

Business Insurance

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UTC ordered to drop suit against property insurers

BOSTON—United Technologies Corp. must drop some 50 property insurers from its massive hazardous waste coverage dispute because it failed to file claims with those insurers before suing them, a state court judge has ruled.

Massachusetts Superior Court Judge John L. Murphy Jr. rejected Hartford, Conn.-based UTC's request for dismissal without prejudice, which would have preserved UTC's right to reinstate the litigation against its property insurers
Continued on next page

Risk Retention Act

Is 1986 law a boon to buyers or a bomb waiting to explode?

By JERRY GEISEL

WASHINGTON—On their second anniversary, the 1986 amendments to the federal Risk Retention Act are viewed by many as resembling Jekyll and Hyde.

More than 50 employer groups and professional organizations—ranging from anesthesiologists to universities—have established risk retention groups, the special multiple-owner captive insurers permitted under the amendments to operate nationwide after meeting the insurance licensing requirements of a single state.

Officials of the new risk retention groups say that the amendments, signed into law by President Reagan on Oct. 27, 1986, are fulfilling the objective promised by their proponents: giving commercial insurance buyers a new alternative to the volatility of the commercial liability insurance market.

"The Risk Retention Act is a landmark piece of legislation. It has given companies a stable playing field in which to do business and not be on the commercial liability roller

coaster," said Ralph Engel, president of the Chemical Specialties Manufacturers Assn., a Washington-based trade association that last year helped organize a Vermont-domiciled risk retention group to provide product liability and general liability insurance for its members.

"We have gained control over our own destiny and are no longer subject to a market that often was arbitrary," said Mike Doody, president of Consolidated Catholic Casualty Risk Retention Group, a Vermont-based risk retention group owned by 11 Catholic hospital systems to provide excess professional liability insurance.

Some believe that the potential of the Risk Retention Act has barely been tapped, and that dramatic growth is no further away than the next hard market.

"Risk retention groups will have a tremendous impact on the future of commercial insurance," predicts H. Lincoln Miller, chief

executive officer of Vermont Insurance Management, a risk retention group and captive management company in Montpelier, Vt.

"By the end of the next hard market, the number of risk retention groups could be double or triple of what it is now. Risk retention groups are, and will continue to be, very much of the trend of dollars flowing from traditional to alternative markets," added Arthur Koritzinsky, a vp with Johnson & Higgins in New York.

But there is another, darker side of the Risk Retention Act amendments.

The 1986 law has given birth to about 300 risk purchasing groups, mechanisms in which employers or professionals can buy commercial liability insurance on a group basis from an insurance company. Some experts say about one-third of those purchasing groups are now operating.

Regulators and some other observers believe that some purchasing groups are a di-

saster in the making, with the future collapse of thinly capitalized insurers that write business for some of these groups a virtual certainty.

"Activities of risk purchasing groups should be better regulated," said Ronald E. Chronister, deputy Pennsylvania insurance commissioner.

"The risk purchasing group provisions of the federal law have been interpreted by those organizing or insuring such groups to create a loophole to allow an insurance company licensed in only one state to operate without regulation in 49 other states if it provides insurance to purchasing groups," Mr. Chronister explained.

Other observers point out that several adverse court decisions have sharply limited the appeal for major insurers to underwrite purchasing group programs.

Unless the legal and regulatory uncertainties surrounding risk purchasing groups are resolved, purchasing groups' once-promising potential will never be reached, some say.

Continued on page 84

Risk Retention Act Amendments

Two years later

Section 89 relief falls far short of expectations

By JERRY GEISEL

WASHINGTON—A technical corrections bill passed by Congress in the waning moments of this year's session eases some of Section 89's administrative burdens but falls way short of the relief employers had sought.

The legislation, primarily designed to correct drafting errors in the Tax Reform Act of 1986, clears up some of the ambiguities of the Section 89 non-discrimination rules for welfare plans and eliminates some absurd administrative requirements such as running daily non-discrimination tests.

But the legislation, now on its way to President Reagan for signature, fails to include any meaningful "safe harbors" that would exempt employers that give employees a choice of different health care plans from running the various, complex non-discrimination tests on each plan.

"The safe harbor in the legislation is so small you couldn't fit a rowboat in it," said Richard Raskin, a consultant with The Wyatt Co. in New York.

Employers, though, are cheering other portions of the legislation, including provisions that:

- Establish more reasonable penalties for violations of the health care continuation provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985.

- Retroactively extend the tax-favored status of employer-provided educational assistance benefits through Dec. 31 with a \$5,250 per employee annual limit.

Continued on page 98

Property/casualty stocks trail market performance

By JUDY GREENWALD

An investor who put up \$10,000 in July 1986 to buy commercial property/casualty insurance company stocks touted by securities analysts would be a poorer person today.

However, the investor's fortunes would have improved slightly in the 12 months since the Oct. 19, 1987, stock market crash.

Ironically, the investor would have fared better if he had ignored the analysts' advice and selected his insurance company investments at random.

In either case, the performance of his portfolio would have been dramatically worse than that of the overall market. And, analysts say there is no guarantee that insurance stocks' performance will improve.

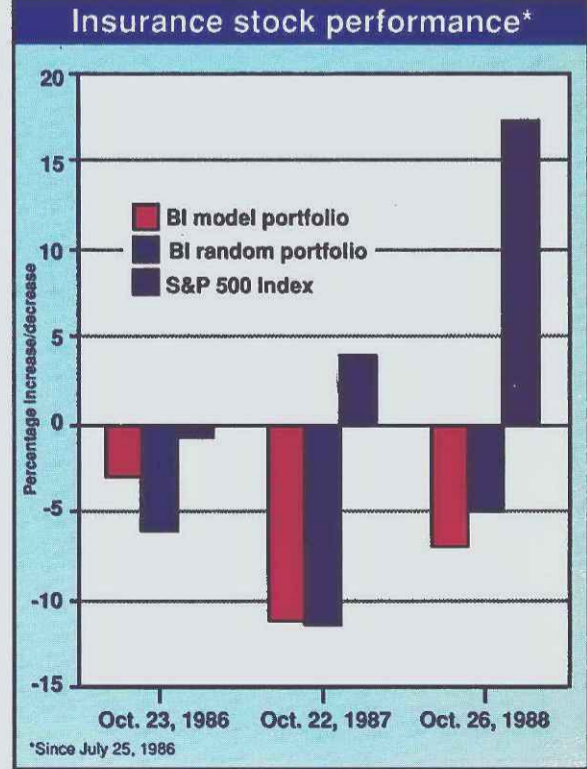
"I guess I could classify the year in insurance stocks as a big yawn," said David P. Wells, a vp with Merrill Lynch Pierce Fenner & Smith in New York.

Yet, analysts still recommend many of the same stocks they touted two years ago, predicting that these issues will weather the soft commercial insurance market better than the group as a whole.

The hypothetical \$10,000 invested by *Business Insurance* in the BI Model Portfolio—a portfolio of property/casualty insurer stocks recommended by a team of analysts—had shrunk to \$9,321.98 on Oct. 26, a 6.8% decline, even after adding dividends and interest on leftover cash (see chart, page 97).

However, the Model Portfolio's performance improved slightly in the past year: The portfolio stood

Continued on page 97



Spotlight on reinsurance . . . Page 3
 Directory of reinsurance intermediaries. . . Page 44

Update

50 UTC insurers off the hook

Continued from previous page

(BI, Oct. 24; Feb. 1). UTC had sought dismissal without prejudice to allow the insurers to adjust the losses.

UTC last year sued 50 property insurers and 200 liability insurers for the cost of cleaning up 138 polluted sites.

While the suit against the liability insurers remains intact, the complaint against property insurers was flatly dismissed because "the insurers were never given notice or details of the potential claims involving the named 40 sites," Judge Murphy ruled Oct. 24.

"One can only conclude that the plaintiffs' conscious choice to begin this pre-emptive suit is an attempt to circumvent non-judicial procedures required by the policies," the judge said.

A UTC attorney would not comment on the order.

Judge Murphy's order also is significant because several other judges have refused to rule on this issue.

Hodson, TPF&C Re cancel talks

NEW YORK—Reinsurance intermediaries G.L. Hodson & Son Inc. and TPF&C Reinsurance terminated merger discussions Friday, one of the firms confirmed.

Under the terms of the negotiations, which had been under way since August, Hodson's parent, Corroon & Black Corp., would have purchased Philadelphia-based TPF&C Re, a unit of Towers, Perrin, Forster & Crosby Inc. The TPF&C unit, the fourth-largest U.S. intermediary, then would have been merged with New Hyde Park, N.Y.-based Hodson, the eighth-largest intermediary (see earlier story, page 3).

Punitive damage review likely

WASHINGTON—Supreme Court Justice Sandra O'Connor's decision last week to grant a stay of a \$4 million punitive damage award against Goodyear Tire & Rubber Co. may indicate the high court will review the constitutionality of punitive damages in the near future, attorneys say.

"It is a further sign that the Supreme Court will consider the constitutionality of punitive damages," said Stuart Dalzell an attorney with Drinker Biddle & Reath in Philadelphia.

Christina J. Imre, an attorney with Kornblum & McBride in Los Angeles agreed, saying the decision indicates that review of the constitutionality of punitive damages "is entirely possible."

In May the high court sidestepped the issue when it refused to review *Bankers Life & Casualty Co. vs. Crenshaw* (BI, May 23).

Workers safety report criticized

SACRAMENTO, Calif.—California Senate Office of Research findings that the number of private workplace deaths rose 53% in the first six months after a federal agency assumed authority for regulating private workplace safety in the state are overstated, contends Gov. George Deukmejian.

Gov. Deukmejian criticized proponents of a Nov. 8 ballot initiative—Proposition 97—that would re-establish the state's own workplace safety program, for presenting the "misleading" statistics about the number of workplace deaths since the federal Occupational Safety and Health Administration took over responsibility for workplace safety in the state in July 1987. Gov. Deukmejian vetoed funding for Cal/OSHA in early 1987 (BI, Feb. 29; Feb. 23, 1987).

According to the research report, the number of private sector deaths rose to 101 between July 1, 1987, and Dec. 31, 1987, compared with 66 deaths during the same period a year ago when Cal/OSHA was still in existence.

The governor contends that the report includes deaths unrelated to work situations, like deaths occurring from heart attacks.

However, a state researcher said that even when deaths unrelated to workplace tasks are excluded, the number of workplace deaths still climbed 44% to 46 during the first six months of the federal program from 32 deaths for the same six-month period in 1987.

Businesses eye VDT law case

NEW YORK—A New York Supreme Court justice will decide on Nov. 3 whether to dismiss a suit filed by four Long Island businesses challenging the constitutionality of a Suffolk County, N.Y., law regulating the use of video display terminals by workers.

The suit charges that the law violates the Employee Retirement Income Security Act of 1974, which regulates the content of employee benefit plans (BI, Aug. 15).

Meanwhile, an appellate panel of the Supreme Court in Suffolk County has issued a temporary injunction blocking implementation of several provisions of the law that require employers to pay 80% of the costs for initial and annual eye examinations as well as any corrective lenses and basic frames needed as a result of work on VDTs. However, employers still must comply with provisions that require them to provide VDT work stations that meet specified ergonomic standards and to establish education and training programs for all VDT operators.

The law, which became effective July 18, affects businesses in the

Continued on page 97

Errors & omissions

• The NervePace Electroneurometer, a carpal tunnel syndrome testing device available from Advantage Health Systems of Kansas City, Mo., costs \$2,995. The cost was incorrectly reported in the Oct. 24 Products & Services column.

• A cesarean section typically costs \$3,000 more than a normal delivery, or about \$7,000. A story in the Oct. 24 issue incorrectly stated the cost of the procedure.

• Scuba Schools International of Fort Collins, Colo., does provide a certification program for both diving instructors and for basic open water divers. This information was incorrectly reported in the Oct. 10 issue.

EPA cuts coverage rules for underground tanks

By DEBORAH SHALOWITZ

WASHINGTON—Many owners and operators of underground petroleum storage tanks are breathing a sigh of relief following the release of new financial responsibility rules last week by the U.S. Environmental Protection Agency.

The rules, which are far less stringent than those the EPA proposed in April 1987, require the owners and operators of underground petroleum storage tanks with a monthly throughput of more than 10,000 gallons or those used in petroleum production, refining or marketing to buy environmental impairment liability insurance with limits of at least \$1 million per claim.

In addition, owners and operators of 100 or fewer tanks must buy at least \$1 million in aggregate limits, while owners and operators of more than 100 tanks must purchase \$2 million in aggregate limits.

Owners or operators of underground petroleum storage tanks with a monthly throughput of less than 10,000 gallons or those not used in petroleum production, refining or marketing must buy EIL insurance limits of \$500,000 per claim/\$1 million aggregate.

An EIL underground storage tank policy must cover third-party damages and the costs of on-site cleanups in the event of an underground tank leak. Defense costs cannot be included in policy limits.

The regulations also provides owners and operators of underground storage tanks several risk financing alternatives.

While the regulation becomes effective Jan. 24,

1989—90 days after its Oct. 26 publication in the Federal Register—there is a two-year phase-in period for complying with the rule.

Owners and operators of underground tanks that fail to comply with the new regulations can be fined up to \$10,000 per day of violation. The penalty is spelled out under the Resource Conservation and Recovery Act of 1984, which the Superfund Amendments and Reauthorization Act of 1986 amended to require the per-claim requirement of \$1 million. The 1986 act also established a trust fund to pay for cleanup of a site contaminated by a leaking tank when its owner or operator is insolvent or cannot be located.

The new EPA regulations are less onerous than those it proposed in April 1987. Under the earlier proposal, owners and operators of underground tanks would have had to buy EIL insurance with limits of at least \$1 million per claim/\$6 million aggregate, depending on the number of tanks owned or operated, or demonstrate equivalent financial responsibility.

However, after the EPA received numerous complaints from owners and operators of underground storage tanks about the proposed limits, the agency indicated last spring it would probably lower the financial responsibility requirements (BI, March 21; April 27, 1987).

The new regulations are "reasonable," said Joe Koach, executive director of the Service Station Dealers of America in Washington. "The industry can live with" the rules.

"The EPA did a good job on the financial responsibility

Continued on page 95

Ex-owner of ICA sentenced to 25 years on fraud charges

By DOUGLAS McLEOD

CHARLOTTE, N.C.—A Virginia man is planning to appeal his recent conviction on multiple fraud charges stemming from his attempts to sell three allegedly phony insurance companies, including Insurance Corp. of America.

A federal jury in Charlotte deliberated for about three hours before convicting Robert Eugene Bailes, 48, on numerous wire fraud charges related to his efforts to sell ICA, Pocahontas Insurance Co. and American Eastern Insurance Co., which prosecutors described as virtually worthless paper shells.

Chief U.S. District Judge Robert D. Potter sentenced Mr. Bailes to 25 years in prison following the Oct. 21 jury verdict.

Corporations controlled by Mr. Bailes sold ICA in 1986 to A.R. Johnson, who has operated the insurer from offices in Boca Raton, Fla. ICA, a West Virginia corporation, is not licensed as an insurer in any state and is unrelated to a Texas-domiciled insurer of the same name (BI, June 1, 1987).

Regulators in several states have issued cease-and-desist orders or obtained restraining orders against ICA, which claims to be exempt from all regulation under two purported Delaware federal court rulings dating back to 1911 and 1914.

The decisions describe ICA, 71 ICA subsidiaries, Pocahontas and numerous other insurers as "grandfathered insurance corporations" exempt from federal and state regulation.

In an interview last year, Mr. Johnson acknowledged that he knew before acquiring ICA that Mr. Bailes previously had been jailed on fraud charges. Neverthe-

less, Mr. Johnson said he was convinced of ICA's legitimacy and the authenticity of the purported decisions.

Informed of Mr. Bailes' recent conviction, Peter Feaman, a Boca Raton lawyer for ICA, said, "Mr. Bailes was on trial, not the authenticity of those cases."

The sale of ICA to Mr. Johnson was not mentioned in Mr. Bailes' August 1987 indictment, which focused on Mr. Bailes' efforts to sell ICA and the other insurers in 1983 and 1984.

Charging Mr. Bailes with 24 counts of wire fraud and perjury, the indictment alleged that he tried to sell the "virtually worthless insurance companies" by falsely representing their "origins, assets and operating histories."

During the trial earlier this month, prosecutors presented evidence that the alleged 1911 and 1914 Delaware court decisions are phony, according to Assistant U.S. Attorney Debra Stuart.

Witnesses testified, among other things, that no record could be found of the "substitute judge Ben Green," who supposedly issued the orders, and that the West Virginia secretary of state's office mistakenly allowed Mr. Bailes to amend a non-existent charter for a Pocahontas Insurance Co. that had been dissolved.

Mr. Bailes amended the charter in 1978 to change Pocahontas' name to ICA.

Mr. Bailes, who represented himself, called only two defense witnesses, both psychiatrists who testified that Mr. Bailes suffers from hypercalcemia—an elevated level of calcium in the blood—which can cause "delusional conduct," said James Wyatt, a Charlotte lawyer who acted as standby counsel to Mr. Bailes.

The jury convicted Mr. Bailes on 21 of the 22 counts

Continued on page 97

Inside

✓ The new joint claims handling facility gives new life to a worthy pursuit, says this week's editorial. **PAGE 8**

✓ To prevent itself from falling into anarchy, the reinsurance industry must return to the basic tenets of professionalism, long-term relationships and the principle of utmost good faith, say Coopers & Lybrand's LeRoy J. Simon and John C. Narvell in Speaking Out. **PAGE 53**

✓ Laws designed to give corporate directors and officers more leeway in resisting hostile takeovers may subject them to greater D&O liability exposures, experts say at a Wyatt Co. symposium. **PAGE 77**

✓ Risk managers at health care facilities should get more involved in their organizations' risk-financing decisions, an expert says at the American Society for Healthcare Risk Management's meeting. **PAGE 80**

American Society
for Healthcare
Risk Management
10th annual conference
Phoenix

✓ Commercial property/casualty insurance should not be covered by state guaranty funds, says stock analyst Myron M. Picoult. **PAGE 99**

Departments

Classifieds	94
Datebook	96
Insurance services guide	98
Letters	8
Opinions	8
Perspectives	53
Speaking out	53
Spotlight report	3
Ticker	99

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Reinsurance

Shift to higher net lines may be permanent

By DOUGLAS McLEOD
and LINDA J. COLLINS

NEW YORK—The significant changes in the reinsurance buying habits of many ceding companies over the past three years may become permanent, some reinsurance industry executives say.

For instance, several factors—notably the withdrawal of cheap reinsurance capacity and rising profitability of primary business—have caused many ceding companies to raise their retentions in recent years.

Most brokers and reinsurers report little change in these retentions this year, and many reinsurance industry executives agree that the shift to higher retentions probably represents

a "structural" change in the business. If retentions fall, these executives predict, they will not fall to the minimal levels maintained during the soft market of the early 1980s.

However, other reinsurance industry observers say that the increase in retentions is only a short-term phenomenon. Factors that could work to reduce retentions, several executives noted, include an erosion of ceding insurers' surplus caused by poor underwriting results and by the impact of the 1986 Tax Reform Act.

Likewise, reinsurance executives differ over whether another major change in buying habits—the shift to excess-of-loss property reinsurance from proportional contracts—will become a permanent market practice.

Excess reinsurance allows ceding insurers to keep more of their premiums—an especially attractive feature when the business is profitable—and while many reinsurers would like to write more proportional business, many ceding companies are no longer interested in the contracts, brokers say.

Meanwhile, other changes that accompanied the tightening reinsurance market in 1985 and 1986 have not lasted: Reinsurance brokers report a continued improvement in the terms of reinsurance contracts, including extension or elimination of sunset clauses and aggregate caps on casualty placements.

Rising reinsurance prices during the tight market are cited by most reinsurance executives as the initial cause of

higher ceding company retentions: It made economic sense for insurers to buy less reinsurance if they could afford to retain the business.

As ceding insurers themselves built up surplus on profitable business written during the tight market, they became increasingly comfortable with the higher retentions, reinsurance sources note.

"As the balance sheet gets stronger and as inflation whittles away the value of the dollar, naturally retentions increase," noted Michael G. Fitt, chairman and president of Employers Reinsurance Corp. of Overland Park, Kan.

Mr. Fitt added only the largest insurers have taken on "massive" in-

Continued on next page

Intermediary revenues continue to fall

By LINDA J. COLLINS

Increased retentions by ceding insurers—combined with somewhat lower reinsurance rates and low broker commissions—stunted the growth of most of the large U.S. reinsurance brokerages in 1987 and continue to depress revenues in 1988.

Based on reported revenues and *Business Insurance* estimates, only one of the nation's 10 largest intermediaries saw gross revenues increase more than 10% in 1987, compared with six intermediaries that experienced revenue growth of more than 20% in 1986 and nine with revenue growth exceeding 20% in 1985.

In fact, the estimated revenues of four intermediaries fell more than 5% last year, while two other intermediaries report flat revenues.

In an effort to reverse this trend, many reinsurance brokers are competing for business by offering expanded services, which has led to some broker consolidations.

However, intermediaries report they have not seen any unusual movement of accounts among themselves.

Intermediaries blame their checked revenues on the softening property/casualty insurance marketplace.

"The insurance market softened and brokerage income (went) down for most

of the marketplace in 1987 and continues to do so in 1988," said Paul R. Davies, president and chief executive officer of Reinsurance Agency Inc./Cole, Booth, Potter Inc. of Chicago, both Aon Corp. units.

High insurer retentions, combined with rate reductions in the primary market, were responsible for most of the revenue drain felt by reinsurance intermediaries, brokerage executives agreed.

During the hard market of 1985-1986, reinsurers forced many insurers to assume higher retentions. Then, as insurers began to find themselves in stronger financial positions as a result of increasing rates, many became comfortable with the higher re-

tentions they had assumed.

Because primary insurers now are scrambling for business in the softer market, they are reluctant to cede this business to reinsurers, brokerage executives explained.

"Unless insurers experience a major severity and frequency of losses in both the property and casualty fields, I don't think they'll go back to lower retentions. As a result, in the domestic reinsurance market there will be less and less premium available," predicted Robert F. O'Leary, president and chief operating officer of Willcox Inc. Reinsurance Intermediaries of New York.

"Ceding companies are comfortable right now with where they are," agreed Thomas A. Greene, president and chief executive officer of Thomas A. Greene & Co. Inc. of New York.

However, small ceding insurers may begin retaining less risk if the reinsurance market softens further, predicted Roger D. Espe, president and chief executive officer of Sullivan Payne Co. in Seattle.

"One of the big changes in the last market cycle was greater casualty retentions, which in some cases were higher than individual companies' comfort levels," according to Mr. Espe. As a result, some ceding companies, partic-

Continued on page 14

10 largest U.S. reinsurance brokers

Company (Parent)	Gross revenues (in millions)			Employees			Percent treaty	
	1987	1986	% change	1987	1986	% change	1987	1986
Guy Carpenter & Co. Inc. (Marsh & McLennan Cos. Inc.)	\$270 ¹	\$285 ¹	-5.3%	1,377	1,340	2.8%	93 ¹	90 ¹
Sullivan Payne Co. (E.W. Payne Cos. Ltd./Sedgwick Group P.L.C.)	57 ¹	65 ¹	-12.3	425	450	-5.6	90	90
E.W. Blanch Co. (Limited partnership)	52 ¹	50 ^{1,2}	4.0	331	299	10.7	98	99
TPF&C Reinsurance (Privately held)	40 ¹	40 ¹	-	308	300	2.7	86	81
Willcox Inc. Reinsurance Intermediaries (Johnson & Higgins and Willis Faber P.L.C.)	31-32 ¹	27-28 ¹	14.5	180	148	21.6	96	96
Thomas A. Greene & Co. Inc. (Alexander & Alexander Services Inc.)	28.7	27.4 ²	4.7	225	216	4.2	93	89.8 ²
Reinsurance Agency Inc./Cole, Booth, Potter Inc. ³ (Aon Corp.)	25.9	23.7	9.3	172	160	7.5	97	96
G.L. Hodson & Son Inc. (Corroon & Black Corp.)	23	23	-	201	192 ²	4.7	81	88.5 ²
Intere Intermediaries Inc. (Privately held)	20.5 ¹	23-24 ¹	-12.8	208	216	-3.7	100	100
RFC Intermediaries Inc. (The St. Paul Cos. Inc.)	14 ¹	16.1	-13.0	180	225	-20.0	33 ¹	33

¹ BI estimate

² Restated

³ Reinsurance Agency was acquired by Aon Corp. in September 1988 and its revenues and employee count have been combined with Aon subsidiary Cole, Booth, Potter for 1987 and 1986.

London market expecting confusion during renewals

Some London market excess-of-loss reinsurance underwriters are quoting massive premium increases or are pulling out of the market, which could lead to a turn in the property/casualty insurance market by next year. **Page 30.**

Artificial intelligence aids reinsurance underwriters

An increasing number of reinsurance companies are establishing so-called expert systems that are intended to help underwriters by taking them through the logical steps needed to make an underwriting decision. **Page 34.**

State regulators hitting reinsurance recoverables

With a growing sense of urgency, state regulators are engaged in a broadside attack on unrecoverable reinsurance to prevent further insurer and reinsurer insolvencies. The NAIC is spearheading the attack. **Page 40.**

Health reinsurers feeling pinch of rising costs

Reinsurance companies that write group health reinsurance contracts are feeling the sting of health care cost inflation. In response, they are raising rates and introducing catastrophic case management programs. **Page 70.**

Reinsurance

Continued from previous page
creases in retentions, while small and midsized insurers have taken more modest increases.

In addition to growing accustomed to retaining more of their business, many ceding companies also have gotten used to buying only excess-of-loss reinsurance, noted Willis T. King Jr., chairman and chief executive officer of Willcox Inc. Reinsurance Intermediaries in New York, the fifth-largest U.S. reinsurance intermediary.

Insurers no longer expect to be able to buy large amounts of inexpensive reinsurance without such aggregate limitations, as they did in the early 1980s, he suggested.

Despite a drop in reinsurance prices in recent renewals—notably for property coverages—many ceding companies are maintaining their higher retention levels as a

way of shoring up the erosion of their premium base.

As primary insurance pricing has weakened over the last 18 months, gross written premium volume for some insurers has stopped expanding, explained Lawrence S. Doyle, president and chief executive of New England Reinsurance Corp., a Boston-based Hartford Insurance Group unit.

These insurers, he noted, have taken higher net retentions to preserve net premium volume and offset expenses, a trend Mr. Doyle said he expects will continue.

"We certainly have lost a substantial amount of business in the reinsurance industry as a whole going forward," he said.

Opinions are mixed, however, on whether the trend toward higher retentions is likely to reverse itself in coming renewals, or whether the change is a permanent one for the industry.

"I think that's structural," Mr.

Doyle said of the change. "The fact is that the net retentions that are currently held have not hindered (insurers') surplus."

"The industry has undergone a structural change," concurred James E. Dwane, president of Prudential Reinsurance Co. in Newark, N.J. "We are talking about a matter of degree now, how much change."

"What I can't answer is to what degree this structural change will take place," Mr. Dwane said.

Some ceding insurers, he explained, feel comfortable with a \$5 million retention and will maintain it, while others may decide to reduce their retentions if reasonably priced reinsurance is available.

"I would say that the idea that (ceding companies) are going to come down and start buying very low-level reinsurance is a thing of the past for the very large stock companies," said Paul R. Davies, president and chief executive offi-

cer of Reinsurance Agency Inc./Cole, Booth, Potter Inc. in Chicago, the seventh-largest U.S. reinsurance intermediary.

"Other companies may not have made some of the moves (toward very large assumptions) that the larger companies did," Mr. Davies said.

"I doubt we will return to the buying patterns that characterized the early part of this decade," said Roger D. Espe, president and chief executive officer of Sullivan Payne Co. in Philadelphia, the second-largest U.S. reinsurance intermediary.

"A new generation of buyers has emerged whose views have been shaped by the insurance/reinsurance world of the 1980s. Sophisticated, analytical modeling, rather than 'gut feel,' is the basis of much decision-making," he said.

Nevertheless, Mr. Espe added that "one of the big changes in the last market cycle was greater ca-

sualty retentions, which in some cases were higher than individual companies' comfort levels. As the reinsurance market begins to soften, it is not unlikely that some ceding companies will more aggressively purchase lower-layer casualty reinsurance."

Responding to rising primary insurance rates and a desire to control reinsurance costs, many ceding companies decided during the tightening market to increase retentions, noted Edmond F. Rondepierre, senior vp and general counsel of General Reinsurance Corp. in Stamford, Conn.

Unless something happens to erode insurers' surplus, "that decision has been made, and we do not expect it to be changed anytime soon," Mr. Rondepierre said.

However, ceding companies might reassess their positions if they see their surplus being eroded by—for example—a rising tide of losses, he added.

"We expect to see some of that. It's a question of when the losses materialize," he observed.

Another "wild card," he added, is the strain tax reform will place on insurers' bottom lines. A ceding insurer operating on a break-even basis, with a 100% combined ratio, may still face a tax bite that will come out of its surplus, Mr. Rondepierre said.

"We are a little puzzled about where they think the tax money is going to come from," he said of ceding companies.

"I don't think half the CEOs in this country realize how punitive those (tax law) changes are," Mr. Fitt agreed, though he added that whether this causes insurers to buy more reinsurance "depends on the company and the time of day."

Mr. Fitt suggested that there is nothing necessarily permanent about the recent increase in ceding insurer retentions, noting that it made economic sense for large insurers to retain more in the face of mounting reinsurance costs in recent years.

While ceding insurers will probably never return to the retention levels they maintained 10 years ago, many may decide to retain less of their business if reasonably priced reinsurance were available from secure reinsurers, he said.

"I think they would be financially irresponsible if they did not," he said.

Michael W. Cashman, president and managing general partner of E.W. Blanch Co. in Minneapolis, the third-largest U.S. reinsurance intermediary, noted indications that some ceding insurers may be moving toward lower retentions.

"Some companies were forced to take higher retentions in 1986 and are looking at lower retentions in 1988," Mr. Cashman said.

On the other hand, he added, as more and more insurance company mergers and acquisitions take place, there "will be a tendency for higher retentions" on the part of the consolidated larger companies. The size of the company "is a major factor," he said.

Ward B. Gordon, chairman and chief executive officer of Intere Intermediaries Inc. in New York, also said he expects to see some retentions shrink. Intere is the ninth-largest U.S. reinsurance intermediary.

"My personal opinion is that we are going to see a shift in the market as early as 1989," Mr. Gordon said. "The reinsurance market will loosen up to the extent that many buyers will once again fill out their programs. The problem has been pricing."

Meanwhile, although some reinsurers report continued demand for proportional treaty reinsurance, many reinsurers and brokers confirm a shift away from proportional, or pro-rata, business toward excess-of-loss coverages.

Continued on page 6

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Reinsurance

Continued from page 4

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

While under both types of reinsurance contracts the reinsurer shares in the ceding company's premiums, pro-rata reinsurance often involves a lower layer of coverage where premiums are higher.

In the initial stages of the hard market, the move toward excess-of-loss coverage was precipitated by reinsurers that wanted to insulate themselves from the losses sustained on unprofitable pro-rata contracts, observers say.

But as property business became more profitable, reinsurers were hoping to regain some of the lost

pro-rata placements, only to find that ceding insurers showed no interest in such a move, preferring to keep the larger share of premiums excess-of-loss contracts allowed them.

"In 1986, we found that reinsurers were pushing our clients to go from proportional to excess-of-loss coverage," said Philip W. Mitchell, senior vp, director and manager-facultative operations for TPF&C Reinsurance in Philadelphia, a unit of Towers, Perrin, Forster & Crosby Inc., and the fourth-largest U.S. reinsurance intermediary.

"Now we find reinsurers would like to write proportional reinsurance, even London, for property, but the clients are saying, 'No, we'd like to stay with excess.' They are all looking to write premium and don't want to give it away to reinsurers. They'd rather hold the business to keep the volume and because they feel it's adequately

priced business.

"I think the market oversold its product," Mr. Cashman said, referring to excess-of-loss covers. "Now it wants (pro-rata property business) back, but can't get it back."

"The only thing that's going to (change) it is market conditions," he added. "If prices drop significantly, ceding companies might be more interested in purchasing reinsurance on a pro-rata basis."

"Everybody wants to buy excess-of-loss. I think reinsurers would love to see more pro-rata business. I think it's just the state of the market now," Intere's Mr. Gordon concurred.

New England Re's Mr. Doyle said he does not expect much of the lost proportional business to be recaptured.

Ceding insurers with improved capital and surplus positions do not need proportional reinsurance to support the business they write, he said, noting that ceding insurers

instead have a greater need for coverage in catastrophe excess layers.

"I think it's directly in proportion to the strain on surplus," said Mr. Davies of Reinsurance Agency Inc. "Companies have not used up their capacity, so they are not interested in quota-share reinsurance. (Demand) moves with the cycles of the industry."

Quota-share reinsurance is a form of pro-rata reinsurance indemnifying the ceding company against a fixed percentage of loss on each risk covered in the contract.

Faced with a general decline in reinsurance premium volume, reinsurers would clearly benefit from an increased volume of profitable pro-rata business, Employers Re's Mr. Fitt observed.

The reinsurance market as a whole is shrinking for several reasons, including higher ceding company retentions and a shrinking

number of ceding insurers due to mergers and acquisitions, he noted. To cope with a shrinking market, reinsurers must take steps to shore up their own premium volume, and one of these steps would be to assume more quota-share business, he said.

"Pro-rata is much more viable today, due to stronger (at least temporarily) primary pricing and also to reinsurers' desire to increase their writings," added Mr. Espe of Sullivan Payne. "You see more markets willing to entertain pro-rata treaties, and those treaties which we have in effect have produced excellent results."

"Also, in many cases, risk excess (excess-of-loss reinsurance contracts) have not been satisfactory vehicles for generating sufficient capacity to satisfy buyers and, as proportional terms have improved, these buyers have once again sought out pro-rata capacity," Mr. Espe said.

The market for property and casualty reinsurance has continued to improve to varying degrees since January, though more will be known about the state of the market after the upcoming Jan. 1 renewals are complete, reinsurers and brokers report.

Property business has seen "further erosion" in pricing both on the primary and reinsurance sides this year, with excess and catastrophe reinsurance prices falling roughly 10% to 12% since January, according to Michael E. Rothpletz, executive vp and chief operating officer with G.L. Hodson & Son Inc., a Corroon & Black Corp. unit based in New Hyde Park, N.Y., and the eighth-largest U.S. reinsurance intermediary.

Reinsurers also have increased ceding commissions on pro-rata property business in some cases, Mr. Rothpletz said.

Terms and conditions of casualty reinsurance contracts continue to improve, though reinsurers so far this year have offered few price reductions, sources note.

"They're certainly not repeating the mistakes they made four to five years ago," Mr. Rothpletz said. "Whatever softening there is on the primary side is really not being fueled by treaty reinsurers."

However, sunset clauses, which phase out coverage over a period of years, have been extended or eliminated in recent renewals, while loss ratio caps on reinsurance coverages have been raised to more than 300% in some cases or eliminated, Mr. Rothpletz said.

"Reinsurers are giving primary companies more latitude in the business they can write," he added, explaining that reinsurers are eliminating such restrictive treaty conditions as "hazard group exclusions" that bar coverage for excess and surplus lines risks.

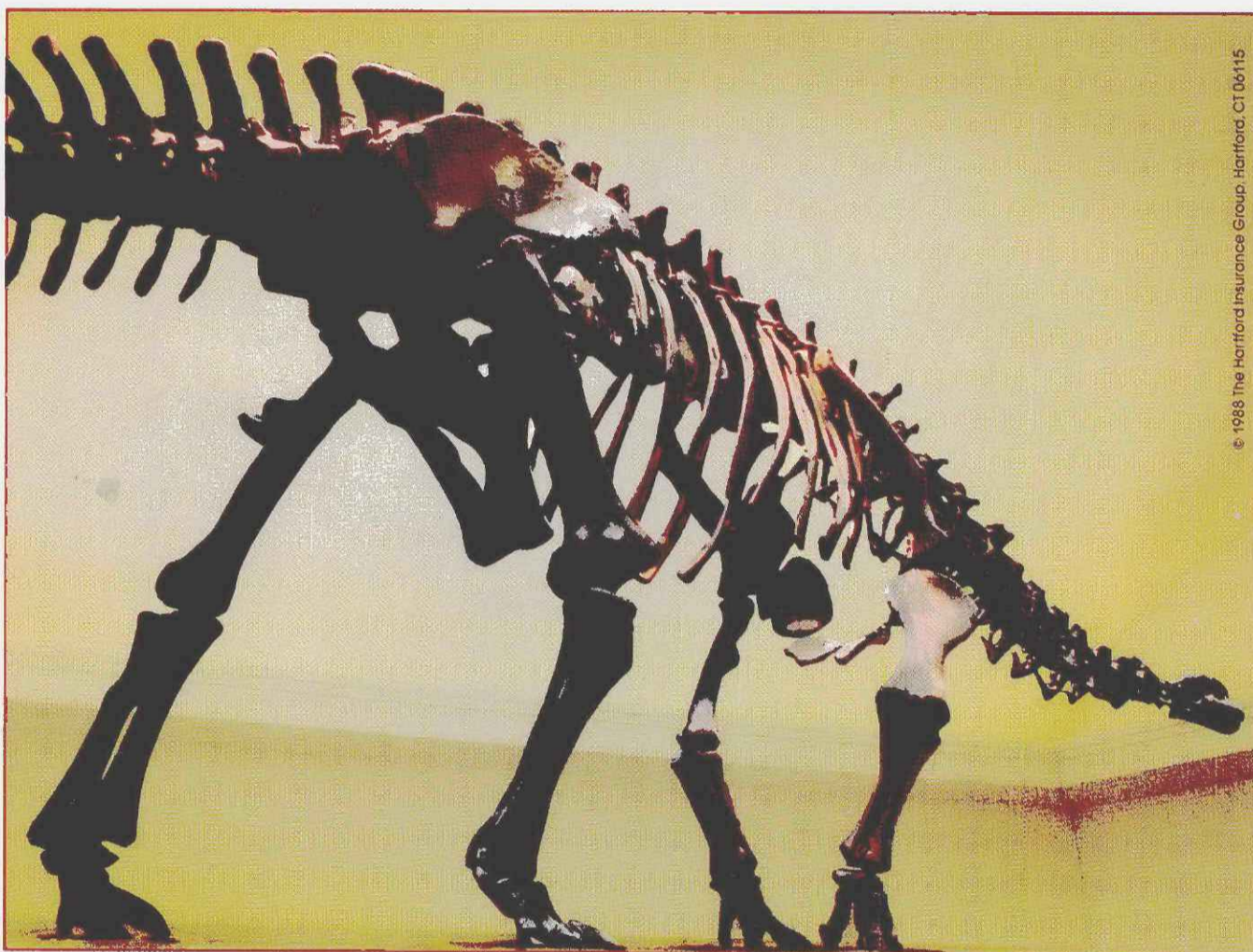
Separately, while reinsurance market conditions evolve, one change that hit reinsurers after the onset of the hard market is likely to be permanent: a much higher profile for the industry than it has ever had before.

"Reinsurers have been catapulted into a very uncomfortable limelight," noted Mr. Rondepierre.

Until it was blamed for much of the disruption caused by the hard market, the reinsurance industry was practically invisible to insurance regulators, state legislatures and Congress, he noted.

Now, however, reinsurers have been accused of antitrust violations by several attorneys general, and the reinsurance industry has figured prominently in the debate over repeal of the antitrust exemptions granted for insurers by the McCarran-Ferguson Act.

Reinsurance industry regulation is on the "front burner" for the National Assn. of Insurance Commissioners and in several states, including New Jersey, Mr. Rondepierre noted. ■



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Opinions

A new beginning

BY FORMING A NEW joint claims handling facility, 21 asbestos producers—aided by about 10 insurers—have given new life to a worthy pursuit.

When the original Asbestos Claims Facility was dissolved earlier this year, it marked the sad end to a bold experiment to fairly and expeditiously compensate asbestos injury victims.

However, by signing agreements earlier this month to form the new Center for Claims Resolution, the asbestos producers and insurers have given new life to this experiment (BI, Oct. 17).

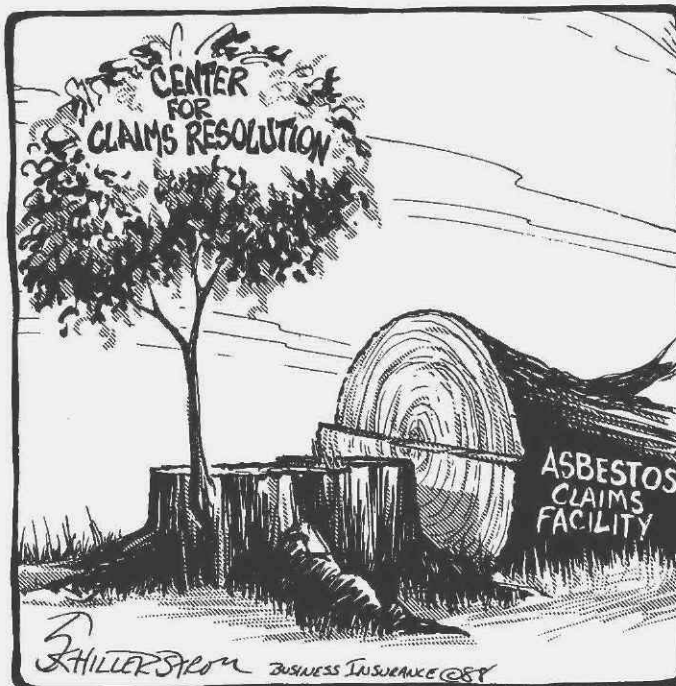
We could not be more pleased.

While the dissolution of the Asbestos Claims Facility must be regarded as a defeat for producers, insurers and—whether or not they will admit it—plaintiffs' attorneys, certain aspects of the facility undeniably proved to be unworkable. Now, the founders of the Center for Claims Resolution believe they have solved those problems and have established a facility that will be acceptable to all sides.

The founders of the center say the new facility's structure will put an end to the internal bickering among facility members that contributed to the original Asbestos Claims Facility's self-destruction.

For instance, the center's formula for allocating liability costs reflects the changing mix of asbestos cases. The old facility's allocation formula could not be changed significantly, causing the larger members of the facility to withdraw when new cases—for which these members were not liable—started to flood the facility.

In addition, architects of the center say the new facility's smaller membership harbors a unified claims handling philosophy: to eliminate the backlog of asbestos claims in a "fair and expeditious" manner.



Members of the old facility had differing claims strategies: Some wanted to settle claims quickly, while others wanted to contest every case.

Now that the new center is established, we hope that plaintiffs' attorneys will attempt to work with the facility's members to bargain fair settlements of their clients' claims. While some plaintiffs' attorneys celebrated the demise of the original facility, smart plaintiffs' attorneys should realize that a streamlined claims handling facility—by removing the litigation from the courts—will maximize the amount that will be paid to asbestos injury victims.

We congratulate those responsible for the new center and hope their hard work will keep alive the dream of efficient and fair settlement of asbestos injury claims.

Letters

HMOs do not skim healthy employees from indemnity plans

To the editor: Michael Bradford provided a good summary of Stephen F. Coady's address to the Self-Insurance Institute of America, "Aging Public Driving Health Care Costs Up" (BI, Oct. 10).

Mr. Coady is on target when he says that the relationship between aging and increased utilization of health services is "poorly appreciated." Not only do older people use more health services, but their care is also more costly, he correctly points out.

One of the tragic aspects is that out-of-pocket payments by the elderly now exceed what they were before the enactment of Medicare. The situation will of course worsen when catastrophic legislation is implemented.

However, Mr. Coady is way off base on his remarks about HMOs skimming the healthier populations. Where has he been? Almost 10 years ago, Congress enacted community rating by class, which permitted HMOs to reflect the age and other cost categories of its contracting groups. The recently enacted HMO amendments go a step further and permit

rate adjustments based on group experience.

If Mr. Coady would check with some of his colleagues in the self-insurance field, he would find that many of the big clients have already adopted these methodologies.

He ought to update his presentation to such important audiences. Then again, I suspect a man of Mr. Coady's demonstrated intelligence and sophistication is aware of these things and his HMO bias stems more from competition than bad theory.

James F. Doherty
President and Chief Executive Officer
Group Health Assn. of America Inc.
Washington, D.C.

Industry's image is understandable in light of attitude

To the editor: I applaud James H. Bryson for his letter urging the insurance industry to improve its public image by "explaining itself, its process and its problems" (BI, Sept. 5).

I agree that public perception of the industry can only be as good as the one invited by the industry. Unfortunately, not many insurance professionals seem to be taking heed of this advice, and the image of the industry continues to deteriorate today.

It is not surprising then to learn that the insurance industry is less trusted by the American public than practically any other industry in our society. Only trial attorneys rank lower than insurance agents in some opinion polls.

Recent efforts to subject insurers to greater regulation reflect this, including

attempts to modify or repeal the McCarran-Ferguson Act, the attorneys general's lawsuits against the industry and the insurance-related propositions that California voters will be deciding in November.

Perhaps as much as mistrusted, I submit the insurance industry is misunderstood. The fault for this must be laid at the feet of the insurance industry itself. I believe the patronizing attitude many of its leaders have shown and continue to show toward the public and the secrecy surrounding many of the industry's operations account for this.

I have witnessed this attitude numerous times in my role as public counsel for insurance consumers in Texas, and I have heard similar complaints from many consumers. They are told that the information is "not available," or that it is "not collected in that format," or that it is "too complex for the buying public to decipher... let alone understand."

In an attempt to right this wrong, the new Office of Consumer Protection in Texas has made it a top priority to make insurance more understandable to the average citizen through a series of brochures, speaking engagements, media interviews and a newsletter.

But this is a battle we cannot win without the help of the industry. The attorneys general's lawsuit once again presents the insurance industry with an ideal opportunity to open up, to clarify misperceptions and to educate the American public on what it is all about. I urge industry leaders to take advantage of this and other opportunities to shed an image of secrecy in favor of one of openness and cooperation.

Kay Doughty
Director, Office of Consumer Protection
Austin, Texas

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Financial, finite risk reinsurance scrutinized

By DOUGLAS McLEOD

NEW YORK—The ranks of financial and "finite risk" reinsurers are growing, but their reinsurance products will have to clear various regulatory and market hurdles if they are to catch on in the United States, reinsurance experts say.

A major hurdle facing financial reinsurance products—including loss portfolio transfers and other retrospective and prospective reinsurance deals—is whether they qualify as true risk transfers for tax and accounting purposes, reinsurers and brokers say.

In a loss portfolio transfer, an insurer cedes loss reserves on a discounted basis to a reinsurer, which then assumes liabilities on that business (BI, April 18).

Uncertainty about how the Internal Revenue Service and accounting firms will treat financial reinsurance transactions is making buyers cautious about pursuing such deals, brokers and consultants report.

Finite risk reinsurance—a loose label for contracts in which the reinsurer's liability is limited through such features as loss ratio caps—also may see its growth slowed as a softening market prompts traditional reinsurers to remove such features from their contracts, some brokers say.

The potential problems have not stopped new reinsurers from forming to specialize in financial and finite risk products, however.

The largest, Bermuda-based Centre Reinsurance Holdings Ltd., capitalized at \$250 million earlier this year, expects to meet its first-year premium goal of \$250 million, according to President and Chief Executive Officer Steven M. Gluckstern (BI, April 18).

Centre Re's business so far has been about evenly split between retrospective deals, such as portfolio transfers, and prospective contracts, such as financing quota-share and other finite risk contracts, he said.

One of the reinsurer's larger transactions so far has been an agreement to run off the U.S. domestic reinsurance business of Boston-based John Hancock Reinsurance Co., which withdrew from the market earlier this year, a Hancock spokesman confirmed (BI, June 6).

Mr. Gluckstern is upbeat about Centre Re's prospects, maintaining that finite risk reinsurance is a long-term addition to the reinsurance marketplace that "provides another option for insurers that have to cope with tremendous changes in their retentions or tremendous changes in the pricing of their reinsurance."

He acknowledged, though, that finite risk products—unlike established financial reinsurance products like loss portfolio transfers—will take time to gain market acceptance. He also declined to predict whether Centre Re will reach the \$500 million premium goal it had set for its second year of operation.

One of the newest financial reinsurers is Bermuda-based Skandinavian Reinsurance Co. Ltd., capitalized at \$25 million by Sirius Insurance Group of Sweden last month.

Skandinavian Re is planning to write \$15 million in premiums in 1989 on funded excess coverages, portfolio transfers and other contracts with U.S., British and European insurers, according to President Jens Juul (BI, Oct. 3).

The reinsurer also plans eventually to start writing financially oriented direct insurance products for northern European industrial corporations, according to Mr. Juul, who said these products could include export credit stop-loss coverage and aggregate covers for self-insured programs.

Reinsurers generally agree that financial reinsurance products face

fewer regulatory and tax challenges in European countries than in the United States.

Such challenges are a significant concern for U.S. companies, however.

Reinsurance sources note that section 845(b) of the Internal Revenue Code, added as part of the 1986 Tax Reform Act, could be used by the IRS to eliminate financial reinsurance transactions that have the effect of deferring taxable income.

One reinsurance company official described the section as "a hammer sitting under the table" for the IRS to use against ceding insurers.

"845(b) is hanging over everybody's head as far as anything at all that has tax consequences. Nobody really knows the full impact of it," added Greg Leonard, principal with the Til-

linghast division of Towers, Perrin, Forster & Crosby Inc. in Simsbury, Conn.

Another concern is a preliminary draft of a proposed reinsurance accounting rule being considered by the American Institute of Certified Public Accountants.

In its current draft form, the rule would require reinsurers to assume underwriting risk and would consider as "financing arrangements" any contracts that involved only the transfer of:

- Investment risk, or the risk that the reinsurer will earn less investment income than expected on its reinsurance premium before losses become due.

- Credit risk, or the risk that amounts due from other reinsurers may prove partially or wholly un-

collectible.

- Expense risk, or the risk that the reinsurer's operating expenses may be higher than expected when the reinsurance premium is established.

- Timing risk, or the risk that the reinsurer will have to pay claims more quickly than expected, eliminating investment gains on its up-front reinsurance premium.

The draft AICPA rule is open to substantial revision during a review process that is expected to take 12 to 18 months. However, several observers say they expect that financial reinsurers will ultimately have to assume more than timing risk, for example, to pass the test.

The uncertainty over the tax and accounting treatment of financial

reinsurance has resulted in increasing pressure on the reinsurers to assume more underwriting risk in deals with U.S. insurers, and has made these ceding insurers more cautious about such transactions, sources say.

Because of the draft AICPA rule, the last few months have seen "a movement away from strictly financial reinsurance types of deals with only a timing or investment risk," said Philip W. Mitchell, senior vp with TPF&C Reinsurance in Philadelphia.

"As an intermediary, we are concerned about recommending these things when it is a possibility that the reinsurance transaction could be disallowed at a later date," Mr. Mitchell said.

Continued on next page

How Fayrene Feinglas went



Even when Fayrene Feinglas was in high school, it was easy to see she'd be going places. Her ability and determination had already earned her a "Most Valuable Player" award and a chance to compete in the Arkansas All-State Girls Basketball Championship.

And then right out of high school, she signed on with Kemper.

Today, Fayrene is a Field Marketing Manager, responsible for our marketing staff in Texas, as well as a region that spans over six states. The enthusiasm and drive that made Fayrene an All-State contender back then are the same qualities that make her a most valuable player at Kemper now.

Reinsurers now interested in alternatives

By JUDY GREENWALD

NEW YORK—Reinsurers are increasingly willing to provide reinsurance and related services to alternative risk financing vehicles, observers say.

For example, two reinsurers earlier this year set up special units that offer a range of services to alternative risk-financing vehicles, like risk retention groups, while a third reinsurer is now establishing a unit to manage domestic captives.

However, a fourth reinsurer that set up a special unit a year ago to provide underwriting expertise to these risk-financing alternatives has never used it.

Meanwhile, other reinsurers are willing to reinsure these risk financing alternatives even though they do not have stand-alone, specialized units.

"In general, reinsurers seem to be willing to work with alternative risk-financing groups on the same basis as they work with other insurance companies," commented Chris Duncan, a consultant with Tillinghast in Stamford, Conn., a division of Towers, Perrin, Forster & Crosby. "But I don't think they're doing it on a large scale yet."

Earlier this year, New York-based American Re-Insurance Co. created a new subsidiary, Am-Re Managers, while Stamford, Conn.-based General Re Corp. created Genesis Underwriting Management Co. Both provide services to alternative risk financing mechanisms.

In addition, Skandia American Reinsurance Corp. plans to begin operating a Burlington, Vt., captive management subsidiary by the beginning of 1989.

But an underwriting unit set up by Woodland Hills, Calif.-based Underwriters Reinsurance Co., called URC Risk Managers Inc., has never been active, partly because it is less needed than it was a year ago, said Bill Weimer, senior vp.

Reinsurers that say they are receptive to reinsuring alternative risk-financing vehicles include North American Corp./Swiss Reinsurance Co., Prudential Reinsurance Co., Transamerica Reinsurance Co. and Trenwick American Reinsurance Corp.

American Re decided to set up Am-Re Managers in response to policyholders' move away from the traditional commercial insurance marketplace, said James Pearce, executive vp.

"We don't want to lose business," he said, and if the reinsurer can retain it by reinsuring alternative services, "we're doing it." But American Re wants to retain good client business, "not just market share," he stressed.

Conversely, clients that have dealt with American Re do not want to give up the services offered by American Re despite their move to alternative risk-financing methods, Mr. Pearce said. "They want to maintain the quality of the reinsurance that was behind them before."

"Am-Re Managers is a vehicle within American Re-Insurance Co. that is intentionally structured to respond to the non-conventional insurance marketplace," explained Mr. Pearce.

The purpose of Am-Re Managers is to, in effect, "unbundle" its services, whether they are in the underwriting, claims, actuarial or data processing areas, Mr. Pearce said. The unit was created out of a

Continued on next page

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Ward B. Gordon, chairman and chief executive of Intere Intermediaries Inc. in New York, also noted that financial reinsurance deals must comply with state insurance regulatory requirements.

"The biggest problem with this coverage is how the contracts are drawn and accepted by (state) insurance departments. Great care has to be taken to comply with the legal requirements," he observed.

Mr. Gordon continued, however, that "there will be a continuing need for" financial reinsurance.

"It's continuing to grow because property/casualty insurance companies are continuing to experience financial problems," said Kirk Roeser, president of Gill & Roeser Intermediaries in New York.

While insurer financial problems five years ago involved mainly an erosion of surplus caused by poor underwriting results, the problems today tend to involve underestimations of liabilities and the discovery of major reserve deficiencies, he explained, noting that various financial reinsurance products are useful in working out these problems.

Some finite risk reinsurance products, meanwhile, face a different challenge posed by the softening casualty reinsurance market.

Conventional reinsurers generally added features to their contracts during the tight market of 1985 and 1986 to limit their exposure, including annual aggregate caps, caps on coverage after loss ratios exceed a defined percentage and "loss corridor" provisions, under which a ceding insurer shares a portion of the risk with an excess-of-loss reinsurer.

More recently, however, reinsurers have begun to loosen these restrictions or eliminate them altogether, leading some brokers to wonder how intense the demand for finite risk reinsurance is likely to be in the near term.

"I don't see a greater demand, but I do see a greater supply," said Paul R. Davies, president and chief executive of Reinsurance Agency Inc./Cole Booth, Potter Inc. in Chicago.

"I see demand for limited liability reinsurance business diminishing right now. We see aggregate caps being raised or eliminated at this point," added Michael W. Cashman, president and managing partner of E.W. Blanch Co. in Minneapolis.

However, brokers also point out that finite

risk reinsurance may continue to be a viable alternative for some ceding insurers even in a softening market.

"Where you have real specialty types of casualty transactions, such as professional liability covers or environmental impairment liability, they become necessary to find a market that will write the business," Mr. Mitchell observed.

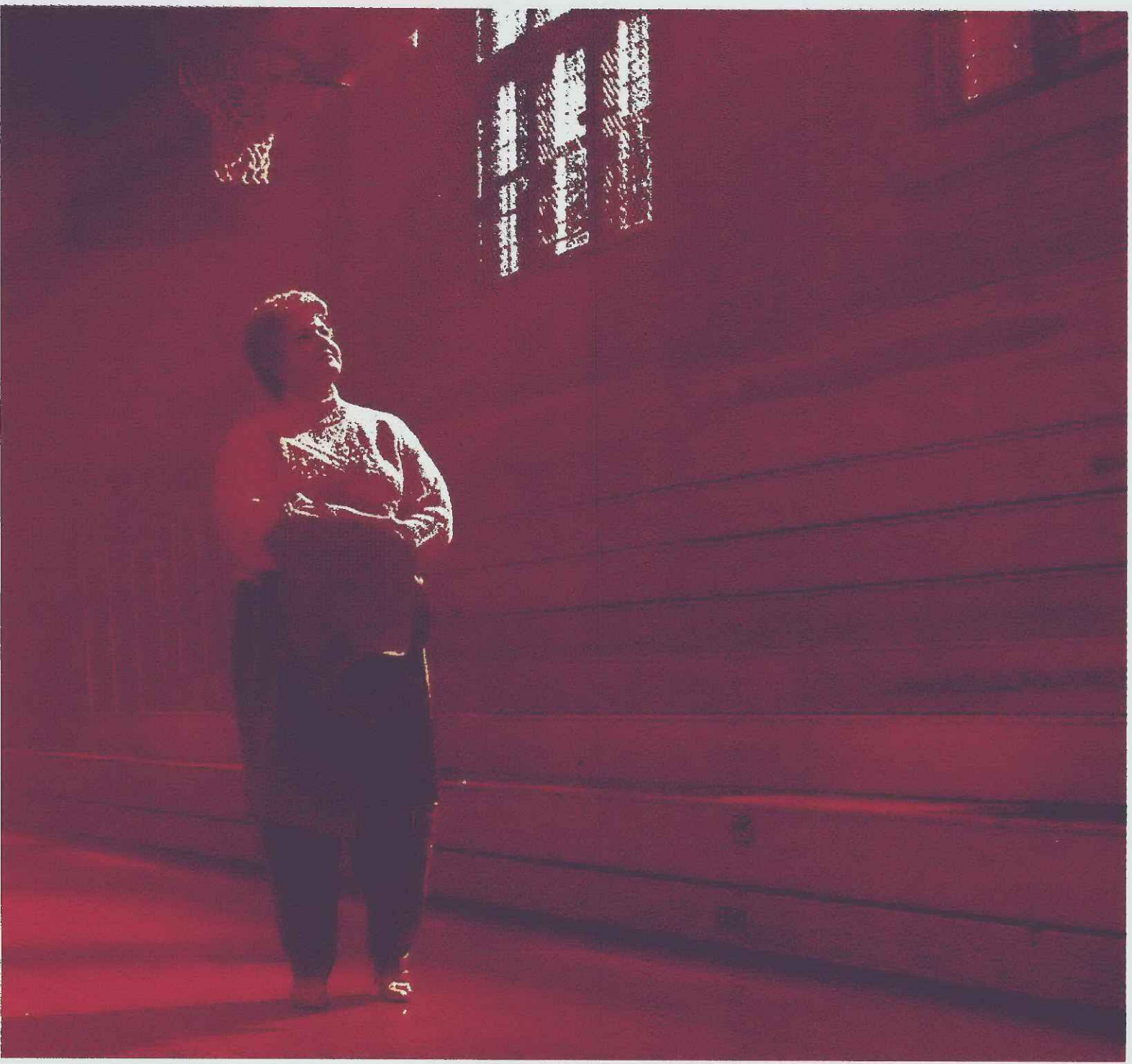
Some ceding insurers that are comfortable retaining more risk under finite risk reinsurance contracts may choose to do so as a way of containing reinsurance costs, Mr. Roeser suggested.

While finite risk products were imposed on reinsurance buyers during the tight market, buyers may choose such contracts as an option in a soft market, he noted.

Some reinsurers, meanwhile, are actually "buying back" finite risk limitations in their contracts, according to Paul Ingrey, president of F&G Re Inc., a reinsurance unit of United States Fidelity & Guaranty Co. in Morristown, N.J.

For example, a reinsurer that has imposed an aggregate cap of 200% on a contract may offer additional reinsurance limits of 200% excess of the 200% cap, Mr. Ingrey said, adding that in some cases, reinsurers have offered this extension retroactively on prior years' contracts. ■

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Spotlight report

Reinsurer services

Continued from previous page
recognition that the same services the reinsurer needed internally could be used by its clients as well, he explained.

These services would be available to standard insurance companies as well as to alternative risk-financing vehicles, said Mr. Pearce.

"We will underwrite risk retention groups," Mr. Pearce said, noting this could involve reinsuring a standard excess insurer or, in some cases, reinsuring the groups directly.

If necessary, Am-Re Managers also could combine elements of facultative and treaty reinsurance in one package. For instance, a particular risk retention group could need treaty reinsurance for the first \$750,000 excess of \$250,000 layer, said Mr. Pearce. Above that layer, though, each individual risk

Am-Re Managers could evaluate the risks insured by risk retention groups, says Mr. Pearce. It could help answer the question: 'Are they retaining the right amount that would be equivalent to what an insurer would be charging them?'

might have to be assessed to determine exposure and the cost of reinsurance, which would require facultative reinsurance.

By using its own specialists, Am-Re Managers could come up with a program that combines elements of both treaty and facultative reinsurance. A decision would then be made as to how much of this program American Re would reinsure.

If necessary, Am-Re Brokers, another American Re unit, could find other reinsurers willing to either co-reinsure the risk or to act as retrocessionaires.

Aside from reinsurance, Am-Re Managers offers other services as part of its "unbundling," said Mr. Pearce.

For instance, Am-Re Managers could periodically evaluate the risks insured by risk retention groups to see that the groups are retaining the appropriate amount of risk and charging members the proper premium, said Mr. Pearce.

It could help answer the question of: "Are they retaining the right amount that would be equivalent to what an insurance company would be charging them?" said Mr.

Pearce.

In the claims area, a self-insurer or a risk retention group could periodically have Am-Re Managers evaluate its claims and reserves to certify that its reserves are proper, said Mr. Pearce.

Am-Re Managers also could help clients evaluate their financial statements and provide the use of its electronic data processing equipment, said Mr. Pearce.

Another major U.S. reinsurer, General Re Corp. earlier this year also formed a new underwriting management unit, Genesis Underwriting Management Co., that will underwrite workers compensation and general and auto liability coverages through two General Re subsidiaries, General Reinsurance Corp. and General Star National Insurance Co.

General Re Corp. units have been providing various insurance and reinsurance coverages to alternative risk financing vehicles for

some time, but the growth of those programs prompted the company to form Genesis as a separate group to handle the business, according to Genesis President G. Roger Greiner (BI, April 25).

Mr. Greiner and other Genesis officials did not return phone calls seeking information on the unit's progress.

Assuming it receives approval from the proper Swedish authorities, Skandia's domestic captive management unit will start operations Jan. 1 under the direction of former state Insurance Superintendent George Chaffee and another administrator, said John Engstrom, senior vp and chief underwriting officer.

The Vermont unit will perform essentially accounting and administrative functions, including reporting to regulators. And, for a separate fee, it could perform functions such as underwriting and claims handling services as well, he said.

The unit will operate similarly to Skandia's Bermuda captive management operation, Skandia International Risk Management Ltd., the fifth-largest Bermuda captive management firm, which now has 90 captives under management, said Mr. Engstrom.

Skandia International represents the combined captive operations of Hanna Insurance Management Ltd. and Hudson Underwriting Ltd., which Skandia acquired in November 1987.

In Bermuda, Skandia also has maintained Hanna Intermediaries, a company formed last year to provide brokerage services to captive clients (BI, April 18).

Vermont was selected as the site of Skandia's domestic captive operation because "it's certainly the strongest by far of all the domestic captive" domiciles, explained Mr. Engstrom.

While Mr. Engstrom said it is difficult to project the operation's growth, he did say: "I don't expect it to be a tremendous explosion in '89 or '90." But "more significant growth" can be expected as the commercial insurance market hardens, he added.

"We're doing it now in order to be in place for the next hard cycle," said Mr. Engstrom, explaining Skandia's decision to start the Vermont operation. The move is part of a global strategy to establish captive managers in all of the preferred domiciles, he added.

Skandia already has an operation in Luxembourg and is considering other options as well, including the United Kingdom and Asia. "We want to have a worldwide network of captive managers," Mr. Engstrom said.

Underwriters Re's Mr. Weimer said URC Risk Managers was established to sell underwriting manager contracts to risk retention groups and captives programs.

It was designed, said Mr. Weimer, to give Underwriters Re a "higher comfort level" with the underwriting manager of alternative facilities that Underwriters Re reinsures. Using the subsidiary was intended to be one of the terms and conditions for obtaining reinsurance, Mr. Weimer said.

"We've never really done anything with it, though," said Mr. Weimer. "The market changed; capacity kind of came back in" and fewer risk retention groups were formed, he explained.

Another, perhaps larger factor, is that there seems to be more support for alternative facilities than there was a year ago, Mr. Weimer said.

