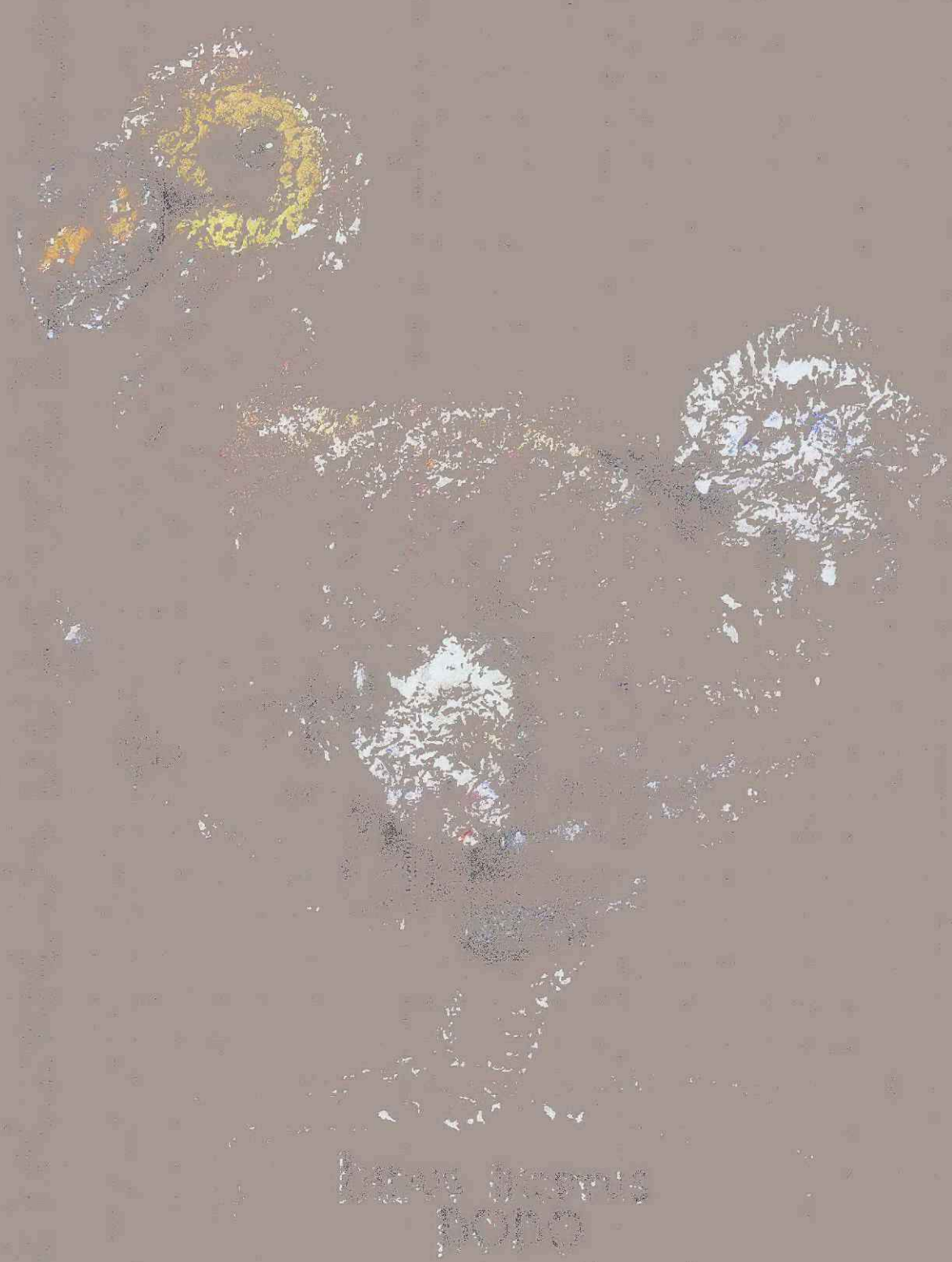


OCTOBER 31, 1994

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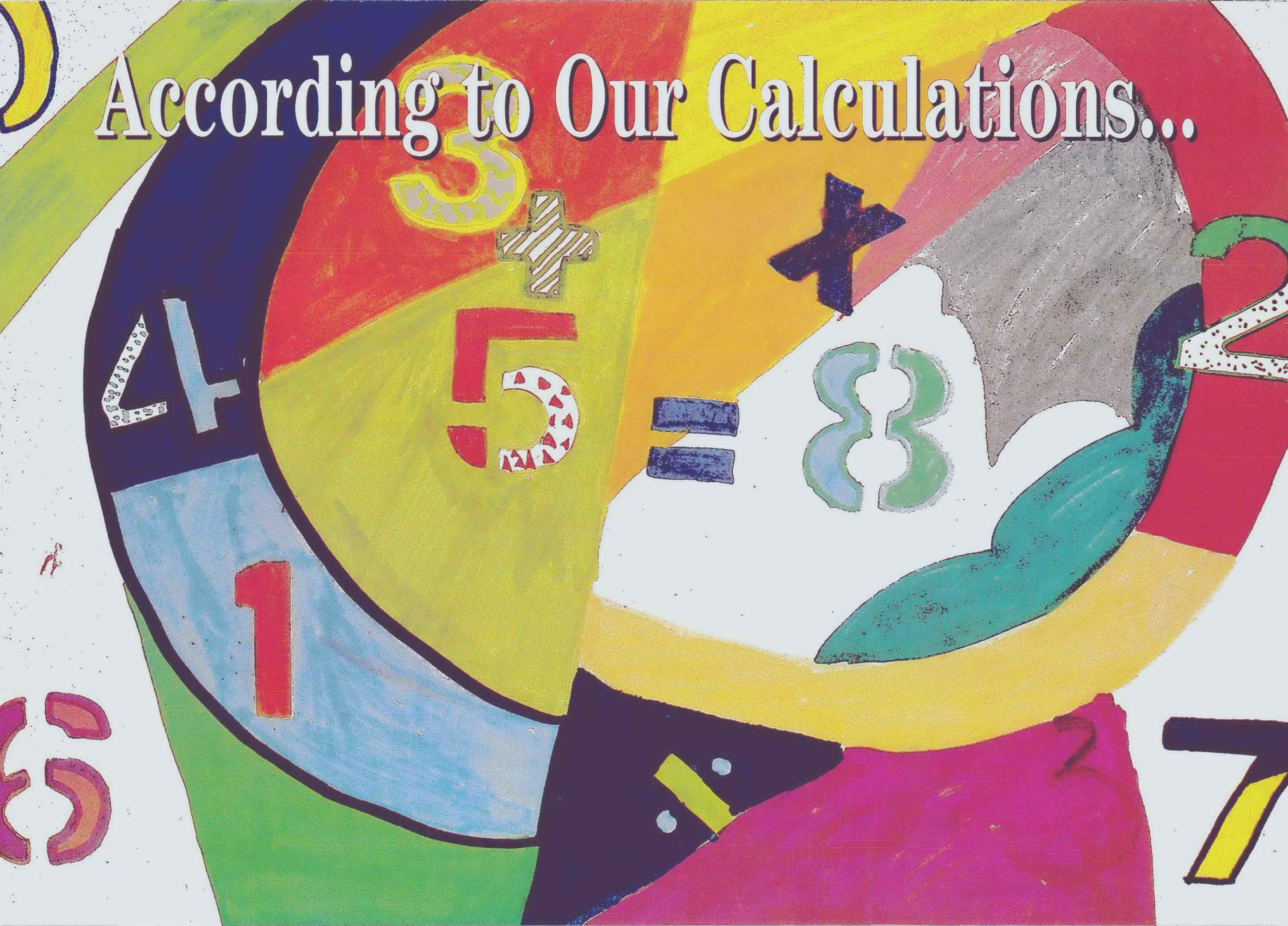
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Gulf Oil pensioners denied claim for \$600 million in plan assets

NEW ORLEANS—Some 40,000 participants of a pension plan sponsored by the former Gulf Oil Corp. are not entitled to more than \$600 million in surplus pension fund assets, a three-judge panel of the 5th U.S. Circuit Court of Appeals has ruled.

At issue were the surplus assets of a defined benefit plan offered to employees of Gulf, which merged with Chevron Corp. in 1984. The plan's assets were commingled with those of a Chevron plan in 1986. Participants in the Gulf plan who had been termi-

Continued on next page

Aviation premiums most recent target in war on drugs

BY STACY SHAPIRO

LONDON—In a crackdown on Colombian and Panamanian drug smugglers, U.S. officials are trying to seize aviation insurance premiums allegedly paid by bogus airlines and air cargo companies and to stop them from buying more coverage.

At the moment, U.S. officials are working with British authorities to try to seize hundreds of thousands of dollars in aircraft insurance premiums in London they claim were paid by a drug trafficker recently extradited from Colombia and charged in Chicago on Oct. 17.

In addition, the U.S. Department of Justice and the Drug Enforcement Administration are telling aviation insurance brokers and underwriters that they want more information about suspicious Colombian and Panamanian airlines and aircraft companies that seek coverage.



• Autumn aviation renewals see selective underwriting. Page 104

"We believe that it is important for all insurance brokers and underwriters in the aviation field to realize that when they agree to underwrite aviation insurance risks for airlines in Colombia and Panama, they may well be accepting premiums which have been generated by illegal narcotics trafficking," Sean B. Martin, an assistant U.S. attorney in Chicago, wrote in a letter to *Business Insurance*.

Continued on page 104

Managed care under a microscope

Opinion surveys gauge plan satisfaction

By CHRISTINE WOOLSEY

CHICAGO—The trend toward using large-scale opinion surveys to measure managed health care plans' performance is sweeping the country as employers continue their attempt to influence the cost, quality and accessibility of health care.

The latest such effort will give employers, employees—and health plans themselves—a detailed picture of the good, the bad and the ugly in Chicago's managed care marketplace.

The participants—which include 12 of the largest employers in Chicago, seven major managed care plans and benefit consultant Hewitt Associates L.L.C.—say the survey's findings will help change the local health care market for the better.

The project also is expected to benefit out-of-town companies that have employees in Chicago. The survey will give such firms detailed information on health plans that represent nearly 80% of the managed care business in

the Chicago metropolitan area.

Now that the federal government has backed off of health care reform—at least for now—these types of grassroots-level studies are becoming the major change agents behind reforming the health care delivery system nationwide.

Xerox Corp., GTE Corp. and Digital Equipment Corp. together sponsored the first of these broad employee satisfaction studies using a standardized survey tool created by the Health Institute, an independent research arm of the New England Medical Center in Boston (*BI*, July 11).

The findings from that survey of more than 24,000 employees are already driving change among some of the 32 health plans that serve Xerox, GTE and Digital employees in six U.S. regions, said Helen Darling, manager of health care strategy and programs for Xerox in Stamford, Conn.

"We are thrilled to have other employers doing this. They will have larger samples on the plans
Continued on page 102

Election outcomes to dictate agenda

A fresh start for health reform begins in Senate

By JERRY GEISEL

WASHINGTON—When the 104th congressional session begins in January, the Senate could be nearly bereft of its current health care reform leaders.

The ranks of those in the Senate who played pivotal, though ultimately unsuccessful, roles in this year's drive to enact health care reform legislation will be significantly reduced by retirements.

And, depending on the outcomes of next week's elections, even more Senate health care reform advocates may not be returning.

Retirement will claim Senate Majority Leader George Mitchell, D-Maine, who carried the torch for the Clinton administration's failed proposal and similar proposals, as well as Sens. Donald Riegle Jr., D-Mich., and Howard Metzenbaum, D-Ohio, also advocates of comprehensive reform legislation.

In addition, Sens. David Durenberger, R-Minn., and John Danforth, R-Mo., two moderate Republicans, and Sen. David Boren, D-Okla., who tried to develop a more limited and bipartisan approach to health care reform, will be retiring.

Moreover, two of the Senate's most vocal supporters
Continued on page 81



• Elections are unlikely to affect property/casualty issues. Page 84

• Five state insurance commissioner races are taking place. Page 85

who tried to develop a more limited and bipartisan approach to health care reform, will be retiring.
Continued on page 81

Single-payer initiative among issues before voters

By RODD ZOLKOS

Voters around the country will weigh in next week on a variety of referenda and initiatives on subjects such as health care, tort reform, workers compensation and auto insurance.

Various initiatives could greatly change the workers comp system in Colorado, allow the Arizona Legislature to limit jury awards and reduce auto insurance premiums and benefits in Michigan.

Arkansas voters almost had the chance to vote on an initiative to guarantee injured workers their choice of doctor (*BI*, Sept. 19), but the state Supreme Court recently took the measure off the ballot.

None of these initiatives, though, has been as hotly debated as Proposition 186, which would create a single-payer health care system in California that would be administered by the state and financed through payroll, income and tobacco taxes.

Recent polls suggest the measure will fail. But, if Californians approve it, a new state agency under an elected commissioner would become the sole payer of all health care bills, with legal residents guaranteed coverage ranging from basic medical care and hospitalization to home care,
Continued on page 82

Damaged pipeline insured

By SARA MARLEY

HOUSTON—One of two channels of the Colonial Pipeline is expected to reopen today after flooding earlier this month ruptured the pipeline—which serves as the main gasoline artery between the Gulf of Mexico and the East Coast—and several smaller pipelines.

The spill resulted in an explosion and fire that shut the Houston Ship Channel for four days.

The Colonial Pipeline—owned by a consortium of 10 oil companies—is insured in the London market. Broker Lloyd Thompson Ltd. confirmed that it placed the coverage for Colonial but would give no details on the types of coverage written for the pipe-
Continued on page 103



AP/Wide World photo

Flames from the exploded Colonial Pipeline burn on the San Jacinto River.

Intermediary

Continued from previous page based, intermediaries are looking to reinsurers in the United States, Bermuda, the United Kingdom, Europe and Asia to complete clients' programs.

"The capacity required by buyers means enlisting the support of the world marketplace," said John P. Woods, president of John P. Woods Co. Inc. "You can't ignore any part of it in providing capacity and competitive pricing for your client."

Intermediaries report that insurers generally are willing to pay for quality reinsurance.

"Reinsurance buyers are balancing their desire for cost-effective reinsurance against the need for quality reinsurance participants," said Sedgwick's Mr. Zaffino.

"Stability is important, including

the stability of the intermediary," added William R. Coleman, president and chief operating officer of Alexander Reinsurance Intermediaries Inc.

Maintaining adequate coverage for potential catastrophe exposures also is a big concern of the clients.

"Some companies want to reduce their premium outlay, but the majority are placing as much as they feel" corresponds to their exposure, said Robert F. O'Leary, president and chief operating officer of Willcox Inc. Reinsurance Intermediaries.

"If they realize their retentions are too large, they try to correct it by buying as much reinsurance as they can. They are considering the views of the rating agencies," he added.

Rating agency A.M. Best Co. now requests copies of insurers' catastrophe exposure studies when determining their ratings, explained Philip W. Mitchell, managing direc-

tor and CEO of Towers Perrin Reinsurance (see story, page 17).

Some intermediaries, though, are advising certain clients to consider buying less reinsurance.

"Insurers cut costs when the market is hard and buy less reinsurance," said Wallace E. Winter, chairman of Intere Intermediaries Inc., a unit of Minet Re. "We encourage companies to utilize their surplus. When they build surplus, the need for reinsurance should diminish. The cheapest reinsurance is their own surplus."

Indeed, Willis Faber's Mr. Dowd observed that "some large multiline companies like Allstate and State Farm don't buy reinsurance; they manage their risk in-house."

The amount of risk retained depends on the line of business.

In working-layer casualty treaty reinsurance, "retentions have more or less been stable for the last several

years," said Mr. Coleman of Alexander Re. "In property, on the other hand, cat retentions are up dramatically. Big companies are still moving (retentions) up and they will be for the foreseeable future."

Not all reinsurance brokers see cat retentions rising.

Regarding catastrophe covers, "I don't think ceding companies will increase their retentions," said Chris L. Walker, chairman and CEO of E.W. Blanch Co. "They've been through that and now they are buying more protection. They will buy what they bought last year, if not more."

Many ceding companies look at reinsurance only as an expenditure, not an investment, Aon Re's Mr. Davies said. "They look at the reinsurance premium out the door as a cost factor, but they don't look at the claim recoveries in terms of reducing cost," he explained.

Intermediaries report that consoli-

dation continues in the industry.

"With the continued consolidation of the reinsurance business, there will be fewer reinsurers, fewer suppliers and fewer intermediaries operating, but on a larger and larger scale," said Stephen L. Lunsford, president of Aon Re Worldwide.

"The trend is fewer but larger markets and fewer but larger brokers," agreed Blanch's Mr. Walker. "More and more is expected of intermediaries, and the smaller you are, the harder it is to meet those expectations."

To survive in this competitive atmosphere, many reinsurance intermediaries are re-examining their production strategies and trying to gain a higher profile.

"Hurricane Andrew brought the spotlight on the financial picture of insurers and their dependence on reinsurance," Mr. Woods said. "Companies folded or were unable to write business because they couldn't buy reinsurance."

"The reinsurance business in general has a heightened public profile," over the past 20 years, when the business was "too invisible," said Mr. Dowd of Willis Faber, which is one of the few reinsurance intermediaries to publicly announce new offices or executive appointments.

"You can get out in front of the trend and adopt a marketing technique and position yourself the way you want to be positioned," he said. "It's sensible that if you're going to have a higher profile anyway, you should describe what you want that profile to be."

Like many reinsurance intermediaries, Willis Faber capitalizes on its parent company's size and reputation.

"A closer identification with the Willis Corroon group is very positive," Mr. Dowd said. "They have a global reach that we are able to tap."

Several intermediaries also are attempting to increase their visibility by expanding beyond their traditional client base.

Willis Faber, for example, also promotes its services to risk managers, Mr. Dowd said. "They are increasingly looking to alternative risk transfer devices, many of which have reinsurance," he said. It is also looking to professional firms, such as accountants or law firms, whose clients might be in need of reinsurance. The investment community also might look to a reinsurance intermediary during a merger or acquisition or for runoff services, Mr. Dowd said.

While Intere focuses primarily on insurers, the broker also has a large book of business generated by managing general agents. Although they place reinsurance for captives and risk retention groups, Intere brokers rarely call on risk managers directly.

"That business is more likely to be brought in by a Minet primary broker," Mr. Winter said.

However, Intere brokers make presentations at the annual Risk & Insurance Management Society Inc. conference to increase risk managers' recognition of the firm. "We consider it a good opportunity to tell the story of the reinsurance community and reinforce in risk managers' eyes that Intere is part of Minet," he said.

Aon Re uses its parent company's capitalization as a selling point.

Ceding companies "are looking for financially sound reinsurance brokers that can service their business for a given number of years, especially long-tail business," Mr. Davies said. "We feel Aon Re Worldwide is the world's best-capitalized broker on the reinsurance end."

Some reinsurance brokers also see intercompany relationships as a potential source of additional business.

Because St. Paul has owned Intere for only five years, the intermediary

Continued on page 6

Roger Beerwirth/United National Group



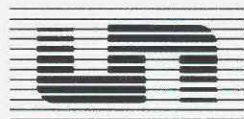
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Intermediary

Continued from page 4

places only a small percentage of St. Paul's reinsurance.

"We do everything we can to encourage them to use us more," said Mr. Winter, who added, "There's a loyalty within the (reinsurance) business that precludes ownership relationships."

Although Aon Re tries to place much of the reinsurance business generated by Aon Corp., "we do not force-feed an Aon company to a client," Mr. Davies said.

Aon Re places a large portion of the reinsurance for business written by Aon's MGAs like K&K Insurance Group and Media/Professional Insurance Inc., though that decision is ultimately in the hands of the insurer behind the MGA program.

"In the end, the ceding company is

the client," Mr. Davies said.

"Interdependence within the Aon network is very important as a business strategy of Aon" developed by Chairman Patrick G. Ryan, Mr. Davies noted.

But, that strategy will not work for all intermediaries that are part of larger brokerages or insurers, he added. "If they have not worked together in the past, it's like they are the cobra and the mongoose."

Another way to raise one's profile is to go public, as E.W. Blanch Co. did last year.

"Going public helped us in the marketplace," Mr. Walker said. "People want to do business with winners, with successful operations. We were able to expose to the world our results and track record."

E.W. Blanch Holdings recently acquired Elton George Cos., an insurance wholesale broker and manager of program business based in San

Antonio. Like other intermediaries with wholesaler affiliates, Blanch hopes to get a shot at placing much of the reinsurance for that operation.

"That is certainly our objective," he said. However, the MGA may put together a program with a ceding company that has an existing reinsurance intermediary relationship or that does not purchase reinsurance.

"We will derive fee income in other ways, through processing (claims or applications) or a fee for making a marriage" between an affinity group and an insurer, he said.

The top intermediaries are not relying solely on affiliated companies to generate new business, though. Many are reorganizing their staffs or have done so in recent years to improve productivity.

"We are refocusing our broking staff from the generalist approach with the goal of developing highly skilled specialists by line," Sedgwick

Payne's Mr. Zaffino said.

For the past three years, Alexander Re has approached business on a national account basis using a "rifle" approach as opposed to a "shotgun," Mr. Coleman said. "We are not all things to all prospects," he said. "We focus on preselected companies where things match up appropriately. Our philosophy is that our existing clients are the best source of new business for us."

Willis Faber has organized its brokers into "competence centers" by specialty, such as marine, aviation, surety, transportation and professional liability, Mr. Dowd said. The intermediary is also organized geographically to ensure that all parts of the country are covered.

Intere has operated a branch system during all of its 75 years of existence, Mr. Winter said.

"It works for us," he said. "We are redoubling our efforts and making

more calls and more in the specialty areas like non-standard auto and surety. Overall, we have always focused on medium-sized standard property/casualty companies, in some cases regional."

