance and related accounting practices.

As the eighth-biggest country in Europe, with a population ap-

See **Bloc party** *on next page*

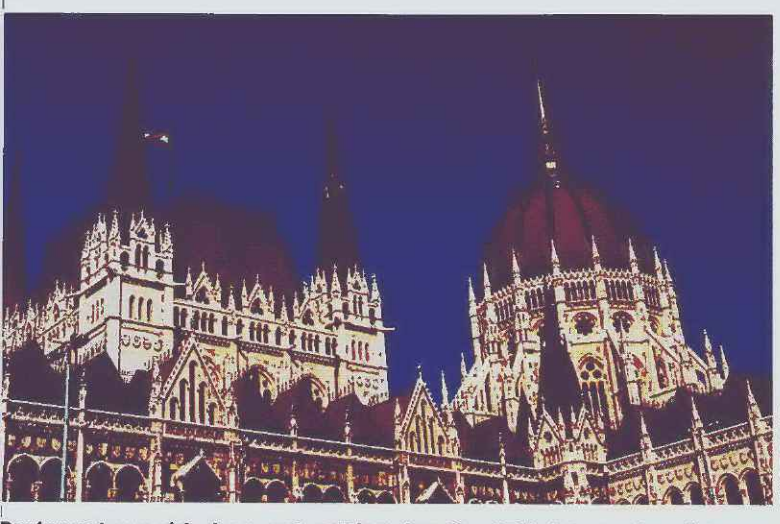

IMAGE BANK

Budapest provided an apt setting for the 25th International Insurance & Risk Management Conference. The problems facing Eastern European countries as they work to establish competitive insurance markets were among the topics of discussion. *Business Insurance* will continue its coverage of the conference in the Oct. 30 issue.

Germany remains Europe's top player in changing market

German insurance market undergoing structural changes

DON LEWIS KIRK

Germany strengthened its position as one of the world's largest insurance markets last year, though ongoing changes in the market's structure could mean major changes for German insurers in the months ahead.

With 213.2 billion DM ($137.58 billion) in premiums from all lines of insurance in 1994, up 9.3% from 1993 levels, Germany maintained its position as the world's third-largest insurance market and the largest in Europe, according to a recent report of the German Insurance Assn., or GDV.

In addition to increased premiums, the volume of claims grew at half the rate of 1993. Total claims rose 6.8%, to 208.9 billion DM in 1994 from 195.6 billion DM the year before (to $134.80 billion from $112.65 billion), an 11.8% increase over 1992 losses.

"Major companies all but swept away nagging underwriting losses in non-life and turned to developing new strategies in a deregulated market," said GDV President Bernd Michaels.

Since January, though, the German market has witnessed some significant changes. These include: increasing foreign competition; the abolition of prior approval of rates and policy wordings; and the decision by major insurers to deviate from tariffs set by the insurance and reinsurance industry.

In May, market leader Allianz A.G. Holding shocked the industry by announcing it would set rates independently of the high property insurance rates set by underwriting consortiums—called konsortial kommissionen, or KOKOs—that once dictated rates for large commercial risks (*BI*, June 5). It was soon followed by Gerling Konzern Allgemeine Versicherungs A.G. (*BI*, July 10) and later Haftpflichtverband der Deutschen Industrie VVaG.

"The rules that once kept Germany's market serene are no longer in effect," said Christoph Keil, director of the Bundesverband Deutscher Versicherungsmakler e.V., or the Assn. of German Insurance Brokers.

"1995 is a year for the brave," he said. "There are those companies that look forward and see liberalization as a chance. Others will be caught in old structures."

As a result, Mr. Keil said, brokers expect consolidation in the market, with only about 10 large industrial insurers surviving as leading players, while foreign insurers play a larger role in the German market.

Mr. Keil compared the situation in Germany to a tidal wave caused by the quake of deregulation. "Eventually it will recede, leaving a lot of scars," but "the rock solid will survive."

Despite the changes on the horizon, midyear reports by the country's two largest commercial lines insurers show continued strong premium growth and expectations of lower underwriting returns.

Allianz sees itself well armed for the fight. "Our financial position is good," Chief Executive Henning Schulte-Noelle recently told shareholders. He predicted that 1995 global earnings will exceed last year's profits of 1.3 billion DM ($838.89 million).

See **Germany** *on next page*

Australians expect more product litigation

Changes may make suits easier to file

By KATE TILLEY

Many Australian corporations are unaware of the 1992 changes to the nation's trade practices laws that make it easier for consumers to sue for damages from defective products, according to a new survey.

And attorneys have warned that, paired with those changes, Australia could see an escalation of product liability claims if the federal government accepts proposed changes on who pays for court costs.

Currently Australia requires losers to pay most of the winners' legal fees in civil actions. Now, however, the Australian Law Reform Commission, an advisory body formed by the federal government, is recommending scrapping that rule.

That recommendation and others are in a report that the group has forwarded to the federal attorney general, Michael Lavarch. The proposals are expected to be introduced in federal Parliament by the end of the month.

The report itself will not be made public until after it has been made available to members of Parliament, said Philip Kellow, who directed preparation of the report for the commission.

But a draft released several months ago favored retention of the loser pays rule, except in cases where the rule could "materially and adversely affect the ability of a party to present his/her case properly or negotiate a fair settlement."

That concern for access to the legal system is what lies behind the U.S. court system's traditional reluctance to require losers to pay. A bill currently in the U.S. House of Representatives, though, would introduce a very diluted version of the loser-pays rule (*BI*, Oct. 16).

Requiring losers to pay is a "major constraint" on consumer lawsuits and if it is changed, the number of suits could increase dramatically, said Richard C. Travers, a partner with the Sydney office of law firm Clayton Utz.

"There's no flood of claims at the moment, so they (corporations) don't regard it as a priority, but they should," Mr. Travers said.

Consumer groups argue that the risk of incurring the loser-pays rule deters consumers from pursuing their rights in court, and makes much consumer protection legislation meaningless.

The study of 102 companies with annual sales of more than $10 million Australian ($7.5 million), conducted by a research company on behalf of Clayton Utz, showed that only 37% of companies surveyed currently are aware of the 1992 changes to the law, and 70% are unaware that the changes made it far easier for consumers to sue manufacturers, importers, distributors, and retailers.

Awareness of the law dropped from 51% of companies surveyed in 1993, to 48% last year, and 37% this year, according to the study, which was released earlier this month.

Julieann Ahern, Sydney-based product liability partner with Clayton Utz, said the number of companies unaware of the 1992 changes to the product liability sections of the Trade Practices Act is disturbing (*BI*, Sept 14, 1992).

"One would have thought that awareness of a law that exposes companies to multimillion-dollar liabilities would have been increasing," rather than declining, Ms. Ahern noted.

She said the survey also found that 20% of companies making or selling potentially harmful products do not think their labels adequately inform consumers about the dangerous characteristics of the product.

Similar surveys conducted in 1993 and 1994 revealed similar results. Although the law does not require companies to improve their labeling, it is disappointing that companies have not taken it upon themselves to do so, she said.

And 42% of respondents, compared with 30% in the previous two years' surveys, agreed that the number of product liability claims is increasing.

But Ms. Ahern said there are some encouraging trends. Of the companies that are aware of the law, 63% had reviewed their product labels. Almost 75% of those that conducted reviews found a need to improve their labeling.

In addition, Ms. Ahern said the number of companies conducting product liability audits rose to 49% this year from 40% in 1994.

But she said the companies that had a low level of awareness of the law had done little to minimize exposure.

This year's survey asked respondents, for the first time, whether they had received any fraudulent or unjustified product liability claims in the past three years.

Ms. Ahern said 25% of the respondent companies had received one or more such claims. Among those firms, one quarter of them described the claims as significant.

Mr. Travers said the results showed most manufacturers do not expect to be sued, but the insurance industry is anticipating the claims and charging product liability claims accordingly.

He said insurers should take into account the risk strategies implemented by corporations and reduce premiums for good risk management plans.

Many corporations buy product liability as part of an overall package of insurance, but many others are self-insured, he noted.

He recommended risk managers implement risk-management strategies that address every aspect of the chain of manufacture and sale.

Monitoring customer complaints is part of the process and a sound risk management policy includes a product-recall policy, he said.

Germany

Continued from previous page

By midyear, Allianz's premium volume had risen 3.1% to 36.5 billion DM ($26.41 billion), compared with 35.2 billion DM ($22.19 billion) for the same period last year. Overall premium volume in 1995 is expected to reach 70 billion DM ($49.17 billion).

None of the German insurers releases interim underwriting results or net income.

However, Allianz predicted underwriting losses would appear higher in 1995 than a year ago, due to tax write-offs it took in 1994 that are not available this year. Allianz's global underwriting losses in 1994 amounted to 348 million DM ($224.6 million), compared with a 1.2 billion DM ($691.1 million) underwriting loss in 1993.

Gerling reported a 6.8% rise in domestic premiums to 5.3 billion DM ($3.84 billion) in the first six months of 1995, while foreign premiums alone rose 12.5% to 1.26 billion DM ($911.7 million).

"Competition has made it difficult to make a profit with normal fire insurance business," acknowledged Gerling Chief Executive Juergen Zech.

Colonia Group A.G.—which relinquished control of Cologne Reinsurance A.G. to a joint venture controlled by General Reinsurance Corp. (*BI*, Oct. 31, 1994)—predicts more international alliances in the future.

Indeed, the Gen Re deal and Union des Assurances de Paris' 1993 acquisition of a majority stake in Colonia reflect a growing interest by foreign insurers, which have already brought some innovation to the German market. Swiss Reinsurance Co., Winterthur Insurance Co. and Zurich Insurance Group all have stakes in the German market.

For the first six months of 1995, Colonia expects "positive" underwriting results, largely due to new operations, including Nordstern Allgemeine Versicherungs A.G., of which it acquired control from UAP, and its new joint venture with General Re, Luxembourg-based General Re-CKAG Reinsurance & Investment S.A.R.L.

Colonia's premium volume in the first six months of 1995 reached 5.3 billion DM ($3.84 billion), an increase of 3.9% over the comparable period of 1994.

In 1994, Colonia's net income reached 85.3 million DM ($55 million) compared with 59.9 million DM ($34.5 million) in 1993.

One key factor in the competitiveness of Germany's insurers will be reinsurance availability, a reinsurer executive contends.

"New products and solutions for industry will often depend on the ability of insurers to find reinsurance capacity," said Wilhelm Zeller, an executive board member of Cologne Reinsurance Co.

Cologne Re aims to play a vital role in helping German insurers better compete in niche areas like environmental liability, product liability and directors and officers liability.

"Cologne Re is Germany's casualty reinsurance company," Mr. Zeller said. It also expects to expand operations in conjunction with General Re.

"Our new financial clout will give us better position in growing areas of business," he said.

Cologne Re's premium volume grew 11.6% to 5.7 billion DM ($3.68 billion) last year from 5.3 billion DM ($3.05 billion) in 1993, and the reinsurer expects premium volume of 6 billion DM ($4.21 billion) in 1995.

While Cologne Re, too, does not release interim underwriting results, it expects 1995 earnings to exceed last year's. Cologne Re's underwriting profits reached 40.8 million DM ($26.33 billion) in 1994, after posting a 144 million DM underwriting loss ($82.9 million) in 1993. BI

Bloc party

Continued from previous page

proaching 40 million, Poland's economy is showing a steady 6% annual growth. Despite problems in stabilizing its inflation, which currently is 17% but is expected to reach about 21% by the year end, Poland has attracted its share of international investment, including within the insurance sector.