Underwriters Re currently reinsures one risk retention group and another group captive, neither of which the reinsurer thought needed to use URC. Underwriters Re is willing to reinsure other captives and risk retention groups as

Continued on page 14

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Reinsurer services

Continued from page 12

well, though it plans to proceed very cautiously, Mr. Weimer said.

It is more than likely that any facilities that it reinsures in the future will be required to participate in URC, he said.

"We're interested in providing a quality reinsurance product to quality managers," Mr. Weimer said.

But, too often, there is a tendency to permit poorer risks in the group to participate in the alternatives.

The pressures they are subjected to "make it hard to reject the bad guys," he said.

While other reinsurers have not established distinct subsidiaries to market to risk retention groups or captives, that does not mean they are shunning this business.

For example, Al Davis, senior vp at North American Re, said, "We don't feel we have to set up a separate group" because for the past several years the company's existing structure has been able to accommodate these alternatives.

North American Re is reinsuring two or three risk retention groups of the 20 it has considered. Work with offshore captives is conducted by its parent, Swiss Reinsurance Co., through The Reiss Organization, which Swiss Re purchased earlier in the year, said Mr. Davis (BI, March 28; March 14).

In addition to Reiss' Bermuda captive operation, International Risk Management Ltd., the deal included American Risk Management Inc. in Fort Lee, N.J., and other Reiss captive management units in the Cayman Islands, Ireland, England and Guernsey.

North American Re may become more involved with onshore captives as the result of increased interest in this area, Mr. Davis said.

Thomas J. Gallagher, vp at Prudential Reinsurance Co., said the company has reinsured alternative facilities, including captives, for several years, and may begin offering related services as well.

"We are right now exploring these options and could offer some services in 1989," said Mr. Gallagher.

Underwriting, actuarial and claims are among the services Pru Re is considering, he said.

Pru Re now reinsures 22 or 23 alternative risk facilities, including group captives, pools and risk retention groups, said Robert Capicchioni, who is in charge of Pru Re's risk management and captive area. He estimates this business generates \$10 million to \$15 million in premiums annually.

Transamerica Reinsurance Corp. also is willing to reinsure risk alternative facilities, said William G. Clark, president, and Edwin Millette, chief underwriter.

Mr. Millette noted among the factors Transamerica Re considers before deciding to provide reinsurance is the level of capitalization; the amount of risk that will be retained; the policy form, which usually reveals why a group has come together; the rate to be charged; other underwriting criteria; the claims operation; and loss control.

Transamerica now reinsures about a half-dozen risk retention groups and group captives, Messrs. Clark and Millette say.

While Transamerica Re itself essentially focuses on reinsuring these alternatives, it does have a facility, Reinsurance Underwriters Service Co., that will provide primary underwriting if needed on a contract basis.

Trenwick American Reinsurance Co. has "a unit which, among other things, focuses on the captive, self-insurance and risk retention group marketplace," said Jacques Bonneau, senior vp.

Trenwick no longer offers the

'We're interested in providing a quality reinsurance product to quality managers,' says Bill Weimer of Underwriters Re. But, too often, there is a tendency to permit poorer risks in the group to participate in an alternative facility.

array of products, such as rent-a-captive and captive management services, it once did, Mr. Bonneau said. "Our focus is to really try and offer a reinsurance product."

Trenwick is seeking to establish long-term risk-taking relationships with alternative markets, he said, estimating this business accounts for about \$15 million in gross premiums annually.

Meanwhile, other reinsurers continue to concentrate on the conventional market.

For example, Employers Reinsurance Corp. has yet to find a

risk retention group it is willing to reinsure, said Michael G. Fitt, chairman and chief executive officer.

When asked if NAC Re Corp. planned to set up a separate unit to service risk-financing alternatives, Mark Mosca, vp-treaty underwriting, responded: "We haven't done that at this time. We are not really considering it."

"It's not an area we're likely to expand into at this time. We want to concentrate on doing reinsurance through more conventional, traditional levels," he said. ■

Intermediaries

Continued from page 3

ularly smaller insurers, may opt to purchase lower-layer casualty reinsurance if the reinsurance prices drop, he predicted.

But, Mr. Espe added: "I doubt (ceding companies) will return to the buying patterns that characterized the early part of this decade."

Ceding insurers, for the most part, have retained more risk in the last few years by shifting from pro rata reinsurance to excess-of-loss reinsurance (see story, page 3).

Under a pro rata reinsurance contract, a reinsurer agrees to accept a specified percentage of every loss incurred by the ceding company for a specified portion of the original premium.

However, excess-of-loss reinsurance contracts reinsure the ceding company against only losses that exceed an agreed upon retention. The reinsurer pays up to its limit of liability and losses above that limit in many cases revert to the cedant.

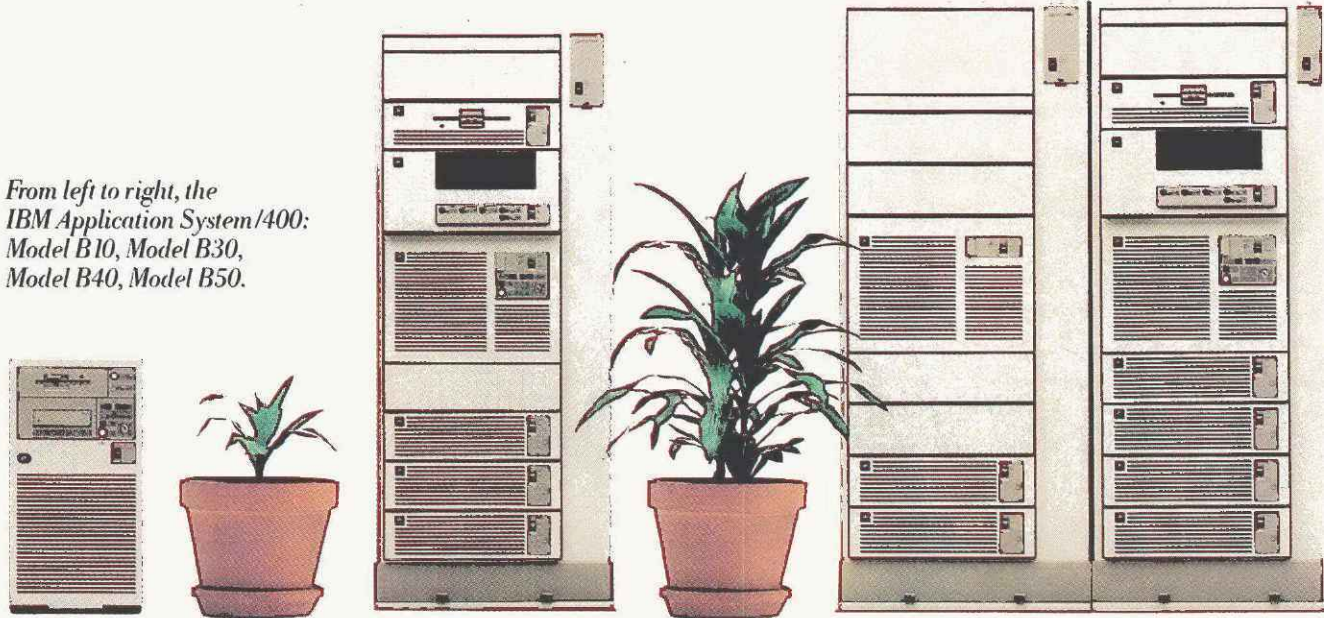
Intermediaries' revenues also have been hurt by some reinsurance rate reductions, primarily in the property treaty and casualty facultative areas.

'I doubt (ceding companies) will return to the buying patterns that characterized the early part of this decade,' says Mr. Espe.

Continued on next page

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One brokerage executive says that reinsurers are becoming more competitive than they were in 1985-1986 to compensate for the reduction in the amount of premium volume available to them.

"In 1987, the market was getting competitive... and 1988 is even more competitive," said Michael W. Cashman, president and managing partner of E.W. Blanch Co. in Minneapolis.

But, "while the primary market is softening—and hence reinsurers are ending up with less premium—we do not find the innocent capacity that was in the reinsurance market in the early 1980s multiplying the problem by reducing reinsurance rates," said Mr. Davies of Reinsurance Agency/Cole, Booth, Potter.

There have been some minor rate reductions in the facultative market and in the treaty property area, intermediary executives acknow-

ledged.

"Current casualty facultative pricing is decreasing in some cases. The amount of decrease depends on class, premium level and attachment... but 10% to 15% is not unrealistic in most cases," said Sullivan Payne's Mr. Espe.

And, property treaty rate reductions are in the neighborhood of 10% to 12%, estimated Michael E. Rothpletz, executive vp and chief operating officer of G.L. Hodson & Son Inc. in New Hyde Park, N.Y.

But, in the treaty casualty marketplace, negotiations focus on the elimination of sunset clauses and the modification or elimination of loss ratio caps under excess-of-loss reinsurance contracts, according to some intermediary executives.

"On the (treaty) casualty side, rate reductions have been slight, but there have been fairly dramatic changes in terms and conditions—limited reinstatements changed to unlimited reinstatements, sunset

'Current casualty facultative pricing is decreasing in some cases. The amount of decrease depends on class, premium level and attachment. . .but 10% to 15% is not unrealistic in most cases,' says Sullivan Payne Co.'s Roger D. Espe.

clauses being eliminated and aggregate limits being increased," Mr. Rothpletz said.

Overall, rate reductions are much less dramatic among reinsurers than primary insurers, said Robert F. Jones, senior vp and manager of facultative operations for Philadelphia-based TPF&C Reinsurance.

"By and large, reinsurers have all established 'walk-away' prices. They will consider writing an account up to a point" but will walk away from the business if it would have to be written for a premium

they deem is too low, Mr. Jones explained.

Further hurting intermediaries' revenues has been their inability to raise commissions as they had hoped they could during this market cycle, though several brokers said they were trying to negotiate increases.

"We haven't seen any increases, but we'd like to see them," Mr. Greene said. "In the hard market, reinsurers wanted to hammer down commissions" and at that time indicated they would consider increasing commission levels when

the market turned, he explained. But, that has not happened.

In fact, reinsurers "seem to be negotiating brokerage commissions downward. I don't see them going up, that's for sure," said Mr. Davies of Reinsurance Agency/Cole, Booth, Potter.

Several intermediary executives stressed that they are going to have to offer their clients a full array of services to keep from losing business to competitors.

"We firmly believe the reinsurance buyer has the right to expect more than marketing expertise from an intermediary and that these value-added services will become more of a factor in the reinsurance buyer's decision-making process," Mr. Espe noted.

"It's fair to say that the industry itself is a lot more sophisticated today; therefore, brokers have to offer products and services that were not thought of 10 years ago. Only full-service intermediaries will be able to provide these services," said TPF&C Re's Mr. Jones.

Buyers today also are much more interested in "the issue of broker security and long-term staying power" than they were in the past, Mr. Jones stressed.

Long-tail exposures like asbestos diseases and environmental impairment liability have caused ceding companies to recognize that they need a broker that is not just available today but that also will be around 20 years from now when long-tail losses surface, Mr. Jones explained.

Mr. Espe agreed: "A question of broker security and longevity is playing an increasingly major role in the buying decisions of many major insurers."

"That's why we are seeing some of the consolidation going on" among reinsurance intermediaries, Mr. Jones added.

For example, one of the Top 10 brokers, Reinsurance Agency Inc. was acquired by Aon in September and consolidated with Aon's existing reinsurance intermediary, Old Bridge, N.J.-based Cole, Booth, Potter (see profile, page 24).

As a result, the consolidated broker moved up two spots to seventh place in the BI ranking of the largest U.S.-based reinsurance intermediaries.

Another Top 10 intermediary, RFC Intermediaries Inc., a unit of the St. Paul Cos. Inc., was consolidated in August with London-based intermediary J.H. Minet Reinsurance Brokers Ltd. following St. Paul's January acquisition of Minet Holdings P.L.C. (see profile, page 27).

RFC's estimated gross revenues, however, were separated from those of Minet for the purpose of inclusion in the U.S. broker rankings.

And, Towers, Perrin, Forster & Crosby Inc. is currently involved in negotiations that could lead to the sale of TPF&C Re to Corroon & Black Corp., which would merge the intermediary with Hodson, its reinsurance brokerage unit (see profiles, pages 20 and 24).

A TPF&C Re and Hodson combination would rank as the second-largest U.S. reinsurance broker, based on the intermediaries' 1987 revenues.

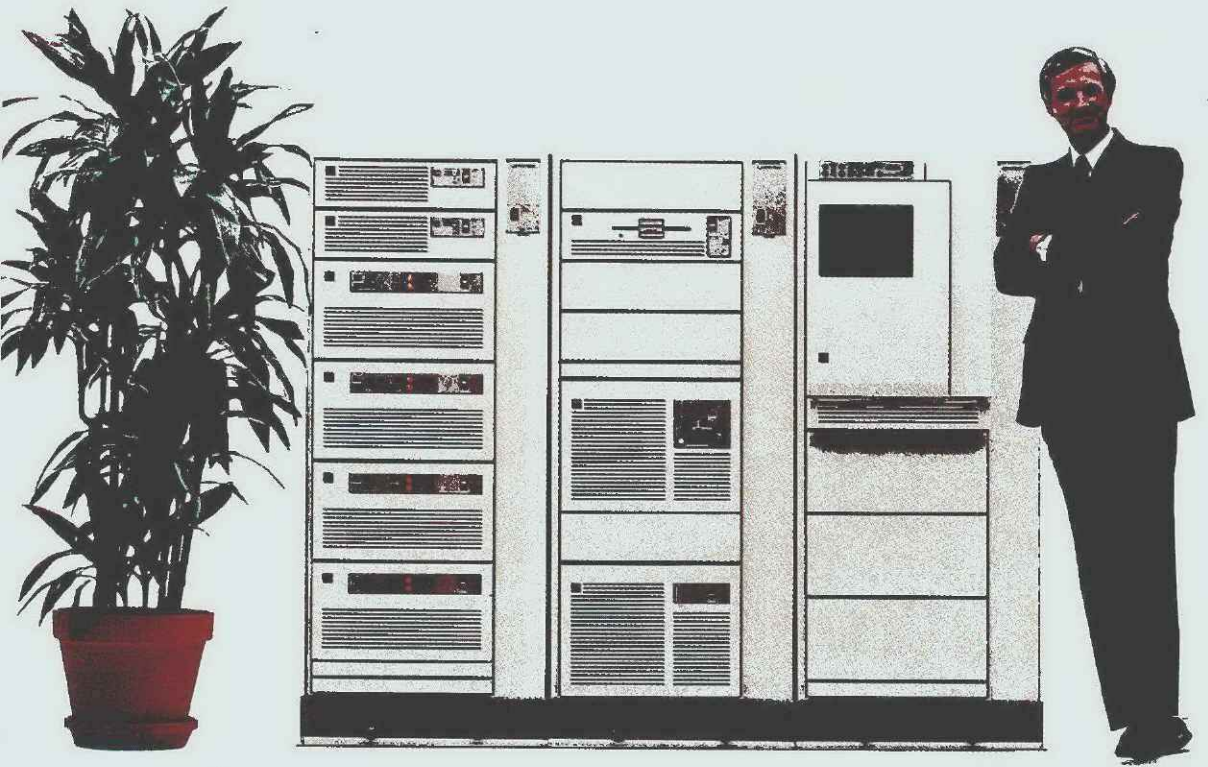
In addition to the added clout with clients that consolidations produce, "many broker firms are looking for mergers or acquisitions in order to get the financial backing" to help them weather current market conditions, Mr. Jones observed.

However, while most executives agree that there is some account switching among brokers, most view the competition as normal.

"There's always a sort of an ebb and flow in this business, but it's not a chronic problem right now. Things are business as usual—there's just not as much of it," In-

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Intermediaries

Continued from previous page
tere's Mr. Gordon said.

"There has always been movement between suppliers, and that continues. But in my view, both buyers and sellers have been disciplined in their response to the 'softening conditions.' Program terms and conditions are certainly being tested, but, in our experience, buyers have not been responding to cheap offers, having learned that lesson all too well," Mr. Espe noted.

Although most intermediary executives acknowledged that they have been contacted by risk retention groups interested in purchasing reinsurance, none of them says they have developed a significant amount of business in this area.

"We have been actively working with several groups to develop reinsurance programs to meet their needs. However, neither risk reten-

'Buyers have not been responding to cheap offers, having learned that lesson all too well,' Mr. Espe says.

tion groups nor risk purchasing groups make up a significant share of our business," said Mr. Espe.

While Intere has not actively sought risk retention business, "some of them have come to us," Mr. Gordon noted. However, he added, there is "not as much as we might have anticipated."

"We are talking to about a half-dozen groups right now, but most have modest reinsurance needs," said Willis T. King Jr., chairman and chief executive officer of Willcox.

Executives of the top reinsur-

ance brokerages also have not seen a marked increase in demand by ceding companies for financial reinsurance vehicles that would help them deal with loss reserve discounting mandated by the Tax Reform Act of 1986.

"Most insurers are still trying to see what their liabilities are, tax-wise," Mr. Gordon observed. However, he feels there is potential for such a demand once insurers determine what their liabilities are.

But Mr. King is not convinced that there is any advantage to such financial reinsurance vehicles. "We have seen a surprisingly large amount of study work and investigation, but find there is little need when all is said and done."

He characterizes such an arrangement as a "tax deferral" and said Willcox discourages insurers from purchasing reinsurance for that reason.

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

Guy Carpenter & Co. Inc.

New York-based Guy Carpenter & Co. Inc., whose estimated 1987 revenues exceed its nearest competitor's by more than \$200 million, remains the largest U.S.-based reinsurance intermediary.

However, Guy Carpenter—a subsidiary of Marsh & McLennan Cos. Inc., the world's largest insurance brokerage—saw its gross revenues drop about 5.3% to an \$270 million in 1987 from \$285 million in 1986, according to *Business Insurance* estimates.

Marsh & McLennan consolidates Carpenter's revenues with those of London-based reinsurance brokerage subsidiary C.T. Bowring & Co. Ltd. in its financial statements. Combined, the revenues of the two intermediaries—not including investment income—totalled \$318 million in 1987, a 3.3% drop from \$329 million in 1986.

In the first three quarters of

1988, Marsh & McLennan's consolidated reinsurance brokerage revenues dropped 4.7% to \$249 million from \$261.4 million in the corresponding period of 1987, not including investment income.

Analyst Michael A. Smith, vp of Shearson Lehman Hutton Inc. in New York, said Marsh & McLennan's domestic reinsurance brokerage revenues were off by only 1% in the third quarter from the comparable quarter in 1987, while international brokerage revenues in the third quarter were down 7% compared with revenues for the third quarter of 1987.

This may be an indication that competition is "slackening in the domestic reinsurance market, but accelerating in the international market," according to Mr. Smith.

In 1987, Carpenter's employee count rose 2.8% to 1,377 from 1,340 in 1986.

The intermediary does not provide information on its mix of treaty vs. facultative business, but some of Carpenter's competitors estimate that there was a fairly significant reduction in its percentage of facultative business in 1987 due to higher insurer retentions, the greater availability of treaty reinsurance and competition in the facultative market.

Because of this presumed drop in facultative business, *BI* estimates that 93% of Carpenter's premium volume represents treaty business, up from an estimated 90% in 1986.

Early in 1987, Carpenter and Morgan Guaranty Trust Co. began efforts to capitalize a new group of treaty reinsurers. On Jan. 19, the group's holding company, Bermuda-based Centre Reinsurance Holdings Ltd., began operations with \$250 million in capital (*BI*, April 18).

The three operating units are: Centre Reinsurance (Bermuda) Ltd., which writes business for non-U.S. companies; Centre Reinsurance (Barbados) Ltd., which writes business for U.S. companies; and New York-based Centre Reinsurance Co., licensed in June, which writes business for ceding companies seeking a U.S.-licensed insurer and for distressed insurers under regulatory supervision or control.

While Centre Re is strictly a broker market, it is not a captive market for Carpenter, and Carpenter has no management control of the reinsurer.

However, Carpenter will receive a fee of less than 1% of gross premiums written during Centre Re's first five years of operation and has a 10-year option to purchase 4.9% of Centre Re's common shares.

Carpenter has a corporate policy of not discussing its operations with the media, but some of its competitors—on a not-for-attribution basis—were willing to comment on Carpenter's operations.

"They are obviously suffering the same sorts of revenue pressures the rest of us are, but as the biggest broker on the block, they are probably affected less than the smaller brokers," one intermediary executive pointed out.

While Carpenter continues to do "a fine job," its clients consist primarily of very large insurers who, as a rule, have assumed larger net retentions over the past couple of years, which is reducing Carpenter's revenues, another executive said.

He sees Carpenter adapting to this situation by "trying to concentrate more on small to medium-sized companies than it has in the past."

A third broker agreed. "Guy Carpenter's thrust has always been with the giant stock companies, and they've never really concentrated on local or regional companies. It seems that because of their shrinking volume—attribut-

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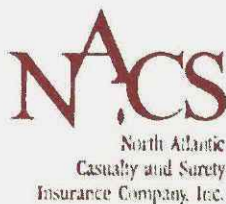
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Intermediaries

Continued from page 16

able to the higher retentions of giant companies—they are shifting to smaller accounts.”

But while competitors agreed that Carpenter is facing the same market pressures as other intermediaries, they also agreed that it is a well-run operation and a formidable competitor in the market.

Because of its size and scope of operations, “it’s the old question about where does the gorilla want to sleep?” another broker quipped.

Carpenter has branch offices in San Francisco; Los Angeles; Chicago; Atlanta; Coral Gables, Fla.; Dallas; Hartford, Conn.; and Minneapolis.

Its subsidiary operations include: Balis & Co. Inc. in Philadelphia; Guy Carpenter & Co. (Canada) Ltd. in Toronto; Guy Carpenter Italia S.r.L. in Milan; and Trieste, Italy; Guy Carpenter

& Co. (Asia) Ltd. in Hong Kong; Guy Carpenter & Co. ApS in Copenhagen, Denmark; Guy Carpenter & Co. (Stockholm) AB in Stockholm, Sweden; and affiliate Guy Carpenter & Co. S.A. in Brussels, Belgium.

Carpenter also announced earlier this month that it has acquired a minority interest in Gradmann & Holler Reinsurance Brokers in Munich, West Germany. Under the joint venture, the intermediary will be renamed Gradmann & Holler—Guy Carpenter GmbH.

Principal officers and directors of Carpenter are: Richard H. Blum, president and chief executive officer; Michael J. Cody, Robert S. Constable and Michael S. Cooper, executive vps; and Clement S. Dwyer Jr., Edward G. Maher, Robert J. Rock, Gabriele J. Troiano and Robin C. Watts, senior vps.

Sullivan Payne Co.

Although gross revenues

dropped an estimated 12.3% to \$57 million in 1987 from an estimated \$65 million in 1986, Seattle-based Sullivan Payne Co. retains its ranking as the second-largest U.S.-based reinsurer.

Sullivan Payne is a subsidiary of London-based E.W. Payne Co. Ltd., which itself is a unit of London-based Sedgwick Group P.L.C., the world's second-largest insurance brokerage.

The drop in gross revenues was no surprise to Sullivan Payne President and Chief Executive Officer Roger D. Espe, who predicted in November 1987 that revenues would be off by 10% to 15% in 1987 due to “softening rates and increasing retentions.”

He acknowledged recently that the intermediary's actual 1987 results were “almost in the middle of that range.”

“From the standpoint of brokerage income, there is a compounding effect when you combine

decreasing rates on the current year with return adjustments from the prior year,” Mr. Espe said.

“For 1988, we expect treaty revenues to be approximately flat, with new business offsetting declining rates, while facultative revenues will be down,” he said.

“Market conditions in facultative have been more severe than treaty and, as a consequence, we have seen a modest decline in facultative as a percentage of our total book” of business, Mr. Espe added.

Of Sullivan Payne's total reinsurance premium volume, 90% represented treaty business and 10% facultative business in both 1987 and 1986.

But, while its treaty employee count remained at 350 in 1987, the intermediary reported only 75 facultative employees, down 25% from 100 in 1986.

This reduction in facultative employees was due to market condi-

tions and was accomplished mainly through attrition, Mr. Espe said.

Sullivan Payne also suffered the loss of one of its top officers this summer. “We suffered a great loss this year and were deeply saddened by the death” in June of Edwin C. Tollefsen, executive vp and Philadelphia branch manager, Mr. Espe said.

Later in the summer, Senior Vp Michael J. Wybar was promoted to manager of the Philadelphia office.

A non-compete suit that was pending against former Sullivan Payne Chairman W.E. Taylor, who founded a new treaty reinsurance brokerage in Seattle after taking early retirement from Sullivan Payne (*BI*, Nov. 16, 1987; Dec. 1, 1986), has been settled out of court, Mr. Espe said. However, Mr. Espe would not disclose the terms of the settlement.

In terms of new client services, Mr. Espe noted that Sullivan Payne since 1986 has been “investing” in services that add value and benefit clients, including:

- Expanding its technical claims unit, which has been “very well-received” by clients and reinsurance markets, Mr. Espe said.

- Developing reinsurance training programs for its clients, which has also been met with enthusiasm.

- Establishing a technical sales support unit that “currently consists of five personnel with varied technical backgrounds, including two actuaries, plus individuals with specialization in mathematics, computer science and modeling techniques,” Mr. Espe explained.

While the unit still is “relatively new, (it) has already developed a very sophisticated loss forecasting model” and has provided software support to clients.

The unit currently is designing financial models and catastrophe exposure models for windstorm and earthquake risks. The exposure modeling programs will be available exclusively to Sullivan Payne clients in the first quarter of 1989, “likely at no additional charge,” Mr. Espe said.

He noted that the intermediary has used outside services to provide this information to its clients previously.

Sullivan Payne also is “interviewing candidates to further expand our capabilities in these areas,” Mr. Espe pointed out.

“We firmly believe the reinsurance buyer has the right to expect more than marketing expertise from an intermediary and that these value-added services will become more of a factor in the reinsurance buyer's decision-making process” in the future, he stressed.

Sullivan Payne places business in the U.S. reinsurance market on behalf of 10 overseas brokers for about 200 clients, according to Mr. Espe. “Approximately 13% of our direct book—(represents) overseas accounts,” he said.

The intermediary's client base has experienced “no material change since last year,” Mr. Espe added, noting that its clients “range in size across the board.”

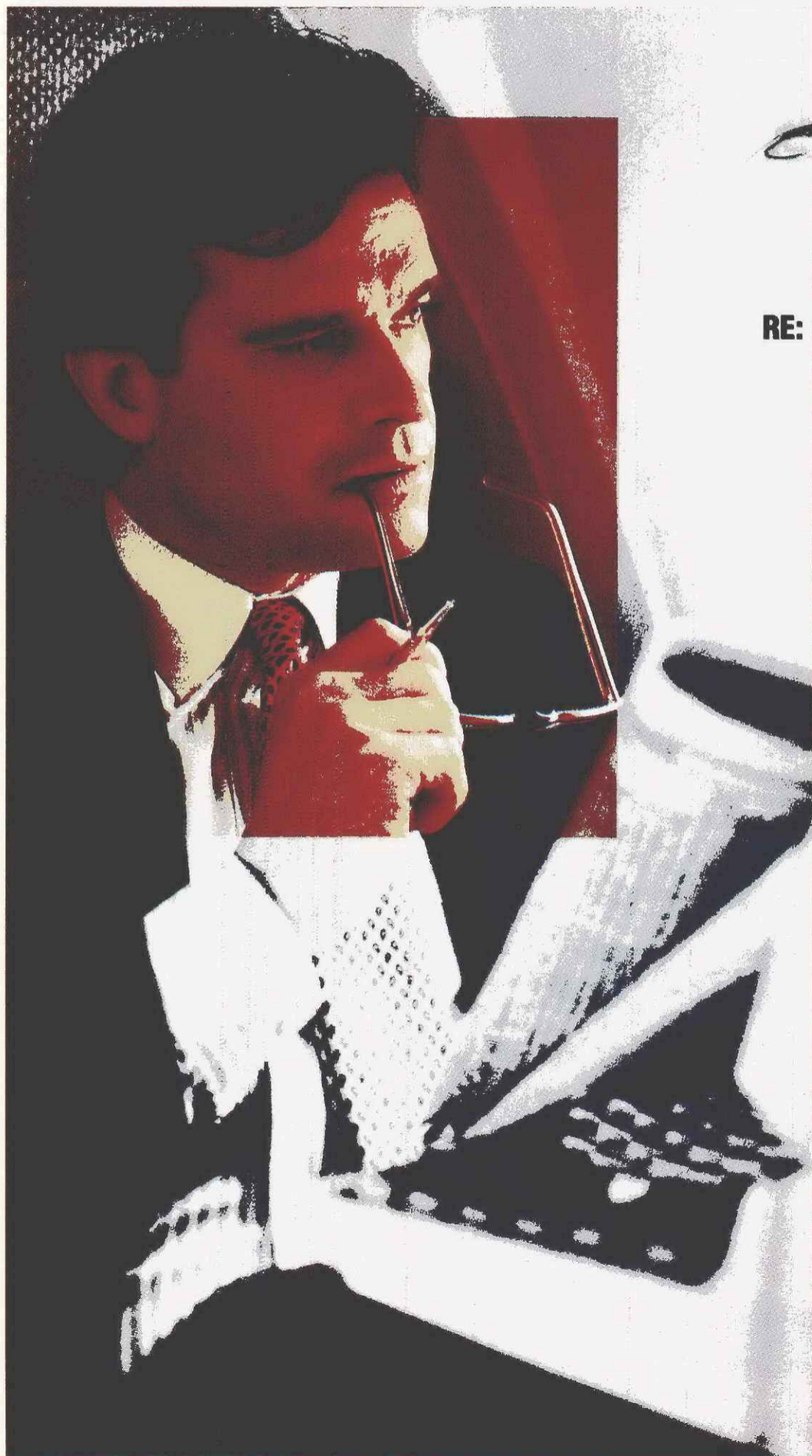
Sullivan Payne has U.S. branch offices in Philadelphia; New York; Dallas; Los Angeles; and Des Moines, Iowa; and Canadian offices in Toronto, Montreal and Vancouver, British Columbia.

In addition to Mr. Espe and Mr. Wybar, principal officers include Lewis J. Hale, senior vp and chief operating officer; Robert C. Holmes, executive vp of Sullivan Payne and president of subsidiary Sullivan Payne Co. of Canada; Rick R. Richman, senior vp and chief financial officer; and W. Brian Smith, executive vp.

E.W. Blanch Co.

Limited partnership E.W. Blanch Co. retains its ranking as the

Continued on page 20



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Intermediaries

Continued from page 18

third-largest U.S.-based reinsurance broker based on estimated gross revenues of \$52 million, a 4% increase from restated estimated revenues of \$50 million in 1986.

The Minneapolis-based intermediary—which is an employee-owned partnership—does not disclose its financial results, but President and Managing Partner Michael W. Cashman acknowledged that Blanch's gross revenues grew in 1987.

However, he does not anticipate revenue growth in 1988 because of current market conditions.

"We're hoping we can stay flat in 1988 in terms of revenues," Mr. Cashman said.

Blanch reported \$1.19 billion in premium volume in 1987, down 17.7% from \$1.45 billion in 1986.

Of Blanch's total premium volume, 98% represented treaty busi-

ness in 1987, compared with 99% in 1986.

In 1987, about 10% of Blanch's premium volume was placed with reinsurers outside of the United States, the "vast majority" of which was with Lloyd's syndicates. In 1988, that percentage has grown to about 12%, still primarily with Lloyd's, Mr. Cashman said. Blanch has almost no foreign-based clients.

Its employee count rose to 331 in 1987, a 10.7% increase from 299 employees reported in 1986. Blanch reported 315 treaty employees, compared with 284 in 1986. It also added one facultative employee, bringing that count to 16.

The intermediary added employees in the United States and London, both in brokerage services and backroom support areas, according to Mr. Cashman.

Blanch currently is interested in developing facultative business

and has established a facultative operation within each of its branches, Mr. Cashman said.

"It is an increasing business area for us. It has shown growth in a difficult market," he explained.

Among other highlights in the past year, London subsidiary E.W. Blanch (U.K.) Ltd. achieved status as a Lloyd's brokerage in February. This "is working very well" for Blanch, Mr. Cashman noted.

"The timing was good from both our and our clients' standpoint. London has been a very good market—very aggressive," he said.

Blanch also reported success with its reinsurer financial analysis program, Resource, which it launched in September 1986 exclusively for its clients, Mr. Cashman explained. "It provides our clients with timely, concise and accurate information on reinsurance markets."

In addition, Blanch has expanded its catastrophe model pro-

gram. The program—Catalyst—now projects exposure and loss potential for earthquake as well as windstorm risks. Catalyst is available to clients and can be purchased by outside subscribers, Mr. Cashman said.

Blanch's earthquake catastrophe analysis program was introduced last February. "We are now running our first two programs," he said. Clients have expressed "a high degree of interest" in the service, he said.

The windstorm catastrophe analysis program, which was introduced late in 1986, "has really come into its own. We have done a number of full (scale) programs for our clients—35 to 40 so far," Mr. Cashman noted.

Mr. Cashman explained that the Catalyst programs and Resource are services the intermediary provides to its clients at no additional charge.

Blanch also is exploring other

programs and services. "We're continuing to look at new services. We're trying to emphasize integration into overall brokerage services," he stressed.

For example, Blanch has been focusing on identifying clients with common needs to develop specific programs that address those needs.

Its brokers also are meeting with reinsurers to identify the types of business they want to develop.

In addition, "We are absolutely insisting that our top people get very much involved at the point of (product) delivery to clients," Mr. Cashman said.

According to Mr. Cashman, Blanch has "a pretty good spread" of clients, both in terms of territory and mix of business. "We are in every geographic region of the country," he said. "We tend to specialize more in small to medium-sized insurance companies, but we have some mega-company clients," both stock and mutual.

Blanch has offices in New York; Chicago; San Francisco; Hartford, Conn.; Copenhagen, Denmark; and London.

In addition to Mr. Cashman, principal officers are: E.W. (Ted) Blanch Jr., chief executive officer; Paul S. Mavros, executive vp-production and client services; Frank S. Wilkinson, executive vp-special products and services; and Donna Hentges, executive vp-home and branch office operations.

TPF&C Reinsurance

TPF&C Reinsurance is reviewing its strategic options, one of which would significantly expand its operations and make it one of the top two U.S.-based reinsurance intermediaries.

Philadelphia-based TPF&C Re, a subsidiary of privately held consultant Towers, Perrin, Forster & Crosby Inc. in New York, has been involved in merger discussions with Corroon & Black Corp. subsidiary G.L. Hodson & Son Inc. of New Hyde Park, N.Y., during the past two months, acknowledged Robert F. Jones, senior vp and manager of facultative operations for TPF&C Re (BI, Oct. 17).

If the merger occurs, the combined operations would rank as the second-largest U.S.-based reinsurance broker based on 1987 revenues.

But, Mr. Jones stressed that a merger is only one of several options TPF&C Re is exploring.

Other alternatives include the parent company selling TPF&C Re to its shareholders or the parent company continuing to run the intermediary as is.

TPF&C Re maintained its ranking as fourth-largest U.S.-based reinsurance broker in 1987, with estimated gross revenues of \$40 million, unchanged from 1986.

The estimate was based on a prediction late last year by Mario Leo, executive vp of the parent company and chief executive officer-reinsurance of TPF&C Re, that revenues would remain flat in 1987.

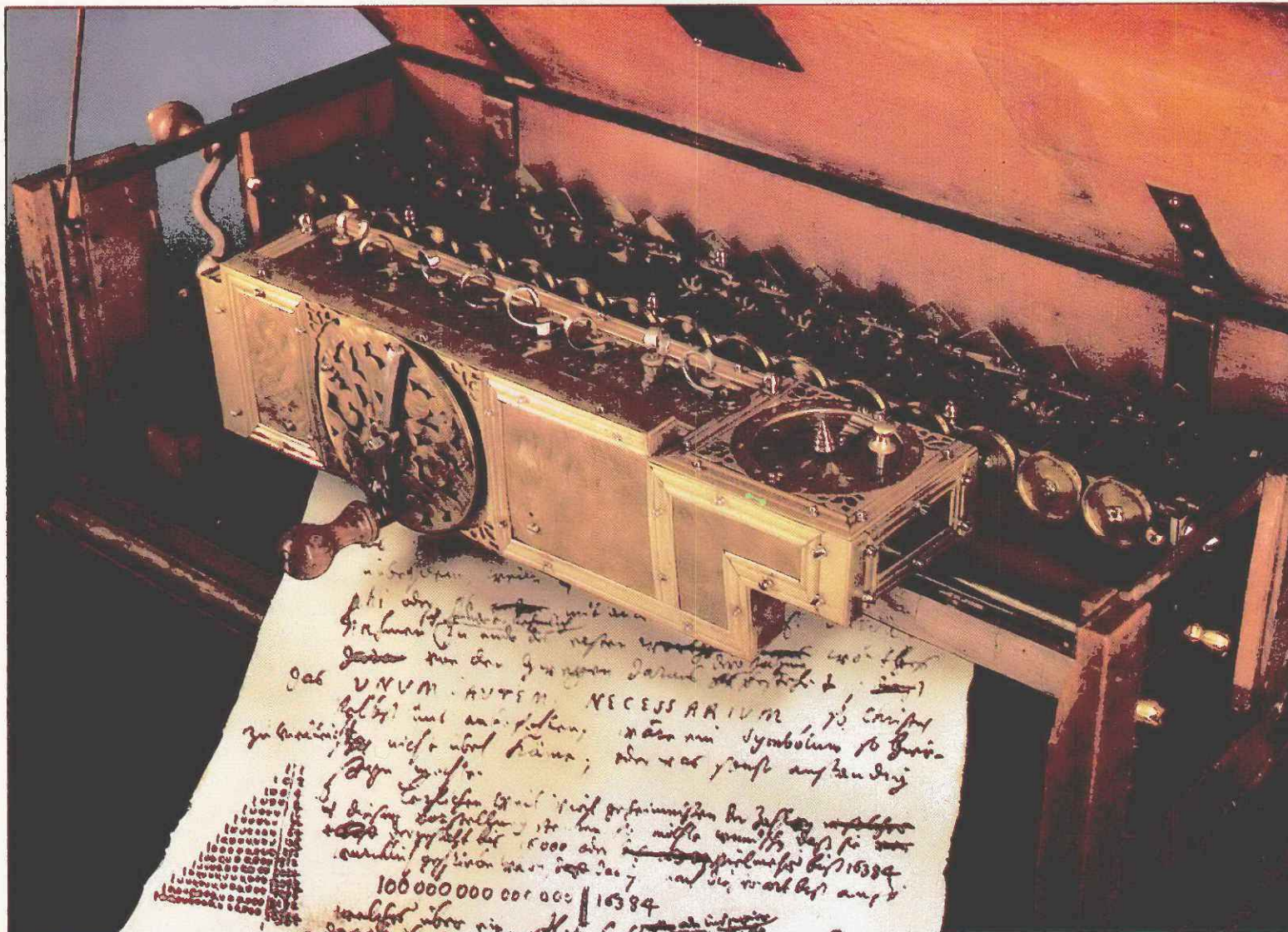
And, TPF&C Re's revenues continue to remain "relatively flat" in 1988, according to Mr. Jones.

As a percentage of its total premium volume in 1987, treaty business grew to 86% from 81% in 1986. The drop in percentage of facultative business was attributable to "some softening of rates" in the facultative market and "dramatic increases in retentions by ceding companies," Mr. Jones explained.

Philip W. Mitchell, senior vp and manager of TPF&C Re's Central Treaty Department, noted that there was considerable new treaty business growth.

TPF&C Re's employee count grew by 2.7% to 308 in 1987 from 300 in 1986. Its treaty employee count rose by seven to 238, and the intermediary now employs 70 fa-

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WHAT HAS REINSURANCE IN COMMON WITH GOTTFRIED W. LEIBNIZ?



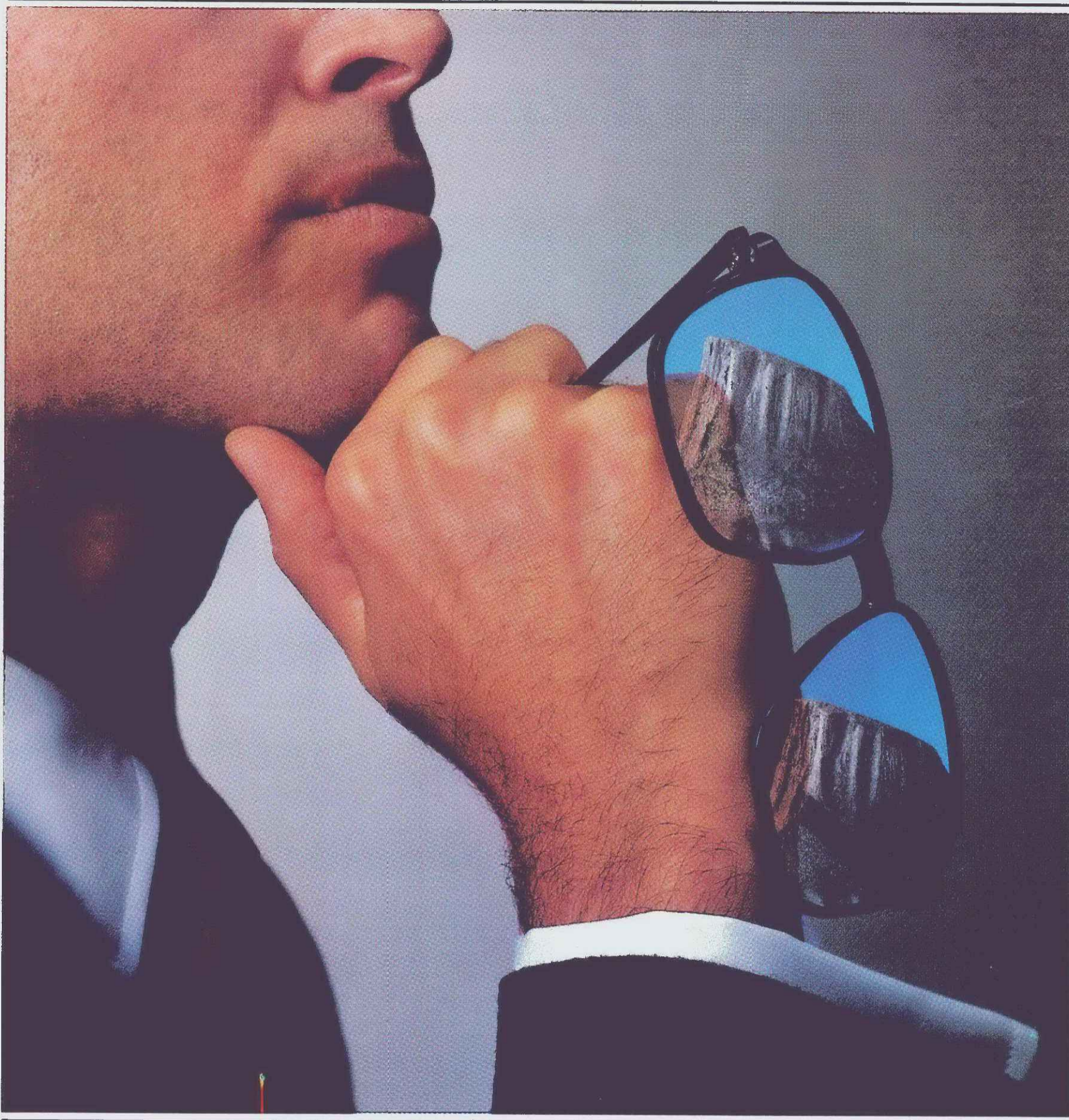
Gottfried W. Leibniz – the famous philosopher and mathematical genius (1646 – 1716) lived most of his life in Hannover. Many epoch-making ideas, like the world's first viable calculator, are connected with his name. This calculator was the first to incorporate the four basic modes of mathematics.

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Intermediaries

Continued from page 20

cultative employees after adding one employee in 1987.

Earlier this month, TPF&C Re opened a Chicago branch office headed by Thomas Dunn, assistant vp and manager. Mr. Dunn was transferred from TPF&C Re's New York branch office.

The Chicago branch will "initially be a facultative office, with treaty added later," Mr. Mitchell said. TPF&C Re continues "to emphasize the importance of our in-house actuarial and pricing services in order to allow us to better negotiate on behalf of our clients."

The broker focuses on providing its clients with actuarial services, pricing models, claims services and analysis of exposures.

Accuracy is of utmost importance, he stressed. "We're the professional and if we give our clients a number, regardless of the number of caveats we place on it, it is important that we are in the ballpark. Our clients expect it," Mr. Mitchell said.

Messrs. Mitchell and Jones estimated that about 30% of TPF&C Re's business—both in 1987 and 1988—was placed with reinsurers outside the United States. However, foreign-based clients represent only about 2% of its total premium volume, they said.

In describing TPF&C Re's client base, Mr. Mitchell said: "We probably have the best cross-section of clients of any intermediary."

"We have always strived to maintain long-term relationships with quality markets and clients," rather than specializing in serving a particular type of client, Mr. Jones agreed.

In addition to its new Chicago office, TPF&C Re has branches in Hartford and Stamford, Conn.; New York; and San Francisco.

Top officers of TPF&C Re besides Messrs. Leo, Jones and Mitchell are Patrick J. McFadden, senior vp and manager—Eastern Treaty Department; and Joseph W. Hullett, senior vp in charge of production and marketing for the Eastern Treaty Department.

Willcox Inc. Reinsurance Intermediaries

New York-based Willcox Inc. Reinsurance Intermediaries for the second consecutive year ranks as the fifth-largest U.S.-based reinsurance broker based on estimated 1987 gross revenues of \$31 million to \$32 million, about a 14.5% increase from estimated 1986 gross revenues of \$27 million to \$28 million.

This estimate was based on last year's prediction by Chairman and Chief Executive Officer Willis T. King Jr. that Willcox would see "vigorous" growth in 1987.

"We expect more modest growth in 1988," Mr. King projected. "We will have our fifth consecutive year of record revenues, but not as dramatic" as the revenue growth Willcox experienced in 1987 and 1986.

Of Willcox's premium volume, 96% represented treaty business, the same as 1986. The 4% of premium volume generated by facultative business basically is "home/foreign facultative business we do for our treaty clients," Mr. King said, referring to domestic clients with overseas operations. "We don't actively pursue facultative business."

About 15% to 18% of Willcox's premium volume is generated from non-U.S.-based clients.

Willcox is 51% owned by New York-based broker Johnson & Higgins and 49% owned by Lloyd's of London broker Willis Faber P.L.C.

In 1987, Willcox employed 180 people, a 21.6% increase from 148 in 1986. Of its employees, 176 were assigned to treaty reinsurance in 1987, compared with 144 in 1986, and four to facultative reinsur-

ance, unchanged from 1986.

Most of the growth in employee count was due to the October 1987 merger of Johnson & Higgins International Reinsurance Division with Willcox, Mr. King explained.

There also have been some management changes at Willcox. At the beginning of this year, Chief Operating Officer Robert F. O'Leary also was named president, filling a position left vacant since March 1987, when Richard Stone left to join a consulting firm. Peter Armour was promoted to executive

vp from senior vp.

James Wandzilak, senior vp and head of the Los Angeles office, who was hired by Willcox in 1987 to open its West Coast office, left Willcox in June to become a senior officer of The Home Insurance Co. in Los Angeles. Mr. King noted that Mr. Wandzilak formerly had been an underwriter and made the decision "to rejoin the underwriting ranks."

Willcox Vp Thomas Moore, formerly head of the property/casualty unit in New York, was

transferred to Los Angeles in June to head that office.

Also in June, Willcox hired George P. Reeth Jr., formerly senior vp and international marine and aviation officer of Sullivan Payne Co. in New York, as senior vp and manager of its international marine and aviation departments.

"We've always had a very strong position in the international marine and aviation markets. With George joining us, we have become very strong and more active in the area of retrocessional coverage for

U.S. reinsurers, as well as Lloyd's and continental reinsurers," Mr. King said. He stressed that this area is a "fertile field" for new business.

In fact, Mr. Reeth pointed out, Willcox represents "to some of the U.S. reinsurers their largest source of income in those particular areas."

And Mr. Reeth pointed out that Willcox also is currently "working to develop the American market for specialty classes" of business.

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S C O R E

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While Willcox still places much marine and aviation business abroad, "business placed in London continues to drop as a percentage of our overall business," Mr. O'Leary said. He estimated that London and other foreign markets now write about 20%, down one-third from 30% in 1987 and one-half from 40% in 1986.

There are two primary reasons for this, Mr. O'Leary and Mr. King explained: The domestic market now is able to write more of the

business ceding companies require, and London is very reluctant to look at casualty business.

To better service its clients, Willcox has accelerated its automation process for accounting, claims and data processing, Mr. King said. "Our brokers are now doing treaty modeling, result projections and most of their other work on personal computers. In some cases, we take the models of the programs and share them with ceding companies and reinsurers."

And, the intermediary's auditors

have provided Willcox with financial models that brokers can use "to quantify results of tax effects on ceding insurers," Mr. King said, referring to the Tax Reform Act of 1986.

Willcox's clients are "across the whole base"—large, medium and small U.S. stock and mutual insurers, as well as Lloyd's, European and Japanese insurers, he said.

In addition to Messrs. King, O'Leary, Reeth and Armour, top officers are senior vps Thomas E. Hancock and E. Barney Barber.

Thomas A. Greene & Co. Inc.

New York-based Thomas A. Greene retains its ranking as the sixth-largest U.S. reinsurance broker based on 1987 gross revenues of \$28.7 million, a 4.7% increase from \$27.4 million in 1985.

The intermediary also reported a hefty 13.9% jump in 1987 premium volume to \$527.5 million from \$444 million in 1986.

Greene is a subsidiary of Alexander & Alexander Services Inc., the second-largest U.S. insurance

broker and third-largest broker worldwide.

Treaty business grew as a percentage of Greene's total premium volume in 1987 to 93% from 89.8% in 1986, with a corresponding drop in facultative business.

President and Chief Executive Officer Thomas A. Greene noted that the firm in 1987 placed about 21% of its business in the London market, and roughly 2% more was placed with other overseas markets. The percentage of business placed overseas has declined slightly in 1988.

Today Greene places virtually no business for foreign-based clients. Greene this summer "got out of the international reinsurance business and gave that business over" to A&A subsidiary Alexander Howden Reinsurance Brokers Ltd. in London, he explained. Foreign business represented only 2% to 3% of Greene's revenues in 1987.

Greene's client base is "a preponderance of very large stock companies," according to Mr. Greene. However, "over the last year we have made inroads into mid-sized regional stock and mutual companies, mostly property/casualty companies," he noted.

"We're looking for the business anywhere we can get it," Greene "has experts in every area," Mr. Greene said. "If we stand out, it is probably in the reinsurance of surety business. We handle a number of surety clients."

Of Greene's 225 employees in 1987, a 4% increase from 216 in 1986, 196 were assigned to treaty reinsurance and 29 to facultative reinsurance. In 1986, 179 employees were assigned to treaty business and 37 to facultative business.

The intermediary opened a Stamford, Conn., branch office last December. "Its mission is New England-area business expansion," Mr. Greene explained. Senior Vp William R. Coleman relocated from the home office to Stamford to head the new facility.

Greene closed its San Francisco facultative office early this year.

And earlier this month, O'Brien Russell & Co. Inc. in Boston, a former treaty reinsurance intermediary subsidiary of Alexander & Alexander Inc., A&A's brokerage division, was consolidated with Greene. A&A Inc. Vp and Manager-Reinsurance Philip S. Carter Jr. was named a vp of Greene. While the office will remain located in Boston, Mr. Carter will now report directly to Mr. Coleman in Stamford.

At its home office, Greene has hired two new senior vps in the past year: Robert T. Mobyed, formerly a senior vp with American Treaty Management Corp.—a New York-based underwriting manager for Old Republic Insurance Co.—in November 1987; and Robert S. Youpa, an executive with E.W. Blanch Co. in New York, in August.

Mr. Greene referred to both Mr. Mobyed and Mr. Youpa as "power brokers."

Greene also hired two new vps in its San Francisco branch office: Jon P. Kocourek, formerly a treaty broker with E.W. Blanch in San Francisco, in July; and Robert F. Kennedy, formerly vp-treaty underwriting manager of American Re-Insurance Co. in New York, in August.

The intermediary also lost four senior vps in 1988: Craig Ott and Paul O. Dreuth left to become senior vps of Aon Corp. subsidiary Cole, Booth, Potter Inc. of Old Bridge, N.J., which was consolidated in September with Reinsurance Agency Inc.; Robert H. Brandon, who returned to intermediary C.T. Bowring & Co. Ltd. in London; and R. Patrick Steele, now president and director of a new reinsurance brokerage, Cooper, Gay, Steele & Co. Ltd. in New York.

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I N S U R A N C E

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Intermediaries

Continued from previous page

Greene's branch offices are in Chicago, San Francisco and Stamford.

Besides Mr. Greene, Greene's principal officers include: John L. Busi, executive vp and chief financial officer; Michael G. Bungert, senior vp-Chicago office; John W. Tornquist, senior vp-San Francisco office; and Mr. Coleman, senior vp-Stamford.

Other Greene senior vps include Messrs. Mobyed and Youpa, Robert J. Arnold; S. Lennart Barkinge; Neil W. Hiller; Edward T. Kelley; Frank L. Kleiner; John F. Langen; John M. Marek; J.J. O'Connell; and Donald B. Peat.

Reinsurance Agency Inc./ Cole, Booth, Potter Inc.

The combined operations of recently consolidated Reinsurance Agency Inc. and Cole, Booth, Potter Inc. made the expanded Aon Corp. unit the seventh-largest U.S.-

based reinsurance intermediary.

The two intermediaries combined reported \$25.9 million of gross revenues in 1987, a 9.3% increase from combined revenues of \$23.7 million in 1986.

Chicago-based Aon completed its acquisition of Reinsurance Agency in September and consolidated the financial results of the formerly privately held company with subsidiary Cole, Booth, Potter (BI, Oct. 3; Aug. 1).

Chicago-based Reinsurance Agency—ranked as the ninth-largest reinsurance broker in 1986 based on \$17.5 million in gross revenues—reported 1987 revenues of \$19.44 million, an 11.1% increase.

Old Bridge, N.J.-based Cole, Booth, Potter, which did not rank among the Top 10 reinsurance brokers last year, reported gross revenues of \$6.43 million in 1987, up 3.8% from \$6.2 million in 1986.

The combined operation reported \$418 million in premium volume in

1987, a 1.2% decrease from \$423 million in 1986.

Of Reinsurance Agency's total premium volume, 95% represented treaty business in both 1987 and 1986. All of Cole, Booth, Potter's premium volume in 1987 was attributable to treaty business, compared with 98% in 1986.

Total employee count for the two brokerages was 172 in 1987, a 7.5% increase from 160 in 1986. Of those, 165 were assigned to treaty reinsurance in 1987, compared with 143 in 1986, and seven were assigned to facultative reinsurance, compared with 17 in 1986.

Both Reinsurance Agency and Cole, Booth, Potter currently are retaining the names and identities of their respective offices.

"Reinsurance Agency will eventually be renamed Aon Reinsurance Agency" sometime in 1989, according to Paul R. Davies, formerly president, chief executive officer and sole shareholder of Reinsurance Agency, who

retains his responsibilities with the combined operations.

But "at this point, no decision has been made about combining the names of the two organizations," Mr. Davies said.

However, since both Reinsurance Agency and Cole, Booth, Potter have offices in Chicago, they will be combined sometime in 1989, probably in Aon's home office where Cole, Booth, Potter's branch office is based, Mr. Davies said.

The name of the combined office has not been determined.

Cole, Booth, Potter also maintains a Boston office.

And, the combined brokerage plans to open a Los Angeles branch office—Aon Reinsurance Agency—under the direction of Reinsurance Agency Vp Briane G. Bovberg, who will be appointed vp of the combined operations.

In addition to Mr. Davies, John Charles, formerly senior vp and chief administrative officer of Reinsurance

Agency, retains his responsibilities with the combined operations.

Richard E. Cole, former president and CEO of Cole, Booth, Potter, "has retired as an active day-to-day employee but will continue for at least the next 12 months to handle certain accounts to make sure the transition is smoother," according to Mr. Davies.

Production and marketing for Cole, Booth, Potter are now under the control of Executive Vp Demarest S. Newman and Senior Vp Thomas Simone, Mr. Davies explained.

And, Senior Vp Paul O. Dreuth, one of two former senior vps of New York-based Thomas A. Greene & Co. Inc. hired by Cole, Booth, Potter last spring, is now in charge of casualty facultative business for the combined operations.

Because of the addition of Mr. Dreuth, Mr. Davies predicts a growth in facultative business in 1988, though he expects that overall 1988 gross revenues will remain flat due to market conditions.

Senior Vp Craig Ott, also came to Cole, Booth, Potter last spring from Greene, where he was a senior vp.

Mr. Davies does not predict much management restructuring as a result of the consolidation.

"Cole, Booth, Potter does a unique type of business and is an established operation that is going to stay in New Jersey," Mr. Davies continued.

Clients of both intermediaries are spread nationally, but there are differences in the intermediaries' concentration of business, he pointed out.

For example, Cole, Booth, Potter places a significant amount of mutual insurer and property business. However, Reinsurance Agency has "always been known as a casualty intermediary specializing in hard-to-place casualty reinsurance," Mr. Davies noted.

The two operations will be coordinating their efforts and expertise to benefit all clients, however, Mr. Davies stressed.

"We're going to be trying to eventually specialize in four areas: small mutuals, excess/surplus lines companies, niche companies, and large stock companies and we will be coordinating in those four areas," Mr. Davies said.

Another plan under way "with the added financial backing of Aon is the development of much more expertise in analytical technical support areas," such as automated actuarial and claims services, he said.

"What we want to put together is an all-service-type intermediary firm," he explained.

Less than 10% of Reinsurance Agency's business is placed with reinsurers outside the United States. Cole, Booth, Potter places a greater percentage of its business overseas—but "probably less than 20%" of its overall premium volume—because of its property catastrophe book, Mr. Davies said.

G.L. Hodson & Son Inc.

While Corroon & Black Corp. subsidiary G.L. Hodson & Son Inc. reported no revenue growth in 1987, the New Hyde Park, N.Y.-based intermediary remained the eighth-largest U.S. reinsurance broker with \$23 million in gross revenues in both 1987 and 1986.

And, "in all fairness, 1988 will be flat or even down," predicted Ronald J. Taylor, president and chief executive officer.

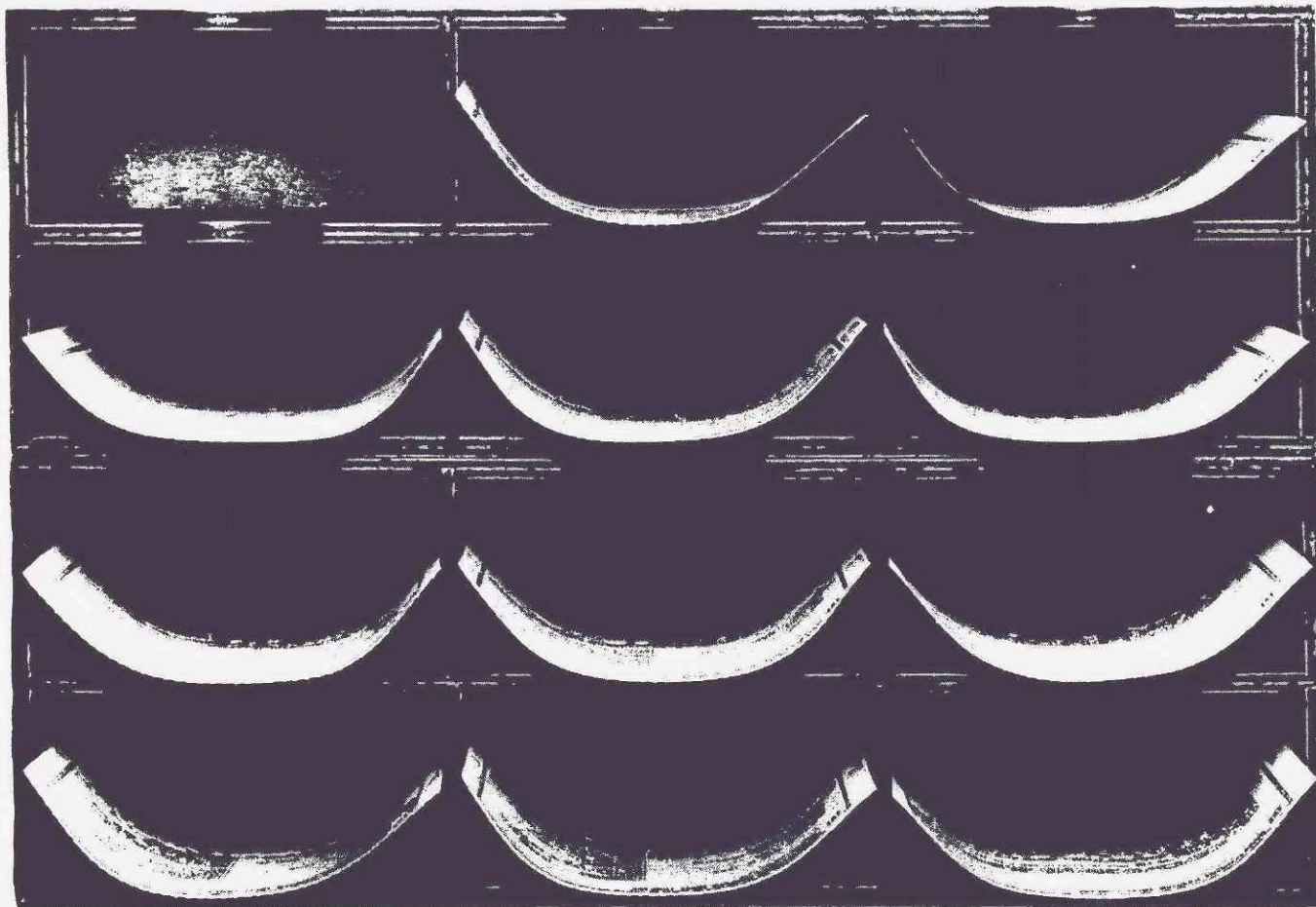
While the broker has managed to hold onto its client base fairly well and has been successful in new business efforts, it is seeing a loss of revenues stemming from "a reduction in premiums being ceded" and withdrawals by a couple of its clients from specific lines of business, he explained.

However, Hodson currently is "in the midst of merger negotiations with TPF&C Reinsurance," the fourth-largest U.S. reinsurance broker, Mr. Taylor pointed out. If Corroon &

Continued on page 26

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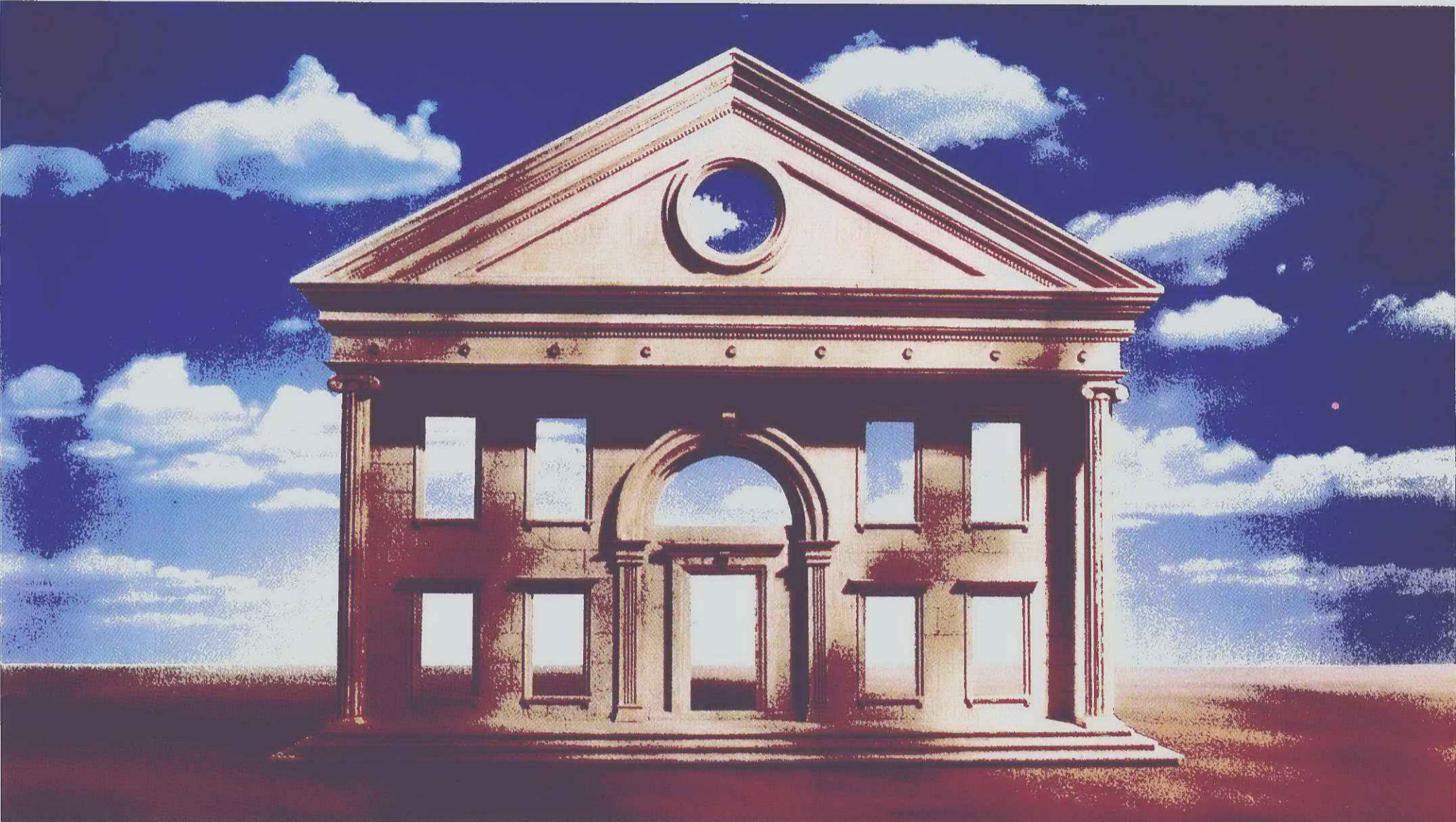
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Intermediaries

Continued from page 24

Black can reach an agreement with TPF&C Re parent Towers, Perrir, Forster & Crosby Inc. to purchase the intermediary, Corroon & Black will merge TPF&C Re with Hodson (BI, Oct. 17).