Some intermediaries also make cold calling a vital part of their strategy for generating business.

"We've never had the luxury of a large parent," E.W. Blanch's Mr. Walker said. "We have always been out there beating the bushes, looking for new business all the time. We are out there hustling and making calls consistently. I have seen a lot of others doing the same thing."

"I have made cold calls for my 30-years-plus in the business," Aon Re's Mr. Davies said.

"Certain brokers have felt they have been above (cold calling) and now they are trying to catch up," he continued. "They are finding their corporate philosophy in the past was against it, and they can't turn it around overnight."

"We have always emphasized making cold calls," Intere's Mr. Winter said. "It is a way of life for us. For treaty brokers, it takes three to five years to develop a prospect into a client."

Cold calling is not part of the strategy at Willcox and Alexander Re, though.

"Cold calling to a retail broker might be viewed somewhat differently than to a reinsurance intermediary," said Sedgwick's Mr. Zaffino. "The nature of reinsurance fosters a long-term servicing commitment by the broker. We do quite a bit of homework in preparation of a cold call. We have made and will continue to make cold calls but with a very focused marketing strategy."

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

Guy Carpenter & Co. Inc.

Gross revenues at New York-based Guy Carpenter & Co. Inc., the largest reinsurance intermediary, increased 4.5% in 1993, reversing a 2.7% slide in 1992 revenues.

Gross revenues, including investment income, stood at an estimated \$296.8 million in 1993, up from \$284 million a year earlier.

The increase is due to continued higher rates for property catastrophe reinsurance as well as new business production, according to the annual report of Carpenter's parent, Marsh & McLennan Cos. Inc.

Carpenter's gross revenues include revenues from London-based C.T. Bowring & Co., the executives of which report to Carpenter officials in New York.

Premium volume increased 5.3% to an estimated \$5 billion last year from \$4.75 billion in 1992.

Carpenter's worldwide employee population dropped by nearly 25% to 1,624 from 2,145 in 1992. It closed offices in Atlanta, Chicago, Dallas and Coral Gables, Fla., and has increased automation of its activities.

The intermediary has secured licenses in Texas, Ohio and South Carolina in the past year, adding to California, Minnesota and New York.

Company officials declined to be interviewed.

Aon Re Worldwide Inc.

By reorganizing its reinsurance brokerage operations into a single global unit, Aon Re Worldwide Inc. became the second-largest U.S.-based intermediary in 1993, up from No. 4 a year earlier when only U.S. operations were considered.

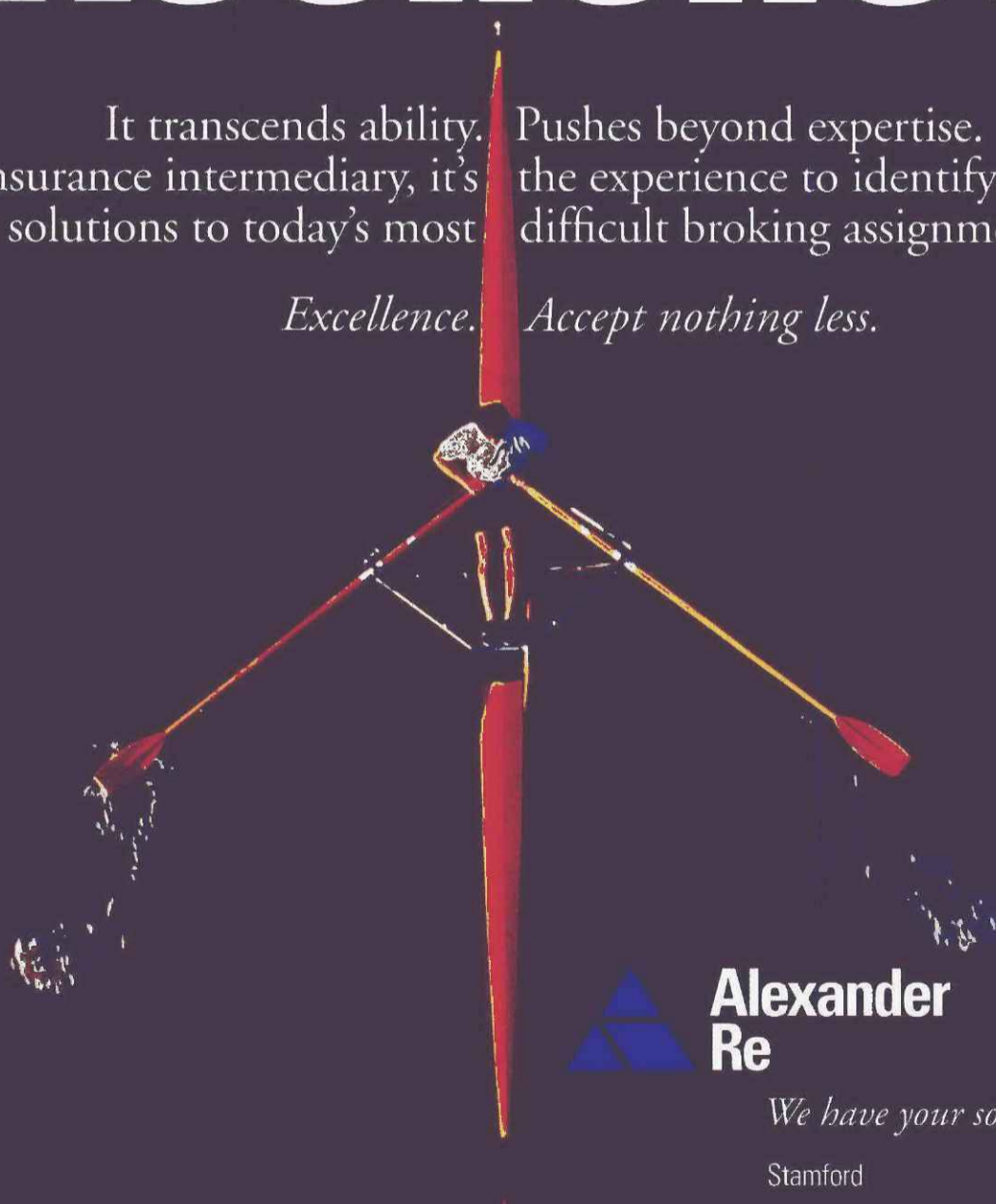
The company, which was created at the end of 1993 as a holding company for all of Aon Corp.'s reinsurance broking operations, reported

Continued on page 12

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Opinions

Time for a unified approach

NO MATTER WHAT the outcome of the Nov. 8 elections, it's a pretty safe bet that insurers and risk managers have about two months to hammer out a Superfund reauthorization strategy before the 104th Congress convenes.

The Clinton administration, which didn't get around to introducing Superfund reauthorization legislation until the 103rd Congress had run more than half its course, appears poised to get a bill before the 104th Congress very quickly. In fact, there is some indication that a bill could be dropped in the hopper as early as the day Congress convenes in January.

But that's still more than two months away. And that's two months that a divided business community and even more divided property/casualty insurance industry ought to use to formulate a united approach to Superfund reform.

Of particular concern to many risk managers and insurers is the proposed Environmental Insurance Resolution Fund.

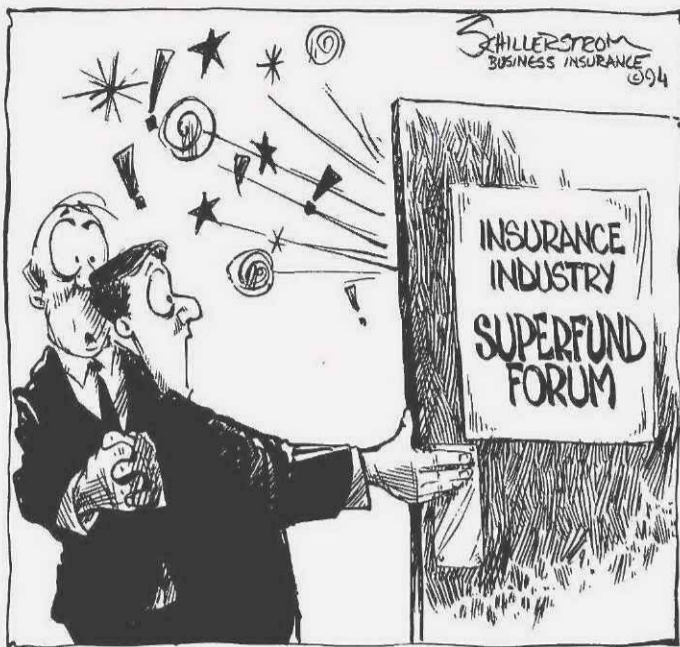
The EIRF didn't generate a great deal of support among risk managers. It earned the outright opposition of the Risk & Insurance Management Society Inc. and it set insurers and reinsurers at each other's throats.

Representatives listening to insurer debate insurer shook their heads and wondered aloud why the industry was asking them to decide an internecine dispute.

The argument occurred despite broad agreement on the general shape of the rest of the bill. Businesses, insurers, community groups and environmentalists all agreed that the proposal provided real reform of the Superfund liability system even though it stopped short of forbidding the application of retroactive liability in determining who was responsible for cleaning Superfund sites. The bill also held out the promise that remedy selection for Superfund sites would be more in line with reality than current practice is.

But the Superfund reauthorization bill died during the last days of the 103rd Congress less because of controversy over its intrinsic faults and merits than for disagreement over an issue that had nothing to do with environmental policy, liability reform or insurance.

Instead, an argument over wage rates for certain



work performed at certain cleanup sites killed the bill.

That argument over labor rules gives proponents of meaningful Superfund reform another chance, albeit limited, to settle their differences.

As Franklin W. Nutter, president of the Reinsurance Assn. of America, notes in an article on page 74, "the industry tends not to do well when it goes before Congress divided or adversarial to other segments of the industry. The industry would be well-advised to try and reach some agreement about that."

The current delay presents an opportunity for insurers and risk managers to hammer out an inclusive Superfund strategy.

A legitimate complaint raised by opponents of the administration bill was that too many interested parties were cut out of negotiations for too long. If Superfund reform is going to happen—and there probably aren't three people in the land who disagree that Superfund demands reform—there will have to be an inclusive rather than exclusive approach.

Two months ought to be enough time to decide whether the EIRF should be jettisoned. And, given the broad agreement on so many other aspects of Superfund reform, sacrificing the EIRF may be a small price to pay for unity.

Letters

Broker remembered for talent, personality

To the editor: On Oct. 15, 1994, the D&O/E&O professionals of the world lost a part of themselves. That part was Frank Englert of Johnson & Higgins of New York. "Frankie," as some of us liked to call him, was a throwback to the old days of insurance brokering.

Frank, a Vietnam vet, came from the school of hard knocks. He was a bit rough around the edges, but what you saw was what you got. Clients adored him, underwriters were usually dazzled by him and his peers were amazed to see how he could convince underwriters to "get with the program" with his unique

style of brokering. (Usually a bear hug and a kiss.)

While at Marsh & McLennan Cos. Inc. in the early '80s, when competing underwriters rarely spoke to each other, Frank would organize a white-water rafting trip with colleagues from American International Group Inc., First State Management Corp., Chubb Corp., Harbor Insurance Co., Wausau Insurance Cos. and Crum & Forster Inc., to help make us understand that personal relationships were really what it was all about.

Frank never met a risk he couldn't broker to an underwriter. He earned all of our respect, for when he presented a risk he left no stone unturned. He was a survivor, not only in the wars of business, but in the wars of life. Cancer took Frank from us but he left us with memories and lessons in life that I pray we never forget.

He will be missed.

Jim Ansaldi
Senior Vp
X.L. Insurance Co. Ltd.
Hamilton, Bermuda

Demotech a pioneer in HMO ratings

To the editor: In an article in the Oct. 10 issue of *Business Insurance*, "Weiss Research Ratings Show Most HMOs in Good Health," Weiss Research Inc. said it is the first to examine the "financial security of nearly all the country's largest HMOs."

However, Demotech Inc., a financial analysis and actuarial firm, was the first

firm to prepare an examination of the financial security of health maintenance organizations.

We initiated these services in 1987, well before anyone else implemented same.

Joseph L. Petrelli
President
Demotech Inc.
Columbus, Ohio

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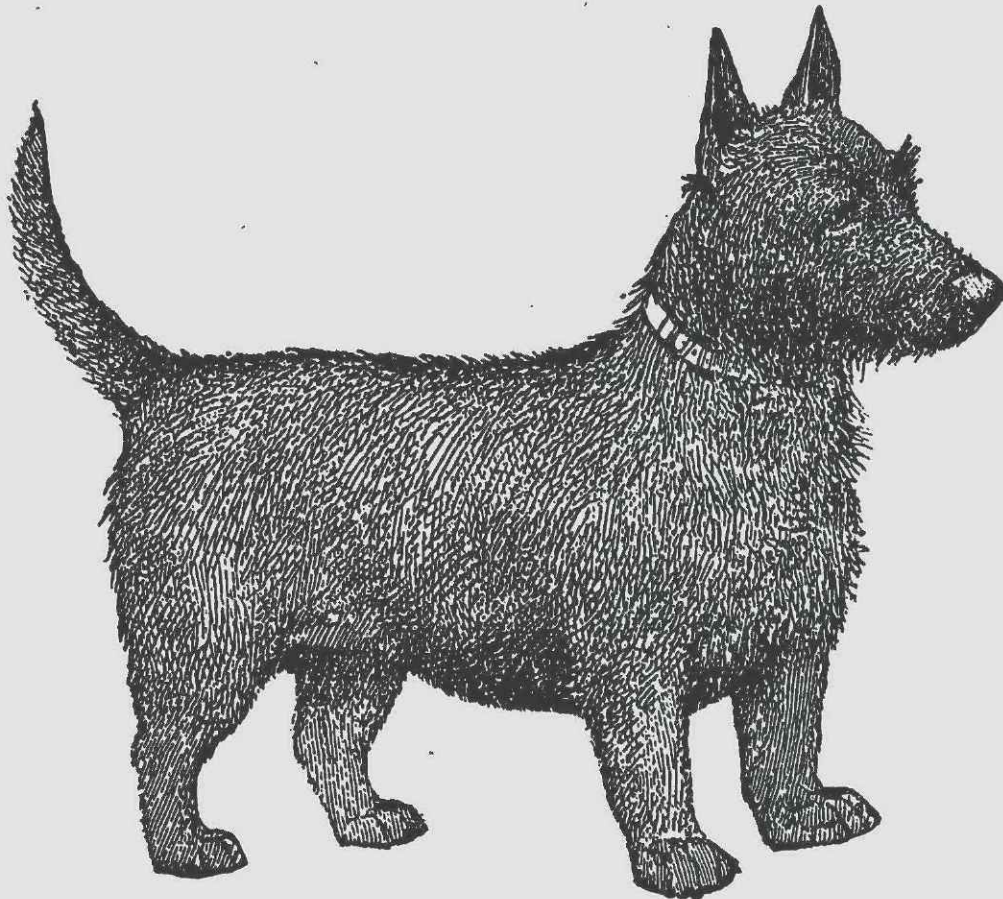
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Intermediary

Continued from page 6

pro forma gross revenues of \$120 million in 1993.

Aon Reinsurance Agency Inc., the previously-ranked North American operation, had gross revenues of \$45 million in 1992.

Chicago-based Aon Re Worldwide employs 528 people in its four operating units: Aon Re Inc. is the U.S. arm with offices in Chicago, New York, Philadelphia, San Francisco, Seattle and Stamford, Conn.; Aon Re (Bermuda) Ltd. is based in Hamilton, Bermuda; Aon Re LatinoAmericana is based in Mexico City; and the Nicholson Leslie Group manages offices in London, Amsterdam, Istanbul, Milan, Singapore and Tokyo.

About 60% of Aon Re Worldwide's clients are U.S.-based, and

three-quarters of its premium volume is placed domestically, said Stephen L. Lunsford, its president.

Three executive vps have joined the firm in the past year: Robert Strifler, Dan Dolan and Jay De-meusey.

Minet Re

Minet Re also is reporting on a global basis this year.

Based on estimated gross revenues of \$75 million, Minet Re ranks as the third-largest U.S.-based intermediary.

All of Minet Group's reinsurance brokerage business reports to Michael Rossor, executive vp and CEO of reinsurance, in London.

1993 worldwide premium volume for reinsurance was \$1.28 billion.

Minet Re North America Inc.—which comprises Intere Intermediaries Inc., RFC Intermediaries Inc. and

IOC Reinsurance Brokers Ltd.—produces less than half the firm's global reinsurance brokerage revenues.

Mark Hvidsten was promoted on Oct. 1 to the president and CEO of New York-based Intere.

Mr. Hvidsten replaces Daniel R. Colello, who left in January. Wallace E. Winter, who served as interim president, continues as chairman of Intere.

Premium volume for Minet Re North American declined slightly to \$654.5 million. Premium volume remained flat at \$486 million at Intere, the U.S. treaty operation, and declined to \$100 million from \$120 million at RFC, a facultative intermediary. IOC, a Toronto-based broker, reported premium volume of \$68.5 million, a 31.7% increase over 1992, and revenues of \$2.5 million, also a more than 30% increase.

Intere elevated a 10-year-old accident and health operation in At-

lanta to full branch status in the past year.

In 1995, the broker will move its headquarters to New Jersey from New York to "be in the backyard of our client base," Mr. Winter said.

Typical clients of the intermediary are medium-sized companies with multistate operations. Few clients are based outside the United States.

Between 10% and 15% of business is placed with non-U.S. reinsurers. "With a large program, you have to go overseas," Mr. Winter said. Intermediaries may call on other Minet units for assistance in placing business abroad.

Intere's general counsel, senior vp Bob Mendez, also resigned during the summer. An assistant is serving in that capacity until a replacement is named.

E.W. Blanch Co.

E.W. Blanch Co. gained a new

chief executive in the past month.

Michael W. Cashman has retired as chairman and CEO of the Minneapolis-based intermediary and also as president and chief operating officer of its parent company, E.W. Blanch Holdings Inc. (BI, Oct. 10).

Chris L. Walker, president of E.W. Blanch Co., assumed the additional roles of chairman and CEO. Edgar W. Blanch Jr., chairman and CEO of E.W. Blanch Holdings, took on the added roles of president and COO of the holding company.

Blanch reported gross revenues of \$64.7 million in 1993, an increase of 16.6% over 1992, making it No. 4 in the rankings.

Premium volume increased 17.6% to \$1.7 billion in 1993.

Blanch placed about 15% of its business internationally in 1993, which has increased to 18% in 1994.

"We want to increase the international scope on both ends of the transaction," Mr. Walker said.

Toward that end, E.W. Blanch Holdings has teamed up with London-based Swire Fraser Group to create a new international reinsurance broker (BI, Sept. 26). Swire Blanch Holdings Ltd. will handle the two firms' existing clients outside London and the United States and develop new business.

Blanch specializes in medical malpractice, professional liability, excess and surplus and regional insurers, but large national insurers have driven much of the intermediary's growth in the past 18 months, Mr. Walker said.

"We will continue to look for other acquisition opportunities and joint ventures," he said. "There are things we are reviewing now and we will continue to be active."

Sedgwick Payne/Crump Re

Gross revenues declined slightly in 1993 to an estimated \$61.5 million from \$62.5 million in 1992.

That decline, along with the creation of Aon Re Worldwide, bumped the North American unit of Sedgwick Group P.L.C. to No. 5 among U.S.-based reinsurance brokers from No. 2 a year ago.

Premium volume also dropped about 4% to \$1.2 billion in 1993.

Sedgwick Payne has completed a restructuring of its North American reinsurance operations, moving all corporate functions to Hartford, Conn., according to Salvatore D. Zaffino, president and CEO.

Client services remain in Seattle. The broker also formed a Minneapolis office in August 1993.

"We have begun the process of physically combining our treaty and facultative offices where both are located in the same city," Mr. Zaffino said. Sedgwick Payne writes treaty reinsurance, while Crump Re is "the largest facultative broker in the country and among the few providing facultative support to clients," he said.

Facultative business increased to 25% of the overall operations in 1993, up from 20% in 1992.

Both units will be operating under the name Sedgwick Re as of Feb. 1, 1995, said Mr. Zaffino.

Sedgwick Payne services major stock companies as well as regional and specialty insurers. The broker's Diversified Programs Division provides reinsurance for programs and alternative facultative products.

Working layer and excess casualty, standard property, property cat covers, workers compensation, aviation, marine, professional liability and financial and finite risks make up Sedgwick's book of reinsurance business.