Warsaw-based WARTA S.A., formerly the state-run international insurance company, lists New York-based CS First Boston Inc. and J. Rothschild Securities Ltd. among its shareholders and is looking for another international institutional investor to take between 20% and 25% of its present share capital. Both American International Group Inc. in New York and Assurances Generales de France in Paris have entered joint business ventures with WARTA.

Also, in 1991, Poland's Sejm, or parliament, ruled that foreign companies can set up branch offices in the country, though this will not be fully implemented until 1999.

At present, 41 insurers are operating in the Polish market, which is particularly strong on the general insurance side.

About one-third of non-life business is accounted for by property insurance, while the vast majority of business is motor, marine and aviation insurance. The balance—just over 6%—represents personal lines coverages, according to Jan Durajczyk, director of WARTA.

Mr. Durajczyk warned against certain fraudulent liability claims because of the increasing frequency of "arranged accidents" in Poland. Nevertheless, general liability is "unexpectedly popular," and product liability also is growing rapidly as a class of business.

Indeed, the future looks bright for the Polish market, according to WARTA's Mr. Durajczyk. As the economy has expanded, 2 million Poles have started their own companies, accounting for half of the $17 billion worth of exports in 1994. Many of these companies are small and uninsured. As they grow, they will increasingly insure against such perils as fire and business interruption.

In Hungary, limited capacity has resulted in general and product liability limits of $1 million. Excess coverage is available but difficult to purchase in the domestic market, said Geza Mayer, managing director of Sedgwick Insurance Brokers & Consultants Ltd. in Budapest.

As for Hungary's pollution exposures—which Mr. Mayer called "the nightmare for Western underwriters"—there are vast polluted areas that will cost billions of dollars to clean up. "It is almost out of the scope of any insurance."

Employers liability also is turning into a major problem in Hungary, as people find that "the only escape route is to sue anyone. International companies are a very good target," he warned. Court awards have increased tenfold over recent years and employers must accept that they are likely to face employee lawsuits.

The Romanian market is taking more time to heat up. More than 90% of property is still state-owned, according to one of the delegates, so not much business is insured. "But the big problem is insurance education," he said.

Despite some problems in the region, brokers also have found room to grow in Eastern Europe.

Brokers were admitted to the Polish market when it was liberalized in 1990, and now number around 300. Most of the so-called alphabet houses have operations there, though there are plenty of smaller firms with one or two clients only, said Mr. Durajczyk. Altogether, about 20% of business is placed through brokers, and brokers involved in placing commercial business often act as risk managers for their clients. "There are no risk managers in companies," he said.

Brokers are flourishing in the Czech Republic, though of the more than 3,000 currently operating, "more than 2,000 have very little knowledge" of insurance, said Petr Zaruba, managing director of Prague-based insurer Ceska Pojistovna A.S. "They only know that there is some commission connected with the activity," he said, not entirely in jest.

Andras Barczay, a director of Budapest-based Hungaria Biztosito RT, said that brokers should contribute to more than just premium negotiations. "A lot of very big clients (in Hungary) don't understand the insurance business and what they need it for," he said, adding that education and consulting function could be undertaken by brokers.

The mismatch of book values of insured assets to their real values is proving a major headache for insurers in Hungary, according to Sedgwick's Mr. Mayer. With differences between replacement and book values reaching 300% in some cases—partly a result of the huge rates of inflation experienced in the early 1990s—insurance buyers have been concerned that their premiums would increase likewise.

This has proved not to be the case, though. Mr. Mayer said that in such circumstances, policyholders will learn from their own mistakes by not receiving the full amount of a claim if it is underinsured.

Local insurance conditions pose another problem to foreign investors. In Hungary, all-risks policies are rarely available, according to Mr. Mayer, and earthquake cover is seldom included. It can be purchased as an endorsement to a main property policy, but it can steeply increase the premium, which may not be wholly necessary. "Insurance companies have a number of add-ons," said Mr. Mayer, "but be very, very careful—they can result in a very expensive price for a normal insurance policy."

The most important factor to remember in Eastern and Central Europe is that every country is different, stated Mr. Mayer. Eastern Europe "can't be treated as one area." Domestic markets are becoming more sophisticated as foreign investment increases, along with increased competition from foreign insurers. BI

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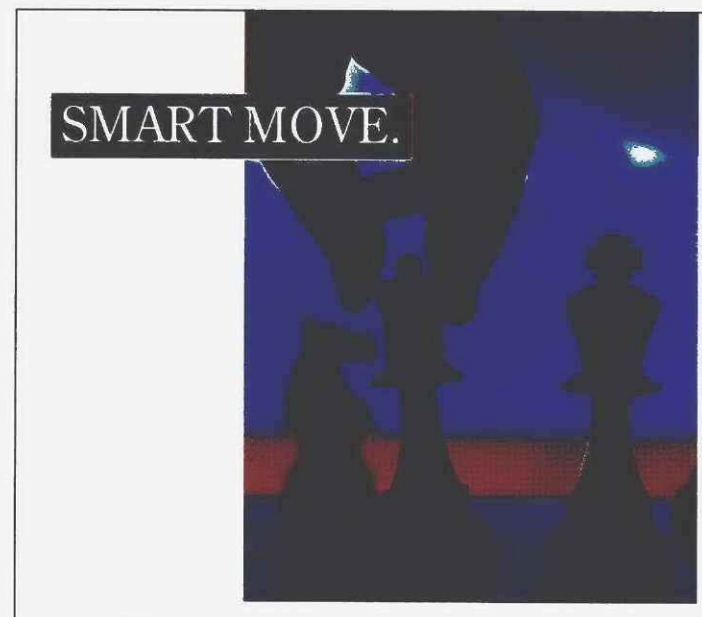

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Attn: Robert D. Steinhoff, Liquidator

Tel: 441-295-5063
Fax: 441-295-9132

Creditors who fail to prove their claims as aforesaid will be excluded from the right to participate in any distribution before they so prove.

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Scholarship honors Lichota

Four-year grants planned for College of Insurance students

NEW YORK—Friends of the late Edith F. Lichota are spearheading an effort to raise $250,000 to establish a fully endowed scholarship program at The College of Insurance in Ms. Lichota's name.

The goal is to provide each year a four-year scholarship to a student at the college in New York selected on the basis of financial need and achievement in academics.

The program is the idea of four individuals who worked under Ms. Lichota at Irving Trust Co. while she was in charge of risk management from 1983 to 1989.

"Earlier this year, we spoke to more than one dozen people who knew Edith and we asked them what we could do to honor her. People said something at The College of Insurance made sense because she was such a major contributor to the college and the risk management field, in general," said Bob MacGuffie, manager-business development at General Electric Capital Corp. in Stamford, Conn., and one of the four organizers.

The other organizers are: John McGann, first vp at Leumi Trust Co. in New York; Carolyn Simpson, risk manager at Merrill Lynch & Co. Inc. in New York; and Jim Gamble, a risk management consultant at Ernst & Young L.L.P in New York.

Ms. Lichota, who died at age 65 last November (*BI*, Dec. 5, 1994), was a member of the college's board of trustees for nine years, often served as a guest lecturer and was a strong supporter of the college's programs and education in general, Mr. MacGuffie said. "Edith felt a strong education was very important. Therefore, this seems like the perfect thing to do."

The program's organizers are kicking off the fund-raising drive with solicitation letters to about 50 commercial banks, insurance companies and others in the insurance and risk management industries.

Corporate contributors are being asked for $5,000, with the goal of raising $250,000, which would finance the scholarship program indefinitely. "Any smaller amounts that anyone might want to send in would be welcome," he added.

People who knew Ms. Lichota during her long career in risk management, her involvement in establishing Bankers Insurance Co. Ltd. and her association with the Risk & Insurance Management Society Inc. said the endowed scholarship in her name is a tribute to a deserving person.

"I have very fond memories of our days together when we were both active with RIMS," said Richard Heydinger, director of risk management at Hallmark Cards Inc., who as a member of RIMS' executive council observed Ms. Lichota in her position of vp for government affairs with the organization.

"She was a real role model and not just for women. As a young man, I respected her tremendously and wanted to have some of the skills she had. She was bright, energetic and there was nothing she couldn't accomplish when she put her mind to it," Mr. Heydinger said.

Companies and individuals are asked to make contributions directly to The College of Insurance, with checks payable to The College of Insurance with a notation on the check referring to the Edith F. Lichota Scholarship Fund.

Payment should be remitted to Oliver Conover in the development office at the college.

Tax-deductible contributions can be mailed to The College of Insurance, 101 Murray Street, New York, N.Y. 10007. For more information, call Mr. Conover at 212-815-9261.

—By Michael Schachner

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Risk/Employee Benefits:	
Vice Presidents, Directors, Managers, and other related department personnel of: insurance, risk, employee benefits, personnel, compensation, pension, safety, security, industrial relations, human resources and employee/ labor relations	16,931
Sub-total	30,243
Associations	355
Government, Unions and Educational Institutions	955
Commercial Consumers Sub-total	31,553
Insurance Agents and Brokers	8,658
Insurance Companies	7,857
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Adjusters, Appraisers, TPA's, Captive Managers & Health Care Providers	1,935
Others Allied to the Field	960
Total Qualified	54,519
Non-qualified	9
Single Copy Sales	0
TOTAL CIRCULATION	54,528

★ *Source Business/Occupational breakdown of qualified circulation, May 29, 1995 Issue, as submitted to BPA for June 1995 BPA Publisher's Statement*

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Investment advice a hit with workers

Messenger is critical to message

HOUSTON—Funny, down-to-earth and simple investment education was what Baker Hughes Inc. sought for its $400 million thrift plan.

The Houston-based oil field services company has a diverse work force of 9,000; the challenge was to find an educational medium and message that could touch the whole employee population about the importance of saving.

They picked David Chilton, the author of "The Wealthy Barber," a book of simple investment advice that has also been featured in public television specials. They used his two-part video, with Mr. Chilton taping customized messages for Baker Hughes' workforce at the beginning and end, including details about the thrift plan's features and a personalized pitch to employees about the need to save.

Employees who previewed the video in target groups "loved it. They liked the fact that the videos were funny and that they didn't have some serious financial planning-type talking down to them in investment terms they didn't understand," said Jill Hardcastle, benefits administrator.

The videos were shown more than 100 times last year, supported by Mr. Chilton's book and a resource guide with a list of other sources to go to for more information, said Ms. Hardcastle.

Participation in the plan was already fairly high at 86% of eligible employees. Following the campaign, however, many workers upped their contribution rates. Also asset class diversification improved, with more money going into equities and out of fixed-income instruments.

The company's annual fall education campaign will reinforce many of the tenets taught last year by Mr. Chilton. A quarterly newsletter based on many themes of the Wealthy Barber and a review by Mr. Chilton is being introduced as part of a print campaign.

—By Christine Williamson,
Crain News Service

Leave it to the experts

Avoid letting employees invest 401(k) funds, expert says

By ROBERT KAZEL

SAN FRANCISCO—Like a would-be surgeon performing operations without medical knowledge, most 401(k) retirement plan investors are putting money away virtually blindly and usually receive "amateurish" advice from employers, says a pension consultant.