The combined 1987 gross revenues of the two intermediaries would make the merged operator the second-largest U.S. reinsurance broker.

Hodson increased its staff by nine to 201 in 1987, adding five treaty employees and four facultative employees.

Unlike many intermediaries, Hodson's facultative business grew significantly in 1987, even though premium volume dropped 5.9%. Hodson reported that 19%, or about \$76 million, of its total 1987 premium volume of \$400 million was attributable to facultative business, up from 11.5%, or about \$49 million, of \$425 million of premium volume in 1986.

Mr. Taylor attributed Hodson's growth in facultative premium to "a combination of treaty revenues going down and some rate relief in the facultative market." He noted that Hodson's home office and its St. Paul, Minn., and Los Angeles branch offices had "some exceptional growth" in facultative business in 1987.

A freestanding facultative reinsurance brokerage subsidiary of Corroon & Black—Boston-based RGI Inc.—was incorporated with Hodson's operations in January.

RGI is headed by John W. Furlong, president and CEO.

While RGI will retain its own name and officers, it now represents Hodson as a Boston office, Mr. Taylor explained. RGI formerly placed business only for Corroon & Black's brokers.

Hodson also added a "whole new facultative team in Atlanta" in April when it hired five former employees of Associated Intermediaries in At-

lanta, including William M. Allen, vp, and Vida A. Walden, assistant vp, Mr. Taylor noted.

Meanwhile, "to provide on a cost-plus basis to insurance and/or reinsurance companies such things as security analysis, runoff handling and actuarial analysis," Hodson opened a new subsidiary, GLH Brokerage Services, in August, Mr. Taylor said. Its principals, also executives of Hodson, include Senior Vp Paul Nedza; Vp Frederic L. Sklow, head of Hodson's home office security analysis department; and Vp Lawrence G. Frank.

Among management changes, Chief Operating Officer Michael E. Rothpletz was promoted to executive vp from senior vp in January.

And, earlier this month, Mr. Rothpletz also was named resident manager of Hodson's home office and manager of service and production nationwide.

Mr. Taylor explained that two senior vps-administration will now report directly to Mr. Rothpletz on different administrative areas: Mr. Nedza for contract wording, claims, personnel and security analysis; and Patricia A. Donahue for finance, accounting, electronic data processing, research and development and office services.

Four Hodson assistant vps were also promoted in January: Thomas M. Gunyan to vp-accounting and Louis V. Pittari to vp in New Hyde Park; and D. Robert Marsden Jr. to vp-treaty broker and Thomas B. Perkins Jr. to vp in Atlanta.

Last summer, Lawrence P. Johnson, formerly with E.W. Blanch Co. in New York, was hired as an assistant vp in charge of Hodson's home office contract wording department.

Hodson also hired three treaty account executives in its St. Paul branch office last spring: Vp Richard D. Wallace, formerly with Guy Carpenter & Co. Inc. in Minneapolis; Vp Gregory J. Schreder, formerly with Guy Carpenter in San Francisco; and Assistant Vp Michael S. Joyce, formerly with E.W. Blanch in Minneapolis.

Mr. Taylor described Hodson's clients as predominantly property/casualty companies "ranging from big Eastern stock companies to one-state operating companies, and including tough casualty; excess/surplus; a meaningful amount of aviation; marine; fidelity and surety; and a little bit of life business." Hodson also writes a significant amount of retrocession business, he noted.

Hodson, though, "is not actively involved in placing" business for foreign-based clients, Mr. Taylor added.

About 25% to 30% of Hodson's business was placed with reinsurers outside of the United States in 1987. However, Mr. Taylor expects that percentage to be "much less" in 1988, because a client for whom Hodson had placed a "very significant piece" of medical malpractice business entirely with London reinsurers withdrew from that line of business this year. He declined to name the insurer.

Intere Intermediaries Inc.

Intere Intermediaries Inc. drops two notches to ninth place in the *Business Insurance* ranking of the largest U.S.-based reinsurance intermediaries after a sharp reduction in its estimated gross revenues and the consolidation of previously ninth-ranked Reinsurance Agency Inc. with Cole, Booth, Potter Inc.

BI estimates the privately held, New York-based broker's 1987 gross revenues at about \$20.5 million—a reduction of about 12.8% from estimated revenues of \$23 million to \$24 million in 1986. BI bases the estimate primarily on a 1987 prediction by Intere Chairman and Chief Executive Officer Ward B. Gordon that the broker's gross revenues would be down in 1987.

Mr. Gordon predicted that Intere's gross revenues will decline further in 1988. Looking toward the new year,

Continued on next page

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Intermediaries

Continued from previous page
he said: "I think 1989 will be almost a mirror of 1988—if anything, tougher."

Mr. Gordon noted that the reinsurance marketplace in 1988 has remained relatively unchanged from 1987.

Intere writes 100% treaty reinsurance business.

The intermediary reported 208 employees in 1987, down 3.7% from 216 employees in 1986.

In June, Daniel R. Colello was promoted to executive vp from senior vp, Mr. Gordon noted. And, in April, Intere hired Michael McGlinn as a vp in its New York office. Mr. McGlinn was formerly a vp of American Independent Reinsurance Co. in Stamford, Conn.

Intere closed its Dallas office in July due to depressed economic conditions in that area. The branch's book of business is now

handled out of Intere's Atlanta and New York offices, he said.

The former Dallas office manager, Senior Vp and Director Thomas J. Williams, was moved to Intere's New York home office.

Intere represents a "broad range of clients, depending on where we are working geographically," Mr. Gordon said. "We are best identified with medium-to-large mutual and stock companies, but we have some larger clients and many smaller clients."

The intermediary specializes in all property, casualty, marine and aviation reinsurance, both domestic and international. It also places accident and health reinsurance.

About 15% of Intere's clients are based outside of the United States, including "LMX (London market excess-of-loss) business, foreign-based accounts and home/foreign business," Mr. Gordon said.

He estimated that less than 10% of Intere's business was placed

with reinsurers outside of the United States in 1987 and so far in 1988, with the greatest amount going to the London market.

Intere has branch offices in Atlanta, Chicago, San Francisco and Minneapolis.

In addition to Mr. Gordon and Mr. Colello, principal Intere officers include: Roland G. Roth, vice chairman; Wallace E. Winter, president; George A. Edwards, senior vp and treasurer; Kenneth R. Fewell, Brian S. Keegan, Thomas J. Williams, Ronald C. Anderson, Thomas F. McGrath III and Michael G. Woll, senior vps; Robert L. Mendes, vp and general counsel; and Ronald C. Fazio, vp and secretary.

RFC Intermediaries Inc.

Atlanta-based RFC Intermediaries Inc. remains the 10th-largest U.S.-based reinsurance intermediary as well as retains its U.S. identity following consolidation with J.H. Minet Reinsurance Brokers Ltd.

RFC parent company St. Paul Cos. Inc. acquired London-based Minet Holdings P.L.C., the parent of Minet Re, in January and consolidated RFC and J.H. Minet in August (*BI*, Feb. 1; Dec. 14, 1987).

While RFC will retain its name, it now reports directly to Minet Re.

In addition, RFC's financial results "are now handled on a consolidated basis with Minet Re," explained David L. Cargile, president and chief executive officer of RFC.

Because of this reorganization, RFC no longer provides *BI* its financial results.

BI estimates that gross revenues for RFC alone decreased in 1987 by roughly 13% to \$14 million from a reported \$16.1 million in 1986.

The estimate is based on several factors: Mr. Cargile indicated last year that he expected a decline in revenues in 1987; many ceding companies purchased less facultative reinsurance in 1987; and RFC's employee count dropped 20% to 180 in 1987 from 225 in 1986.

Unlike other intermediaries in the Top 10, RFC specializes in placing facultative reinsurance for clients. This business represented 67% of its total premium volume in 1986, and *BI* estimates that this mix remained roughly the same in 1987.

But that may change in 1988, Mr. Cargile acknowledged. "We see treaty as a real growth area and are definitely looking to build that business." He noted that RFC has "added treaty brokers in New York and Atlanta" this year but declined to provide further details about the additions.

Mr. Cargile also observed that RFC's St. Paul-based subsidiary Tailored Awards Inc., a structured settlement company that opened in July 1985, represents another "growing area of business" for the intermediary.

The services that Tailored Awards offer are "available to anyone who needs them" and are not just limited to RFC clients, Mr. Cargile pointed out.

"We're probably the only reinsurance broker that does structured claims settlements," he added.

RFC's clients represent "a wide range of stock and mutual insurance companies and reinsurance companies in the U.S. and worldwide," according to Mr. Cargile.

The intermediary has branch offices in: Chicago; Dallas; Hartford, Conn.; Los Angeles; New York; and Philadelphia.

RFC's St. Paul, Minn., office was closed in July. "We now handle that territory out of our Chicago office," Mr. Cargile explained.

In addition to Mr. Cargile, principal officers of RFC are: Pavittar S. Safir, executive vp-administration; and Ronald J. Smith, executive vp-facultative. ■

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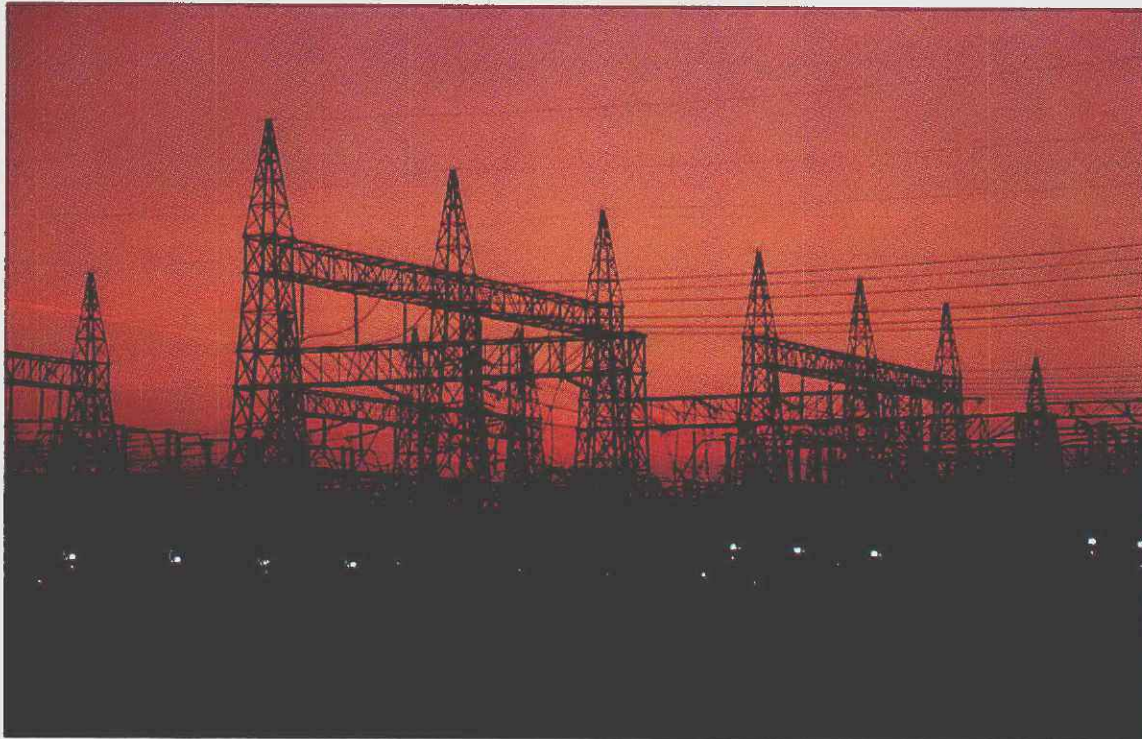


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Renewal confusion to reign in London

By CAROLYN ALDRED

LONDON—Underwriters and brokers in London are predicting a confusing reinsurance renewal season.

For example, some of London's excess-of-loss reinsurance underwriters are quoting ceding insurers massive premium increases for LMX coverage or are pulling out of the market in the wake of a series of major losses during the last year.

This action could lead to a turn in the property/casualty insurance market by next year, some market sources say.

However, competition is rife in the primary insurance and non-LMX reinsurance markets, particularly in the United States.

As a result, the marine reinsurance renewal season, for example, has begun very early this year, noted Brian Bell, a director of broker Steel-Burrill Jones Ltd.

"People want to know what their reinsurance pricing is going to be. There is some concern that capacity will dry up," he said. "People know rates are going up and are putting their toes in the water early," Mr. Bell observed.

"There isn't panic; it's a realistic approach. It's going to be a tough renewal season; there is considerable change within the marketplace," Mr. Bell added.

"It's more difficult to read this renewal season than any other since 1984," said Stephen Riley, manager of non-marine underwriting with Swiss Reinsurance Co. (U.K.) Ltd.

Insurers "have had one or two years of reasonable profit and the market has talked the rates down. But we also have had three major losses, and there's no getting away from the fact that people should be looking to maintain or increase the prices they charge," he said.

The three major losses that may brake the downward slide of rates are:

- The severe windstorm that swept across southeast England, France, Norway and Portugal last October, causing insured losses of more than 1.5 billion pounds (\$2.64 billion at current exchange rates) (*BI*, Oct. 26, 1987).

- The explosion of the Piper Alpha oil platform in the North Sea in July, which killed 167 people and likely will cost insurers well in excess of \$1.2 billion (*BI*, July 18; July 11).

- Hurricane Gilbert, which devastated Jamaica and the resort areas of the Yucatan Peninsula in Mexico in September (*BI*, Sept. 26; Sept. 19). Estimated insured damages likely will exceed range between 300 million pounds and 600 million pounds (between \$528 million and \$1.06 billion).

Each of these losses has affected London underwriters, particularly catastrophe reinsurers that reinsure business written by other London reinsurance underwriters.

Many London market excess-of-loss underwriters, particularly those in the marine market, are reeling badly from the losses, sources say (see story, page 31).

Rates for high-layer catastrophe coverage, known as XL on XL reinsurance, are being hiked dramatically, and as a result, many market sources are predicting a reduction in capacity for catastrophe protection.

For example, in the marine market, XL on XL rates are going up between 50% and 200% for excess-of-loss reinsurers with no current losses, said Jonathan Marland, director in charge of marine reinsurance at Lloyd's broker Lloyd Thompson P.L.C.

For accounts notified of losses,

price increases vary, in part, depending on ceding underwriters' loss experience, Mr. Marland said.

Marine reinsurers are anxious to "see rates go up because they got so ridiculously low," Mr. Marland pointed out.

In addition, some London reinsurers and syndicates are cutting back on the amount of LMX business they will write, market sources say.

As a result, reinsurers—faced with either higher retrocession costs or greater retentions—will be forced to cut back on the amount of business they write, sources say.

And, a tighter reinsurance market could turn around the soft primary property/casualty insurance market by the middle of next year, a few sources contend.

"The cost has got to be passed on somewhere. If the retrocession market puts prices up, reinsurers will have to raise rates, which could stop the direct writers from reducing their prices too much," explained John Emney, chief underwriter for Charter Reinsurance Co. Ltd.

"I believe we've hit the bottom of the cycle. By the middle of next year, we will see rates swinging back up again," said Lloyd's of London non-marine underwriter Richard Hazell, who underwrites for syndicate 190, managed by Three Quays Underwriting Management Ltd.

"The question is how much will the hardening of the excess-of-loss market be translated into direct reinsurance rates," said Leslie

Lucas, chief underwriter for Norwich Winterthur Reinsurance Corp. Ltd.

However, many underwriters believe reinsurers will be unable to pass their retrocessional rate increases on to their own policyholders.

In particular, underwriters and brokers believe it will be difficult to force catastrophe reinsurance rate increases on primary insurance writers in the United States because of the lack of catastrophe claims from the United States in recent years.

Mr. Emney of Charter Reinsurance noted that U.S. primary insurance companies are "charging less premiums to their policyholders and have had a very good loss record for the last five years. They

have very healthy credit balances."

"The direct U.S. writers are looking for reductions on their catastrophe reinsurance programs. The U.S. has always been a loyal market and likely will get 10%-15% reductions across the board," Mr. Emney said.

"The international property treaty market will remain fairly competitive with rates under attack, said one London company underwriter, who did not wish to be named.

However, the underwriter said, "there will be a problem because Piper Alpha and the October storm (losses) will drive up our own reinsurance protection, leaving us unable to pass those rate increase on."

Continued on next page

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Continued from previous page

Mr. Marland of Lloyd Thompson predicted that the Piper Alpha loss likely will hit some marine syndicates very hard. He said some syndicates may have to make cash calls on their members and eventually may be forced to cease underwriting, he predicted.

"It's a very awkward situation because (marine) underwriters can't push the extra costs to policyholders," Mr. Marland said.

"There is a question mark about who is going to pay for the increasing reinsurance costs. The original rates are not rising despite the excess-of-loss increases, and if the direct rates do not increase, everything else will start to crumble," said Mr. Bell of Steel-Burrill.

"There is going to be a squeeze" in the marine reinsurance market, agreed Tony Berry, underwriter for Lloyd's marine syndicate 536, managed by Cotesworth & Co. Ltd. London excess-of-loss un-

derwriters must react sensibly and try to increase rates gradually, or they "will force people in the middle to go out of business," Mr. Berry said.

"It will take some years, but we went through this after Hurricane Betsy," he noted, referring to the 1965 storm that caused about \$715 million of insured damages in Florida, Louisiana and Mississippi.

In addition, more capacity still is creeping back into the market from companies buoyed by recent profits.

And, 30 new Lloyd's syndicates are expected to start writing business this renewal season, sources say.

Casualty capacity is increasing because "the short time (in which) people were making profits has attracted new players and (existing) companies are becoming more involved in lines they previously weren't involved in," said Mr. Riley of Swiss Re (U.K.). ■

Spiraling LMX market losses to hike rates, shrink capacity

By CAROLYN ALDRED

LONDON—Spiraling losses in London's excess-of-loss reinsurance market could force some underwriters to pull out of the market, causing a capacity crunch and massive rate hikes for high-layer catastrophe reinsurance, brokers and underwriters say.

Several major losses currently winding through London's retrocessional market are bound to blow through the top of several syndicates' and companies' reinsurance protection, with losses looping back to the original ceding underwriters, sources predict.

"Those people who didn't realize

what could happen in an excess-of-loss spiral suddenly are going to be made aware that they have got a colossal loss," said leading Lloyd's of London marine excess-of-loss underwriter David King.

Already, some managing agents are considering reducing their syndicates' exposure in the LMX market, according to Mr. King.

"A lot of agents are terrified of the so-called LMX spiral. It can do tremendous damage, and a few agents are getting cold feet and telling their underwriters to pull out," said Mr. King, who is chairman of K.P.H. Underwriting Agencies Ltd. and former chairman of the London Excess of Loss Com-

mittee.

LMX underwriters reinsure excess-of-loss reinsurance accounts of other London underwriters. In this way, the LMX market provides massive catastrophe reinsurance capacity for the world's insurance and reinsurance underwriters.

But, the complex and circuitous retrocessional arrangements of LMX underwriters, many of whom retrocede to one another several times over, means claims from major catastrophic losses continue to be paid years after the original loss, producing paper losses of a much greater magnitude than the original loss.

For example, five reinsurance companies, each with a net capacity of \$10 million can—by way of mutual reinsurance—develop a capacity of \$150 million, although their real aggregate capacity is only \$50 million.

For example, Company A can produce a gross capacity of \$30 million by retaining \$10 million and ceding \$20 million of business excess of \$10 million to companies B and C. Similarly, company B can generate a gross capacity of \$30 million by retaining \$10 million and retroceding \$20 million of business excess of \$10 million to companies C and D. And, companies C, D and E can produce the same gross capacities by retaining and retroceding the same amounts as companies A and B.

However, companies C, D and E may purchase retrocessional coverage with companies A and B, further complicating the matter.

As a result, claims in the LMX market continue to pass from company to company for years, resulting in a much greater sum of money changing hands than the original loss (*BI*, Nov. 16, 1987).

There is increasing concern about the mounting level of losses currently spiraling in the LMX market and the ability of underwriters to calculate their exposure.

As claims stemming from Hurricane Alicia, which hit the Texas coast in 1983, still lash the marine LMX market, the market can expect an even greater hit from claims from three major losses in the last 13 months, sources say:

- The hurricane-force windstorm that swept southeast England and other parts of western Europe in October 1987. The loss, known as October 87J by insurers, likely will be the largest catastrophic loss ever with claims exceeding 3 billion pounds (\$5.28 billion).

- The destruction of the Piper Alpha oil platform in the North Sea in July. Total losses likely will exceed \$1.2 billion, making it the most expensive loss of a man-made structure.

- Hurricane Gilbert, which devastated Jamaica and hit the resort areas of the Yucatan Peninsula in Mexico, causing between 300 million and 600 million pounds worth of insured damage (between \$528 million and \$1.06 billion), according to early estimates.

Underwriters and brokers predict a major portion of these losses eventually will be paid by the London market.

"It's a major fear that a lot of people in London have—that London is becoming too much the market of catastrophe loss of last resort," said Hugh Prior, managing director of broker Winchester Bowring Ltd.

"There is a greater awareness of the LMX spiral. Excess-of-loss business is a lot less global, and

Continued on next page

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Spotlight report

LMX spiral

Continued from previous page
several international reinsurers have withdrawn, leaving a much greater concentration in London," he said.

"The entire London market is much more aware of the problem but far from finding a solution," Mr. Prior said.

Many underwriters and brokers believe that the concentration of excess-of-loss coverage in the London market "has gotten to an unacceptable level. It goes against the basic principle of spreading the risk and has reached the stage where the LMX leaders have got to do what they can to ensure they are trading on a commercially sound basis," Mr. Prior said.

As underwriters reinsure more among one another, it often means underwriters are unable to estimate their true exposure in the event of a catastrophic loss, or pre-

'The Alicia loss is still going round, and reinsurers are bound to be called upon to pay more for their retro-covers. For some, renewals will be too expensive, so they will buy less,' says Lloyd's non-marine underwriter Richard Hazell.

dict which layers likely will be hit by a loss, sources say.

However, "one thing is certain if you add up all the retentions (of insurers) worldwide for the Piper Alpha loss, the sum (of those retentions) is nowhere near equal to the likely total loss," Mr. King said. The "balance has to be paid out of the top of some underwriters' protection," he observed.

"There are going to be some casualties because of Piper Alpha," predicted Jonathan Marland, a director with Lloyd Thompson

P.L.C. He also predicted that some Lloyd's syndicates may be forced to make cash calls on their underwriting members and that a few of these syndicates may even be forced to cease writing business.

The Piper Alpha loss already has prompted massive rate increases for top-layer LMX protection in the marine insurance market, Mr. King pointed out.

"XL on XL rates are going up quite substantially with more than 100% increases on some contracts," noted Tony Berry, underwriter for Lloyd's marine syndicate 536,

managed by Cotesworth & Co. Ltd.

Mr. King fears that the market for top layer catastrophe excess-of-loss protection will "fizzle out later this year."

Managing agents at Lloyd's now are looking more closely at what underwriters write, and many agency directors "are starting to look closely at the (LMX) situation," Mr. King noted. The agency directors will "get cold feet quicker because they are not used to risk taking," he said.

"It's a real possibility that we will see people withdrawing and not providing the same LMX capacity this renewal season," Mr. Prior agreed.

"Some syndicates are cutting lines and capacity," Mr. Berry said.

"I suspect the retrocessional market is going to shrink. The Alicia loss is still going round, and reinsurers are bound to be called upon to pay more for their retro-

covers. For some, renewals will be too expensive, so they will buy less. If the LMX market starts to collapse on itself, it will have an impact right the way down," said Lloyd's non-marine underwriter Richard Hazell, who underwrites for syndicate 190, managed by Three Quays Underwriting Management Ltd.

"Maybe the latest losses will herald a dramatic change in the market," speculated Stephen Riley, manager of non-marine underwriting at Swiss Reinsurance Co. (U.K.) Ltd.

Already some non-marine LMX underwriters are planning to demand coinsurance levels of about 10%, compared with previously accepted levels of 5% (BI, Sept. 19).

However, the level of coinsurance demanded may depend on the ceding underwriter, sources say. For example, an LMX ceding underwriter probably will be expected to retain 10% of the losses whereas a ceding reinsurer not involved in the LMX market probably may be allowed to retain 5% coinsurance levels, said Leslie Lucas, chief underwriter for Norwich Winterthur Reinsurance Corp. Ltd.

Meanwhile, there are no signs that marine reinsurance underwriters will increase coinsurance levels.

However, "if capacity starts to pull back, there may be another attempt to introduce 5% coinsurance into the marine market," said Brian Bell, a director of Steel Bur-rill Jones Ltd.

In addition, "if rates go up dramatically, retentions will go up, which is a good thing because the (cedants) are then carrying more of the risk, which improves their underwriting," Mr. Lucas explained.

Despite the current LMX market woes, underwriters and brokers argue that the market provides essential capacity to the world's insurance industry, partly by spreading the payout of catastrophe losses over time.

The LMX spiral, and the market's consequent instability, is an inevitable side-effect of such a high-risk market, some sources contend.

"You may be able to modify conditions in the market by increased coinsurance and retentions, but with the present condition of the market you cannot remove the spiral," said Mr. Prior of Winchester Bowring.

"We cannot do anything about the LMX spiral. To do without the LMX spiral would so reduce capacity that the front-line insurers would be unable to write risks. There is no alternative to the present system," asserted John Emney, underwriter for Charter Reinsurance Co. Ltd. of London.

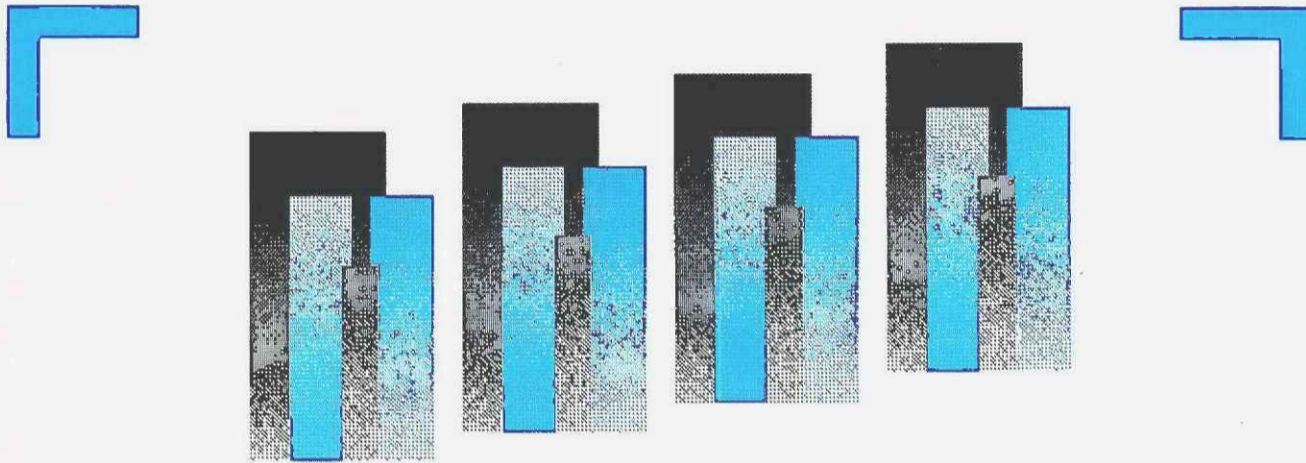
"The LMX market is dealing with reinsurance as a commodity. The endless exchanging of money between participants is rather wasteful, and some brokers draw disproportionate benefits," acknowledged Mr. Riley of Swiss Re.

"But, it does perform an important function. People were predicting the collapse of the LMX market two or three years ago, but it is still there," he said.

"The majority of the LMX market has a reasonable idea about its losses and exposures. But within any market there are players who don't understand what they're doing," The LMX market is unique. There are always going to be people who make a lot of money and those who get burned," said Mr. Bell of SBJ.

"The LMX spiral has been around for 30 years and the market has survived. There is a degree of instability because it's a high-risk market: It's not easy money," said Mr. Berry of syndicate 536.

"If you get amateurs in a professional market, people will get burned," he added.



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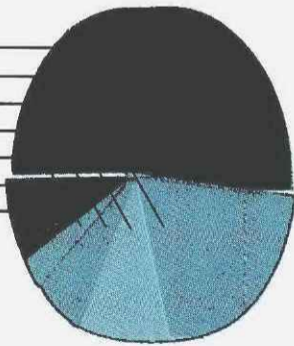
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	FIM	US\$		
Domestic Gross Premiums (excl. Kansa Pension)	724	181	Solvency Ratio	1987: 67%
International Gross Premiums	877	219	Technical reserves of net premium	1987: 194%
Investment Income	545	136		
Total	2,146	536		

Distribution of International Premium

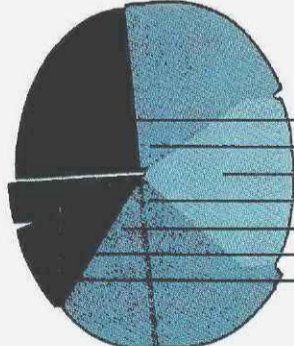
Gross Premium by Area

- USA 52%
- Canada 19%
- Europe 12%
- Far-East 6%
- Latin America 3%
- Scandinavia 1%
- Worldwide & others 7%



Gross Premium by Class of Business

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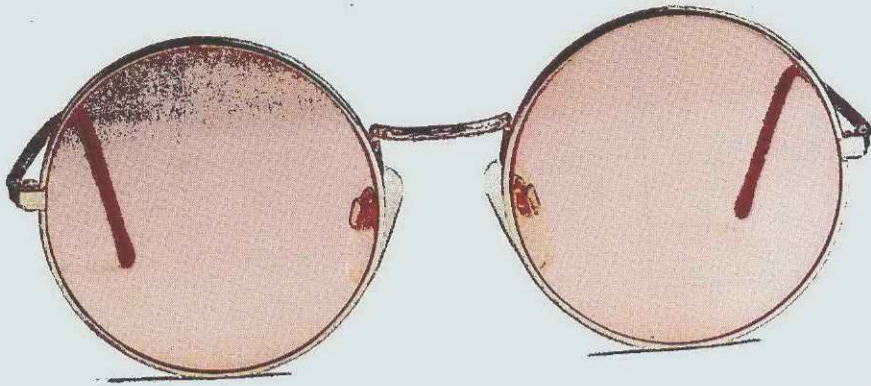
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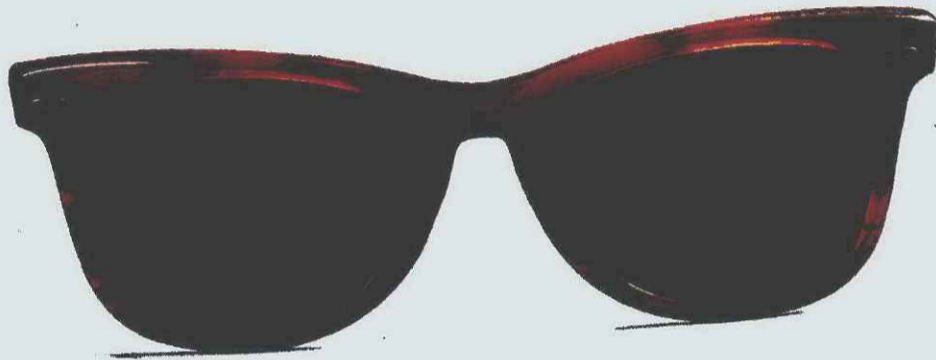
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Artificial intelligence aids reinsurance underwriters

By JUDY GREENWALD

NEW YORK—A growing number of U.S. reinsurance companies are implementing expert systems, a type of artificial intelligence that can help underwriters do their jobs better.

Although observers say the reinsurance industry has so far lagged behind primary insurers in introducing expert systems, an increasing number of reinsurers are likely to establish these automated underwriting systems over the next few years.

Expert systems help underwriters by taking the underwriter through the logical steps

needed to make an underwriting decision. The systems reflect each company's underwriting philosophy, including the expertise of their top underwriters (see story, page 38).

Reinsurers caution, however, that expert systems only help the underwriter make his or her underwriting decisions; they do not make decisions for the underwriter. The primary advantage of the systems, according to observers, is that they ensure that all the information underwriters need to make the best possible decision is uniformly communicated throughout the company.

"In no way do we have a desire

to have our system reach a decision," stressed Judy D'Mouth, senior vp at American Re-Insurance Co. in New York "Our goal is that we are providing an additional reference" to American Re's underwriters, she said.

And, reinsurers point out, because human underwriters will make the final decisions, expert systems will not eliminate pricing swings. However, the observers do express hope that underwriters using the systems will be more in touch with the market and will be able to discern how far the reinsurer is straying from its targeted prices.

Observers warn that reinsurers that do introduce expert systems must be sure that they adequately reflect their underwriters' knowledge and that the staff supports the use of the systems.

U.S. reinsurers that either now have an expert system, are in the process of introducing a system or are actively exploring the possibility of establishing a system include:

- Skandia America Reinsurance Corp. in New York, which already has an expert system in place to help write property pro rata business. Skandia America now is working on another system for its property excess-of-loss business, which it plans to introduce by the end of the year, according to Roger J. Cunningham, senior vp.

- Skandia America also is developing plans to introduce expert systems in the underwriting of casualty business.

- American Re, which plans to begin operating its system for property and casualty facultative business during next year's second quarter, according to Ms. D'Mouth.

- Prudential Reinsurance Corp. in Newark, N.J., which expects to introduce a system within the next year, said Joel Sobo, vp-systems and administrative services.

- North American Reinsurance Corp./Swiss Reinsurance Co. in New York, which plans to introduce an expert system for its property reinsurance business by the first of the year and another for its casualty business by the end of the first quarter of 1989, said Mike Blocker, director of corporate information services.

Other reinsurers may be planning to introduce expert systems as well, with observers pointing out that some companies regard the introduction of expert systems as a closely held trade secret.

Expert systems have a wide range of applications, reinsurers say.

At one end, American Re can use its expert system as a training tool, said Ms. D'Mouth, who prefers the term "knowledge-based system" to expert system. On the other end of the spectrum, the system can be used to help an underwriter reach a decision on whether to write a piece of business, she said.

"And then there are gradients all the way in between," Ms. D'Mouth said.

Underwriters' decision-making will be improved by the introduction of the system, she said, both because underwriters will have more information about the type of account they are writing and because the information will be better communicated throughout the company. There will be a "broadening of the information base available" with the expert system, she said.

"The collective wisdom of a number of underwriting experts

Continued on page 36

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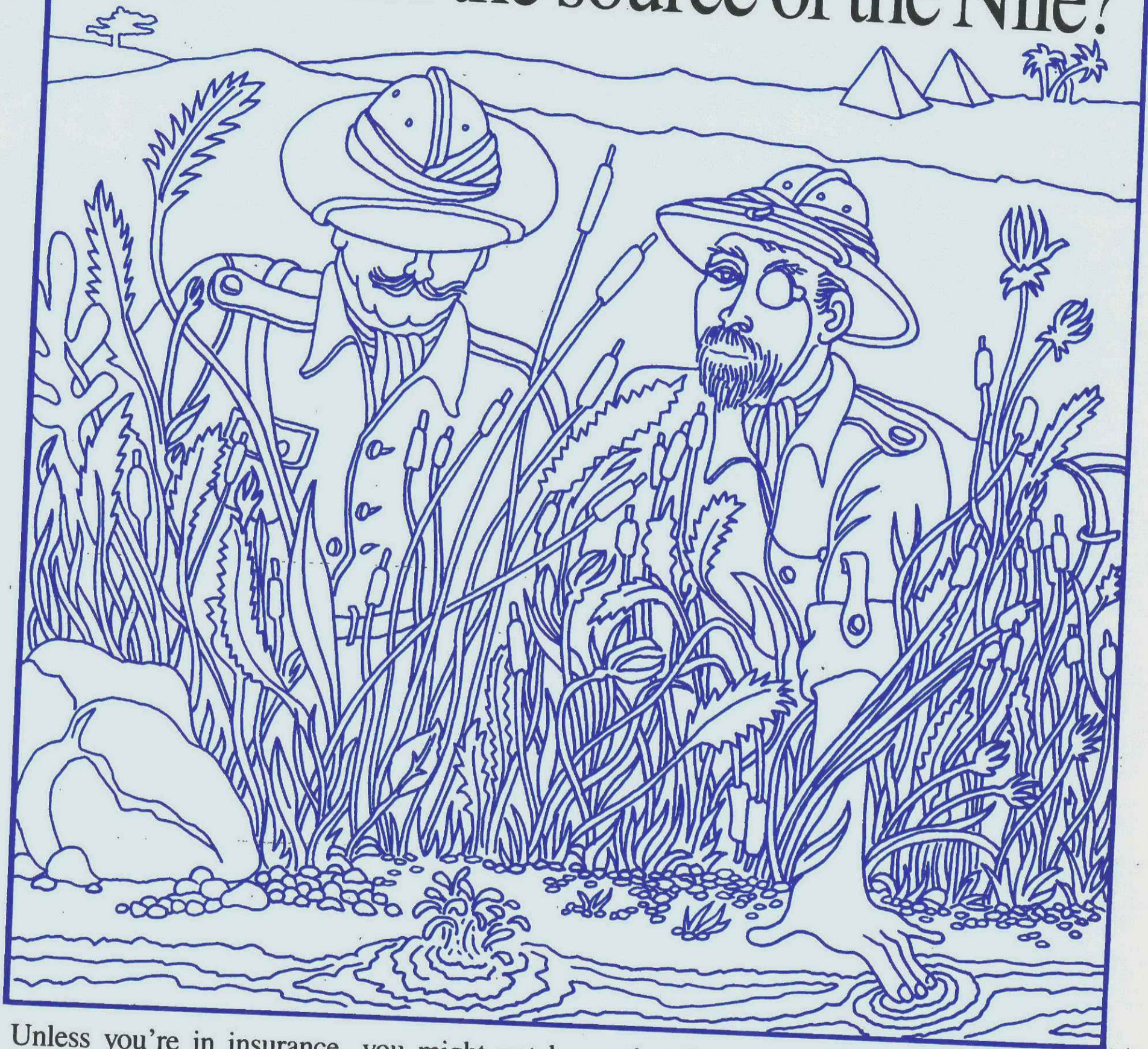
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Expert systems

Continued from page 34

becomes available to all underwriters," commented Skandia America's Mr. Cunningham, discussing the benefits of his company's expert systems.

Mr. Cunningham believes an expert system is particularly valuable for writing treaty business, which, he said, often reflects underwriting experts' intuition.

Treaty underwriting is "most subject to the eccentricities of underwriters," said Mr. Cunningham. "It's never been very much analyzed" and tends to be "very market-driven."

By helping to formulate the expert systems, he said, experienced underwriters are forced to articulate how they reach their decisions, which helps not only the junior-level underwriters who later use the system, but the experts themselves by making them more cognizant of their own thought processes.

It has "definitely helped our underwriting knowledge," Mr. Cunningham said.

The expert system also is a "tremendous training tool," he pointed out.

At Skandia America, he explained, junior underwriters are helping to put underwriting information into the system. This gets them involved in treaty underwriting a year or two before they might have otherwise. At the same time, he said, "we will free up senior underwriters from having to do any of that work."

Another advantage of an expert system, said Mr. Cunningham, is that it is a "holistic management underwriting system." The underwriter or his supervisor still has the final say on what price to put on a piece of business.

But Skandia's system is designed so that an underwriter must at least be aware of the underwriting factors that ideally should also be taken into account, whatever the current state of the market. "An expert system ties it all together," said Mr. Cunningham.

The system also sees to it that the information included within the system itself is consistent. If, for instance, the system is told that a primary insurer does not write utility business and, in another context, contradictory information is put into the system, "it's going to pop up with a warning," said Mr. Cunningham.

Similarly, the system is also valuable in asking questions about the business that even expert underwriters sometimes forget to ask, said Mr. Cunningham. "You never remember to ask all the questions. An expert system asks all the questions," he said.

"It's a living underwriting guide," he said, where a conventional printed underwriting guide "probably sits on the shelf and doesn't get looked at."

"It's definitely going to prevent us from making mistakes," he said.

There is another "selfish corporate" reason why an expert system is valuable, said Mr. Cunningham, somewhat tongue-in-cheek. Underwriters, he said, sometimes change jobs.

"There are a limited number of good underwriters, and they can hurt a company" when they leave. But, once they put their expertise in the system, even if they are no longer there physically, "we have not lost those underwriters" in one sense, he said.

North American/Swiss Re decided to introduce its expert system to convey expertise to its local offices and "to help them make better decisions," said Mr. Blocker. He said the reinsurer plans to use its expert systems to focus on more complex areas.

"It certainly can be useful for training underwriters," he added.

North American/Swiss Re's parent company, Swiss Reinsurance Co. in Zurich, has already introduced an expert system for its life reinsurance operations and is considering doing the same for its property/casualty operations as well, Mr. Blocker noted.

Prudential Re "is in the process now of identifying and developing applications" for an expert system, said Mr. Sobo. He noted the reinsurer has worked with the Technology Transfer Center operated by parent Prudential Insurance Co. of America.

"Expert systems are an exciting way of trying to gain consistency in price," Mr. Sobo said. The Pru Re system will ensure that if the price is not consistent, there is a

positive reason for it, he explained. "It's an excellent training tool," he added.

However, American Re's Ms. D'Mouth said that expert systems will not necessarily have an impact on the pricing cycle itself. "I think the forces that cause insurance cycles are varied," she noted.

"The purpose of this knowledge-based system effort is to help keep our underwriting focused on what we need to know" about each particular type of product, she said. This enables the reinsurer to make the best underwriting decision regardless of market conditions.

An expert system will not keep a reinsurer's pricing from being affected by a soft market, agreed Mr. Cunningham "but at least it will

keep us well-adv. sed" as to the degree of variation between where the company would like its pricing to be and "what's actually happening."

"It will help ensure more stable underwriting and, we hope, a piece of a much more stable market," he said.

The observers also note that the reinsurance industry has been slower than primary insurers to introduce expert systems.

While only a handful of reinsurers now are introducing expert systems, a 1987 Coopers & Lybrand survey of 50 property/casualty insurers found that 22% had applications of expert systems in active use, while 20% had applications under development and 14%

either had general technical research under way or were in the process of evaluating applications.

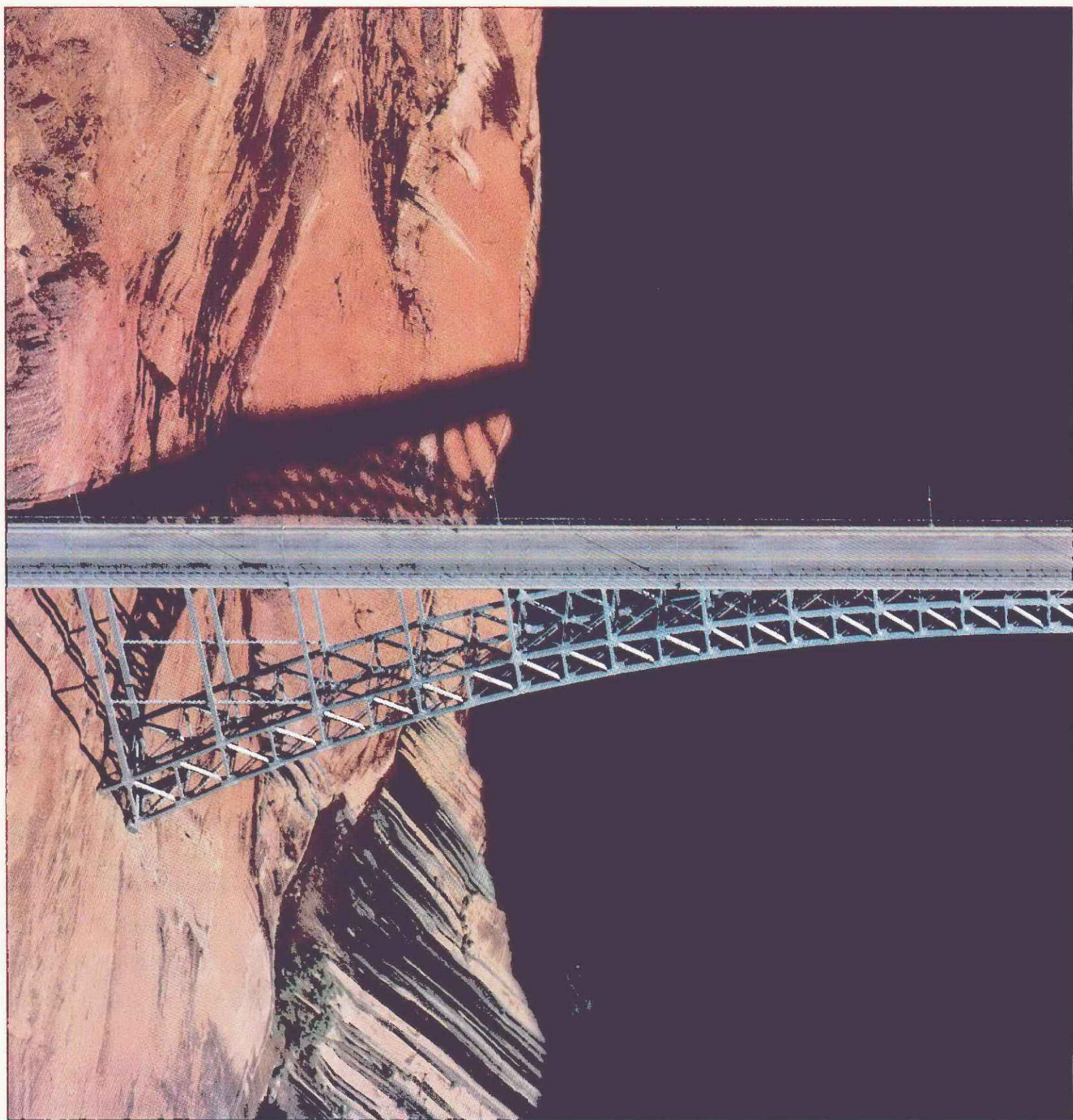
Of the respondents that had either introduced or had begun research with plans to introduce expert systems, 86% said they were either using, or planning to use, these systems in connection with underwriting. The next highest percentage, 50%, cited claims management as an application.

There are several reasons why relatively fewer reinsurers have introduced expert systems to date.

For instance, there probably is not as great a need for expert systems in the reinsurance industry as among primary insurers, which have more junior-level un-

Continued on next page

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Continued from previous page
derwriters on staff who are widely dispersed geographically, said North American/Swiss Re's Mr. Blocker.

"I think the reinsurers have never had the pressure on them to have the expert systems," said Greg Reid, a director of Peat Marwick Main & Co.'s insurance practice in Hartford, Conn.

The reinsurance industry has been slower overall than primary insurers in all types of technological development, said Mr. Reid.

Also among the factors that have been discouraging development, he said, is the delays reinsurers experience in obtaining information from ceding companies and the fact that for many years the rein-

surance industry has operated on a gentlemen's agreement basis in their relationships with primary insurers.

The nature of the reinsurance business also is a factor, said Mr. Reid. "It's not as structured, it's not as predictable as the primary market," he said. In the primary market, Mr. Reid said, "there's a large number of similar-type activity." Reinsurance contracts, on the other hand, tend to differ from one another more, with relatively little standard business written.

Others agree that the latter factor in particular helps explain the relatively slow introduction of expert systems into reinsurance.

"In the reinsurance industry, there is a lot more room for indi-

vidual underwriting judgment" than there is among primary insurers, said Pru Re's Mr. Sobo.

"The reinsurers tend to handle the less routine kinds of business," said Tom Martin, director of corporate information services at consultant Arthur D. Little Inc. in Cambridge, Mass. This means "the expert system itself must be considerably more complex."

Cost is another factor, say observers. It is easier for a primary insurer that writes thousands of automobile policies to recoup the cost of an expert system than it is for a reinsurer that is writing relatively few treaties, said Mr. Sobo.

Observers estimate the cost of expert systems can vary dramatically, from \$15,000 up to millions

of dollars, depending in part on the amount of hardware that must be purchased.

Smaller reinsurers in particular could have problems in devoting the resources to hire experts in knowledge-based engineering, who are necessary to implement such a system, said Mr. Blocker.

But, he added, "expert systems are getting cheaper."

Observers say the eventual introduction of a generic software underwriting package for reinsurers will speed up the use of the systems.

While an expert system's software must reflect the company's underwriting guidelines, 80% to 90% of these guidelines are fairly standard among the entire indus-

try, and software could be readily customized to meet a particular company's own standards, said Rob Elmore, insurance industry marketing manager for Sunnyvale, Calif.-based Syntelligence Inc., a software firm that has worked with primary insurers in developing expert systems.

Mr. Elmore said he expects his company will eventually develop a software package for reinsurers, though not before 1989 or 1990.

Smaller reinsurers will join the larger companies now exploring expert systems once a better understanding of expert systems "permeates the industry," predicts Mr. Blocker.

"We have lagged behind the primary industry," said Mr. Blocker, who estimates the gap is now 18 months to two years. But, "We're catching up quickly."

Once a reinsurer does decide to introduce an expert system, there are several pitfalls to avoid in order to make the best use of the system, observers say.

The factor stressed most often is that the system's success depends upon the quality of the underwriting information it reflects.

"We worry about the quality of the knowledge base," said American Re's Ms. D'Mouth. To alleviate that worry, American Re has done two things: It has used for its systems' knowledge base not only information from its own underwriters, but information from other experts in relevant fields as well.

American Re also has used its best underwriters to set up the system and has given them the time to do the job properly, she said.

"We are trying to deal with the highest level of experts in the user community," agreed Pru Re's Mr. Sobo.

One common problem is that often an underwriter who usually is not busy is asked to work on the system, and that underwriter is probably not that good if he is not busy, said David Shpilberg, director of Coopers & Lybrand's Decision Support Group in New York. "The system is only going to be as good as the people who are used as experts."

A good system will start with the reinsurers' corporate policy, "so that your system knows at least as much as the underwriting manual," noted Mr. Shpilberg. Then, he said, a reinsurer should start working with the underwriter. "That way you make the best use of his time."

Time can be a problem. For example, it took Skandia America twice the estimated time to input its underwriters' expertise into the system, noted Mr. Cunningham.

One way to test the system once the installation phase is complete is to present an expert underwriter and the system with the same problem, said Tom Roberts, director of information technologies at Gateway Information Services, an Indianapolis-based subsidiary of Swiss Re Services.

"It should come to the same decision" as the underwriter, he explained. If it does not, then the system must be modified.

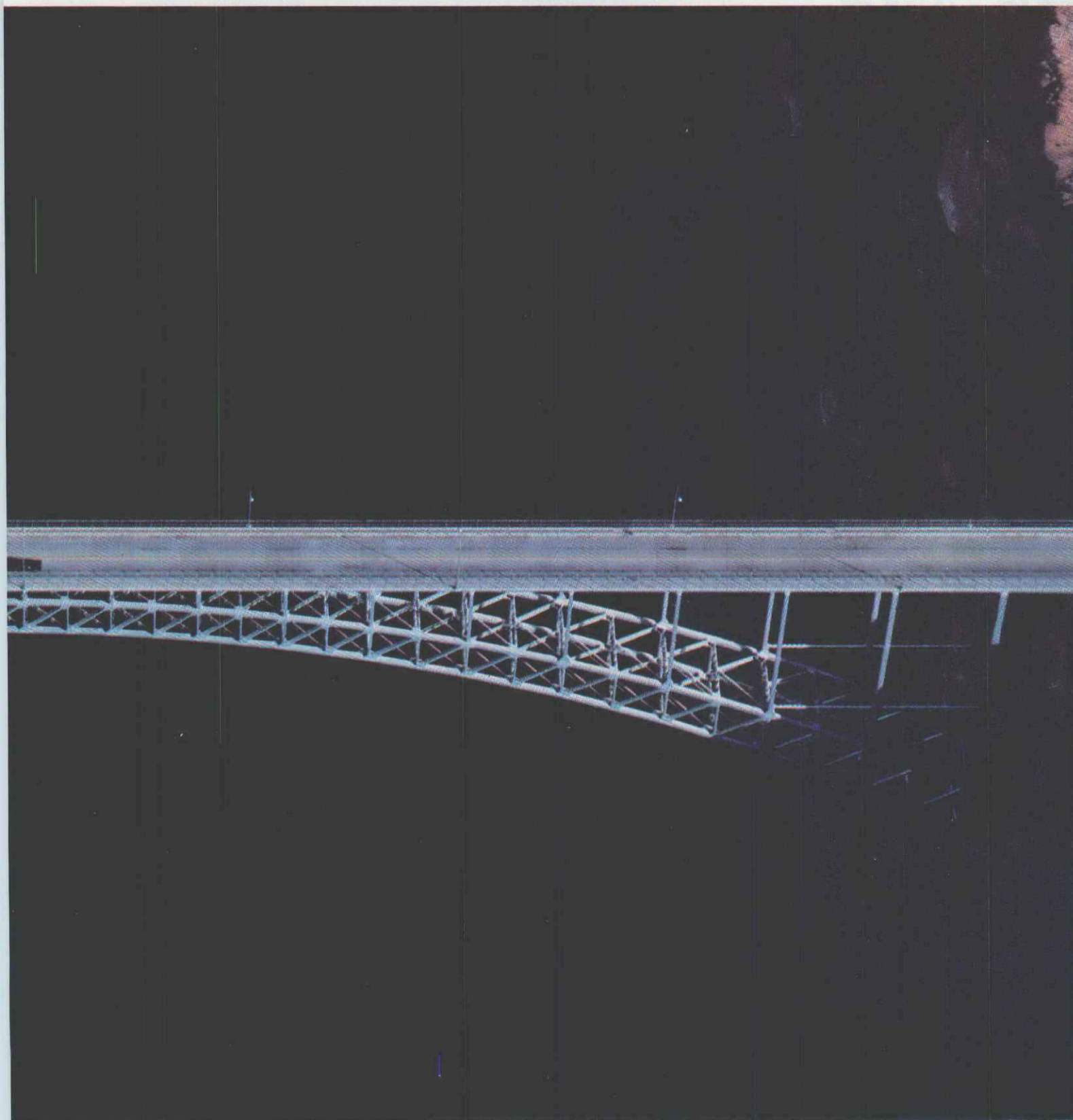
Reinsurers should also be aware that the expert system's knowledge base must be constantly updated to reflect changing conditions, said North American/Swiss Re's Mr. Blocker. "An expert system requires almost constant maintenance," he said.

"As we think better, it's just going to evolve with us," commented Mr. Cunningham, noting that an expert system's programming can be easily modified.

Another major problem is psychological, said Mr. Blocker. Underwriting employees need to be reassured that the expert system will not replace their own decision-making, he said.

Continued on next page

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State regulators crack down on reinsurance recoverables

By MEG FLETCHER

With a growing sense of urgency, state regulators are engaged in a broadside attack on unrecoverable reinsurance to prevent insurer and reinsurer insolvencies.

Improving regulatory oversight over reinsurance-related issues "is one of our main thrusts," said Illinois Insurance Director John Washburn, the current president of the National Assn. of Insurance Commissioners.

In addition to making policy recommendations to state regulators, the NAIC determines the format for the annual statement that insurance and reinsurance companies are required to file with state insurance departments.

Among the NAIC's recent reinsurance-related moves:

- The NAIC's Blanks Task Force in October adopted annual reporting form changes that will require ceding companies to identify late-paying reinsurers and overdue amounts beginning with 1989 data filed in 1990 (BI, Oct. 17).

However, the group deferred action on a proposal that would force ceding insurers to cut their capital and surplus by 20% of overdue reinsurance amounts if the reinsur-

ance is at least 90 days late.

- The NAIC's Reinsurance and Antifraud Task Force released at a September meeting exposure drafts of two new model laws that would establish minimum capital and surplus requirements for reinsurers as well as enhance a Model Immunity Statute that could protect regulators investigating fraud in the insurance industry.

The NAIC as a whole is expected to consider formally adopting both measures as a policy recommendation at its winter meeting Dec. 11-16 in New Orleans (BI, Oct. 3).

- NAIC officials are discussing tightening a model law on credit for reinsurance, requiring reinsurers to report more data and clarifying how offsets can be used to reduce recoverables.

- On the state level, regulators—including those in New York and California—have taken action in the past year to modify letter of credit requirements. In addition, Louisiana enacted legislation that establishes criteria for acceptable reinsurers and at least four states—Virginia, New York, New Jersey and California—currently are considering increasing regulatory control over reinsurers.

"The cloud over the collectibility of reinsurance is a fairly recent development," said Charles Henricks, supervising examiner for the New York Insurance Department.

Everyone in the insurance buying chain—buyers, brokers, insurers, reinsurers and state overseers—has become more aware of the potential risk in reinsurance arrangements.

"Uncollectible receivables are a problem for all of us and one that should be addressed," said Michael Cashman, president and managing partner of E.W. Blanch Co. in Minneapolis, the third-largest U.S. reinsurance intermediary.

The increased awareness stems from several factors, observers say.

"Reinsurance is such a major issue because it represents such a tremendous percentage of many (ceding) companies' surplus," said Robert Solitro, chief examiner of the New Hampshire Insurance Department, who chairs an NAIC working group on the credit for reinsurance issue.

For the property/casualty industry as a whole, two major industry sources agree that reinsurance recoverables represent at least half of stated policyholders' surplus, one of which says the figure may be as high as 85%.

The Insurance Services Office Inc. said reinsurance recoverables represented 85% of the \$92.4 billion in policyholder surplus at year-end 1986, excluding reinsurance transfers within an insurance group.

Meanwhile, A.M. Best Co. reports that the reinsurance recoverables represents 57.3% of the industry's nearly \$104 billion in policyholder surplus at year-end 1987, including about 4% of recoverables from affiliated companies.

The estimates differ, in part, because ISO estimates about \$20 billion more in incurred-but-not-reported losses than does A.M. Best, an ISO spokeswoman said.

Many ceding companies' dependence upon reinsurance increased at the same time that court decisions, like those in landmark pollution cases, lengthened the tail of claims for which insurers and reinsurers are being held responsible, New York's Mr. Henricks said.

The lengthening tail made reinsurance a more volatile product, and uncollectible reinsurance became a common thread in recent insurer insolvencies, including the Mission Insurance Co. insolvency, regulators say.

Continued on page 42

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Spotlight report**Regulations***Continued from page 40*

In addition, legal uncertainties caused many reinsurers to withdraw capacity from high-risk lines, which exacerbated the last hard market.

The consumer outcry resulting from the last tight market caused other regulators—including state attorneys general and congressmen—to launch ongoing examinations of insurance industry operations and regulation.

Regulators have responded during the past 12 months with "a great interest in regulating the impact which reinsurance transactions have on the ceding companies' bottom line," said Andre Maisonnier, president of the Washington, D.C.-based Reinsurance Assn. of America.

For example, one goal of the increased reporting requirements adopted by the NAIC is "to identify ceding companies that may be overstating their net worth despite a body of uncollectible reinsurance," said Kenneth Smith, who heads the NAIC's Study Group on Property/Casualty Reinsurance.

The measure also would identify slow-paying reinsurers.

Eliminating overstated recoverables would trim a ceding insurer's surplus and thereby reduce its ability to write business because regulators require an insurer to maintain an acceptable premium-to-surplus ratio.

While a 3-to-1 premium-to-surplus ratio is considered the standard, acceptable ratios may vary with the risk underwritten.

Regulating reinsurance practices by controlling a ceding insurer's ability to take credit for reinsurance is an indirect approach, but a viable one, according to Illinois' Mr. Washburn.

Such an approach is practical because state regulators have greater access to ceding companies' books, records and executives because most of those insurers already report to state regulators, he explained.

That indirect approach also reflects state regulators' appreciation for the fact that "reinsurance is a worldwide market and we don't want to cut capacity" through unnecessary regulation, Mr. Washburn said.

In addition, industry experts stress that regulatory protections customarily afforded the insured public are not warranted because of the sophistication of parties to reinsurance contracts (*BI*, May 9).

In an effort to deal with reinsurance-related problems, the NAIC dealt with a number of issues during the past year.

For example, the NAIC's Blanks Task Force took final action in October on behalf of the NAIC to increase the annual statement disclosure requirements for property/casualty insurers that cede business to reinsurers (*BI*, Oct. 17). The measures will go into effect for 1989 annual statements that ceding insurers file in March 1990.

The change requires the ceding company to disclose disputed reinsurance recoverables in footnotes, if the amount is "material." An amount is considered material "if the amount or amounts in dispute exceed 5% of the cedant's surplus, if one reinsurer, or 10% if more than one reinsurer," according to the amendment.

The amendment also would require ceding insurers to disclose the length of time undisputed amounts recoverable from reinsurers have been outstanding.

The amendment would alter Schedule F, Part 1 A, Section 1 of the annual convention statement, which lists ceded reinsurance, to include an "aging" schedule that would categorize reinsurance recoverables on paid losses into four categories: one for recoverables

currently due; one for recoverables overdue 30-90 days; one for recoverables overdue 90-130 days; and one for recoverables overdue 180 days.

The determination of when a reinsurance payment is "due" would be based on the terms of the contract, said Mr. Smith, who is deputy director for the Illinois Insurance Department's property/casualty division. Depending upon the contracts, payments are due immediately, monthly, quarterly or even annually.

Regulators generally support the measure because they expect it to encourage timely payment of reinsurance while requiring cedants to more accurately reflect the actual amount of recoverables they are likely to receive.

The measures also have generated broad-based support from several segments of the industry, including the RAA.

As an intermediary, "if I looked

at a prospective new client" and saw a lot of recoverable problems, "I might bow out. The same for prospective reinsurers," said Ronald J. Taylor, president and chief executive officer of G.L. Hodson & Son Inc. of New Hyde Park, N.Y., the eighth-largest U.S. intermediary.

The requirement also will help reinsurers determine which cedants to avoid doing business with, though "most reinsurers are doing security analysis these days," Mr. Taylor added.

However, Roger D. Espe, president and chief executive officer of Sullivan Payne Co. in Seattle, the second-largest U.S. reinsurance intermediary, pointed out that the requirement will cost ceding companies time and expense to meet reporting requirements, and "this action could place tremendous strain on ceding companies whose reinsurance was placed in markets which are now insolvent, in liqui-

dation, in runoff, etc.

"This is not a major issue if reinsurers are properly screened. We have tracked the payment records of reinsurers for several years now and find the quality reinsurers easily pay within 30-45 days," Mr. Espe said.

At the same meeting, the NAIC's Blanks Committee deferred action on a proposal that would require ceding insurers to cut their capital and surplus by 20% of overdue reinsurance amounts. Such a reduction would be required only if the reinsurance was at least 90 days overdue, according to the proposal.

That proposal was referred to the NAIC's Accounting Practices and Procedures Task Force for further discussion, Mr. Smith said.

An earlier version of that proposal called for an increasing percentage of the amount to be written off, whereby the longer the reinsurance is delinquent, the greater the percentage of the

write-off (*BI*, June 27).

In related action, the NAIC recently amended its accounting manual to deny a ceding company credit for reinsurance recoverable in dispute with an affiliate. This was done through a proposal approved by the accounting practices unit, Mr. Smith said.

And, the NAIC last year adopted a measure requiring companies that assume excess-of-loss reinsurance contracts to separately report loss development for primary as well as reinsurance business. This measure, which goes into effect this year for data filed in March 1989, "will allow regulators to be able to monitor the extent to which any insurer which writes both types of business recognizes the volatility of its reinsurance losses," said Mr. Maisonnier.

This year, the NAIC also released an exposure draft of a model law that would establish minimum

Continued on next page



WILL YOUR REINSURER STEP FORWARD WHEN THERE'S A LOSS?

Continued from previous page
capital and surplus requirements for reinsurers.

The proposal calls for establishing a \$10 million policyholders surplus requirement for domestic property/casualty reinsurers.

Most states now have no such minimum requirement, according to an NAIC representative.

However, the proposed model would exclude reinsurers writing coverages required by law or regulation as well as companies that assume reinsurance as part of a pooling arrangement among affiliated companies.

The proposal also would give state insurance commissioners authority to exempt a reinsurer from the requirement.