"Approximately 20% of our business is placed outside the United States," Mr. Zaffino said. "We ex-

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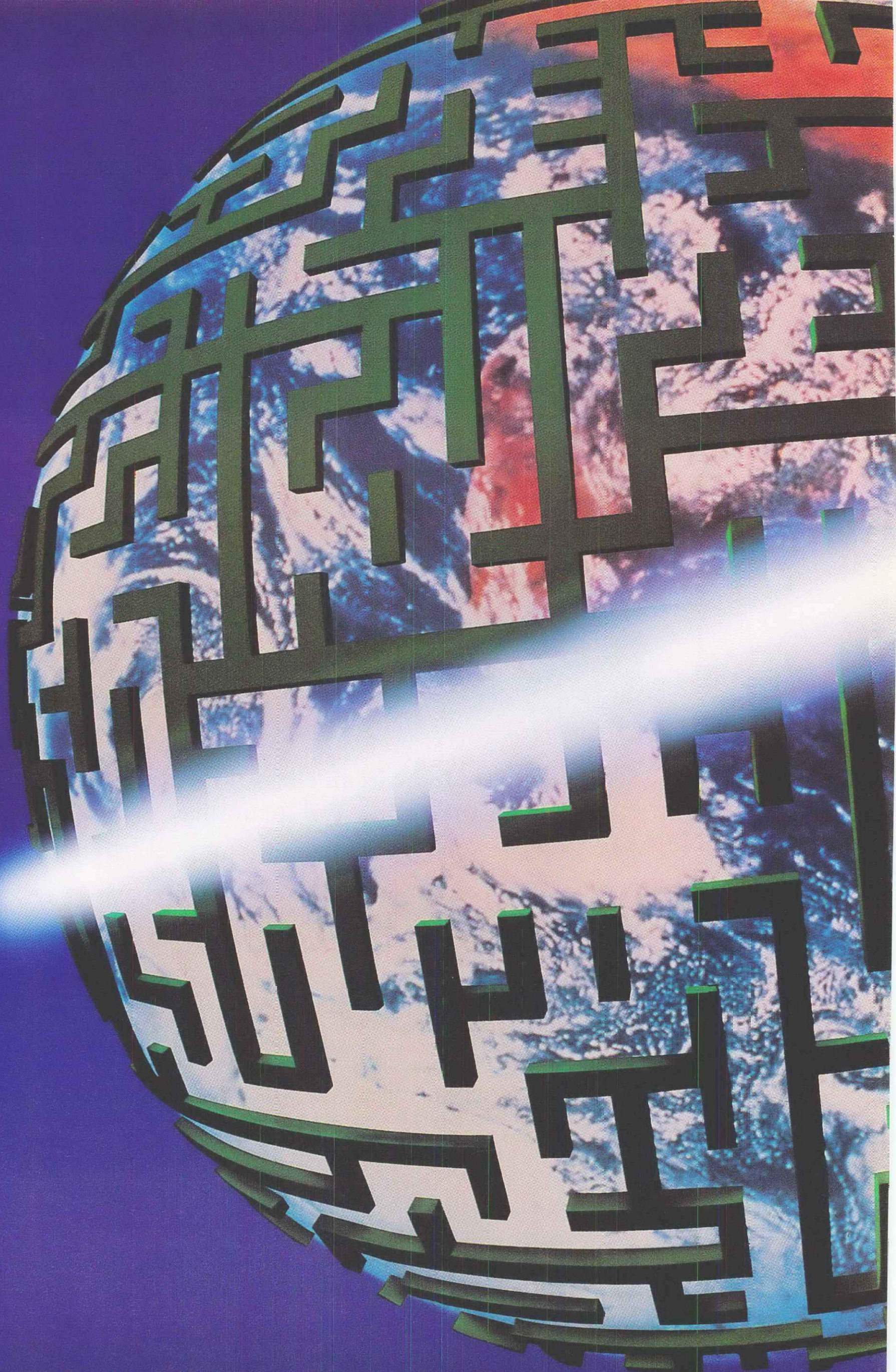
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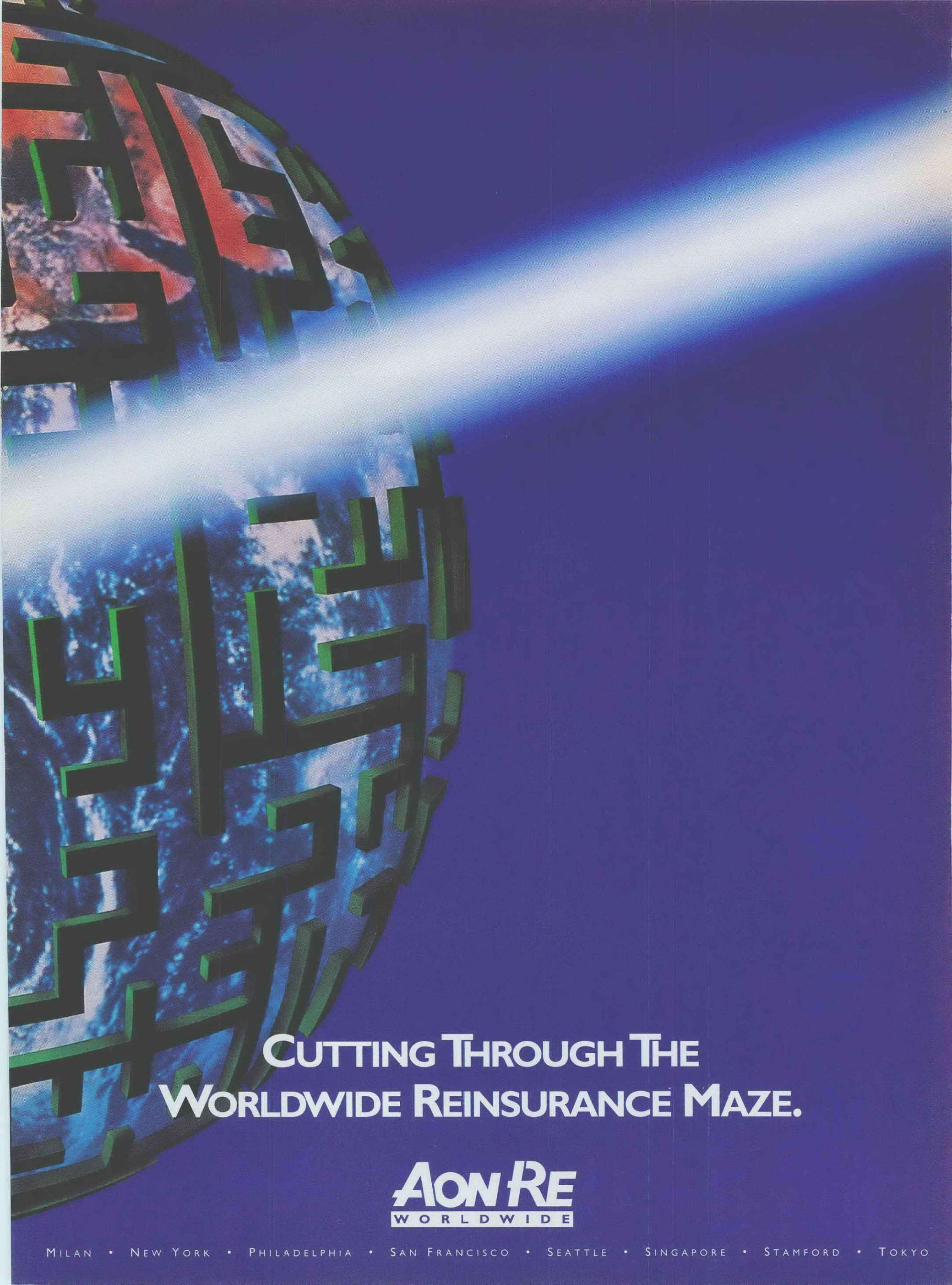

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Intermediary

Continued from page 12

pect this percentage to increase during 1994, particularly due to the Bermuda markets."

Sedgwick plans to grow by adding staff or by acquiring compatible operations. For example, Sedgwick Payne has hired a team of property treaty brokers in New York to service the Northeast.

Willis Faber North America Inc.

Willis Faber North America Inc. restated its 1992 gross revenues to include the work of international brokers who place business on behalf of North American clients and who report to Willis Faber N.A. Chairman and CEO James F. Dowd.

The Willis Corroon Group P.L.C. unit's gross revenues increased 9.5% to \$46 million from a restated \$42 million in 1992, securing it the No. 6 spot in the rankings.

Premium volume increased 14.5% to \$1.3 billion in 1993.

Based in New York, Willis Faber N.A. has opened five new offices over the past 12 months in: Chicago; Nashville, Tenn.; Philadelphia; Stamford, Conn.; and Miami.

The broker's clients include national, regional and specialty/monoline insurers, as well as risk retention groups and captives.

"A very small insurance company may be more reinsurance dependent than a large company with a national presence," Mr. Dowd said. Most new business of late has been coming from small to medium-sized regional specialty insurers.

"We pride ourselves on the depth of our expertise in specialty lines such as accident and health, marine and aviation, financial reinsurance, medical malpractice, municipal liability, political risk, professional liability, surety, transportation and workers compensation," Mr. Dowd said.

About 35% of Willis Faber's premium volume was placed with non-U.S. markets in 1993 and about 20% was through the first three quarters of 1994.

Twelve executives have been hired at the senior vp or higher level in the past 12 months, including: Manuel F. Almenara as managing director to head the Miami office; Kevin Riley as executive vp and national production manager; Daniel L. Siegel as senior vp and Chicago branch office manager; and Peter C. Hearn as senior vp and Philadelphia branch office manager, later named Eastern region manager.

Willcox Inc. Reinsurance Intermediaries

Gross revenues rose 6.6% to \$40.5 million in 1993.

The New York-based subsidiary of Johnson & Higgins had a premium volume of about \$1 billion last year.

"We are not growing through acquisitions, though we would consider one if it fit our needs and met with our growth plan," said Willis T. King Jr., chairman and CEO.

"One of the ways we distinguish ourselves is we continue as one company to maintain an international base of business," he explained. "We are not separate entities focusing on geographic areas."

Willcox opened an office in Singapore last summer headed by Y.C. Watt, who previously ran Prudential Reinsurance Co.'s Asian operations. Mr. Watt will produce business from ceding companies throughout Asia, including Australia, Indonesia, Malaysia, the Philippines and Korea.

The firm is called Willcox

Johnson & Higgins Asia to capitalize on J&H's Asian retail network.

Most of that business will be marketed by Willcox offices elsewhere.

"We will be looking at Japan as a market for business as opposed to looking at ceding companies," Mr. King said. "Willcox already has strong relationships with the home offices of the majority of Japanese insurers."

Between 15% and 20% of the broker's clients are based outside the United States.

At the same time, U.S. growth will also continue, Mr. King predicted. For example, Willcox's Indianapolis staff has doubled and the Los Angeles office has added as clients some major California-based stock companies.

Willcox focuses on small to medium-sized mutual and stock companies, especially agricultural and farm insurers.

One-quarter of the business is placed internationally and 6% to 7% goes to Bermuda. That is an increase from 1% or 2% heading to Bermuda a year ago, noted Robert F. O'Leary, president and COO.

Jim O'Brien and John Waite have joined the firm as senior vps.

Towers Perrin Reinsurance

Towers Perrin Reinsurance saw increases in gross revenues and premium volume in 1993.

Gross revenues for the Philadelphia-based firm rose 5.4% to \$39 million in 1993, while premium volume increased 4.5% to \$575 million.

The unit of consulting firm Towers Perrin continues to focus largely on accident and health, managed care and professional liability, said Philip W. Mitchell, managing director and CEO.

Towers Perrin Re also is placing

more business outside the United States and Bermuda and is finding that French reinsurers, in particular, have an appetite for some U.S. business, Mr. Mitchell said.

About 35% of its business is placed in the United States, 30% in London, 25% in Bermuda and the rest in Europe. Nearly all its clients are U.S.-based ceding companies.

Regional insurers constitute 60% of the intermediary's clients, national insurers 25% and smaller and single-state insurers 10%. New business is coming from the Northeast and Midwest, Mr. Mitchell said.

Daniel R. Colello, former head of Intere Intermediaries Inc., joined the broker in April as senior vp.

Alexander Reinsurance Intermediaries Inc.

Gross revenues increased 6.3% at Alexander Reinsurance Intermediar-

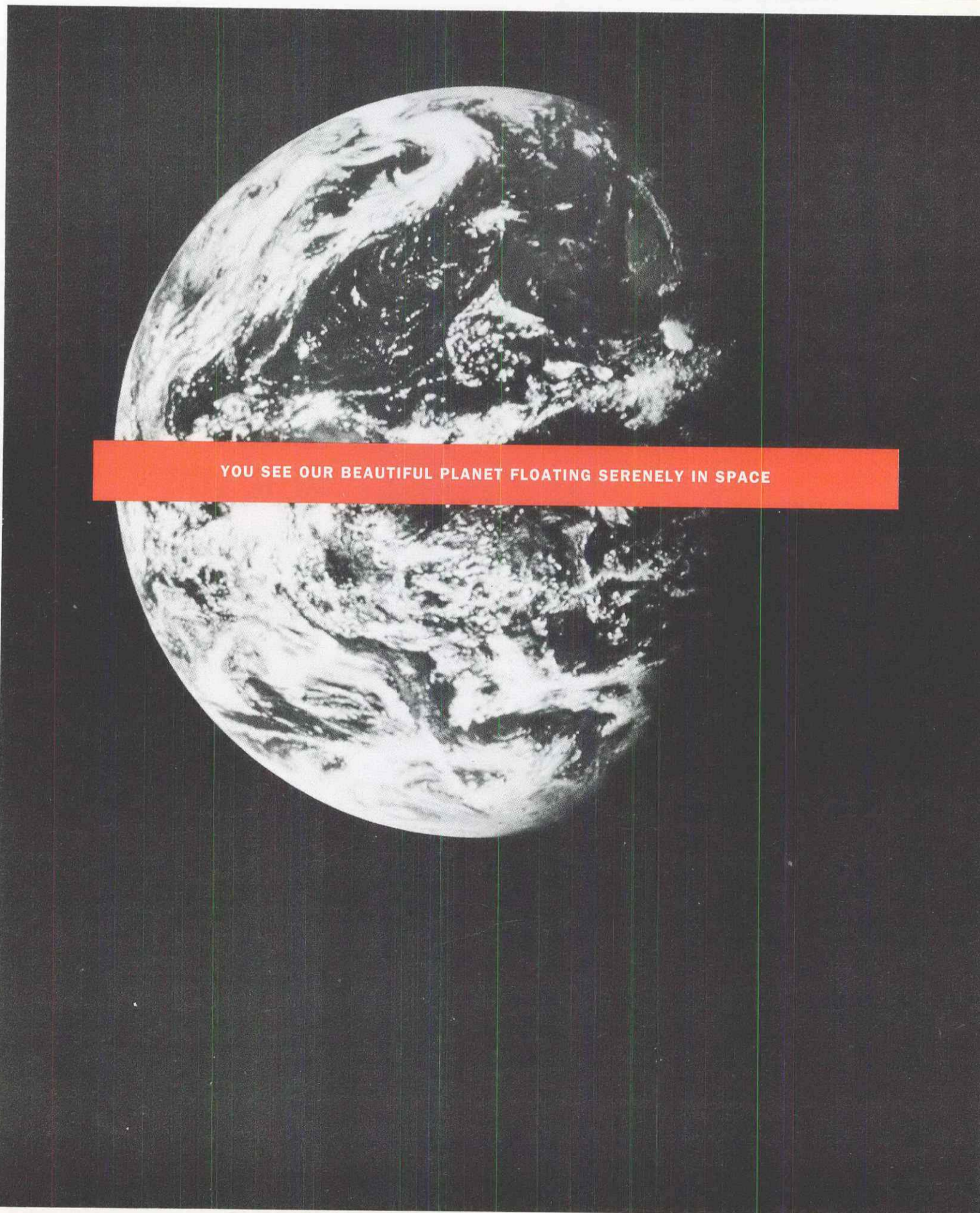
ies Inc. to \$28.9 million, while premium volume jumped 21.8% to \$615 million.

"Most of our new business in 1993 came in the specialty area," including surplus lines, professional liability and property catastrophe for large regional insurers, said William R. Coleman, president and chief operating officer.

In addition to insurers, Alexander Re focuses on self-insurance funds and state workers comp funds.

Alexander Re is handling more pro rata business, and has eliminated a small facultative practice.

Another development in the past year has been the addition of a new management information and treaty system that links Alexander Re to clients, several markets, the Reinsurance Assn. of America, the Brokers & Reinsurers Markets Assn. and various computer services at Lloyd's
Continued on next page



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Continued from previous page of London.

Alexander Re places about 15% of its business outside of the United States, a slight decrease from 1992 levels.

"That reflects ceding companies' desire to retain business in the U.S. where they can," Mr. Coleman explained. Purchasing from "quality reinsurers in terms of financial resources being paramount, you can get more up-to-date financial information on U.S. than foreign reinsurers."

The Stamford, Conn.-based intermediary represents only a small portion of the reinsurance brokerage operations of parent company Alexander & Alexander Services Inc., company officials note.

The London-based Alexander Howden Reinsurance Broking Group, of which Alexander Re is a part, had 1993 gross revenues of

\$157.6 million and a premium volume of \$2.6 billion.

John P. Woods Co. Inc.

John P. Woods Co. Inc. reports a 9.7% increase in 1993 gross revenues to \$17.6 million, maintaining its ranking as the 10th-largest U.S.-based reinsurance intermediary.

Premium volume also increased, rising 5% to \$525 million last year.

The intermediary in late 1993 formed a subsidiary, Allegiance Inc., to serve as part of a strategic alliance with MIC Re, a division of Motors Insurance Co. The four Allegiance principals, based in Mount Laurel, N.J., will provide marketing and sales for direct treaty business written by MIC Re.

"It was a unique opportunity with a major company," said President John P. Woods. "We would like to generate new business through op-

portunities to merge or acquire."

Woods' current book of business is divided between large national writers, large regional and small regional companies, primarily in the East and Midwest. Overall, Woods produces business for companies based in about half of the states.

The intermediary has formed a new accident and health division, which—together with life reinsurance—accounts for about 15% of revenues, Mr. Woods said. Casualty business accounts for about half of revenues and property generates the remaining 35%.

About 85% of the intermediary's premium volume is placed with domestic reinsurers and 15% with international companies.

New York-based Woods is licensed in New York, Pennsylvania, South Carolina and Virginia with an application pending in North Carolina. **BI**

Fee-based services increase

Brokers adapt to vie with direct market

By SARA MARLEY
and JUDY GREENWALD

Ceding companies are demanding and getting more services from reinsurance intermediaries—often for the same commission.

"Before, it was a sale, a handshake and it was over," said John P. Woods, president of New York-based intermediary John P. Woods Co. Inc. "Today, there is continuing servicing of the markets, the contract, reviewing security, accounting, collections."

Prompted by insurer demand for catastrophe modeling, and advice on actuarial issues, claims-handling and risk-based capital, at least four

of the 10 largest U.S.-based intermediaries have formed service divisions that operate on a fee basis. They include:

- **Aon Re Services**, a unit of Aon Re Worldwide. It provides catastrophe modeling, determination of aggregate exposures, and actuarial services.

- **Reinsurance Solutions Inc.**, a division of Sedgwick Payne Co./Crump Re. It provides fee-based bundled and unbundled reinsurance services to third parties.

- **Integrated Services Consulting**, a Towers Perrin Re unit. It develops exposure management systems to judge clients' aggregate exposures.

- **Paragon Reinsurance Risk Management Services Inc.**, a division of E.W. Blanch Co. It identifies and quantifies risk for intermediaries, primary insurers, reinsurers and private and government pools.

Services are becoming so important that many see reinsurance intermediaries evolving into management consultants. Yet intermediaries need to avoid duplicating what ceding companies and reinsurers already do.

"A typical function may be performed on three levels," said James F. Dowd, chairman and chief executive officer of Willis Faber North America Inc. in New York. "It's expensive. We need an inventory of services, an agreement in the market on who will provide what."

Intermediaries may also find themselves competing on services with direct writers.

The direct writers have the opportunity to provide that advice because they are talking directly to the client and making these services available, explained Michael Smith, an insurance analyst with Lehman Bros. in New York. "The brokers have always had a tendency to try and keep some distance between their clients and the underwriter."

So if broker markets are going to compete in the services game, either the broker must permit the client to get close to the reinsurer, thus "creating a bit of danger to himself," or the broker must provide those services itself, Mr. Smith said.

Zurich Reinsurance Centre in New York is one broker market reinsurer that is competing in the services field.

"Ceding companies are looking to their broker-market reinsurers for the same levels of service and expertise that they can from the direct, and that's one of the things they're in business to provide," explained Mark Mosca, senior vp and chief underwriting officer for ZRC, adding that cost-saving efforts and the appeal of additional expert advice is driving this trend among ceding companies.

A few primary insurers have outsourced their ceded reinsurance departments and related activities.

That is a trend that will likely continue, according to William E. Thiele, president and chief operating officer of North American Reinsurance Corp. in New York. Some reinsurers are moving into selling unbundled services now than at any other time, he added.

Reinsurance brokers with close relationships to an insurer become like a ceded reinsurance department, said Mr. Dowd of Willis Faber, adding that it's easy to see the next step as outsourcing.

Despite the increasing demand for services, intermediaries are not seeing their compensation increase commensurately.

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Reinsurers

Continued from page 3

going to be a truly long-term player" and that it has a lot of capital, Mr. Ransom said.

The exceptions to the bigger-is-better rule are specialist reinsurers known to be skilled in certain lines of coverage, he said, citing Phoenix Reinsurance Co. as an example of such a player in the property business.

"They are long-term players," said Mr. Ransom.

Longevity has become a key concern of cedants, agreed Mark Mosca, senior vp and chief underwriting officer for Zurich Reinsurance Centre in New York.

"The forces that are driving (consolidation) are ceding companies' desire to have their reinsurance placed with entities they believe will be both solvent and in business over the next 10 to 15 years," he said.

"There's an increasing recognition that the smaller players in terms of capital (and) participation in the market are less likely to be in the business over an extended period of time, and ceding companies don't want to have to deal with that," said Mr. Mosca.

"The smaller reinsurers are losing out because of either the capital base or a subjective evaluation by buyers that don't see a long-term commitment in the marketplace," agreed John W. Smithson, chairman, president and CEO of PMA Reinsurance Corp. in Philadelphia.

"The major criterion among buyers used to be simply solvency and

the ability to pay," he said. Now, buyers question whether reinsurers undergoing ownership changes are likely to be in the business a few years from now. This trend benefits the top-tier reinsurers, said Mr. Smithson.

Expertise is a factor as well, said Mr. Mosca.