Lawrence C. Starr, president of West Springfield, Mass.-based Qualified Plan Consultants, told a group of benefit managers earlier this month that it is ethically questionable—as well as potentially legally precarious—for companies to let employees invest their retirement money on their own.

He said the solution is to give employers and investment experts control over where workers' retirement funds are put.

"Can employees be made into investment experts?" asked Mr. Starr at a benefits symposium sponsored by the International Society of Certified Employee Benefit Specialists.

"The answer is no. Individual employees may be very talented out there. The average employee is not educated to make these decisions, nor can he be made to be educated to make these decisions," Mr. Starr said.

Employees who participate in 401(k) programs are often drawn to safe and stable investments, but they may plan to earn considerably more money than they actually do.

Although the vast majority of large companies still permit employees to direct their investments, a growing number are taking over on workers' behalf,he said.

This is partly out of executives' uneasiness over the chance that in an ERISA suit employers could be held liable for workers' bad investment choices.

Although the law is unclear in this area, Mr. Starr said he expects many lawsuits in coming years by employees who were given myriad 401(k) choices but wound up with less retirement savings than they had planned on.

Employers have some protection from suits if they follow Department of Labor guidelines on Section 404(c) of ERISA that took effect last year.

To be exempted from ERISA liability for an employee's losses from investment decisions, the employer must offer plan participants at least three categories of investment, each with varying degrees of risk and return potential. Participants also have to be able to select a fund that is diversified in several stocks, and must have the chance to switch between funds at least once a quarter (*BI* Oct. 12, 1992).

In a 1994 survey, 80% of plans gave participants total control over their investments (*BI*, Oct. 17, 1994).

More than 40% of funds were invested in guaranteed investment contracts.

But despite the proclivity of some employees to play it excessively safe with retirement funds, one industry analyst observed that there may well be excellent reasons why some employees make the investment choices they do.

Gary Caine, a managing consultant with A. Foster Higgins & Co. Inc., said young workers saving for a house or children's education might make a reasonable decision to avoid volatile stocks in favor of other less risky investments.

Conversely, someone designing a long-term investment strategy for retirement can feel more comfortable investing fairly heavily in stocks, because this course tends to pay off over the long haul, he said.

While such decisions are rarely perfect, Mr. Caine warned against curtailing employee choice to the point that all workers must accept a "one size fits all" retirement plan and employers are somehow expected to invest their money for them based on such factors as age and marital status. BI

Employee benefits issues

Over 600 attend CEBS meeting

SAN FRANCISCO—More than 630 registrants attended the four-day, 14th Annual Employee Benefits Symposium of the International Society of Certified Employee Benefits Specialists earlier this month.

The Oct. 8-11 conference at the downtown Westin St. Francis hotel included seminars, presentations, roundtable discussions and speeches on issues such as managed care, health care trends, retiree pension plans and disabled workers.

Attendees were primarily corporate benefits managers who have passed the society's certification examination after completing 10 courses of study.

When not discussing benefits, attendees sampled local restaurants, participated in a fun run/walk, and wore beads, "smile" buttons and tie-dye clothes to a 1960s nostalgia dance.

The organization's next symposium will be Oct. 6-9, 1996, at the Hyatt Regency in Atlanta.

For more information on next year's symposium, contact the ISCEBS, P.O. Box 209, Brookfield, Wis. 53008-0209; 414-786-8771.

Mergers

Continued from page 2

vested in their benefits by the acquirer at the time of the merger, Mr. Hackett said.

For the acquirer, a key goal is to fully review the target company's benefit programs early in the process, before any actual merger.

"It's not until you get in there with a fresh set of eyes that you see problems the seller has honestly overlooked," he said. Without such scrutiny early on, purchasers are too often left "scrambling to understand what the heck they've bought," he said.

During this review, an acquirer may find that its target has bad health risks that could raise its insurance costs considerably. These are usually painful, but not fatal blows to negotiations. "They rarely upset the transaction, but they can be unpleasant surprises," he said.

Similarly, although acquirers customarily assume responsibility for the acquired firm's COBRA beneficiaries, they may do so grudgingly. "You can get some unpleasant surprises on what you thought are pretty routine matters," Mr. Hackett said. Many people receiving continuation coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 have more serious health problems than the general population, he pointed out.

The acquired company should be in close communication with benefits professionals at the target company early on, so that plans for the future of benefits programs can be released to employees clearly and quickly once the acquisition is announced, Mr. Hackett said.

"It's best if early on in the process people can start thinking about the issues, because the questions come quickly," he said. If workers' benefits will be inferior in some respect after the merger or acquisition, it also will be important to preserve morale by offering them other reasons it will be advantageous to work under the new ownership.

Workers are protected by the Internal Revenue Code against major reductions in certain benefits following the merger of benefit plans, as in corporate takeovers.

Under the code, an amendment that is a "partial termination" of a qualified plan immediately fully vests all the affected participants in their accrued benefits. Courts have interpreted the term, which is not defined in the tax code, in part as the exclusion of more than one-third or so of a plan's participants.

Among the affected benefits, Mr. Hackett said, are early retirement benefits and benefits accrued for defined contribution plans at the time of the plan amendment. Also protected are features that relate to the form of the pension's distribution, such as joint and survivor annuity requirements.

The combination of IRS regulations, corporate takeovers and 401(k) plans in particular is causing headaches for many companies in transition. The acquirer may have trouble combining its 401(k) with that of the acquired firm if the acquiree, for instance, permits participants to take benefits in the form of joint and survivor annuities.

Even though only a small fraction of the acquiree's 401(k) plan participants may have chosen that option, the acquirer is legally obliged to preserve it and keep track of it administratively, Mr. Hackett said. Computers must keep data on plan participants who have slight variations in otherwise standard plans.

"You can imagine the chance of error creeping into the system," he said. "I can't overstate how much trouble this causes. To try to impose all this regulation on the employers just creates hassles. Is it really doing anything to protect employees? The answer, in general, is no. It's IRS micro-management of the pension field." BI

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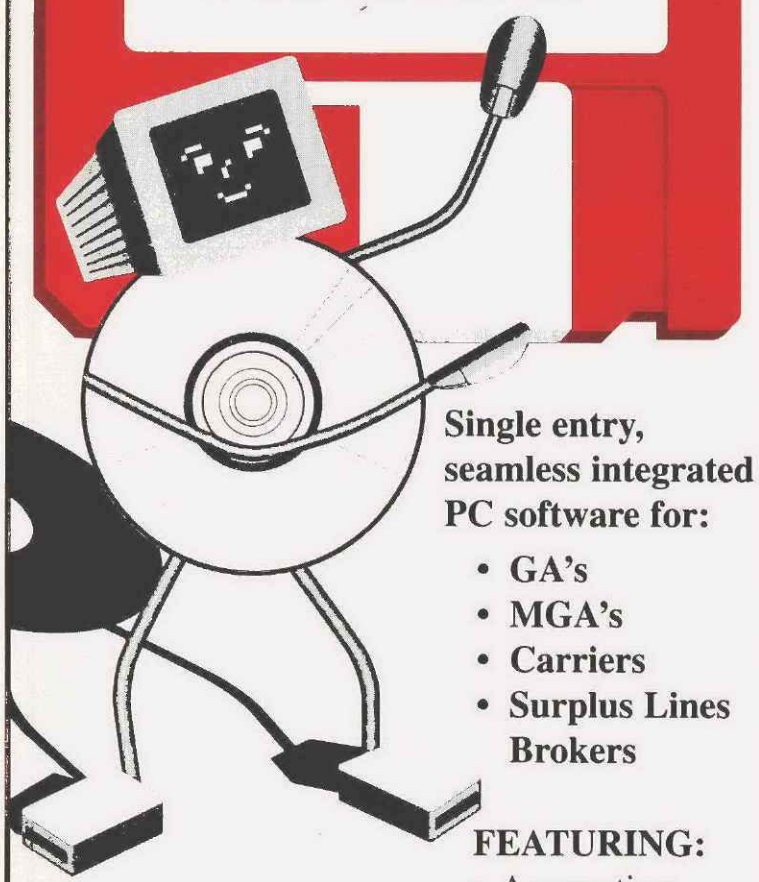

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Uranium

Continued from page 1

public.

"The new investors, be they IPO individuals or—through an M&A process—another company, want to assure themselves that the company they are buying can compete effectively in the marketplace and can manage its risks," Mr. Shelton said. "So that's why we started before our transaction date."

"We literally took the entire operation apart from a risk standpoint and said, 'What if?' " Mr. Bruce said.

The heart of Bethesda, Md.-based U.S. Enrichment's operation are its two gaseous diffusion plants—one in Paducah, Ky., and the other in Portsmouth, Ohio,—which supply nearly 90% of the nation's and 40% of the world's enriched uranium.

At the plants, naturally occurring uranium—which is about 99% U-238 isotope and only about 1% of the U-235 isotope needed for nuclear reactions—is "enriched" in a process that brings it to about 5% U-235.

From there the uranium is shipped to other companies that fabricate or fashion the uranium into pellets, then assemble those pellets into the fuel rods used in nuclear power plants.

Mr. Bruce contrasted the nuclear material produced at the USEC facilities with "weapons grade" uranium, which is about 95% U-235. "What they're dealing with is a low-level uranium. They don't deal with the stuff that goes 'Boom!' "

The $12 billion worth of warhead material uranium that USEC is purchasing from Russia through the U.S.-Russian weapons-to-fuel pact is "de-enriched" in Russia before being sent to the U.S., he said.

U.S. Enrichment has approximately 5,000 workers at its two manufacturing facilities and its Bethesda, Md., headquarters. The bulk of those workers—those involved in a production capacity—are actually employees of a division of Lockheed-Martin Corp. who operate those plants under contract with U.S. Enrichment, Mr. Bruce said.

The company has approximately 175 direct employees, most of them in Bethesda, he said.

With about $1.5 billion in annual revenue, U.S. Enrichment will rank approximately 270 on the Fortune 500 when it goes private, a course Congress set for the enrichment operation in 1992, when it decided private enterprise could run the uranium enrichment business more efficiently than the federal government.

Created to facilitate the privatization, U.S. Enrichment took over the Department of Energy's uranium enrichment business on July 1, 1993. The company is a government chartered corporation owned by the U.S. Treasury. It operates under a board appointed by the president and confirmed by the Senate.

"Because it was a new corporation but a mature operation that had existed for 50 years it was pretty unique because they never had insurance," Mr. Bruce said. "But as a private entity things change because you don't have Uncle Sam to go to any longer."

In 1994, Rollins Hudig Hall Group Inc. of New York won the bidding to provide USEC's outsourced risk management. RHH hired Mr. Bruce, who tapped the broker-consultant's expertise as needed in developing the risk management program.

"Any organization, ourself in particular, doesn't want to staff up before it has to," Mr. Shelton said. "That's why we outsourced."

Before starting his law firm, Mr. Bruce had been general counsel at New Haven, Conn.-based Pirelli Armstrong Tire Corp., responsible for risk management and environmental affairs.

The outsourced risk management program was always meant to be a turnkey operation, with Mr. Bruce never intending to remain as permanent risk manager. The task was to analyze USEC's risks, develop a risk management program and ultimately turn over a fully developed program to the company and a permanent risk manager.

"This is really not an example of an outsourcing in terms of somebody taking an existing risk management operation and hiring somebody and taking it outside," Mr. Bruce said. "It was sort of an engineering rather than a re-engineering of risk management because you didn't have a prior program."