The minimum surplus proposal was made after a working group of NAIC officials explored and rejected the idea of creating a separate license for reinsurance.

The industry committee that ad-

vises the NAIC on reinsurance matters opposed separate licensing in favor of requiring increased surplus, said a report submitted by T. Darrington Semple Jr., committee chairman. He is senior vp and general counsel of New York-based American Re-Insurance Co.

The NAIC this year also released an exposure draft of a model law that would broaden the NAIC's existing model Immunity Act.

The new version clearly protects state investigators and informants from civil liability while investigating fraud—including reinsurance fraud—in the insurance industry.

In addition, the NAIC discussed tightening of a model law on credit for reinsurance.

The NAIC adopted a model law on credit for reinsurance in 1984, corrected it in 1985 and amended it again in 1987. Eight states have adopted the model or similar legislation, while 37 states and the Dis-

trict of Columbia have adopted related legislation or regulations.

The general purpose of the statute is to evaluate a reinsurer's financial stability, require that minimum standards be set up within reinsurance contracts and establish standards regarding the use of trust agreements and letters of credit, according to New Hampshire's Mr. Solitro, who chairs an NAIC subgroup considering the topic.

Much of the discussion focuses on the first section of the model act, said Daniel J. Conway, vp and general counsel with the RAA. That portion of the act allows a ceding company to take credit for reinsurance if the reinsurance company is: licensed in the state in which the ceding company is domiciled; is "accredited" in that state; or is licensed in at least one state with substantially similar credit for reinsurance requirements as well as solvency stan-

dards.

However, regulators face difficulties in trying to implement the law because of technical deficiencies, Mr. Solitro said. Not only is "accredited" undefined in the statute, but regulators have difficulty determining which states have substantially similar laws, he said. In addition, most states don't have solvency standards in writing, he said.

Although the working group is still considering several amendments proposed by the industry advisory committee, an exposure draft could be released by the NAIC's December meeting, Mr. Semple said.

In addition to NAIC-related proposals, individual regulators in about half a dozen states have taken other regulatory actions.

Specifically:

- New York and California have modified letter of credit requirements.

New York's decision to allow branches of qualified foreign banks to issue letters of credit on behalf of reinsurers, which went into effect at the end of last year, resulted in a controversy in California over the wording of letters of credit, Mr. Henricks said.

"The major difference was in the area of liquidations and who... would have the right to draw on the LOC," he said. Both states said authorized beneficiaries should include the ceding companies.

However, New York also wanted to include any successor or rehabilitator, which could allow a New York ancillary receiver to draw on an LOC, while California wanted to limit additional beneficiaries to the domiciliary liquidator or receiver, Mr. Henricks said.

A compromise was reached earlier this year that created four different LOC forms. Two factors—where the insurer is licensed and where it is doing business—determine which form must be used.

In addition, New York also amended its Regulation 114—which permits an unauthorized reinsurer to establish a trust account to show proof of financial responsibility rather than use an LOC—to give a liquidator the right to draw on the account, Mr. Henricks said.

And, the New York Insurance Department has a proposed amendment pending to Regulation 20 that would limit the amount of credit an authorized life insurer can take for reinsurance ceded to an unauthorized reinsurer. The proposal would limit the credit to the amount of the reserve the reinsurer has established for that business.

This should prevent the life insurers from circumventing reserve requirements, according to a department statement.

In addition, California is reviewing comments from public hearings held late last year on a wide range of reinsurance matters.

- Virginia's joint legislative subcommittee is hearing testimony on the state's antitrust laws, which Attorney General Mary Sue Terry wants changed to provide that office with more power over insurance regulation, according to a statement from the National Council of Insurance Legislators.

Virginia's antitrust statutes now give blanket immunity to any industry—like insurance—that is regulated by the state, the RAA's Mr. Conway said.

In addition, Ms. Terry also is proposing a model excess reinsurance cost control act that requires extensive reporting of financial data about reinsurance transactions so the state's insurance commissioner can decide whether reinsurance premiums or commissions are excessive.

This measure is considered unworkable by most industry spokesmen, Mr. Conway said.

- Louisiana enacted legislation during the 1988 legislative session that defines those insurers with which domestic insurers may enter into reinsurance arrangements.

Failure to comply with the new law may result in a ceding insurer being fined up to \$5,000 or having its certificate of authority suspended or revoked.

- New Jersey Insurance Commissioner Kenneth Merin included a few reinsurance-related measures in a package of 20 bills he offered in September to the state Legislature (BI, Oct. 24).

The measures would authorize Mr. Merin to permit the department to establish regulations covering reinsurance, which "currently is subject to almost no regulatory control," according to a department statement. In addition, another bill calls for licensing and regulating reinsurance intermediaries. ■



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Directory of reinsurance intermediaries

A

Agnew International Inc.

77 Tamarack Circle, Skillman, N.J.
08558; 609-921-0988

	1987	1986
Premium volume	\$15,000,000	\$20,000,000
% Treaty	7%	10%
% Facultative	93%	90%
Gross revenues	\$1,076,000	\$1,400,000
Total employees	17	21
Treaty	0	4
Facultative	17	17

Year founded: 1976.

Principal officers: Patrick J.L. Agnew, president; W. James Cook, vp.

Specialties: International reinsurance.
Licensed in: New York.

Alydon International Ltd.

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

	1987	1986
Premium volume	\$6,500,000	\$2,500,000
% Treaty	85%	90%
% Facultative	15%	10%
Gross revenues	NA	NA
Total employees	2	2

Year founded: 1986.
Principal officers: Roy V. Bray, president/managing director.
Specialties: Property, casualty, captives, self-funded programs,

risk retention groups.
Licensed in: Bermuda.

Amberco Brokers Corp.- New York

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

	1987	1986
Premium volume	*	*
% Treaty	100%	100%
Gross revenues	*	*
Total employees	*	*

* Operations are pooled with other subsidiaries of parent company.
Year founded: 1982.
Parent company: Amberco Holdings Inc.
Principal officers: Julian Griffiths, president; Nigel Twohey and Ann McSherry, vps.
Licensed in: New York.

Amberco Inc.

First Floor, Contirental Building,
Church St., Hamilton, Bermuda;
809-295-9191

	1987	1986
Premium volume	*	*
% Treaty	95%	95%
% Facultative	5%	5%
Gross revenues	*	*
Total employees	*	*

* Operations are pooled with other subsidiaries of parent company.
Year founded: 1985.
Parent company: Amberco Holdings Inc.
Principal officers: Peter F. Wilson, chairman; Julian M. Griffiths, president; Nigel A. Twohey, Ann McSherry and Martin Jackson, vps.
Specialties: Captives, risk retention groups, financial reinsurance.

American Healthcare Intermediaries Inc.

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

	1987	1986
Premium volume	\$22,000,000	NA
% Treaty	100%	NA
Gross revenues	\$130,000	NA
Total employees	1	NA
Treaty	1	NA

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

American Intermediaries Inc.

1800 Century Park E., Suite 450,
Los Angeles, Calif. 90067;
213-201-6500

	1987	1986
Premium volume	\$30,000,000	\$38,000,000
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	21	16
Treaty	21	16

Year founded: 1984.
Parent company: IONA Inc.
Branch offices: New York.
Principal officers: Henry M. Krueger, chairman; Wolfgang J. Buettner, president.
Specialties: Property, casualty, accident, life, health, medical professional liability, financial.
Licensed in: New York.

American Reinsurance Intermediaries Inc.

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

	1987	1986
Premium volume	NA	NA
% Treaty	80%	80%
% Facultative	20%	20%
Gross revenues	NA	NA
Total employees	8	4
Treaty	4	2
Facultative	2	2

Year founded: 1985.
Principal officers: Edward N. Murray, chairman; John P. Heupel and John T. Fried, vps; Ann M. Vance, secretary/treasurer.

Andrew Edwards & Co. Inc.

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

	1987	1986
Premium volume	\$98,000,000	\$87,000,000
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	15	12
Treaty	15	12

Year founded: 1977.
Parent company: AANA Holding Co. Inc.
Branch offices: Woodbury, N.Y.
Principal officers: Andrew Barile and Edward Mallozzi.
Licensed in: New York.
Membership: National Assn. of Reinsurance Brokers.

Ashford Reinsurance Intermediaries Corp.

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

	1987	1986
Premium volume	\$9,000,000	\$9,000,000
% Treaty	99%	99%
% Facultative	1%	1%
Gross revenues	NA	NA
Total employees	5	5
Treaty	5	5

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

Continued on next page

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ARKWRIGHT

Continued from previous page

Associated Intermediaries Inc.P.O. Box 1307, Alpharetta, Ga.
30239-1307; 404-664-1122

	1987	1986
Premium volume...	\$65,000,000	\$100,000,000
% Treaty.....	55%	45%
% Facultative...	45%	55%
Gross revenues...	\$1,800,000	\$2,300,000
Total employees...	47	52
Treaty.....	9	7
Facultative...	38	45

Year founded: 1982.**Principal officers:** Alph H. Browne, president; Stephen C. Rece, executive vp; Joel J. Knight III, secretary.**Licensed in:** Georgia.**Atlantic Security Ltd.**Kitson Building, Reid St., Hamilton,
Bermuda; 809-295-5425

	1987	1986
Premium volume...	\$2,300,000	\$2,200,000
% Treaty.....	20%	20%
% Facultative...	80%	80%
Gross revenues...	NA	NA
Total employees...	10	10

Year founded: 1974.**Principal officers:** Hal For-kush, president; Colin James, vp.
Specialties: Financial reinsur-
ance, surplus relief.**B****Adrian Baker Reinsurance Intermediaries Inc.**100 S. Brentwood Blvd., Suite 200,
St. Louis, Mo. 63105; 314-721-1372

	1987	1986
Premium volume...	\$18,100,000	\$15,800,000
% Treaty.....	80%	80%
% Facultative...	20%	20%
Gross revenues...	NA	NA
Total employees...	7	6
Treaty.....	4	4
Facultative...	2	2

Year founded: 1974.**Principal officers:** Adrian N. Baker II, president; Richard H. Chomeau, executive vp; Anthony J. Sutcliffe, senior vp.**Specialties:** Personal accident, property catastrophe.**Licensed in:** New York.**Membership:** National Assn. of Reinsurance Brokers.**Bates Turner Inc.**5200 Metcalf, P.O. Box 2959,
Overland Park, Kan. 66201;
913-676-5920

	1987	1986
Premium volume...	\$204,000,000	\$148,000,000
% Treaty.....	100%	100%
Gross revenues...	NA	NA
Total employees...	17	14
Treaty.....	17	14

Year founded: 1982.**Parent company:** Employers Reinsurance Corp.**Principal officers:** Michael G. Fitt, chairman/chief executive officer; Michael E. Fisher, president/ chief operating officer; James C. Blanton III, vp; E. Wilson Wyant, assistant vp.**Licensed in:** New York.

Continued on next page

Associated Intermediaries-S.C. Inc.1634 Main St., Columbia, S.C.
29201; 803-256-4467

	1987	1986
Premium volume...	\$40,164,713	\$34,226,971
% Treaty.....	100%	100%
Gross revenues...	NA	NA
Total employees...	9	8
Treaty.....	9	8

Year founded: 1983.**Parent company:** Preferred Reinsurance Intermediaries Inc.**Acquisitions:** Company was acquired by Preferred Reinsurance Intermediaries Inc. from Associated Intermediaries Inc. on June 13, 1988.**Principal officers:** Robert H. Sanders, president; Karen N. Basso, senior vp; David L. Coulter Jr., vp; Kevin M. Elmore and Veritha W. Lee, assistant vps.**Licensed in:** New York.**Membership:** National Assn. of Reinsurance Brokers.**BEP International**1140, Blvd. De Maisonneuve, Ouest
Bureau 1200, Montreal, Quebec
H3A 1M8; 514-288-1133

	1987	1986
Premium volume...	\$300,000,000	NA
% Treaty.....	95%	95%
% Facultative...	5%	5%
Gross revenues...	NA	NA
Total employees...	170	170
Treaty.....	145	145
Facultative...	25	25

Year founded: 1960.**Parent company:** Sodarcam Inc.**Branch offices:** New York, Toronto.**Principal officers:** Robert Parizeau, Robert Limoges, Raymond Gilbert, Peter V. Dale, Christopher Robey and Peter M. Bennett.**Specialties:** Financial reinsur-
ance.**Licensed in:** New York.**Membership:** National Assn. of Reinsurance Brokers.**B.R.I. International Agency Inc.**156 William St., New York, N.Y.
10038; 212-233-7171

	1987	1986
Premium volume...	\$2,200,000	\$3,555,000
% Treaty.....	98%	95%
% Facultative...	2%	5%
Gross revenues...	NA	NA
Total employees...	7	8
Treaty.....	6	7
Facultative...	1	1

Year founded: 1981.**Parent company:** B.R.I. Hold-
ing Corp.**Principal officers:** Bruno Ru-
mignani, president; Fred Ghawi,
Howard Miller and Joseph Zweig,
vps; Burton Matfus, secretary/
treasurer.**Licensed in:** New York.**Athlone Intermediaries Inc.**444 Brickell Ave., Suite 450,
Miami, Fla. 33131; 305-577-0552

	1987	1986
Premium volume...	NA	NA
% Treaty.....	100%	100%
Gross revenues...	NA	NA
Total employees...	4	4
Treaty.....	4	4

Year founded: 1984.**Branch offices:** Chicago.**Principal officers:** Gustavo I. Chomat, president; Gilbert B. Tosch, vp; James W. Walker, assistant vp.**Licensed in:** Florida and Illi-
nois.**Guide to intermediaries' directory**Information for the sixth annual directory of reinsurance intermediaries was gathered from responses to questionnaires sent to companies by *Business Insurance*.

The directory is published as an editorial service; there is no charge for intermediaries to be included.

Following the name and address of the company, financial and operational information for 1986 and 1987 is given, including **premium volume** related to reinsurance, percent of **treaty and facultative business** (as a percent of reinsurance premium volume), and **gross revenues** related to reinsurance. The number of **total employees** and those assigned to treaty and facultative reinsurance is also given.Next, the **year founded** and **parent company** (if any) are noted, as well as locations of **branch offices** and **subsidiaries** brokering reinsurance. **Acquisitions** and **mergers** in 1987 and so far in 1988 and names of **principal officers** follow.If a company specializes in brokering reinsurance for particular types of risks, it is noted under the **specialties** heading. Names of states in which the company is **licensed in** or does business as a reinsurance intermediary complete the listings.

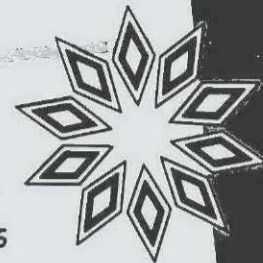
When a company is recently founded or refused to provide financial information, it is noted in the listings as NA (not available).

If you wish to locate an intermediary by state you may refer to the geographic index following the directory (see page 68). Home offices, branch offices and subsidiaries brokering reinsurance are included.

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Net Earned Premium	81,196	79,872
Underwriting Income	6,877	6,643
Net Income for the Period	7,080	6,090
Total Assets	148,756	85,760
Total Capital Funds	34,170	31,590

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Continued from previous page

Bell Nicholson Henderson (USA) Inc.

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

	1987	1986
Premium volume	NA	NA
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	16	13
Treaty	16	13

Year founded: 1980.

Principal officers: John K. Witherspoon Jr., president; Robert L. Mercer, vp; Arthur Myers, secretary/controller.

Licensed in: New York.

J.W. Beresford-Wood & Co.

1450-C Enea Square, P.O. Box
4056, Concord, Calif. 94520;
415-680-8060

	1987	1986
Premium volume	\$88,640,000	\$110,000,000
% Treaty	100%	100%
Gross revenues	\$1,400,000	\$1,800,000
Total employees	13	11

	1987	1986
Treaty	13	10
Facultative	0	1

Year founded: 1980.

Parent company: Concord General Corp.

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

Principal officers: Jeff Beresford-Wood, president; Tom Thie and Ed Miller, executive vps; Peter Norton, Bill Haley, Don Salierno and Ed Lukco, senior vps; Terry Quedest and Louis Leone, vps.

Specialties: Professional liability.

Licensed in: New York.

Membership: National Assn. of Reinsurance Brokers.

E.W. Blanch Co.

Limited Partnership

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

	1987	1986
Premium volume	\$1.2 billion	\$1.4 billion
% Treaty	98%	99%
% Facultative	2%	1%
Gross revenues	\$52,000,000*	\$50,000,000*
Total employees	331	299
Treaty	315	284
Facultative	16	15

*BI estimate.

Year founded: 1957.

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

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

Principal officers: E.W. Blanch Jr., chief executive officer/partner; Michael W. Cashman, president/managing general partner; Paul S. Mavros, executive vp-production & client services/partner; Frank S. Wilkinson, executive vp-special products & services/partner; Donna Hentges, executive vp-home & branch office operations.

Specialties: Life, accident and health, professional liability, political risk.

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

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Contact Deborah DiMarco at 1-800/446-4655
(in NY 212/968-9650)
TLX 640158 • FAX 212/425-1157
19 Rector Street, New York, NY 10006

C

Guy Carpenter & Co. Inc.

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

	1987	1986
Premium volume	NA	NA
% Treaty	93%*	90%*
% Facultative	7%*	10%*
Revenues	\$270million*	\$285million*
Total employees	1,377	1,340

*BI estimate.

Year founded: 1923.

Parent company: Marsh & McLennan Cos. Inc.

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

Subsidiaries: Balis & Co. Inc., Philadelphia; Guy Carpenter & Co. (Canada) Ltd., Toronto; Guy Carpenter Italia S.r.L., Milan and Trieste, Italy; Guy Carpenter & Co. (Asia) Ltd., Hong Kong; Guy Carpenter & Co. ApS, Copenhagen, Denmark; Guy Carpenter & Co. (Stockholm) AB, Stockholm, Sweden.

Affiliate: Guy Carpenter & Co. S.A., Brussels, Belgium.

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

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

Continued on page 48



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Continued from page 46

Cole, Booth, Potter Inc.

100 Metro Park S., Old Bridge, N.J.
 08857; 201-290-8000

	1987	1986
Premium volume	\$171,792,976	\$101,014,462
% Treaty	100%	98%
% Facultative	0%	2%
Gross revenues	\$6,430,678	\$6,192,917
Total employees	115	104
Treaty	115	93
Facultative	0	11

Year founded: 1939.

Parent company: Aon Corp.

Branch offices: Chicago, Boston.

Acquisitions: Commonwealth Intermediaries, March 1988.

Principal officers: Paul R. Davies, president/chief executive officer; Demarest Newman, executive vp; Paul Dreuth, Craig Ott, Thomas Simone and John VanFossen senior vps.

Licensed in: New Jersey, Illinois, Massachusetts and New York.

Membership: National Assn. of Reinsurance Brokers.

John B. Collins Associates Inc.

3500 Normandale Lake Blvd.,
 Minneapolis, Minn. 55437;
 312-921-3933

	1987	1986
Premium volume	\$73,000,000	NA
% Treaty	100%	NA
Gross revenues	NA	NA
Total employees	8	NA
Treaty	8	NA

Year founded: 1987.

Principal officers: John B. Collins, James A. Brost, Daniel J. Eurke and Gregory L. Brettingen, principals; James E. Christianson, associate.

Specialties: Property, casualty, crop reinsurance.

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

Combined Intermediaries of America Inc.

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

	1987	1986
Premium volume	\$12,000,000	\$10,000,000
% Treaty	99%	99%
% Facultative	1%	1%
Gross revenues	\$650,000	\$191,600
Total employees	7	5
Treaty	6	4

Year founded: 1986.

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

Specialties: Private passenger, automobile, homeowners, commercial property.

Licensed in: Texas and New York.

Contingency Resources Inc.

One Biscayne Tower, Suite 1914, 2
 S. Biscayne Blvd., Miami, Fla.
 33131; 305-372-8220

	1987	1986
Premium volume	NA	NA
Gross revenues	NA	NA
Total employees	6	6

Year founded: 1985.

Branch offices: Chicago.

Principal officers: Norma C. Sofe president; J. Michael Griffith executive vp.

Licensed in: Florida and Illinois.

Cooper Gay Steele & Co. Ltd.

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

	1987*	1986
Premium volume	NA	NA
% Treaty	50%	NA
% Facultative	50%	NA
Gross revenues	NA	NA
Total employees	8	NA
Treaty	2	NA
Facultative	2	NA

* Figures are for 1988.

Year founded: 1988.

Parent company: Cooper Gay (Holdings) Ltd.

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

Licensed in: New York.

Corporate Advisors Inc.

910 Skokie Blvd., Northbrook, Ill.
 60062; 312-564-5820

	1987	1986
Premium volume	NA	NA
Gross revenues	NA	NA
Total employees	3	NA

Year founded: 1970, activated in 1986.

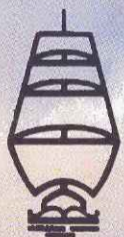
Principal officers: Louis W. Eiegler, president; William L.

Continued on next page

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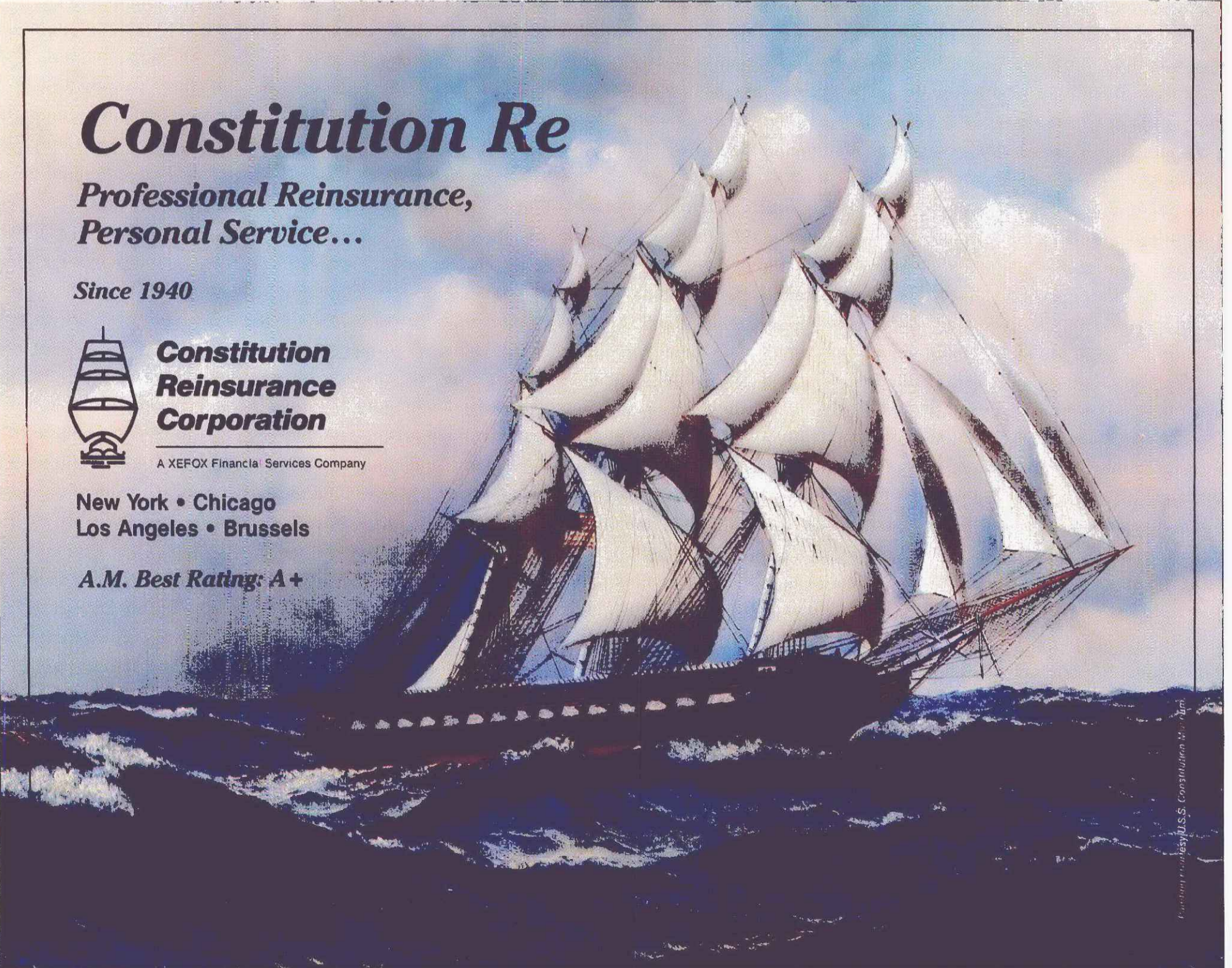


Illustration courtesy U.S.S. Constitution Museum

Continued from previous page
Biegler, vp; C.M. Murphy, vp/sec-
retary.

Licensed in: Illinois.

Cravens & Co. Special Insurance Services

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

	1987	1986
Premium volume	\$85,000,000	\$100,000,000
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	21	22
Treaty	21	22

Year founded: 1978.

Principal officers: Malcolm Cravens, chairman; Hartley D. Cravens, vice chairman; Edward W. Tiescher, president; Leon E. Button, executive vp; Carol C. Cravens, Raymond L. Karnofski, Thomas Kelly, Daniel Murphy and Mariellen M. Tarnutzer, vps; M. Mark Cravens, assistant vp.

Licensed in: New York.

Membership: National Assn. of Reinsurance Brokers.

Crawley Warren Black Inc.

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

	1987	1986
Premium volume	NA	NA
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	6	5
Treaty	6	5

Year founded: 1985.

Parent company: Crawley Warren (U.S.A.).

Principal officers: Peter M. Black, president; Donald E. Enslin, vp/treasurer; Donald W. Brustman, vp; Elizabeth A. Daly, assistant vp.

Licensed in: All states.

Crump Re Inc.

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

	1987	1986
Premium volume	\$93,350,000	\$75,000,000
% Facultative	100%	100%
Gross revenues	NA	NA
Total employees	56	52
Facultative	56	52

Year founded: 1978.

Parent company: Fred S. James & Co. Inc./Sedgwick Group P.L.C.

Branch offices: New York; Dallas; Marietta, Ga.; Minneapolis.

Acquisitions: Independence Intermediaries Inc., April 1, 1988.

Principal officers: Salvatore D. Zaffino, chairman/chief executive officer; Edmund J. Hanley, vice chairman; L. Douglas Williams, senior vp/chief financial officer.

Licensed in: New York.

Cypress Creek Intermediaries Inc.

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

	1987	1986
Premium volume	\$27,500,000	\$26,925,000
% Treaty	100%	100%
Gross revenues	\$250,000	\$215,000
Total employees	4	4
Treaty	4	4

Year founded: 1984.

Acquisitions: Formed Westminster Intermediaries Ltd., Freeport, Bahamas.

Principal officers: Michael T. Pyle, president; Peggy B. Pyle, vp; Laurie Langston, assistant vp; Christine Sullivan, assistant secretary.

Specialties: Agricultural, accident and health, medical, property, risk retention groups, animal mortality, bloodstock.

Licensed in: New York and Florida.

Delaney Offices Inc.

55 John St., New York, N.Y. 10038; 212-267-9339

	1987	1986
Premium volume	\$25,000,000	\$25,000,000
% Treaty	100%	100%

	\$1,000,000	\$600,000
Gross revenues	5	6
Total employees	5	6
Treaty	5	6

Year founded: 1954.

Principal officers: William F. Delaney Jr., president; Donna Wright, vp.

Licensed in: New York.

E

Enan & Co.

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

	1987	1986
Premium volume	\$30,000,000	\$19,000,000
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	18	14
Treaty	18	14

Year founded: 1979.

Continued on page 58

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STATE OF THE MARKET

Basic principles hold key to future for reinsurance

By LeRoy J. Simon and John C. Narvell

“THERE YOU GO again.” This phrase is reminiscent of Ronald Reagan ridiculing his political opponents. Just as it is once again election time in the United States, it is also time for another soft market in the insurance business.

We can't avoid elections; they are a periodic necessity. And unfortunately we do not seem to be able to avoid insurance and reinsurance market cycles either. Insurance economists are now confirming that the elements of an insurance marketplace are such that they will inexorably produce the cycles we have been observing. There is no way to prevent them. On the other hand, however, we can hopefully learn from our mistakes and develop methods to soften and control their impact and thus be better able to survive them. Let's look at some of the disturbing trends that are present in the reinsurance market today.

Countless writers and speakers have lamented the last severe soft market. It was so deep and long that some people were predicting that the market would never return to normalcy. However, that was before the losses began to rape the fortunes of those unfortunate investors known as “innocent capacity.” It was also before the U.S. tax authorities eliminated the incentive for the offshore captive reinsurers to write 51% of their premium on unrelated risks.

In spite of the length and depth of the soft market, it did eventually harden. By January 1986, capacity for excess casualty risks was almost non-existent. Price increases had gone beyond the elastic limits of the market to such an extent that buyers were refusing to pay the exorbitant rates. The marketplace had failed to provide the very things that encourage risk managers to buy insurance: stability and security.

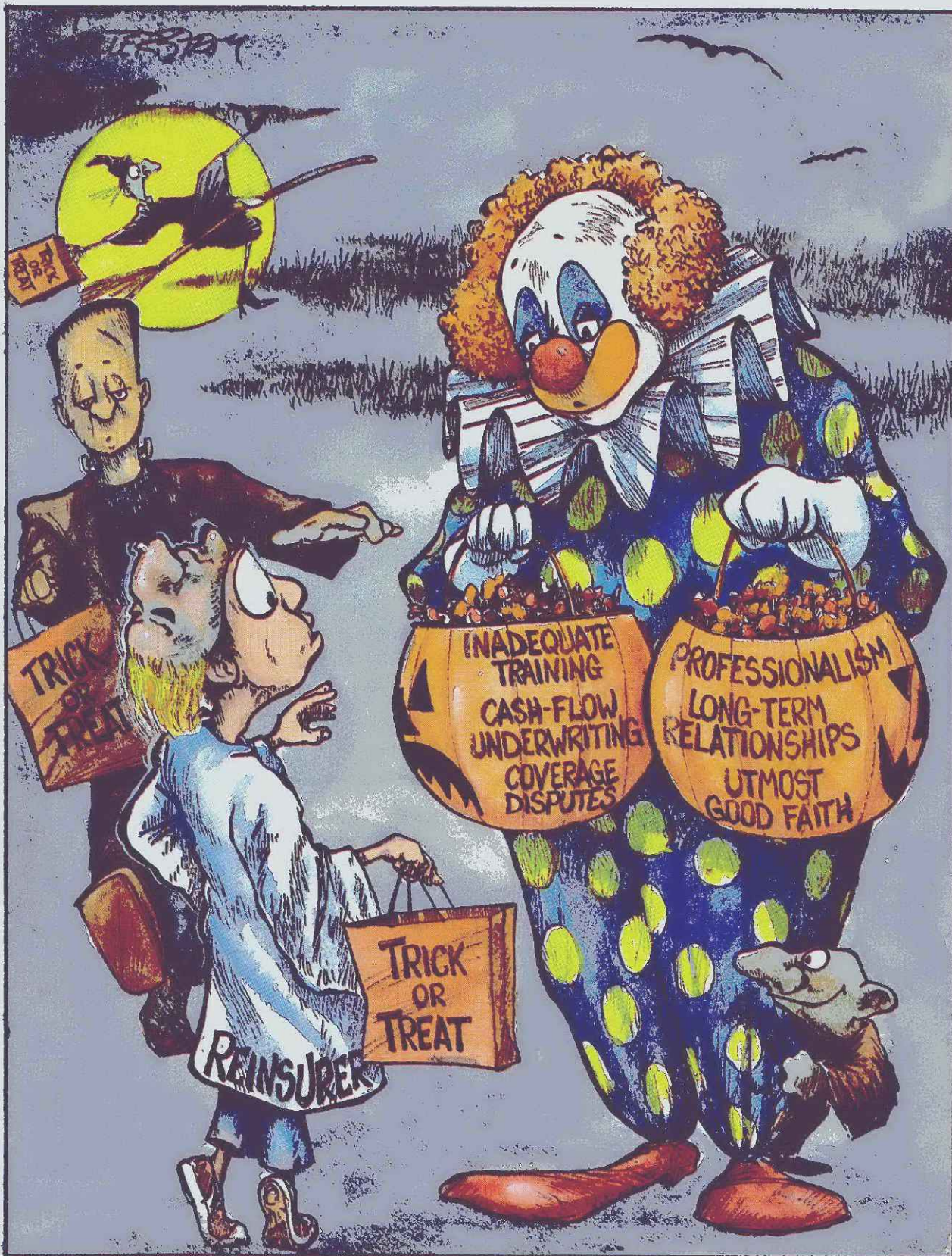
As a result, new buyer-created facilities sprung up to fill the void: “alternative markets” as they have been popularly called. The size and speed of this movement were dramatic, continuing even today. Two companies alone, A.C.E. Insurance Co. Ltd. and X.L. Insurance Co. Ltd., have permanently removed more than \$350 million of annual premium from the commercial insurance marketplace. Many may say, “good riddance,” or “let them have it,” but this attitude is myopic and will certainly lead to further retreat and capitulation.

To paraphrase the late Sen. Everett M. Dirksen of Illinois: “\$350 million here, \$350 million there—pretty soon it adds up to real money.”

No, the reinsurance marketplace cannot afford to lose such mammoth chunks of premium volume if it is to remain viable. It must learn from its past mistakes and prevent them from recurring.

The evolution of the alternative markets was not the problem before, nor is it today. The mistake was to fail to provide stability in pricing; the cure is to not let prices deteriorate to such a point again. If enough capacity retires to the sidelines when rates become inadequate and if that capacity is ready to step back in as prices begin to firm, we will avoid both the depth of inadequacy and the violent and over-reacting snapback in prices. If the industry again fails in this effort, more premium will be withdrawn from the standard market, never to return again.

The last market downturn was exacerbated by the introduction of many new players whom the old timers derisively referred to as “innocent capacity.” The problem of innocent capacity was not perceived as a problem by many. In fact, the constant ebb and flow of



new blood serves to keep the reinsurance industry healthy and responsive.

However, some supposedly clever companies saw the introduction of new players as an opportunity to cede unprofitable reinsurance in a soft market. This is, of course, one means to ameliorate the damaging effects of inadequate rates. The opportunity to make a profit on ceded reinsurance is one way to separate the experienced reinsurance professionals from the new amateurs. Who is the winner and who is the loser in such a game?

One example that arose in my experience was an excess-of-loss protection where any loss in excess of 50% of the ceding company's net lines would be covered by the reinsurer. The premium paid for this burner was only 20% of the ceding company's net premium (net after all deductions). This contract was effectively a 50% quota share for only 20% of the premium. The ceding underwriter must have thought he was quite clever. Now he is trying to collect from an insolvent reinsurer.

It might salve the conscience of the ceding underwriter to have the reinsurance fraternity agree

that this one treaty was not responsible for the reinsurer's bankruptcy. Of course it wasn't. In this case it took hundreds, if not thousands, of bad decisions on unprofitable treaties to bankrupt the company, or perhaps the cause was one basic policy decision to inadequately underwrite the business. In any event, the underwriter who thought he was outsmarting the market was the loser. He paid the premium, but he can't collect his recoveries. It was the most costly cheap-reinsurance treaty he ever bought.

The National Assn. of Insurance Commissioners should not be surprised to find some reluctance among insurers to identify troubled and insolvent reinsurers in companies' annual statements, as the regulators require in new accounting rules effective in 1990 (BI, Oct. 17).

Most underwriters individually and most companies collectively are proud to say that they have strong reserves; but who would like to highlight the fact that “I was so clever in placing enormously unprofitable outgoing reinsurance, that I was a significant factor in this reinsurer's demise?” Another interpretation is: “I was so naive in the placement of my outgoing reinsurance, that I put it with these now-insolvent

Continued on next page

Speaking out

Responsible reinsurance

Continued from previous page

companies, which is likely to cost us millions of dollars in uncollectibles." Even if neither statement applies in a given case, there is no way to give a detailed explanation.

The disturbing trend of the reappearance of innocent capacity is not as clear as other trends may be. It is also counterbalanced by the withdrawal of significant amounts of capital by some reinsurers and the withdrawal of a larger than normal number of names at Lloyd's of London. Let us hope that the counterbalancing forces continue to hold sway and the fear of over-capitalization and runaway innocent capacity does not materialize.

One of the attractions that drew the innocent capacity to the reinsurance business was the promise of earning investment income with someone else's money.

When interest rates are high, there is the natural temptation to attract premiums to try to earn the investment income. There are two flaws to this premise: First, every other supposedly clever underwriter is chasing the same premium dollar with the same thought in mind; and, secondly, high interest rates are frequently associated with rising inflation, which invariably leads to higher losses.

These higher losses do not just arise out of the new business being written. Inflation also impacts the entire portfolio of known pending losses and those that are incurred but not reported, as well. Every one of these claims will be subject to the upward pressure from rising inflation.

Those who concentrate on property insurance may feel that they are safe from inflation. We are sure you realize that disputed claims may take months, and sometimes years, to resolve during which the effects of inflation will impact the final payment. Experience also shows that loss of profits or business interruption covers, marine hull and cargo, and the U.S. winter freeze-type losses are really long-tailed pockets of inflation-sensitive business. The narrow margins of property business leave little room for tolerance.

Once again the last market cycle provides good examples. When interest rates were so high in the early '80s, the competition for insurance premiums was fierce. Companies were quoting renewals as 20% of prior rates instead of 20% off prior rates. One broker observed that he saw a case renew for a total premium that was less than he had been paid in brokerage the previous year.

The folly of such practices is painfully evident now, but the pressures to maintain market share then were quite real. Market share is worthless in a soft market; it merely magnifies the problem in the long run.

Interest rates again are beginning to notch upward a bit around the world and we begin to see the disturbing trend toward "cash-flow underwriting" resurfacing. This, of course, is just another name for the introduction of investment income into the pricing equation. It is true that premium collected, retained, and invested produces investment income. Note that it is not loss reserves or unearned premium reserves that earn interest, it is premiums that are collected, retained and invested that do. Yet some persist in trying to credit investment income to various groups of policies or policyholders on the basis of outstanding loss reserves. This is just plain wrong. If there were no premiums collected, the loss reserves would be just the same, but one would not credit investment income to them, would they?

So, there will be a temptation to move toward cash-flow underwriting again, and why not? The investment income is always there in both soft and hard markets. The sin is not in considering investment income in a soft market; the problem is rooted in trying to ignore it in a hard market, and throughout the majority of the market cycle. If investment income were credited to the underwriters on a prompt, uniform and consistent basis in both good times and bad—if every underwriter from the top management to the desk underwriter knew the full economic effect of writing a piece of business at all times—wouldn't one

then have more faith in that underwriter's ability to understand the whole insurance process?

Those who would deny an underwriter this level of full knowledge not only show a lack of confidence in him, but also provide him with the very crutch needed to rationalize the writing of inadequately priced business in a soft market. Pressure from the buyer, from the broker and self-generated pressure to write business all conspire to force him toward marginally priced business. It is then that he "discovers" investment income and introduces it into the pricing equation, forgetting that it was always there.

Instead, let's give the complete underwriter the complete story. Let's give him promptly, uniformly and consistently the correct tools he needs to do his job in today's marketplace—including the true story on collected premiums and investment income.

Among the humorous definitions of the business of reinsurance, one of the more prophetic is that reinsurance is a business where money passes from hand to hand until it eventually disappears. The first corollary of this is that he who holds the cash wins.

The question of who holds the cash is one of the more troublesome aspects of reinsurance accounting. The inadequate identification of reported premiums and losses vs. settled premiums and losses—that is, accrual accounting vs. cash accounting—creates an illusion of cash flow that may not exist. For all the advantages of accrual accounting, it does mask the fact that many reinsurers have alarmingly large volumes of unallocated cash. While the holding (and investing) of cash is desirable, the existence of such unallocated cash indicates that uncollected cash is also a problem.

If investment income were credited to the underwriters on a prompt, uniform and consistent basis in both good times and bad—if every underwriter from the top management to the desk underwriter knew the full economic effect of writing a piece of business at all times—wouldn't one then have more faith in that underwriter's ability to understand the whole insurance process?

If a reinsurer is not certain about what cash it has received, then it most certainly is going to be uncertain about its receivables. Once again, the underwriter needs to have accurate data in a timely fashion in order to produce profitable business. Consequently, he must also bear a significant part of the responsibility for collecting the company's overdue amounts and seeing that they get applied to the proper accounts.

Another problem related to the subject of complete information is in the area of loss reserves. Statistical analysis of loss reserves is more important for reinsurance than for direct insurance for two reasons.

First, the time delays for the payment of reinsurance losses are greater because the underlying direct losses must be paid first. The phenomenon is amplified in the case of excess reinsurance wherein an underlying retention must be exceeded on a paid basis before the reinsurer will start to pay.

The second reason is due to the reduced amount of data on a case-by-case basis, which limits the ability of a reinsurer to produce accurate case reserves.

The requirement for statistical review, analysis and projection of the loss reserves produces a natural conflict. The underwriters who accept the business and are responsible for its profitability are not, by nature, statisticians. It is unreasonable to expect underwriters to also be actuaries. That does not mean that a reinsurer can function without actuarial support; it may as well go without underwriters also. Inevitably, someone performs the actuarial function at the company. If the position of actuary is not formally defined, then it is done by top management, the head underwriter, an accountant, or someone.

Frequently companies that do not perform sufficient statistical review will suffer from inadequate loss reserves and will constantly be charging their current income with losses due to adverse loss development. On the other hand, companies that do perform bona fide loss reserve analysis are likely to encounter an internal "us vs. them" struggle between actuaries and underwriters. The underwriters resent being saddled with large IBNR reserves that they neither want nor understand. It takes considerable time to prove that the "incredulously high" IBNR of yesterday has become the "needs strengthening" reserve of today.

The only possible resolution to this is for there to be a greater level of information sharing within reinsurance companies. Just as actuaries have valuable skills that can be of great assistance to underwriters, actuaries must recognize the skill and experience of underwriters.

The actuary errs if he feels that the numbers tell him everything and the underwriter errs if he thinks that losses never occur on business that is written to be loss free. The delays involved in the settlement of reinsurance claims are longer than many underwriters are aware. The problem of this double-edged sword is not that the reinsurer gets to hold the premium dollars longer, but rather that the amounts of the ultimate losses are all too easily underestimated. Only when underwriters are consistently involved in the review of loss development statistics can they comprehend the danger of prematurely assuming profits based upon reported or settled claims.

Another disturbing trend is that too many of the underwriters and actuaries in the reinsurance industry do not have the proper training and the years of experience really necessary for the business to run efficiently and smoothly. This is particularly true for the primary-company buyers of reinsurance. Frequently the position of director of ceded reinsurance at a direct company will be a normal stop in the training of a future executive. Unfortunately, since he is not a reinsurance specialist, he may make decisions that are less than optimal.

A lack of continuity is also apparent at assuming companies where a reinsurance underwriter who moves up the ladder rarely takes his portfolio with him but, rather, leaves his problems behind for someone else to handle. This tends to reward superficiality if the bobbing-and-weaving buyer or reinsurance underwriter can present a good image and move on fast enough.

The Lloyd's system of senior underwriters retaining contact

both as cedants and as reinsurers has been far superior in this sense because of its continuity.

Another change in the reinsurance market that has compounded the problem of inadequate underwriting data has been the shift away from proportional reinsurance to the more complicated non-proportional business. Excess reinsurance requires much greater experience, training, and sophistication to master it. Those who expect to survive and prosper in today's reinsurance market should expect to work very hard and long to master the skills required to compete effectively.

As ceding companies become more sophisticated, reinsurers must continue to grow with them. In fact, successful reinsurers will stay well ahead of their clients in technical expertise. Traditionally, the services offered by reinsurers included assistance in underwriting, claims and technical services. Skills in these areas must be constantly honed and improved and new areas added to the skill base because those who think that they can stand still will very quickly find that the market has moved beyond them.

There are plenty of sound, experienced, competent professionals on both sides of the reinsurance transaction. However, cedants are not uniformly the "sophisticated buyers" that economic theory, law and regulation would like to make them out to be.

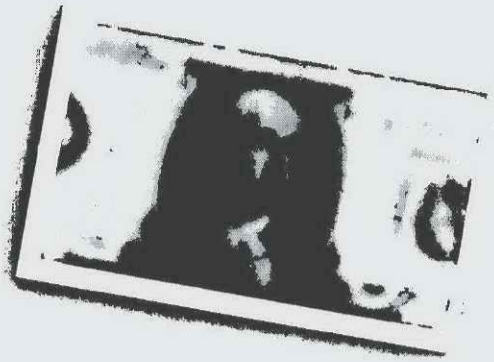
In fact, reinsurance is often "sold" when most times it should be purchased on the basis of careful, detailed analysis of the factual situation by the company management. This might lead to more efficient and effective buying of reinsurance.

It might be of value, for example, to evaluate the potential impact of a change in a reinsurance program in terms of additional risk to earnings per share or to return on equity. Wouldn't it, at times, be helpful to see how random factors would cause a given situation to come out if one were able to live through 100 years or 1,000 years of the possible outcomes? Today's computer technology makes this feasible, given the right input.

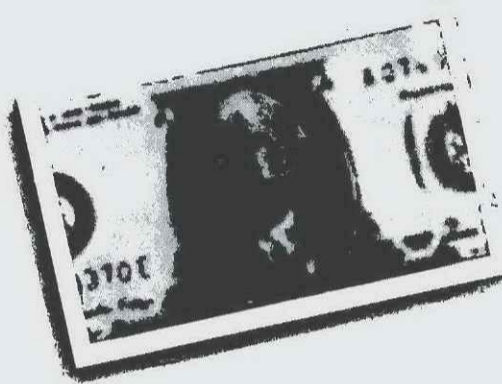
Unfortunately, some reinsurance brokers, account executives and underwriters are not the "sophisticated sellers" that theory would like them to be, either. The

Continued on page 56

REINSURANCE AND THE RIGHT FOCUS



When you select a reinsurer, it's important that you get a clear picture of its financial stability. You might start by considering a company's policyholders' surplus. But don't make it your only focus. Today's large surplus could be compromised by liberal underwriting policies, leading to overexposure and future instability.



A reinsurer's Best's rating will help sharpen the image. But today's rating isn't meant to tell you everything you should know to predict where the company will be in ten years — when you may need it to pay a claim.



The clearest picture of a reinsurer's financial stability includes not only surplus and rating, but people, too. After all, it's people who shape the company's future.

At NAC, you'll find seasoned reinsurance professionals with a wealth of diversified experience. People whose sound management skills and judicious underwriting complement a Best's rating of "A" and a surplus in excess of \$165 million. NAC, a solid, secure company worth focusing on. Greenwich, Hartford and New York. *We'll be there when you need us.*

- Treaty Reinsurance Written Through Intermediaries
- Facultative Reinsurance Written Directly

North American Company
for Property and Casualty Insurance

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Responsible reinsurance

Continued from page 54

sophistication of those in the marketplace will ebb and flow as the cycle brings fresh and inexperienced players into the reinsurance business and as difficult times weed them out. Dilettante reinsurers will continue to appear when the cycle is at its hardest and dilettante cedants will appear at its softest. Those that jump in just as the market turns either way may be knowledgeable enough to escape the "dilettante" label. However, they may not escape the consequences of inexperience.

The next disturbing trend we see is that the increased presence of less sophisticated buyers and sellers has planted the seeds of destruction for the preferred long-term relationship between these parties and the breakdown of the principle of good faith.

For example, we see this in the increased frequency of litigation over contract terms. Traditionally, treaty contract wordings were drafted by people who were knowledgeable about the subject and were comfortable in their relationships with each other. If there was any question about the interpretation, it could easily be worked out between the parties in spite of what a literal reading of the contract might say; there had been a long-term relationship and each party expected that it would continue for many years into the future.

Today, however, parties are trying to understand these terms and conditions without the benefit of the understanding that comes from established, professional relationships and knowledge of industry practice.

In addition to the long-term nature of the relationship, the business was inherently profitable to the reinsurer; after all, the reinsurer was providing a valuable service to the ceding company. Losses could be covered knowing that the long-term profitability and the continuing nature of the relationship would get things right in the long run.

In fact, one of the most disturbing developments in the last cycle was the continued erosion of the principle of utmost good faith. This principle, which is inherent in every insurance contract, is even more applicable to reinsurance. The average consumer of insurance may not be aware that this principle is presumed of him in his insurance transaction. On the other hand, when an insurance company buys reinsurance, it must be familiar with the principle and be obliged to honor it. While an average buyer of insurance may claim ignorance of the principle, a ceding company has no such defense.

Well, the world has changed!

Profit margins are thin; there is no long-term relationship; principles cannot stand in the way of survival; disputes are rampant. Conditions have deteriorated to the point that one leading insurance lawyer is espousing the concept of a monetary dollar threshold for the principle of utmost good faith. He says that above such a threshold, money will not change hands without the intervention of legal assistance. We might hope that this is not true but, unhappily, the concept has a chillingly familiar ring and we fear that "utmost good faith" has been seriously wounded.

How does the reinsurance industry prevent itself from falling into anarchy? The answer is simple to state but difficult to apply—return to the basic principles upon which the industry was founded; namely, professionalism, long-term relationships, and the principle of utmost good faith. This does not mean that reinsurance should be a closed club. On the contrary, the reinsurance market should be open to all who are willing to commit their careers and fortunes.

This return to basic principles manifests itself in the pursuit of professional credentials and continuing education; it demands similar standards from both reinsureds and reinsurers; it upholds the principle of utmost good faith even when the amount of money involved seems large.

First, those who aspire to call themselves reinsurance professionals must master the skills required. It is not enough to learn the specialized jargon. The business of reinsurance is sufficiently different from insurance that newcomers should pursue some formalized training. One is never too young or too old to broaden one's education. Experience on the firing line is very valuable, but, while the questions may be the same as

those in the past, the answers today may be different.

There is the old saw about have you had 25 years of experience, or one year of experience repeated 25 times? Just as it takes new learning to face the problems of the future, it also requires years of learning through varied experience with the various facets of the business to "see it all." It is not enough to be an ivory tower specialist in a narrow area.

For example, underwriters must master the skills of rate monitoring to be able to determine when to decline inadequate rates. There is a point when market share retention is overshadowed by potential impairment to a company's capital. Underwriters need to understand all of the intricacies of the legal and financial requirements of the business. There is no standardization of contract wordings in reinsurance as there is in consumer insurance. Underwriters must examine every clause to consider the terms of premium remittance and loss coverage. In addition, if funds are withheld, technical results must be adjusted to produce the same bottom line as if the funds were not withheld.

There is no real mystery or magic about investment income; it contributes to the company's profits and the funds to invest are produced by underwriting activity. It's an area of needed underwriting expertise.

The hallmark of an underwriter is to be able to underwrite. A truism? Perhaps, but does the principle of "a people-oriented business" entitle one to do business simply by knowing who to trust, who has a knowledge of the business and who the long-time participants have been? There are some who call themselves "underwriter" and rely only on those factors plus the concepts that taking a small piece of a lot of offerings provides spread and no one decision can

One of the most disturbing developments in the last cycle was the continued erosion of the principle of utmost good faith. This principle is even more applicable to reinsurance.

hurt very much if it goes bad.

True underwriting involves the ability to evaluate risk, to analyze exposures, to keep current on developing technology in a host of fields, to understand financial statements, to be able to discern trends and project them into the future, to understand losses, the judicial system, juries and so on and so on. Underwriting is not just a simple matter of knowing with whom to do business.

Today, reinsurance underwriting requires a broader spectrum of quantitative skills than ever before. New technology permits collection and analysis of information that was inconceivable even five years ago. Insurance, and especially reinsurance, is a "numbers game." Those who do not develop a mastery of analytical skills will be eclipsed by those who do. This means that underwriters will have to become adept with their computers and consult their actuaries and statisticians more than ever before.

Cash-flow underwriting is with us to stay. It has been with us all along but now we are opening our eyes and admitting its existence. The bottom line today is not measured in technical operating ratios but in return on equity. Today's reinsurance underwriters must be able to meet the challenges that will be brought to the market by new entrants seeking to gain a foothold through aggressive marketing, innovation or realistic, bottom-line pricing.

The increased sophistication in the analysis of rates and rating plans must be mirrored with an increase in the sophistication of analysis of loss reserves. There are two facets to this. First, underwriters need feedback to understand how to determine appropriate rate levels. Premiums must be sufficient to pay losses no matter how long the delay for loss settlement. Eventually cash will be disbursed.

Second, the reinsurer must maintain adequate reserves not just for the goal of accuracy of financial statements but primarily to maintain the financial solidity that is the hallmark of success. A reinsurer that is constantly playing "catch up" with its reserves will not be attractive security to a potential reinsured.

Reinsurers should strive to attract, train and retain the best possible employees. This truism is sometimes

underappreciated. Reinsurance is not a commodity where employees are interchangeable. Reinsurance involves long-term personal relationships that should be encouraged and nurtured. Training and retention of employees is critical to the proper functioning of the reinsurance marketplace. Those companies with the best-educated, motivated and trained people will consistently produce the best results.

Despite good intentions, disputes about reinsurance agreements will inevitably arise. Most reinsurance agreements include an arbitration clause that specifies disputes must be submitted to arbitration before any legal action may be commenced. This is in keeping with the concept of the two parties to the agreement being equals, acting within the bounds of utmost good faith. It also recognizes that reinsurance is a specialized business that is better understood by experienced arbitrators than by those outside the industry.

While legal action is usually permitted subsequent to arbitration if either party desires, the preferred course of action should be arbitration, not litigation. Arbitration is faster, less expensive and more in keeping with the goal of long-term security. As an industry, we must make every effort to make arbitration work.

CEOs must get into the fray in earnest and may have to become statesmen in order to make the system work. It is one thing to get a superficial briefing on a situation and then back your own staff, it is quite another to sit down with the antagonist CEO and listen with open ears and an open mind. Dispute resolution does not need advocates, it needs statesmen.

As for security, one should not simply "know your reinsurers." That type of familiarity can be gleaned by anyone from the pages of the well-known publications that report on and evaluate companies. One should know his reinsurers very, very well.

An interesting rule might be to paraphrase Will Rogers and say "Never cede to an underwriter you haven't met," and then add: "on his own home ground." That may seem like an overly ambitious objective, but is it really? Do your objectives require a myriad of tiny slivers of cover being placed with a whole host of miscellaneous companies or would a few reinsurers, known very, very well do the job?

A rotating program of visiting home offices of reinsurers could be accomplished in a three-year cycle. Think of the positive consequences, not only in less uncollectible reinsurance, but also in times of stress when you and your reinsurer both need to know each other very well in order to make the future work.

The reinsurance business has some special privileges in that it presently enjoys a relatively low degree of regulation in comparison to consumer insurance. But this level of regulation demands greater self-regulation to prevent a breakdown of the market. Market disruptions will create the opportunity, in fact the invitation, for oppressive regulation.

The reinsurance industry has a responsibility to provide security on a long-term basis. Cooperation both among reinsurers and with client reinsureds is required for the business relationships to be productive.

The list of problems and disturbing trends we have outlined might lead one to think that the reinsurance industry is in trouble. On the contrary, the very nature of the reinsurance business will lead to its strengthening. The underlying qualities of those within the reinsurance industry will see it through.

The cardinal rule is to know your business—top, bottom, and all sides. The good old days will never return, but the new days can be a lot better if we are all prepared for them.



Mr. Simon

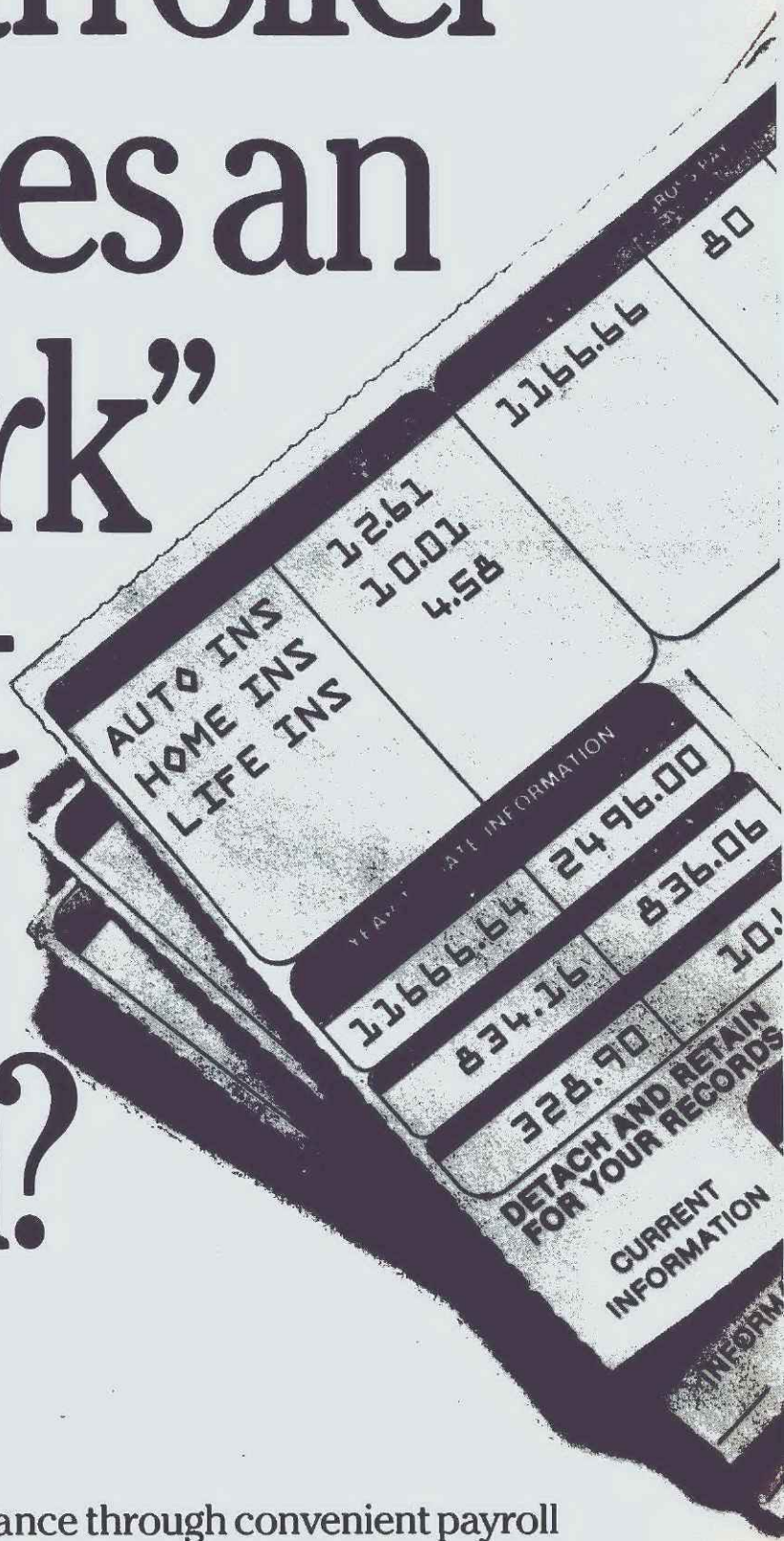
LeRoy J. Simon is an executive consultant with Coopers & Lybrand in New York. John C. Narvell is a senior consultant with Coopers & Lybrand in Bermuda. This article is based on a



Mr. Narvell

presentation to the Casualty Actuarial Society Seminar on Reinsurance, held in Short Hills, N.J., earlier this month.

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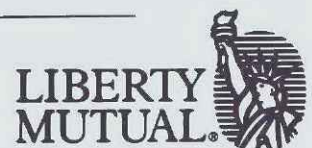
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Spotlight report

Continued from page 49

Principal officers: H.A. Enan, chairman; J.E. Webster, president; P.J. Murphy, executive vp/chief executive officer; D.N. Hoemke, executive vp.

Licensed in: New York.
Membership: National Assn. of Reinsurance Brokers.

Encon Reinsurance Managers Inc.

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

	1987	1986
Premium volume	\$10,000,000	\$6,000,000
% Treaty	90%	95%
% Facultative	10%	5%
Gross revenues	\$841,000	\$472,000
Total employees	6	6
Treaty	2	2
Facultative	2	2

Year founded: 1984.
Parent company: Encon Insurance Managers Inc.

Principal officers: Jeffrey R. Vannan, president; William A. Salisbury, vp-treaty; Hugh E. Fardy, vp-facultative.

Specialties: Professional liability.
Licensed in: Canada.

F

Financial Reinsurance Inc.

140 S. Atlantic Ave., Ormond Beach, Fla. 32074; 904-677-4453

	1987	1986
Premium volume	\$34,463,075	\$38,515,221
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	5	5
Treaty	2	2

Year founded: 1960.
Parent company: Ormond Re Group Inc.

Subsidiaries: W.J. Burt & Associates, New York.
Principal officers: W. Lockwood Burt, president; John B. Deiner, executive vp; A.L. DiPardo, senior vp-claims; William T. Long, vp-reinsurance accounting.

Specialties: Crop hail.
Licensed in: New York and Florida.

C.L. Frates Reinsurance Intermediary Inc.

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

	1987	1986
Premium volume	\$17,500,000	\$15,000,000
% Treaty	95%	95%
% Facultative	5%	5%
Gross revenues	\$740,000	\$680,000
Total employees	2	2
Treaty	2	2

Year founded: 1986.
Principal officers: Albert P. Amato, senior vp.
Licensed in: New York.

G

Arthur J. Gallagher & Co. (Bermuda) Ltd.

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

	1987	1986
Premium volume	\$4,500,000	\$6,000,000
% Treaty	60%	60%
% Facultative	40%	40%
Gross revenues	\$1,250,000	\$1,700,000
Total employees	5	5
Treaty	2	2
Facultative	2	2

Year founded: 1972.
Parent company: Arthur J. Gallagher & Co.
Subsidiaries: Arthur J. Gallagher & Co. (Cayman) Ltd., George Town, Grand Cayman.

Principal officers: John P. Gallagher, president/director; Robert E. Gallagher, vp/director; C.J. Noon, managing director; Ronald L. Hubbard, finance director.
Specialties: Public entities.
Licensed in: Bermuda and Cayman Islands.

Arthur J. Gallagher Intermediaries Inc.

111 John St., Suite 1912, New York, N.Y. 10038; 212-732-9855

	1987	1986
Premium volume	\$12,400,000	NA
% Treaty	10%	NA
% Facultative	90%	NA
Gross revenues	\$1,050,000	NA
Total employees	20	NA
Treaty	1	NA
Facultative	19	NA

Year founded: 1987.
Parent company: Arthur J. Gallagher & Co.

Branch offices: Cranston, Rhode Island.

Acquisitions: E&S Intermediaries, June 1, 1987.

Principal officers: Joe DeCristofaro, president; Robert J. Osborne Jr., executive vp; Randy Jenson, Ted Levandowski and Bert deBont, vps; Kevin Derike, assistant vp.

Specialties: Casualty, automotive, petrochemical and heavy manufacturing.

Licensed in: New York and Rhode Island.

John Gilbert Intermediary Group

80 Maiden Lane, Suite 2230, New York, N.Y. 10038; 212-797-9740

	1987	1986
Premium volume	\$20,000,000	\$25,000,000
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	7	15
Treaty	7	15

Year founded: 1973.
Principal officers: John L. Gilbert, chairman/president.

Gill & Roeser Inc.

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

	1987	1986
Premium volume	NA	NA
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	9	11
Treaty	9	11

Year founded: 1983.
Subsidiaries: G&R Intermediaries Inc., New York.

Principal officers: Ardian Gill, chairman; Kirk Roeser, president; James Snedeker, senior vp; David Koegel, assistant vp; Ondine Holahan, account manager.

Specialties: Financial reinsurance.

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

Harry W. Gorst Co. Inc.

805 Fairmont Ave., Glendale, Calif. 91203; 818-507-0900

	1987	1986
Premium volume	\$45,000	\$30,000
% Treaty	2%	30%
% Facultative	98%	70%
Gross revenues	\$4,500	\$3,000
Total employees	2	2

Year founded: 1968.
Principal officers: Harry W. Gorst, president; Robert C. Blackwell, chief financial officer; Michael Heagerty, senior vp.