"What they're mostly looking for is knowledge and expertise, and expertise tends not to exist to as great an extent in the smaller companies as it does in the larger reinsurers," he said.

The Bermuda market could impact smaller reinsurers, too, said Bard Bunaes, chairman and CEO of Constitution Reinsurance Corp. in New York. If the Bermuda reinsurers expand into other lines of business, "that might make it even more difficult for smaller reinsurers to prosper and survive."

As evidence of the consolidation

trend, Steven H. Newman, chairman, president and CEO of Underwriters Reinsurance Co. in Woodland Hills, Calif., cites offers he has received from other reinsurers looking to be acquired.

Underwriters Re is being approached by "owners who are unhappy with the strategic situation facing their company and would like to either have a smaller part of a more successful business or want to abandon the business," said Mr. Newman.

"I think that you could probably pick almost any span of five years going back to the late '70s and discover a bunch of reinsurers leaving the business, a bunch of new ones entering the business and some amount of merger activity," he observed.

"I happen to think, though, that we are in a period of consolidation, in part because I've seen a lot of pro-

posals and in part because it just feels like this is something that ought to be happening," he said.

Can smaller reinsurers survive? They say they can.

"The way we ensure our survivability is we're striving to offer... value-added services beyond the capacity we offer," said David Forrest, senior vp with Abeille Reassurance's U.S. branch in New York.

"We need to associate ourselves more closely with the client, offer them advice where we can give them advice, pay our claims promptly, respond to their needs and outperform other companies that may offer larger limits but do not service the account as well," he said.

"I don't think there's any doubt that we're going to see consolidation of companies within the reinsurance business, but does this mean we will only end up with a very small number of absolutely giant risk-assuming

companies? I don't think that," said Tom Case, president and CEO of Frankona America Cos. in Kansas City, Mo., which operates Frankona America Reinsurance Corp.

"While we may see a concentration of business with larger organizations, there will certainly be room for properly structured and properly risk-assuming entities within the business that are not necessarily giant in size," he predicted.

Willis T. King Jr., chairman and CEO of New York-based Willcox Inc. Reinsurance Intermediaries, questioned whether the consolidation trend will continue, given the difficulty some large reinsurers may have generating adequate return on equity.

"You reach a point of diminishing returns in terms of size," he said. "I think a lot of very, very large reinsurers will have difficulty generating

Continued on next page

Services

Continued from previous page

Brokers are not the only ones facing increased workloads, however.

Closer ties or not, ceding companies are having to do more legwork before their reinsurance is placed.

Since Hurricane Andrew hit, ceding companies are under greater pressure to distinguish themselves from other companies, said Mr. Wood.

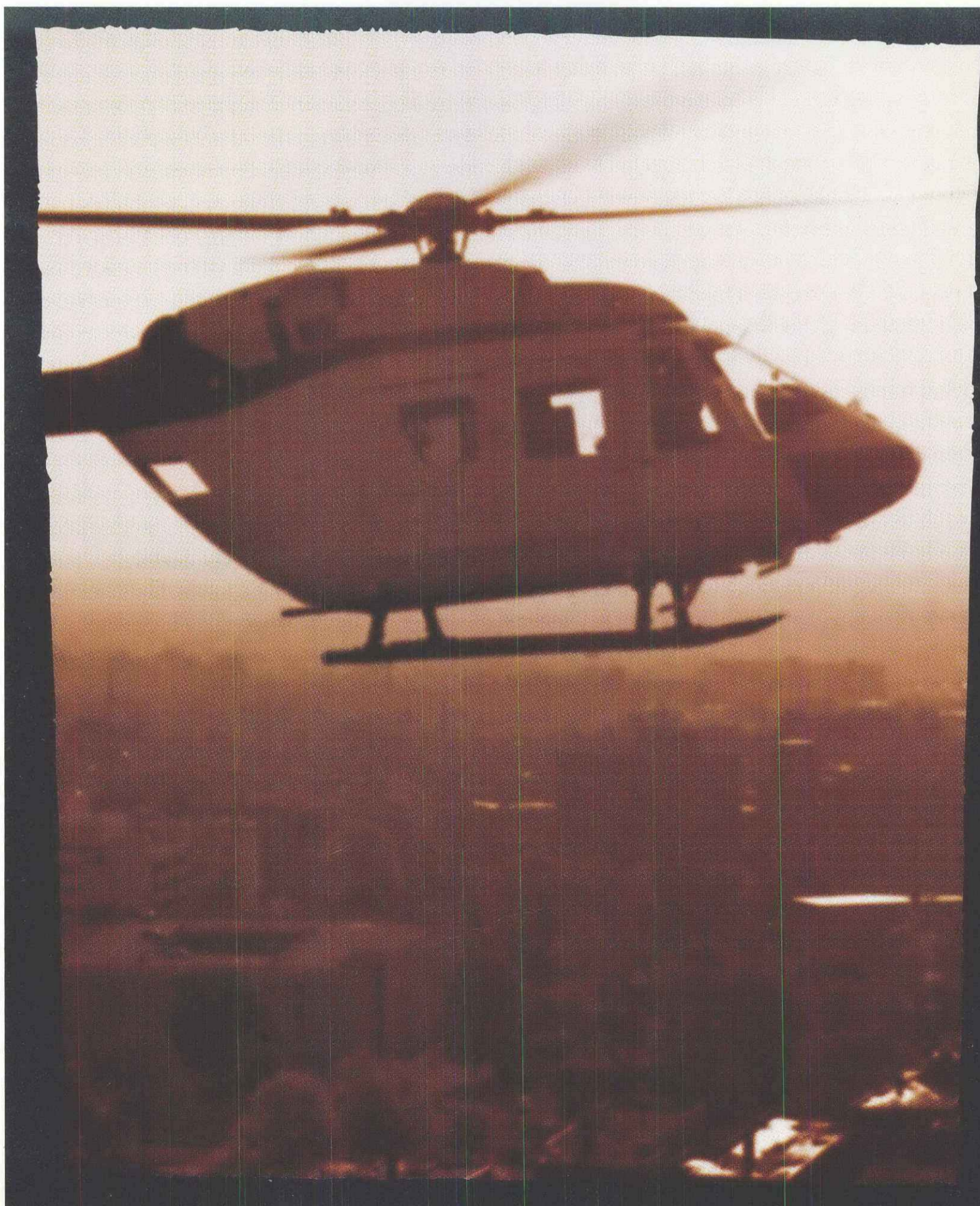
"The information has to come from somewhere. It has to be extracted and provided by the ceding company."

Since 1988, Woods has entered into co-brokering arrangements with some ceding company-owned intermediaries. The functions of each party are spelled out and reinsurers are informed of the arrangement, Mr. Woods said.

"This co-brokering approach provides lasting recognition of the client's contribution to the reinsurance placement process," he said. "In contrast, a fee basis may provide the client with an initial rating benefit, yet in subsequent renewals the advantage is generally dissipated, if not eliminated entirely."

While the commission system may require refinement, "the current system provides the mechanism in which to address the ultimate cost to the buyer," Mr. Woods said. "Clients and prospects must enter a ceded relationship based upon the quality of the reinsurance advice provided and not simply access to unbundled services at a lower cost," he added.

Replacing commissions with fees "is more talk than action," agreed Wallace E. Winter, chairman of Intere Intermediaries Inc., a subsidiary of Minet Re. "On balance, I think it is not the panacea some buyers think it is." **BI**



Continued from previous page
reasonable return on their capital" just because of their size.

At the same time, "ceding companies still are interested in spreading catastrophe risk into a broad marketplace," which should help the smaller reinsurers, Mr. King added. Even though consolidation in the industry continues, there will be room for smaller reinsurers. "Small lines are welcome on many covers, especially property catastrophe and property clash exposures," said Mr. King.

Meanwhile, some observers believe that direct writing reinsurers have taken a larger share of the overall market.

There has been a shift away from the intermediary market, with market share now split about 50/50 between the two segments, according to William E. Thiele,

president and chief operating officer of North American Reinsurance Corp. in New York, a direct market and unit of Swiss Reinsurance Co.

"I think it's part of the consolidation story, and part of the story of the diminishing number of participants," said Mr. Thiele.

"A lot of the smaller reinsurers were active in the intermediary market. There are only six direct reinsurers and they're all fairly large," he said.

There has been a move away from the intermediary market on the property side as a result of the Northridge earthquake this year and Hurricane Andrew two years ago, agreed Robert L. Osborne Jr., executive vp of A.J. Gallagher Intermediaries Inc. in New York.

"It forced the broker market to take a harder look at its book and spread within certain geographi-

cal areas and, as a result of that review, the broker property market seems to have instituted a cut-back in the amount of limits available within those areas," said Mr. Osborne.

"I think it creates other opportunities for the direct market," Mr. Osborne said. "The broker market is not in the position to provide the capacity it once did and therefore an underwriter has to do whatever he can to get the capacity he needs, so the direct market is definitely a viable alternative to turn to."

Others, however, maintain there has not been a significant move away from the intermediary market. In fact, some observers say that business once written exclusively by the direct market is now being partly written by companies that use intermediaries.

"I see the lines of demarcation

in distribution systems throughout the reinsurance industry as changing dramatically," said Mr. Case of Frankona Re, an intermediary market. "Many programs that at one time were totally either direct or broker-driven are now being shared."

"Direct companies because of their size are going to probably continue to grow in market share," he said. But, the overall ceding company market is not moving toward the direct writers, he said.

NAC Re's Mr. Mosca agreed: "It appears to us that the intermediary market is very healthy and competing effectively for business with direct writers. In fact, we see many instances where the intermediary market is gaining access to at least portions of programs that had been until now ceded entirely to one or more of the direct

reinsurers."

There are two reasons for this, he added.

First, "buyers of reinsurance believe they get real value from doing business with intermediaries that they can't get by dealing directly and, second, insurance buyers don't want to restrict their ability to purchase reinsurance from a large and strong and knowledgeable reinsurer to only the direct writers."

They want to avail themselves of the resources available by dealing with the intermediary market, as well, he said.

Others agree there is not a disproportionate movement of business toward the direct market.

"I haven't seen that at all," said Philip W. Mitchell, chief executive of Towers Perrin Reinsurance in Philadelphia. "I would say there's very little movement of business in either direction."

Dan Eudy, executive vp of Hartford Re Co. in Hartford, Conn., said the successful reinsurers that will gain market share will be those that are financially strong and have a depth of expertise.

"I think that criterion applies whether you're a direct" or broker-driven market, he said.

"When you look at the numbers, the respective market shares between the direct and the broker market really haven't changed a lot in the last 10 years," said PMA Re's Mr. Smithson.

"What is happening is that the larger broker market reinsurers, frankly, are as big as the direct were not many years ago," he said. As a result, "there are a number of broker market reinsurers, including us, that can do 100% covers."

For the most part, however, the business is still syndicated.

Buyers want to get a variety of opinions and a clearer view of the availability of market terms than they can by just dealing with one or two writers, said Mr. Smithson.

At the same time, though, these buyers do have more restrictive security requirements, "so the selection is becoming fewer and more limited," favoring the top-tier markets with their relatively large capital bases.

Meanwhile, some observers believe more U.S. reinsurers will be looking to Europe for acquisitions. The transaction this summer between Gen Re and Cologne Re is "potentially a sign of things to come," said Frederick Kist, Atlanta-based head of Cooper & Lybrand's casualty actuarial and risk management consulting practice.

Gen Re and Cologne Re signed an agreement in July under which Gen Re will acquire a controlling interest in the German reinsurer. The companies' combined operations would be the world's third-largest reinsurer (see story, page 76).

More and more reinsurers are seeing the U.S. market saturated, with future premium growth coming through expansion on a global basis, said Mr. Kist.

Furthermore, European or Pacific Rim reinsurers might need capitalization from strong U.S. reinsurers. "I think that will result in opportunistic matches of various reinsurers," he said.

The flight to quality is also a factor here, noted Michael Smith, an analyst with Lehman Bros. in New York.

"The flight to quality that we're seeing in Europe is making the market very attractive for U.S. reinsurance companies, particularly those that are large and looking for ways to grow," he said. **E**

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Mixed reaction to Superfund reform failure

By JUDY GREENWALD

Reinsurers' environmental liability troubles linger

Lawmakers' failure to approve Superfund authorization in this session of Congress means the entire issue remains dangling over the heads of U.S. reinsurers.

And Superfund is only part of the reinsurance industry's ongoing environmental liability problems. Coverage of state-mandated environmental cleanups remains a nagging problem as well, and these must also still be addressed.

"It's not going away. In fact, there's a strong strain of logic that says because Superfund was not re-enacted this year, it'll be even more difficult and perhaps even

more costly for the insurance industry next year," said Alan Levin, managing director at rating agency Standard & Poor's Corp. in New York.

Mr. Levin also pointed out the entire industry has not been in agreement with the latest Superfund proposal. Reinsurers have been unhappy in particular with the tax rate slated for reinsurers in the establishment of the Environmental Insurance Resolution Fund in the most recent rewrite of the bill (BI, Oct. 3). The EIRF mechanism is designed to reduce litigation between policyholders and insurers over Superfund coverage.

"The reinsurance industry is clearly not on board with the tax, so when an industry can't come to Congress with at least a united front," it makes it more difficult for Congress to do something, said Mr. Levin.

During the last session, the industry was preoccupied with issues including the allocation of cost among segments of the industry and tax issues. There was also some additional skirmishing between mature companies that had a larger retroactive exposure and newer companies that did not have these past liabilities, said William E. Thiele, president and chief operating officer of North

American Reinsurance Corp. in New York.

"The energy that goes into that fight is not available to influence the legislation in any more constructive way," he said.

"I think it's debatable if any legislation goes through Congress the next few years," said Michael Smith, an analyst with Lehman Bros. in New York. "The Republicans are expected to make some major gains in both houses and they've very clearly made it their business to block just about any legislation the administration tries to advance heading into the general election in 1996."

However, Kaj Ahlmann, chair-

man, president and CEO of Employers Reinsurance Corp., said "Something will have to happen next year."

"We do know we have a major liability out there," said Mr. Ahlmann, speaking for the entire industry. "And we also do know that someone will have to pay for it sooner or later."

Several industry executives questioned whether Superfund reauthorization and the EIRF taxes are the answer to the problem.

"I just don't see anything that would lead me to believe that we would see a reduction in losses," said Robert L. Osborne Jr., president of Arthur J. Gallagher Intermediaries Inc. in New York.

"From past experience, I expect it's going to have a negative impact. It seems like the insurance industry has become the scapegoat for funding the environmental problems of the United States."

"As it stands, Superfund doesn't really address the issue," said William Yankus, vp with securities firm Fox-Pitt Kelton in New York.

The level of proceeds from the taxes that were discussed as part of the proposed legislation would not have been nearly sizable enough to address the issue, he said. And, litigation would still be possible.

Others point out there are other sites not even covered by Superfund.

The "real issue" is who should be sharing the overall cost, said Paul Malvasio, senior vp with NAC Reinsurance Corp. in Greenwich, Conn. Billions of more dollars will be needed to cover the many state sites not covered by Superfund, he said.

"I'm not sure how Superfund addresses all those liabilities," he said.

Gary Ransom, senior vp with insurance securities analyst Conning & Co. in Hartford, Conn., also pointed out the Superfund sites are only part of the problem.

"Superfund is one step down the path of resolving this whole problem and I look at Superfund, even though it will force companies to take specific financial hits, as something that won't dramatically change the economics of the whole picture."

As time goes on, it will become clearer what each company's environmental exposure might be, said Mr. Ransom. "But in some ways the reinsurers—especially the larger ones—are sufficiently strong. It's a manageable problem. They are sufficiently profitable."

The companies that will be most in trouble are primary companies with unprofitable current operations that are further dragged down by environmental charges, said Mr. Ransom.

Less optimistic was Mark Mosca, senior vp and chief underwriting officer for Zurich Reinsurance Centre in New York. "I think ultimately the reinsurance industry is going to be responsible for a great deal more environmental liability than is reflected now in the balance sheets," he said.

"How that is shaped by changes in legislation is anybody's guess. But there is no legislation I can imagine or foresee that is going to eliminate that overhang of very large liabilities that will be borne in significant part by reinsurers, at least reinsurers who were in business prior to the past immediate few years," said Mr. Mosca, who added that as an officer of a relatively new company, this is a "great relief." **BI**



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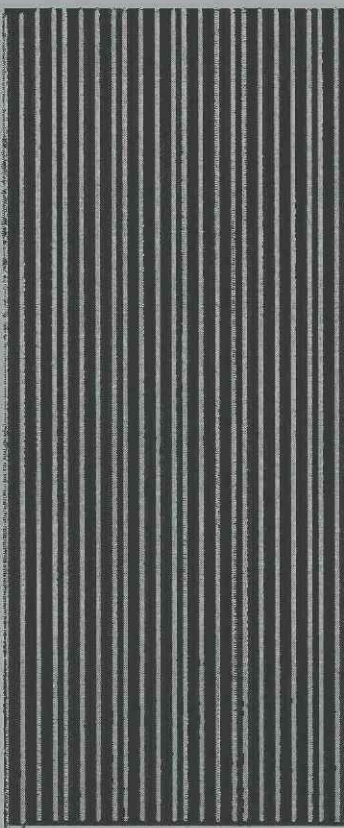
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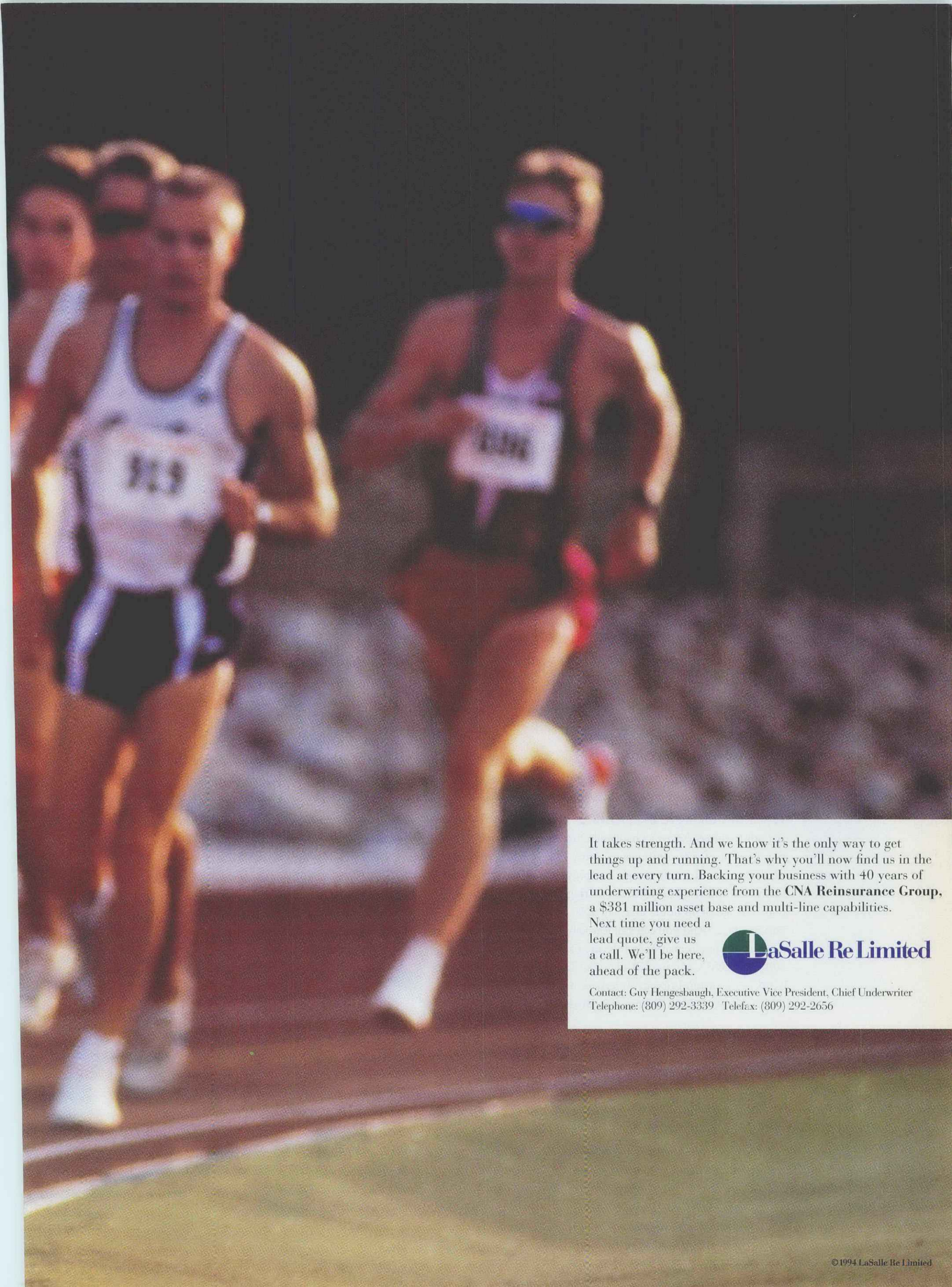
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Security concerns reshape reinsurance

By JUDY GREENWALD

larger and fewer players.

"I think as a general trend worldwide, you will find that chief executives of primary companies are very selective when they choose their reinsurers," said Kaj Ahlmann, chairman, president and chief executive officer of Employers Reinsurance Corp.

Primary companies are selecting among a "handful or two" of major players in order to be sure they get a competitive price. But

they do not want to spread the business among as large a number of reinsurers as they once did, said Mr. Ahlmann.

Surplus is an important factor in evaluating security.

"Where we see the biggest change is in some very large stock companies," said David Forrest, senior vp with the U.S. branch of Abeille Reassurance in New York. "They have elevated their security list to prohibit reinsurers with

surplus under a certain size to even see their treaties."