"It got into a lot more than just buying insurance," he said. "It truly was a risk management operation. We had to decide from day one, 'Do they need insurance? Where do they need it?' "

And the exposures to be considered at U.S. Enrichment spanned "the full range of risks, everything from automobile liability to the property protection kinds of risks," Mr. Bruce said. While not wanting to address the specifics of the coverages U.S. Enrichment put in place to address those exposures, Mr. Bruce said, "it crosses the full line of property and casualty coverages."

"At the time we came in we had 500 or 600 vehicles all driving around without insurance because they were government-plated vehicles," he said. Among the steps Mr. Bruce implemented in addressing that exposure was establishing a process for checking out vehicles and another for handling claims.

Cargo issues were an area of major concern. "Here you're shipping very valuable material. You could be shipping millions and millions of dollars of materials in one ship" Mr. Bruce said.

"What happens if the ship goes down. Even beyond the radioactivity issues you have a huge property loss. What happens if your material is on the docks of St. Petersburg, Russia, and your ship isn't there. And how secure are the docks of St. Petersburg, Russia?"

The company also faced considerable construction risk issues at the two processing plants, each of which is the size of nine football fields. "We put in some very basic but essential processes in addition to our own liability programs in order to protect us," Mr. Bruce said.

Then there are the environmental concerns. "You have to look at environmental issues because that is a big potential liability," he said.

The privatization will provide for any historic liability to be retained by the government. But once the privatization occurs, "you have to be concerned about any future environmental issues as well as being drawn into any past issues," Mr. Bruce said. Those exposures were addressed by taking a loss-prevention focus.

The company has onsite fire departments at each of its manufacturing plants to help reduce property loss exposure, but Mr. Bruce noted, "You have to make sure you have property protection programs not only in place but bring them up to full underwriting standards as you approach becoming a private entity."

Business interruption exposures also had to be addressed."As a government entity you don't worry about lost profits. As a private entity you do," Mr. Bruce said.

Any nuclear issues at the plants have always been covered by protections provided by the federal Price-Anderson Act, which indemnifies nuclear power plants and facilities. "So they didn't have to go to the insurance market because they had dollar one coverage in the event of an incident," Mr. Bruce said.

Under the terms of the congressional privatization mandate for the company, most of the Price-Anderson protections will remain in place when the USEC becomes a private entity. "Basically they have very unique protections because it was specified in the enabling legislation," Mr. Bruce said.

As CFO Mr. Shelton was a key player in determining the company's coverage strategy, Mr. Bruce said. With no debt and a sizable revenue stream, USEC could afford to retain more risk than many companies, he said, though the risk retention-coverage strategy continually will be reviewed.

"I don't think there is any situation in which there is no insurance component, but it really was an eye-opener to do the analysis of 'What are we really getting here for a lower deductible?'," he said. "I'm not saying that it's a unique approach. I think that's what risk management is truly all about."

Going through the process allowed USEC to "establish relationships with insurance underwriters so when the time comes for us to place insurance they know who we are and we can move forward with it more quickly," Mr. Shelton said.

Developing the risk management program also meant educating USEC employees about managing risks.

"There was as much education and training internally as there was establishing relationships externally," Mr. Shelton said.

"While they were receptive to all the change it was a big change for people who weren't used to dealing with it before," Mr. Bruce said.

But now there is a sense throughout the organization that risk management issues should be brought to the attention of USEC's risk management officials before a problem occurs, he said.

USEC's clear mission statement—to do what is necessary to privatize the operation—helped considerably, Mr. Bruce believes. And now, as privatization of federal operations is a topic of considerable discussion in Washington, U.S. Enrichment is poised to move forward.

As discussions develop regarding others, "they'll be turning to this and saying, 'Here are all of the possible ramifications,' " Mr. Bruce said. "It won't be limited to the risk areas but I think in this particular case the risk areas will be a model of how you have to go through the analytical process and how you implement the program." BI

AP/WIDE WORLD

The Three Mile Island nuclear reactor near Middletown, Pa., lost coolant and suffered a partial core meltdown on March 28, 1979.

Punitive damages allowed in 3 Mile Island case: Court

By DOUGLAS McLEOD

PHILADELPHIA—The operator of the Three Mile Island nuclear plant may be sued for punitive damages in 2,100 personal injury cases still pending from the 1979 accident, a federal appeals court has ruled.

The 3rd Circuit U.S. Court of Appeals last week rejected arguments by General Public Utilities Corp., based in Parsippany, N.J., that federal law prohibits punitive damages in nuclear liability lawsuits.

In affirming that plaintiffs may seek punitive damages, though, the court may have left open a question of whether those damages can be recovered from the federal government, which provided the top $85 million layer of GPU's $560 million in liability protection, plaintiffs' lawyers say.

In a separate ruling, the panel also found that the utilities breached their duty of care by exceeding federal standards on radiation emissions. Personal injury plaintiffs must still prove they were exposed to the radiation and that the radiation caused injuries.

GPU said it has not decided whether to seek Supreme Court review of the rulings.

The March 1979 accident—in which a coolant system breakdown led to the release of radioactive material into the atmosphere—caused a six-year shutdown of the TMI plant, did hundreds of millions of dollars in damages and triggered years of litigation among GPU, the plant's manufacturer, the U.S. Nuclear Regulatory Commission and hundreds of thousands of personal injury and property damage claimants (*BI*, Jan. 17, 1983).

Cleanup at the plant has cost about $1 billion, according to a spokeswoman for GPU Nuclear Corp. The plant's Unit 2 reactor, where the accident occurred, has been permanently shut down; the Unit 1 reactor was not restarted until 1985, she said.

Virtually all of the litigation that followed the accident has been resolved.

In 1981, a federal judge approved a $25 million class action settlement covering roughly 600,000 individuals and businesses located within 25 miles of the plant.

GPU's insurers also paid $14.3 million in 1985 to settle roughly 300 additional personal injury claims.

Still pending, however, are about 2,100 personal injury claims filed since 1985.

At the time of the Three Mile Island accident, GPU had a total of $560 million in liability limits, including:

- A $140 million primary liability layer written by American Nuclear Insurers.
- A $335 million layer provided through a retrospectively rated utility industry insurance facility in which 67 nuclear plants then participated.
- An $85 million layer funded by the federal government.

To date, about $56 million in liability limits have been used to cover settlements, expenses and other items, the spokeswoman said.

GPU has been battling the remaining 2,100 claims in court for several years, with the most recently decided issues involving the applicability of state laws on punitive damages and the duty of care the utility owed the plaintiffs.

On the punitive damages issue, a lower court had earlier ruled that the federal Price-Anderson Act, as amended in 1988, only precludes payment of punitive damages by the federal government. Thus, the privately insured lower layers of GPU's liability program could be tapped, the district court found.

In an Oct. 17 ruling, the 3rd Circuit affirmed the lower court ruling but also appeared to go beyond it. The Price-Anderson amendments precluding punitive damage payments by the government apply to accidents occurring after the law's 1988 effective date, meaning that prohibition does not apply to the 1979 TMI accident, the panel wrote.

Later in the opinion, though, the panel referred to the law's "prohibition against punitive damage awards being paid out of the federal layer of insurance," a GPU spokesman noted.

Arnold Levin, a plaintiffs' lawyer with Levin, Fishbein, Sedran & Berman in Philadelphia, said the apparent ambiguity could become a point of argument in the future.

Whether punitive damages are ever recovered remains to be seen: The appeals panel also noted that priority should be given to paying compensatory damage claims and that the lower court has the discretion to limit or bar punitive damage recoveries to allow payment of compensatory claims.

The first 10 of the 2,100 personal injury claims are due to go to trial in June 1996.

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In re: TMI, 3rd U.S. Circuit Court of Appeals, Nos. 94-7599, 94-7600, 94-7601 and 94-7602.

ALCOA

Continued from page 2

disputes over coverage for pollution damage to date have focused on liability policies.

ALCOA and NAI are seeking coverage under the all-risk policies contending that the pollution damaged their property and reduced its value.

"It is a very interesting development. The court obviously has taken time to write a lengthy opinion. This is definitely something to watch," said Richard Blatt, a partner with Blatt Hammesfahr & Eaton, an insurer defense firm in Chicago.

In the case at hand, ALCOA and NAI have sued scores of their first-party and third-party insurers for coverage for the cost of environmental damage at 35 sites across the country.

Many of the policyholders' first-party insurers are denying coverage, claiming the loss was in progress at the time policies were incepted, that the loss didn't occur during policy periods, and that damage was not fortuitous.

In response to the insurer defendants' motion to dismiss on the grounds that no damage occurred during policy periods, the judge ruled that "damage" is defined by the incremental creation of a hazard and that damage encompasses each addition of contaminants to the properties that contributed to a resulting hazard.

Defendants also are arguing that the loss for which the plaintiffs seek recovery was not fortuitous. Judge Learned said the burden of showing fortuity falls on the policyholder. She added that a simple statement under oath that the policyholder did not know at the time coverage was purchased that a loss had occurred or was occurring is sufficient to meet that burden. She also said that insurers showing that a loss was the foreseeable result of intentional acts does not prove that the loss was not fortuitous.

Defendants are also trying to invoke clauses that deny coverage for losses that were in progress at the time insurance contracts became effective. Judge Learned rejected insurers' "absolute loss in progress" assertion, noting that absolute prohibition on insurance coverage for losses in progress, regardless of the state of knowledge among parties at the time of the coverage was bought, is the practical equivalent of the insurers' view of the fortuity requirement.

As far as what triggers coverage, the judge adopted a multi-policy trigger that includes time periods during which the following occur: actual damage; disposals contributing to actual damage; and a decrease in property value resulting from damage.

"This ruling serves to clarify a number of significant coverage issues related to plaintiffs' claims for coverage under first-party policies," said Thomas M. Reiter of Kirkpatrick & Lockhart in Pittsburgh, which is representing ALCOA in the action in Washington state.

He said ALCOA has already settled with approximately 10 first-party all-risk insurers on this issue.

While the ruling on the surface appears to favor ALCOA and NAI, one insurer attorney said it will help insurers because it gives them guidance on how to pursue their position.

"The ruling opens the door to first-party insurers to file fact and site specific motions. She seems to be inviting us to do that," said Henry Daar of Kostow & Daar in Chicago, which represents 15 first-party insurers.

Some of the defendant insurers have filed a motion for reconsideration of the summary judgment. Barring acceptance of that, the case is expected to proceed to trial in Judge Learned's court on Feb. 26.

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Aluminum Co. of America and Northwest Alloys Inc. vs. Accident & Casualty Insurance Co., et al; Superior Court of Washington, King County; No. 92-2-28065-5.

BF&M

Continued from page 1

between $42 million and $56 million of assets that Bermuda Fire transferred to it as part of the 1991 spinoff.

Liquidators also plan to file negligence charges against BF&M.

Additionally, the liquidators are suing several current officials with BF&M who previously served as officials of Bermuda Fire, as well as a law firm and an accounting firm that were involved in the spinoff transaction. Those defendants are expected to be served soon.

The joint liquidators, Gareth Hughes and Tony Joaquin of accounting firm Ernst & Young, could not be reached for comment.

However, the liquidators assert that Bermuda Fire should have retained the BF&M investment—as well as the assets it transferred to BF&M—to defray liabilities that it should have expected.