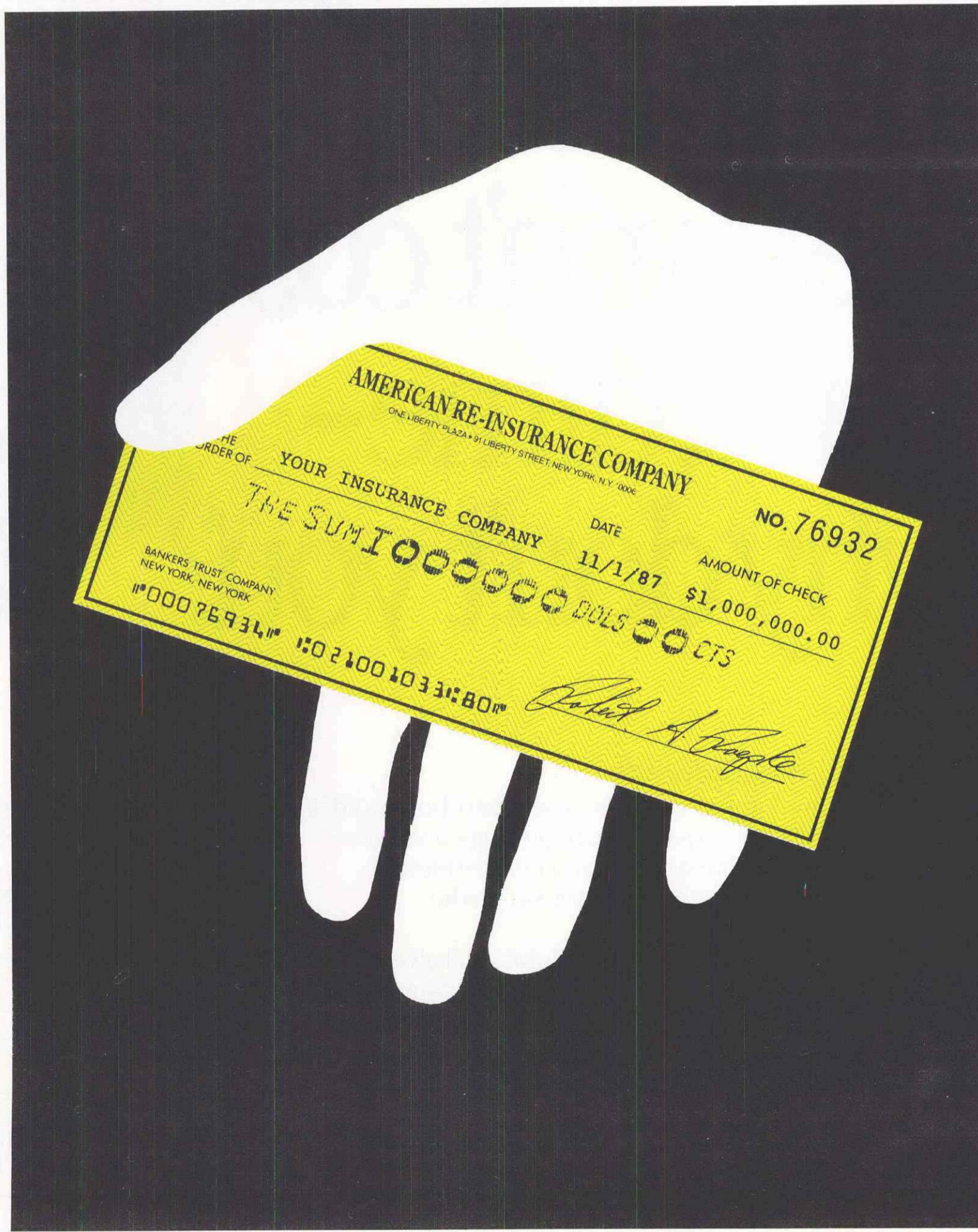
Licensed in: California, Arizona, Kansas, Missouri and Texas.

Thomas A. Greene & Co. Inc.

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

	1987	1986
Premium volume	\$527,500,000	\$444,000,000
% Treaty	93%	89.8%
% Facultative	7%	10.2%
Gross revenues	\$28,700,000	\$27,400,000
Total employees	225	216
Treaty	196	179
Facultative	29	37

Year founded: 1979.
Continued on next page



Continued from previous page
Parent company: Alexander & Alexander Services Inc.

Branch offices: Chicago; San Francisco; Stamford, Conn.

Acquisitions: Certain assets of Ropner & Arnold Inc., June 26, 1987.

Principal officers: Thomas A. Greene, president/chief executive officer; John L. Busi, executive vp/ chief financial officer; Michael G. Bungert, senior vp-Chicago office; William R. Coleman, senior vp-Stamford office; John W. Tornquist, senior vp-San Francisco office; Robert J. Arnold, S. Lennart Barkinge, Neil W. Hiller, Edward T. Kelley, Frank L. Kleiner, John F. Langen, John M. Marek, Robert T. Mobyed, J.J. O'Connell, Donald B. Peat and Robert S. Youpa, senior vps.

Licensed in: New York.

Greig Fester (North America) Inc.
 116 John St., Suite 1410, New York, N.Y. 10038; 212-619-0140

	1987	1986
Premium volume	\$38,000,000	\$33,000,000
% Treaty	98%	98%
% Facultative	2%	2%
Gross revenues	\$3,200,000	\$2,800,000
Total employees	36	30
Treaty	34	28
Facultative	2	2

Year founded: 1931.

Parent company: Greig Fester Group Ltd.

Principal officers: Charles B. Penruddocke, vice chairman/ chief executive officer; Irving Bloom, president/ chief operating officer; Leonard B. Wagner, secretary/ treasurer; Jeffrey G. Laupus, vp.

Licensed in: New York.

H

H & H Re-Insurance Brokers Ltd.
 Trott Road, P.O. Box HM 1861, Hamilton, Bermuda; 809-295-3342

	1987	1986
Premium volume	\$11,500,000	\$9,700,000
% Treaty	95%	95%
% Facultative	5%	5%
Gross revenues	NA	NA
Total employees	8	6
Treaty	8	6

Year founded: 1977.

Parent company: International Advisory Services Ltd.

Principal officers: Simon C. Everett, W.H. Outerbridge.
Licensed in: Bermuda.

Frank B. Hall (Intermediaries) Ltd.
 P.O. Box HM 1581, Hamilton, Bermuda HM GX; 809-295-5454

	1987	1986
Premium volume	\$25,500,000	\$22,000,000
% Treaty	40%	40%
% Facultative	60%	60%
Gross revenues	NA	NA
Total employees	5	5

Year founded: 1982.

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

Principal officers: Stuart H. Grayston, president/ chief executive officer; Madeline F. Joell, senior vp.
Licensed in: Bermuda.

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

	1987	1986
Premium volume	\$8,000,000	\$8,000,000
% Treaty	99%	99%

	1987	1986
% Facultative	1%	1%
Gross revenues	\$75,000	\$75,000
Total employees	1	1

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

W.O. Hart & Co. Inc.
 2777 Summer St., Stamford, Conn. 06905; 203-357-1714

	1987	1986
Premium volume	\$13,000,000	\$10,500,000
% Treaty	100%	99%
% Facultative	0%	1%
Gross revenues	\$445,000	\$360,000
Total employees	7	8
Treaty	7	8

Year founded: 1977.
Principal officers: Warren O. Hart, president; Sandra B. Hart, secretary; Francis J. Hamilton III, assistant vp.

Specialties: Professional liability, workers compensation, alternative risk financing facilities.
Licensed in: New York.

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

	1987	1986
Premium volume	NA	NA
% Treaty	10%	10%
% Facultative	90%	90%
Gross revenues	NA	NA
Total employees	10	8
Treaty	1	1
Facultative	9	7

Year founded: 1981.
Parent companies: Heddington Insurance Ltd. and Willis Faber P.L.C.

Subsidiaries: Willis Faber Heddington Ltd., London.
Principal officers: Robert C. Golden, president; Monica Dobbie, senior vp; Mark G. Randall, vp; J.O. Heyliger, assistant vp.

G.L. Hodson & Son Inc.
 3333 New Hyde Park Road, New Hyde Park, N.Y. 11042; 516-365-9000

	1987	1986
Premium volume	\$400,000,000	\$425,000,000
% Treaty	81%	88.5%
% Facultative	19%	11.5%
Gross revenues	\$23,000,000	\$23,000,000
Total employees	201	192
Treaty	152	147
Facultative	49	45

Year founded: 1924.
Parent company: Corroon & Black Corp.

Branch offices: Atlanta; Boston; Los Angeles; San Francisco; New York; St. Paul, Minn.

Subsidiaries: RGI Inc., Boston.
Principal officers: Ronald J. Taylor, president/ chief executive officer; Michael E. Rothpletz, executive vp/ chief operating officer.
Licensed in: New York.

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

	1987	1986
Premium volume	NA	NA
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	40	34
Treaty	40	34

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

I

IOC Reinsurance Brokers Ltd.
 67 Yonge St., Suite 902, Toronto, Ontario M5E 1J8; 416-863-6665

	1987	1986
Premium volume	NA	NA
% Treaty	92%	95%
% Facultative	8%	5%
Gross revenues	NA	NA
Total employees	13	13
Treaty	10	10
Facultative	3	3

Continued on next page

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Continued from previous page

Year founded: 1980.

Principal officers: Joseph I. O'Connell and H. Robert Inksater, directors; Frank Cammisuli, vp.

INRE International (New York) Ltd.

117 Beekman St., Suite 3E, New York, N.Y. 10038; P.O. Box 948, Peck Slip, New York, N.Y. 10272; 212-349-9222

	1987	1986
Premium volume...	\$1,000,000	\$50,000
% Treaty.....	20%	10%
% Facultative...	80%	90%
Gross revenues...	\$50,000	\$25,000
Total employees...	3	3
Treaty.....	1	1
Facultative...	2	2

Year founded: 1982.

Parent company: UNEX Resources Ltd.

Principal officers: Nick Rowton, president; Alex Karsanidi, vp.

Specialties: International reinsurance.

Licensed in: New York.

Intere Intermediaries Inc.

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

	1987	1986
Premium volume...	NA	NA
% Treaty.....	100%	100%
Gross revenues...	\$20,500,000*	\$23,000,000*
Total employees...	208	216
Treaty.....	208	216

* BI estimate.

Year founded: 1919.

Branch offices: Atlanta, Chicago, San Francisco, Minneapolis.

Principal officers: Ward B. Gordon, chairman/chief executive officer; Roland G. Roth, vice chairman; Wallace E. Winter, president; Daniel R. Colello, executive vp; George A. Edwards, senior vp/treasurer; Kenneth R. Fewell, Brian S. Keegan, Thomas J. Williams, Ronald C. Anderson, Thomas F. McGrath III and Michael G. Woll, senior vps; Robert L. Mendes, vp/general counsel; Ronald C. Fazio, vp/secretary.

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

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

International Intermediaries Inc.

131 E. Main St., Elmsford, N.Y. 10023; 914-592-2072

	1987	1986
Premium volume...	NA	NA
% Treaty.....	90%	90%
% Facultative...	10%	10%
Gross revenues...	NA	NA
Total employees...	4	4
Treaty.....	2	2
Facultative...	2	2

Year founded: 1982.

Principal officers: Jim Wolosoff, chairman; Bud Richman, president; John Caltabiano, vp/secretary/treasurer; Marlin Henning, vp.

Specialties: Excess of loss, financial guarantee, credit indemnity, credit life and disability.

Licensed in: New York.

International Reinsurance Services Inc.

10 S. LaSalle St., Chicago, Ill. 60603; 312-782-9547

	1987	1986
Premium volume...	\$6,324,743	\$7,345,169
% Facultative...	100%	100%
Gross revenues...	NA	NA
Total employees...	7	8
Facultative...	5	6

Year founded: 1977.

Parent company: Cameron General Corp.

Principal officers: Fred H. Peason, president; William D. Yurek, executive vp; Mike Wilken, manager.

Licensed in: Illinois.

Membership: National Assn. of Reinsurance Brokers.

J

JBW Connecticut

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

	1987	1986
Premium volume...	NA	NA
% Treaty.....	95%	95%
% Facultative...	5%	5%
Gross revenues...	NA	NA
Total employees...	2	2

Year founded: 1985.

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

Principal officers: Donald J. Salierno, president.

Licensed in: New York.

Continued on page 62

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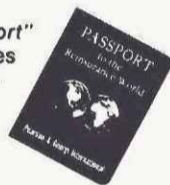
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Continued from page 60

J&H Intermediaries Ltd.

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

	1987	1986
Premium volume...	NA	NA
% Treaty.....	10%	10%
% Facultative...	90%	90%
Gross revenues...	NA	NA
Total employees...	21	18

Year founded: 1978.

Parent company: Johnson & Higgins.

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

Specialties: Captive reinsurance programs, portfolio transfer reinsurance.

Licensed in: Bermuda.

L

Le Blanc De Nicolay U.S. Inc.

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

	1987	1986
Premium volume...	\$45,000,000	\$30,000,000
% Treaty.....	100%	100%
Gross revenues...	\$594,297	\$384,330
Total employees...	6	5
Treaty.....	6	5

Year founded: 1986.

Parent company: Groupe Le Blanc de Nicolay Paris.

Principal officers: Gilles Lorans, president; William Asay, assistant vp.

Licensed in: New York.

Lincoln National Intermediaries Inc.

1300 S. Clinton St., P.O. Box 1110; Fort Wayne, Ind. 46801; 219-427-3290

	1987	1986
Premium volume...	NA	NA
% Facultative...	100%	100%
Gross revenues...	\$3,024,946	\$1,700,753
Total employees...	13	13
Facultative...	13	13

Year founded: 1984.

Parent company: Lincoln National Corp.

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

Specialties: Financial reinsurance.

Licensed in: New York.

Edward Lloyd Ltd.

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

	1987	1986
Premium volume...	\$16,000,000	\$12,200,000
% Treaty.....	55%	45%
% Facultative...	45%	55%
Gross revenues...	NA	NA
Total employees...	9	8
Treaty.....	3	3
Facultative...	3	3

Year founded: 1984.

Parent company: Lowndes Lambert Group.

Principal officers: Ronald H. Molatto, president; Kevin R. Kennedy and John M. Mannix, vps.

Specialties: Property, casualty.

Licensed in: New York.

Luvang Insurance Underwriters Inc.

5757 N.W. 11th St., Suite 220, Miami, Fla. 33126; 305-264-7614

	1987	1986
Premium volume...	\$2,250,000	\$2,500,000
% Treaty.....	5%	5%
% Facultative...	95%	95%
Gross revenues...	NA	NA
Total employees...	4	4
Facultative...	4	4

Year founded: 1982.

Principal officers: Harold Stewart, president.

Licensed in: Florida.

M

Madison Intermediaries Inc.

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

	1987	1986
Premium volume...	NA	NA
% Treaty.....	60%	NA
% Facultative...	40%	NA
Gross revenues...	NA	NA
Total employees...	103	NA
Treaty.....	40	NA
Facultative...	63	NA

Year founded: 1987.

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

Branch offices: Los Angeles and San Francisco.

Subsidiaries: Madison Intermediaries of California, Los Angeles.

Principal officers: Thomas J. Kennedy, president/chief executive officer; Philip L. Parker, senior vp/director-brokering operations; Allyn F. Hess, vp-professional liability; R. John

Young, vp-facultative; George H. McMahon, president-Madison Intermediaries of Calif.; Jose M. Torres, vp-international; John P. Carsley, assistant vp-property; Robert W. Clark, senior vp-marine/aviation; Robert G. Brookshire, vp-facultative-Los Angeles office; Linda Conroy-Nokes, assistant vp-facultative-San Francisco office; Clifford D. Babington, assistant vp-facultative-New York office.

Specialties: Medical professional liability, marine, aviation, accident, health, international, specialty casualty.

Licensed in: New York.

Membership: National Assn. of Reinsurance Brokers.

Michael Maglaras & Co. Inc.

300 Broad St., Ninth Floor, Stamford, Conn. 06904; 203-358-9665

	1987*	1986
Premium volume...	NA	NA
% Treaty.....	100%	NA
Gross revenues...	NA	NA
Total employees...	2	NA
Treaty.....	2	NA

* 1988 estimates.

Year founded: 1988.

Principal officers: Michael Maglaras, principal.

Specialties: Medical malpractice, general liability, accident and health.

Licensed in: New York.

Membership: National Assn. of Reinsurance Brokers.

Magnant Re Intermediaries Inc.

181 Harbor Drive, Stamford, Conn. 06902; 203-324-1144

	1987	1986
Premium volume...	\$10,500,000	NA
% Treaty.....	99%	100%
% Facultative...	1%	0%
Gross revenues...	NA	NA
Total employees...	9	12
Treaty.....	9	12

Year founded: 1981.

Principal officers: Lawrence C. Magnant Jr., president; Joan P. Lupo Neuscheler, treasurer.

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

Membership: National Assn. of Reinsurance Brokers.

McCallister Reinsurance Intermediaries Inc.

200 Perrine Road, Suite 229; Old Bridge, N.J. 08857; 201-727-5400

	1987	1986
Premium volume...	\$5,600,000	\$3,000,000
% Treaty.....	90%	90%
% Facultative...	10%	10%
Gross revenues...	NA	NA
Total employees...	4	2

Year founded: 1985.

Principal officers: Thomas McCallister, president.

Specialties: Accident and health.

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

Meadowbrook Intermediaries Inc.

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

	1987	1986
Premium volume...	NA	NA
% Treaty.....	100%	90%
% Facultative...	0%	10%
Gross revenues...	NA	NA
Total employees...	5	4
Treaty.....	5	4

Year founded: 1985.

Parent company: Meadowbrook Insurance Group.

Subsidiaries: Meadowbrook Risk Management Inc., New York.

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

Specialties: Captive reinsurance.

Licensed in: New York.

Continued on next page

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Continued from previous page

N

Nelson Hurst & Bailey

123 William St., New York, N.Y.
10038; 212-233-9076

	1987	1986
Premium volume...	\$16,600,000	\$16,380,000
% Treaty.....	88.6%	92.5%
% Facultative...	11.4%	7.5%
Gross revenues...	NA	NA
Total employees...	10	8
Treaty.....	8	8
Facultative...	2	0

Year founded: 1979.

Principal officers: Brian P. Marsh, chairman; Robert W. Bailey, president; James W. O'Brien, senior vp.

Specialties: Ocean marine, aviation, property, casualty, surety, international.

Licensed in: New York.

Palacio Weinraub & Foster Inc.

7699 Biscayne Blvd., Miami, Fla.
33138; 305-751-6600

	1987	1986
Premium volume...	\$2,630,000	\$2,350,000
% Treaty.....	85%	70%
% Facultative...	15%	30%
Gross revenues...	NA	NA
Total employees...	7	6
Treaty.....	4	3
Facultative...	1	1

Year founded: 1984.

Principal officers: Jack Foster, president; Alan Weinraub, vp/general counsel; Felipe Palacio, vp/treasurer.

Specialties: International, marine, aviation.

Pearson & Georgi International Inc.

P.O. Box 1597, 117 Washington St., Hoboken, N.J. 07030;
201-656-0800

	1987	1986
Premium volume...	\$48,000,000	\$50,000,000
% Treaty.....	90%	87%

	% Facultative	10%	13%
Gross revenues...	\$1,400,000	\$1,500,000	
Total employees...	24	26	
Treaty.....	7	7	
Facultative...	3	3	

Year founded: 1979.

Branch offices: Athens, Greece; New York; Chicago.

Subsidiaries: P&G (Europe) Ltd., Athens, Greece.

Principal officers: Fred H. Pearson, chairman; Ernest G. Georgi, president; Rodolfo A. Agatep, executive vp/treasurer; Joseph A. Zaffarese, managing director.

Licensed in: New York and New Jersey.

Member: National Assn. of Reinsurance Brokers.

Peglar & Associates Inc.

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

	1987	1986
Premium volume...	NA	NA
% Treaty.....	100%	100%
Gross revenues...	NA	NA

	Total employees...	15	9
Treaty.....	15	9	

Year founded: 1986.

Principal officers: Robb K. Peglar, president; Charles A. Morton, chief financial officer/secretary/treasurer; Peter B. Scanlon, senior broker.

Specialties: Property, casualty.

Licensed in: New York.

R

RBI Brokerage Inc.

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

	1987	1986
Premium volume...	NA	NA
% Treaty.....	70%	70%
% Facultative...	30%	30%
Gross revenues...	NA	NA
Total employees...	4	4

Year founded: 1978.

Subsidiaries: RBI Brokerage of Florida, Miami.

Principal officers: Paul Wolf, president.

Specialties: Life, health, stop loss reinsurance for health maintenance organizations.

Licensed in: New York, New Jersey and Florida.

RFC Intermediaries Inc.

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

	1987	1986
Premium volume...	NA	\$240,000,000
% Treaty.....	33%*	33%
% Facultative...	67%*	67%
Gross revenues...	\$14,000,000*	\$16,100,000
Total employees...	180	225

* BI estimate.

Year founded: 1972.

Parent company: The St. Paul Cos. Inc.

Continued on next page

Nova Reinsurance Brokers Inc.

230 W. Monroe St., Chicago, Ill.
60606; 312-621-1777

	1987	1986
Premium volume...	\$9,250,000	\$11,000,000
% Facultative...	100%	100%
Gross revenues...	NA	NA
Total employees...	6	6
Facultative...	6	6

Year founded: 1978.

Parent company: Insurance Brokers Service Inc.

Principal officers: A. Norman Dubois, chairman; Terrence J. Winkler, president; Patrick T. Meagher, vp; William C. Hare, assistant vp; Michael C. Galeba, secretary/treasurer.

Specialties: Casualty.

O

O'Connor Associates Ltd.

299 Market St., Saddle Brook, N.J.
07662; 201-587-1600

	1987	1986
Premium volume...	\$29,500,000	\$28,000,000
% Treaty.....	100%	65%
% Facultative...	0%	35%
Gross revenues...	\$2,800,000	\$2,700,000
Total employees...	26	28
Treaty.....	26	26
Facultative...	0	2

Year founded: 1975.

Branch offices: Coral Gables, Fla.

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

Specialties: Property, casualty, surety.

Licensed in: New York.

Membership: National Assn. of Reinsurance Brokers.

P

PWS (USA) Inc.

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

	1987	1986
Premium volume...	\$35,000,000	\$28,000,000
% Treaty.....	10%	10%
% Facultative...	90%	90%
Gross revenues...	\$1,869,195	\$1,567,500
Total employees...	12	12
Treaty.....	1	1
Facultative...	6	5

Year founded: 1974.

Parent company: PWS Holdings P.L.C.

Principal officers: Robert Mikaloukas, executive vp.

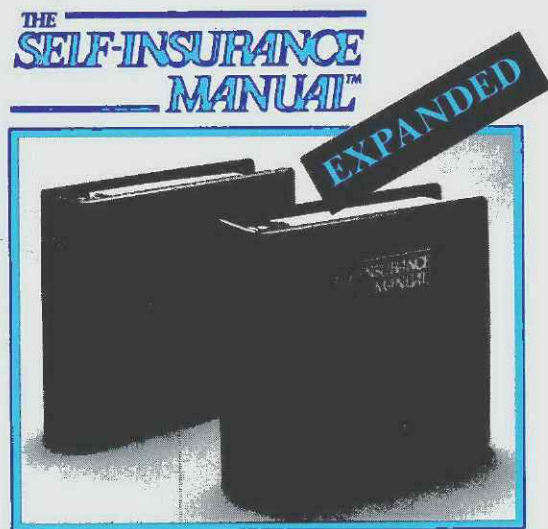
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Continued from previous page

Branch offices: Chicago; Dallas; Hartford, Conn.; Los Angeles; New York; Philadelphia.

Principal officers: David L. Cargile, president/chief executive officer; Pavittar S. Safir, executive vp-administration; Ronald J. Smith, executive vp-facultative division.

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

Membership: National Assn. of Reinsurance Brokers.

R/I Inc.

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

	1987	1986
Premium volume	\$86,035,358	\$102,720,371
% Treaty	99.99%	99.99%
% Facultative	.01%	.01%
Gross revenues	NA	NA
Total employees	30	24
Treaty	30	24

Year founded: 1972.

Principal officers: R.W. Edens, chairman; Jay Johnson, president; Robert E. Hykes and Neill A. Currie, senior vps; Bobby W. Bristow, Ted Johnson and Greg Edens, vps.

Licensed in: New York.

Reid, Woodroffe International Ltd.

Barclays International Building, 44 Church Street, Hamilton HM JX, Bermuda; 809-295-5336

	1987	1986
Premium volume	NA	NA
Gross revenues	NA	NA
Total employees	NA	NA

Year founded: 1988.

Principal officers: Michael Woodroffe, president/managing director.

Specialties: Low-level casualty, captive and financial reinsurance, commercial excess of loss.

Licensed in: Bermuda.

Reinsurance Agency Inc.

111 E. Wacker Drive, Chicago, Ill. 60601; 312-329-1484

	1987	1986
Premium volume	\$246,177,872	\$322,000,000
% Treaty	95%	95%
% Facultative	5%	5%
Gross revenues	\$19,442,789	\$17,500,000
Total employees	57	56
Treaty	50	50
Facultative	7	6

Year founded: 1945.

Parent company: Aon Corp.

Branch offices: Los Angeles.

Mergers: Aon Corp. purchased Reinsurance Agency Inc. in September 1988.

Principal officers: Paul R. Davies, president/chief executive officer; John Charles, senior vp/ chief administrative officer; Michael Garrity, senior vp.

Licensed in: Illinois and California.

Membership: National Assn. of Reinsurance Brokers.

Reinsurance Brokers Co.

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

	1987	1986
Premium volume	\$5,000,000	\$5,000,000
% Facultative	100%	100%
Gross revenues	\$65,000	\$40,000
Total employees	5	5
Facultative	5	5

Year founded: 1983.

Parent company: Sherar, Cook & Gardner Inc.

Principal officers: J. William Sherar, president; Norman C. Cook, executive vp; James A. Gardner, vp; William G. Sherar, assistant vp.

Specialties: Marine, oil, construction, international, large property risks.

Licensed in: Louisiana.

S

Saturn Intermediaries Ltd.

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

	1987	1986
Premium volume	\$77,250,000	\$60,300,000
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	11	10
Treaty	11	10

Year founded: 1985.

Branch offices: Des Moines, Iowa.

Principal officers: John J. Nor-

ton, president; R. Charlene Pedersen, executive vp; R. Bebe Hayes and Arne R. Sorensen, vps; Erin Nancy Doherty, assistant vp; H. Serafina Peigh, assistant treasurer.

Specialties: Domestic and international property, casualty and crop hail.

Licensed in: New York.

John D. Sayer & Co. Inc.

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

	1987	1986
Premium volume	\$40,000,000	\$50,000,000
% Treaty	100%	100%

Gross revenues	\$1,350,000	\$1,500,000
Total employees	10	10
Treaty	10	10

Year founded: 1979.

Principal officers: John D. Sayer, president; John S. Yeuroukis, executive vp.

Specialties: Surety.

Licensed in: New York.

Smyth, Sanford & Gerard Inc.

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

	1987	1986
Premium volume	\$17,000,000	NA
% Treaty	65%	NA
% Facultative	35%	NA

Gross revenues	NA	NA
Total employees	55	45
Treaty	5	NA
Facultative	5	NA

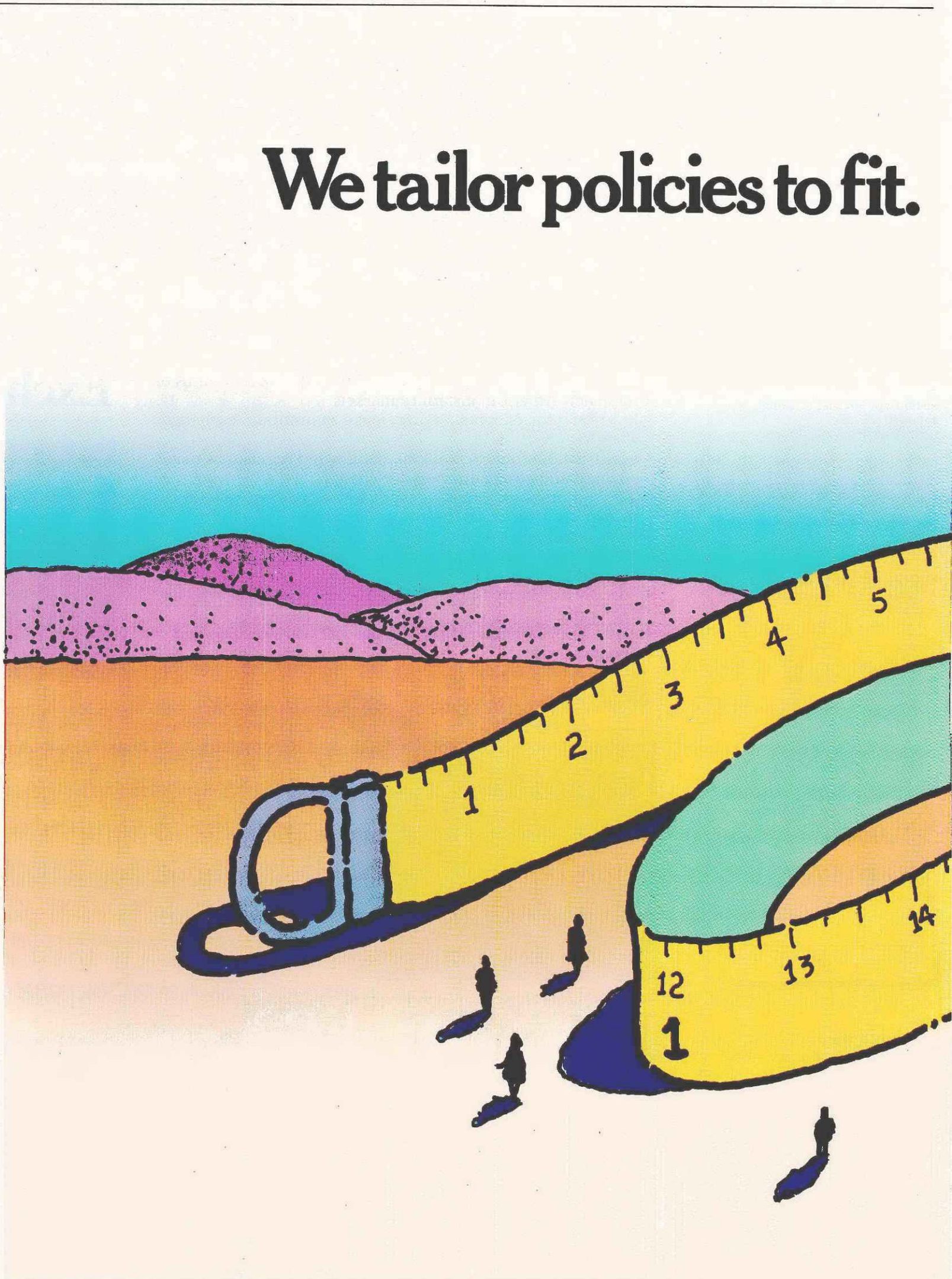
Year founded: 1912, began reinsurance brokerage in 1937.

Branch offices: Coral Gables, Fla.

Principal officers: Robert L. Sanford, chairman; Douglas L. King, president-reinsurance division; William K. Brewer, executive vp; Leonard S. Johnsen, George E. McKee and Thomas C. Chiappa, senior vps; Eugene R. Melski, senior vp-Coral Gables office; Geraldine Froget, executive vp-Coral Gables office.

Continued on next page

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Continued from previous page

Specialties: Domestic and international property and casualty, boiler and machinery.

Licensed in: New York and Florida.

Southern Intermediaries Inc.

1321 Lady St., Suite 602, P.O. Box 12367, Columbia, S.C. 29211; 803-748-2400

	1987	1986
Premium volume	\$2,831,668	NA
% Treaty	100%	100%
Gross revenues	\$429,041	NA
Total employees	7	NA
Treaty	7	NA

Year founded: 1987.

Parent company: Seibels Bruce Insurance Group.

Principal officers: H. Bronson Smith, executive vp; John L. Sybrandt and Ramona A. Richardson, vps; Jeffrey W. Koenig, assistant vp.

Specialties: Property and casualty.

Licensed in: New York.

G.J. Sullivan Co. Reinsurance

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

	1987	1986
Premium volume	\$190,000,000	\$170,000,000
% Treaty	100%	100%
Gross revenues	\$7,020,000	\$5,500,000

	1987	1986
Total employees	18	22
Treaty	18	22

Year founded: 1980.

Parent company: Gerald J. Sullivan & Associates Inc.

Branch offices: New York.

Principal officers: Gerald J. Sullivan, chairman; John F. Sullivan Jr., president; R. Daniel DePalma, executive vp; Julius Friedman and Paul G. Wayne, senior vps; Suzanne Allaway, Theodore A. Verspyck and Eric VanElkan, vps; Steven Moccandine and Louise Sullivan, assistant vps.

Specialties: Medical malpractice, excess and surplus lines.

Licensed in: New York.

Sullivan Payne Co.

1501 Fourth Ave., Suite 1400, Seattle, Wash. 98101; 206-223-1200

	1987	1986
Premium volume	NA	NA
% Treaty	90%	90%
% Facultative	10%	10%
Gross revenues	\$57,000,000*	\$65,000,000*
Total employees	425	450
Treaty	350	350
Facultative	75	100

* BI estimate.

Year founded: 1928.

Parent company: E.W. Payne Co. Ltd./Sedgwick Group P.L.C.

Branch offices: Philadelphia; New York; Dallas; Los Angeles; Des Moines, Iowa; Toronto; Montreal; Vancouver, British Colum-

bia.

Subsidiaries: Sullivan Payne Co. of Canada.

Principal officers: Roger D. Espe, president/chief executive officer; Lewis J. Hale, senior vp/ chief operating officer; Robert C. Holmes, executive vp/president-Sullivan Payne Co. of Canada; Rick R. Richman, senior vp/ chief financial officer; W. Brian Smith, executive vp; Michael J. Wybar, senior vp.

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

Summit Intermediaries Inc.

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

	1987	1986
Premium volume	NA	NA
% Treaty	70%	50%
% Facultative	30%	50%
Gross revenues	NA	NA
Total employees	16	16
Treaty	6	6
Facultative	10	10

Year founded: 1984.

Parent company: C. Rowbotham & Sons (Insurance) Ltd.

Branch offices: New York, Atlanta.

Principal officers: Robert C. Lonsdale, president; Richard C. Standing, executive vp; James G. Cerreta, Joseph R. Curcio and Richard D. Stary, senior vps; Paul Drescher and Anthony J. Verducci, vps; John D. Luckey, assistant vp.

Licensed in: New York and New Jersey.

T

T.H.B. Intermediaries Inc.

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

	1987	1986
Premium volume	\$14,570,586	\$8,638,212
% Facultative	100%	100%
Gross revenues	\$703,625	\$329,248
Total employees	14	7
Facultative	14	7

Year founded: 1984.

Parent company: Thompson Health & Bond Holdings Ltd.

Branch offices: Chicago, New York.

Acquisitions: Domestic operations of Agnew International Inc. Jan. 1, 1988.

Principal officers: Victor H. Thompson, chairman; George R. Jacobbe, president; Richard D. Clemente and William Ullmann, vps.

Licensed in: New York.

Tanenbaum-Harber Reinsurance Intermediaries Inc.

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

	1987	1986
Premium volume	\$7,000,000	\$3,500,000
% Treaty	100%	100%
Gross revenues	NA	NA
Total employees	6	5
Treaty	6	5

Year founded: 1986.

Principal officers: Robert K. Harris, chairman; Walter L. Harris, president; Ronnie Ellen Raymond, executive vp.

Specialties: Property, casualty, life and health.

Licensed in: New York.

Taylor Reinsurance Intermediaries Inc.

One Union Square, 600 University St., Suite 3122, Seattle, Wash. 98101; 206-343-5541

	1987	1986
Premium volume	\$107,000,000	NA
% Treaty	100%	NA
Gross revenues	\$1,283,125	NA
Total employees	7	NA
Treaty	7	NA

Year founded: 1986.

Branch offices: New York.

Principal officers: W. Eugene

Continued on next page

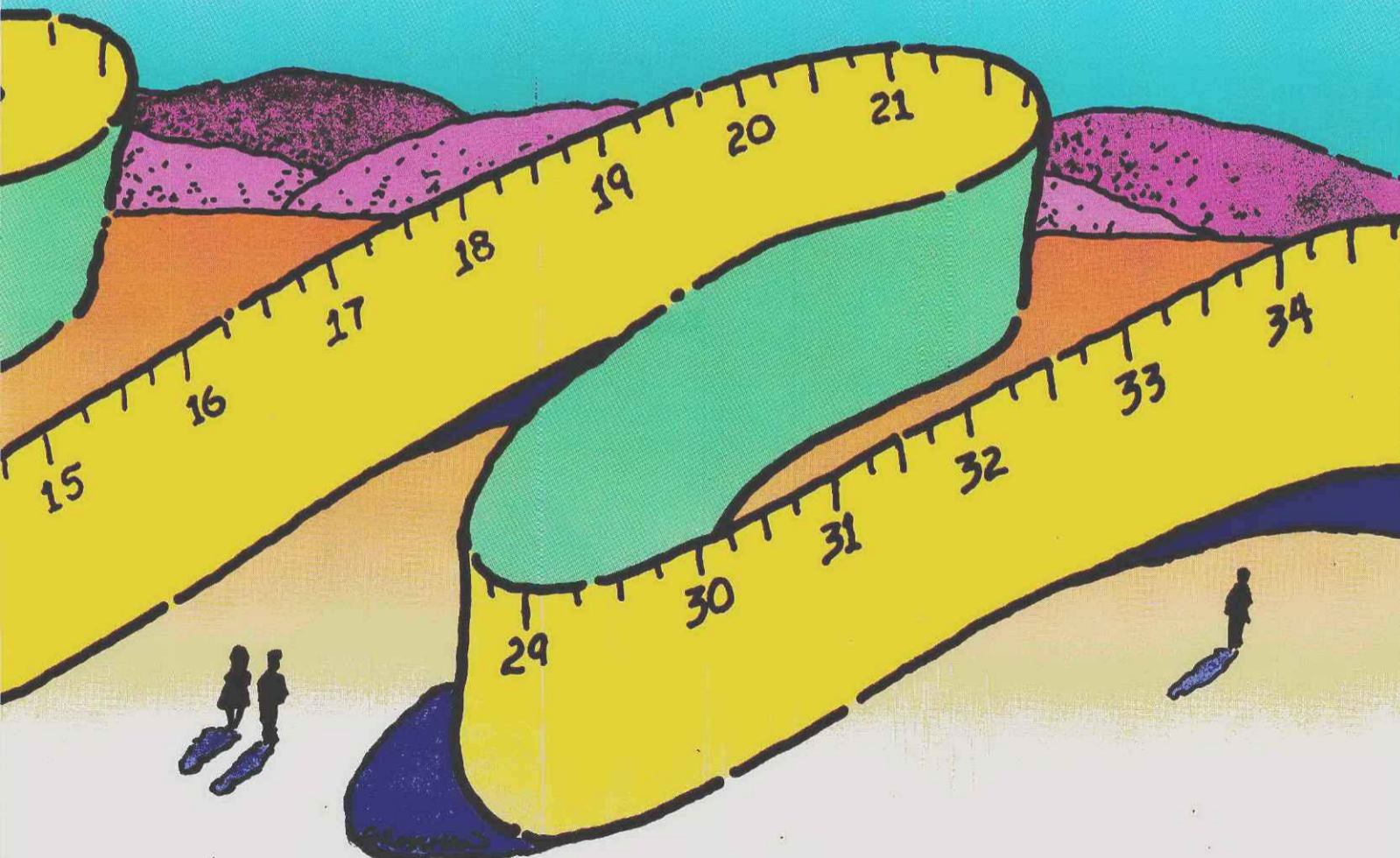
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For additional information: Contact the Conference Director, Tillinghast, 695 East Main Street, Suite 600, Stamford, CT 06901, (203) 326-5400.

Continued from previous page

Taylor, president/chief executive officer; George J. Biehl Jr. and Jeffrey L. Day, vps; Gloria A. Taylor, vp/secretary.

Specialties: Medical malpractice, lawyers' malpractice, excess & surplus casualty and property, financial reinsurance.

Licensed in: New York, Delaware and Washington.

Totsch Enterprises Inc.

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

	1987	1986
Premium volume...	NA	NA
% Treaty.....	97%	99%
% Facultative...	3%	1%
Gross revenues...	NA	NA
Total employees...	7	7
Treaty.....	6	6
Facultative....	1	1

Year founded: 1987.

Principal officers: Marvin D. Totsch, president; Mary Ellen Totsch, secretary/treasurer; James M. Totsch, Robert L. Totsch and William E. Totsch, vps.

Specialties: Crop/hail, excess property and casualty.

Towers, Perrin, Forster & Crosby Reinsurance

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

	1987	1986
Premium volume...	NA	NA
% Treaty.....	86%	81%
% Facultative...	14%	19%
Gross revenues...	\$40,000,000*	\$40,000,000*
Total employees...	308	300
Treaty.....	238	231
Facultative....	70	69

* BI estimate.

Year founded: 1934.

Branch offices: Hartford and Stamford, Conn.; New York; San Francisco.

Principal officers: Mario Leo, executive vp/chief executive officer; Patrick J. McFadden, Philip W. Mitchell, Joseph W. Hullett and Robert F. Jones, senior vps.

Licensed in: Pennsylvania and New York, does business in all states.

Membership: National Assn. of Reinsurance Brokers.

Tretis Group Inc.

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

	1987	1986
Premium volume...	\$110,000,000	\$80,000,000
% Treaty.....	100%	100%

	NA	NA
Gross revenues...	22	15
Total employees...	22	15
Treaty.....	22	15

Year founded: 1986.

Principal officers: Robert N. Tremelling II, president; William A. Klepp, Timothy J. Brophy, Leilani Christophersen and Margaret Westwater.

Specialties: Property, casualty, excess and surplus lines, financial reinsurances.

Licensed in: New York.

V

D.W. Van Dyke & Co. Inc.

95 Rowayton Ave., Rowayton, Conn. 06853; 203-855-0049

	1987	1986
Premium volume...	NA	NA
% Treaty.....	97%	98%
% Facultative...	3%	2%
Gross revenues...	NA	NA
Total employees...	7	11
Treaty.....	7	11

Year founded: 1978.

Principal officers: Donald W. Van Dyke II, president; Donald K. Dralich, executive vp; Robert A. Welke, vp.

Specialties: Life, accident and health.

Licensed in: New York and Connecticut, does business in all states.

W

Western General Brokers Ltd.

P.O. Box HM 2442, Hamilton, Bermuda HM JX; Barclays International building, 44 Church St., Hamilton, Bermuda HM 12; 809-295-5336

	1987	1986
Premium volume...	NA	NA
Gross revenues...	NA	NA
Total employees...	NA	NA

Year founded: 1987.

Parent company: Western International Financial Group Ltd.

Principal officers: John Marion, president; Elaine Furbert, vp.

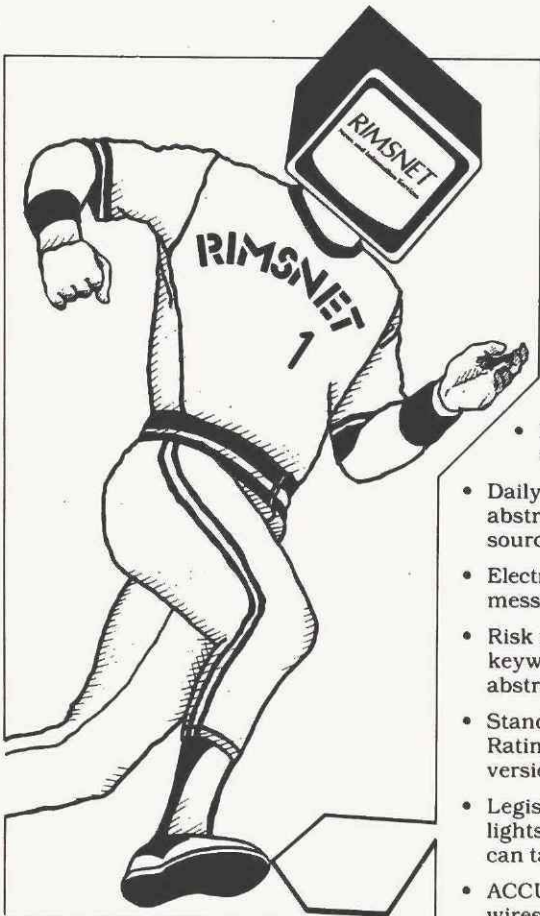
Specialties: Financial reinsurance.

Licensed in: Bermuda.

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New York, New York 10038-4887

Phone: 212 422 0380

Facsimile: 212 422 5952

Telex: 645 834 AGF RE US NYK

Continued from previous page

Willcox Inc. Reinsurance Intermediaries

130 John St., 23rd Floor, New York, N.Y. 10038; 212-952-0650

	1987	1986
Premium volume.	NA	NA
% Treaty.....	96%	96%
% Facultative.	4%	4%
Gross revenues....	\$31 million*	\$27 million*
Total employees...	180	148
Treaty.....	176	144
Facultative....	4	4

* BI estimate.

Year founded: 1898.

Parent company: Johnson & Higgins and Willis Faber P.L.C.

Branch offices: Los Angeles.

Subsidiaries: Willis Faber & Willcox Ltd., London.

Mergers: Johnson & Higgins International Reinsurance Division merged with Willcox Inc. Reinsurance Intermediaries, Oct. 1, 1987.

Principal officers: Willis T. King Jr., chairman/chief executive officer; Robert F. O'Leary, president/chief operating officer; Peter M. Armour, executive vp; Thomas E. Hancock, E. Barney Barber and George P. Reeth Jr., senior vps.

Licensed in: New York.

Windsor Reinsurance Intermediaries Inc.

25 S.E. Second Ave., Suite 1140, Miami, Fla. 33131; 305-381-9827

	1987	1986
Premium volume.	NA	NA
% Treaty.....	90%	NA
% Facultative.	10%	NA
Gross revenues....	NA	NA
Total employees...	5	NA

Year founded: 1987.

Parent company: Sefton Holdings Inc.

Subsidiaries: MacDuff London Ltd., London.

Principal officers: Michael D. Bainbridge, president; Susan Conner, secretary; Laura O'Hanlon, director.

John P. Woods Co. Inc.

90 William St., New York, N.Y. 10038; 212-785-2500

	1987	1986
Premium volume.	NA	NA
% Treaty.....	100%	100%
Gross revenues....	NA	NA
Total employees...	59	46
Treaty.....	59	46

Year founded: 1978.

Principal officers: John P. Woods, president; Josephine A. Hoey, senior executive vp; Thomas T. Tartaro and Charles M. Wade, executive vp.

Licensed in: New York.

Y

H.E. Yerkes & Associates Inc.

127 John St., New York, N.Y. 10038; 212-344-1707

	1987	1986
Premium volume.	\$24,875,000	\$20,000,000
% Treaty.....	100%	100%
Gross revenues....	NA	NA
Total employees...	7	8
Treaty.....	7	8

Year founded: 1979.

Principal officers: Harry E. Yerkes, president; Ann R. Kaplan, vp.

Specialties: Ocean marine, energy risks.

Licensed in: New York.

Z

Zeman Krings Inc.

111 John St., New York, N.Y. 10038; 212-608-7755

	1987	1986
Premium volume.	\$25,000,000	\$29,000,000
% Treaty.....	100%	95%
% Facultative.	0%	5%
Gross revenues....	NA	NA
Total employees...	5	5
Treaty.....	5	5

Year founded: 1983.

Principal officers: Kenneth C. Krings, president; Roy G. Krings, vp; Meenu Bhatia, assistant vp.

Specialties: Marine, errors and omissions, property, casualty.
Licensed in: New York.

George G. Zimmerman & Co. Inc.

Jockey Hollow Professional Park, P.O. Box 372, 5 Cold Hill Road, Mendham, N.J. 07945; 201-543-3250

	1987	1986
Premium volume.	\$30,000,000	\$73,000,000
% Treaty.....	98%	98%
% Facultative.	2%	2%
Gross revenues....	\$2,400,000	\$2,000,000
Total employees...	16	14
Treaty.....	16	14

Year founded: 1980.

Branch offices: Upland, Calif.
Subsidiaries: U.S. CAP Insurance Co. Ltd., Tortola, B.V.I.

Principal officers: George G. Zimmerman, chairman/president/ chief executive officer; Eugene J. Schiller, executive vp; Charles J. Sharkey, executive vp-operations; Thomas D. Kinney, vp/comptroller.

Specialties: Accident and health, workers compensation, nursing homes, professional and college athletes, student accident coverage.

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Consolidated Statutory Financial Information

RLI Insurance Company and Mt. Hawley Insurance Company

STATUTORY SURPLUS (000 Omitted) COMBINED RATIO

1983 - \$12,238	1983 - 94.9
1984 - \$16,739	1984 - 97.0
1985 - \$37,037	1985 - 99.7
1986 - \$53,063	1986 - 84.1
1987 - \$57,243	1987 - 84.2
*1988 - \$54,951	*1988 - 93.9

5 YEAR COMBINED RATIO: 89.8 (1983-1987)

ASSETS (000 Omitted)

1983 - \$ 35,156
1984 - \$ 48,719
1985 - \$105,993
1986 - \$159,568
1987 - \$158,859
*1988 - \$173,861

LOSS RESERVES (000 Omitted)

1983 - \$ 4,985
1984 - \$ 9,150
1985 - \$22,784
1986 - \$46,243
1987 - \$59,712
*1988 - \$63,544

* Six months results ended June 30, 1988

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Concord
J.W. Beresford-Wood & Co.

Glendale
Harry W. Gorst Co. Inc.

Los Altos
Harrison & Co.

Los Angeles
American Intermediaries Inc.
Guy Carpenter & Co. Inc.
G.L. Hodson & Son Inc.
Madison Intermediaries Inc.
RFC Intermediaries Inc.
Reinsurance Agency Inc.
G.J. Sullivan Co. Reinsurance
Sullivan Payne Co.
T.H.B. Intermediaries Inc.
Willcox Inc. Reinsurance
Intermediaries

San Francisco

American Healthcare
Intermediaries Inc.
E.W. Blanch Co. Limited Partnership
Guy Carpenter & Co. Inc.
Cravens & Co. Special
Insurance Services
Thomas A. Greene & Co. Inc.
G.L. Hodson & Son Inc.
Intere Intermediaries Inc.
Madison Intermediaries Inc.
Towers, Perrin, Forster
& Crosby Reinsurance
Tretis Group Inc.

Upland
George G. Zimmerman & Co. Inc.

Connecticut

Hartford
E.W. Blanch Limited Partnership
Guy Carpenter & Co. Inc.
Crump Re Inc.
RFC Intermediaries Inc.

Towers, Perrin, Forster
& Crosby Reinsurance

Rowayton
D.W. Van Dyke & Co. Inc.

Stamford
Thomas A. Greene & Co. Inc.
W.O. Hart & Co. Inc.
Michael Maglaras & Co. Inc.
Magnant Re Intermediaries Inc.
Peglar & Associates Inc.
Towers, Perrin, Forster
& Crosby Reinsurance

Westport
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Smyth, Sanford & Gerard Inc.

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Luvang Insurance Underwriters Inc.
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Windsor Reinsurance
Intermediaries Inc.

Ormond Beach
Financial Reinsurance Inc.

Georgia

Alpharetta
Associated Intermediaries Inc.

Atlanta
Guy Carpenter & Co. Inc.
Crump Re Inc.
G.L. Hodson & Son Inc.
Intere Intermediaries Inc.
RFC Intermediaries Inc.
Summit Intermediaries Inc.

Illinois

Chicago
Athlone Intermediaries Inc.
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Cole, Booth, Potter Inc.
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Overland Park
Bates Turner Inc.

Louisiana

Metairie
Reinsurance Brokers Co.

Massachusetts

Boston
Cole, Booth, Potter Inc.
G.L. Hodson & Son Inc.
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Minnesota

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Intere Intermediaries Inc.

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Missouri

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Intermediaries Inc.

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Pearson & Georgi International Inc.

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Cole, Booth, Potter Inc.
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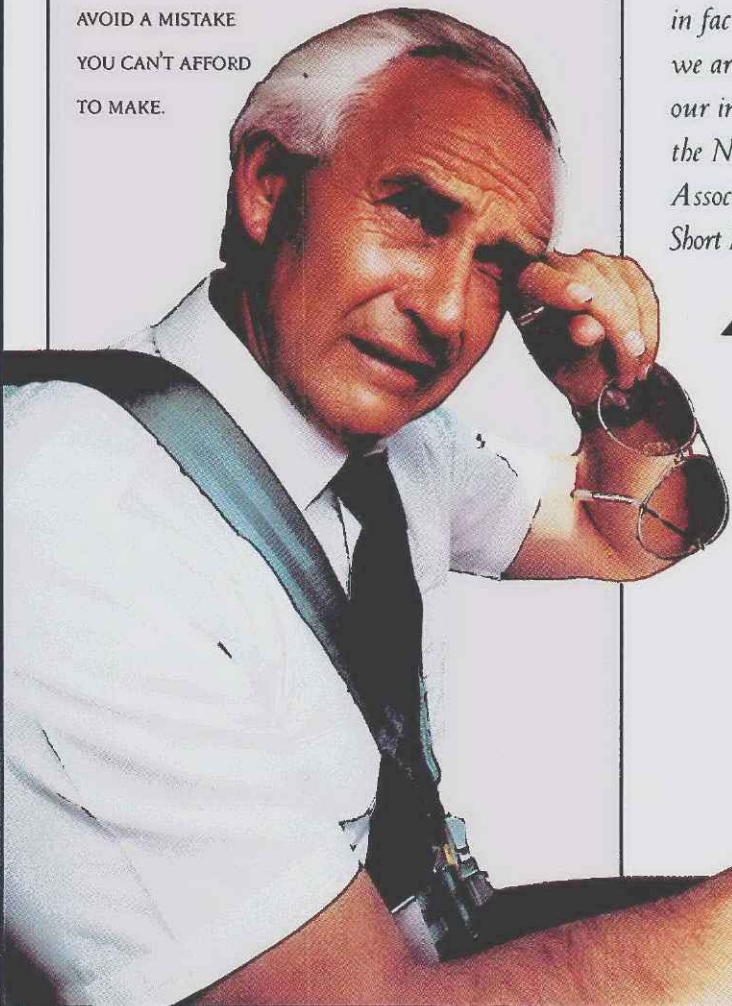
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AAU Raising Your Expectations

Health reinsurers feel inflationary pinch

By DONNA DiBLASE

'But, even though the insurer retains these lifetime limits, the insurer may not want to run the risk of having a \$1 million loss in a given calendar year' should a person reach his or her lifetime limit, says William R. Merriam.

Like group health insurers, reinsurance companies that write group health reinsurance contracts are feeling the sting of health care cost inflation.

In response, some health reinsurers are increasing their rates, while others have developed catastrophic case management programs to better manage costly claims (see story, page 71).

Contrary to earlier predictions, claims costs related to acquired immune deficiency syndrome often do not exceed the retention level of a group health insurer and thus represent only about 1% of reinsurers' claims, observers say.

Rather, claims for premature babies, cancer and organ transplants are among reinsurers' costliest.

Reinsurance for a group health insurer's business is underwritten on an excess-of-loss basis, health reinsurance experts explain.

For example, "a group medical underwriter will write a fully insured group policy with lifetime limits of \$1 million per person," said William R. Merriam, vp-life and health reinsurance for Minneapolis-based Northwestern National Life Insurance Co., a leading health reinsurer.

"But, even though the insurer retains these lifetime limits, the insurer may not want to run the risk of having a \$1 million loss in a given calendar year" should a person covered by the insurer reach his or her lifetime limit of \$1 million in one year.

So, the health insurer will retain a certain amount per person per year and then purchase reinsurance to attach when a policyholder's claims reach the annual retention level, he said.

The current average retention—or calendar year deductible, as this is known in the reinsurance industry—is \$100,000 to \$150,000 per insured person, reinsurers say.

However, "We have seen calendar-year deductibles as low as \$50,000 and as high as \$500,000," said Robert Cross, a vp with Employers Reinsurance Corp. in Overland Park, Kan.

The limits on this type of reinsurance typically are structured so that the primary insurer's retention plus the limits of the reinsurance contract are equal to the group policy's per-person lifetime limit.

For example, "if the policy limits are \$1 million in a lifetime and the calendar year deductible is \$100,000, then the reinsurance would be \$900,000 excess of the \$100,000," explained Karen Gantt, assistant secretary and manager of medical reinsurance for Duncanson & Holt Inc., a New York-based manager of three accident and health reinsurance pools.

Ms. Gantt added that a \$1 million per-person lifetime limit is the typical group health plan benefit limit.

However, while the majority of group health reinsurance contracts provide coverage up to the \$1 million limit, "today there is an increasing frequency in requests for additional reinsurance limits up to \$2 million or \$3 million" if the underlying plan offers more than \$1 million in per-person lifetime health coverage, noted David Burry, assistant vp-special risks for Crown Life Insurance Co. in Toronto.

"Obviously, the reason for such requests is that today there are claims that can reach that level," Mr. Burry added.

Along with purchasing excess-of-loss reinsurance, health insurers also can purchase reinsurance that

covers specific types of catastrophic claims, like AIDS, premature babies, or head and neck injuries, said George Goodger, director of group reinsurance for the Prudential Insurance Co. of America in Newark, N.J.

While Prudential does not provide reinsurance to other health insurers, it does reinsure its own subsidiaries, including its HMOs.

The insurer also provides stop-loss coverage to self-insured employers with which it has administrative-services-only contracts.

"We have been asked to cover AIDS claims only, in some cases," said Mr. Cross of Employers Re.

Since stop-loss coverage is purchased by self-insured employers or HMOs whose underlying coverage is not technically insurance,

experts in the reinsurance industry refer to such coverage as "excess insurance" rather than reinsurance.

Stop-loss insurance provides coverage for claims that exceed a self-insurer's retention. Put simply, it stops the insurer's financial loss.

There are two types of stop-loss insurance: specific and aggregate.

Specific stop-loss coverage kicks in when an individual's claims reach the self-insurer's retention level—typically between \$20,000 and \$100,000 per covered person per year—while aggregate stop-loss insurance covers losses that exceed a specified retention for the whole group, said Ms. Gantt of Duncanson & Holt.

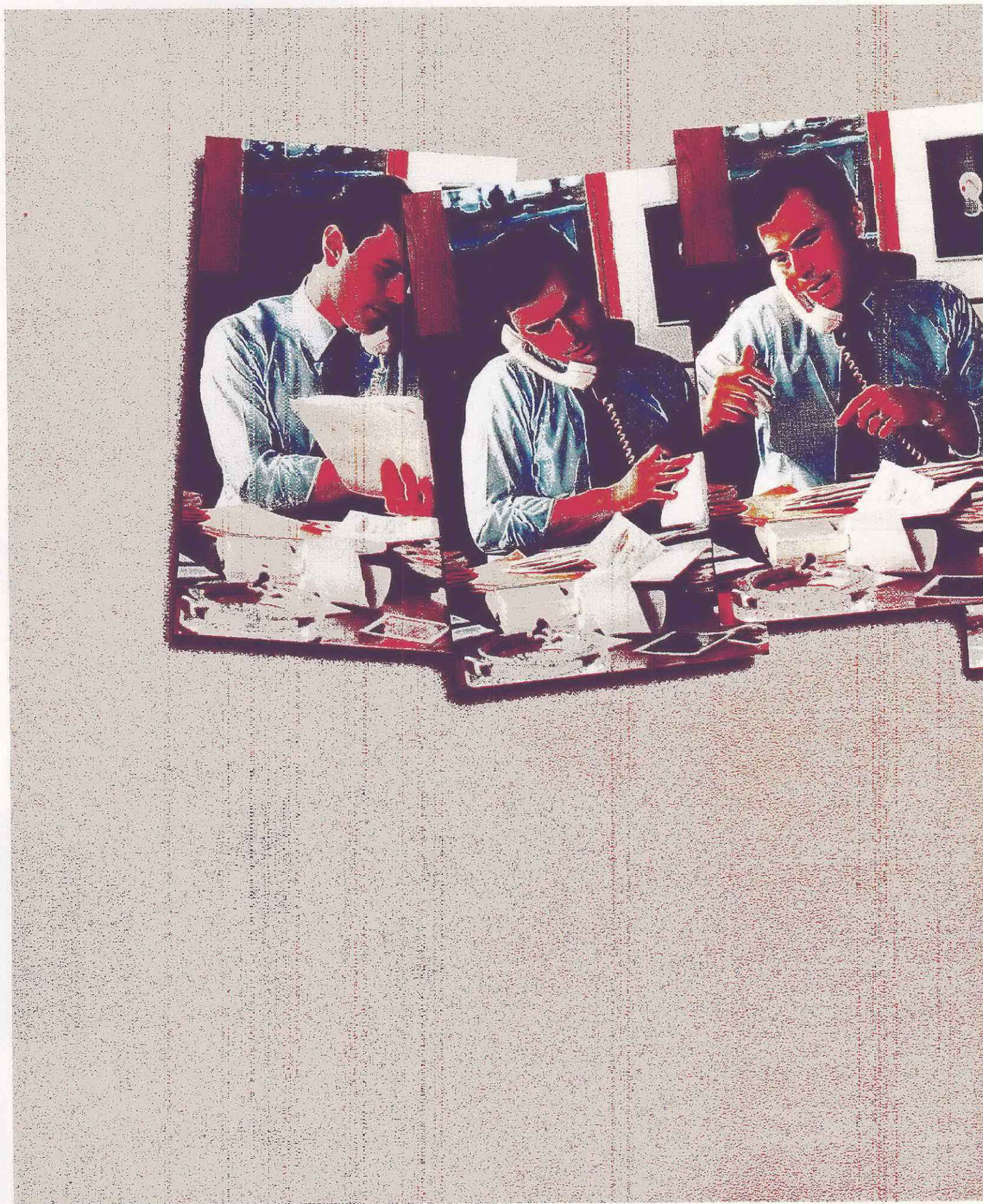
HMOs also can purchase stop-

loss insurance to reduce their maximum liability of health care costs. In fact, HMOs are required by most state regulators to have stop-loss coverage that also includes insolvency insurance.

Insolvency coverage ensures that all health care providers will be paid should the HMO become insolvent, thereby stopping providers from collecting unpaid bills from enrollees.

At Prudential, "we used to get more involved in providing stop-loss coverage for outside HMOs, but now we just provide it for our own Prudential HMOs. That coverage involves the statutory requirements that HMO stop-loss also include insolvency coverage to protect the individual lives en-

Continued on next page



Continued from previous page rolled in the HMO," explained Mr. Goodger of Prudential.

HMO stop-loss coverage provides insurance above a specified retention per person. The minimum per-person calendar year deductible—or retention—under HMO stop-loss insurance usually is about \$25,000, said Robert Welke, a vp with D.W. Van Dyke Inc., a reinsurance intermediary in Rowayton, Conn.

D.W. Van Dyke markets HMO stop-loss coverage underwritten by John Alden Life Insurance Co. of Miami, which is one of the few insurers that work with brokers on HMO stop-loss insurance, according to D.W. Van Dyke.

The program arranged by D.W. Van Dyke also provides insolvency coverage and HMO conversion coverage. Under the conversion coverage portion, the stop-loss insurer arranges for the transfer of the HMO's enrollees into other health plans should the HMO fail.

Reinsurers use several common underwriting considerations in providing reinsurance to health insurers and to self-insureds and HMOs. These include: the geographic location in which the health coverage is being provided, since health care costs vary by region; the under-

writing and claims payment track record of the insurer or self-insured; the demographics of the group covered by the health policy; and the health care cost-containment programs employed by the insurer or self-insurer.

While health reinsurance facilities have continually provided these basic reinsurance and stop-loss products, some pointed to escalating health care costs as a major problem for the industry.

"This has been one of the most disastrous medical cost years the insurance industry has seen," said Mr. Merriam of NWNL.

And, "the changes in the medical system itself, as well as increased technology, have greatly affected our costs. We have to be very careful with the rate increases we deliver because the effect of inflation on a per-person basis is leveraged for the reinsurer," said Mr. Burry of Crown Life.

Reinsurers must set their rates by forecasting "health care cost trends for the coming six months, instead of based on the last six months, which is hard to do," explained Mr. Cross of Employers Re.

As a result, if the insurer's or self-insurer's rates or costs increase 25%, then the reinsurer of

the health policy would increase its rates to that insurer or self-insurer by 50%, Mr. Cross continued.

Health reinsurance rate increases, like traditional group indemnity rates, vary by the size of the insured group, by geographic location and past cost experience, among other things. So, like traditional group health insurance rates, health reinsurance rates are increasing anywhere from 20% to 50% and more, reinsurers said.

However, insurers and self-insurers often mitigate these large rate increases by increasing their own retentions.

Reinsurers pointed to claims for premature babies, cancer and catastrophic injuries and illnesses as being the costliest claims they have to face.

AIDS-related claims "have not proved to be the bad news they were first thought to be" in terms of cost, said Mr. Burry.

"We haven't seen AIDS being significantly excluded by insurers or reinsurers," said Ms. Gantt.

In fact, AIDS claims account for only about 1% of claims for Employers Re, Mr. Cross pointed out.

Reinsurers begin using managed care

By DONNA DIBLASE

Health reinsurers, often left to cover big-ticket health care claims, are applying managed care techniques to reduce catastrophic health claims.

"Catastrophic case management has been one of the few cost containment programs that really works. We feel good that medical case management has stood out as a means to control costs and improve care for the patient," said William R. Merriam, vp-life and health reinsurance at Northwestern National Life Insurance Co. in Minneapolis.

As part of its Claims Advisory Service, NWNL offers its ceding insurers the Rehabilitation Outreach Service to Employees, or ROSE, program.

The ROSE program includes a nationwide network of health care providers, consultants and case managers of many specialties, such as cancer, acquired immune deficiency syndrome, transplants and prenatal care.

'Case management has stood out as a means to control costs,' says William R. Merriam.

Under the program, NWNL's reinsurance clients call a toll-free number when a policyholder becomes catastrophically ill or injured. The case manager works with the attending physician to choose the most appropriate care in the best setting for the patient.