In some cases, he said, primary companies are demanding a minimum surplus of \$150 million, he said.

However, the process goes way beyond looking just at the size of surplus.

Insurers "are asking us to take every precaution possible to make certain that we're placing their business with very secure mar-

kets," said Philip W. Mitchell, chief executive of Towers Perrin Reinsurance in Philadelphia.

"We have to do extensive research and financial analysis of the reinsurers that we place business with that goes far beyond just determining their ratings from the various agencies," he said.

"The reinsurers must meet certain objective criteria, such as our analysis of their annual and sometimes quarterly financial reports, risk-based capital requirements, and also certain subjective criteria such as analysis of their own retrocessional program and our insights gained from 'street talk' as to the management and as to how well a company is underwriting and is being managed in general," said Mr. Mitchell.

Typically, insurance buyers begin by looking at reinsurer ratings. Then, "most companies go beyond that and do their own financial analysis," said Paul Mal-

'(Security problems) are problems from the '60s and '70s,' says Willis T. King Jr. of Willcox Inc.

vasio, senior vp with NAC Reinsurance Corp. in Greenwich, Conn.

For instance, buyers want to make sure the people running the organization understand the business they are underwriting and are a committed market in terms of the risks that are assumed.

If a buyer, for instance, puts out a line of \$10 million or \$20 million, it wants to be sure that the reinsurer is large enough, stable enough and has the expertise and commitment "to be there for a long time," said Mr. Malvasio.


The quality and commitment of the management are factors taken into consideration as well, said Mr. Malvasio. "What we see happening more and more is companies looking to have partnerships with their reinsurers," he said. With that partnership comes a commitment to provide the services for a long time, he said.

There is nothing really new about security concerns these days, though, observers point out. "I don't see greater concern, because I think the concerns were elevated years ago, and so they continue to be very concerned," said Abeille Re's Mr. Forrest.

"I don't think this is anything different than we've been through in the last five to seven years, to be honest with you," agreed Robert L. Osborne Jr., president of Arthur J. Gallagher Intermediaries Inc. in New York. "It's a continuous evaluation of the financials of the reinsurance markets. Each one has to stand on its own."

Willis T. King Jr., chairman and CEO of Willcox Inc. Reinsurance Intermediaries in New York, agreed. "Security continues to be a sensitive issue and it's one that's examined closely," he said.

"But this is an issue that's five or ten years old. The problems with security are not current year or going forward. They're problems from the 60s and 70s."

However, Bard Bunaes, chairman and CEO of Constitution Reinsurance Corp. in New York, said if anything, the security process is intensifying "because of the environmental exposures now and the problems of collecting 20-, 30-, 40-year old losses." 

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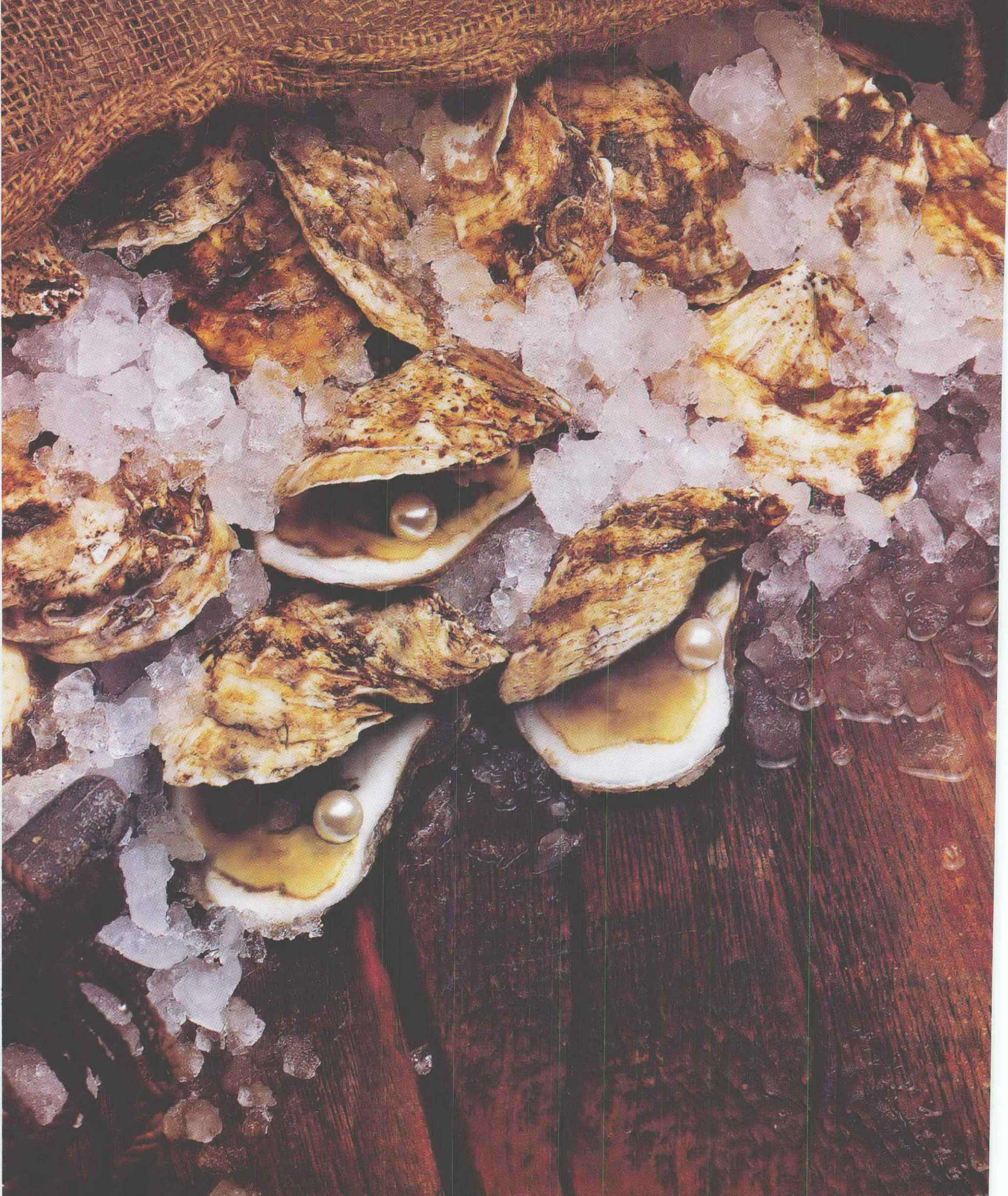
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Little impact seen from risk-based capital

By JUDY GREENWALD

The new property/casualty risk-based capital guidelines to be implemented by the National Assn. of Insurance Commissioners are of little concern to reinsurers who say they meet the standards now.

The standards could, however, increase demand for reinsurance, some executives note.

"(It's) one more opportunity to look at the potential solvency issue of an organization, but I don't see it becoming the all-encompassing measure of industry strength," said Tom Case, president and chief executive officer of Frankona America Cos. in Kansas City, Mo., which runs Frankona America Reinsurance Corp.

Risk-based capital rules set by the NAIC essentially require more capital to support assets and liabilities that are deemed risky (BI, Feb. 14).

Life and health insurers and reinsurers were required to report their risk-based capital levels in their 1993 statutory statements, while property/casualty insurers and reinsurers will report them in their 1994 statements, due in March 1995.

Alan Levin, managing director at rating agency Standard & Poor's Corp. in New York, said the guidelines will probably have very little impact on the reinsurance industry.

"Risk-based capital is designed to raise the safety net," but with most primary companies already demanding capital bases far in excess of the minimum guidelines, the industry's leading companies will not be significantly affected, said Mr. Levin.

Paul R. Davies, chairman and CEO of Aon Reinsurance Inc. in Chicago, also said the guidelines will have little impact "unless there's some changes. Most of the companies would pass the risk-based capital test, so I don't think it's really going to have that much (of an effect)."

"I think they will have a relatively minor effect on the industry," agreed Mark Mosca, senior vp and chief underwriting officer at Zurich Reinsurance Centre in New York. He said he sees little effect now, and "the majority of the market will either not be constrained by risk-based capital or will find ways to deal with any potential problems they see." While there will be exceptions, they won't be particularly important to the marketplace, he added.

Right now, the risk-based capital guidelines have no impact on the reinsurance industry, said William Yankus, an analyst with Fox-Pitt Kelton in New York. While the guidelines will "certainly change the way in which some managers approach their business" in terms of keeping a closer watch on capital, they will not have a broad-based impact on the industry, he said.

Some executives aren't so sure. "I think it's too early to tell right now" what the guidelines' impact will be, said David Forrest, senior vp with the U.S. branch of Abeille Reassurances in New York. "We are quite conservative in our investment portfolio, so it has not affected us."

"But I would assume as reinsurers get used to applying this formula, it may or may not have an effect on their investment portfolio... though I don't think we have many companies at this point in time that are heavily involved in either junk bonds or in the stock market."

One reinsurer executive who sees the risk-based capital guidelines as a consideration is Edwin M. Millette, chairman and CEO of TIG Reinsurance Co. in Stamford, Conn.

TIG Re is now considering the

guidelines as part of its 1995 business plan.

"It influences what we perceive as margin in our business and yes, that does drive our decisions," said Mr. Millette. As the reinsurer begins to consider 1995, "it will play a role as it filters down to each account."

Willis T. King Jr., chairman and CEO of Willcox Inc. Reinsurance Intermediaries in New York, said the guidelines are causing some confusion in the market.

"The people that are putting out risk-based capital are claiming it should not be used as a security criteria," but it will be, he said.

Some observers say while it will not have an immediate impact on most reinsurers, the formula could have one in a future hard market.

"At the moment, I would say it has no effect because everyone is in good shape from a risk-based capital standpoint," said John W. Smithson, chairman and president of PMA Reinsurance Corp. in Philadelphia.

"It will come into play when premiums start going up because of the way the (NAIC) changed the risk-based capital formula for growth," Mr. Smithson said.

Paul Malvasio, senior vp with NAC Reinsurance Corp. in Greenwich, Conn., agreed. While he said the top-tier companies are not really going to be affected by risk-based capital now, "over time, as some of the companies continue to write more business or leverage up, you could find constraints." For example, in a hard market with volume in-

creasing, you "could find yourself in the odd position of needing more capital because of risk-based capital," said Mr. Malvasio.

Other executives see only an indirect effect on reinsurers.

"It will generate more business for reinsurers because some of our clients will have to use reinsurance to meet their requirements as far as risk-based capital is concerned, so we don't consider that as a bad thing," said Kaj Ahlmann, chairman, president and CEO of Employers Reinsurance Corp.

William E. Thiele, president and chief operating officer of North American Reinsurance Corp. in New York, said, "We believe there's been a migration of business, particularly personal lines business, away from

big national carriers toward smaller regional companies and some of them are outgrowing their capital.

"Reinsurance is one possible tool when the capital's inadequate to support the revenue, so we're seeing reinsurance coming from smaller companies that are growing rapidly," said Mr. Thiele, adding that the guidelines are contributing to this volume.

Frederick Kist, head of Coopers & Lybrand's casualty, actuarial and risk management consulting practice in Atlanta, said insurers with large quota share positions may look toward reducing their reinsurance cessions for the purposes of risk-based capital, assuming they've got to worry about the guidelines.

But many of the reinsurance programs underwritten are excess-of-loss programs and generate small credit risk charges for ceding insurers, he said. ■

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As rules change, financial reinsurers adapt, survive

By JUDY GREENWALD

Rapidly changing market loses volume, but not nerve

The financial reinsurance market is continuing to flourish, albeit within much narrower constraints than it once did.

A double whammy of regulatory changes and accounting rules has depressed volume and has driven some marginal players from the market, but demand for financial reinsurance remains and the market is responding with new products.

"It's a market that can grow rapidly and shrink and re-organize and have product cycles, so I think it's going to be around for a long time. You just can't describe what it is, or what it is going to

look like because it's going to be constantly changing," said Gary Ransom, senior vp with securities analysis firm Conning & Co. in Hartford, Conn.

"I think there'll always be players in that market, some more creative than the next guy," said William Yankus, vp with securities firm Fox-Pitt Kelton in New York. "Clearly that market exists, but to a much lesser extent than it used to."

While many reinsurers that only dabbled in financial reinsurance have left the market, those companies dedicated to the business have managed to replace products like funded catastrophe covers

that are discouraged under the recent rules changes.

"With the current accounting rules it's more difficult to structure a financial reinsurance treaty, but it is possible," said David Saurnick, senior vp and actuary with F&G Re Inc., a Morristown, N.J.-based unit of USF&G Corp., which expects to write about \$100 million in financial reinsurance premiums this year.

"In short, it isn't dead despite the recent accounting rules," said Mr. Saurnick.

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

Last year, at the urging of the Securities and Exchange Commission, FASB adopted a rule, known as EITF 93-6, that virtually eliminates the benefits of funded cat covers. Obligations owed to reinsurers under multi-year contracts must now be reported as liabilities by ceding companies and assets by reinsurers.

Conversely, if a ceding company stands to make a profit under a multi-year contract because of good loss experience, that amount must be booked as an asset while the reinsurer reports it as a liability.

Requiring ceding companies to report the amounts owed to rein-

sureance companies as liabilities effectively means funded cat covers can no longer be used to "smooth out" balance sheet volatility over several years.

The other important accounting regulation is FAS 113, which governs the reporting of transactions by publicly-traded insurers using generally accepted accounting principles.

Under the 1992 rule, a contract will be considered reinsurance only if it transfers "significant insurance risk" to the reinsurer and it is "reasonably possible" the reinsurer will suffer a "significant loss" under the contract.

Early next month, representatives of FASB, the SEC and the American Institute of Certified Public Accountants are scheduled to meet to discuss whether more detailed guidance in applying the rules is needed and, if so, who should provide it.

"None of that's been decided yet," said Kevin Meade, a FASB practice fellow who attended a similar FAS 113 meeting in September. What emerges "could range the gamut from nothing to some technical guidance from any of those three groups."

If applying the new rules can be difficult, tracing their impact on some companies is not.

At NAC Reinsurance Corp., financial reinsurance business, which was never a very large part of its writings, has now "dwindled down to nothing," said Paul Malvasio, senior vp in Greenwich, Conn.

"Because of the accounting rules changes, there's been less flexibility from the buyers' standpoint to use some of the financial products. They've generally gone back to the more conventional reinsurance products," said John Smithson, chairman, president and CEO of PMA Reinsurance Corp. in Philadelphia.

"There are different products out there. We were a buyer of some of those and we are not today, and I think a lot of companies have taken the same position we are," said Richard E. Cole, chairman and CEO of Chartwell Reinsurance Co. in Stamford, Conn.

"Especially if there is any chance of going public or you're a public company you have a difficult time explaining this away, so there's much less activity in the financial reinsurance area.

"If you comply with the regulations, (the covers) don't do as much for you as they used to, therefore the need to buy them isn't there. We're only buying traditional risk covers," said Mr. Cole.

"I would say it's still a viable market" but "it's changed considerably since those rules came into being," said Urban Koegedal, a partner at reinsurance intermediary The Tretis Group Inc. in San Francisco, who sees less financial reinsurance being written. Deals that would have been very finance-oriented in the past now contain more risk, he said.

"Legitimate deals will still be able to be done, and those that are questionable have sort of fallen off the table. It's going to be very difficult today and in the future to do deals that really are questionable and don't have some risk involved in them," said Mr. Koegedal.

"There's still possibilities and there are still some very good re-

Continued on page 32



B I R D

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history, we've worked to understand the effects of fire through our partnership with Factory Mutual Engineering & Research.

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scale fire testing, we have also worked for

precise point fire was first discovered. But for the sake of argument, we'll assume it didn't take much



well over a century developing new technologies to control fire and help our cus-

longer to discover how destructive it can be.

tomers reduce its damaging effects.

GENERATIONS HAVE BEEN TRYING TO understand fire, to control its potential, and to minimize the damage it can cause to property. Which is why, throughout our

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probabilities, determining the likelihood of AT ALLENDALE, WE'RE PIONEERING

a particular event occurring, and the technology to help protect our policy-

impact of the available protection holders' property from potential

alternatives. They also evaluate losses. We've been in business for

potential routes the fire may take and the over 150 years. Instead of looking back, we

effects of heat and smoke. All on a comput- look forward to anticipate the ever-chang-

er screen no larger than this page. All ing needs of our policyholders.

without ever having to ignite a fire. WE BELIEVE AN INSURANCE COMPANY

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better evaluate fires. More important, the property. Indeed, we do everything in our

process has helped us further understand each power to help you prevent losses, minimize

of our customers. This, in turn, allows damage from them, and eliminate the

us to create cost-effective disruptions they can cause.



Financial

Continued from page 29

insurers out there willing to write it," he added. "It's a matter of finding a client with that type of need and matching it with a reinsurer."

There are fewer reinsurers willing to devote resources to developing the market, though.

The list of reinsurers willing to write financial products has changed little in two years, David Koegel, senior vp at reinsurance intermediary Gill & Roeser in New York. But companies might be de-

voting less time and effort to developing the business.

One reason that the volume is declining is available catastrophe capacity, said Steve Patterson, senior vp at the New York-based Atrium Corp., a reinsurance intermediary subsidiary of North American Reinsurance Co. that operates as a finite risk facility.

"At least a major portion of the market is driven by property cat capacity or lack of capacity and right now there seems to be a reasonable balance between capacity and what the client companies are willing to pay for cat protection. We're not

seeing as much activity as we did."

He added, "We remain convinced that finite risk is an extremely efficient product and in many cases more efficient than traditional reinsurance, and there is a permanent and expanding position for it in the reinsurance marketplace."

"I think finite products have adjusted to the accounting and regulatory requirements," said Mr. Patterson. And, he added, when an imbalance between supply and demand develops "you will once again see activity."

Lower margins are a factor here as well, said Ajit Jain, president of

the reinsurance division of Berkshire Hathaway Inc. in Stamford, Conn. He said the reinsurer is writing less financial reinsurance because both margins and demand are down.

"We have withdrawn from actively marketing the product, but the phone still rings every once in a while and we get a transaction someone wants to write and if we can agree on terms we write it."

"I think the market won't totally disappear," said Mr. Jain. "I think people will adapt and redesign the product and there will certainly be fewer deals done, but deals will be

done. And my guess is if the market hardens, more deals will be done."

Those reinsurers still in the market are "doing very well," said Kirk Roeser, Gill & Roeser's president. "Their products are probably getting more sophisticated and at the end of the day they're delivering something of greater value to their clients, and where that greater value comes from is more and more they're mixing risk coverage and financial protection coverage."

Nearly all transactions being done today are prospective and most, because of EITF 93-6, are 12-month as opposed to multiyear, said Mr. Roeser.

One currently popular offering is aggregate excess loss ratio covers. These products cover all kinds of losses excess of a loss ratio, often set around a company's budgeted loss ratio, helping keep a company on its budget.

They are popular because the coverage is useful, and it can be used to replace some expensive catastrophe coverage, said Mr. Roeser.

"The other thing appealing is, if done correctly, they're not very controversial," said Mr. Roeser. "They fit fairly nicely within existing accounting rules and you're not pushing the rules to the limit."

Another popular product today is finite-risk quota shares.

These are being written either to produce surplus relief or to help insurers comply with risk-based capital regulations, said Atrium's Mr. Patterson.

"There continues to be certain funding plans written to address either unique exposures or layers of coverage where it's not economically reasonable to buy it in the traditional market," Mr. Patterson explained.

Despite the move to prospective contracts, retrospective contracts are still in demand, said Richard Black, who with Michael Cascio recently left Centre Reinsurance (Bermuda) Ltd. to run finite risk reinsurer Stockton Reinsurance Ltd. (BI, Aug. 15). Stockton Re's business is expected to be about 75% prospective and 25% retrospective.

"We'll be writing presumably lines of business with a long tail," he said. "That certainly will be where our particular strength lies."

Stockton Re expects to write about \$50 million business by the time its fiscal year ends March 31, although the final number could actually vary widely because one or two larger transactions could distort that number, said Mr. Cascio. Stockton Re is wholly owned by Commodities Corp., the largest shareholder of which is a Japanese financial services firm, Orix Corp., which owns 37%.

"We have had a significant flow of inquiries and submissions from the broker community as a whole and we're very encouraged by the reception that we've gotten from the broker market," said Mr. Cascio.

Meanwhile, some reinsurance executives doubt that financial reinsurance volume is declining at all.