Bermuda Fire is insolvent by an estimated $500 million, 80% to 90% of which represents claims from U.S. policyholders. Many of them are insurers that obtained reinsurance from the H.S. Weavers Underwriting (Agencies) Ltd. line slip through Bermuda Fire, which participated in the slip until 1983.

The Weavers line slip, which had been London's major underwriter of U.S. casualty business. collapsed in 1990 under the weight of massive environmental and asbestos claims.

Bermuda Fire's losses from its participation in the slip began mounting in 1987 and continued to significantly hurt the insurer's results through 1990.

In 1991, company officials decided to spin off the insurer's profitable domestic business, which included property, casualty, motor, marine, life and health insurance and captive management operations.

They created BF&M as the holding company for this business and kept the international business in Bermuda Fire.

Along with the profitable business, Bermuda Fire transferred between $42 million and $56 million of assets to BF&M in return for 100% ownership of BF&M stock.

Just days after Bermuda Fire obtained the BF&M shares, it distributed them to its own shareholders through a dividend.

Bermuda Fire was left with about $62 million of assets to cover nearly $53 million of liabilities, according to an actuarial report by Tillinghast, a division of Towers Perrin in New York, the source said.

However, the actuarial report did not account for incurred-but-not-reported claims, purportedly at the direction of Bermuda Fire officials.

Former Bermuda Fire officials could not be reached for comment.

Tillinghast would not comment.

Bermuda Fire filed for voluntary liquidation in November 1993 (*BI*, Nov. 8, 1993).

The 1991 transaction even garnered attention in a 1994 Congressional subcommittee report by Rep. John D. Dingell, D-Mich., which concluded that federal regulation of some segments of the U.S. insurance industry is necessary (*BI*, Nov. 7, 1994).

The Dingell report criticized Bermuda Fire Chairman Charles Collis and Bermuda Finance Minister David Saul—now Bermuda's premier—for defending the transaction. The report noted the transaction was handled by an accounting firm and a law firm with close ties to Bermuda Fire board members and that a third-party buyer was not sought to establish a fair price for Bermuda Fire's profitable business.

"This example highlights the subcommittee's findings that foreign countries and their business leaders, especially in cozy regulatory environments, cannot be expected to protect the legitimate interests of the American public," the report stated.

Bermuda Fire's liquidators late last week were in a Bermuda court asking a judge to lift his stay on their lawsuit against about 1,000 BF&M shareholders.

The liquidators want to invoke a Bermuda bankruptcy law provision, also found in U.S. and English law but seldom used against shareholders of a company, that allows a liquidator to recover assets that are transferred to avoid payment to the transferring party's creditors.

A Bermuda judge had approved the liquidators' action against the BF&M shareholders, but a higher-level judge stayed the order.

The other defendants in the litigation include:

- Mr. Collis, chairman of BF&M and former chairman and president of Bermuda Fire.
- Mr. Collis' law firm, Conyers, Dill & Pearman, which provided legal advice for Bermuda Fire in the BF&M transaction.
- William Cox, deputy chairman and vp with BF&M, who held the same positions with Bermuda Fire.
- Donald Lines, a director with BF&M and a former Bermuda Fire director. Mr. Lines is the retired president and chief executive officer of the Bank of Bermuda Ltd., Bermuda's largest bank.
- Cooper & Lines, the accounting firm Bermuda Fire engaged in the BF&M transaction.
- David Lines, Donald Lines' brother, who is associated with Cooper & Lines.
- Gregory D. Haycock, a former director with Bermuda Fire, who is a partner with accounting firm KPMG Peats in Hamilton.

Meanwhile, the joint liquidators have issued a press release in an attempt to preclude a policyholder run on BF&M.

"They wish to stress, particularly for the benefit of BFM's policyholders, that the present dispute concerns ownership or compensation for the loss of ownership of the domestic business formerly conducted by BFMIC and currently controlled by BFM, and there is no reason why this should have a direct bearing on the stability, financial or otherwise, of that domestic business. They recognize and understand that the interests of the creditors of BFMIC would be best served by preserving the value of these businesses on a going-concern basis," the release states. BI

Updates

Grand jury examining DuPont

MACON, Ga.—The U.S. Attorney for the Middle District of Georgia is investigating whether E.I. du Pont de Nemours & Co. Inc. and one of its outside law firms withheld test data and hired a witness who knowingly misrepresented testing results during the first civil trial on Benlate DF fungicide liability.

U.S. Attorney James Wiggins has assembled a grand jury to determine whether DuPont, Atlanta law firm Alston & Bird and a key defense witness should be indicted on criminal charges of misrepresenting test results on soil samples provided by plaintiffs in a 1993 Benlate trial in Columbus, Ga.

The investigation centers on whether Alston & Bird lawyers were involved with misrepresenting Benlate test results performed by a California testing laboratory before turning that evidence over to plaintiffs' attorneys.

Parties involved also are being questioned to determine whether lawyers filtered evidence interpreted by a DuPont expert witness.

Robert Bethem, the chief analytical chemist at Alta Analytical Laboratories, who led a team of scientists that tested the samples for Benlate contamination, testified last week before the grand jury but is not a target of the investigation.

In addition to DuPont and at least two Alston & Bird attorneys, Nicholas Albergo, an environmental consultant hired by DuPont's defense lawyers to interpret test results, is under investigation.

DuPont has already been hit with nearly $140 million in court-imposed sanctions for the alleged manipulation of Benlate test results.

DuPont, which has said that neither it, its attorneys nor any affiliates engaged in improper conduct, is appealing sanctions imposed in Hawaii and by the federal judge who oversaw the Georgia case (*BI*, Aug. 28; Jan. 23).

The company would not comment on the grand jury proceedings in Georgia.

Superfund bill introduced

WASHINGTON—Environmental Protection Agency Administrator Carol Browner is expected to voice the Clinton administration's criticisms of the Reform of Superfund Act this week when she testifies before a key House panel.

Rep. Michael Oxley, R-Ohio, introduced the bill—H.R. 2500—last week. As expected, the measure does not contain the repeal of retroactive liability for pre-1987 legal acts as initially advocated by Rep. Oxley (*BI*, Oct. 16; Oct. 2). Nevertheless, the measure was "the best package money can buy," Rep. Oxley told the House Commerce Committee Subcommittee on Commerce, Trade and Hazardous Materials—which he chairs.

The subcommittee listened to testimony on non-liability aspects of the bill, such as requiring that the future use of Superfund sites be taken into account when determining how clean they should be and standards giving states more control over environmental cleanup.

Ms. Browner is expected to testify before Rep. Oxley's subcommittee later this week. She has criticized both H.R. 2500 and a similar Senate measure offered by Sen. Robert Smith, R-N.H., as being too lenient on polluters.

The Clinton administration has not, however, offered a comprehensive Superfund reform package during this session of Congress.

Briefly noted

Blue Cross & Blue Shield of Missouri will pay a $5 million settlement in a class-action lawsuit accusing it of overcharging its 75,000 members since 1991. It failed to pass on fee discounts when calculating members' copayments. The Missouri Blues denies fault but also will start reimbursing members for a greater proportion of costs starting Jan. 1. . . .New York Sen. Guy J. Velella has asked U.S. Attorney General Janet Reno to investigate whether, by threatening sanctions, the accreditation program of the National Assn. of Insurance Commissioners violates federal antitrust laws. . . .Rehabilitators for the U.S. branch of failed **Confederation Life Insurance Co.** say Newport Beach, Calif.-based Pacific Mutual Life Insurance Co. will take over Confed Life's $1.4 billion corporate-owned life insurance business, the bulk of which is not leveraged. . . .Lloyd's of London marine underwriter **Mark Brockbank** plans to reduce the hull premium volume written by syndicate 861 in 1996 by almost 30%, to £30 million ($47.1 million) from £42 million ($65.9 million), due to low prices. The £12 million ($18.8 million) premium income will be realloacted to other classes of business. Fifty-five percent of marine syndicates at Lloyd's have cut insurance rates in the last quarter, with the average being 5% to 7%, according to syndicate 861 deputy underwriter Nick Metcalf. . . .Texas Insurance Commissioner Elton Bomer has set up an **insurance fraud division** in the Texas Department of Insurance and named Don Switzer as associate commissioner to head the new program. . . .**Global Capital Reinsurance Ltd.** plans to raise $75 million in an initial public offering. The Hamilton, Bermuda-based catastrophe reinsurance company will be selling about 20% of its shares. . . .The **Chicago Housing Authority**'s former risk and benefit manager is facing federal fraud charges in connection with three investment scams that cost the authority nearly $20 million in pension and employee health insurance funds. A three-count criminal complaint filed in federal court in Chicago Oct. 17 charged John Lauer with wire fraud, mail fraud and obstructing an investigation by the Securities and Exchange Commission (*BI*, June 27, 1994).

Conviction in insurance scheme

By DOUGLAS McLEOD

AUSTIN, Texas—A Houston businessman is facing up to 99 years in jail following a conviction on felony charges stemming from his dealings with Bankers Protective Life Insurance Co. of Austin.

A Travis County, Texas, district court jury last week convicted Daniel S. De La Garza of "engaging in organized criminal activity" in a series of transactions, including his sale of mortgage loan packages to the insurer.

Prosecutors charged that Mr. De La Garza took part in a scheme to boost the surplus of Bankers Protective—a company he sought to control—by having the insurer pay face value for mortgages he had acquired at a deep discount.

Mr. De La Garza then contributed some or all of the "spread" between the discounted and face values to Bankers Protective in exchange for surplus debentures, prosecutors say.

He was also charged with kiting checks for $5 million as part of a purported capital contribution to the insurer.

Also charged with Mr. De La Garza last year were Kevin W. Boyd and Stephen F. Pence, former president and vp, respectively, of Bankers Protective.

Mr. Boyd pleaded guilty before trial to a felony commercial bribery charge and is expected to be sentenced to two years' probation, according to Bryan Case, assistant district attorney.

Mr. Pence pleaded guilty to a misdemeanor charge of filing a false document and is not expected to receive a jail sentence, Mr. Case said.

Mr. De La Garza faces a sentence ranging from five years' probation to 99 years in prison and $10,000 in fines. He is scheduled to be sentenced Nov. 9.

Neither Mr. De La Garza nor his lawyers could be reached.

Messrs. De La Garza, Boyd and Pence were originally indicted in September 1993 on charges of misapplying millions of dollars of Bankers Protective funds in the course of several mortgage transactions.

Also named as an unindicted co-conspirator in the original filing was Hugo E. Pimienta, a Woodlands, Texas, businessman and a former business partner of Mr. De La Garza (*BI*, March 6).

Mr. Pimienta was president of Interamericas Investments Inc., which was involved in some of the mortgage sales to Bankers Protective. Another participant in the mortgage deals, National Bank of Conroe in Conroe, Texas, was controlled by Interamericas' Cayman Islands parent company, Interamericas Investments Ltd.

Mr. Pimienta's name was dropped, however, from two subsequent re-indictments of the three men, and his lawyer has denied any misconduct on Mr. Pimienta's part.

Messrs. De La Garza, Boyd and Pence were re-indicted in November 1994 and again this past July.

The latest indictment charged them with organized criminal activity that included illegally transferring $14.1 million in Bankers Protective funds to outside bank accounts—some set up by Mr. De La Garza—in connection with a series of mortgage transactions.

In some cases, Bankers Protective bought the mortgages from entities that did not actually own them, prosecutors charged.