NWNL has offered the program since the early 1980s. "We've felt pretty good about the ROSE program and have been able to retain and increase the number of our medical reinsurance clients," Mr. Merriam said.

New York-based Duncanson & Holt Inc. offers a similar program to its reinsurance clients on behalf of the reinsurers that participate in the three accident and health reinsurance pools it manages.

The Program for Rehabilitation of Injured or Disabled Employees was introduced by the reinsurance intermediary in late 1985, said Roderick E. Kerr Jr., a vp with Duncanson & Holt.

PRIDE is administered by Crawford & Co. in Atlanta.

Crawford has more than 155 offices nationwide staffed by an extensive network of registered nurses who coordinate the case management process with consultants and attending physicians, he said.

"The objective of PRIDE is to provide the best care possible for the patient while managing catastrophic claims," Mr. Kerr said.

"The program stems from the claims management process in workers compensation, where employers have insurance coverage to pay for health care for employees injured on the job," he added.

When a health plan policyholder suffers a catastrophic illness or injury, his or her employer notifies its health insurer, who in turn notifies Duncanson & Holt.

Duncanson & Holt then notifies Crawford, which assigns a medical consultant to manage the case.

Both NWNL and Duncanson & Holt provide their case management programs to their reinsurance clients at no extra cost as a claims management service.



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Reinsurance designation tests slated for '91

By MARK A. HOFMANN

Efforts to launch the first professional designation recognizing expertise in reinsurance is gaining steam at the Malvern, Pa.-based Insurance Institute of America.

Meanwhile, two recently formed reinsurance associations spent the past year working to improve services for members. And, the older and larger of the two reinsurance groups—the Olympia Fields, Ill.-based Broker & Reinsurance Markets Assn.—is involved in the IIA's professional designation project.

Peter Kensicki, a vp with the IIA, said that BRMA, the reinsurance section of the Society of Chartered Property & Casualty Underwriters and the Independent Reinsurance Underwriters have all contributed

Examinations for the ARe designation should begin in early 1991, instead of during the typical IIA testing in December. 'We will fall out of the normal IIA pattern of testing,' Mr. Kensicki says, because reinsurance renewals tend to occur in December.

their expertise to the preparation of texts for the IIA's reinsurance courses.

The reinsurance section decided during the Society of CPCU's annual meeting earlier this month that the new professional designation will be known as ARe, or Associate in Reinsurance, said Mr. Kensicki. Achieving the reinsurance designation will require the

completion of four courses.

Two of the courses—"Insurance Company Operations" and "Accounting and Finance"—are among the 10 required for the CPCU designation. The other two are "The Principles of Reinsurance" and "The Practice of Reinsurance."

About five chapters for each of the reinsurance books, which will probably contain 13 chapters each,

have been written, Mr. Kensicki said. Each chapter is being reviewed by as many as 10 reinsurance practitioners representing buyers, brokers and reinsurers, he said.

Reviewers have made "tremendous improvements" by suggesting concrete illustrations of abstract reinsurance information, said Mr. Kensicki.

Examinations for the reinsurance portions of the curriculum should begin in early 1991, instead of during the typical IIA testing in December.

"We will fall out of the normal IIA pattern of testing," Mr. Kensicki said, because reinsurance renewals tend to occur in December.

BRMA President William J. Gil-

martin said that participation in the development of an IIA reinsurance designation is simply one of the group's ongoing projects. Some of the more significant of the association's projects involve standardizing reporting forms and contract wording, he said.

Standing BRMA committees spent much of 1988 dealing with the standardization question, Mr. Gilmartin said. No model forms have been published yet, though the association hopes to have claims and accounting forms ready for the printer next year, he said.

"We hope next year—and we may be optimistic—to publish a contract wording manual," he said.

Mr. Gilmartin, who is a former senior vp of CNA Financial Corp. in Chicago, stressed that the recommended forms would be available to everyone in the reinsurance business, not just BRMA members.

Mr. Gilmartin added that he has conducted a few lobbying activities on behalf of BRMA during the past year. He presented the association's case against a California proposal to require a state license for reinsurance intermediaries at hearings called by the California Department of Insurance. Currently only one state—New York—requires intermediaries to be licensed, Mr. Gilmartin said.

If licensing is deemed necessary in other states, requirements should be uniform rather than decided on a state-by-state basis, he told the hearing.

Mr. Gilmartin also met informally with officials of the New Jersey Insurance Department to discuss a similar proposal pending in the Garden State.

In Virginia, the BRMA president appeared before a select committee of the General Assembly to speak against proposals that would require the filing of reinsurance treaties for approval by the state Insurance Department and require primary insurers, when filing rates in Virginia, to show not just the gross experience on a specific policy form in Virginia but also the reinsurance ceded experience on that form in the state.

"That would be very impractical," he said. "You can't break reinsurance ceded experience by state and policy form."

Membership in BRMA is open to both intermediaries and reinsurance companies, Mr. Gilmartin said. BRMA currently consists of 19 companies and 12 brokers. Annual membership dues are \$15,000.

Reinsurance companies that wish to join BRMA must:

- Have \$50 million in capital and surplus.

- Have \$50 million in annual net written premiums.

- Not be owned directly or indirectly by a foreign government.

- Not be an affiliate, subsidiary or sister company to a direct writing company.

- Have at least a B-plus rating from A.M. Best Co.

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

Broker members must:

- Have a minimum net worth of \$2.5 million.

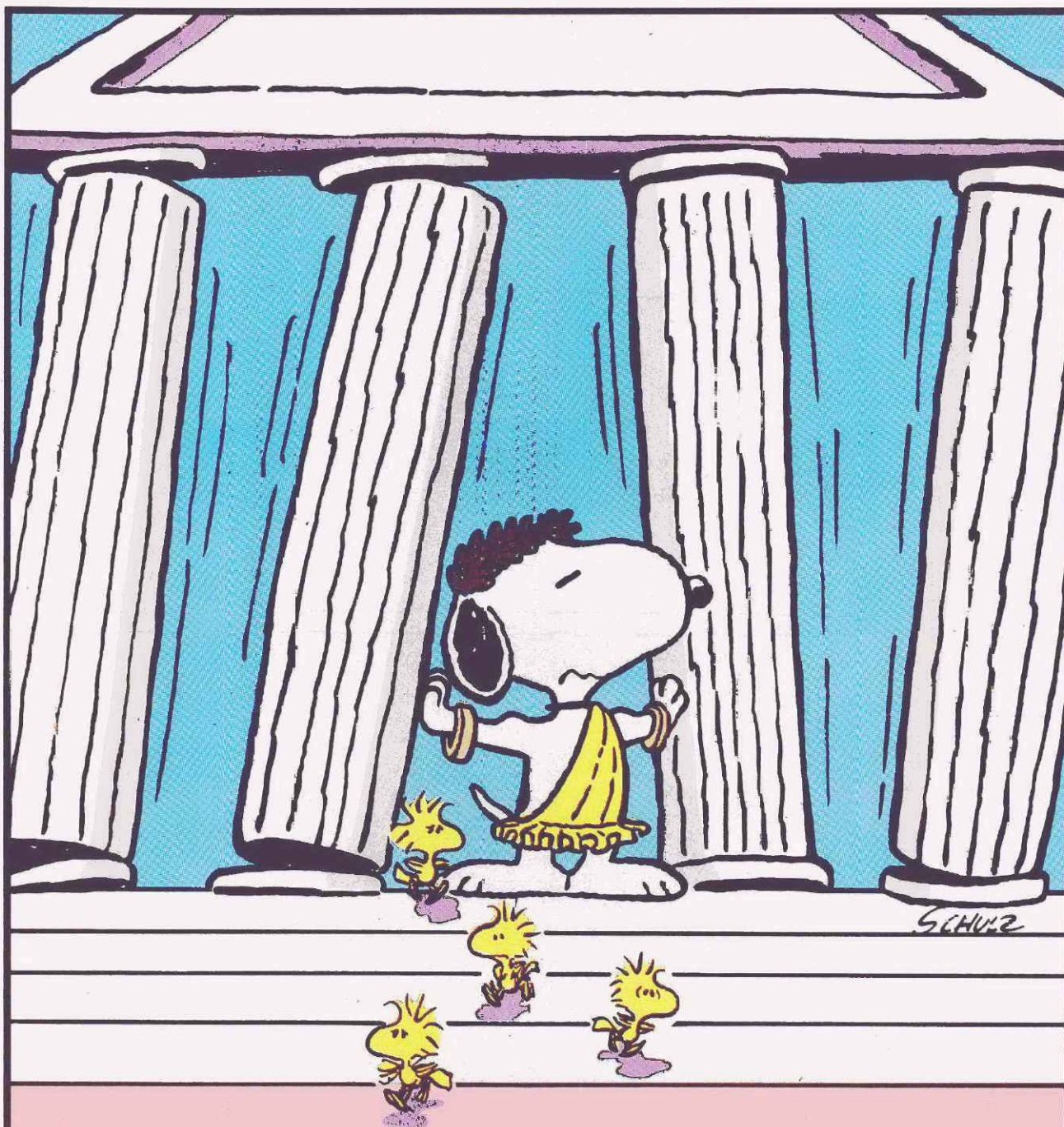
- Be domiciled in the United States.

- Have more than 50% of their total brokerage income come from U.S. treaty business.

- Not be controlled by a foreign government.

- Be licensed by the state of New York or substantially meet those requirements.

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• Not be part of a holding company system that includes an active insurance or reinsurance company unless 75% of the broker's business is not affiliated business; and must not be part of a holding company that includes an active reinsurance company that assumes more than 25% of its business on a direct basis.

BRMA's current chairman is Richard H. Blum, president and chief executive officer of Guy Carpenter & Co. in New York. Other officers include Vice Chairman David B. Mathis, chairman and chief executive officer of Kemper Reinsurance Co. of Long Grove, Ill.; and Secretary/Treasurer Ward B. Gordon, chairman and chief executive officer of New York-based Intere Intermediaries Inc.

Unlike BRMA, the National Assn. of Reinsurance Brokers allows only reinsurance brokers to join. NARB has about 20 members, said Robert Z. Rose, a Rosemont, Pa.-based independent consultant who is advising the group.

NARB's major accomplishment during the past year has been to lay the groundwork for a professional liability insurance program for NARB members.

Mr. Rose stressed that the program was still very preliminary but is envisioned as having two layers of limits to provide maximum coverage of \$5 million.

The existence of such a program "could interest other brokers in joining the association," Mr. Rose said.

NARB also plans to issue a regular newsletter and hold periodic seminars on the reinsurance business, he noted.

Mr. Rose said that membership requirements have not changed since the association was founded last year. Membership is open to all reinsurance intermediaries that derive at least 75% of their income from the reinsurance brokerage business.

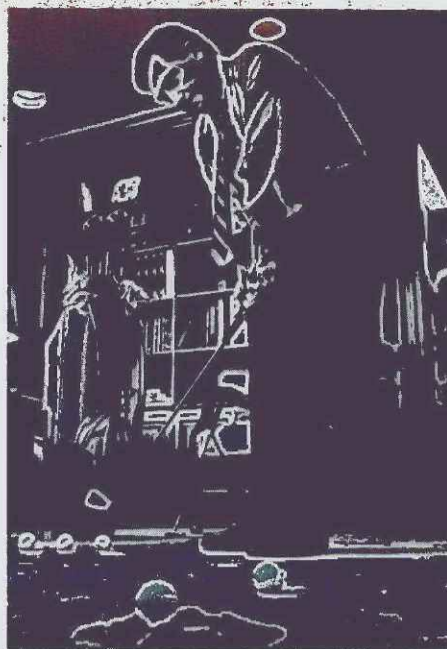
In addition, members must be licensed in at least one state—although New York currently is the

only state that licenses intermediaries—and must be of good reputation.

Dues are assessed on a sliding scale that ranges from \$1,000 to \$6,000 depending on the broker's number of employees. Members must pay a one-time application fee of \$1,500.

Joseph L. Kelley, president of J.L. Kelley Inc. of Franklin Lakes, N.J., is chairman of NARB. Warren Hart, president of W.O. Hart & Co. Inc. in Stamford, Conn., is vice chairman and Tom Leonhardt, vp of Chicago-based Reinsurance Agency Inc., is secretary/treasurer.

Further information on the reinsurance associations is available from Brokers & Reinsurance Market Assn., P.O. Box 317, Suite 104, 19900 Governors Office Park, Olympia Fields, Ill. 60461-0317; and from the National Assn. of Reinsurance Brokers, % Robert Z. Rose, 138 Montrose, Unit 41, Rosemont, Pa. 19010. ■



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Reinsurance seminar

Courts differ on intermediaries' status

By STACY ADLER

CHICAGO—Although the reinsurance intermediary historically has been viewed as an agent of the ceding insurer by the courts, there is an emerging trend to view the intermediary as the dual agent of both the ceding company and the reinsurer, one attorney says.

"It is a long-established principle that an insurance broker is prima facie the agent of an insured, not the insurer, so by the same token the principal of a reinsurance broker is the ceding insurer and not the reinsurer," said John W. Morrison, an attorney with Altheimer & Gray in Chicago, quoting from R.L. Carter's book

"Reinsurance."

However, there are instances in which a reinsurer hires an intermediary to seek out markets for its product, said Mr. Morrison, who discussed "Recent Developments Involving the Role of the Reinsurance Intermediary" at a seminar earlier this month in Chicago sponsored by Executive Enterprises Inc.

"Consequently a broker may find himself in a position where he has two principals in respect of the same transaction," he said.

In the next three to four years, more and more courts will begin viewing the reinsurance intermediary as the dual agent of both the ceding insurer and the rein-

surer, Mr. Morrison predicted.

The foremost case concerning dual roles is a 1980 decision by the U.S. District Court for the Northern District of New Jersey.

In the *Matter of Prichard & Baird*, the court ruled that the reinsurance broker was the agent of the ceding insurer because:

- The ceding insurer hired the intermediary to find reinsurance.
- The intermediary was authorized to negotiate for and on behalf of the ceding insurer.
- The ceding insurer controlled the decisions of the intermediary with regard to the reinsurance contract's terms.
- The ceding insurer sent its premium payments to the interme-

diary who in turn paid the reinsurer.

• The reinsurer made its loss payments payable directly to the ceding insurer even though they were sent through the intermediary.

The case stemmed from the insolvency of Prichard & Baird, a large reinsurance intermediary. Both a ceding insurer and a reinsurer that worked with the intermediary claimed they were owed money. And, both the ceding insurer and the reinsurer claimed Prichard & Baird was acting as the agent of the other party.

"Most discussions of agency and the reinsurance intermediary begin and end with Prichard & Baird,"

said Mr. Morrison.

The court's decision was a "lawyer's heyday" and has met staunch criticism, he explained.

The court's decision has been criticized on the grounds that the court made its determination that Prichard & Baird was an agent of the ceding insurer based on the fact that the intermediary submitted policy terms to the ceding insurer for approval and, once approved, the policy terms were sent to the reinsurer for execution.

"The commentators correctly point out that the reinsurer had the option of rejecting the terms submitted by the intermediary and submitting its own clauses and to that extent exercises the same amount of control over the formation of the contract as the insured," said Mr. Morrison.

Other critics point out that since neither the ceding insurer nor the reinsurer was responsible for the insolvency of Prichard & Baird, they should "split the baby"—or divide the losses evenly.

Their argument in many ways is similar to the recent trend in courts to move away from the concept of total liability in tort cases and toward the idea of comparative fault.

These critics say the court that decided the Prichard & Baird decision should not have determined who controlled the intermediary but rather how much each party was at fault for its insolvency.

"While the fairness concept (of comparative fault) has a certain appeal, it ignores the fundamental premise that the party who initiates a chain of events should be responsible for their consequences," said Mr. Morrison.

He said that since only the ceding insurer can terminate the reinsurance intermediary's relationship, it is unfair to hold the reinsurer responsible for monitoring the intermediary's activity.

The Prichard & Baird decision has been influential to many other courts that have looked at the role of the reinsurance intermediary.

For example, later in 1980, a U.S. District Court in Nebraska found that the misrepresentations of an intermediary concerning underwriting management and premium volume in the placement of reinsurance entitled the reinsurer to rescission of the contract because the intermediary was the agent of the ceding insurer.

Similarly state legislators and the National Assn. of Insurance Commissioners have been influenced by the Prichard & Baird decision.

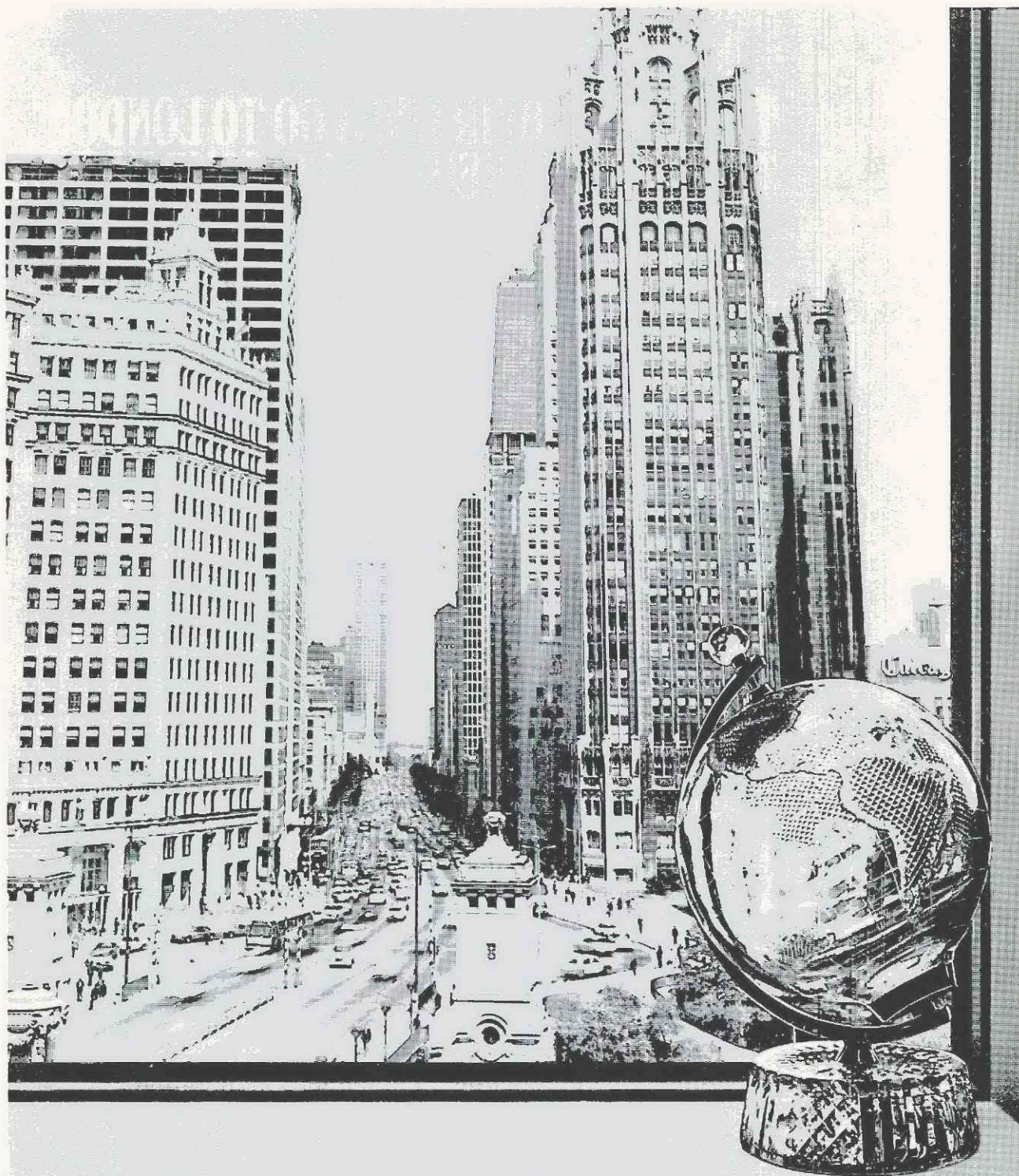
In New York, the state Legislature passed a law that imposes on the reinsurance intermediary the duty "to inquire into the financial condition of the assuming unauthorized reinsurer and... disclose such findings to the ceding insurers and make available... a copy of the (reinsurer's) most recent financial statement."

Clearly, New York views the intermediary as an agent of the ceding insurer, Mr. Morrison said.

The NAIC, following the Prichard & Baird decision, inserted into its Commissioner's Handbook this provision: "Credit will not be granted a ceding company for reinsurance... which by its terms requires payments to an intermediary unless the reinsurance agreement includes a provision whereby the reinsurer assumes all credit risks of the intermediary related to payments to the intermediary."

As a result of this provision, many treaty and facultative rein-

Continued on next page

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Despite negatives, arbitration has merit

By STACY ADLER

CHICAGO—Reinsurance arbitrations today are adversarial in nature, time-consuming, expensive and more often than not lead to litigation, according to several reinsurance experts.

However, despite its flaws, the arbitration process does have its benefits, including the fact that the proceedings are private, do not create adverse case law and can help preserve the business relationship between the reinsurer and the ceding insurer, the experts add.

"Arbitrations are getting more difficult," said William C. McIlwain Jr., who has been involved in more than 100 reinsurance arbitrations, including the recent arbitration involving six reinsurers and Pacific Reinsurance Management Corp., the defunct reinsurance pooling subsidiary of Los Angeles-based Mission Insurance Group Inc. (BI, Oct. 17; July 18; May 2).

Mr. McIlwain, who acted as the umpire in the PRMC arbitration, *Continued on next page*



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Intermediaries

Continued from previous page
surance contracts now provide: "All payments made by the reassured to the intermediary shall be deemed paid to the reinsurers. All payments made by the reinsurers to the intermediary shall be deemed paid to the reassured only to the extent that such payments are actually received by the reassured."

"Thus, the industry has by contract reversed the ultimate finding of the Prichard & Baird court as to who bears the loss from an intermediary's infidelity or insolvency," said Mr. Morrison.

The view that the reinsurance intermediary is the agent of the ceding insurer is changing in other ways too, noted Mr. Morrison.

"In the real world the facts are not as clear as in these court cases," he explained. "The emerging trend by courts is to find reinsurance intermediaries act as a dual agent."

In today's reinsurance market it is now fairly common for a reinsurer to hire a reinsurance intermediary to seek out markets for its product or to truly act as an unbiased conduit between the ceding insurer and the reinsurer, Mr. Morrison said.

"There will be an awful lot more case law in this area in the next three to four years," said Mr. Morrison.

Insurers and reinsurers that are concerned with the changing role of the intermediary can do several things to protect themselves, according to Mr. Morrison.

The ceding insurer can protect itself by inquiring into the financial condition of the intermediary, by obtaining indemnity agreements from the intermediary that would protect the ceding insurer in the event of insolvency and by making sure the intermediary has errors and omissions coverage, said Mr. Morrison.

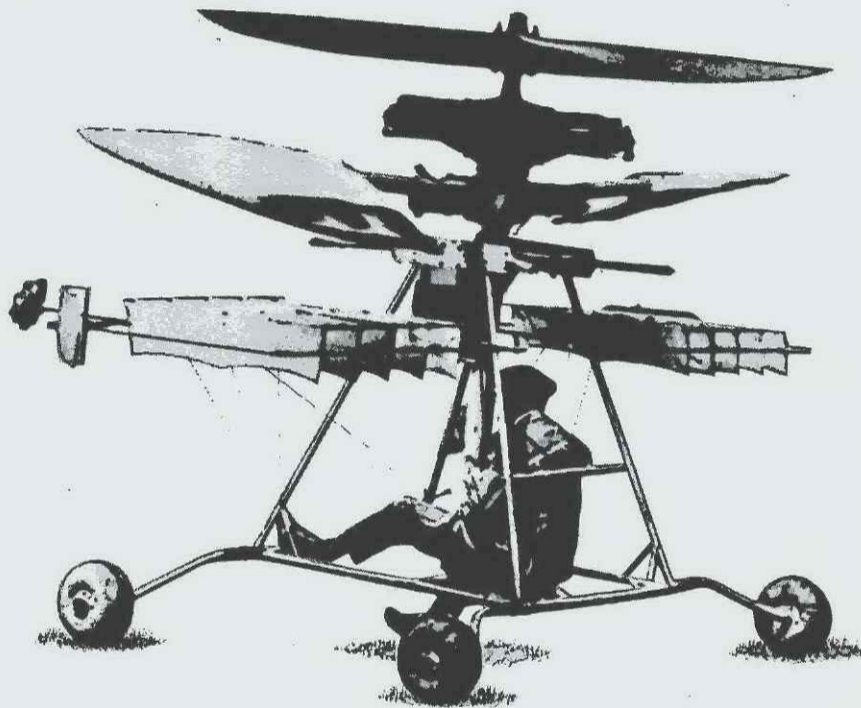
In addition, he suggested the reinsurance intermediary sign the reinsurance contract and be included in the standard arbitration clause in most reinsurance policies.

Courts will not always permit the reinsurance intermediary to be included in the arbitration process when the intermediary has not signed the reinsurance contract, explained Mr. Morrison.

"Where the reinsurance brokers are involved, they should be subject to the same dispute resolution processes as the reinsured and the reinsurers with whom they interact," he said.

If the reinsurance intermediary is not included in reinsurance arbitration proceedings, the ceding insurer runs the risk of conflicting rulings emerging out of the arbitration panel and the courtroom, as well as the expense of multiple proceedings, said Mr. Morrison. ■

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Arbitrations

Continued from previous page

said parties to reinsurance arbitrations are using delaying tactics more frequently and the losers are attempting to have every award reversed by the courts.

"Arbitrations are not always efficient or expedient," agreed Jonathan F. Bank, an attorney with Buchalter, Nemer, Fields & Younger in Los Angeles, who represents PRMC.

Mr. McIlwain, Mr. Bank and Richard C. Waterman, president of Northwest Reinsurance Services Inc. in Minneapolis, discussed the pros and cons of reinsurance arbitrations at a symposium titled "Recent Developments in Insurance and Reinsurance Disputes in the Property/Casualty Industry" on Oct. 19 in Chicago. The program was sponsored by Executive Enterprises Inc.

While the speakers acknow-

ledged that reinsurance arbitrations are plagued with problems, they also said that the process does have its benefits.

"The most attractive thing about arbitration is that it is a private thing and you don't create law," said Mr. McIlwain.

Mr. Bank agreed, saying "arbitration leaves no trail."

But, as a result, reinsurance arbitrations have "no precedential value" and the same issue can be arbitrated over and over again, Mr. Bank noted.

"Since the mid-1970s reinsurance arbitration has become vogue," according to Mr. McIlwain. "There are too many problems arbitrated that shouldn't be."

Mr. Bank pointed out that some 80% to 85% of the reinsurance contracts on the market today contain mandatory arbitration clauses.

However, Mr. Waterman said more and more reinsurers are dropping the standard arbitration

clause from their contracts.

"There is a great deal of questioning of arbitration in reinsurance," agreed Mr. McIlwain. "Many reinsurers are taking arbitration clauses out of their reinsurance agreements."

One of the foremost problems of reinsurance arbitration is that it has become an adversarial process rather than a joint attempt at dispute resolution, according to the speakers.

Most reinsurance arbitration panels consist of two arbitrators acting as advocates for the two parties in arbitration and an umpire, which is very similar to two attorneys standing before a judge, Mr. Waterman explained.

"The arbitration process today is very similar to litigation," he asserted.

As a result, in some instances reinsurers are substituting mandatory mediation clauses in place of mandatory arbitration clauses,

said Mr. Waterman.

Under mediation, the reinsurer and the ceding insurer ask an unbiased third party to help them solve their differences. Unlike arbitration, the decisions of a mediator, in most instances, are not binding on the parties.

"If arbitration is two advocates picking a judge, why not just start out with the judge?" asked Mr. Waterman, who is a promoter of mediation.

"Unless we change the arbitration process so that the (members of the arbitration panel) are neutral, mediation is a good alternative," he continued.

"If the issues can't be mediated, then litigation is a better alternative than arbitration," he said.

In looking at the other problems of reinsurance arbitration, the speakers pointed out that reinsurance arbitration can be very time-consuming.

The PRMC arbitration, for ex-

ample, lasted almost 4½ years before the panel issued its award earlier this month.

That arbitration, like many other reinsurance arbitrations, was repeatedly stalled by delaying tactics used by the six reinsurers, who were found to owe PRMC nearly \$100 million.

"The party interested more in delay than in arbitration is usually the party with the money," said Mr. McIlwain. He predicted there will be greater use of escrow accounts and trust accounts, whereby the party accused of owing money is forced to set it aside until the arbitration proceedings are final.

Choosing the arbitration panel often is the most time-consuming aspect of the process, according to the speakers. For example, the PRMC arbitration was well into its third year before Mr. McIlwain was selected to be the umpire.

The easiest way to speed the selection process is for each party to select experienced arbitrators, who in turn will be able to quickly agree on an umpire, Mr. McIlwain said.

A strong umpire who is willing to set firm deadlines can streamline the arbitration proceedings, said Mr. Bank.

In addition to being very time-consuming, reinsurance arbitrations are also very costly, according to the speakers.

A simple, eight-month reinsurance arbitration can cost more than \$300,000, while longer, more-complex arbitrations can cost millions of dollars, according to Mr. Waterman.

"It is a lot of money and it is big business," he said.

The costs of the arbitration proceedings are shared by the parties. However, in some instances the losing party may be forced to reimburse the other party for its share of the expenses.

A final problem with reinsurance arbitration is that although it is designed to prevent litigation, in the end the parties often find themselves in court.

"Theoretically, arbitration is supposed to be final and binding," said Mr. McIlwain. But "that is beginning to erode and disappear. There is an increased incident of attempts to vacate awards."

However, "courts are very supportive of arbitrations and have been holding that the decisions of a panel are final," he said.

Mr. Bank agreed: "An award (of a reinsurance arbitration panel) is final and binding on the parties, and courts are reticent to re-examine arbitration awards unless the umpire is guilty of fraud or bias."

In addition, as an umpire, Mr. McIlwain says he tries to write the decision of an arbitration panel as briefly as possible to avoid grounds for appeal.

"We try to write the decision with two words if we can—three words and you begin to wander," he said.

In addition to attempting to have arbitration awards reversed by courts, some parties attempt to avoid arbitration by going to court.

Reluctant parties that are bound by mandatory arbitration clauses can go to court and claim they do not have to arbitrate their dispute. Among the tactics used by these reluctant parties are claims that the arbitration clause is too narrow and does not encompass a particular dispute, that the clause was fraudulently induced or that the other party waived its arbitration rights.

However, courts are not inclined to accept any of these arguments and often force the parties to arbitrate rather than litigate their dispute, said Mr. Bank.

"Federal courts reflect a very strong public policy favoring arbitration," he added. ■

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Courts, laws change boundaries of liability for corporate officers

By MARK A. HOFMANN

CHICAGO—Laws designed to give corporate directors and officers more leeway in resisting hostile takeovers may subject them to greater D&O liability exposures, experts say.

But without the benefit of a time machine, harried corporate officials attempting to fend off unwanted advances may not know whether they will have to justify their actions in court for the better part of decade.

The impact of anti-takeover laws was one of several legal developments discussed during a two-day D&O symposium presented by The Wyatt Co.'s Chicago office earlier this month.

William E. Knepper, a partner in the Columbus, Ohio, law firm of Arter & Hadden and co-author of the recently published fourth edition of "Liability of Corporate Officers and Directors," noted that about 30 states have enacted some sort of law designed to discourage the hostile takeover of publicly held corporations.

"In virtually every one of these new state statutes, the directors are given discretion to vote the shares of the target corporation," he explained.

However, he added that wherever such discretion exists, so does potential liability.

Part of the exposure confronting directors stems from the amount of time involved in resolving D&O suits. Directors make decisions on how to respond to hostile takeovers in a high-pressure atmosphere. They have to move quickly, and they might not have the benefit of all of the information they need to make a decision that will later withstand a D&O liability suit, Mr. Knepper said.

He noted that a court may examine the directors' decision three, five or even seven years after it was made. The court, with benefit of hindsight, may rule that what appeared to be a reasonable action at the time it was made actually worked against the interests of stockholders, and the court may hold the directors liable for that action.

Adding to the uncertainty is the fact that the constitutionality of many anti-takeover laws remains undetermined as well.

Mr. Knepper pointed out that the U.S. Supreme Court ruled in 1982 that an Illinois anti-takeover law interfered with interstate commerce. That ruling appeared to void nearly 40 other state anti-takeover statutes and ushered in a period of relatively unregulated hostile takeovers.

Despite that Supreme Court ruling, many states responded with new anti-takeover laws.

In April 1987, the Supreme Court held that an Indiana statute did not violate the Constitution. But only a few months later, a U.S. District Court found an Oklahoma law similar to the Indiana statute to be unconstitutional.

Thus far this year, federal district courts have considered at least seven state anti-takeover laws, ruling three to be constitutional and four to be unconstitutional.

Mr. Knepper did not predict what the ultimate effect of the anti-takeover laws will be. He said that as long as there are reasons to launch hostile takeovers, corporate raiders will find a way to attack companies. And, as long as the targets have boards of directors, those directors will have to make judg-

ments that will be subject to judicial review that could result in personal liability for the directors.

Despite their prevalence, takeover-related exposures are far from the only major reasons for the D&O litigation explosion, Mr. Knepper said.

The misuse of inside information is another significant exposure facing corporate directors and officers, he pointed out. However, he noted that the law of insider trading "is currently in a state of uncertainty and change."

"The courts haven't defined 'insider trading.' Nobody has," he said.

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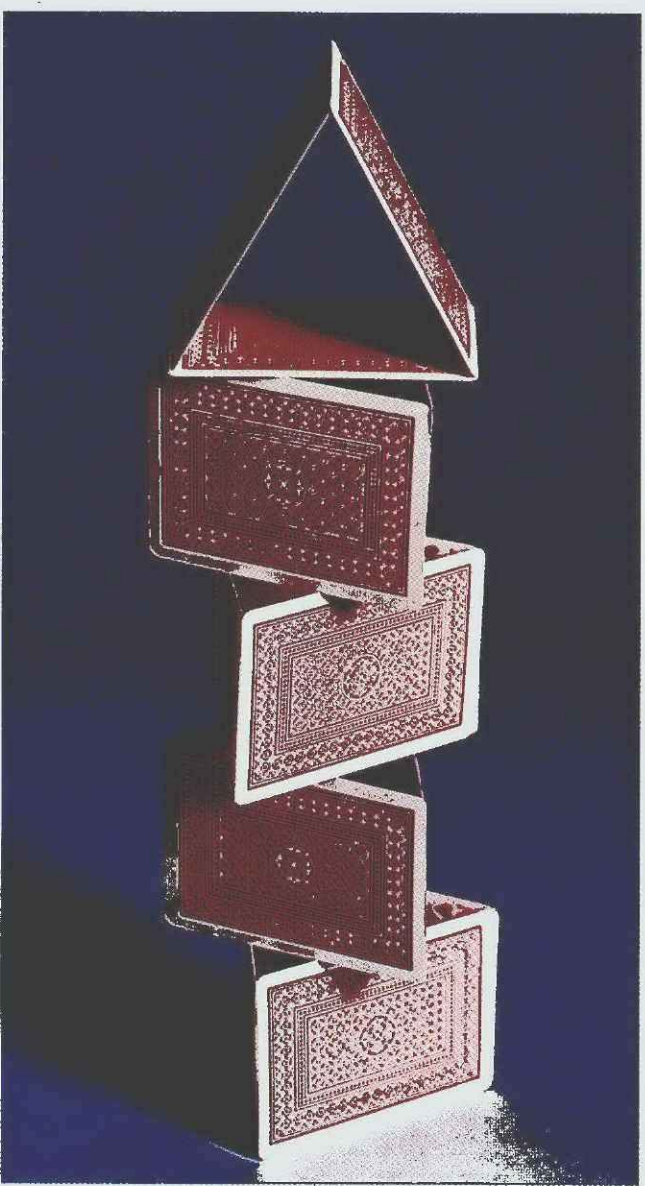


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D&O liability

Continued from previous page said. The confusion surrounding the area requires action on the part of corporations, he said.

"A compliance manual is recommended for distribution to all directors, officers and employees. Such a manual should explain the insider trading laws and spell out the strong and explicit policies adopted by the corporation in this area," Mr. Knepper said.

Another major D&O exposure stems from the Racketeer Influenced and Corrupt Organizations law, said Mr. Knepper. The law originally was designed to combat organized crime, but it has become particularly attractive to those suing corporate officers for an alleged "pattern of racketeering

activity" because a plaintiff in a successful RICO case can recover treble damages plus attorneys' fees.

"RICO has many good features, but it has gone far beyond what it was intended to. It has brought racketeering into the corporate boardrooms where there had only been garden-variety state law fraud" exposures, Mr. Knepper said.

Because of the stigma of being branded a racketeer and the possibility of having to pay out huge sums of money, very few D&O RICO cases have gone to judgment, Mr. Knepper said. Instead, most D&O RICO cases are settled without a verdict for considerably more money than might be expected simply because they do stem from RICO allegations.

The Supreme Court has held that a prior criminal conviction of the defendant is not necessary to hold the defendant liable for a RICO violation. Although the court noted that RICO has evolved into a tool that is used against legitimate business more so than against organized crime, the majority of the justices held in a 1985 ruling that if that is not Congress' intent, then Congress, and not the courts, should clarify the statute.

Directors and officers also need to be aware of the possibility of third-party suits, Mr. Knepper said. He cited last year's Wyatt survey of directors and officers liability that showed about 60% of reported D&O claims were brought by people other than shareholders or the corporation.

Employment-related suits comprise one of the most significant growth areas for third-party suits, Mr. Knepper noted. The two most common of these suits involve wrongful firing and employment discrimination.

A number of state courts have rejected the "employment at will doctrine," which gives employers great latitude in dismissing employees, Mr. Knepper said. Employees who feel they have been unjustly fired are using federal and state employment and discrimination laws to seek redress from directors and officers, he said.

Employment discrimination no longer refers only to racial or sexual discrimination, Mr. Knepper pointed out. "Sexual harassment, sexual abuse by management and other types of harassment are now called employment discrimination," he said.

Another speaker cited the increasing D&O exposures as symptoms of an ongoing "restructuring of corporate America."

John P. Coonan, assistant man-

ager of Chubb Corp.'s Executive Protection Department, which underwrites the D&O liability insurance offered by the Warren, N.J.-based insurer, stressed that one of the most important facets of this restructuring is the boom in corporate takeovers.

"Litigation has become the predominant defensive and offensive tactic" in takeover battles, he said.

But although the takeover game may look the same, the players may change, Mr. Coonan said. The number of suitors for U.S. firms is likely to increase as non-traditional players begin shopping for corporate bargains. Japanese and European investors, buoyed by favorable currency exchange rates, are looking for places to put their money. Some Europeans are even more anxious to invest in North America because they have become jittery about the forthcoming elimination of national trade barriers among the 12 members of the European Community.

In addition, domestic takeovers have resulted in what Mr. Coonan called "the debt bomb." Highly leveraged buyouts have led to a mountain of corporate debt, not all of the highest quality. "We're kind of betting the nest egg" on the nation's future economic health, he said. When the inevitable economic slowdown comes, many businesses that have been expecting continued healthy cash flow to service debt will fail, Mr. Coonan predicted.

Like Mr. Knepper, Mr. Coonan emphasized that D&O claims take a long time to adjudicate, generally three to seven years. For underwriters, the lag means that "you will not know your loss costs for quite a few years," he said.

Underwriters facing this sort of uncertainty delve carefully into corporate prospects, he said. They

want to underwrite coverage for the industry leaders, not companies likely to fall by the wayside amid a flurry of lawsuits. "We're trying to underwrite defendable people," he said.

Underwriters also track the performance of a company's stock, Mr. Coonan said. There appears to be a direct correlation between the volatility of a company's stock and the frequency of being sued, he said. There is also a direct correlation between earnings volatility and frequency of suits, he noted.

The reason for the relationship, Mr. Coonan said, is simple: Investors not only want to earn money; they want to make sure they do not lose money. A wildly fluctuating stock might signal a company in financial trouble, as would roller-coaster earnings performance.

Mr. Knepper, noting that increasing frequency of D&O suits and the conflicting interpretations federal and state courts have given to what a particular D&O policy does or does not cover, offered what he called "Knepper's First Commandment." The commandment states: "In writing an insurance policy, the insurer should say what it means and say what it excludes."

Ken Wollner, a consultant in Wyatt's Chicago office, noted several changes D&O insurers have made in policy language and exclusions that demonstrate how well they have honored the spirit of that commandment.

D&O forms tend to reflect the frequency and severity of exposures faced at any given time, he explained. For example, language dealing with mergers and acquisitions began appearing in D&O policies in the mid-1980s when takeovers became rampant.

The merger and acquisition ex-

Continued on next page

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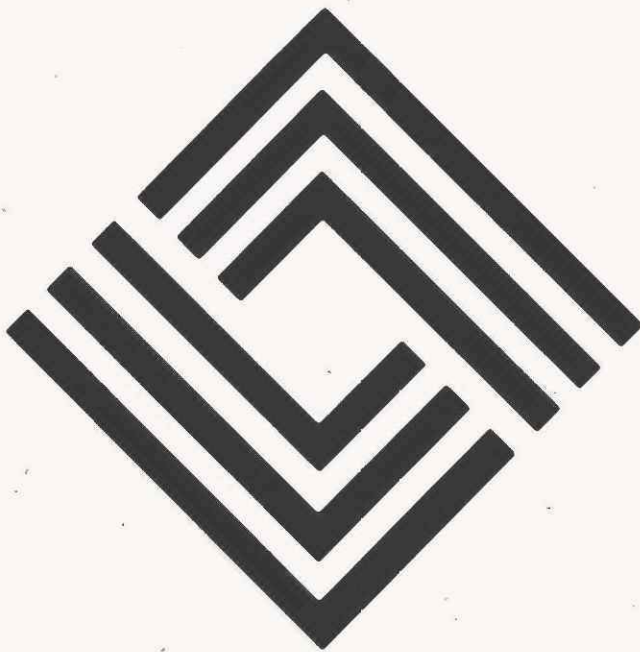
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D&O experts suggest directors' guidelines

CHICAGO—A board of directors should create statements of policy for officers, directors and employees as part of its legal duty to the company, say legal D&O experts.

William E. Knepper, a partner in the Columbus, Ohio, law firm of Arter & Hadden, and Dan A. Bailey of Arter & Hadden drew on their expertise to develop the directors and officers guidelines.

Mr. Knepper is the author of "Liability of Corporate Officers and Directors," which was first published in 1968. Mr. Knepper, along with Mr. Bailey, recently completed the fourth edition of the book (BI, Oct. 10).

According to the guidelines, which were discussed at a recent symposium on D&O liability presented by the Chicago office of The Wyatt Co., the board and its members should:

- Learn the peculiar statutory and regulatory prohibitions applicable to the board and the corporation. The board obviously is incapable of assuring compliance with rules that it does not know exist. Inside or outside counsel should periodically review with the board current legal developments, as well as fundamental legal parameters.

- Establish an audit committee of independent outside directors. This committee should select the outside auditors who are truly independent, as well as competent; determine

the scope of the audit; review the results of the audit before the final statements are published; implement the recommendations of the auditor for eliminating weaknesses in the accounting system or for effecting other improvements; insist on direct, frank and full communication with the outside auditors in the absence of management; and use the internal auditors' outside the chain of command for specific investigative tasks.

- Formulate for officers, directors and employees statements of policy in sensitive areas. One of the board's principal responsibilities is the establishment of general policies, most particularly in areas that frequently generate litigation like conflicts of interest, trading on inside information, employment practices, etc. These statements should be in writing; distributed to all directors, officers and concerned employees; and kept up-to-date.

- Establish procedures by the board to determine the separate functioning of board and management, for example, what items of business must be presented to the board; the timely submission to the board of enough information to form a reasonable judgment as to whether to approve a reasonable transaction; and the specific limitations of management's authority with respect to contracts, loans and other

transactions.

- Receive and review monthly operational reports and financial statements and all securities law and other regulatory filings. The board should be sensitive to developments and occurrences with the corporation that may give clues to problem areas. Among other things, all litigation against the corporation and its officers and employees should be closely reviewed and monitored, with frequent reports to the board by outside counsel.

- Diligently attend and participate in board meetings. If absence is occasionally required, information of what happened at the meeting should be furnished to the absent director. Carefully review all board minutes to assure they accurately reflect the actions that transpired and the involvement of each director. Any dissent by a director should be noted in the minutes since silence may be tantamount to assent.

- Be alert for any indications that all is not well. The board should scrutinize the materials furnished it with a questioning eye. If it is not furnished sufficient information, the board should demand it. If members do not understand some of the information, they should find out what it means.

—By Mark A. Hofmann

D&O liability

Continued from previous page
clusion denies coverage for actual or alleged wrongful acts that arise out of opposition to takeover attempts. Mr. Wollner noted that although some insurers have modified the exclusion to apply only when certain tactics are used or have even eliminated it if the action is based on advice obtained from outside legal counsel or investment advisers, the exclusion can still restrict the freedom of directors to act in what they consider the best long-term interests of shareholders and employees.

Another significant change in D&O policy forms was the insertion of the so-called "insured vs. insured" exclusion, which Mr. Wollner called probably "the most notorious" set of limitations added to D&O policies during the 1980s.

The insured vs. insured exclusion is designed to prevent the insurer from having to pay claims resulting from companies suing their own directors and officers in order to collect from the insurer.

Before 1985, the typical D&O policy contained no such exclusion, said Mr. Wollner. But he added that he cannot recall having seen a policy issued during the past two years that does not contain some form of the exclusion.

But, although the exclusion is designed to eliminate an insurer's exposure to claims rising from collusion, the exclusion's wording "removes from the company the option to independently pursue defensive litigation in appropriate cases," he said.

Yet another tightening of terms that has taken place during the past few years concerns the advancement of defense costs. Before 1985, typical policy wording did not contain an advancement of defense costs clause and did not limit time when action could be taken against the insurer.

Many insurers clarified and strengthened their policy language in the wake of the soft market, Mr. Wollner said. The policies spell out that the insurer has no duty to defend and must consent to the selection of defense counsel, expenses and settlement. Some added an advancement of defense costs clause and stipulated that the insurer is not responsible for reimbursing any defense expense until the claim is disposed of.

Such changes strengthen the insurer's position in refusing contemporaneous reimbursement and also give the insurer more control over defense activity.

Also speaking at the symposium were Chicago attorney Keith A. Hanson of Peterson, Ross, Schloerb & Seidel; Christopher J. Cavallaro, a principal in Mineola, N.Y.-based ARC Excess & Surplus Inc., and Chicago-based Wyatt consultant Ronald R. Boggs. ■

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Risk managers' role should grow: Rogers

By GLENN HUNTLEY

PHOENIX, Ariz.—Risk managers at hospitals and other health care facilities should get more involved in their organizations' risk-financing decisions, an expert says.

Too often risk management is "a kind of fifth wheel" that is not integrated into the overall management structure of a hospital, said William E. Rogers, director of risk management services at The Gleason Agency Inc. in Johnstown, Pa. Mr. Rogers was a member of the *Business Insurance* Risk Management Honor Roll in 1986, when he was director of community health services and risk management at Conemaugh Valley Memorial Hospital in Johnstown (BI, April 14, 1986).

While health care risk managers traditionally have been responsible for issues related to professional liability, insurance purchasing decisions too often are handled by a chief financial officer who may not have the expertise to determine the effectiveness of insurance coverages, Mr. Rogers said.

Risk managers, not financial officers, should make risk-financing decisions, Mr. Rogers asserted during a session on "Improving the Effectiveness of Hospital Risk Management Programs" at the 10th annual conference of the American Society for Healthcare Risk Management, held Oct. 12-15 in Phoenix, Ariz.

"I think too often (health care) risk managers have looked only at the issue of professional liability and not gone beyond it," he said.

Mr. Rogers suggested that health care risk managers seek broader responsibilities, such as taking charge of workers compensation, employee safety, fire protection and other risk-related issues at their facilities.

He urged risk managers to "make yourselves indispensable to management, make yourselves indispensable to the medical staff."

By working closely with an institution's management and staff, risk managers can emphasize the role they play and ensure it will remain an integral part of the organization, he said.

Mr. Rogers also urged health care risk managers to work closely with brokers to assure the organization is getting the most appropriate coverages.

Many hospitals are reluctant to question their broker or consider risk financing alternatives, such as risk retention groups or self-insurance, he added.

But, "by being so conservative, hospitals aren't getting their money's worth," Mr. Rogers said.

Putting the risk manager in charge of the insurance program will give the hospital clout with brokers and eventually pay off with better rates and programs, he said.

"Any of the brokers can do a good job if you stay on them, but many of them will let things slip if you don't stay on them," Mr. Rogers said.

Mr. Rogers advised health care risk managers to be specific when communicating to brokers the objectives and deadlines for their organizations' insurance programs.

"I know they tend to ignore you if you don't do that. It's the squeaky wheel theory," he said.

But, health care risk managers who take on these additional responsibilities will find they must delegate more duties, he said.

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Nurse shortage is threat for risk managers

By GLENN HUNTLEY

PHOENIX, Ariz.—Risk managers at hospitals and other health care facilities are at the mercy of the nursing shortage, an expert says.

The lack of nurses is a risk management issue because inadequate staffing can increase a health care facility's exposure to liability claims, warned Scott A. Saurbier, an attorney with Kitch, Saurbier, Drutchas, Wagner & Kenney in Detroit.

At hospitals, for example, a shortage of nurses may pose a choice between providing substandard care or "the highly undesirable alternative of closing beds," he said.

The most health care risk managers can do to minimize the shortage's impact is to work with their institution's management to ensure that available nurses are involved in caring for patients and not other duties, Mr. Saurbier told those attending the 10th annual conference of the American Society of

Healthcare Risk Management earlier this month in Phoenix.

Projections based on nursing school enrollment indicated that the country will be short 1 million registered nurses—or about 25% of the needed supply—by the year 2000, he said. "If we are 1 million nurses short, either our health care is going to change radically for the worse or we are going to develop a system to better use our nurses."

Meanwhile, nursing school enrollment has remained stable, although the number of applicants has decreased 41% in recent years, according to Mr. Saurbier. This indicates that training institutions now are accepting nursing applicants that may not have been accepted earlier, he said.

In addition to a static workforce, the nursing shortage is aggravated by increased demands on nurses in health care facilities. For example, in 1972 the average hospital required 50 nurses per 100 patients but, by 1986 that same rate had risen to 91 nurses

per 100 patients, according to Mr. Saurbier.

Eventually, the need for more patient service may result in a nurse-to-patient ratio that is 2-to-1, he said.

Nurses' workloads are compounded by increased utilization of outpatient surgeries, in which testing, surgery, paperwork and discharges must be completed more quickly, Mr. Saurbier said.

And, hospitalizations increasingly involve more severe illnesses, such as acquired immune deficiency syndrome, he said.

"Nurses have to be free to be nurses. What has happened is nurses have picked up more non-nursing duties because they are so versatile," he said.

To ensure that nursing talent is appropriately assigned, thereby minimizing the risk of claims from patients alleging they received inadequate care, Mr. Saurbier urged that:

- Registered nurses report to assigned areas "in a timely manner" so that patients receive continuous care.

- RNs inform their superiors of their knowledge of procedures and type of care provided in an assigned area.

- If the experience and skill level of an RN is not appropriate to the assignment, the nurse's supervisor should be notified.

In all instances, nursing care should match the level of care needed, he said.

To free up nurses, hospitals and other care facilities will have to seek alternative providers for services currently performed by RNs, Mr. Saurbier said. For example, it does not take a highly educated and experienced nurse to help a patient go to the bathroom, he said.

In most cases, health care facilities will have to change their staffing patterns to make use of existing staff or find supplemental help, Mr. Saurbier said.

The future of health care likely will include assistance from registered care technicians, more licensed practical nurses or other providers, he said. ■

Risk managers

Continued from previous page

"More and more you are moving to pure management, so you have to learn to delegate," he said.

That can be especially difficult for risk managers who have become used to a "hands on" approach to the job, he said.

As part of their expanding role, risk managers also have the responsibility to seek further education, according to Mr. Rogers.

Because risk managers in the health care industry typically come from the nursing or legal professions, many need more expertise on financial matters as a means to get the attention of senior management, Mr. Rogers said.

But once the risk manager starts talking in financial terms, top managers are more likely to respond to ideas and plans, he said.

Mr. Rogers urged risk managers in the health care industry to further their education and work toward the Associate in Risk Management designation available

Risk managers have the responsibility to seek further education, according to Mr. Rogers.

through the Insurance Institute of America. Other educational opportunities such as conferences also should be utilized, he said.

"In this day and age, there's no such thing as standing still. You are either moving forward or drifting backwards," Mr. Rogers said.

Risk managers usually fit into one of two categories: those who "do everything management expects and nothing else," and those who analyze problems and seek solutions.

He suggested several measures that any risk manager can take to improve his or her expertise:

- Get to know risk managers in other industries.

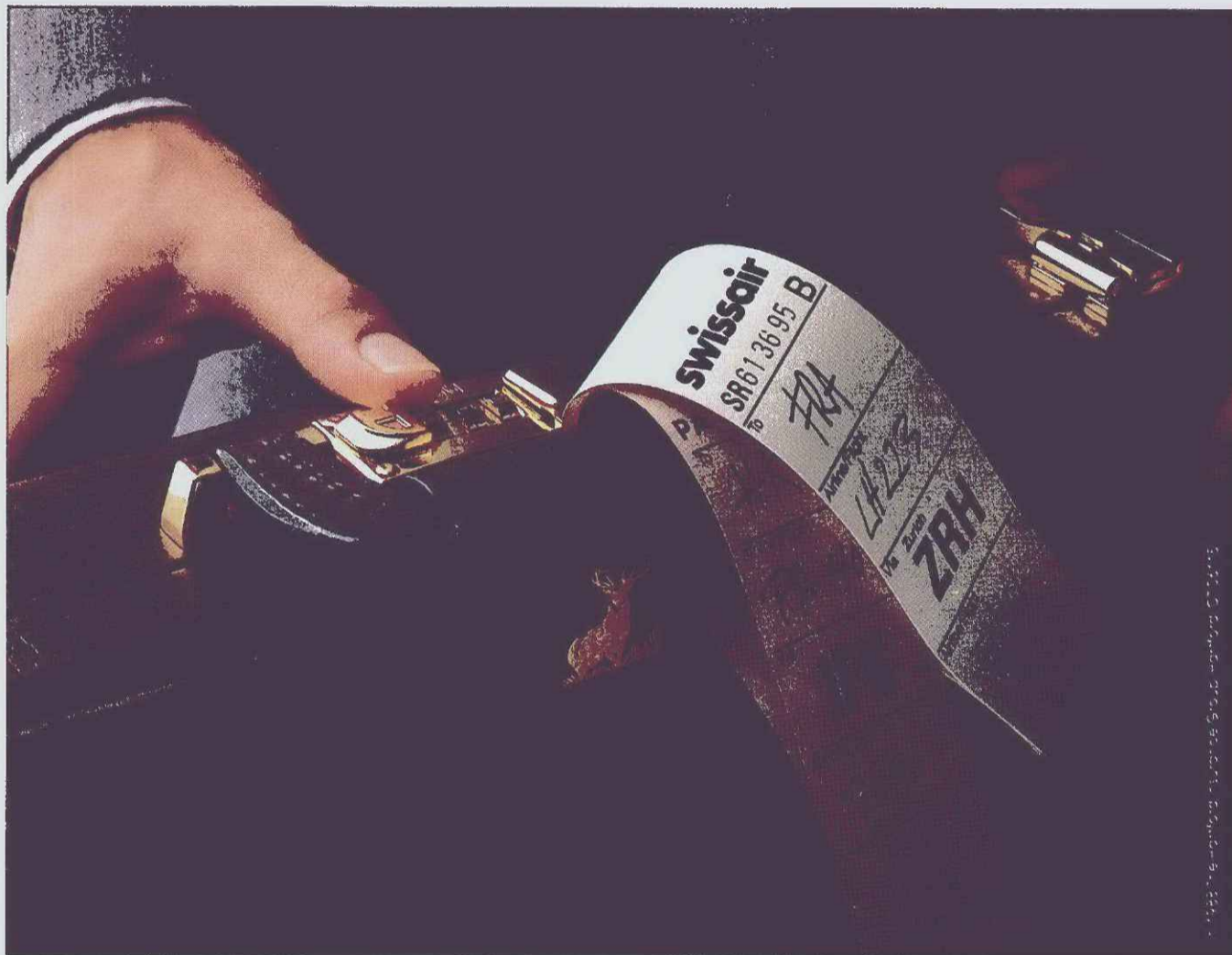
Even though other risk managers may face issues very different from those in the health care industry, their ideas can stimulate thought about approaches to health care problems, he said.

- Get involved in a local chapter of the Risk & Insurance Management Society Inc.

RIMS meetings are an ideal way to meet other risk managers and share ideas, he said.

- Read insurance trade publications to keep informed about new developments and regulations in the field.

- Meet frequently with brokers to assure that the insurance program is meeting the goals set by the risk manager. ■



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Rules aid in liability insurer search

By GLENN HUNTLEY

PHOENIX, Ariz.—A few "golden rules" can help make the process of finding a liability insurer for a hospital or health care facility easier, one broker says.

The first rule: Only buy insurance from insurers that have an A rating or higher from A.M. Best Co., advises Michael Maglaras, president of Michael Maglaras & Associates, a brokerage firm in Stamford, Conn. The Oldwick, N.J.-based agency assigns ratings ranging from C to A+.

"If it's A-rated you are on the way to first base, but you are not there yet," he said.

Mr. Maglaras provided his "golden rules" during a session on "How to Evaluate Insurance Companies" held during the 10th annual conference of the American Society for Healthcare Risk Management earlier this month in Phoenix.

If insurers don't have sufficient cash on hand, 'they are not playing the game right': Maglaras.

While the Best's rating is a start, Mr. Maglaras advised insurance buyers at health care facilities to look for other indications of an insurer's stability.

For example, any insurer that has a (w) notation, indicating it is on the National Assn. of Insurance Commissioners' watch list, "should be shown the door," he said.

Insurance buyers also should seek out insurers that are willing to underwrite both primary and excess coverage, Mr. Maglaras said. If the company writes many levels of liability coverage, it indi-

cates that it understands the scope of the health care industry's professional liabilities, he said.

Another good "rule of thumb" is to remember that while there are many good surplus insurers, an admitted insurer is always preferred, he said.

Buyers also need to be aware of the insurer's adjusted policyholder surplus, or all of its assets less its liabilities, he said.

An even more telling factor may be the net line, or the actual amount of risk an insurer retains, Mr. Maglaras said. If the net line is more than 1% to 2% of adjusted surplus, the insurer may be retaining too much risk, he said.

Also, check to see how the company handles claims. If the claims telephone number is different from that of the insurer's home office, ask why, he recommended. "The matter of fact is claims paying is the essence of insurance. It's the meat and potatoes."

The "golden rules" of evaluating an insurer also take into account financial information from the standard annual statement filed with state regulators.

Mr. Maglaras advises buyers to look at the insurer's five-year historical data, which shows the trends in capital and surplus. The best companies will show a steady rise in capital and surplus, exhibiting "controlled growth," he said.

If the numbers rise quickly then drop, it usually indicates the insurer undertook a line of insurance it did not understand and then suffered losses, Mr. Maglaras said.

Loss reserves, if they fell significantly at any time, may show if the insurer transferred an entire line of business, also indicating the company may not have shown good judgment, he added.

The amount of losses reported in the annual statement should increase in proportion to premium growth, he said. If losses follow premium growth it demonstrates consistency from new business.

Likewise, reserve growth should keep track with increases in premiums, he said.

"The question is whether they are professional underwriters," Mr. Maglaras said. Consistent reserve growth indicates the insurer "guessed right" when taking on new business.

Also, underwriting ratios should demonstrate if the company has made money on its underwriting rather than on investments, he said. The preference is to select an insurer that profits on underwriting, though even the best insurers may not make an underwriting profit, he said.

The expertise of the prospective insurer can be measured in part by looking at the lines of insurance it handles. It's usually best to pick an insurer that does a large volume of business in the lines a risk manager wants to purchase, he said.

"Cash on hand," or the amount of short-term investments, can tell buyers if the insurer can pay claims promptly, he said. Available cash, often invested in short-term bonds, should be equal to about half of the insurer's net line, he said.

If insurers don't have sufficient cash on hand, "they are not playing the game right," he said.

Where investments are placed can be telling, he added. Heavy reliance on common stocks can raise the issue of ability to pay claims, he said.

Finally, check the insurer's board of directors, he recommended. If many of them have been on the board for a short time, the company may have been acquired recently or serious losses may have forced some or all of the directors to resign, he said. ■

Hospital risk managers meet

PHOENIX, Ariz.—Yes, it does rain in the Valley of the Sun, as members and guests of the American Society for Healthcare Risk Management found out this month.

More than 700 attendees participated in ASHRM's 10th annual meeting and educational conference Oct. 12-15 at the Pointe at Squaw Peak resort in Phoenix, Ariz.

A downpour, which dumped more than 2.3 inches of rain on desert visitors on the third day of the conference, was the talk of the conference for a day. It put a damper on some outdoor activities and forced at least one working session to move when water flooded part of the hotel's Grande Ballroom.

Several Phoenix-area residents said the rainfall was the most they had seen there in years.

ASHRM represents risk and insurance managers at hospitals and other health care facilities and is a unit of the American Hospital Assn.

In addition to educational sessions, the conference featured a business meeting that included submission of the first report from an expanded legislative committee. The committee monitors state and federal reform measures that affect risk managers in the health care industry.

For more information about ASHRM, contact Trudy Goldman, Division of Quality Control Management, American Hospital Assn., 840 N. Lake Shore Drive, Chicago, Ill. 60611; 312 230-6425.

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Informed consent suits avoidable: Lawyer

By GLENN HUNTLEY

PHOENIX, Ariz.—Physicians and other health care providers should explain their treatment recommendations in layman's terms rather than just furnishing consent forms to patients to minimize medical professionals' liability, says a health care attorney.

Health care professionals have erroneously assumed that they are absolved from liability for subsequent problems after a patient has signed an informed consent form, said Fay A. Rozovsky, a health attorney and president of LEFAR Health Associates Inc., a hospital consulting firm in Halifax, Nova Scotia.

But health care professionals generally are not thoroughly informing patients about the alternatives to recommended procedures or the possible side-effects of recommended treatments before patients sign informed consent forms, which is leading to more litigation against health care professionals, she said.

"We are awful at it in the health care industry," she said. "That's why we are getting (informed) consent litigation—not because some-

one didn't get the blasted piece of paper signed."

Informed consent litigation is a type of medical malpractice action in which a patient claims he or she was not adequately informed about a procedure before consent was given.

Informed consent is when a physician discloses information to a patient about the risks of injury that may result from a course of treatment. By weighing the possible risks of recommended treatment against the possible benefits, a patient may choose to follow the treatment, select an alternative treatment or forgo treatment, according to Black's Law Dictionary.

However, a patient's consent to a health care provider to submit to a medical procedure does not consist of only a written approval, Ms. Rozovsky said during her speech on "Informed Consent and Risk Management" during the 10th annual conference of the American Society of Healthcare Risk Management in Phoenix earlier this month.

"Consent is a process. It is not, not a form. I can't say that loud enough," she said.

Liability problems are surfacing for many health care professionals because they have not talked directly with patients about their conditions or recommended treatment, she said. Health care professionals must present information clearly to patients and allow them the opportunity to ask questions, she said.

Patient consent can be either explicit or implied, she said. Explicit consent means the patient specifically approves a procedure. Implied consent would include, for example, voluntarily seeking a publicly offered vaccination.

The legal criteria for valid consent for medical care includes several factors.

For instance, the law presumes an adult individual is capable to grant consent unless otherwise incapacitated.

Mental capacity is assumed unless a person is severely injured or shows other impairment that indicates the individual cannot understand the circumstances or

make an informed choice. In those "judgment calls," medical professionals are allowed to act first to save or maintain life, then inform the patient or the family of the treatment provided, she said.

In cases in which a patient is not able to make his own decisions, Ms. Rozovsky recommends designating one health care professional to work with one family member to decide treatment.

Another legal standard measures whether enough information was presented to the patient to allow him to make an informed decision, Ms. Rozovsky said.

But, just as importantly, the provider needs to respond fully to questions from the patient and seek consent for the recommended procedure, she said.

Rulings in previous informed consent cases have relied on whether patients received enough information, based on what a "reasonable" person would require to make a judgment, Ms. Rozovsky said.

But recent cases are not considering the "reasonable person" standards and instead are considering what the individual in each case needed to know to make an informed decision, she pointed out.

To protect themselves against medical malpractice claims, physicians should tell patients the nature and purpose of a test or treatment; probable risks; any reasonable alternatives if available; the risks of forgoing tests or treatment; and the probable degree of pain, disability or disfigurement that would result from the recommended treatment or from forgoing

the treatment.

Health care professionals' potential liability for not fully informing patients about the possible ramifications of submitting to or forgoing recommended treatment was illustrated in a California case in which a doctor repeatedly urged a female patient to have a Pap smear. The patient refused the test and later developed medical complications that could have been detected by the test, Ms. Rozovsky said.