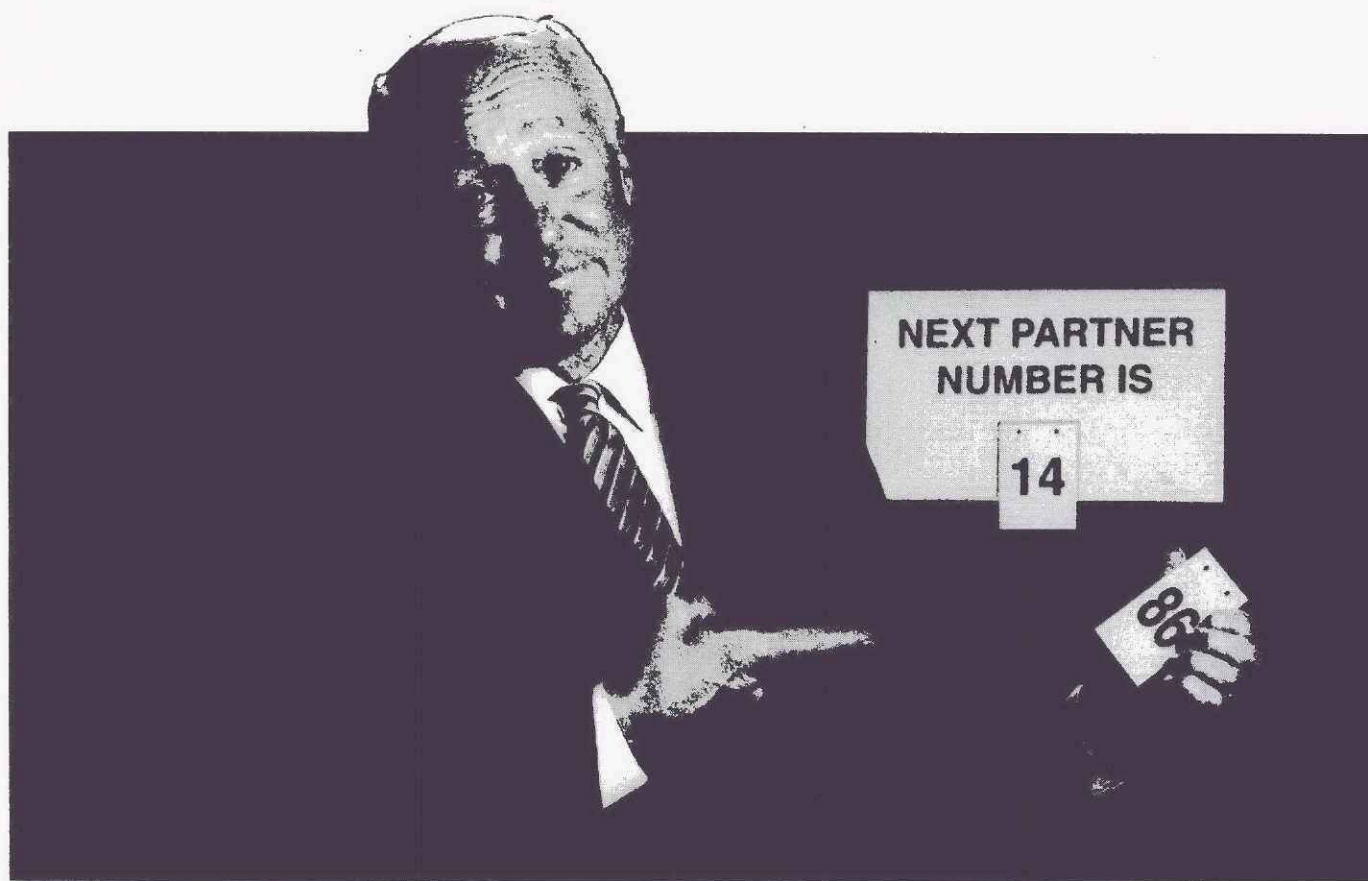
"I think there's just as much being written in the last year or two as in the years prior," said Mr. Black.

"Centre Re's volume has not declined," said Michael Palm, president of Centre Reinsurance (Bermuda) Ltd. He said Centre Re expects to set new marks for new transactions, numbers of new clients and premium volume in 1994.

"At least from our point of view, the accounting changes do not appear to have fundamentally altered the business," he said. They have required some product structure changes, but Centre Re and its clients have come up with structures that comply with the guidelines.

Continued on page 36

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Financial

Continued from page 32

"The success of the finite risk business is based on the economic characteristics of the business, which are attractive to buyers, and not accounting gimmickry," said Mr. Palm.

And, Mr. Palm asserted there still remains a demand for finite risk reinsurance for property risks.

"Buyers are still not finding as much traditional capacity in these heavily exposed areas as there is an appetite for coverage," he said. Both Centre Re's finite risk and traditional property coverages are written through Centre Cat Ltd.

While Bermuda-based Scandinavian Reinsurance Co. Ltd. did not have a "bumper crop" this year, neither was volume low, according to W. Dave Brining, senior vp and

chief financial officer.

"We always say we're trying to get 20 to 30 contracts a year," and now "we're certainly on track to be around 20," said Mr. Brining, and the reinsurer could wind up with more.

While deals now have to pass the accounting rules' muster, "that does not seem to have reduced the luster of financial reinsurance, and there's no reason why it should if you really think about it," said Alan Levin, managing director at rating agency Standard & Poor's Corp. in New York.

"Creative transactions that have financial ramifications is a legitimate business, and there is a legitimate need for it. The reality of life is demand for reinsurance is high in all forms, because primary insurers need capital and reinsurance is a source of capital to the primary industry," said Mr. Levin. **BI**

Calm after the storm in London

Reinsurers that survived the tumult begin restoring luster to crown jewel of the world's reinsurance markets

By CAROLYN ALDRED

Confidence is slowly but certainly returning to the London reinsurance market after years of shrinking capacity.

As the surviving companies in the market boost underwriting efforts, they are being joined by new subsidiaries of European, U.S. and Bermuda-based companies that see London as a key part of the global reinsurance market.

"The mood generally is very upbeat," said Victor Blake, chairman of CNA International Reinsurance Co. Ltd. and founder of the London Underwriting Centre complex, which is home to many London reinsurers.

"Reinsurers have come through a difficult time and are much better disciplined. There are fewer of them, but the ones that have survived have beefed up their capital," he said.

The market has been wracked by the demise of H.S. Weavers

(Underwriting) Agencies Ltd., a leading market for U.S. liability business, and dozens of failures of Lloyd's of London syndicates and other London companies.

Still, Mr. Blake said he believes "there is still a desire on the part of the U.S. buyer to do business in London."

Despite the loss of some prestige and power in recent years, other London market executives agree that London remains an important market.

"London is still the most important international reinsurance marketplace," said Ken Dare, chairman of Zurich Re Ltd.

"You only have to look at the number of people coming to the London market from the United States to know that we are still the world leaders," said Mr. Dare.

"Other countries have reinsurance centers, but nowhere else functions like a market," said Philip Marcell, chairman of Unionamerica Insurance Co. Ltd. and a council member of the London Insurance & Reinsurance Market Assn.

With its extensive network of brokers, underwriters and support services, London is a "massive conduit where business can be done very quickly," he said.

"London will remain a significant market in terms of its ability to price, lead and innovate," predicted Charles Catt, managing director of NAC Re Ltd. of London, a new unit of NAC Reinsurance Corp.

But Brian Rothwell, marketing director of E.W. Payne Ltd., the reinsurance brokerage unit of Sedgwick Group P.L.C., says the London market will not regain the ground it has lost until the British tax on reinsurers' loss reserves parallels more favorable tax treatment elsewhere in Europe.

"Until we have a level playing field, London will not be able to compete as effectively," he argues.

However, "there are very, very positive signs with new capital coming into London," he said.

Indeed, insurers' perception of the London reinsurance market is improving already, he said. "The world's insurers need a healthy reinsurance market in London, and we owe them it."

Although Mr. Rothwell believes there may be a few more companies and several Lloyd's syndicates that will close up shop in the next year or so, he thinks most of the weak reinsurers have already closed their doors and that the market is "very near the bottom" of its bad times.

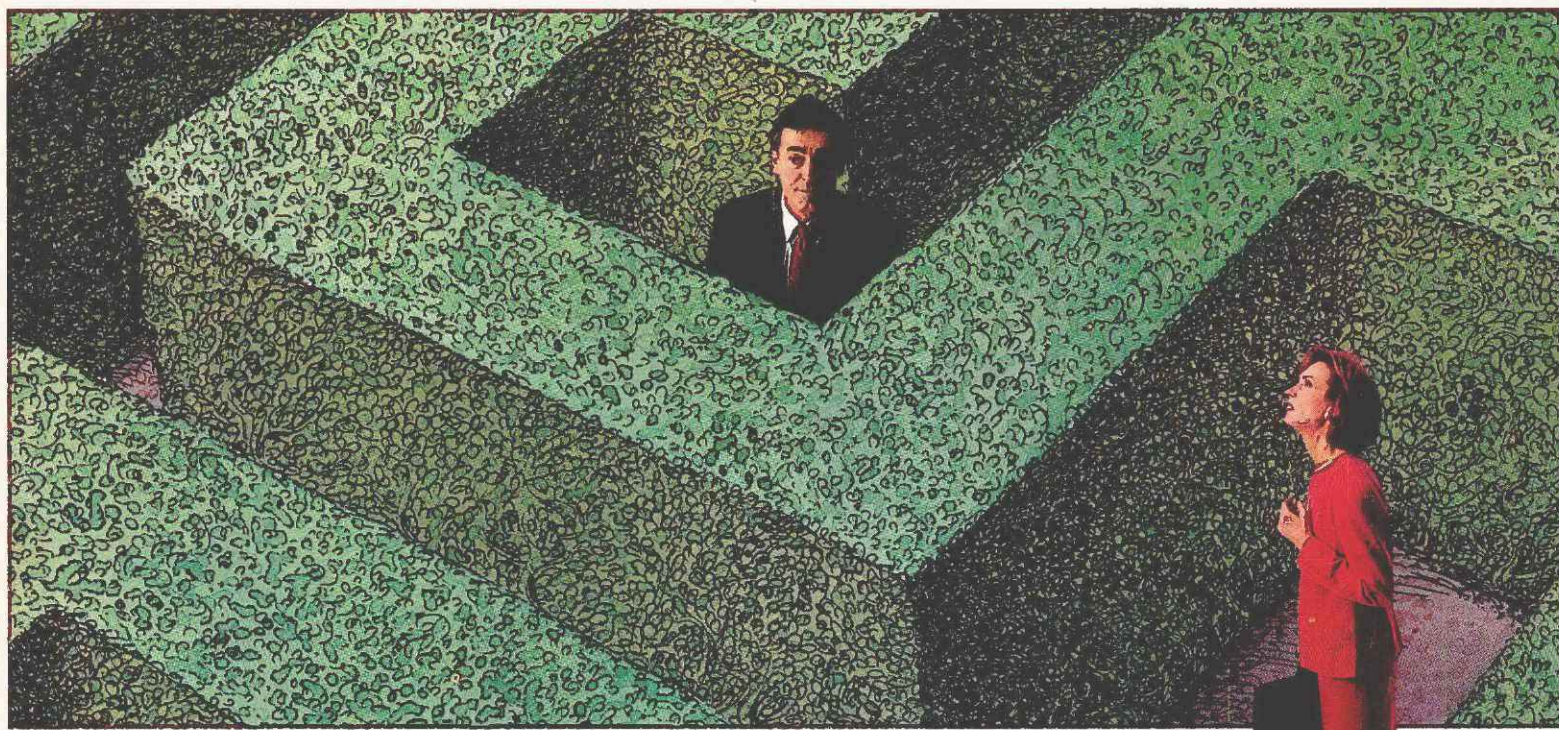
Over the last few years, nearly 60% of Lloyd's syndicates folded; more than 60% of Lloyd's underwriting agencies merged, were taken over or shut down; and the London company insurance and reinsurance market shrank 30%, according to DYP Insurance & Reinsurance Research Group Ltd.

That consolidation has left fewer players, much stronger balance sheets and an overall stronger market, the firm concluded in a recent report commissioned by the Assn. of British Insurers, the Institute of London Underwriters and LIRMA.

In both the insurance and reinsurance markets, "the process of natural selection has usually meant that the survivors are those with wider skills and better results," said the report, which didn't specify the period covered.

Capacity may again be increased.

Continued on page 38



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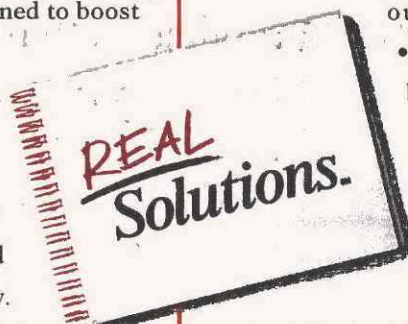
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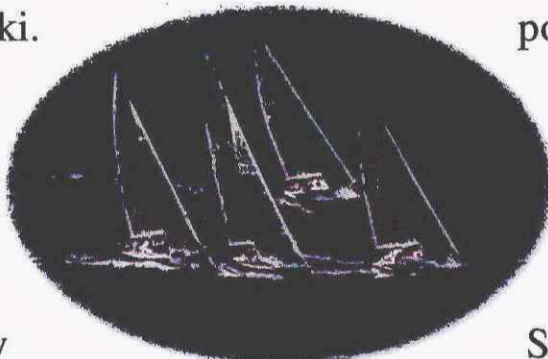
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London

Continued from page 38

the Policy Signing & Accounting Center and the Reinsurance Offices' Assn.

PSAC previously managed a policy signing and accounting bureau for non-marine companies in the London market. The ROA was an association of reinsurers with operations in London. Before the merger, there was much overlap in the two organizations' technical work.

"The result of the merger is an international organization committed to a strong and effective reinsurance market," said the DYP report that was commissioned by LIRMA and other groups.

LIRMA now has 104 full members and 120 associate members, according to Mary Louise Rossi, the group's director general.

LIRMA provides centralized closing, accounting and settlement services, which permits all member companies to issue a single policy form. It also streamlines policy checking and claims settlement.

Some 521,000 cases in 1993 and 532,000 in 1992 were processed through its policy signing bureaus, according to the DYP report. Premiums processed increased to nearly 3 billion pounds (\$4.44 billion) in 1993 from 2.6 billion pounds (\$3.93 billion) in 1992.

Processed claims fell in 1993 to 2.4 billion pounds (\$3.55 billion) from 3 billion pounds (\$4.53 billion) in 1992.

LIRMA joined forces in 1993 with the Institute of London Underwriters, which represents many of the company market's marine underwriters, to create a single processing bureau called the London Processing Centre.

LPC, which is based in Folkestone, Kent, became operational this year and likely will process the paperwork for 5 billion pounds (\$8.17 billion) in premiums this year.

LIRMA also is one of the founding shareholders of LIMNET, a new version of the electronic placing system that is expected to dramatically increase the number of transactions handled electronically.

Mainly due to the increased cohesion in the London market and the improved administrative systems, London has proved to be particularly efficient in a truly testing time for the insurance and reinsurance industry as a whole, London executives say.

"In the event of recent catastrophes, money has moved out of London very quickly and we're getting more efficient," said Zurich Re's Mr. Dare.

In this regard, Mr. Dare believes that other reinsurance markets, notably Bermuda, will find it difficult to beat London.

"London is used to handling a lot of business. We have the administrative backup and resources to handle it," he said.

Many Bermuda-based reinsurers, however, would take issue with this assessment since they pride themselves on their quick claims payment via electronic fund transfer.

Many people believe it was essential for the London company market to strengthen its position and improve its cohesion because of continuing uncertainty surrounding the Lloyd's market.

"London has always existed as a major international market largely because Lloyd's is here,"

said Chris Hitchings, a stock analyst at UBS Ltd. in London.

"But the London market is important apart from Lloyd's," he said, pointing to its extensive network of corporate underwriters and brokers.

"If Lloyd's disappeared forever, we would see London's market share of international and wholesale business decline further, but the London market would not disappear overnight," he said.

Brokers are starting to place more business in the company market, thus shifting power away from Lloyd's, said Mr. Blake. "Lloyd's is still an important part of the London marketplace, but it is taking proportionately less business," he said.

Zurich Re's Mr. Dare said he certainly hopes that Lloyd's survives but that London, with a

stronger company market, has a lot more to offer now than just Lloyd's.

Indeed, CNA Re's Mr. Blake believes reinsurers in London are experiencing better market conditions now than during any time during the past decade.

"If you're still in business and haven't lost your shirt, you're in an extremely strong position. It is better now than at any other time since 1985," Mr. Blake said.

Reinsurers also are helping themselves by maintaining rates despite the increased capacity.

"The increase in reinsurance capacity has not influenced rating levels," said Mapfre Re's Mr. Gasking, explaining that rates are set by the leaders and that there is not a significant increase in competition among leading underwriters in London.

Moreover, ceding companies are

again buying higher levels of reinsurance, compared with the past few years, which is absorbing much of the new capacity, he noted.

"I don't see a lot of change in rates for property catastrophe reinsurance," said Unionamerica's Mr. Marcell. He added that extra capacity from Bermuda should not "cause a massive pressure on rates."

There is no incentive for shareholders in the Bermuda companies to have a "massive exposure with poor rates," he explained.

However, NAC Re's Mr. Catt pointed out that there was a degree of uncertainty still about the upcoming January renewals, with "brokers trying to talk the market down."

Moreover, ceding companies that increased their retention levels in the past now are buying

more reinsurance, which is absorbing much of the new capacity, he noted.

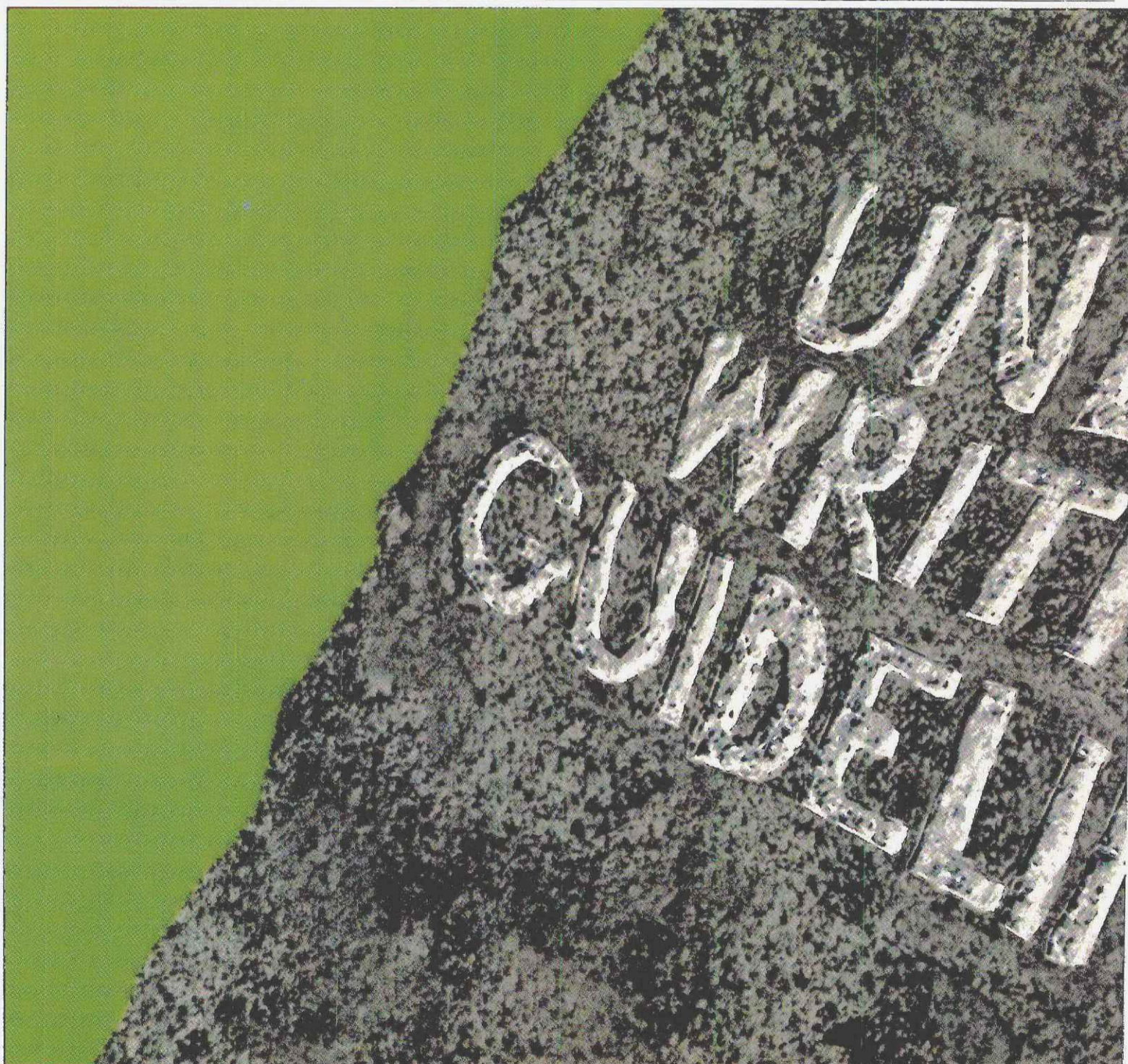
"Because of the level of past catastrophes, the need for reinsurance is as great as ever," Mr. Blake said.

But, Payne's Mr. Rothwell believes that property catastrophe rates will fall due to increased capacity and a recent reduction in the number of catastrophe losses, with the notable exception of the Northridge earthquake in the Los Angeles area.

Meanwhile, underwriters point out that competition from U.S. reinsurers for U.S. business remains stiff.

Zurich Re's Mr. Dare said he is letting U.S. business go rather than reduce rates or weaken terms.

"We do need to see reasonable stability in ratings," he said. **B**



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	1993	1992
Premium volume...	\$11,250,000	\$5,850,000
% Treaty	10%	10%
% Facultative	90%	90%
Gross revenues	\$925,000	\$550,000
Total employees	8	8

Founded: 1976.

Specialties: Foreign commercial property.

Licensed in: New York.

Officers: Patrick Agnew, presi-

dent; W. James Cook, vp; Ruth S. Poveda, vp; Paul S. Kasian, assistant vp.

Contact: Patrick Agnew.

Alexander Howden North America Inc.

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

	1993	1992
Premium volume...	\$7,000,000	NA
% Facultative	100%	NA
Gross revenues	\$475,000	NA
Total employees	5	NA
Facultative	5	NA

Founded: 1986.

Parent: Alexander & Alexander Services Inc.

Branch offices: New York.

Specialties: Large property/ca-

sualty facultative risks, multinational and global programs, semi-automatics.

Licensed in: New York.

Conducts business: Nationwide.

Officers: Randolph Roppelt, senior vp; Joe Filardo, Kevin Kennedy, vps.

Contact: Randy Roppelt, 212-612-3803.