For example, the insurer wired nearly $5 million to one of Mr. De La Garza's accounts in August 1991 for a package of mortgages purportedly owned by Provident Bank, a Texas bank. At the time, however, the mortgages were actually owned by AMS Life Insurance Co., a Phoenix insurer that Mr. De La Garza, Mr. Pimienta and others had planned to acquire. AMS did not sell the loans until November 1991, Mr. Case said.

In another case, Bankers Protective paid $2.4 million for a package of mortgages acquired through Mr. De La Garza from a company called Arte Ltd. In unrelated civil litigation, Mr. Pimienta identified Arte as the parent company of a firm for which he and his brother act as officers and directors.

Bankers Protective never received these mortgages after paying the $2.4 million but later recouped the investment in a larger settlement of disputes with Messrs. De La Garza and Pimienta, prosecutors say.

All of the mortgage transactions, prosecutors charged, were part of a larger scheme in which the defendants planned to boost the surplus of Bankers Protective while allowing Mr. De La Garza to gain control of the insurer.

As part of the scheme, Mr. De La Garza obtained blocks of mortgage loans at a steep discount and then sold them to Bankers Protective at face value. He then took some or all of the profits this generated and contributed them to the insurer's surplus in exchange for surplus debentures.

He ultimately held about $17.5 million in debentures, Mr. Case said.

Mr. De La Garza had sought Texas Insurance Department approval to acquire Bankers Protective, but the Insurance Department rejected his request in November 1992, finding that he did not have the "requisite competence, trustworthiness, experience and integrity."

The indictment also charged that in 1991 Mr. De La Garza and the other two men conned the Texas department into approving a reinsurance deal in which Bankers Protective took over a block of business from National Foundation Life Insurance Co. of Fort Worth, Texas.

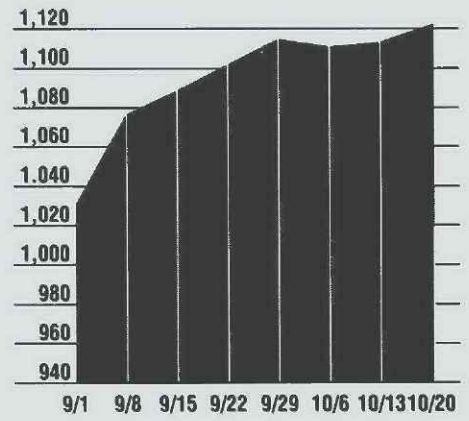
To get this approval, Mr. De La Garza agreed to a number of conditions, including that he would set up a $5 million escrow account for the benefit of Bankers Protective to support its acquisition of the business.

However, Mr. De La Garza kited checks between two bank accounts to make it appear he had $5 million in one of the accounts when he actually didn't, prosecutors charged.

Last week's conviction was not Mr. De La Garza's first run-in with law enforcement authorities: He was arrested in Bogota, Colombia, in 1984 after police said they found cocaine in two of his suitcases, according to testimony in an unrelated criminal case in which he was not a defendant.

Mr. De La Garza has confirmed he spent about two years in a Colombian jail but said that he was working as a contract agent for the U.S. Drug Enforcement Agency and that he was being held in Colombia as a political prisoner. BI

BI Insurance Index



Base=100 on Dec. 29, 1978
Source: Nordby International Inc.

PCS catastrophe options

As of Oct. 20

Call spread	Price bid/ask
Eastern September 1996	
40/60	5.5/7
80/100	2.5/4
50/70	4.5/—
Texas June 1995	
10/20	1.4/3.8

Region	Loss Index
4th Quarter 1995	
East	20.7
Florida	15.0
Midwest	0.3
National	21.0

Total volume: 22 Total open interest: 232

For quotes, call the CBOT trading floor at 312-341-3342. For information on PCS cat options, call 312-435-3674.

Source: Chicago Board of Trade

British Issues

Oct. 19 Companies	Price pence	P/E	Div. pence	Yield %	1 week high—low
Comml Union	630	12.6	33.0	5.2	630—591
Genl Accident	675	9.9	36.3	5.4	686—655
Gdn Royal Exch	249	N/M	10.3	4.1	249—234
Independent	354	9.8	11.9	3.4	356—354
Royal	401	7.6	15.0	3.7	411—380
Sun Alliance	392	13.2	19.7	5.0	392—366
Brokers					
Bradstock	60	6.7	7.1	11.8	60—59
Fenchurch	128	9.0	10.0	7.8	128—128
CE Heath	150	9.4	20.0	13.3	150—150
Lloyd Thmpson	148	9.1	11.3	7.6	150—148
Lowndes Lmbrt	144	8.0	10.3	7.1	144—146
Nelson Hurst	164	12.7	8.3	5.1	165—164
Sedgwick Grp	106	9.6	8.1	7.4	108—106
Steel Brl Jones	37	4.3	11.3	N/M	37—37
Willis Corroon	124	N/M	8.3	6.7	129—124
JIB Group	117	10.2	9.4	8.0	117—116