The physician was found negligent because he had failed to inform the patient about the possible consequences of not having the test, she said.

One of the more delicate situations a health care provider may face is when a patient refuses to be informed, usually out of fear, she

said.

But all patients, no matter how reluctant, should be fully informed about their treatment, Ms. Rozovsky stressed.

In most cases the physician must be persistent in presenting the information—despite patient objections—in a rational, calm manner, Ms. Rozovsky said.

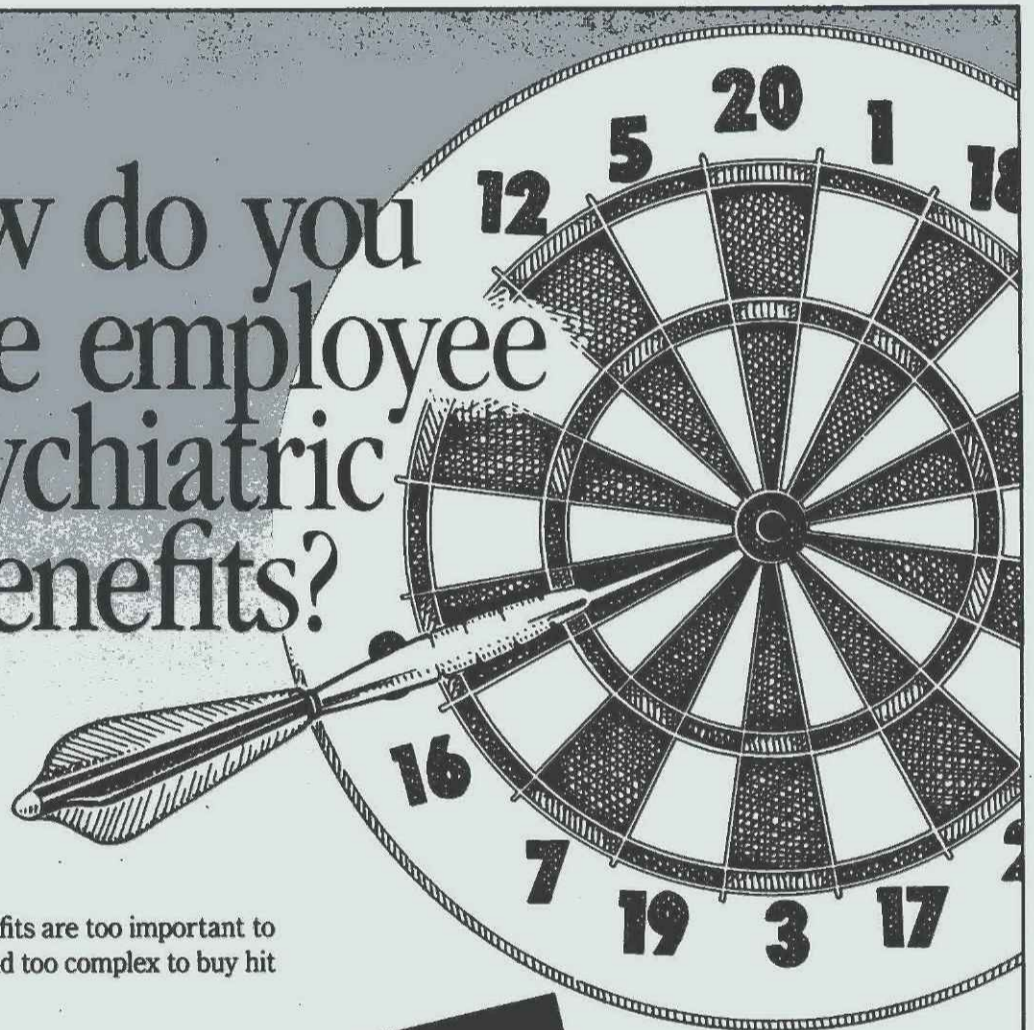
"A lot of it is overcoming fear and getting to know the patient," she said.

There are some legal precedents, however, determining the type of information that medical professionals are not obliged to tell patients.

For instance, a physician is not required to inform a patient about remote risks of a recommended procedure unless the risks involve paralysis or death, she said.

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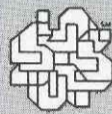


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Risk Retention Act

Continued from page 1

"The borders in which risk purchasing groups can operate in need to be redrawn. The parameters are not clear," said Victor Schwartz, a partner with the Washington law firm of Crowell & Moring and a former Commerce Department official who in the late 1970s helped draw up the original legislation that led to the Risk Retention Act.

While many issues relating to purchasing groups remain to be settled (see stories, beginning page 89), the growth of risk retention groups has been dramatic and largely without controversy.

Even state regulators, who have warned of an upcoming collapse of insurers providing coverage to purchasing groups, have made it a point to distinguish between risk retention groups and purchasing groups.

"I have significantly fewer concerns about risk retention groups. Their members are the owners. They are big, often sophisticated folks," said William Hager, commissioner of the Iowa Division of Insurance in Des Moines.

Others, especially commercial insurers, are more cautious about the staying power of risk retention groups over the long term.

"Will risk retention groups be financially responsible and able to honor their claims? That is too

soon to say after only a two-year time frame," said George Klotzbaugh, counsel with the American Insurance Assn., a property/casualty insurance trade association in Washington.

While more time may be needed to determine the long-term viability of risk retention groups, there is no denying that the groups' growth has been impressive.

Indeed, the 50 or so risk retention groups that have been licensed during the two-year span of the Risk Retention Act amendments stand in sharp contrast to the single risk retention group—a Delaware-chartered group providing product liability coverage to homebuilders—established under the unamended Risk Retention Act of 1981.

While the 1981 law only allowed risk retention groups to write product liability and completed operations coverage, the 1986 amendments gave the groups authority to write all commercial liability coverages, except workers compensation, to member-owners.

This expansion has opened up the use of risk retention groups to such diverse industries as attorneys, governmental entities, health care providers, financial institutions and transportation firms, which were shut out by the restrictions of the 1981 law.

Already, these new groups are generating significant premium volume.

Some 44 risk retention groups recently surveyed by The Risk Retention Reporter, a Pasadena, Calif.-based newsletter, reported 1988 premium volume—as of Sept. 15—of \$183.1 million. These same groups estimate that premium volume will hit about \$270 million by year-end.

"Many (survey) participants who provided high year-end estimates anticipated substantial premium inflow between (Sept. 15) and year-end due to renewals and the number of quotes currently pending," the newsletter reported.

While 50 risk retention groups and a \$270 million premium volume seem minuscule in comparison with the \$186.9 billion in earned premium by the nation's property/casualty insurers last year, some contend that the number of risk retention groups and their premium volume are impressive statistics.

"A \$270 million premium volume

is an impressive number. It indicates that there are gaps in the commercial liability insurance market, and that risk retention groups are filling that gap," said Edward Barrett, a U.S. Department of Commerce staffer and co-author of a report issued last year by the Commerce Department on the impact of the 1986 amendments to the Risk Retention Act (BI, Oct. 5, 1987).

"The fact that there have been 50 risk retention groups established during a relatively soft market is remarkable," said Jon Harkavy, director of governmental affairs for the New York-based Risk & Insurance Management Society Inc., which was one of the prime backers of the 1986 amendments.

Others, though, say the growth of risk retention groups has not lived up to expectations.

"I would have thought there would have been a greater rush to set up risk retention groups," said Felix Kloman, a principal and vp in the Stamford, Conn., office of Tillinghast, the risk management and actuarial consulting division of Towers, Perrin, Forster & Crosby Inc.

He noted, however, that the current competition among commercial insurers—which began soon after the amendments were approved—has slowed formation of the groups.

"The growth has been a lot slower than everyone thought," said Richard Grayson, a vp with J&H of Georgia in Atlanta, the program manager of Financial Institutions Reserve Risk Retention Group Inc., a former Bermuda captive that now is a Vermont-based risk retention group that provides directors and officers liability insurance to 17 major banking institutions.

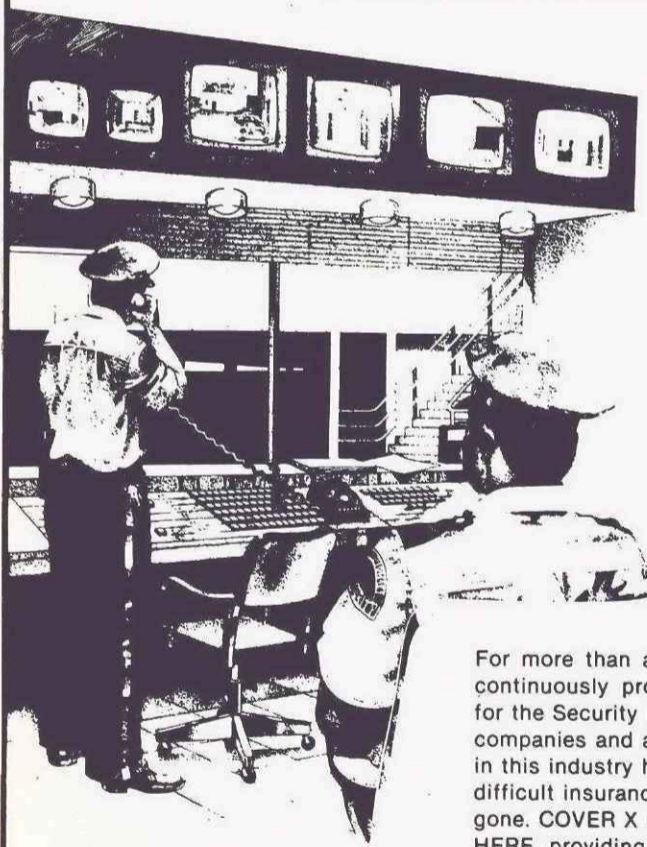
While many companies are "mad" at the commercial insurers about erratic market conditions, they are "not mad enough to put up" the capital needed to establish a risk retention group, he said.

Observers point out that there has been a common impetus that led to the formation of the groups: the desire of members to obtain stable, long-term liability coverage.

"Coverage was being emasculated by the commercial carriers, with premiums increasing 1,000%. There was a need for a competitive

Continued on next page

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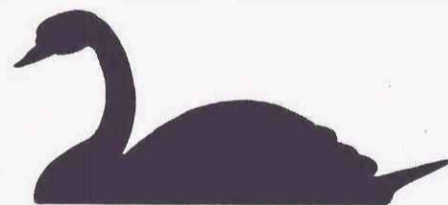
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Continued from previous page alternative," said Mr. Grayson.

"We wanted a long-term alternative to a capricious market," said Mr. Doody, president of the Consolidated Catholic Casualty Risk Retention Group.

Indeed, the most striking characteristic of some risk retention groups is that they are holding out the promise of being a long-term source of stable coverage rather than as vehicles offering cut-rate coverage.

"Stability of coverage is the key. We never marketed ourselves as offering the least expensive coverage," said David Bossman, vp and treasurer of the American Feed Industry Assn., an Arlington, Va.-based trade group that last year helped organize a Iowa-based risk retention group to provide general liability coverage to animal feed manufacturers.

"There is widespread understanding that stability—in good times and bad—is the whole point of establishing a group program," said Tomas Russell, a partner at the Chicago law firm of Hopkins & Sutter and general counsel to ISBA Insurance Risk Retention Group Inc., a newly licensed, Illinois-based risk retention group that will provide professional liability insurance to members of the Illinois State Bar Assn.

The commitment to make risk retention groups a long-term source of coverage is underscored by the substantial capital contributions policyholders are making when establishing their groups.

For example, the 17 initial members of Financial Institutions Reserve, the banking risk retention group writing D&O coverage, each contributed \$2.5 million in capital, while the Catholic hospitals' risk retention group started with \$11 million in capital.

"That was \$11 million in cold, hard cash," said Mr. Doody said.

In other cases, it is the speed in which capital was raised that is striking.

For example, the risk retention group for members of the Illinois State Bar Assn. reached its capitalization goal of \$3.5 million just 70 days after the start of an offering period.

Still, not every risk retention group has been able to get off the ground.

Some false starts have been well-publicized. For instance, C-PAC-O, the first risk retention group established after the 1986 amendments were enacted, had its license suspended several months later by the Delaware Insurance Department after it was unable to raise sufficient capital (BI, Sept. 14, 1987).

Many other potential risk retention groups never made it past the feasibility stage. By some estimates, for every risk retention group that was launched, three or four failed to get off the ground.

"Well over 200 groups were well along and had to give up," estimated Jane Rastallis, a senior consultant with Betterley Risk Consultants Inc. in Worcester, Mass.

A theme common to the demise of many fledgling risk retention groups has been the failure of the organizers to understand how much capital can be needed to launch a group, Ms. Rastallis said.

For example, while a state's minimum capital and surplus requirement for a risk retention group may be \$1 million, the state insurance department may require at least several times that amount before it is satisfied that the group has a financial base sufficient to enable it to meet future claims.

"How much capital has to be raised has proved to be a sobering education for some groups," said Wyatt's Mr. Boggs.

Some risk retention groups, with a view toward the long term, are very conservatively capitalized.

For example, Victor O. Schin-

nerer & Co. Inc. is the underwriting manager of several risk retention groups whose net premium-to-surplus ratio does not exceed 1-to-1.

"We adhere to a more conservative financial structure as additional evidence that risk retention groups are long-term solutions that are soundly conceived and financed," explained Douglas C. Dolan, a senior vp in Schinerner's Chevy Chase, Md., office.

Some risk retention groups, also looking at the long term, are designed to make it difficult for policyholders—lured by temporarily lower premiums in the commercial insurance marketplace—to pull out.

For example, members of the banking companies' risk retention group have made commitments to purchase D&O coverage through the program for five years, while they cannot withdraw capital contributions for at least 10 years, said Mr. Grayson.

Some experts are convinced that policyholders' commitments to their risk retention groups will remain strong during the current soft market.

"While people tend to have short-term views of insurance, once they are in a group insurance program they tend to stay," said Mr. Boggs.

"The buyers are better-educated today. They know a soft market can quickly turn hard tomorrow," said Max Clay president of The Planning Group, a Reston, Va.-based broker that helped organize Petroleum Marketers Mutual Insurance Co. Risk Retention Group, a Tennessee-chartered group providing environmental impairment liability insurance for petroleum marketers.

Still, the soft market has slowed the formation of new risk retention groups from last year's pace, observers concede.

"We have seen less general interest" recently, said Mr. Boggs, not-

ing, however, that those groups now exploring whether to form a risk retention group tend to be more serious than those that inquired shortly after the 1986 amendments were enacted into law.

"There is somewhat of a lull right now," said Ms. Rastallis.

However, this lull may be beneficial to buyers. For example, trade association officials now have the time to decide whether risk retention groups make sense for members in their industry before the commercial insurance market again hardens and members are faced with a coverage crisis.

"Association officials are being brought up to speed. This is a time of careful consideration and exploration," Ms. Rastallis said.

A soft commercial insurance market also means that risk retention groups have a better chance of establishing ties with reinsurers.

"Because of the soft market, more reinsurers are looking at risk

retention groups," said Joseph Peloso, a vp with American Re-Insurance Co. in Princeton, N.J.

For example, at a conference this month sponsored by the Washington-based National Risk Retention Assn., several reinsurers made a point of saying they are interested in reinsuring risk retention groups.

"A risk retention group knows the risks far better than we would. We find that extremely valuable as a reinsurer," said Paul Feldsher, a senior vp with Trenwick America Reinsurance Corp. in Stamford, Conn. Trenwick has reinsured about a dozen risk retention groups.

"We are looking for risk retention groups" that are structured for the long term, said William Hurlman, director of Continental Retention & Specialty Managers in New York, a Continental Corp. unit that provides reinsurance and other services to risk retention groups.

Continued on next page

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Business Insurance

Risk Retention Act

Continued from previous page

Risk retention groups have used a wide variety of arrangements to lay off risk. For example, the American Feed Industry Insurance Co. Risk Retention Group, which provides up to \$5 million in coverage, assumes the first \$250,000 of risk and purchases reinsurance in three separate layers from more than a dozen reinsurers.

In addition, FIRG, the banking companies' risk retention group for D&O coverage, has a reinsurance arrangement in which FIRG retains the first \$5 million and then reinsures the \$15 million layer excess of \$5 million with National Union Fire Insurance Co. of Pittsburgh, Pa., an American International Group Inc. unit, under a quota-share arrangement.

"There is real reinsurance behind this group," said Mr. Grayson.

Still, even in a soft market, finding reinsurance for risk retention groups is not a cake walk.

For example, Jay Colmer, a vp in Schinnerer's Chevy Chase, Md., office, said it took him 18 months in one case to put together a reinsurance program for a risk retention group.

While that amount of time is unusual, risk retention groups can't expect reinsurance to be secured overnight, Mr. Colmer said, noting that three to six months may be needed to put a reinsurance program in place.

In addition, some reinsurers are not interested in very small risk retention groups.

For example, Trenwick generally will not reinsure a risk retention group unless the group can cede at least \$300,000 and preferably \$500,000 in premiums, Mr. Feldsher said.

In contrast to risk purchasing groups, risk retention groups say they have had few major run-ins with state regulators.

And, where there have been problems, those problems have been administrative rather than substantive and usually have been cleared up with an explanatory letter.

Still, there are concerns that problems could develop. For example, risk retention groups and their advisers are concerned that a large number of states may impose special registration fees on risk retention groups that operate within their borders.

"A central purpose of the Risk Retention Act was to remove the burdens of compliance with multiple state licensing laws. The registration forms and fees introduced through the back door the very burdens that the act was intended to eliminate," according to a paper presented by Mr. Mullen at the NRRRA conference.

Other potential risk retention group regulatory problems Mr. Mullen identified in his paper include:

- Letters of credit. Several state insurance departments have questioned whether a risk retention group's capital and surplus is adequate if all or a substantial portion of those funds are in the form of letters of credit.

- Premium taxes. While states can require risk retention

groups to pay premium taxes, there is some division among states on whether groups should pay the same rate as admitted insurers or the rate applicable to surplus lines insurers in cases where there is a difference.

- Fronting. While the Risk Retention Act amendments are silent on whether a commercial insurance company can issue policies on behalf of a risk retention group through a fronting arrangement, some insurance commissioners have questioned the legality of such arrangements.

While the amendments specify that a risk retention group can write business on a nationwide basis, some groups have chosen to use fronting arrangements for a variety of reasons, including improved access to reinsurance markets.

If states take divergent positions on these regulatory issues, risk retention groups eventually could be in the forefront of a drive to create federal regulation of the industry.

"If groups run into roadblocks set by states, they could become supporters of national (insurance) legislation and regulation," observed Tillinghast's Mr. Kloman.

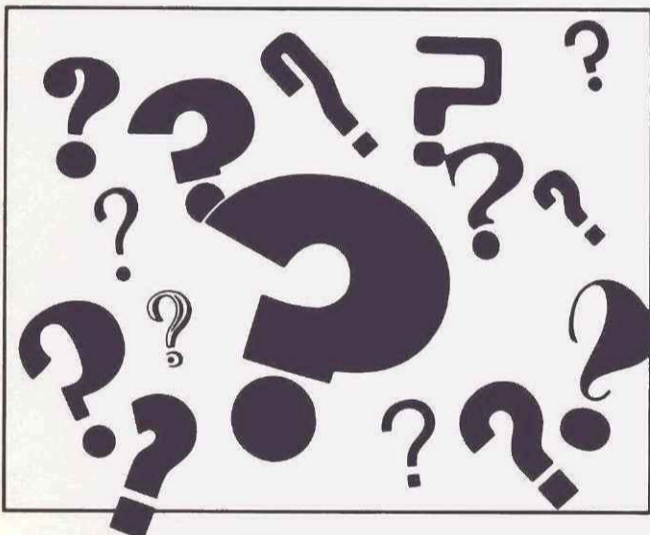
In fact, at the recent NRRRA conference, some risk retention group experts, like Washington attorney Beth Kravetz, suggested that risk retention group regulation might be more efficient and smoother if the Risk Retention Act were administered by a federal agency.

But Mr. Barrett, the Commerce Department official, said federal regulation of the act would cause a political uproar.

"The problems of state regulation can be overcome," Mr. Barrett said. ■

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1986 law lures captives onshore

As many as 10% of the risk retention groups organized in the last two years have offshore origins.

For example, MEDMARC Insurance Co. Risk Retention Group Inc. began operations in 1979 as a Bermuda-based, group-owned captive—MEDMARC Ltd.—that wrote product liability insurance for medical equipment manufacturers.

MEDMARC came ashore to Vermont on the final day of 1986 as a risk retention group and has emerged as one of the nation's largest risk retention groups with a premium flow that could hit \$25 million this year.

"Moving from Bermuda eliminated many of the communications difficulties that are inherent with an offshore location," said MEDMARC President Jaxon White.

In addition, moving to the United States enhanced MEDMARC's standing with its members, said Mr. White.

Other former offshore captives also cite administrative difficulties as a reason for coming ashore as a risk retention group.

"Marketing and administration were the two driving forces behind coming ashore," said Richard Grayson, a vp with J&H of Georgia in Atlanta, the program manager of Financial Institutions Reserve Risk Retention Group Inc., a former Bermuda captive that now is a Vermont-based risk retention group.

It is much more convenient to operate onshore Mr. Grayson said, adding that changes laid down by the Tax Reform Act of 1986 virtually wiped out any tax advantages for group-owned captives operating offshore.

Enactment of the 1986 amendments to the Risk Retention Act caused some organizations to change their focus from establishing an offshore captive to starting an onshore risk retention group.

For example, Mike Doody, president of Consolidated

Catholic Casualty Risk Retention Group, a Vermont-based risk retention group owned by 11 Catholic hospital systems, said the hospitals were strongly considering establishing an offshore group captive when the 1986 amendments were passed.

"We stopped and made the decision to use the Risk Retention Act," Mr. Doody said, citing such onshore advantages as easier administration and management.

Others point out that the Risk Retention Act allows risk retention groups to operate nationwide after meeting the licensing requirements of one state. As a result, a risk retention group does not have to purchase a fronting arrangement from an admitted insurer to avoid regulatory problems in states where it is not admitted or authorized.

"By not using a front, we save at least 10% of the premium amount, said J&H's Mr. Grayson, the program manager for the bankers' risk retention group.

"Coming ashore has enabled risk retention groups to market directly and save on fronting fees," said Ron Boggs, a consultant in the Chicago office of The Wyatt Co.

While experts agree that more offshore captives will relocate in the United States as risk retention groups, it is unlikely that there will be a mass exodus from offshore.

And, popular offshore domiciles, such as Bermuda, will continue to attract group captives because of such attractions as low capitalization requirements and an accessible reinsurance market, experts say.

In addition, risk retention groups are not allowed to write workers compensation or property insurance, another impediment to their achieving dominance over offshore captives in the near future, said Felix Kloman, a principal and vp in the Stamford, Conn., office of Tillinghast, the risk management and actuarial con-

Continued on next page

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NRRA attempting to strengthen its clout

WASHINGTON—Risk retention and purchasing groups have a new voice in Washington.

Last year, the National Risk Retention Assn. was organized in Crystal Lake, Ill., to serve as a national trade association to represent risk retention and purchasing groups.

But the NRRA, run largely by volunteers, flourished because it lacked professional management, its organizers said.

This summer, a professional management firm was hired to manage the association, while the NRRA's operations were moved to Washington from Crystal Lake.

In addition, the NRRA retained Michael Mullen, a former Senate Commerce Committee staffer who helped draft the original 1981 Risk Retention Act, as its Washington counsel. Mr. Mullen is an attorney with the Washington law firm of Crowell & Moring.

At its second annual meeting, held Oct. 17-18 in Arlington, Va., the NRRA took other steps to increase its effectiveness.

It elected a new 17-member board of directors composed of risk retention group officials, insurers and reinsurers, service providers and trade association executives.

The NRRA's president is Robert Larsen, who also is president of Insurance Administration Center of Park Ridge, Ill., and insurance consultant to the National Assn. of Wholesaler-Distributors in Washington.

Mr. Larsen was one of the few insurance executives who strongly supported the original Risk Retention Act. He also played a key role in helping the NAW establish a purchasing group.

"Our intent lies in fully developing the resources of the NRRA. This group will be proactive rather than just reactive," Mr. Larsen pledged at the NRRA's meeting.

The NRRA plans to develop comprehensive amendments—to be considered by legislators

during the next congressional session—to remove obstacles interfering with the Risk Retention Act's implementation.

"We have to get Risk Retention Act reform on the radar screen of Congress. A grassroots effort can begin now," said Jim Anderson, NRRA treasurer and NAW senior director of government affairs.

"We want to get a running start with a major clarification bill" in January, said Mr. Mullen.

The NRRA also plans to work with other groups, such as the New York-based Risk & Insurance Management Society Inc., in developing and lobbying for reform legislation.

In addition, the NRRA may take a more active role when risk retention and purchasing groups lock horns with regulators. For example, in key court cases, the NRRA may file friend-of-the-court briefs.

Other NRRA goals include:

- Establishing a speaker's bureau that other organizations could tap when they need an expert to discuss issues relating to risk retention and purchasing groups.

- Conducting regional seminars next year—tentatively set for Atlanta, Chicago, Los Angeles and New York—in which buyers and insurers could discuss issues of mutual interest, such as tapping the reinsurance market.

- Publishing a membership directory in January that will be free to NRRA members and available to non-members for \$50.

Currently, the NRRA has 153 members. Annual dues are \$750, though a \$500 initiation fee has been eliminated. Members who previously paid the initiation fee will receive a \$250 credit to be applied toward their dues during each of the next two years.

For more information, contact the NRRA, 3299 K St. N.W., Seventh Floor, Washington, D.C. 20007; 202-965-7510.

—By Jerry Geisel

**Risk Retention Act
Amendments
Two years later**

Domiciles

Continued from previous page
sulting division of Towers, Perrin, Forster & Crosby Inc.

Just as Vermont is the domestic captive insurance company domicile champion with some 135 captives, Vermont also is the risk retention group kingpin.

Some 20—or 40%—of the 50 risk retention groups that have been chartered since 1986 are domiciled in Vermont; no other state has a half-dozen risk retention groups.

The overwhelming popularity of Vermont as a risk retention group domicile is not a surprise. Its captive statute, coupled with an insurance department with years of experience in regulating captives and a large network of captive management companies, has made it a natural risk retention group domicile.

"Vermont had a captive law and an infrastructure in place to attract risk retention groups," said Michael Mullen, an attorney with Crowell & Moring, a Washington law firm that has provided legal assistance to many risk retention groups.

"The services in Vermont are first-rate with an outstanding insurance department," added Ralph Engel, president of the Chemical Specialties Manufacturers Assn., a Washington-based trade association that last year helped organize a Vermont-domiciled risk retention group.

Some states with captive statutes have yet to win a significant number of risk retention groups.

For example, Delaware, whose insurance commissioner proclaimed in 1986 that the state would be a national center for quality risk retention groups, hasn't come anywhere near meeting that objective.

Currently, just one risk retention group—a program providing professional liability coverage to architects and engineers—is domiciled in Delaware. How Insurance Co., the first risk retention group chartered under the 1981 Risk Retention Act, recently moved from Delaware to Virginia, while C-PAC-O, the first risk retention group established after the 1986 amendments were enacted, had its license suspended several months later by the Delaware Insurance Department after it was unable to raise sufficient capital.

While Vermont is the dominant risk retention group domicile, other states are sharing in the movement. Some 17 states have licensed risk retention groups, says the Risk Retention Reporter.

Future risk retention group growth is expected to be more evenly distributed among the states, but with Vermont, Tennessee, Illinois and Colorado—all states with captive laws—in the lead, experts say.

—By Jerry Geisel

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Risk Retention Act traces roots to 1979

By JERRY GEISEL

WASHINGTON—The Risk Retention Act has its origins in Room 5027 of the U.S. Department of Commerce building in Washington.

It was in that office that a federal task force—investigating the nation's product liability crisis of the 1970s—developed the first risk retention proposal.

The proposal, unveiled in 1979, was intended to give insurance buyers alternatives to the commercial market when insurers "panic-priced" product liability coverages.

The proposal envisioned the formation of special multiple-owner insurance captives, known as risk retention groups. What made risk retention groups different from traditional group captives were the regulations by which the groups would operate.

As initially drafted, risk retention groups, which could only write product liability and completed operations coverages for their member-policyholders, would be chartered and regulated by the Commerce Department.

After receiving a Commerce Department license, a risk retention group would be free to operate nationwide without having to meet individual state capitalization and other licensing requirements.

By contrast, a traditional off-

shore captive either has to conduct all business outside the United States, which can create administrative difficulties, or purchase a "fronting" arrangement in which an admitted, commercial insurer agrees to directly issue policies on behalf of a captive to enable the captive to avoid run-ins with state regulators. Such fronting arrangements, though, can be expensive and difficult to obtain during tight markets.

The Commerce Department proposal also called for pre-empting state laws that made it difficult for buyers to band together to purchase product liability insurance on a group basis. Commerce Department officials believed that small employers would have much more clout in the marketplace if they could buy insurance as a group rather than as individual companies.

Insurance trade groups blasted the Commerce Department proposals and conducted a powerful lobbying campaign to kill the proposals or force changes.

The insurers' chief objection was Commerce Department regulation of risk retention groups. They decried Commerce Department involvement as the first step toward federal regulation of the insurance industry.

That proposal was stalled in Congress until Michael Mullen,

As initially drafted, risk retention groups would be regulated by the Commerce Department.

then a Senate Commerce Committee staff member, and Leslie Cheek III, the Washington lobbyist for Crum & Forster Inc., developed compromise legislation aimed at diffusing insurer opposition.

That legislation, introduced in July 1980 by Sen. Howard Cannon, D-Nev., then-chairman of the Commerce Committee, eliminated all direct federal involvement with risk retention groups.

Instead, after receiving a charter in any state or foreign country, a risk retention group could provide coverage to members in all states.

While the Cannon proposal reduced industry opposition, lingering opposition and a crowded congressional calendar combined to kill the proposal in 1980.

But the risk retention legislation got off to a flying start in 1981 when Sen. Cannon reintroduced the proposal on the second day of the new congressional session.

Additional refinements to the legislation further reduced opposition. For example, an amendment added to the legislation proposed that a risk retention group chartered offshore also would have to meet the licensing requirements of at least one domestic state before it could operate.

That offshore provision later was changed to limit potential offshore risk retention group domiciles to

Bermuda and the Cayman Islands. And, under a sunset provision, the ability to set up a risk retention group offshore would come to an end on Jan. 1, 1985.

As industry opposition faded and buyer support increased, the legislation sailed through Congress and was signed by President Reagan on Sept. 25, 1981.

But by the time the Risk Retention Act became law, the climate in the commercial insurance marketplace had changed dramatically. The crisis of the mid- and late 1970s, in which product liability insurance prices skyrocketed, was long over. Instead, coverage became cheap and plentiful.

That may explain why the Risk Retention Act was something of a dud during the first few years the law was on the books.

Between 1981 and 1985, just one major risk retention group and one purchasing group were formed in the United States. The risk retention group was a Delaware-chartered program for homebuilders, while the purchasing group was established by the National Assn. of Wholesaler-Distributors, a Washington-based trade association.

A new push to expand the Risk Retention Act began in 1986 as buyers once again faced soaring prices and coverage availability problems in the commercial liability insurance market.

In March 1986, legislation was introduced in the Senate by Sens. John Danforth R-Mo., and Robert Kasten, R-Wis., and later in the House by Rep. James Florio, D-N.J., to allow risk retention groups to write all types of commercial liability insurance, except workers compensation. In addition, pur-

chasing groups could be established to buy all forms of liability coverage except workers compensation.

This expansion would open up risk retention and purchasing groups to enable employers and professionals to cover such exposures as medical malpractice, directors and officers liability and environmental impairment liability.

During the summer months, the legislation worked its way through Congress while a coalition of busi-

Risk Retention Act Amendments

Two years later

ness groups and representatives of the National Assn. of Insurance Commissioners met to fine-tune the legislation.

Passage of the legislation was assured after the business groups and the NAIC agreed on a series of changes to reduce the possibility of fraud and insolvency involving risk retention and purchasing groups.

Final congressional approval occurred in October 1986 and President Reagan signed the expanded act—known as the Liability Risk Retention Act of 1986—into law on Oct. 27, 1986.

Unlike in 1981, employers and professional groups flocked to take advantage of the new ways to cover their liability exposures.

At least 50 risk retention groups have been established since 1986, while as many as 100 purchasing groups may be operating (see story, page 1).

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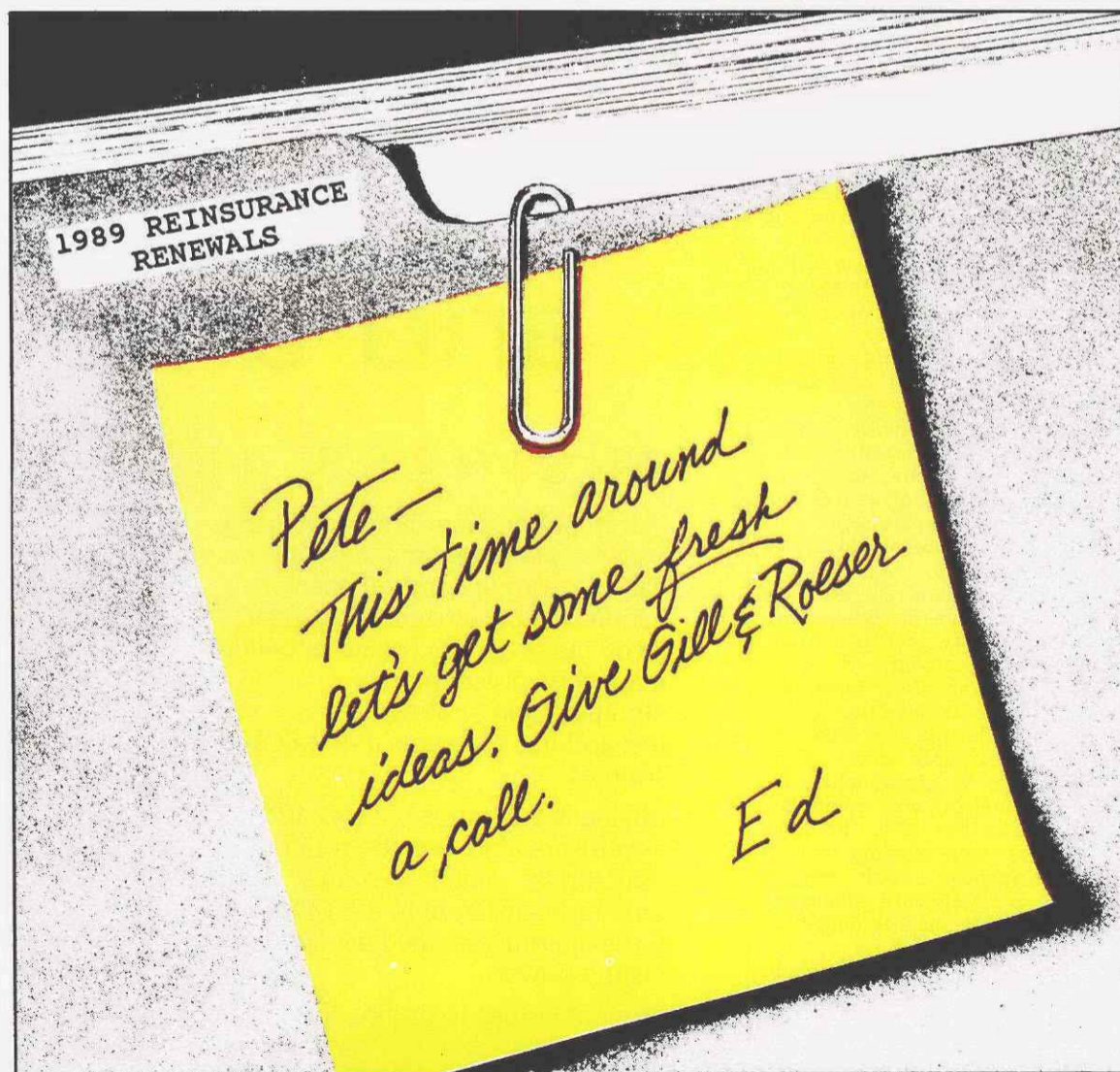
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RIMS may launch section for captives, risk retention groups

NEW YORK—The Risk & Insurance Management Society Inc. will sponsor a seminar next month in Chicago to explore establishing a new industry section, or common interest group, exclusively devoted to risk retention group and trade association captive insurance company issues.

"There is an increased need to establish an information network to keep risk retention groups and captives informed of various issues affecting them," said Jon Harkavy, RIMS director of governmental affairs.

"There is a need for more networking," he said.

Topics and speakers at the Nov. 15 meeting, to be held at the Chicago O'Hare Hilton Hotel, include:

- "Organizational Discussion." Assessment of industry interest in forming a new risk retention group/captive section.

Speakers will be Mr. Harkavy; RIMS Executive Director Ron Judd; H. Lincoln Miller, chief executive officer of Vermont Insurance Management Inc., a Montpelier, Vt.-based risk retention group and captive manager; and Jaxon White, president of MEDMARC Insurance Co. Risk Retention Group Inc., a Vermont-domiciled RRG.

- "Regulators Panel—Forging a Working Relationship with State Regulators."

Speakers will be Edward Meehan, director of financial examinations at the Vermont Department of Banking and Insurance; David Thornberry, a member of the Texas State Board of Insurance; and John Washburn, Illinois Department of Insurance director.

- "Risk Retention Act Update."

Speakers will be Jeffrey Altman, a partner with the law firm of McKenna, Conner & Cuneo in Washington, D.C.; and either Edward Barrett or Jane Molloy, the co-authors of a 1987 Commerce Department report on the Risk Retention Act (BI, Oct. 5, 1987).

- "The Role of Legal Counsel" in working with risk retention groups and captives.

Speakers will be P. Bruce Wright, a partner with the law firm of LeBoeuf, Lamb, Leiby & MacRae in New York; and James Cameron, a partner with the law firm of Baker & McKenzie in New York.

- The role of reinsurance in risk retention groups and group captives.

Roger Greiner, president of Genesis Underwriting Management Co. in Stamford, Conn., will be a speaker. RIMS now is lining up several other speakers for the reinsurance session.

The cost of the seminar is \$125. For more information, contact the RIMS Governmental Affairs Department, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

Potential for abuse clouds purchasing groups' future

By JERRY GEISEL

WASHINGTON—Risk purchasing groups are generating a growing cloud of uncertainty.

While risk retention groups generally are thriving on the second anniversary of the 1986 amendments to the Risk Retention Act, some observers are having second thoughts about the wisdom of purchasing groups.

About 300 purchasing groups have been established since the Risk Retention Act amendments were approved, but only about one-third of these are actually operating, observers say.

Some large trade associations—like the American Public Gas Assn., the National Assn. of Broadcasters and the National Assn. of Wholesaler-Distributors—have formed purchasing groups to provide members with better and less costly liability insurance than members could obtain on their own.

"It is almost as if the Risk Retention Act was tailor-made for us," said Peggy Lambert, director of insurance programs for the Washington-based NAB, the nation's largest broadcasting trade group, which last year helped organize a purchasing group to provide libel/slander insurance to members.

In addition, major insurers—like units of American International Group Inc., CIGNA Corp., Fireman's Insurance Cos., SAFECO Corp. and Transamerica Insurance Co.—are writing coverage for purchasing groups.

"Risk purchasing groups allow us to meet the needs of consumers" in a more cost-efficient way, said Doug Boyce, an assistant vp with Chicago Insurance Co., a Fireman's Fund unit that writes liability insurance for 12 purchasing groups with more than 100,000 members altogether.

However, regulators and others are concerned by the proliferation of "entrepreneurs," a widely used euphe-

mism to describe insurers and agents that set up purchasing groups as a vehicle to market insurance written by thinly capitalized insurers (see stories, page 90 and 93).

And, regulators are alarmed at the high percentage of risk purchasing groups—perhaps as much as 60%—that are insured with companies that either are not listed or rated by A.M. Best Co.

"We will have a number of failures" of risk purchasing group insurers, William Hager, director of the Iowa Division of Insurance, said this month at the annual meeting of the National Risk Retention Assn.

Even the strongest congressional backers of the Risk Retention Act say some risk purchasing groups are headed for trouble.

"States have said that there are too many opportunities for fraud. There is a question about the duration" of some of the insurers writing purchasing group programs, said Rep. James Florio, D-N.J., who, as chairman of the House Commerce, Consumer, Protection and Competitiveness Subcommittee, helped push the 1986 amendments through Congress.

Meanwhile, insurers and others connected with purchasing groups are fighting efforts by regulators to exert more scrutiny over purchasing groups. They point out that two recent judicial decisions, if widely adopted by other courts, could cripple the risk purchasing group concept.

In New York, federal district and appellate courts have ruled that states have the power to require risk purchasing group insurers to file rates and forms, increasing administrative costs for purchasing group insurers and making it more difficult for an insurer to set national rates for a purchasing group (BI, June 27; Oct. 5, 1987).

Continued on next page

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Purchasing groups

Continued from previous page

Complying with separate state policy form and rate filing requirements "is an extensive administrative burden," said Carol Newman, general counsel with Chicago Insurance Co.

In Iowa, a federal court has upheld Commissioner Hager's position that a state can require an insurer providing coverage to purchasing members in the state to be either an admitted or authorized surplus lines insurer in the state (*BI*, May 9; Aug. 3, 1987).

"If other states follow Iowa, you nullify the intent of the Risk Retention Act," said Greg Breyfogle, risk manager for Tucson, Ariz.-based Ugly Duckling Rent-A-Car System, whose franchisees are insured through a purchasing group underwritten by Ugly Duckling affiliate Swanco Insurance Co., which is not admitted in many states.

With so much uncertainty surrounding purchasing groups, it is likely that Congress during the next legislative session will take another look at the purchasing group provisions of the Risk Retention Act.

Already, the National Risk Retention Assn., a Washington-based trade group representing risk retention and purchasing groups, says it will be in the forefront of those seeking change (see story, page 87).

"We will put forth a strong legislative package. I truly think we can make logical improvements that Congress can accept," said insurance consultant and NRRA President Robert Larsen, who added that the NRRA is still working on the package.

Federal officials also point out that the purchasing provisions of

the amendments are not without problems.

"There has been strong opposition from regulators. They object to insurers (writing coverage for risk purchasing groups) about which they know nothing. It is a legitimate concern," commented Edward Barrett, a Commerce Department staffer and a co-author of a 1987 report on the Risk Retention Act (*BI*, Oct. 5, 1987).

Congressional staffers, sympathetic to state regulators' concerns about possible fraud as well as insurer and buyer complaints that states may be overreaching in their regulatory efforts, are opening the door to hearings next year.

Some purchasing groups are being "nickel and dimed" by state regulators, said Kevin Curtin, a staffer on the Senate Commerce Committee.

"A broader perspective is needed," Mr. Curtin said at the NRRA meeting earlier this month. He added that legislators also are likely to look at whether regulators have enough information to protect purchasing group members.

The controversy over purchasing groups—which erupted less than a year after enactment of the 1986 amendments—is somewhat surprising in view of the simple structure that risk purchasing groups were supposed to take.

Under the Risk Retention Act amendments, a group of persons or businesses can form a purchasing group to buy commercial liability insurance on a group basis from an insurer.

A purchasing group, for example, could be a trade association or a group of businesses in the same industry.

Under the amendments, purchasing groups cannot buy insurance from an insurer not admitted or not authorized in the state in

which the group is "located."

Purchasing group supporters have argued that "located" refers to where the group or its insurer is domiciled. But state regulators maintain that "located" refers to every state in which the group has members.

The purchasing group provisions of the Risk Retention Act were intended to pre-empt state restrictions that made it difficult to buy liability insurance on a group basis.

Theoretically, members of a purchasing group would have more clout and gain better policy conditions and terms from commercial insurers by banding together and buying coverage as a group rather than as small, individual customers.

Underwriting purchasing group business was supposed to be attractive to insurers because it would allow them to write big blocks of business with greater economies of scale.

That theory has become reality for the National Assn. of Wholesaler-Distributors, which established a risk purchasing group under the original 1981 Risk Retention Act that limited the types of insurance a purchasing group could buy to product liability and completed operations coverage. (The 1986 amendments allow purchasing groups to buy all types of commercial liability insurance except workers compensation.)

The NAW purchasing group program, underwritten by Pacific Employers Insurance Co., a CIGNA unit, slashed product liability rates by at least 25% when the program began, said Mr. Larsen, who also is president of Insurance Administration Center in Park Ridge, Ill., and insurance adviser to the NAW.

As important as price savings has been the stability the program has offered since it was launched in 1983 (*BI*, Nov. 15, 1982).

Because CIGNA agreed to underwrite coverage for five years, wholesalers and distributors that, because of their small size, often have little clout in the market, had a secure source of coverage during the market crunch of the mid-1980s.

CIGNA is satisfied with the NAW program as well, describing it as one of their more profitable group programs, according to Mr. Larsen.

Other purchasing group programs, established since the 1986

amendments were approved, also have thrived.

For example, the NAB purchasing group program, underwritten by General Insurance Co. of America, a SAFECO unit, has provided 1,400 broadcast stations with less costly libel/slander coverage.

For example, a small radio station would pay a \$750 premium for a \$1 million policy under the purchasing group program, compared with the \$1,500 to \$2,000 premium it would expect to pay in the commercial market, estimates Ms. Lambert.

"The program has worked very well. I'm glad the vehicle (a risk purchasing group) was there," she added.

Similarly, a risk purchasing group program underwritten by Ranger Insurance Co. and offering general liability coverage to members of the American Public Gas Assn. also has been a boon to APGA members, said Robert Cave, executive director of the Vienna, Va.-based association.

"The main thrust of the program is safety, with Ranger providing various loss control services. Things have worked out very well," Mr. Cave said of the program, which was launched in July.

But, while some risk purchasing groups are highly touted by members and insurers, the problems with purchasing groups may outweigh the advantages.

When the 1986 amendments to the Risk Retention Act were passed, it had been expected that trade associations would take the lead in establishing purchasing groups and then find insurers to underwrite the coverages.

"It had been intended that employers would be forming these groups," said the Commerce Department's Mr. Barrett.

While that has happened, a big block—no one knows exactly how many—has been organized by insurers. And, some of these insurers may lack the resources to survive over the long term, experts say.

"There are unscrupulous operators out there," said Tom O'Day, associate vp in the Washington office of the Alliance of American Insurers.

Some risk purchasing group insurers may not be well-capitalized to honor their obligations, Mr. Barrett said.

"Regulators are concerned about insurers (of risk purchasing

groups) doing business in their state about which they know nothing. It is a legitimate concern," said Mr. Barrett.

But, in trying to stop or curb the ability of thinly capitalized insurers to write purchasing group business, the regulators have triggered a legal battle that some say could put dozens of purchasing groups out of business or scrambling for new insurers.

And, insurers are protesting the regulators' actions.

For example, while Iowa's Mr. Hager says that states should be able to require that an insurer writing coverage for a purchasing group be admitted or authorized in their states, Ugly Duckling's Mr. Breyfogle notes that Swanco, the insurer of the purchasing group for rental car franchises, simply cannot become admitted in all states overnight.

"We are trying to accommodate the regulators and become admitted where that is a possibility," he said. But some states, he says, do not want more insurers within their borders. "You go to the bottom of the pile. It can take three years to become admitted."

In the New York decision, which involved a purchasing group for nurse practitioners whose coverage is underwritten by AIG unit Insurance Co. of the State of Pennsylvania, federal appellate and district courts ruled that the Risk Retention Act does not pre-empt state regulation of rates and forms of purchasing group policies.

Since the decision, other states have asked insurers of purchasing groups to file rates and policy forms.

"We are being required to file more and more. The burden is tremendous. There is a real need for relief," said James Kilkenny Jr., vp and division counsel with National Union Fire Insurance Co. of Pittsburgh, Pa., an AIG unit.

If insurers have to file rates and forms in every state in which a purchasing group has members, purchasing groups become a lot less attractive to insurers because of the higher administrative costs, said Michael Mullen, an attorney with the Washington law firm of Crowell & Moring and counsel to the NRRA.

"It is an unfortunate decision," Mr. Mullen said, adding that the NRRA will be seeking a legislative remedy in the next congressional session.

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Regulators fear insolvency of purchasing group insurers

By MEG FLETCHER

Two years after their approval, the 1986 amendments to the Risk Retention Act still are giving state insurance regulators headaches, despite two federal court decisions that have affirmed the officials' authority to regulate insurers of risk purchasing groups.

Regulators fear that "a tremendous" solvency problem will pervade purchasing groups in the early 1990s because up to 60% of these programs currently are underwritten by insurers not listed or rated by A.M. Best Co., pointed out Iowa Insurance Commissioner William Hager.

These insurers either cannot meet Best's financial standards or have not been in operation long enough to be considered for a Best's rating, he said (see story, page 92).

And, even though risk retention groups so far have caused little trouble for state regulators, "we won't know if there are problems for several years," said Illinois Insurance Director John Washburn, and president of the National Assn. of Insurance Commissioners.

However, commissioners hope a strong, pro-active approach to Risk Retention Act regulation, coupled with the favorable court decisions, will help prevent many of their worst fears.

Those worries include "exploitation of group members by fraudulent entrepreneurs, the use of unqualified insurers, management by those persons with conflicts of interest, fraud and a general lack of accountability," according to a massive report on the

implementation of the Risk Retention Act amendments submitted to Congress in September 1987 by the U.S. Department of Commerce.

Regulators point out they still are emphasizing the need for proper monitoring of both purchasing and risk retention groups to ensure proper pricing and practices. They also are striving to develop appropriate rules on several topics including:

- Minimum capital and surplus for risk retention groups.
- The use of coverage issued by risk retention groups and purchasing groups to meet state financial responsibility requirements.
- The practices used by agents and brokers marketing coverage written by risk retention groups and purchasing groups.

Yet, the scope of regulators' concerns is somewhat narrower than the officials believed it would be two years ago when the amendments were approved.

With the general softening of the commercial property/casualty insurance market, "the Risk Retention Act has not been used as much as regulators anticipated," Mr. Washburn said.

In addition, regulators feel some satisfaction that others in the industry have joined in the call for increased disclosure of financial information by insurers that underwrite purchasing group programs.

"At the beginning, regulators had broad concerns and now they are focused and addressing specific problems rather than being obstructionist," said H. Lincoln Miller, president of Vermont Insurance Man

Continued on next page

Regulators

Continued from previous page
agement Inc., which manages Vermont-based risk retention groups.

"They have gone through an education process, as we all have," he added.

However, some observers—including Jon Harkavy, director of governmental affairs for the Risk & Insurance Management Society Inc.—think regulators have unnecessarily overstepped their bounds in some areas to protect their regulatory "turf."

In addition, Mr. Harkavy urges state insurance regulators to do more to facilitate the formation of risk retention and purchasing groups, for example, by having the NAIC develop standardized forms for the groups to file in every state where they plan to operate.

The most controversial regulatory aspect of the Risk Retention Act amendments has been the right of an individual state to regulate insurers of purchasing groups operating within its borders, even if the group is not based in the state.

Under the Risk Retention Act amendments, purchasing groups cannot buy insurance from an insurer not admitted or not authorized in the state in which the group is "located," but the word "located" was not defined.

The act states: "A purchasing group may not purchase . . . from an insurer not admitted to the state in which the purchase group is located, unless the purchase is effected through a licensed agent or broker acting pursuant to the surplus lines laws and regulations of that state."

The act also requires that purchasing groups intending to do business in a state notify the insurance commissioner. However, the act also states that purchasing groups are exempt from most state insurance laws and regulations.

Indeed, a statement by the New Jersey Insurance Department in the Commerce Department's report noted that "the act permits insurers which meet only the minimum standards in the weakest jurisdiction to conduct business nationwide."

Two months after the amendments were signed into law by President Reagan, the NAIC adopted its own Model Risk Retention Act to regulate risk retention and purchasing groups (BI, Dec. 15, 1986).

Ironically, at that time, the commissioners appeared more concerned with the solvency of risk retention groups than purchasing groups. Most observers assumed that buyers would form their own purchasing groups and then seek out a reputable insurer to underwrite their coverage, while they worried that thinly capitalized risk retention groups would spring up and later become insolvent.

However, the NAIC amended the model law just six months later to encourage states to exert more authority over purchasing as well as risk retention groups (BI, June 29, 1987).

One controversial change in the NAIC model law emphasized the authority of individual states to require prior approval of purchasing groups' rates and forms. In addition, NAIC officials incorporated state standards for the licensing of agents and brokers who place coverage with purchasing and risk retention groups.

David Thornberry, a member of the Texas State Board of Insurance who chaired the working group that hammered out the amendments to the model law, said that at the time NAIC officials believed the amendments were within "the scope and spirit" of the Risk Retention Act.

However, critics said that the new amendments added to the already confusing patchwork of state

regulations that purchasing groups—and to a lesser extent risk retention groups—must face before they can operate in different states.

Thus far, 33 states have adopted the NAIC's model or similar legislation, while seven additional states have adopted related legislation.

The confusion over ambiguities in the federal act and the NAIC's interpretation of regulators' authority over purchasing group insurers set the stage for court tests that observers considered inevitable.

The most significant court decision was rendered in April of this year by a U.S. District Court for the Southern District of Iowa (BI, May 9). The court ruled that the federal act does not pre-empt a state from requiring that insurers be admitted or authorized in that state before selling insurance to members of a purchasing group that are located in the state.

The Iowa ruling was the first

Risk Retention Act Amendments Two years later

that directly dealt with the issue of what the act meant when it stated that purchasing groups cannot buy insurance from an insurer not admitted or not authorized in the state in which the purchasing group is "located."

Frontier Insurance Co. of Monticello, N.Y., unsuccessfully argued that "located" referred to the state in which a group is domiciled, while the Iowa Insurance Department prevailed in its interpretation that a group is "located" in every state in which it has members.

Frontier filed the lawsuit in January 1988 after the Iowa Insurance Division ruled that a purchasing group is located in each state in which it has members. Under that interpretation, Iowa regulators

said they required Frontier to be formally admitted or authorized in Iowa before it could sell insurance to Iowa members of a purchasing group that was formally domiciled in another state.

The Insurance Division initiated the controversy by summoning Frontier and 22 other insurers that had intended to write insurance for purchasing groups with members in Iowa to an administrative hearing in September 1987 to determine whether they should be fined for violating the state's Unauthorized Insurers Act (BI, Aug. 17, 1987; Aug. 3, 1987; July 27, 1987).

Most of the insurers—including Frontier—have since agreed not to sell insurance to purchasing group members in Iowa, have been admitted in Iowa or have been approved as eligible surplus lines insurers in the state.

However, a similar verdict rendered by the Iowa federal court in a nearly identical case is currently being appealed by Swanco Insur-

ance Co. of Tucson, Ariz., to the 8th U.S. Circuit Court of Appeals.

Although the Iowa decision is not binding outside the court's jurisdiction, regulators across the nation have been encouraged by the ruling to adopt—or continue—policies of returning purchasing group filings that cited use of an insurer that was not licensed or approved in the respective state.

At least seven other states report they have returned more than 500 notices filed by purchasing groups that informed regulators the purchasing groups planned to do business in those states, according to a Business Insurance survey of state insurance departments.

In addition, the Florida Insurance Department is citing the Iowa decision in a suit it filed in U.S. District Court in Tallahassee against St. Louis-based Bel-Aire Insurance Co. over the insurer's plans to write coverage for the National Amusement Purchasing

Continued on next page

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Regulators

Continued from previous page
Group. The lawsuit, which was filed in August 1987, is still pending, said Rick Thornburg, department attorney.

In addition, Oklahoma, New Mexico and Colorado report refusing a total of more than 180 purchasing groups' operating requests because of other reasons, including failure to pay required fees, according to the BI survey.

In the other key decision affecting purchasing group regulation, the 2nd U.S. Circuit Court of Appeals in New York in June ruled in favor of the New York Insurance Department by finding that Congress did not intend to pre-empt all state policy form and rate approval of purchasing groups (BI, June 27; Oct. 5, 1987).

The appellate ruling upheld a September 1987 lower-court decision.

The department's policy of requiring a New York-based purchasing group, the Nurse-Practitioners Professional Liability Purchasing Group Inc., to meet rate and form requirements was challenged by Insurance Co. of the State of Pennsylvania, a unit of American International Group Inc. that is authorized to conduct business in New York.

The group planned to offer on a nationwide basis professional liability coverage to nurse practitioners in the purchasing group.

The insurer decided to let the decision stand rather than ask the U.S. Supreme Court for review, according to an AIG attorney.

While regulators hail the New York and Iowa court decisions,

purchasing group proponents point out that the rulings will hinder the formation of purchasing groups, which was the original intent of the Risk Retention Act amendments.

"Those decisions have gutted the purchasing group part of the act," said Edward T. Barrett II, a Commerce Department official who co-authored the report on the implementation of the Risk Retention Act amendments.

"Both decisions took away advantages of the act," which he interprets as facilitating the development of purchasing groups by exempting them from regulatory scrutiny outside their state of domicile, according to Mr. Barrett.

"The full force of regulators' fury has been on purchasing groups," Mr. Harkavy noted.

However, the NAIC's Mr. Washburn views the decisions as merely affirming states' authority to regulate purchasing group insurers like any other insurer and thereby deal with "some real problems that regulators face, we think, for very real reasons."

Regulators acknowledge they have had fewer problems with risk retention groups.

However, risk retention groups face "an awesome temptation to underprice coverage," warned Iowa's Mr. Hager.

And, that pressure is exacerbated by the current competition in the commercial insurance marketplace, he added.

Mr. Hager also points out he is concerned that some risk retention groups may be undercapitalized.

Some states require a risk retention group to be formed with only \$250,000 in capital and surplus,

'The full force of regulators' fury has been on purchasing groups,' says Mr. Harkavy.

while, in contrast, Iowa requires \$2 million, Mr. Hager said, adding that he would like to increase that requirement to \$5 million.

The focus of most controversies between state regulators and risk retention groups has been over the refusal of some state agencies—often not the insurance department itself—to accept coverage written by a risk retention group as meeting a state's financial responsibility requirements (BI, Aug. 3, 1987). Those requirements are designed to ensure that certain types of business can pay for damages or injuries resulting from their operations.

For example, American Inter Fidelity Exchange, a risk retention group formed in Indiana by motor carriers, filed suit against the Wisconsin Insurance Department and the Kentucky Insurance Department and Transportation Cabinet after the two states refused to accept AIF insurance certificates presented by motor carriers. The state agencies maintained that AIF was not an authorized insurer in those states (BI, Feb. 29).

AIF reached an agreement with both states in March (BI, March 21).

Under the Wisconsin settlement, AIF must maintain \$2 million of net surplus, maintain a \$250,000 cash deposit and file quarterly reports with the state Transportation Department. Under the Kentucky settlement, AIF agreed to maintain net surplus of \$2 million; maintain a cash deposit of \$225,000 in Indiana, where it is based; provide the Kentucky department with information on the group's reinsurance arrangements upon request; and file annual financial statements with the Kentucky department and file quarterly financial statements if requested.

In addition, regulators in New York State and some California cities refused to accept insurance written through TranServe Risk Retention Group Inc., which is managed by Vermont Insurance Management's Mr. Miller, as proof of financial responsibility for taxicab risks.

Rather than take the matter to court, Mr. Miller arranged for Travelers Insurance Co. to issue policies for the risk retention group. The program currently is operating in at least six states, he said.

New York's concern about risk retention groups resulted in recent legislation, effective Dec. 10, that prohibits any state agency from accepting as proof of financial responsibility an insurance policy written by a risk retention group that is not chartered in New York, said Michael Moriarity, associate insurance examiner with the New York Insurance Department.

In another type of risk retention group controversy, the Florida Insurance Department is continuing its scrutiny of Physicians National Risk Retention Group, which is based in Baton Rouge, La. (BI, June 15, 1987).

In mid-1987 the department obtained a court injunction to prevent Physicians National from insuring Florida physicians because its rates were inadequate, said the department's Mr. Thornburg. However, a settlement was reached after the group increased its rates and made other structural changes, like requiring higher capital contributions from members, he said.

However, some Florida physicians, who want to withdraw from the group, now complain that they have been unsuccessful in getting Physicians National to return all of their capital contributions, which the risk retention group had promised to do, Mr. Thornburg said. Representatives of the department and the risk retention group are scheduled to meet today to discuss those complaints, he said.

In an effort to cope with these and other problems, state insurance regulators urged Congress a year ago to approve new amendments to the Risk Retention Act that would:

- Require the risk retention groups to provide better notice to members that the groups are not covered by state guaranty funds.
- Require a risk retention group to file annual financial statements in each state in which it seeks to do business before transacting business.
- Add language to clarify the "location" of risk purchasing groups for the purposes of taxation and regulation.

"In addition, the NAIC believes that it is not advisable for a purchasing group to be allowed to use an unadmitted offshore insurer as a source of insurance for the pur-

chasing group," Texas' Mr. Thornburg wrote in a letter to Mr. Barrett that was included in the Commerce Department's report. "The insurance commissioners are unable to adequately regulate the solvency or market practices of such an entity and consumer protection may be minimal," he said.

However, Mr. Harkavy suggests that state insurance regulators could use the NAIC's existing financial evaluation operations to assess the financial health of such alien insurers.

In addition, Mr. Barrett said one solution that would allow regulators to be better-informed about the solvency of purchasing group insurers would be to require the insurers to file full financial information in all states in which they plan to operate.

Under the Risk Retention Act, risk retention groups must file such information in the states in which they operate.

However, NAIC officials have not been receptive to that suggestion in the wake of the court decisions that gave them greater authority over purchasing group insurers writing risks in their state, he said.

While Mr. Harkavy recognizes the regulators' legitimate concerns, he said they are "sitting fat and happy" with the court decisions and failing to take steps that could encourage the formation of financially sound risk retention and purchasing groups.

For example, he would like to see the NAIC develop uniform filing forms and uniform minimum financial standards for purchasing group insurers.

He also suggested that state insurance regulators consider accepting risk retention groups' financial reports stated in generally accepted accounting principles rather than requiring more conservative statutory accounting principals, if the state where the risk retention group is chartered accepts GAAP statements.

Mr. Harkavy also proposes that the law be amended to let full-time employees and officers and directors of risk retention and purchasing groups send out literature to group members without being required to be licensed as agents or brokers.

NAIC officials acknowledged their willingness to hear industry spokesmen air their views about regulatory questions and said they are sympathetic to the request for standardized forms.

Regulatory waters muddied by amendments: Expert

Disputes over regulatory issues stemming from the 1986 amendments to the Risk Retention Act are "inevitable" because of the confused way in which the amendments deal with state regulation, says an attorney who represented the National Assn. of Insurance Commissioners when the amendments were drafted.

The 1986 act "strengthens state regulatory authority in some instances, pre-empts in others, leaves regulation untouched in some cases and creates a regulatory void in others," Robert H. Myers Jr., a partner with the Washington, D.C.-based law firm of Heron, Burchette, Ruckert & Rothwell, said in a September 1987 article in the NAIC's Journal of Insurance Regulation.

For risk retention groups, the 1986 act emphasizes the primacy of the regulatory authority of the groups' state of domicile, he pointed out in a recent interview. However, that state cannot require the risk retention group to participate in the state guaranty fund or require compliance with countersignature laws. And, non-chartering states have even less regulatory authority over risk retention groups.

In contrast, purchasing groups are exempt from specific state laws under the 1986 act in connection with "the formation and operation of a group and the insurance which it may purchase, particularly the terms of that insurance regarding rates, policy

forms and coverages specifically designed for members of the group," Mr. Myers said.

There is conflict "pervasive throughout the act—the desire for adequate consumer protection that may not be consonant with the desire to provide for enhanced, nationwide freedom of operation" for risk retention and purchasing groups, according to Mr. Myers.

Historically, he pointed out, state insurance regulators generally oppose congressional initiatives, like the Risk Retention Act, due to the "unhappy experience" of regulators following approval of the Employee Retirement Income Security Act of 1974, which standardized regulation of employee benefit plans on a nationwide basis.

By taking the regulatory scrutiny of benefit plans away from the states, ERISA led to the establishment of self-funded multiple employer trusts. Many of these METs, under which many employers banded together to self-insure their health care plans, failed in the regulatory vacuum created by ERISA, leaving behind millions of dollars in unpaid medical bills.

In late 1982, Congress passed a law that forced self-funded METs to abide by the insurance laws, including reserve requirements, of the states in which they operate (BI, Dec. 27, 1982).

—By Meg Fletcher

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Purchasing groups raise industry concerns

By JUDY GREENWALD

Some of the poorly capitalized insurers that are now writing coverage for risk purchasing groups can be expected to become insolvent over the next few years, industry observers warn.

And, some point out that under some interpretations of the 1986 amendments to the Risk Retention Act, little can be done to remove these insurers from the marketplace.

"We are aware that the purchasing groups have been using insurers of questionable financial strength and are concerned about their staying power in the industry," said Tom Vanneman, financial manager in broker Alexander & Alexander Inc.'s Baltimore office.

"I think there's an awful lot of opportunity for it to be a major problem," said Tom West, senior vp in A&A's Dallas office.

Some of the companies now writing business for purchasing groups have small amounts of surplus and, in some instances, questionable assets. "They're certainly susceptible to becoming insolvent," Mr. West said.