Alexander Howden Reinsurance Intermediaries Inc.

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

	1993	1992
Premium volume...	\$30,000,000	\$24,000,000
% Treaty	95%	95%
% Facultative	5%	5%

	1993	1992
Total employees	13	11
Treaty	11	9
Facultative	2	2

Founded: 1988.

Parent: Alexander & Alexander Services Inc.

Branch offices: Coral Gables, Fla.

Specialties: International treaty business.

Officers: Joseph Artel, senior vp.

Alexander Reinsurance Intermediaries Inc. (Alexander Re)

1 Landmark Square, 21st Floor,
Stamford, Conn. 06901;
203-359-6969; fax: 203-967-4768

	1993	1992
Premium volume...	\$615,000,000	\$505,000,000
% Treaty	100%	98%
% Facultative	0%	2%

	1993	1992
Gross revenues	\$28,900,000	\$27,200,000
Total employees	129	137
Treaty	129	127
Facultative	0	10

Founded: 1980.

Parent: Alexander & Alexander Services Inc.

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

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

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

Conducts business: Nationwide.

Officers: Ronald A. Iles, chairman/CEO; William R. Coleman, president/COO; Robert T. Mobyed, executive vp; John T. Roby, senior vp/CFO.

Contact: William R. Coleman.
Membership: Brokers & Reinsurance Markets Assn.

Am-Re Brokers Inc.

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

	1993	1992
Premium volume...	\$330,000,000	\$297,000,000
% Treaty	100%	99%
% Facultative	0%	0%
Gross revenues	\$17,137,000	\$10,155,000
Total employees	48	44
Treaty	48	44

Founded: 1985.

Parent: American Re-Insurance Co.

Licensed in: New York.

Conducts business: Nationwide.

Officers: E.B. Jobe, chairman/CEO; Paul H. Inderbitzin, president/director; Mahmoud M. Abdallah, executive vp/managing director; Donald F. Merkel, William C. Godfrey, senior vps; John Varca, senior vp/actuary.

Contact: Timothy J. Schmitt,
609-243-4921.

American Healthcare Intermediaries Inc.

1000 N. Point, Suite 1405, San
Francisco, Calif. 94109;
510-839-6100; fax: 510-839-9998

	1993	1992
Premium volume...	\$19,800,000	\$18,700,000
% Treaty	100%	100%
Gross revenues	\$223,000	\$212,000
Total employees	3	3
Treaty	3	3

Founded: 1987.

Subsidiaries: Professional Reinsurance Organization, Wilmington, Del.

Specialties: Accident and health, special risk, life, financial.

Conducts business in: Arizona, California, Nevada.

Officers: Donald K. Anderson, president.

Andrew Edwards & Co. Inc.

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

	1993	1992
Premium volume...	\$19,000,000	\$24,000,000
% Treaty	100%	100%
Gross revenues	\$586,000	\$649,000
Total employees	4	5
Treaty	4	5

Founded: 1977.

Parent: AANA Holding Corp.
Licensed in: California, New York.

Conducts business: Nationwide, excluding Alaska and Hawaii.

Officers: Edward J. Mallozzi, president.

Contact: Edward J. Mallozzi.

Aon Re Worldwide Inc.

123 N. Wacker Drive, Chicago,
Ill. 60606; 312-781-7914;
fax: 312-781-7901

	1993*	1992*
Premium volume...	\$3,000,000,000	NA
% Treaty	97%	97%
% Facultative	3%	3%

Continued on next page

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Spotlight report

Continued from previous page

Gross revenues	\$120,000,000	\$45,000,000
Total employees	528	182
Treaty	500	170
Facultative	28	12

* 1993 figures are for Aon Re Worldwide Inc.; 1992 figures are for the former Aon Reinsurance Agency Inc. and include only U.S. operations.

Founded: 1945.
Parent: Aon Corp.
Subsidiaries: Aon Re Inc., San Francisco; Stamford, Conn.; Chicago; New York; Philadelphia; Seattle. Aon Re (Bermuda) Ltd., Bermuda. Aon Re LatinoAmericana, Mexico City. Nicholson Leslie Group, London; Milan, Italy; Tokyo; Mexico City; Amsterdam, Netherlands; Singapore; Istanbul, Turkey.
Licensed in: Arizona, California, Delaware, Idaho, Illinois, Iowa, Kansas, Kentucky, Maryland, Minnesota, Mississippi, Montana, Nebraska, New Hampshire, New York, North Dakota,

Ohio, Pennsylvania, South Carolina, South Dakota, Utah.
Conducts business: Worldwide.
Contact: Michael O'Halleran, 312-701-3065 or Joan Steel, 312-701-3016.
Membership: Brokers & Reinsurance Markets Assn.

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

	1993	1992
Premium volume...	\$170,000,000	\$165,000,000
% Treaty	85%	90%
% Facultative	15%	10%
Total employees	9	9
Treaty	6	6
Facultative	3	3

Founded: 1988.
Parent: International Risk Management Group.
Branch offices: New York.

Affiliates: European Risk Management (Brokers) Ltd., Weybridge, U.K.; International Risk Brokers Ltd., Hamilton, Bermuda.
Specialties: All property and casualty lines including alternative risk market programs.
Licensed in: New York.
Conducts business: Worldwide.
Officers: D. Jay Carbine, president; Peter V. LeResche, senior vp; Terence J. Reilly Jr., vp-facultative.
Contact: D. Jay Carbine.

Associated Intermediaries Inc.
 P.O. Box 1260, Flowery Branch, Ga. 30542; 404-967-4009; fax: 404-967-2804

	1993	1992
Premium volume...	\$8,000,000	\$7,500,000
% Treaty	100%	100%
Total employees	5	5
Treaty	4	4

Founded: 1982.
Parent: Associated Reinsurance Management Corp.
Branch offices: Welaka, Fla.; Waynesville, N.C.
Specialties: Specific and aggregate medical stop loss; alternative risk funding; excess workers compensation; special risks, including aviation.
Licensed in: New York.
Conducts business: Nationwide, excluding Hawaii.
Officers: Alph H. Browne, president; Diana D. Browne, corporate secretary; Alice Williams, vp.
Contact: Alph H. Browne.

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

	1993	1992
Premium volume...	\$7,200,000	\$6,400,000
% Treaty	40%	40%
% Facultative	60%	60%

Total employees	10	10
Treaty	1	1
Facultative	1	1

Founded: 1974.
Parent: ASL Holdings Ltd.
Specialties: Ski area liability, compensation for captives/rent-a-captive liability.
Licensed in: Bermuda.
Conducts business: Nationwide.
Officers: Colin James, president; Richard Witkowski, senior vp; Hal Forkush, chairman.

Atrium Corp.
 200 Park Ave., New York, N.Y. 10166; 212-973-5072; fax: 212-973-5083

	1993	1992
Premium volume*	\$578,370,456	\$760,000,000
% Treaty	100%	100%
Total employees	27	33
Treaty	27	33

* Includes financial and finite risk reinsurance.

Founded: 1983.
Parent: Swiss Re Group.
Branch offices: Stamford, Conn.
Specialties: Surplus relief, financial reinsurance, finite risk reinsurance, life reinsurance.
Licensed in: New York.
Conducts business: Worldwide.
Officers: Jay A. Novik, president; Owen Whitby, executive vp; Peter A. Gentile, Stephen F. Patterson, Bruce P. Reich, senior

Continued on page 46

A NEW EQUATION FOR SOLVING AGE-OLD PROBLEMS

On February 1, 1995, Sedgwick Payne and Crump Re will become Sedgwick Re. This adds up to a new equation for our clients: the Sedgwick Payne treaty division's proven ability to place reinsurance for complex programs combined with Crump Re's facultative expertise.

Sedgwick Re will provide an even greater array of choices in the marketing, servicing and placement of virtually any reinsurance requirement. And, this combination means that the best intermediaries in the reinsurance business have become even better.

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Sedgwick Payne



CRUMP RE



Sedgwick Re

How to use reinsurance directory

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

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

Following the name and address of the company, financial and operational information for 1993 and 1992 is given, including the premium volume related to reinsurance, percent of treaty and facultative business (as a percent of reinsurance premium volume), and gross revenues related to reinsurance. The number of total employees and those assigned to treaty and facultative reinsurance are also given on a full-time equivalent basis.

Next, the year founded and parent company (if any) are noted, as well as locations of branch offices and subsidiaries brokering reinsurance. Acquisitions in 1993 and so far in 1994 follow.

Particular types of risks a company specializes in brokering reinsurance for are noted under specialties.

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

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

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

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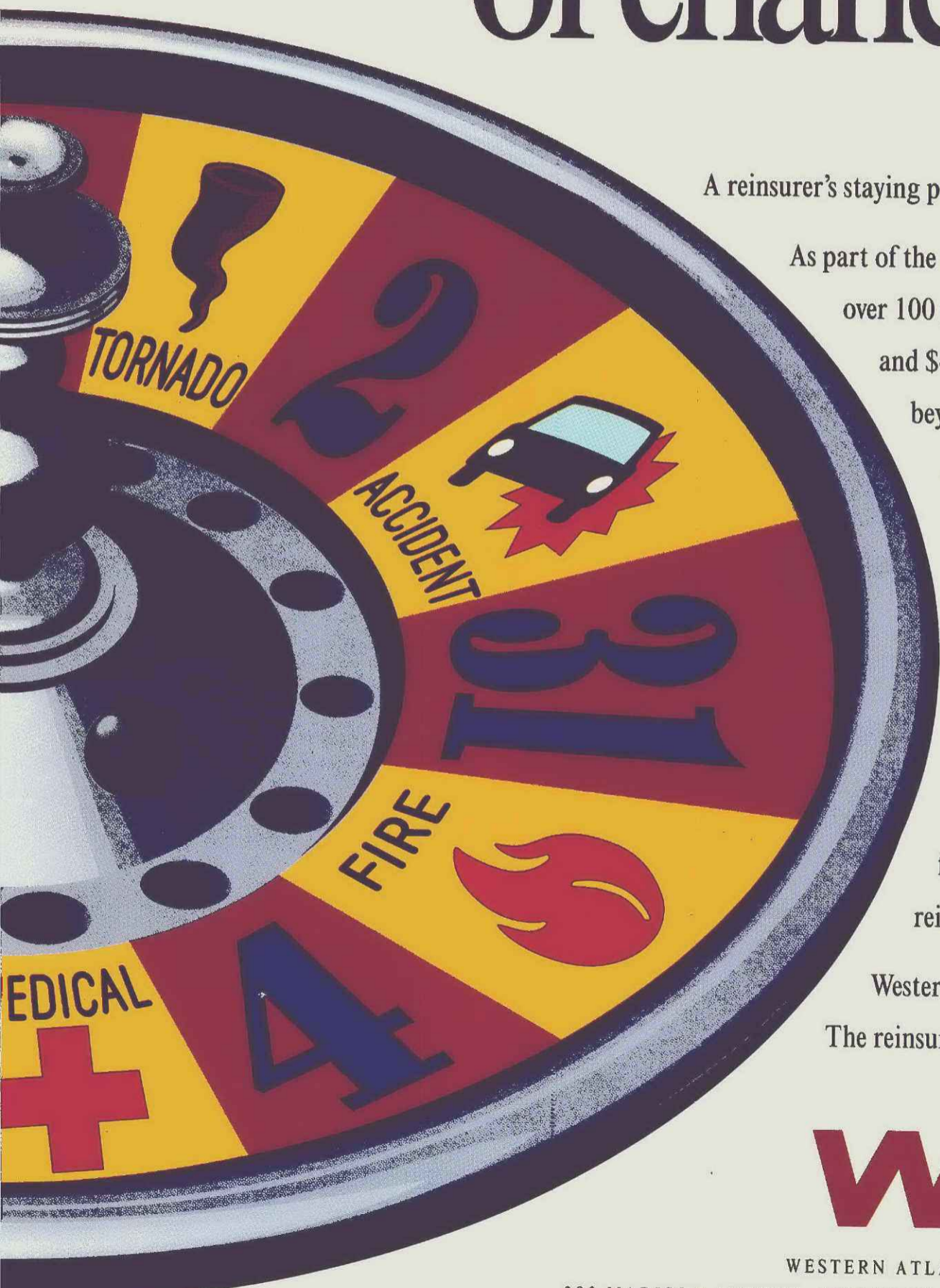
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Continued from page 44
 vps; Joan M. deLemps, Margaret E. Seiter, Marvin D. Fineman, vps.
Contact: Jay A. Novik, 212-973-5072 or Bruce P. Reich, 212-973-5068.



BEP International Holding Inc.

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

	1993	1992
Premium volume*	\$406,875,000	\$362,560,000
% Treaty	98%	98%
% Facultative	2%	2%
Total employees	141	140

* Converted to U.S. dollars using the rate of Canadian dollar = \$0.775 U.S. dollar (1993); Canadian dollar = \$0.824 U.S. dollar (1992).

Founded: 1960.
Parent: Sodarcan Inc.
Branch offices: Toronto.
Subsidiaries: Jersey City, N.J.; Seattle, Wash.
Specialties: Property, casualty, workers compensation, life, marine, aviation, surety, bonds, finite risks.
Licensed in: 20 states, including New York.
Conducts business in: North America, including Alaska and Canada.
Officers: Raymond Gilbert, chairman/CEO; Robert W. Bailey, president/COO-U.S. operations; Peter V. Dale, executive vp-U.S. operations; Peter M. Bennett, executive vp-Canadian operations; Chris J. Robey, executive vp-technical services.
Contact: Robert Limoges.

BRI International Agency Inc.

80 Maiden Lane, New York, N.Y. 10038; 212-809-1200; fax: 212-809-9368

	1993	1992
Premium volume...	\$1,048,000	\$2,433,000
% Treaty	99%	99%
% Facultative	1%	1%
Total employees	6	6
Treaty	5	5
Facultative	1	1

Founded: 1981.
Parent: Underwriters Financial Group.
Licensed in: New York.
Conducts business: Nationwide.
Officers: Bruno Rumignani, president; Burton Matfus, secretary/treasurer; Howard Miller, Joseph Zweig, Mark Bailine, vps.
Contact: Joseph Zweig.

Adrian Baker Reinsurance Intermediaries Inc.

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

	1993	1992
Premium volume...	\$30,000,000	\$30,000,000
% Treaty	70%	70%
% Facultative	30%	30%
Total employees	5	5
Treaty	4	4
Facultative	1	1

Founded: 1974.
Parent: Great Rivers Holding Co.
Specialties: Accident and health, property catastrophe, workers compensation, carve-out, medical, aviation, life.
Licensed in: Missouri, New York.
Conducts business: Worldwide.
Officers: Adrian N. Baker II, president; Charles V. Basuino, vp/treasurer.
Contact: Marie L. Doyle, assistant

Bates Turner Inc.

5200 Metcalf, P.O. Box 2959, Overland Park, Kan. 66201; 913-676-5920; fax: 913-676-5940

	1993	1992
Premium volume...	\$385,000,000	\$230,000,000
% Treaty	100%	100%
Total employees	24	23
Treaty	24	23

Founded: 1982.
Parent: Employers Reinsurance Corp.
Branch offices: Franklin Lakes, N.J.
Acquisitions: Kelley Intermediaries Inc., Franklin Lakes, N.J., 7/94.
Specialties: All lines, including property/casualty and accident/health.
Licensed in: Illinois, Kansas, New York, South Carolina, Texas.
Conducts business: Nationwide.
Officers: Kaj Ahlmann, chairman/CEO; Michael E. Fisher, president/COO; James C. Blanton

III, vp; E. Wilson Wyant, second vp; V. Kay Curtis, associate general counsel/assistant vp.
Contact: Michael E. Fisher.

E.W. Blanch Co.

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

	1993	1992
Premium volume...	\$1.7 billion	\$1.4 billion
% Treaty	99%	99%
% Facultative	1%	1%
Gross revenues	\$64,674,000	\$55,488,000
Total employees	349	329
Treaty	345	325
Facultative	4	4

Founded: 1957.
Branch offices: Burlingame, Menlo Park and San Francisco, Calif.; Palm Beach, Fla.; Atlanta; Chicago; Boston; New York; Philadelphia; Dallas; Copenhagen, Denmark.
Specialties: Life, accident and health, professional liability, pro-

gram business, retrocession.
Licensed in: California, Florida, Illinois, Minnesota, New York, Ohio, Pennsylvania, South Carolina, Texas.
Conducts business: Nationwide, excluding Alaska.
Officers: E.W. Blanch Jr., chairman/CEO/president; Chris L. Walker, Frank S. Wilkinson, executive vps; Tom S. Nelson, senior vp/CFO.
Membership: Brokers & Reinsurance Markets Assn.

Bott & Associates Ltd.

Sterling House, Wesley St., P.O. Box HM 1087, Hamilton HM EX, Bermuda; 809-292-6564; fax: 809-292-5796

	1993	1992
Premium volume...	\$9,300,000	\$8,700,000
% Treaty	95%	98%
% Facultative	5%	2%
Total employees	10	10

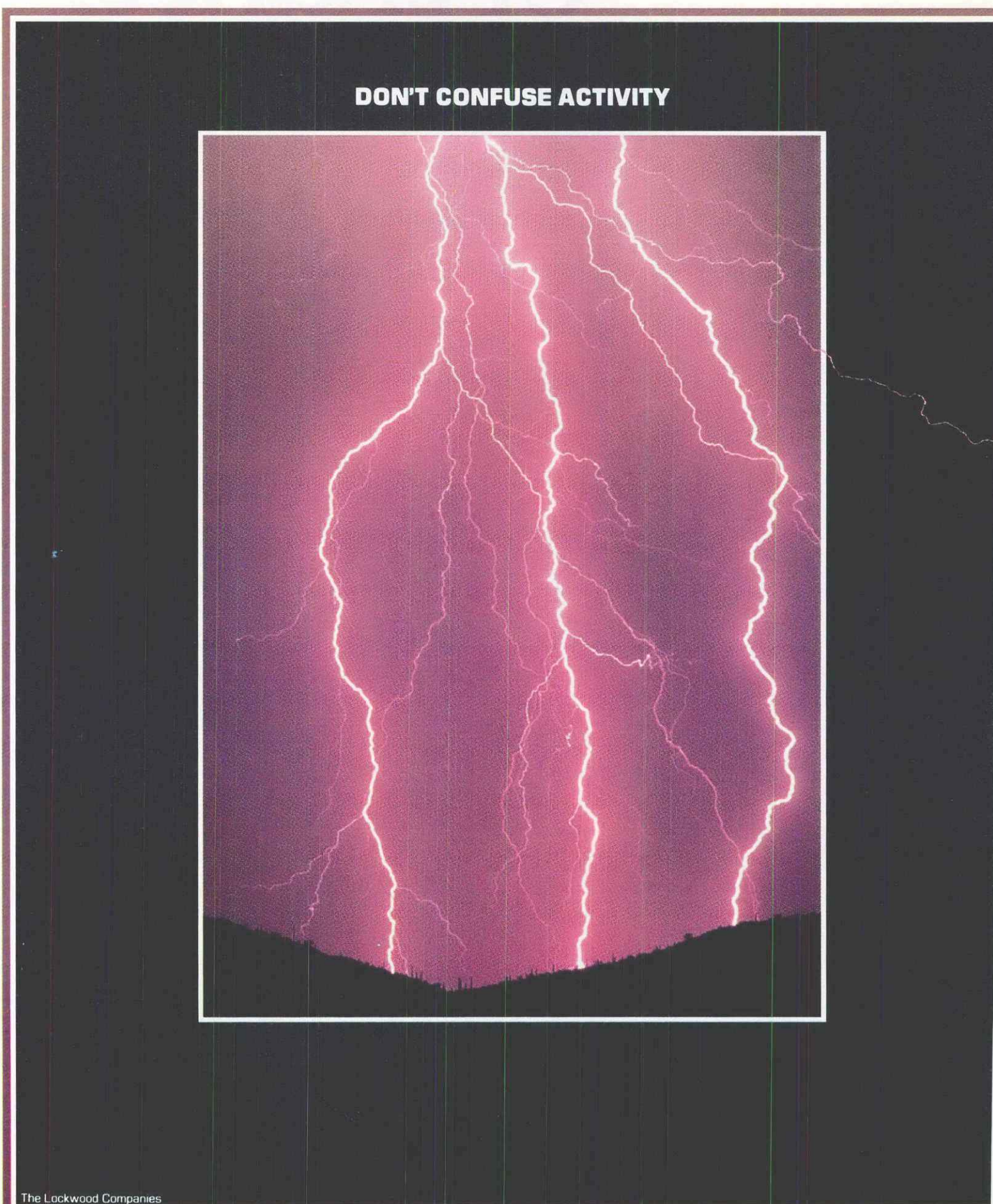
Founded: 1979.
Specialties: Captive reinsurance, excess property and casualty, finite risk.
Licensed in: Bermuda.
Conducts business: Worldwide.
Officers: Michael F. Bott, president; Roy V. Bray, executive vp; Scott W. Nickerson, CFO.
Contact: Roy V. Bray.

Bradstock Inc.

1 Whitehall St., New York, N.Y. 10004; 212-344-2711; fax: 212-809-6797

	1993	1992
Premium volume...	\$15,000,000	\$18,000,000
% Treaty	100%	100%
Gross revenues	\$900,000	\$1,127,000
Total employees	10	13
Treaty	10	13

Founded: 1981.
Parent: Bradstock Group P.L.C.
Specialties: Aviation.
Continued on next page



The Lockwood Companies

Continued from previous page

Licensed in: New York.**Conducts business:** Nationwide, excluding Alaska and Hawaii.**Officers:** Esther Hernandez, Sharon Taylor, vps; Jean Pareja, assistant vp.**Guy Carpenter & Co.**

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

	1993	1992
Premium volume*...	\$5,000,000,000	\$4,750,000,000
Gross revenues**.....	\$296,800,000	\$284,000,000
Total employees.....	1,624	2,145

* Company estimates. ** BI estimates.