Source: Philip Olsen, London

BI Industry Stock Report OCT. 16, 1995, THROUGH OCT. 20, 1995

		Price	Weekly % change	Year to date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt./Bk. value
BROKERS												
Acordia Inc.	NYS	26.25	6.06	-21.64	34.50	23.50	24	0.72	2.74	13	14.00	1.88
Alexander & Alexander	NYS	23.75	0.53	28.38	26.44	18.50	111	0.1	0.42	-11	19.17	1.24
E.W. Blanch Holdings Inc.	NYS	19.125	3.38	-7.27	22.00	16.50	168	0.4	2.09	15	1.40	13.66
Gallagher Arthur J. & Co.	NYS	34.75	-4.14	8.59	38.00	29.63	70	1	2.88	14	6.48	5.36
Hilb, Rogal & Hamilton	NYS	14.125	1.80	16.49	14.25	10.50	163	0.56	3.96	17	1.21	11.67
Marsh & McLennan	NYS	85.75	-1.29	8.20	89.38	71.50	654	3.2	3.73	16	19.95	4.30
Poe & Brown	NDQ	24.5	-1.01	12.64	25.25	19.50	34	0.48	1.96	15	5.15	4.76
BROKERS	AVERAGE		0.8	6.5					2.5	11		
INSURERS/REINSURERS												
ACE Ltd.	NYS	35.125	3.31	50.27	35.88	20.75	283	0.00	0.00	0	22.45	1.56
Acceptance Insurance Cos.	NYS	15.25	-1.61	1.67	18.00	12.63	411	0.00	0.00	11	10.76	1.42
AEGON N.V.	NYS	38.375	3.72	51.08	38.38	24.38	38	1.08	2.81	15	17.28	2.22
Aetna Life & Casualty	NYS	71.875	-0.35	52.52	75.50	43.13	1836	2.76	3.84	53	48.85	1.47
AFLAC Inc.	NYS	44	4.14	37.50	44.75	31.88	599	0.52	1.18	14	17.58	2.50
Allied Group Inc.	NDQ	32.125	0.00	29.80	33.25	22.00	88	0.68	2.12	7	21.81	1.47
Allmerica Prop. & Casualty	NYS	22.875	-2.14	35.56	24.75	14.63	101	0.16	0.70	9	19.87	1.15
Allstate Corp.	NYS	39.25	9.79	65.26	39.50	22.63	8971	0.78	1.99	12	18.75	2.09
American Financial Group	NYS	29.875	0.84	42.26	32.13	22.00	107	1	3.35	332	24.94	1.20
American General	NYS	39.125	3.64	38.50	39.13	25.63	2540	1.24	3.17	15	17.03	2.30
American Heritage Life Ins.	NYS	19.625	0.00	3.29	21.50	16.25	34	0.72	3.67	11	12.51	1.57
American Indemnity/Fin'l	NDQ	11.375	-6.19	12.35	13.25	9.00	4	0.3	2.64	7	15.92	0.71
American International	NYS	85.25	-1.30	-13.01	87.75	59.75	3011	0.34	0.40	17	34.66	2.46
American Re Corp.	NYS	39.5	-1.56	22.48	43.13	25.50	480	0.32	0.81	15	16.77	2.36
Aon Corp.	NYS	42.875	-0.58	33.98	43.88	29.25	711	1.36	3.17	13	18.30	2.34
Argonaut Group	NDQ	29.75	0.00	5.31	32.50	27.50	16	1.32	4.44	13	29.91	0.99
AVEMCO Corp.	NYS	16.75	-2.19	8.94	18.25	13.38	54	0.48	2.87	18	6.28	2.67
Baldwin & Lyons Inc.	NDQ	15.125	0.41	2.54	17.63	14.69	7	0.32	2.12	12	13.90	1.09
Berkley W.R. Corp.	NDQ	44.25	1.14	18.00	47.00	32.50	880	0.48	1.08	21	34.46	1.28
Berkshire Hathaway Inc.	NYS	29700	0.17	45.59	30600.00	19450.00	1	0.00	0.00	71	10089.11	2.94
Capital RE Corporation	NYS	28.625	-1.72	4.57	30.13	20.50	157	0.2	0.70	10	22.30	1.28
Capsure Holdings Corp.	NYS	13.625	1.87	-6.84	14.88	12.13	32	0.00	0.00	13	14.61	0.93
Chubb Corp.	NYS	94.5	0.80	22.13	96.88	57.00	762	1.96	2.07	13	48.92	1.93
CIGNA Corp.	NYS	100.875	-2.06	58.55	108.00	61.13	1818	3.04	3.01	9	80.46	1.25
CNA Financial Corp.	NYS	117	-2.50	80.35	122.00	60.75	106	0.00	0.00	13	71.13	1.64
EMC Insurance Group Inc.	NDQ	12.75	3.03	34.21	15.25	8.75	4	0.52	4.08	8	11.13	1.15
Emphesys Financial Gr. Inc.	NYS	37.375	0.00	17.72	39.50	22.63	0	0.6	1.61	10	17.69	2.11
EXEL Ltd.	NYS	56.75	0.00	43.67	60.00	36.88	379	0.00	0.00	0	31.47	1.80
Fremont General Corp.	NYS	29.75	2.15	27.27	30.50	18.88	230	0.8	2.69	9	19.04	1.56
Frontier Insurance Group	NYS	28.5	-1.30	30.29	32.00	16.75	44	0.48	1.68	21	14.65	1.95
Gainsco Inc.	ASE	9.125	2.82	10.61	11.00	7.75	138	0.04	0.44	13	3.98	2.29
General RE Corp.	NYS	150.125	1.95	21.56	153.25	107.63	1068	1.96	1.31	16	59.35	2.53
Guaranty National Corp.	NYS	14.75	-9.92	-19.73	19.00	14.50	154	0.5	3.39	8	11.60	1.27
Harleysville Group	NDQ	27.5	-1.35	13.40	30.00	22.00	57	0.76	2.76	10	20.72	1.33
Hartford Steam Boiler	NYS	46.375	0.27	16.30	49.38	35.88	83	2.28	4.92	17	14.68	3.16
HCC Insurance Holdings	NYS	35.125	4.07	67.26	35.25	18.50	67	0.00	0.00	19	11.76	2.99
ITT (Hartford Group)	NYS	122.375	-0.91	38.08	128.50	77.00	2021	1.98	1.62	10	45.46	2.69
Lincoln National	NYS	45.875	-2.13	31.07	47.38	34.63	1033	1.72	3.75	12	28.90	1.59
Markel Corp.	NDQ	70	-1.41	68.67	75.50	40.25	43	0.00	0.00	17	25.71	2.72
Mid Ocean Ltd.	NDQ	35.125	6.04	28.90	37.25	22.25	699	0.00	0.00	0	22.18	1.58
Mutual Risk Mgmt. Ltd.	NYS	37.875	-0.98	44.29	40.50	24.38	143	0.4	1.06	19	9.72	3.90
NAC Re Corp.	NDQ	35.25	6.02	5.22	39.00	24.38	298	0.2	0.57	14	18.23	1.93
National Re Corp.	NYS	34.25	0.74	30.48	35.38	22.25	110	0.16	0.47	17	17.05	2.01
Navigators Group	NDQ	19	13.43	31.03	19.75	12.75	41	0.00	0.00	136	10.21	1.86
Nobel Insurance Ltd.	NDQ	12.125	4.30	46.97	12.25	8.13	7	0.2	1.65	5	6.84	1.77
Ohio Casualty Corp.	NDQ	38.5	8.45	36.28	38.50	27.00	368	1.52	3.95	16	23.64	1.63
Old Republic Int'l	NYS	28.625	0.00	34.71	29.75	18.88	1020	0.52	1.82	10	25.79	1.11
Orion Capital Corp.	NYS	42.125	-3.44	19.50	45.25	29.00	174	0.92	2.18	9	26.00	1.62
Partner Re Ltd.	NDQ	26.875	4.88	29.52	28.38	18.50	423	0.00	0.00	0	20.37	1.32
Penn-America Group Inc.	NDQ	11.5	9.52	55.93	11.50	6.50	52	0.12	1.04	12	6.40	1.80
Philadelphia Cons. Holding	NDQ	20	3.90	63.27	21.88	12.00	58	0.00	0.00	18	9.05	2.21
Phoenix RE Corp.	NDQ	26.75	-1.83	-5.31	29.75	21.00	314	0.72	2.69	5	21.27	1.26
Provident Life	NYS	27.875	2.29	28.16	27.88	20.50	99	0.72	2.58	13	22.34	1.25
Reliance Group Holdings	NYS	7.625	-4.69	46.99	8.13	4.88	523	0.32	4.20	11	3.42	2.23
Reliastar Financial Corp.	NYS	43.625	1.16	50.43	44.00	27.00	393	1	2.29	12	24.53	1.78
RenaissanceRe Holdings Ltd.	NDQ	26	5.05	NA	26.00	20.72	161	0.00	0.00	0	NA	NA
RLI Corp.	NYS	23	0.55	40.24	23.63	16.00	70	0.52	2.26	31	20.51	1.12
St. Paul Companies	NYS	56.75	-1.94	26.82	59.38	40.38	489	1.6	2.82	10	32.46	1.75
SAFECO Corp.	NDQ	67.1875	1.13	29.21	67.75	47.13	796	2.12	3.16	13	44.95	1.49
SCOR U.S. Corp.	NYS	15.5	1.64	85.07	15.63	7.50	27	0.2	1.29	20	13.60	1.14
Seibels Bruce Group	NDQ	0.6875	-21.43	-72.50	3.13	0.69	39	0.00	0.00	0	0.04	17.19
Selective Ins. Group	NDQ	36.25	-1.36	43.56	37.25	23.50	26	1.12	3.09	11	23.23	1.56
Sphere Drake Holdings	NYS	13.875	-3.48	0.00	19.13	10.75	68	0.00	0.00	0	13.86	1.00
TIG Holdings	NYS	26	-1.42	38.67	27.13	17.00	825	0.2	0.77	20	16.62	1.56
Titan Holdings, Inc.	NYS	14.125	-8.87	44.87	15.75	8.88	146	0.3	2.12	11	9.04	1.56
Tokio Marine & Fire	NDQ	54	1.41	-11.11	62.00	49.88	4	0.4	0.74	47	57.72	0.94
Torchmark Corp.	NYS	43.625	-0.57	26.45	44.75	32.38	518	1.16	2.66	12	17.37	2.51
Transatlantic Holdings	NYS	69.5	4.12	24.38	70.38	47.75	244	0.4	0.58	13	33.30	2.09
Transnational Re Corp.	NDQ	23.375	0.00	-0.53	26.38	18.75	46	0.00	0.00	7	18.84	1.24
Travelers Corp.	NYS	50.5	-6.91	55.98	55.00	30.38	4117	0.8	1.58	11	24.77	2.04
Trenwick Group Inc.	NDQ	51.5	0.73	21.53	53.00	36.50	58	1.12	2.17	12	29.23	1.76
United Fire & Casualty	NDQ	36	3.23	30.12	37.00	26.75	1	0.8	2.22	10	28.96	1.24
Unitrin	NDQ	47.25	-0.53	9.88	50.50	41.50	171	2	4.23	13	37.51	1.26
UNUM Corp.	NYS	54.25	1.40	43.71	54.25	35.13	681	1.06	1.95	27	26.45	2.05
US Facilities Corp.	NDQ	20	2.56	100.00	20.38	9.13	220	0.2	1.00	10	11.66	1.72
USF&G Corp.	NYS	18.25	-4.58	35.19	19.50	12.63	1631	0.2	1.10	9	10.86	1.68
USLIFE Corp.	NYS	29.75	-2.06	27.96	31.63	20.63	205	0.93	3.13	10	38.45	0.77
Washington National	NYS	24.375	-2.50	28.29	25.38	17.75	65	1.08	4.43	9	25.13	0.97
Zenith National Ins.	NYS	23	0.00	1.10	24.63	19.38	9	1	4.35	12	16.35	1.41
Zurich Reinsurance Centr.	NYS	29.375	0.43	1.73	30.88	25.00	17	0.00	0.00	105	21.64	1.36
INSURERS/REINSURERS	AVERAGE		0.3	28.6					2.0	21.6		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	NDQ	24.75	5.32	-3.88	30.00	19.50	1274	0.00	0.00	85	28.15	0.88
Humana Inc.	NYS	20.125	0.63	-11.05	27.13	17.00	2852	0.00	0.00	17	6.56	3.07
Pacificare Health Sys.	NDQ	71	4.03	9.02	76.25	44.50	216	0.00	0.00	21	15.02	4.73
Safeguard Health Enter.	NDQ	13.25	10.42	43.24	13.25	8.25	168	0.00	0.00	78	6.15	2.15
Sierra Health Services	NYS	27.25	3.81	-13.83	33.63	22.13	200	0.00	0.00	15	9.22	2.96
United Healthcare Corp.	NYS	49.625	1.79	9.97	55.38	34.13	3990	0.03	0.06	25	16.17	3.07
U.S. Healthcare	NDQ	35.75	1.78	-13.33	48.25	26.50	4342	1	2.80	14	5.66	6.32
Wellpoint Health Networks	NYS	30.5	2.09	4.72	37.00	25.88	191	0.00	0.00	14	14.26	2.14
HMOs	AVERAGE		3.7	3.1					0.3	30		
ALL COMPANIES	AVERAGE		1.6	12.7					2.1	25		

Top advancing issues: Navigators Group, Safeguard Health Enter., Allstate Corp. Leading decliners: Seibels Bruce Group, Guaranty National Corp., Titan Holdings, Inc. Most active issue: Allstate Corp. The BI index rose 8.2%; the Dow Jones 30 Industrials rose 0.2%; the S&P 500 increased 5.1% and the NYSE Composite gained 0.6%.

System design: Nordby International Inc.

Tax bill

Continued from page 1

visions, the most significant difference involves pension plan reversions.

The Finance Committee bill would permit employers to withdraw surplus assets from their pension plans to pay for the cost of other employee benefit programs, like a group health care plan.

Such asset transfers would be allowed as long as the plan was at least 125% funded after the reversion. Amounts removed from the plan would be subject to corporate income taxes. The provision would expire in 2001.

By contrast, the Ways and Means Committee bill would allow employers to withdraw surplus assets for any reason. In addition to corporate income taxes, a 6.5% excise tax would be imposed on reversions, starting in July 1996.

Both provisions are a radical change from current law. Except for reversions taken to pay for retiree health care benefits, employers cannot remove surplus assets from an ongoing pension plan. And, when an employer terminates an overfunded plan, the special excise taxes that are imposed are so stiff as to wipe out the surplus.

While the Finance Committee bill imposes more restrictions on reversions than the Ways and Means Committee bill, the Clinton Administration doesn't like either reversion proposal.

To pay for the cost of other employee benefit programs, the Finance Committee bill would restrict what employers can do with reversions. But, the Clinton administration, which blasted the Ways and Means Committee reversion proposal, doesn't like the Finance Committee any better.

"The Senate proposal, while slightly different from the one we saw in the House, will still be open season on pensions," said Labor Secretary Robert Reich.

"Money earmarked for retirement will be used to pay for other corporate obligations. This is like robbing Peter to pay Paul. It uses pension money to free up corporate resources for other purposes and, in effect, makes pensions a corporate piggy bank," he added.

However, in committee action, an amendment by Ranking Minority Member Sen. Daniel Patrick Moynihan, D-N.Y., to strip the reversion provision failed.

Sen. Moynihan said opening the door to pension reversions could put retirees, the federal Pension Benefit Guaranty Corp. and ultimately taxpayers at risk.

But, Finance Committee Chairman William Roth, R-Del., said the measure—referring to the 25% funding cushion—would provide sufficient safeguards to ensure the continued financial stability of pension plans.

Even though the Moynihan amendment failed, benefit lobbyists like the APPWP's Mr. Klein expect a renewed effort on the Senate floor to strip the reversion provision from the measure.

"The future of the provision is very problematic," said Frank McArdle, a consultant with Hewitt Associates L.L.C. in Washington.

While surplus pension assets—and whether employers should be able to remove them from ongoing plans—will be a hotly debated issue when the two tax bills are considered by the full House and Senate, the two measures share many other pension provisions that are non-controversial. Those provisions include:

• Simplifying the general definition of "highly compensated employees" for non-discrimination testing purposes to those earning more than $80,000 or owning at least 5% of a company. That threshold would be adjusted annually for inflation.

By contrast, current law contains numerous definitions of highly compensated employees, including one that covers employees earning more than $66,000. The effect of this change would be to enable more employees—those earning $66,000 to $80,000—to make the maximum contribution to their 401(k) plan because they would be considered non-highly compensated for testing purposes.

• Changing prior-year testing rules. Under this optional procedure, employers running the 401(k) non-discrimination test would be able to compare deferrals made by lower-paid employees during the previous year to contributions made by high-paid employees during the current year.

IRS rules now require employers to compare current-year contributions of the two groups, so employers have to constantly monitor them.

If lower-paid employees do not contribute as much as expected, employers in midyear may have to cut back contributions by highly paid employees or return excess contributions to those workers.

By using prior-year contributions of lower-paid employees, employers would know at the start of the year how much highly paid employees could contribute without causing the plan to fail the non-discrimination tests.

The Ways and Means Committee bill—unlike the Finance Committee measure—would mandate the use of prior-year data for 401(k) plan non-discrimination testing purposes.

• Allowing tax-exempt organizations to establish 401(k) plans.

• Creating safe harbors for 401(k) plans. Under the measure, employers that match 100% of employees' contributions on the first 3% of compensation and match 50% of employees' contributions between 3% and 5% of compensation would not have to run the 401(k) non-discrimination tests.