"Unscrupulous people or firms can take a good thing and create problems, and there's the potential of that happening," said Ken Pinkston, executive vp of Corroon & Black Corp.'s Benefits and Specialty Sales Group in Nashville, Tenn.

The National Assn. of Professional Surplus Lines Offices Ltd. is "certainly concerned" about the the problems facing purchasing groups, but "there's not a lot we can do," pointed out Richard Bouhan, executive director of the Kansas City, Mo.-based organization.

While virtually no one will discount the potential problems associated with purchasing group programs underwritten by financially shaky insurers, observers disagree over how serious of a risk these insurers pose.

Any time substantial amounts of money

are involved, "there's always the risk that you're going to get fly-by-night types who are going to take advantage of that situation. There has been some of that," said Dirk Van Dongen, president of the Washington, D.C.-based National Assn. of Wholesaler-Distributors, which has operated a purchasing group program underwritten by CIGNA Corp. since 1982.

However, Mr. Van Dongen added that he has not seen evidence of widespread abuse, fraudulent activity or "very, very" lightly capitalized insurers writing purchasing group programs.

"We don't see a great deal of that," agreed Robert L. Larsen, president of the National Risk Retention Assn. and adviser to the NAW's purchasing group.

Given a choice between no coverage and coverage available through a purchasing group underwritten by a lightly capitalized insurer, "I would have to come down on the side of having them still available," he said.

However, one observer who asked not to be named estimated that between six and 10 financially suspect insurers are writing purchasing group business, each of which is insuring 10 to 15 purchasing groups.

While these may not necessarily represent a majority of the purchasing groups that have been formed, they do account for a "great proportion of them, certainly the plurality," she said.

About 300 purchasing groups have been established in the past two years, with about 100 actually issuing policies, other observers say.

Questionable insurers will not become insolvent immediately, the observer added. "You're not going to see instant failures. What you're going to see is failures down the road."

She noted that she has no problem with the well-established insurers that are linked

with purchasing groups. "It's the ones who have formed on Oct. 1 and on Oct. 2 have 27 purchasing groups" that are a problem, she said. She noted that these insurers often write high-hazard types of coverage.

However, Karen Cutts, editor of the Risk Retention Reporter, a newsletter based in Pasadena, Calif., said that court decisions in Iowa and New York earlier this year that give regulators more authority over purchasing groups have apparently discouraged more-established insurers from writing purchasing group programs (see story, page 90).

Between June and September, 20 purchasing groups were formed that were insured by insurers that were listed and rated by A.M. Best Co.; 20 were formed by insurers that were listed by Best but not rated; and 45 were formed by insurers that were neither rated nor listed in Best, she said.

Ms. Cutts warned, though, against assuming that insurers in that final category would by definition run into difficulties, noting that companies that have been highly rated by Best later became insolvent.

It is the lower-quality companies that are more willing to test the insurance departments over purchasing group regulation, said A&A's Mr. Vanneman, referring to the impact of the New York and Iowa decisions.

The proliferation of unrated insurers is "a valid concern," said M. Renwick Severance, vp-special services for broker Republic Hogg Robinson Inc. in Boston. He noted that major brokers, including RHR, have beefed up their security committees that monitor insurance companies' financial solvency.

"All you can do is watch it like a hawk," he said.

"There's definitely a problem, and the Risk Retention Act has brought it into sharper focus with the ability of carriers to function now in a way they had not been able to be-

fore," Ms. Cutts said.

A&A's Mr. West noted that rather than groups of businesses forming purchasing groups and searching for an insurer, as was intended by backers of the 1986 amendments, often insurers create purchasing groups and search for policyholders. "They feel there's a need there" and they cater to that need, he said.

"I would say there are more (purchasing groups) that are put together by companies trying to artificially form a purchasing group" than the other way around, said another broker who did not wish to be identified.

"A lot of these have been kind of forced down the throat of the businesses out there," he said.

He added that it is questionable whether a majority of these insurers will be viable over the long run.

Observers also disagree over how much additional regulation purchasing groups require and whether this regulation should be carried out on the federal or state level.

Ms. Cutts said she favors "fine-tuning" the Risk Retention Act so that purchasing group insurers would have to fulfill the same requirements that risk retention groups must meet. "I think that makes a lot of sense."

She noted that references in the act to purchasing group insurers are vague.

Others, however, say a solution on the federal level should be avoided.

"Our concern is that the federal government may try and step in and try and provide some national regulation for purchasing groups," said A&A's Mr. Vanneman.

He said he instead favors a coordinated effort involving the National Assn. of Insurance Commissioners. "I think there needs to be a better coordination at the NAIC level," he said.

A&A's Mr. West suggested one solution to the concern over the number of insurance companies that have been formed solely to

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Risk Retention Act Amendments

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Concerns

Continued from previous page
insure purchasing groups is to issue a regulation or provision that a purchasing group insurer must be in business at least two to three years before becoming eligible to insure a group. "That way, you would have some track record to look at," he said.

Some states, he added, already have similar provisions for surplus lines insurers.

Michael Mullen, an attorney with Washington, D.C.-based Crowell & Moring and counsel to the National Risk Retention Assn., said he believes the states now have the authority to take action to respond to fraudulent

One observer says he believes that any problems with purchasing groups will be alleviated by the soft market, not regulation. 'In a soft market, there's probably less necessity' for purchasing groups, he says, since coverage availability is greater and rates are more affordable.

or financially shaky insurers writing purchasing group programs.

But, if there is concern that this not clear under existing law, "I don't think there would be objections" to clarifying the state

insurance departments' authority in dealing with these problems, he said.

"I don't think they need to regulate (purchasing groups) any further," said another broker, who asked not to be identified. "I

think they've put some tougher regulations in."

"I don't know how much more they could regulate it," he added.

One observer said he believed any problems with purchasing groups will be alleviated by the soft market, not regulation.

"In a soft market, there's probably less necessity" for purchasing groups, he said, since coverage availability is greater and rates are more affordable.

Hopefully, he said, the weaker companies will leave as a result of the competition, while stronger companies will remain. "It doesn't do any of us any good to have weaker companies out here," he pointed out. ■

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States take action against some groups

By DOUGLAS McLEOD

State insurance commissioners, who are clamoring for more authority over risk purchasing groups and their insurers, can point to several groups that have run afoul of regulators since 1986, when the tight liability insurance market heightened interest in the federal Risk Retention Act.

In several cases—most notably that of Boca Raton, Fla.-based Dyna Span Corp.—state officials have found that purchasing groups were not complying with provisions in the original 1981 act or its 1986 amendments.

In other cases, insurers from which purchasing groups have bought coverage—including Victoria Insurance Co. Ltd., Bel-Aire Insurance Co. and Stone Mountain Insurance Co.—have themselves run into financial or other regulatory problems.

One of the first alleged abuses of the Risk Retention Act to draw widespread regulatory attention involved Dyna Span, which claimed to operate as a purchasing group exempt from state regulation under the original 1981 Risk Retention Act (BI, May 26, 1986; March 3, 1986).

In early 1986, the Florida Insurance Department charged that Dyna Span was, in fact, operating as a risk retention group without being licensed in at least one state as required by the federal law.

Florida department officials noted that Dyna Span was issuing policies in its own name—the policies were headed, "Dyna Span Corp., a Risk Retention Group"—and retaining a portion of each of the risks it wrote.

Dyna Span steadfastly denied operating as a risk retention group, but a Dyna Span executive confirmed that the company retained \$4,000 per occurrence on each risk and bought reinsurance above the retention from New England International Surety Inc., a Panamanian insurer operating out of Brussels, Belgium.

New England International, which was not licensed anywhere in the United States, also was hit with an administrative complaint by the Florida department, which charged it with selling insurance without authorization.

In an attempt to "clarify" its status as a purchasing group, Dyna Span later eliminated its retention and started issuing policies in the name of New England International, which insured 100% of the Dyna Span risks.

By that time, though, Dyna Span had been hit with cease-and-desist orders in numerous states, including Alaska, Arizona, Colorado,

Massachusetts, Michigan, Minnesota and Ohio.

In addition, Florida Insurance Department officials still questioned Dyna Span's status as a purchasing group.

The 1981 Risk Retention Act, while unclear on the point, might have required purchasing groups to buy their coverage from a licensed insurer, department officials said. In addition, Dyna Span was engaged less in buying insurance for its members than in selling insurance to its members, an activity not contemplated by the federal law, officials complained.

After the 1986 amendments to the Risk Retention Act made it clear that insurers underwriting a purchasing group program had to be admitted or authorized in the state in which the purchasing group was domiciled, Dyna Span ceased operating and is no longer active, according to Peter M. Feaman, a lawyer with the Boca Raton firm of Marchbanks & Feaman, which represents Dyna Span.

Before it became inactive, Dyna Span shifted much of its purchasing group business to Bel-Aire, an insurer licensed in Missouri in May 1987.

Bel-Aire had entered into two agreements with Boca Raton-based Insurance Corp. of America, an insurer headed by Dyna Span President A.R. Johnson, that claimed to operate free of state regulation under two purported turn-of-the-century federal court decisions (see story, page 2).

Under the agreements, Bel-Aire was to assume business produced by Dyna Span while ceding reinsurance to ICA.

In a November 1987 administrative complaint, the Missouri Insurance Division charged that Bel-Aire was in danger of being taken over by ICA, which held Bel-Aire stock certificates as security for a \$400,000 loan that had been used to capitalize the Missouri insurer. (BI, Dec. 7, 1987).

The complaint also charged that Bel-Aire was statutorily insolvent on the grounds that a \$499,500 promissory note from Bel-Aire President Arthur A. Blumeyer III—which represented more than half of the insurer's initial capital and surplus—was a non-admitted asset.

In addition, the complaint labeled Bel-Aire's management "so incompetent or untrustworthy" that further operation of the company would be "hazardous to the insurance-buying public."

Bel-Aire, however, argued that Mr. Blumeyer's promissory note was collateralized with a combination of U.S. Treasury notes, certificates of deposit and stock and

Risk Retention Act Amendments

Two years later

therefore could be considered an admitted asset under Missouri insurance law.

Risk Retention Service Corp., Bel-Aire's management company, also repaid the loan from ICA, settling ICA's claim to Bel-Aire stock. In addition, Bel-Aire canceled its reinsurance agreement with ICA, replacing it with a contract with Independence Insurance Co. Ltd. of Bermuda, a unit of London-based Hill Samuel Group P.L.C.

The Missouri Insurance Division settled its complaint against Bel-Aire in December after Bel-Aire's management agreed to:

- The renegotiated reinsurance program with Independence.
- Realign its operations to make Risk Retention Service Corp. a subsidiary of Bel-Aire rather than an independent management company under contract.
- File quarterly financial reports with the Missouri Insurance Division.

Bel-Aire, which has since canceled business produced through Dyna Span, continues to specialize in purchasing group programs and has capital and surplus of roughly \$3.5 million, according to Mr. Blumeyer.

The insurer also continues to battle ICA and Dyna Span in court.

ICA sued Bel-Aire in U.S. District Court in Fort Lauderdale, Fla., last year, charging that Bel-Aire breached its reinsurance agreement with ICA.

Bel-Aire, meanwhile, filed a counterclaim charging that ICA, operating without a license under the purported turn-of-the-century court decisions, is not a valid insurer, said Alan C. Gold, a South Miami lawyer representing Bel-Aire.

The case is still in discovery, Mr. Gold said.

In addition, Bel-Aire has filed suit against Dyna Span and others in Palm Beach County Circuit Court for return premiums still owed on business produced through Dyna Span and canceled by Bel-Aire, according to Mr. Feaman. That the case is still pending, he said.

Dyna Span, meanwhile, has sued Bel-Aire in Palm Beach circuit court for intentionally interfering with its business relationships, alleging that Bel-Aire reinstated coverage for Dyna Span-produced business after canceling the Dyna Span programs, Mr. Feaman ex-

plained.

Bel-Aire is arguing that it has not been properly served with a complaint in this case, Mr. Gold said.

Separately, a California Insurance Department cease-and-desist order is still in effect against Bel-Aire in connection with coverage it wrote for a purchasing group for taxi and limousine operators (BI, May 9).

And, the Florida department has filed suit in U.S. District Court in Tallahassee against Bel-Aire over the insurer's plans to write coverage for the National Amusement Purchasing Group. The lawsuit, which was filed in August 1987, is still pending, said Rick Thornburg, a department attorney.

Meanwhile, the Georgia Insurance Department last month suspended the license of Victoria Insurance Co. Ltd., an Atlanta-based insurer originally licensed in May 1987 that also has specialized in purchasing group coverages (BI, Oct. 3).

The Georgia department entered its suspension order after finding that only \$307,540 of Victoria's \$25.3 million in reported assets were located in the state.

Under Georgia law, insurers must maintain a minimum of \$1.2 million in assets in the state.

The bulk of Victoria's assets were being held by Goldman Dollar Securities Inc., an investment firm in Paris.

Additional assets are expected to be transferred to an Atlanta bank to meet the state's capitalization requirements, a Victoria official has said.

As of Thursday, however, the Insurance Department had not been notified of any additional funds being received by Victoria, which has 60 days from the Sept. 28 suspension order to correct the problem, an insurance department spokesman said.

The Florida Insurance Department hit Victoria with a cease-and-desist order in March after finding that Victoria—which is not admitted or approved as a surplus lines insurer in the state—had been writing equine mortality risks, supposedly through a purchasing group program (BI, July 25).

The equine mortality business was written for North American Producers Assn. Inc., purportedly a purchasing group, through Sandlyn Heaths Ltd. Inc., an Ocala, Fla., agency.

Richard W. Thornburg, a Florida Insurance Department lawyer, pointed out that the Risk Retention Act empowers purchasing groups to buy liability coverages, a category that does not include equine mortality insurance.

Meanwhile, 12 purchasing groups supposedly insured by Victoria withdrew from Hawaii in June after the Hawaii Insurance Department was unable to confirm that they were actually domiciled in the state or that they had coverage with Victoria.

Purchase Group Management Corp. of Oklahoma City, which represented the purchasing groups, filed declarations with the Hawaii department listing Victoria as an insurer for all 12 groups and showing a Honolulu address for the groups, a Hawaii department official said.

The Hawaii department later found that the Honolulu address was a rented mail box from which mail for the groups was forwarded to PGMC in Oklahoma City, according to the official. The groups would have to maintain a physical presence in Hawaii to be considered domiciled in the state, the official explained.

The Insurance Department subsequently was informed by Alan Teale, a Victoria representative, that Victoria had not agreed to insure the groups.

Mr. Teale—a former Victoria executive vp who has produced business for the insurer through TRT Associates Inc. and Fenmar International Insurance Services in Atlanta—said in an interview that he wrote the Hawaii department denying any connection with the 12 purchasing groups.

Mr. Teale said he had never heard of the purchasing groups until he was contacted by the Hawaii department and that Victoria had never agreed to insure them.

Joyce Smith, a PGMC vp who filed the purchasing group declarations in Hawaii, said in an interview that the filings had been made "with the understanding" that Victoria would be the insurer.

"Victoria withdrew from their agreement to insure the purchasing groups" after the Hawaii department objected that the groups were not properly domiciled in the state, Ms. Smith said. After the department informed Ms. Smith that it was unable to confirm the Victoria coverage, PGMC withdrew the filings for the groups.

Meanwhile, another Georgia-domiciled insurer of purchasing groups has run into regulatory problems: Stone Mountain Insurance Co. was ordered into rehabilitation earlier this year.

Stone Mountain—headed by James L. Bentley Jr., a former Georgia insurance commissioner and a former director of Victoria—was listed as the insurer of at least three—and possibly many more—purchasing groups domiciled in Nebraska and Utah. ■

Underground tanks

Continued from page 2

bility rules," said Jeffrey L. Leiter, an attorney with Collier, Shannon, Rill & Scott in Washington, which represents the Society of Independent Gasoline Marketers of America and the National Assn. of Convenience Stores. "On the whole we're relatively pleased" with the rules.

But, while the new regulations are "better than they were," the \$1 million per-claim requirement is "of real, real concern" to the Petroleum Marketers Assn. of America in Washington, a spokesman said.

EIL insurance for underground storage tanks is "prohibitively expensive" and could drive some small, independent petroleum marketers out of business, he explained.

Alternatively, owners and operators of underground petroleum storage tanks can choose to fulfill the financial responsibility requirements through several other mechanisms, including:

- Satisfying one of two financial tests designed by the EPA.

Under the first test, a firm must have a tangible net worth of at least 10 times the amount of aggregate coverage the firm must demonstrate. The firm must file annual financial statements with the Securities and Exchange Commission or annually report the firm's tangible net worth to The Dun & Bradstreet Corp. and receive a rating of 4A or 5A. The firm also must have audited financial statements that do not in-

clude an adverse auditor's opinion or disclaimer of opinion.

Under the second test, a firm must meet several conditions: a tangible net worth of at least \$10 million; a tangible net worth of at least six times the amount of aggregate coverage that it is required to demonstrate; U.S. assets that account for at least 90% of the firm's total assets or at least six times the required aggregate financial responsibility limits; and net working capital of at least six times the required aggregate financial responsibility limits.

In addition, the firm must have a bond rating of AAA, AA, A or BBB from Standard & Poor's Corp. or Aaa, Aa, A or Baa from Moody's Investors Service Inc. The firm also must have audited financial statements that do not include an adverse auditor's opinion or disclaimer of opinion.

- A corporate guarantee from a parent company, an upstream company, an affiliate or other firm with which the owner or operator has a substantial business relationship. The firm providing the guarantee must pass one of the financial tests.

- A surety bond.
- A letter of credit.
- A fully funded trust fund.
- A state fund or pool established to pay for the cleanup costs of an underground storage tank leak, if such a fund exists in the state where an owner or operator is located.

However, the U.S. General Accounting Office says in a re-

port released earlier this year that some of these options are not suitable for many underground tank owners or operators for various reasons: Some of the alternatives are more expensive than insurance; others do not transfer the risk as insurance does; and others do not establish an organized system for providing damages to third parties.

Firms must comply with the new EPA rule over a two-year period, depending on their size and the number of tanks owned or operated.

All petroleum marketing firms that own 1,000 or more underground storage tanks and other underground storage tank owners or operators with a net worth exceeding \$20 million must comply with the new rules by Jan. 24.

Petroleum marketing firms that own between 100 and 999 underground storage tanks must comply with the financial responsibility rules by October 1989.

Petroleum marketing firms that own between 13 and 99 underground storage tanks that are located at more than one facility must comply with the rules by April 1990.

Petroleum marketing firms that own 12 or fewer underground storage tanks, or petroleum marketing firms owning fewer than 100 tanks located at one facility must comply with the rules by October 1990.

Other underground tank owners or operators with a net worth of less than \$20 million and local governments also must meet the rules by October 1990. ■

Datebook

NOV. 4. FOJP Service Corp.'s Sixth Annual Conference on Medical Malpractice Insurance Issues in New York City; \$215 for non-FOJP members. FOJP Service Corp., 130 E. 59th St., New York, N.Y. 10022; 212-891-0700.

NOV. 5. How to Handle Workers Compensation Medical Bills and Liens seminar in Universal City, Calif., sponsored by The Workers Compensation Co.; \$225; 10% discount for two or more persons from the same organization. Workers Compensation Institute, P.O. Box 11448, Glendale, Calif. 91206; 818-247-8224.

NOV. 8-10. 1988 Casualty Actuarial Society Fall Meeting in Montreal; \$250 for members of the American Academy of Actuaries; \$300 for non-members of the AAA. Kathy Spicer, Casualty Actuarial Society, 1 Penn Plaza, 250 W. 34th St., New York, N.Y. 10019; 212-560-1901.

NOV. 9. Directors and Officers Liability workshop in Boston, sponsored by the Society of Chartered Property & Casualty Underwriters; \$130 for Society of CPCU members; \$160 for non-members. Also Dec. 6 in Stamford, Conn. Mari Jennings, Professional Services Coordinator, Society of Chartered Property & Casualty Underwriters, Kahler Hall, 720 Providence Road, CB#9, Malvern, Pa. 19355; 215-251-2741.

NOV. 9. Electronic Networks in Insurance seminar in London, sponsored by Insurance & Reinsurance Research Group Ltd.; \$190 pounds (\$317) plus VAT. Caroline Atkinson, Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

NOV. 9. Controlling Your Workers' Compensation Costs workshop in Chicago, sponsored by the Illinois State Chamber of Commerce Center for Business Management; \$100 for ISCC members, \$150 for non-members. Also Nov. 15 in Springfield, Ill. ISCC Center for Business Management, 20 N. Wacker Drive, Chicago, Ill. 60606-3083; 312-372-7373.

NOV. 9-10. Managing Risk Communications seminar in Baltimore, sponsored by E.I. du Pont de Nemours & Co.; \$925; \$795 each for two or more registrants from same company. Also Dec. 1-2 in Wilmington, Del.; Jan. 25-26 in New Orleans; Feb. 15-16 in Denver; March 30-31 in Houston; and April 26-27 in Philadelphia. Du Pont, Room X51430, P.O. Box 4500, Greenville, Del. 19807; 800-532-7233; 302-999-6982 within Delaware.

NOV. 9-10. Illinois Captive Conference: The

Domicile of Choice in Chicago, sponsored by the Tillinghast division of Towers, Perrin, Forster & Crosby; \$50 for Basics of Captives seminar; \$550 for Illinois Captive Conference. Conference Director, Tillinghast/TPF&C, Financial Centre, Suite 600, 695 E. Main St., Stamford, Conn. 06901-2138; 203-326-5400.

NOV. 9-10. Current Tax Issues for Property-Casualty Insurance Companies seminar in New York City, sponsored by Executive Enterprises Inc.; \$990; \$895 for each additional registrant from the same organization. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880 within New York.

NOV. 10. Expert Systems seminar in London, sponsored by Insurance & Reinsurance Research Group Ltd.; \$190 pounds (\$317) plus VAT. Caroline Atkinson, Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

NOV. 10-11. Occupational Health Nursing Principles and Certification Review course in San Rafael, Calif., sponsored by Fireman's Fund Risk Management Services Inc.'s Occupational Health Consulting & Ergonomics division; \$295. Also Dec. 1-2 in Schaumburg, Ill.; Jan. 12-13 in Atlanta; Feb. 9-10 in Torrance, Calif.; Feb. 23-24 in Denver; March 9-10 in Cambridge, Mass.; and March 30-31 in Arlington, Va. Annette B. Haag, Director, Occupational Health Consulting, Fireman's Fund Risk Management Services Inc., P.O. Box 777, Novato, Calif. 94988-9002; 415-899-2423.

NOV. 11-12. Non-profit Sector Risk & Insurance Forum in Chicago, sponsored by the Non-profit Sector Risk & Insurance Task Force; \$70. Mari Crispin, University of Nebraska College of Law, 402-472-1258.

NOV. 14-15. How to Design and Implement a Program in Risk Communications seminar in Los Angeles, sponsored by the Center for Energy and Environmental Management; \$595. CEEM, P.O. Box 200, Fairfax Station, Va. 22039; 703-250-5900.

NOV. 14-16. Environmental Regulation course in Washington, D.C., sponsored by Executive Enterprises Inc.; \$995 for first registrant; \$895 for each additional registrant from the same organization. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880 within New York.

NOV. 14-17. Eighth Annual Construction In-

urance Conference in Dallas, sponsored by the International Risk Management Institute Inc.; \$630; \$235 for Nov. 14 only; \$498 for Nov. 15-17 only. International Risk Management Institute, 12222 Merit Drive, Suite 1660, Dallas, Texas 75251-2217; 214-960-6933.

NOV. 14-18. Fundamentals of Industrial Hygiene Monitoring course in Long Grove, Ill., sponsored by National Loss Control Service Corp.; \$500. National Loss Control Service Corp., K-3, Long Grove, Ill. 60049-0075.

NOV. 14-18. Practical Risk Management course in London, sponsored by the Insurance & Reinsurance Research Group Ltd.; 725 pounds (\$1,211). Joy Bambrough, Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

NOV. 15. The Second Annual International Reinsurance Forum: Reinsurance Security, Solvency and Insolvency in Hamilton, Bermuda, co-sponsored by Hawksmere Ltd. and Coopers & Lybrand; \$600 for Bermuda residents; \$650 for non-Bermuda residents; 360 pounds (\$601) for U.K. residents. Hawksmere Ltd., 12-18 Grosvenor Gardens, London, England SW1W 0DH; 01-824-8257.

NOV. 15. Professional Insurance Wholesalers Assn. of New York State's 10th Annual Convention in New York City; \$125 for PIWA members; \$165 for non-members. Professional Insurance Wholesalers Assn. of New York State Inc., Old Route 9W, P.O. Box 997, Glenmont, N.Y. 12077-0997.

NOV. 16-17. Quantitative Techniques for Risk Management seminar in Marina Del Rey, Calif., sponsored by Tillinghast, a division of Towers, Perrin, Forster & Crosby; \$750. Conference Director, Tillinghast/TPF&C, 722 Post Road, Darien, Conn. 06820; 203-655-9791.

NOV. 16-17. 3rd Annual Employers Council on Flexible Compensation Conference in Boston; \$535 for ECFC members, \$585 for non-members. Sarah Fleming, Employers Council on Flexible Compensation, 927 5th St. N.W., Suite 1000, Washington, D.C. 20005; 202-659-4300.

NOV. 16-18. Workshops for a New Age of Retirement Planning in New York City, sponsored by Retirement Advisors; \$495. Retirement Advisors, 919 Third Ave., New York, N.Y. 10022; 212-421-2400.

NOV. 16-18. Claims Management course in Atlanta, sponsored by the Risk & Insurance Management Society Inc.; \$595 for RIMS members; \$695 for non-members. Risk & Insurance Management Society, 205 E. 42nd St., Suite 1504, New York, N.Y. 10017; 212-286-9292.

NOV. 21-22. Advanced Safety Management

seminar in Herndon, Va., sponsored by Organizational Safety Services; \$285; \$260 each for three or more attendees from the same organization. Organizational Safety Services, 11831 Rothbury Drive, Richmond, Va. 23236; 804-794-0691.

NOV. 21-22. Reinsurance Accounting Workshop in London, sponsored by Insurance & Reinsurance Research Group Ltd.; \$380 pounds (\$635) plus VAT. Joy Bambrough, Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

NOV. 24. Strategic Planning in the Insurance Industry: Toward 1992 conference in London, sponsored by Insurance & Reinsurance Research Group Ltd.; \$190 pounds (\$317) plus VAT. Caroline Atkinson, Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

NOV. 30-DEC.2. Understanding Property-Casualty Statutory Financial Statements seminar in New York City, sponsored by Executive Enterprises Inc.; \$990; \$895 for each additional registrant from the same organization. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880 within New York.

DEC. 1. Directors and Officers Liability seminar in London, sponsored by Insurance & Reinsurance Research Group Ltd.; 190 pounds (\$317) plus VAT. Caroline Atkinson, Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

DEC. 1. CAOHC Approved Recertification Course in Occupational Hearing Conservation in Kansas City, Mo., sponsored by Impact Hearing Conservation Inc.; \$150. In Kansas City, Mo. Impact Hearing Conservation Inc., 406 W. 34th St., Suite 400, Kansas City, Mo. 64111; 800-346-2139; 816-531-4848.

DEC. 1-3. Fundamentals of Bankruptcy Law seminar in Scottsdale, Ariz., sponsored by the American Law Institute-American Bar Assn. Committee on Continuing Professional Education; \$400. Registrar, American Law Institute-American Bar Assn., 4025 Chestnut St., Philadelphia, Pa. 19104; 800-253-6397; 215-243-1661 within Pennsylvania.

DEC. 5-7. Fundamentals of Insurance course in Charlotte, N.C., sponsored by the Risk & Insurance Management Society Inc.; \$540 for RIMS members; \$640 for non-members. Risk & Insurance Management Society, 205 E. 42nd St., Suite 1504, New York, N.Y. 10017; 212-286-9292.

DEC. 7. Society of Insurance Accountants' Quarterly Meeting in New York City; \$30 for SIA members; \$60 for non-members (includes membership fee). Robert Bauer, Society of Insurance Accountants, P.O. Box 61, Hollowville, N.Y. 12530; 518-851-9780.

DEC. 7. Investment Strategy for Lloyd's Syndicates seminar in London, sponsored by Insurance & Reinsurance Research Group Ltd.; 190 pounds (\$317) plus VAT. Caroline Atkinson, Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

DEC. 7-9. Techniques of Risk Management course in Atlanta, sponsored by the Risk & Insurance Management Society Inc.; \$540 for RIMS members; \$640 for non-members. Risk & Insurance Management Society, 205 E. 42nd St., Suite 1504, New York, N.Y. 10017; 212-286-9292.

DEC. 8. Update of Future of Lloyd's Underwriting Agencies seminar in London, sponsored by Insurance & Reinsurance Research Group Ltd.; 190 pounds (\$317) plus VAT. Caroline Atkinson, Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

DEC. 8-9. Financial Analysis For Risk Management seminar in San Francisco, sponsored by The College of Insurance; \$595 for College of Insurance sponsors and Insurance Services Office Inc. members; \$695 for non-sponsors and non-members of ISO. The College of Insurance, 1 Insurance Plaza, 101 Murray St., New York, N.Y. 10007; 212-962-4111, extension 201.

DEC. 12-13. Environmental Insurance Litigation Institute in New York City, sponsored by Executive Enterprises Inc.; \$990; \$895 for each additional registrant from the same organization. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880 within New York.

JAN. 17. Park and Recreation Risk Management Seminar in Denver, sponsored by the Public Risk Management Assn.; \$150 for PRIMA members; \$200 for non-members. Also Jan. 19 in Tampa, Fla. Lynne Armstrong, Public Risk Management Assn., 1120 G St. N.W., Suite 40, Washington, D.C. 20005; 202-626-4650.

The Datebook is compiled from notices sent to Business Insurance. Notices should be sent at least eight weeks in advance to Datebook, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590. Please include the price, if any, of the meeting and information on registration for interested readers. Business Insurance reserves the right to select meetings of most interest to its readers and cannot guarantee that notices will be printed.

The 2nd annual

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BI random portfolio

Stock	No. of shares	July 25, 1986		Oct. 22, 1987		% change	Oct. 26, 1988		% change
		purchase price	Total	price	Total		price	Total	
Chubb	37	\$72.13	\$2,668.63	\$60.00	\$2,200.00	(17.5)%	\$57.50	\$2,127.50	(20.3)%
General Re	33	61.88	2,041.88	49.88	1,645.88	(19.4)	57.63	1,901.63	(6.9)
AIG	30 ¹	134.25	2,013.75	66.38	1,991.25	(1.1)	67.75	2,032.50	0.9
Fireman's Fund	28	38.13	1,067.50	31.50	882.00	(17.3)	31.00	868.00	(18.7)
USF&G	15	40.00	600.00	34.13	511.88	(14.7)	30.75	461.25	(23.1)
Ohio Casualty	14 ²	81.00	567.00	37.63	526.75	(7.0)	36.50	511.00	(9.8)
American General	13	41.63	541.13	32.00	416.00	(23.1)	34.63	450.13	(16.8)
CNA	8	55.00	440.00	51.00	408.00	(7.3)	64.50	516.00	17.3
Cash ³			56.11		218.37	289.1		453.97	709.1
Total			10,000.00		8,800.13	(12.0)		9,321.98	(6.8)
S&P 500			240.22		249.81	4.0		282.38	17.5
BI Stock Index			513.10		399.90	(22.0)		454.60	(11.4)

¹Shares after 2-1 split on Nov. 17, 1986²Shares after 2-1 split on Jan. 23, 1987³Includes dividend payments

BI model portfolio

Stock	No. of shares	July 25, 1986		Oct. 22, 1987		% change	Oct. 26, 1988		% change
		purchase price	Total	price	Total		price	Total	
CIGNA	40	\$62.50	\$2,500.00	\$55.25	\$2,210.00	(11.6)%	\$51.75	\$2,070.00	(17.2)%
CNA	40	55.50	2,200.00	51.00	2,040.00	(7.2)	64.50	2,580.00	17.3
Aetna	35	60.50	2,117.50	51.00	1,785.00	(15.7)	50.88	1,780.80	(15.9)
Continental	40	46.63	1,865.00	39.00	1,560.00	(16.4)	39.63	1,585.00	(15.0)
Home Group	40	23.75	950.00	14.50	580.00	(38.9)	11.13	445.00	(53.2)
Cash ¹			347.00		690.28	98.9		1,052.54	203.3
Total			10,000.00		8,865.28	(11.3)		9,513.34	(4.9)
S&P 500			240.22		249.81	4.0		282.38	17.5
BI Stock Index			513.10		339.90	(22.0)		454.60	(11.4)

¹Includes dividend payments

Property/casualty stocks

Continued from page 1

at only \$8,800.13 on Oct. 22, 1987, shortly after the crash. The BI Random Portfolio—which was established with another hypothetical \$10,000 in July 1986 by picking names of insurers from a hat—fared slightly better. Including dividends and interest, the Random Portfolio had a value of \$9,513.34 on Oct. 26, a 4.9% decline from the original investment.

The Model Portfolio's value increased 7.3% in the past year from \$8,865.28 on Oct. 22, 1987.

But, the performance of both portfolios pale in comparison with the broader market. The Standard & Poor's 500 stock index increased 17.5% to 282.38 on Oct. 26 from 240.22 on July 25, 1986. And, the S&P 500 increased 13% in the past year.

Analysts say the future holds mixed promise for property/casualty insurer stocks.

While the expected continuing deterioration in insurers' earnings because of the competitive insurance market will hurt property/casualty stocks, the issues are expected to benefit from the predicted decline in interest rates and a weaker economy.

In general, if the group of stocks does well over the next year, it is not likely to be because of improvement in insurers' fundamental business, said Mr. Wells.

However, property/casualty stocks tend to do well in declining interest rate environments, he said. "People view them as bond proxies."

There always is the "vague possibility" of a takeover as well, said Mr. Wells. While this is probably unlikely at this point, "that's always looming out there, particularly if the dollar is weak," he said.

"If interest rates are lower, then I think the group will be modestly above-average performers," said David Seifer, vp at First Boston Corp. in New York. But if interest rates move higher, "I think the industry's stock performance will be more average."

Generally, he said, most property/casualty stocks will be average performers relative to the market as a whole.

"We're still assuming a highly cautious investment posture to the group" because operating results are expected to deteriorate over the next 12 months, said Michael A. Lewis, first vp at Dean Witter Reynolds in New York.

Jeffrey Cohen, vp with Goldman Sachs & Co. in New York, said while his firm recommends American International Group Inc. and General Re Corp. as long-term selections, it has no short-term buy recommendations among property/casualty stocks.

"I think the stocks are overpriced," he said. "On a valuation basis, the stocks don't look attractive."

Gloria Vogel, associate director at Bear Stearns & Co., is more optimistic. Regardless of the fundamentals, "I'm not so sure that relative to the market that this group is not going to look good," she said, citing the prospect of lower interest rates.

Robert Branche of the Branche Research Group in Morrisville, Pa., was optimistic for a different reason.

"I believe very strongly that this down cycle in pricing will be over much earlier" than most observers expect, he said. "I'm very strongly recommending the property/casualty group."

Analysts say the stocks have been performing fairly well as a group since about May or June. Before then, property/casualty stocks underperformed the market because investors were selling their stocks as competition in the

commercial insurance market increased, he said.

But, at the end of the second quarter, an "oversold" position was created in which more shares had been sold than the stocks' value justified.

That, combined with lower interest rates and better-than-expected insurer earnings in the first half, boosted the price of the stocks, said Mr. Lewis, who nevertheless believes the improving prices will be short-lived because of the deteriorating fundamentals.

Investors' movement to property/casualty stocks was to some extent a reflection of their disillusionment with "high-tech" stocks, commented Mr. Seifer.

Among the individual stocks recommended by analysts, Gen Re and AIG—which have fared better than any of the other stocks in the Model Portfolio—still are among the most frequently mentioned.

These insurers are "the perennial favorites," commented Mr. Wells, who added that "these companies will continue to show fairly good results in the soft market" and have relatively low price-to-earnings ratio as well.

Gen Re and AIG have the best managements, are strongly capitalized and are in the best position to sustain their value in the current deteriorating cycle, said Herbert E. Goodfriend, senior vp at Prudential-Bache Securities in New York, who recommends the two companies.

"I think they've got a more disciplined situation than others" and will be early beneficiaries when the insurance market turns in the early 1990s, said Mr. Seifer.

Mr. Anthony said AIG is among his recommendations because of its large amount of foreign business, which traditionally does better than domestic business, and because of its "prowess in certain selected commercial lines," as well as its strong reserve position.

And Mr. Branche said Gen Re is among his favorites because "I think the increased retention by the primary companies has largely run its course." Other reasons he recommends Gen Re include his belief that reinsurance prices will not be depressed and the fact that Gen Re stock has "lagged the group."

Chubb Corp. also is among the property/casualty stocks most frequently recommended by analysts.

Dean Witter continues to recommend Chubb "as it basically comes out from under the drought fiasco," Mr. Lewis said, referring to Chubb's controversial drought insurance program, which forced the insurer to take charges against earnings in the second and third quarters (BI, Oct. 24).

Chubb is a highly disciplined company with an established record of underwriting results whose stock deserves to sell at a premium over the market, Mr. Lewis said.

But Mr. Seifer said Chubb is not on his recommended list. "We thought there'd be enough confusion surrounding the drought problem that would get in the way of the stock," he said.

Other companies most frequently recommended by analysts include Continental Corp., USF&G Corp., Aetna Life & Casualty Co. and CIGNA Corp.

Also cited were Travelers Corp., Ohio Casualty Co., American General Corp., Lincoln National Corp., The Hartford Steam Boiler Inspection & Insurance Co. and Kemper Corp.

Business Insurance does not recommend the stocks in the Model Portfolio and the Random Portfolio. BI reporters and editors do not invest in insurance industry stocks. Readers should contact a licensed stockbroker or investment adviser before making any investment.

Update

Businesses eye VDT law case

Continued from page 2

Long Island county with 20 or more VDTs (BI, June 20; June 13).

If the businesses' case is not dismissed, an appellate panel of the Supreme Court is scheduled to meet Dec. 12 in Brooklyn, N.Y., to decide whether to extend the injunction.

London insured sunk vessels

LONDON—London-based marine underwriters face millions of dollars in claims following two sea tragedies.

London-based Steamship Mutual Underwriting Assn. Ltd. wrote liability coverage for a Filipino ferry, the Dona Marilyn, which sank in a typhoon near the Philippines last Monday. As of Friday, 77 bodies had been found, 161 people were missing and 205 had been rescued.

If compensation payments reach the Athens Convention limit of \$50,000 per victim, total liability costs could reach about \$16.9 million. However, Steamship Mutual would not comment on the amount of compensation the owner of the ferry, Philippines-based Sulpicio Lines, would offer victims' families.

The hull is insured for about \$1.36 million by Prudential Guarantee of Manila and reinsured in London through Willis Faber P.L.C.

In a separate incident Oct. 21 near Piraeus, Greece, two crew members and two passengers died when the educational cruise ship Jupiter sank after colliding with the Italian vehicle carrier Adige.

The Jupiter, owned by Greece-based Epirotiki Lines, has hull coverage totaling \$11.25 million, placed through London broker Hogg Robinson & Gardner Mountain P.L.C. More than 90% of the insurance is placed in London. Jupiter's liability insurance is written by the United Kingdom Mutual Steamship Assurance Assn.

Liability coverage for the Adige, owned by Sicula Oceanica SpA of Italy, is written by Steamship Mutual. About \$4 million in hull limits are placed by Willis Faber. The vessel suffered minor damages.

Briefly noted

Wilson H. Taylor officially becomes chief executive officer of CIGNA Corp. tomorrow. Mr. Taylor, who remains president, succeeds Robert D. Kilpatrick, who will remain chairman until November 1989. . . Richmond, Va.-based A.H. Robins Co. has begun paying money to women who were injured by the Dalkon Shield intrauterine device. A trust fund established under Robins' reorganization plan has paid 14 women a total of \$851,968 since Oct. 7. . . President Reagan signed the amendments to the 1973 HMO Act that will increase the flexibility and competitiveness of federally qualified health maintenance organizations (BI, Oct. 17). . . The Occupational Safety and Health Administration last week proposed some \$4.3 million in fines against John Morrell & Co. for "willful safety and health violations" at the meatpacker's Sioux Falls, S.D., facility. OSHA said Morrell knew conditions at the plant were causing cumulative trauma injuries but did not act to change the conditions. Morrell said the fine is unfair and unjustified. . . The Massachusetts Insurance Division has filed an administrative complaint against Balboa Insurance Co. seeking to fine the insurer \$1 million and revoke its license for allegedly unfair and deceptive business practices related to four auto and general liability insurance programs.

Bailes convicted

Continued from page 2

in the indictment, acquitting him of one count of perjury for allegedly lying under oath that he was licensed to practice law in Virginia. Prosecutors had withdrawn two of the indictment's original 24 counts before trial.

Mr. Bailes will appeal the conviction to the 4th U.S. Circuit Court of Appeals on the grounds that one of the government's witnesses was "incompetent and prejudicial and deprived Mr. Bailes of a fair trial," Mr. Wyatt said.

Mr. Bailes currently is being held at a federal prison at Butner, N.C.

Separately, a federal appellate court order in California also has cast doubt on the authenticity of the turn-of-the-century ICA decisions.

ICA filed suit in U.S. District Court in Los Angeles last year seeking to bar the California Insurance Department from regulating it and asking for a declaratory judgment of its rights under the 1911 and 1914 decisions.

Without ruling on the authenticity of the decisions, a federal judge found in the Insurance Department's favor. The 9th U.S. Circuit Court of Appeals later affirmed the decision.

The appeals court also ordered ICA's two California lawyers to show cause why they should not be disciplined for violating a federal rule requiring them to make a "reasonable inquiry" into the authenticity of material they present as evidence.

While noting that the ICA lawyers, in their defense, presented expert testimony that the Delaware court orders are genuine, the appellate court noted several "badges of ap-

parent falsification" in the 1914 order:

- The Delaware "substitute judge" has purportedly bound insurance departments in all states and territories to his decision by serving copies of the order on the governors of all states. However, federal courts in 1914 had no power to serve process outside their jurisdictions without congressional approval.

- The Delaware judge's order was issued at Beckley, W.Va., and "there is no evidence whatsoever that a federal court in one jurisdiction would sit in another jurisdiction and issue orders."

- The use of the term "grandfathered" in the 1914 order is an anachronism. Dictionaries place the first use of the word no earlier than 1968, and a computer data base search of older federal court cases did not find a single use of the word.

In an Oct. 18 order, the appellate court remanded the case against the ICA lawyers to the district court for a hearing on the authenticity of the Delaware rulings, after which the court said it would rule on whether disciplinary action is warranted.

Meanwhile, regulators in Florida, Wisconsin, Connecticut, Iowa and West Virginia are also awaiting a Delaware federal magistrate's ruling on the authenticity of the two orders. A hearing on the issue was held in July in a suit ICA filed against the five insurance departments last year for an injunction barring them from taking any action against ICA. ■

Section 89

Continued from page 1

But, the legislation permanently will increase the federal excise tax on most pension reversions to 15% from the current 10% level.

The failure to approve significant Section 89 changes is a disappointment to benefit experts, who noted that legislators had been moving toward easing the administrative burdens.

For example, shortly after employers began to mount a lobbying campaign seeking Section 89 reform, the House Ways and Means Committee and later the full House approved some modest changes (BI, July 4).

The Senate Finance Committee later broadened the Section 89 reforms when it passed a technical corrections bill, which was subsequently approved by the Senate (BI, Aug. 1).

"There was an evolution in the Section 89 provisions from the 1986 tax law (which includes the Section 89 non-discrimination rule), to the House technical corrections bill and to the Senate Finance Committee bill," said Tom Butterworth, a consultant with Hewitt Associates in Rowayton, Conn.

"There was some expectation for a significant advance (in the con-

ference committee). That did not happen. The progression of improvements did not continue," Mr. Butterworth said.

Indeed, the compromise bill hammered out by the conferees and approved Oct. 22 includes most of the Section 89 changes and improvements cleared months ago by the Senate Finance Committee. However, the conferees did not significantly expand on any of the changes, including safe harbors.

"There is very little that is totally new," said Steven Ferruggia, director of group actuarial practice at Buck Consultants Inc. in Secaucus, N.J.

The Section 89 changes include:

- Clarifying when a geographic unit may be treated as a separate line of business for purposes of running the non-discrimination tests individually on those units' welfare plans. Under the legislation, employers are allowed to treat facilities that are at least 35 miles apart as separate geographic units, and thus as separate lines of business. An employer then can run the non-discrimination tests individually on each separate unit's welfare plans.

This is important to companies with many different units that offer welfare plans with widely differing values because of varying competitive pressures in different

lines of business.

Without testing by line of business, a company could easily fail the non-discrimination tests because, for example, not enough non-highly compensated employees would be eligible for its most generous plan.

- Allowing employers to use one of two alternatives to aggregate different plans as one plan for non-discrimination testing.

Under one alternative, such aggregation would be allowed as long as the least valuable plan has a value of 90% of the most valuable plan and the aggregated plans cover 80% of non-highly compensated employees.

The other alternative allows aggregation as long as the least valuable plan has a value of 80% of the most valuable plan and the aggregated plans cover 90% of the non-highly compensated employees.

These alternatives are an improvement over the current Section 89 provision that allows such aggregation only if the aggregated plans' values are within 95% of each other and cover 80% of non-highly compensated employees.

- Non-discrimination testing. The legislation allows non-discrimination testing once a year on a date of the employer's choosing.

Section 89 now requires plans to be in continuous compliance with

the non-discrimination rules. Some experts have interpreted that to mean that non-discrimination tests would have to be run daily.

To the disappointment of benefit experts, the conferees did not approve a meaningful safe harbor to exempt some companies from the Section 89 compliance burden.

For example, a coalition of employers this summer proposed a safe harbor for companies that offer employees the freedom to choose between different health care options, like employee and family coverage, and different plans, like an indemnity plan and a health maintenance organization.

But the safe harbor approved by the conferees is virtually meaningless. Generally, an employer could qualify for the safe harbor only if the difference in costs for employees between the least expensive plan and the most expensive plan does not exceed \$100 annually.

"If you have a high-option medical plan and a low-option plan, the safe harbor wouldn't do you any good," observed Edward D. Davey, a principal with A. Foster Higgins & Co. Inc. of New York.

The COBRA changes under the technical corrections legislation would remove the threat of massive tax penalties that have been hanging over employers' heads ever since that law was enacted in

April 1986.

Under the new legislation's COBRA provisions:

- Penalties generally would be waived if a violation was inadvertent and corrected within 30 days.

- Employers would be subject to a \$100 per day excise tax per each violation involving a COBRA beneficiary. But, when violations involve a family, such as a former employee with a spouse and two children, the maximum penalty would be \$200 a day, \$100 for the employee and \$100 total for the dependents.

- For violations discovered by the Internal Revenue Service that were not corrected before the employer received notice of an IRS audit, employers would be subject to a \$2,500 penalty per affected beneficiary or the excise tax that would be due based on the length of the violation, whichever is less. For violations discovered by the IRS considered more than "de minimus," which is not spelled out in the legislation, employers would be subject to a \$15,000 fine.

- Penalties would be capped annually at \$500,000 or 10% of the employer's prior year health care costs, whichever is less.

For most employers, that penalty would be a vast improvement over the current automatic COBRA penalty: loss of the employer's annual tax deduction for health care expenses for a single violation.

The new penalties "are a step in the right direction. They bring a greater degree of rationality to this area of the law," said Henry Saveth, a managing consultant with Foster Higgins in New York.

Meanwhile, the conferees accepted the Senate provision calling for the retroactive extension of educational assistance benefits to Dec. 31, which marks the third time in recent years Congress has taken such action. The House bill proposed reducing the maximum limit to \$1,500.

Section 127 of the IRS code, which had allowed employers to provide tax-free educational assistance benefits to employees expired Dec. 31, 1987. The limited extension means that Congress next year once again will have to decide the future of the tax-favored status of these benefits.

Finally, the technical corrections legislation would increase the cost of terminating an overfunded pension plan by raising the current 10% excise tax to 15%. Generally, the higher tax would apply on reversions received after Oct. 20, 1988.

This 15% tax is a compromise of the Senate bill, which called for a temporary 60% excise tax on reversions, and the House bill, which lacked a comparable provision.

Coinciding with the passage of the higher excise tax, reversion opponent Sen. Howard Metzenbaum, D-Ohio, was bragging of successfully "pressuring" the administration to adopt a policy that will temporarily slow down pension reversions.

The Treasury will not issue determination letters for applications to terminate overfunded pension plans filed between Oct. 24 and May 1, 1989. The halt will not affect applications for determinations that the Treasury Department already has received.

However, benefits experts say the temporary halt in determination letters means little.

Sen. Metzenbaum had warned that he otherwise would block on the Senate floor a tax treaty between the United States and Bermuda, that, among other things, waives until Jan. 1, 1990, excise taxes on direct insurance and reinsurance premiums paid to Bermuda insurers, said an aide to Mr. Metzenbaum.

The treaty was approved by the Senate in the closing moments of the session; House approval of treaties is not required. ■

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Guaranty funds exceed original coverage intent

By MYRON M. PICOULT
Special to Business Insurance

IT IS THE SEASON of pumpkins, witches, skeletons, ghosts and headless horsemen. The latter also could be viewed as a proxy for mismanaged property/casualty insurance companies. Hence, it makes sense to review the macabre and bring up the ghoulish topic of the insurance guaranty funds once again.



Mr. Picoult

At the heart of this discussion is the perspective that the property/casualty insurance industry's ability to do dumb things is clearly underrated. Some observers believe that the current spate of price cutting and the subsequent underwriting downturn will not end until a major public or mutual insurance company goes belly up. We agree with the concept, but disagree on the timing. In fact, insurance prices will likely reverse before the insolvency is clearly evident. But, if prices continue to tilt down at their current pace, the insolvencies of the 1991-1993 period could make the 1985-1987 experience look like kids' stuff.

All 50 states, the District of Columbia and Puerto Rico have established procedures under which solvent insurers would absorb losses of claimants against insolvent insurance entities. New York state has a preassessment fund, whereas other jurisdictions have set up guar-

anty funds to which solvent companies pay assessments as needed. The assessments are based on premium volume and cannot exceed a stated percentage of the assessed insurers' capital base. The percentage varies by state but generally ranges between 1% and 2%.

The assessments can be used as an offset to premium taxes or be included in ratemaking. Insurers are exempted from assessments if it would cause financial difficulties. Notwithstanding the offsets, there is still a near-term cash-flow impact and clearly an opportunity cost impact. The industry is not in a position to absorb either at this juncture.

There has been a marked increase in both the number of insolvencies and the dollar amounts involved in recent years. From guaranty funds' inception in 1969 through 1983, the industry averaged 5.8 insolvencies a year. Between 1984 and 1987, 69 insolvencies were recorded. This represented 45% of the 153 recorded insolvencies that have been covered by guaranty funds.

From inception through 1987, net cumulative contributions to the pools, including the New York preassessment fund, aggregated about \$2.4 billion. Between 1984 and 1987, assessments equaled about \$1.88 billion, or more than 75% of the total assessments. Viewed another way, guaranty fund assessments in 1987 (excluding New York) amounted to almost \$910 million. This compares with \$532.5 million in 1986 and \$344.2 million in 1985. From 1969 to 1979, total assessments amounted to \$270.3 million.

Recent insolvencies including that of Mission Insurance Co. probably will help to eclipse the \$1.88 billion figure in short order. When the California Insurance Department decided to liquidate Mission in February 1987, the cost of the liquidation was estimated at \$520 million. The most recent estimate is \$1.5 billion.

Sharp increases in both the number of in-

solvenancies and the dollar amounts involved relate to a combination of cash-flow problems, underreserving, reinsurance collectible problems, some fraud, incompetence and overexpansion.

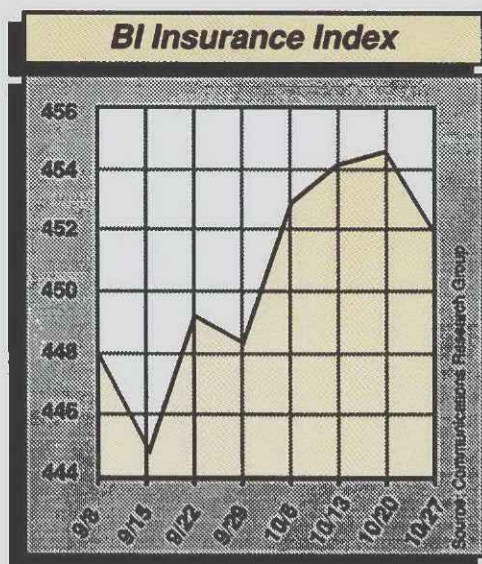
The higher cost of the more recent insolvencies as compared to the liquidations in the 1970s is due to the fact that the companies that went into liquidation in the 1980s were nationwide in scope and wrote much more than just automobile insurance. A considerable amount of general liability and workers compensation insurance also was written.

The original intent of the guaranty funds—to cover problems in the auto insurance area—has given way to a much broader scope. There is little that can be done about the reported problems, but a redefinition of what insurers should be covered is in order.

Two recent federal appeals court decisions could also have a material impact on the guaranty funds. The court decisions gave the federal government first call on the assets of insolvent insurers, whether there is a claim or for taxes owed. The latter factor has much more meaning today given the changes in the industry's tax position due to the 1986 Tax Reform Act.

It is our belief that commercial insurance should not be covered by the guaranty funds. Commercial insurance buyers are considered informed buyers. Hence, they should have a clear understanding of the consequences of seeking out "low-ball" prices from insurance companies with mediocre financial underpinnings and/or questionable reinsurance backing. It is absolutely unconscionable that well-run insurance companies should have to make up for the inefficiencies and strategic mistakes of other insurers.

Indeed, the insurance buyer that grabs a ride from the headless horseman should bear the consequences. The cry of "caveat emptor" rings well.



Insurance industry stocks tripped last week, as the *Business Insurance Index* fell 2.7 points to 452.1 on Oct. 27 from 454.8 on Oct. 20. Advancing issues were led by Sears, Roebuck & Co. (Allstate), up 7.4%; Seibels Bruce Group Inc., up 6.3%; AVEMCO Corp., up 5.9%; Provident Life & Accident Insurance Co., up 5.4%; SCOR U.S. Corp., up 4.8%; and Nobel Insurance Ltd., up 4.2%. Declining issues were led by Frank B. Hall & Co., down 7.7%; SAFECO Corp., down 7.3%; Belvedere Corp., down 5.4%; Fireman's Fund Corp., down 4.7%; and American International Group Inc., down 4%. Issues showing the most activity during the period were: Farmers Group Inc., 5 million shares traded; Sears, Roebuck & Co. 4 million shares traded; and ITT Corp. (Hartford Insurance Group), 1.9 million shares traded. The *Business Insurance Index* dropped 0.6% for the period, performing ahead of the leading market indicators: The Standard & Poor's 500 fell 1.9%; and the Dow Jones 30 Industrials and the New York Stock Exchange Composite each lost 1.8%.

Myron M. Picoult is senior vp and senior insurance analyst with Oppenheimer & Co. in New York. He is the past president of the Assn. of Insurance & Financial Analysts and a member of the New York Society of Security Analysts.

Oct. 27 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High-Low pence
Comm Union	336	9.6	25.3	7.4	341-334
Genl Accident	870	7.9	58.0	6.7	870-866
Gdn Royal Exch	187	10.1	13.1	7.0	187-183
Royal	386	8.0	30.0	7.8	386-383
Sun Alliance	1031	7.8	54.7	5.3	1031-1025

Company	Price	P/E	Div. pence	Yield %	1 Week High-Low pence
Bradstock	222	12.0	8.0	3.6	222-221
CE Heath	448	14.5	34.5	7.6	455-448
Hogg Robinson	151	12.8	8.0	5.3	153-151
Lloyd Thompson	209	16.5	8.0	3.8	211-209
PWS Holdings	135	19.3	6.0	3.9	143-135
Sedgwick Grp	236	19.7	16.0	6.8	236-233
Steel Bri Jones	223	19.9	13.3	6.0	230-220
Willis Faber	243	13.6	16.0	6.6	245-240

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

ISO to suspend some data distributions in California

NEW YORK—The Insurance Services Office Inc. plans to temporarily suspend some California-specific products and services starting Friday until California voters decide the fate of two propositions that would roll back insurance rates in the state.

"The temporary suspension is a precaution to ensure that we will have been in continuous compliance with the law, whatever that turns out to be," an ISO spokesman said.

If approved on Nov. 8, Proposition 103 would immediately roll back automobile, property and liability insurance rates to 80% of Nov. 8, 1987, rate levels, while Proposition 100 would, starting Jan. 2, reduce good driver rates to 80% of the Jan. 1, 1988, level (BI, Oct. 24).

ISO will suspend dissemination Nov. 4 of California-specific manuals and actuarial reports; premium comparison reports; rating plans; state filing handbook data; forms and endorsements; microfiche with prospective loss costs; blanket average rate quotations; and ISOTEL loss cost disks. Distribution of commercial property rating information, data base products, network services and brush fire surveys will halt Nov. 7. ISO will continue to provide information on non-California or multistate risks, but California locations will be excluded from blanket average rates after Nov. 4.

If neither proposition passes, or if they are stayed by legal action, ISO plans to promptly resume services.

BI Industry Stock Report

OCTOBER 27, 1988 10/21/88 THRU 10/27/88

	Price	Weekly % change	Year to Date % change	Annual		Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk value	Price	Weekly % change	Year to Date % change	Annual		Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk value																							
				High	Low										High	Low																													
BROKERS																																													
Alexander & Alexander Svcs	NYSE	24.75	-2.5	39.4	28.13	17.75	367	1.00	4.0	17.7	3.71	6.67	0.69	0.0	-24.2	1.19	0.63	0	0.00	0.0	-1.2	0.51	1.35																						
Baldwin & Lyons Inc	OTC	17.25	1.5	43.8	18.00	12.00	0	0.20	1.2	6.8	18.31	0.94	10.88	-3.3	13.0	13.50	8.75	32	0.60	5.5	-1.2	16.24	0.67																						
Corroon & Black Corp.	NYSE	29.75	-3.7	5.3	34.75	28.00	62	1.08	3.6	4.5	5.43	5.48	59.38	-0.2	1.3	59.38	45.50	781	1.20	2.1	12.2	26.21	2.16																						
Gallagher Arthur J. & Co	NYSE	17.00	1.5	6.3	18.88	13.88	123	0.48	2.8	11.7	5.16	3.29	31.00	0.0	34.8	32.75	22.50	125	1.20	3.9	10.6	10.65	2.91																						
Hall Frank B & Co	NYSE	3.00	-7.7	4.2	5.50	2.88	107	0.00	0.0	11.7	0.00	N/A	29.25	-1.7	11.4	32.00	25.25	0	0.00	0.0	10.6	29.60	0.99																						
Hilb, Rogal & Hamilton	OTC	13.25	1.9	35.9	13.50	9.75	29	0.00	0.0	11.7	0.00	N/A	25.00	-3.8	22.0	27.50	20.75	355	0.72	2.9	7.8	26.50	0.94																						
Marsh & McLennan Cos. Inc.	NYSE	58.25	-1.1	17.7	59.38	45.25	456	2.50	4.3	14.2	6.74	8.64	10.50	-2.3	133.3	11.63	4.50	0	0.24	2.3	17.2	2.90	3.62																						
Poe & Assoc Inc.	OTC	8.25	0.0	17.9	9.25	6.75	0	0.40	4.8	12.7	0.27	30.56	39.63	-0.6	11.6	47.25	34.50	2	0.80	2.0	14.1	17.40	2.28																						
BROKERS AVERAGE																								-1.3	21.3						2.6	11.2													
CONGLOMERATES & HOLDING COMPANIES																																													
Berkley W.R. Corp.	OTC	29.25	2.6	21.9	29.50	23.50	233	0.36	1.2	6.3	17.63	1.66	10.88	-3.3	13.0	13.50	8.75	32	0.60	5.5	-1.2	16.24	0.67																						
Berkshire Hathaway Inc DEL	OTC	4775.00	1.6	61.9	5000.00	2755.00	90	0.00	0.0	21.1	69.38	12.93	56.63	-0.2	1.3	59.38	45.50	781	1.20	2.1	12.2	26.21	2.16																						
ITT (Hartford Group)	NYSE	52.00	-2.3	15.6	54.88	43.25	1947	1.25	2.4	6.5	52.23	1.00	31.00	0.0	34.8	32.75	22.50	125	1.20	3.9	10.6	10.65	2.91																						
Sears Roebuck & Co. (Allstate)	NYSE	43.38	7.4	29.0	46.00	32.25	3980	2.00	4.6	11.3	34.74	1.25	29.25	-1.7	11.4	32.00	25.25	0	0.00	0.0	10.6	29.60	0.99																						
CONGLOMERATES AVERAGE																								2.3	32.1						2.1	11.3													
INSURERS/REINSURERS																																													
Aetna Life & Cas Co.	NYSE	50.38	-2.6	11.3	52.50	39.50	738	2.76	5.5	7.8	53.56	0.94	0.69	0.0	-24.2	1.19	0.63	0	0.00	0.0	-1.2	0.51	1.35																						
American General Corp.	NYSE	33.75	-3.2	6.3	36.38	27.50	530	1.40	4.1	9.1	28.04	1.20	10.88	-3.3	13.0	13.50	8.75	32	0.60	5.5	-1.2	16.24	0.67																						
Amer Heritage Life Inv	NYSE	26.88	2.4	10.8	27.00	24.00	1	1.08	4.0	11.7	20.98	1.28	59.38	-0.2	1.3	59.38	45.50	781	1.20	2.1	12.2	26.21	2.16																						
Amer Indly Fin'l Corp	OTC	9.75	-2.5	8.3	12.00	8.25	2	0.56	5.7	17.1	15.26	0.64	26.75	0.0	15.1	27.75	20.50	40	0.36	1.3	5.6	25.10	1.07																						
American Int'l Group	NYSE	66.00	-4.0	10.0	68.75	49.00	1000	0.40	0.6	10.3	33.56	1.97	15.25	1.7	16.2	16.38	13.38	11	0.48	3.1	6.5	16.65	0.92																						
Aon Corp.	NYSE	28.38	0.5	24.0	28.75	21.88	168	1.28	4.5	9.7	15.13	1.88	31.00	0.0	34.8	32.75	22.50	125	1.20	3.9	10.6	10.65	2.91																						
Argonaut Group	OTC	43.50	-3.9	46.2	49.00	29.50	242	0.00	0.0	6.0	29.19	1.49	29.25	-1.7	11.4	32.00	25.25	0	0.00	0.0	10.6	29.60	0.99																						
AVEMCO Corp.	NYSE	24.88	5.9	26.7	28.75	17.88	28	0.34	1.4	11.6	7.74	3.21	25.00	-3.8	22.0	27.50	20.75	355	0.72	2.9	7.8	26.50	0.94																						
Belvedere Corp.	AMEX	4.38	-5.4	0.0	6.00	4.00	3	0.04	0.9	6.1	7.87	0.56	10.50	-2.3	133.3	11.63	4.50	0	0.24	2.3	17.2	2.90	3.62																						
BMA Corp.	OTC	29.75	-0.8	11.2	36.75	25.50	10	1.20	4.0	27.5	24.45	1.22	39.63	-0.6	11.6	47.25	34.50	2	0.80	2.0	14.1	17.40	2.28																						
Chubb Corp.	NYSE	57.50	-1.1	2.9	63.38	51.25	264	2.16	3.8	6.6	46.13	1.25	59.38	-0.2	1.3	59.38	45.50	781	1.20	2.1	12.2	26.21	2.16																						
CIGNA Corp.	NYSE	50.38	-3.8	14.8	55.38	42.75	356	2.96	5.9	8.2	49.19	1.02	31.00	0.0	34.8	32.75	22.50	125	1.20	3.9	10.6	10.65	2.91																						
CNA Fin'l Corp.	NYSE	62.00	-2.4	11.5	66.13	51.00	173	0.00	0.0	9.2	46.40	1.34	29.25	-1.7	11.4	32.00	25.25	0	0.00	0.0	10.6	29.60	0.99																						
Continental Corp.	NYSE	40.00	0.6	3.2	41.63	34.75	315	2.60	6.5	8.3	42.10	0.95	10.50	-2.3	133.3	11.63	4.50	0	0.24	2.3	17.2	2.90	3.62																						
Durham Corp.	OTC	35.50	-0.7	65.1	36.75	21.50	11	0.92	2.6	33.5	26.00	1.37	39.63	-0.6	11.6	47.25	34.50	2	0.80	2.0	14.1	17.40	2.28																						
Farmers Group Inc.	OTC	71.75	-0.7	78.3	72.50	40.50	4984	1.44	2.0	16.8	22.02	3.26	59.38	-0.2	1.3	59.38	45.50	781	1.20	2.1	12.2	26.21	2.16																						
Fireman's Fund Corp.	NYSE	30.50	-4.7	17.3	33.50	25.75	724	0.50	1.6	132.6	26.17	1.17	25.00	-3.8	22.0	27.50	20.75	355	0.72	2.9	7.8	26.50	0.94																						
INSURERS/REINSURERS AVERAGE																								-0.5	19.1						3.2	14.3													
ALL COMPANIES AVERAGE																								-0.4	20.2						3.1	13.8													

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