However, few employers currently have such generous matching features in their 401(k) plans. A typical match now is 50% of employees' deferrals, up to 6% of pay.

Other pension provisions in the Finance Committee bill are geared to small employers. For example the measure would allow employers with up to 100 employees to offer a basic pension plan—known as SEPs, short for Simplified Employee Pensions—with a salary reduction feature. SEPs with a salary reduction feature now are limited to employers with up to 25 employees.

In addition, employers with fewer than 50 employees that do not currently offer a pension plan would be eligible for a tax credit—up to $1,000—if they establish a new qualified retirement plan.

Other provisions in both the Finance Committee and Ways & Means Committee bills, though would raise some employers' pension costs and increase the tax bite on employees taking lump-sum distributions from their pension plans.

Under those provisions:

• Multiemployer pension plans would have to use the same vesting schedules—typically five-year cliff vesting for defined benefit plans and seven-year graded schedules for defined contribution plans—that single-employer plans now use. Under current law, multiemployer pension plans can use a 10-year vesting schedule.

• Eliminate five-year forward averaging on lump-sum distributions. This special now in effect slightly lowers the federal tax bite on lump-sum distributions.

The measure also contains—at the behest of Sen. Roth—several provisions expanding eligibility for tax-deductible individual retirement accounts as well as creating a new type of IRA known as an IRA Plus. Under an IRA Plus, individuals could make aftertax contributions to an IRA. Those contributions and the accumulated interest could be withdrawn tax-free after five years to pay for such items as the downpayment on a home, uninsured medical expenses or a child's tuition expenses.

While these provisions would make IRAs more attractive, 401(k) plans still would be a better deal for employees if employers made matching contributions, according to Fred Rumack, director of taxes and legal services at Buck Consultants Inc. in New York. BI

Variety of benefit issues included in Senate bill

WASHINGTON—Aside from a wide range of pension-related provisions, the tax bill passed by the Senate Finance Committee last week includes several other important employee benefit plan provisions.

The benefit provisions include:

• Providing tax-favored treatment for contributions made to medical savings accounts.

Employers could make annual tax-deductible contributions of up to $2,000 for individual coverage and $4,000 for family coverage to employees' MSAs.

Employees would not be taxed on investment income earned on funds held by the MSA.

Distributions made from an MSA to pay for health care-related expenses, including paying COBRA premiums, would be tax-free to employees.

Distributions for other purposes would be subject to regular income tax and a 10% excise tax, unless the distribution is made after an individual turns 59½.

• Accelerated death benefits would not be taxed for the terminally ill. The terminally ill would be defined as those with an illness or physical condition that is expected to result in death within 12 months.

• Providing tax-favorable treatment to long-term care insurance policies.

Employers could purchase LTC policies providing a benefit of up to $150 a day without employees being taxed on those premium contributions.

However, LTC policies could not be included as part of a flexible benefit program.

• The measure would gradually phase out the tax benefits employers can reap when they borrow against corporate-owned life insurance policies.

—By Jerry Geisel

Clinic

Continued from page 2

ployees with more personal, less expensive medical care, according to Dr. Robert Kessler, Quad/Graphics' medical director. Now, the clinic handles more than 35,000 visits annually by workers and dependents, he said.

The company's new clinic, located at another printing facility in West Allis, Wis., is expected to be opened in two phases. The first phase, consisting of a 16,000 square feet facility, is scheduled to open March 1, with an additional 6,000 square feet opening within a year. The clinic will ultimately include primary and specialty care treatment areas, a pharmacy, optical center, dental clinic, physical and occupational therapy facilities and a fitness center. The new clinic, like the original one, also will treat workers comp injuries.

The West Allis facility is being developed jointly with Covenant Healthcare System, a Milwaukee-based group of 1,500 doctors, four hospitals and various other medical facilities. The not-for-profit health care system will pay for building the clinic, for non-medical staff, and for information systems. Quad/Graphics will pay for several full-time doctors. It is expected that the new clinic will probably become a revenue generator for Quad/Graphics after its services are marketed to other area employers.

The clinic at the West Allis printing plant will be run by Dr. Len Quadracci, a former Seattle kidney specialist, president of the new clinic venture and brother of Quad/Graphics' owner.

Dr. Quadracci said company-owned clinics offer a unique opportunity for Quad/Graphics to work directly with health care providers to give employees customized care and attention, and for workers to realize substantial savings on care.

An estimated 8,000 Quad/Graphics employees and dependents use the Pewaukee clinic, or 60% of eligible workers and dependents. About 4,500 Quad/Graphics workers live in the Milwaukee metropolitan area, within range of the new facility.

In the case of the company's Pewaukee clinic, visits for basic medical care are free. Employees who choose to visit doctors outside the clinic must pay 20% of doctor's office fees, with no deductible if the physician is on the company's own preferred provider's list. For visits to non-network doctors, there is a deductible of $200 a year in addition to the 20% copayment of office charges.

Patients' fees for the new clinic have not yet been determined. The system will also try to market the clinic to other area businesses, whose workers most likely could use its services on a contractual basis, said John Neuberger, Covenant regional vp for physician integration. Covenant will be able to use the clinic to design specific health care programs for Quad/Graphics and other companies, Mr. Neuberger said.

"It gives us an opportunity to work with a major employer in this market, to get to know the payer directly and tailor care to that particular population," he said. For example, because the Quad/Graphics workforce is especially young, programs that will be stressed likely will include obstetrics, wellness, fitness and occupational health.

Three out of Covenant's four acute care hospitals are in Quad/Graphics' preferred provider group for the Pewaukee clinic, so the company is well-acquainted with the Covenant system.

Quad/Graphics has been able to save between 6% to 16% by running its own clinic and avoiding the markup that comes with buying services from an outside health care provider, Dr. Kessler said. Tests done at the corporate clinic often cost far less than those done by doctors in private practice. Quad Graphics also saves on administrative costs like utilization review and claims management, which it does on its own. The company would not say how much it cost to build the first clinic.

Still, such potential savings have persuaded only a few companies to invest in clinics as an alternative to traditional health care coverage.

"They may feel that jumping off this cliff may be too much to undertake," Dr. Kessler said. "The changes may seem too much and too sweeping and the commitment in dollars at the beginning is not minuscule."

In addition, even some companies with a strong history of self-owned clinics have reconsidered the wisdom of this strategy. Rosemead, Calif.-based Southern California Edison Co., which in 1990 operated 10 medical clinics and first-aid stations for its workers, has since moved almost entirely out of the clinic business.

"They were no longer cost-effective," said Margaret Jordan, vp of health care. In 1993, three of the company's remaining eight health clinics were closed, and at the beginning of this year four clinics were leased to an outside medical practice. The power company retains one clinic, at a nuclear plant at Onofre, Calif., but it has been converted solely for use in occupational medicine.

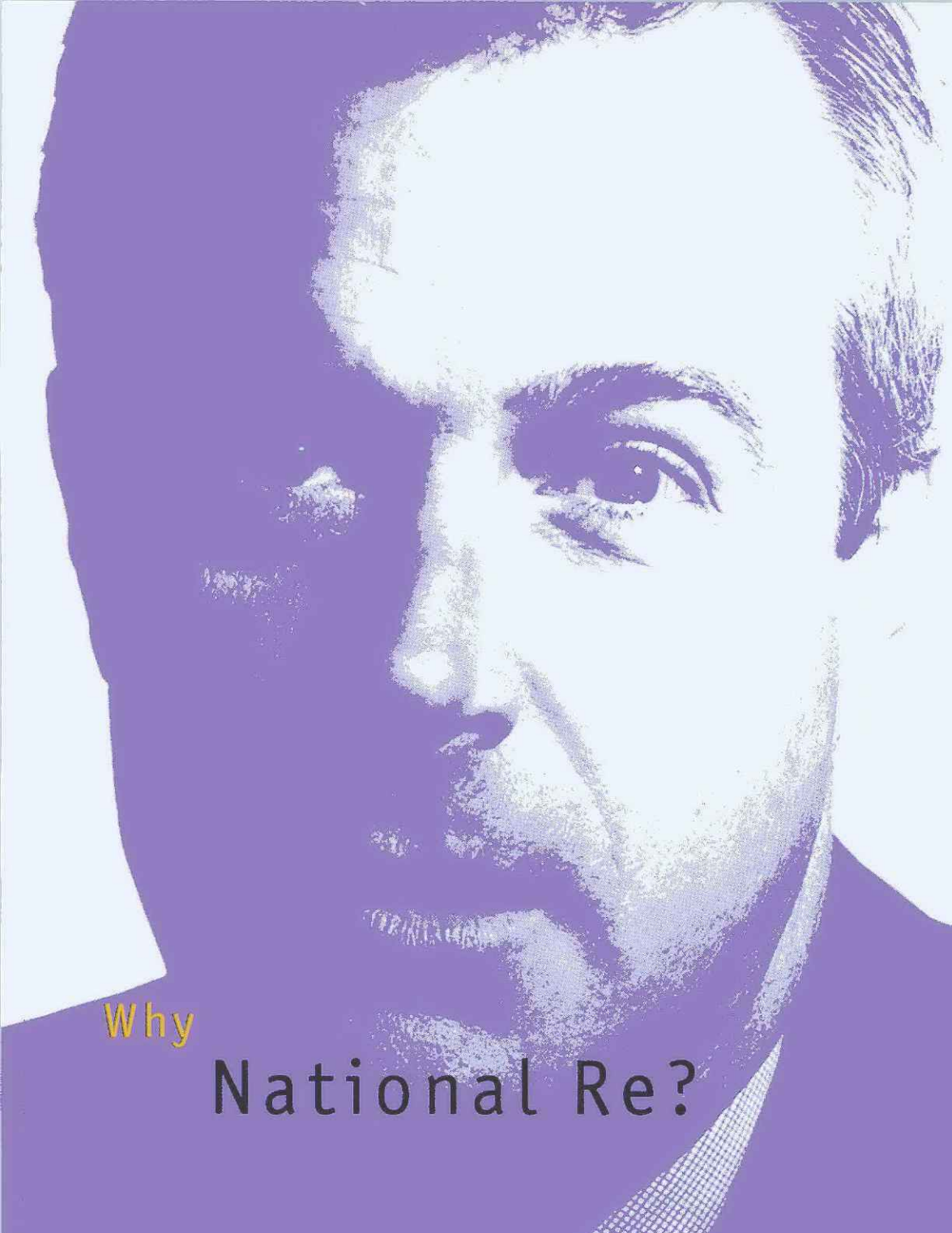
The wide availability of medical care convinced Southern California Edison it no longer needed its clinics, Ms. Jordan explained. Although the clinics were originally established in rural areas where workers had limited access to medical care, those towns eventually sprouted into cities and the utility learned it could not compete on the basis of price in the 1990s.

Relatively few employees ultimately used the clinics, she added, because they had many other options through a company-sponsored PPO. Southern California Edison workers now have access to four HMOs and two point-of-service plans.

As the utility learned, a company will find it hard to effectively operate its own health care facility unless a large proportion of its employees are using it, said Arthur J. Drechsler, senior vp of New York-based benefits consulting firm The Segal Co.

"I think a lot of it depends on the volume of activity you're going to get," he said. "It's sometimes hard to make it cost-effective if you've just got one physician on site." A clinic will be much more likely to succeed, he added, if it is kept to strict bottom-line standards as would any private medical center.

"It must monitor its own costs," he said. BI



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