Founded: 1923.**Parent:** Marsh & McLennan Cos. Inc.**Branch offices:** San Francisco; Hartford, Conn.; Minneapolis.**Subsidiaries:** Balis & Co. Inc., Philadelphia; Carpenter Bowring Ltd., London; Carpenter Bowring Pty. Ltd., Melbourne and Sydney, Australia; Gradmann & Holler-Guy Carpenter GmbH, Munich, Germany; Guy Carpenter & Co. Inc., Seoul, Korea; Guy Carpenter & Co. A/S, Copenhagen, Denmark; Guy Carpenter & Co. (Asia) Ltd., Hong Kong; Guy Carpenter & Co. (Canada) Ltd., Toronto; Guy Carpenter & Cia. S.A., Madrid, Spain; Guy Carpenter & Co. S.A., Brussels, Belgium; Guy Carpenter & Co. (Stockholm) AB, Stockholm, Sweden; Sellon Associates Inc., White Plains, N.Y.; Union Francaise de Reassurances, Paris.**Licensed in:** California, Minne-

sota, New York, Ohio, South Carolina, Texas.

Conducts business: Nationwide.**Officers:** Richard H. Blum, chairman/CEO/director; G.H.C. Wakefield, president/director; Clement S. Dwyer Jr., Brandon W. Sweitzer, executive vps/directors; A.J.C. Smith, Philip L. Wroughton, directors.**Contact:** Gabriele J. Troiano.**Membership:** Brokers & Reinsurance Markets Assn.**Herbert Clough Inc.**

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

	1993	1992
Premium volume...	\$682,128,204	\$547,748,339
% Treaty.....	99%	99%
% Facultative.....	1%	1%
Gross revenues.....	\$11,531,635	\$11,337,688
Total employees.....	50	52
Treaty.....	47	49
Facultative.....	3	3

Founded: 1926.**Parent:** General Reinsurance Corp.**Specialties:** Property and casualty occurrence, excess business, financial reinsurance, accident and health, aviation and marine, workers comp, professional liability.**Licensed in:** New York.**Conducts business:** Nationwide.**Officers:** Alistair D. Johnston, president; Lawrence C. Magnant Jr., vp-brokerage/operations; Roger J. Bel, vp-treaty; Theresa N. Becker, second vp-retrocessions marketing; Kathleen M. McCormick, second vp-retrocessions.**Contact:** Alistair D. Johnston, 203-328-6609.

Directory terms and methodology explained on page 44.

John B. Collins Associates Inc.

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

	1993	1992
Premium volume...	\$226,500,000	\$212,200,000
% Treaty.....	100%	100%
Total employees.....	34	26
Treaty.....	34	26

Founded: 1987.**Branch offices:** East Granby, Conn.**Specialties:** Property, casualty, life, accident and health, crop.**Licensed in:** California, Connecticut, Delaware, Illinois, Minnesota, Montana, New York.**Conducts business:** Nationwide.**Officers:** John B. Collins Jr., president; James A. Brost, Daniel J. Burke, Gregory L. Brettingen, executive vps; Timothy J. Pawlik, senior vp.**Contact:** Gregory L. Brettingen.**Cooper Gay Steele & Co. Ltd.**

120 Wall St., 22nd Floor, New York, N.Y. 10005; 212-248-1150; fax: 212-248-1181

	1993	1992
Premium volume...	\$26,000,000	\$18,500,000
% Treaty.....	10%	10%
% Facultative.....	90%	90%
Total employees.....	17	17
Treaty.....	3	3
Facultative.....	8	8

Founded: 1988.**Parent:** Cooper Gay (Holdings) Ltd.**Specialties:** Property, including technical lines; casualty; marine and energy; aerospace; domestic, foreign and global/multinational business.**Licensed in:** New York.**Conducts business:** Nationwide, Puerto Rico and overseas.**Officers:** David A. Gay, chairman; R. Patrick Steele, president; Stephen S. Brewer, Jeremy A. Goodman, vps/directors; Peter Gorman, vp-finance/secretary/treasurer.**Contact:** R. Patrick Steele.**Cravens & Co. Inc.**

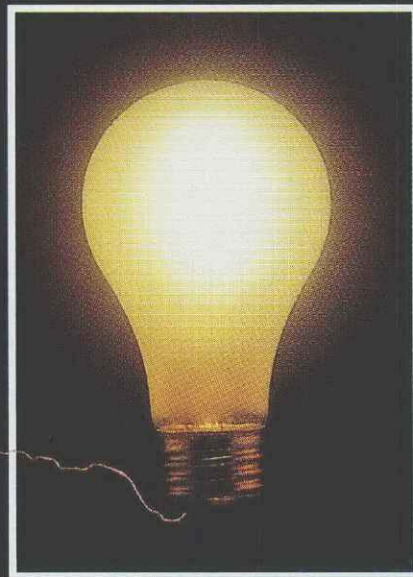
555 California St., Suite 3333, San Francisco, Calif. 94104; 415-433-6161; fax: 415-433-1434

	1993	1992
Premium volume...	\$38,000,000	\$35,000,000

Founded: 1978.**Specialties:** Treaty reinsurance, property and casualty.**Licensed in:** California, New York.**Conducts business:** Nationwide.**Officers:** Hartley D. Cravens, president; James R. Leffler, Michael D. Reynolds, senior vps; Carol C. Cravens, vp; Kenneth R. Davis, treasurer.**Cypress Creek Intermediaries Inc.**

300 International Parkway, Suite 190, Heathrow, Fla. 32746; 407-333-9002; fax: 407-333-9105

	1993	1992
Premium volume...	\$32,000,000	\$32,000,000
% Treaty.....	95%	95%
% Facultative.....	5%	5%
Total employees.....	4	4
Treaty.....	3.5	3.5
Facultative.....	0.5	0.5

Founded: 1984.**Specialties:** Property/casualty, including agri-risk, farm owners, automobile liability and general catastrophe covers; accident and medical, including sports-related medical/accident/health.**Licensed in:** Florida, New York, Pennsylvania.**Conducts business:** Nationwide.**Officers:** Michael T. Pyle, president; Andrew Pyle, assistant vp; Peggy B. Pyle, vp/treasurer; Laurie P. Langston, assistant secretary.**Contact:** Michael T. Pyle.**WITH RESULTS****REINSURANCE UNDERWRITING MANAGERS**

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MEDICAL REINSURANCE UNDERWRITERS INCORPORATED

Spotlight report

Continued from previous page



Delaney Offices Inc.

215 Elberon Ave., Allenhurst, N.J. 07711; 908-517-0612; fax: 908-531-0977

	1993	1992
Premium volume...	\$3,000,000	\$3,000,000
% Treaty	90%	90%
% Facultative	10%	10%
Gross revenues	\$1,000,000	\$1,000,000
Total employees	3	5
Treaty	3	3

Founded: 1954.
Specialties: International and domestic, property, casualty, catastrophe, ocean marine, aviation, stop-loss, financial.
Licensed in: New York.
Conducts business: Nationwide.

Officers: William F. Delaney Jr., president.



Falcon Re-Insurance Intermediaries Inc.

790 E. Colorado Blvd., 9th Floor, Pasadena, Calif. 91101; 818-796-1152; fax: 818-792-5035

	1993	1992
Premium volume...	\$8,000,000	\$7,000,000
% Treaty	100%	100%
Total employees	3	3
Treaty	2	2

Founded: 1991.
Parent: CSI.
Specialties: Casualty, marine, surety, finite risk.
Licensed in: New York.

Conducts business: Nationwide.
Officers: K. Mark Russ III, president; Zondra Hendrix, CFO.
Contact: K. Mark Russ III.

Financial Reinsurance Inc.

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

	1993	1992
Premium volume...	\$8,780,400	\$17,642,892
% Treaty	98%	91%
% Facultative	2%	9%
Total employees	5	5
Treaty	4	4
Facultative	1	1

Founded: 1960.
Parent: Ormond Re Group Inc.
Subsidiaries: W.J. Burt & Associates Inc., New York.
Specialties: Crop hail.
Licensed in: Florida, New York.
Conducts business: Nationwide.
Officers: W. Lockwood Burt, president; John B. Deiner, executive vp; A.L. DiPardo, senior vp-

claims; William T. Long, senior vp/controller.
Contact: John B. (Jay) Deiner.

First Reinsurance Intermediaries Corp.

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

	1993	1992
Premium volume...	\$50,000,000	\$50,000,000
% Treaty	100%	100%
Total employees	5	5
Treaty	5	5

Founded: 1983.
Parent: Risk Distribution Services Inc.
Specialties: Financial reinsurance, medical malpractice.
Licensed in: New York.
Conducts business in: Eastern United States.
Officers: Stephen M. Edwards, president; Paul G. Curtis, vp; Roger J.B. Beach, director.
Contact: Stephen M. Edwards.

H.S. Fox Corp.

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

	1993	1992
Premium volume...	\$285,000,000	\$275,000,000
% Treaty	100%	100%
Gross revenues	\$6,700,000	\$6,500,000
Total employees	25	26
Treaty	25	26

Founded: 1985.
Specialties: Special type health risks, professional liability.
Licensed in: New York, Ohio, South Carolina, Texas.
Conducts business: Nationwide, excluding Alaska and Hawaii.
Officers: Donald M. Fox, chairman/CEO; Alan R. Sheppard, president/COO; Robert C. Henderson, executive vp; Donald C. Blackburn, Larry L. Collins, Robert M. Hodge, senior vps.
Contact: Donald C. Blackburn.

C.L. Frates Reinsurance Intermediary Inc.

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

	1993	1992
Premium volume...	\$28,000,000	\$26,000,000
% Treaty	100%	100%
Gross revenues	\$1,306,000	\$1,211,000
Total employees	4	4
Treaty	4	4

Founded: 1986.
Specialties: Casualty and professional liability, fidelity, excess workers compensation.
Licensed in: New York.
Conducts business: Nationwide and internationally.
Officers: Albert P. Amato, senior vp; Dina Pavon, account service manager.



Arthur J. Gallagher Intermediaries Inc.

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

	1993	1992
Premium volume...	\$33,570,000	\$30,700,000
% Treaty	12%	16%
% Facultative	88%	84%
Total employees	20	19
Treaty	3	3
Facultative	17	16

Founded: 1987.
Parent: Arthur J. Gallagher & Co.
Branch offices: Treaty Reinsurance Division, New York.
Subsidiaries: Arthur J. Gallagher International, London; Arthur J. Gallagher Intermediaries (Bermuda), Bermuda.
Specialties: Facultative; property; casualty; programs; financial/finite; treaty reinsurance, including domestic credit, export credit, marine, property and political risk on a global basis.
Licensed in: Illinois, New York, Rhode Island.
Conducts business: Nationwide.
Officers: Robert L. Osborne Jr., president; Randall S. Jensen, Edward Santos, executive vps; Gerald F.X. Caffrey, senior vp; Joe DeChristofaro, Ted Levandowski, Kevin Denike, John M. O'Reilly, vps.
Contact: Robert L. Osborne Jr., 212-312-6205 or Edward Santos, 212-791-5900.

Arthur J. Gallagher Intermediaries (Bermuda) Ltd.

P.O. Box HM 2000, Hamilton HM HX, Bermuda; 809-292-4654; fax: 809-292-8231

	1993	1992
Premium volume...	\$10,000,000	\$8,000,000
% Treaty	4%	5%
% Facultative	96%	95%

Continued on page 50



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That's earned us a reputation for stability and adaptability. And, since our affiliation with the Kemper National Insurance Companies, we've increased our capacity, too. That's given us even more stable footing for the next twenty-five years.

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cost-effective ways to stop it in its tracks, talk to Liberty Mutual.

LIBERTY
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FACING
THE **ISSUES** THAT
FACE OUR
CUSTOMERSTM

Spotlight report

Continued from page 48

Total employees	7	7
Treaty	1	1
Facultative	6	6

Founded: 1972.
Parent: Arthur J. Gallagher & Co.

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

Licensed in: Bermuda.
Conducts business: Nationwide.
Officers: David J. McManus, president; Peter J. Mullen, vp-production; Wayne L. Brown, vp-brokering.

Contact: Peter J. Mullen.

Gill & Roeser Inc.

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

	1993	1992
Premium volume	\$100,000,000	\$100,000,000
% Treaty	100%	100%
Total employees	11	11
Treaty	11	11

Founded: 1983.
Specialties: Traditional reinsurance, finite risk reinsurance, alternative risk reinsurance, mergers and acquisitions, commutation, novation.

Licensed in: New York.
Conducts business: Nationwide.
Officers: Kirk Roeser, president; Steven Bolland, David Koegel, senior vps; Peter Larsen, vp; Julian Hayter.

Contact: Robert Kaufman, 212-661-1710.

Reinsurance Intermediaries Directory terms and methodology explained on page 44.

Greig Fester Inc.

1 Liberty Plaza, 165 Broadway, New York, N.Y. 10006; 212-227-1600; fax: 212-227-0500

	1993	1992
Premium volume	\$123,000,000	\$85,000,000
% Treaty	85%	87.5%
% Facultative	15%	12.5%
Gross revenues	\$6,400,000	\$4,500,000
Total employees	29	32
Treaty	23	27
Facultative	6	5

Founded: 1981.
Parent: Greig Fester Group Ltd.
Branch offices: Minneapolis, Philadelphia.

Specialties: Property, casualty, crop, agricultural, credit.

Licensed in: New York.
Conducts business: Nationwide.
Officers: Dieter Losse, chairman; James Buysse, president/CEO; Drew Beauchamp, executive vp; Terrence Rose, chief administrative officer; Joseph Curcio, senior vp.

Contact: Terrence Rose.
Membership: Brokers & Reinsurance Markets Assn.

Griffiths & Wanklyn Reinsurance Brokers Ltd.

8 Wesley St., P.O. Box HM 658 CX, Hamilton HM 11, Bermuda; 809-295-1639; fax: 809-295-1638

	1993	1992
Premium volume*	\$10,000,000	\$7,000,000
% Treaty	95%	95%
% Facultative	5%	5%
Total employees	3	3
Treaty	3	3

* Company estimate.
Founded: 1985.
Parent: Griffiths & Wanklyn Management Ltd.

Specialties: Captive reinsurance, risk retention groups, self-insured entities, agency-owned insurers and specialty programs.
Licensed in: Bermuda.

Officers: Julian Griffiths, William Wanklyn, Lisa Skinner.



H&H Re-Insurance Brokers Ltd.

Chevron House, P.O. Box HM 1861, Hamilton HM 11, Bermuda; 809-295-3342; fax: 809-295-4065

	1993	1992
Premium volume	\$12,000,000	\$10,500,000
% Treaty	90%	90%
% Facultative	10%	10%
Total employees	6	6
Treaty	3	3
Facultative	3	3

Founded: 1977.
Specialties: Captive, financial and commercial reinsurance.

Licensed in: California, New Jersey, New York, Bermuda.
Conducts business in: Bermuda.
Officers: Simon C. Everett, president; W.H. (Cotty) Outerbridge, David Harris, vps; John Berry, president-IAS Intermediaries Inc.

Contact: W.H. (Cotty) Outerbridge.

Heddington Brokers Ltd.

P.O. Box HM 1187, Hamilton HM EX, Bermuda; 809-295-3063; fax: 809-292-3548

	1993	1992
Premium volume	\$10,500,000	\$9,400,000
% Treaty	5%	5%
% Facultative	95%	95%
Total employees	18	19

Founded: 1981.
Parent: Heddington Insurance Ltd., Willis Corroon P.L.C.
Subsidiaries: Willis Corroon (Dublin) Ltd.

Specialties: International reinsurance.

Licensed in: Bermuda.
Conducts business in: Bermuda.
Officers: R.C. Golden, president/CEO; J.D. Ryan, executive vp; M.G. Randall, senior vp-casualty; H.C. Scully, vp-casualty; P. Obolensky, vp.

Holborn Agency Corp.

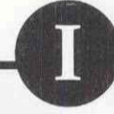
90 John St., New York, N.Y. 10038; 212-267-0224; fax: 212-964-0919

	1993	1992
Premium volume	\$500,000,000	NA
% Treaty	100%	100%
Total employees	52	49
Treaty	52	49

Founded: 1920.
Specialties: Property and casualty.

Licensed in: New York, South Carolina.

Conducts business: Nationwide.
Officers: John N. Gilbert Jr., president; Joseph N. Gaffney, executive vp; Michael S. White, Keith D. Gillies, senior vp.
Contact: Michael S. White.
Membership: Brokers & Reinsurance Markets Assn.



IOC Reinsurance Brokers Ltd.

67 Yonge St., Suite 902, Toronto, Ontario M5E 1J8, Canada; 416-863-6665; fax: 416-863-3961

	1993	1992
Premium volume*	\$68,500,000	\$52,000,000
% Treaty	92.5%	92.5%
% Facultative	7.5%	7.5%
Gross revenues*	\$2,500,000	\$1,900,000

Total employees	17	17
Treaty	14	14
Facultative	3	3

* Reported in U.S. dollars using the rate of Canadian dollar = \$0.74748 U.S. dollars.

Founded: 1980.
Parent: Minet North America.
Officers: Bob Inksater, Joe O'Connell, directors; David Sloan, Michael Dodd, vps.
Contact: Michael Dodd, vp-finance/administration.

Independent Brokers Ltd.

20 Reid St., P.O. Box HM 2070, Hamilton HM HX, Bermuda; 809-295-1646; fax: 809-292-8062

	1993	1992
Premium volume	\$3,100,000	\$3,500,000
% Treaty	80%	52%
% Facultative	20%	48%
Gross revenues	\$144,000	\$140,000
Total employees	7	7
Treaty	2	2
Facultative	2	2

Founded: 1984.
Parent: Independent Management Group Ltd.

Specialties: Medical malpractice, excess liability.
Licensed in: Bermuda.
Conducts business in: Bermuda.
Officers: Peter J.N. Strong, president.

Industrial Re— International Inc.

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

	1993	1992
Premium volume	\$9,200,000	\$8,100,000
% Treaty	38%	40%
% Facultative	62%	60%
Total employees	8	8
Treaty	2	3
Facultative	3	2

Founded: 1987.
Branch offices: Buenos Aires, Argentina.

Continued on next page

THE STRENGTH

Atlanta

Chicago

Columbus

Dallas

Continued from previous page

Specialties: Traditional non-marine classes.

Licensed in: New York.

Conducts business: Internationally.

Officers: Rene A. Gutierrez, president; Richard Durett, Mark S. Andrews, vps; Francisco A. Padilla, CFO.

Contact: Francisco A. Padilla.

Innovative Reinsurance Group

1 Penn Square W., Suite 700, Philadelphia, Pa. 19102; 215-564-1511; fax: 215-564-1235

	1993	1992
Premium volume...	\$9,188,000	NA
% Treaty.....	99%	NA
% Facultative.....	1%	NA%
Gross revenues.....	\$560,000	NA
Total employees.....	11	NA
Treaty.....	11	NA

Founded: 1993.

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

Licensed in: Arizona, Minnesota, Pennsylvania.

Conducts business: Nationwide.

Officers: Thomas F. Conners, president; Stuart B. Grodanz, Christopher J. Pfeifer, vps.

Contact: Thomas F. Conners.

Insurance Agency Programs Inc.

59 John St., New York, N.Y. 10038; 212-227-1300; fax: 212-349-1650

	1993	1992
Premium volume...	\$10,000,000	\$8,000,000
% Treaty.....	100%	100%
Total employees.....	5	5
Treaty.....	4	4

Founded: 1991.

Specialties: Financial reinsur-

ance, alternative risk transfer reinsurance, programs, agency captive, fronting.

Licensed in: California, Florida, New York.

Conducts business: Nationwide.

Contact: Andrew Barile, president.

Intere Intermediaries Inc.

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

	1993	1992
Premium volume...	\$486,000,000	\$486,000,000
% Treaty.....	100%	100%
Total employees.....	170	172
Treaty.....	170	172

Founded: 1919.

Parent: Minet Re North America Inc.

Branch offices: Atlanta; Itasca, Ill.; Danvers, Mass.; New York; Philadelphia; Dallas.

Subsidiaries: Intere (Bermuda) Ltd., Hamilton, Bermuda.

Specialties: Property and casualty; marine and aviation; life, accident and health; domestic and international.

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

Conducts business: Nationwide.

Officers: Wallace E. Winter, chairman; Mark T. Hvidsten, president/CEO; Michael G. Woll, senior executive vp/chief administrative officer; Thomas F. McGrath III, senior executive vp; Albert J. Devon Jr., Kenneth R. Fewell, Brian S. Keegan, executive vps; Charles M. Caporale, senior vp/treasurer; Ronald C. Fazio, senior vp/secretary.

Contact: Wallace E. Winter, 708-285-7300.

Membership: Brokers & Reinsurance Markets Assn.



JBW & Co. Inc.

1450-C Enea Square, Suite 690, Concord, Calif. 94520; 510-680-8060; fax: 510-680-1421

	1993	1992
Premium volume...	\$89,600,000	\$78,000,000
% Treaty.....	99.5%	100%
Facultative.....	0.5%	0%
Gross revenues.....	\$2,700,000	\$2,100,000
Total employees.....	20	22
Treaty.....	20	22

Founded: 1980.

Parent: Concord General Corp.

Branch offices: Scottsdale, Ariz.; Newark, Ohio; Dallas.

Specialties: Non-standard auto,

excess and surplus lines, miscellaneous E&O classes.

Licensed in: California, Florida, New York, Ohio, Oklahoma, Pennsylvania, Texas.

Conducts business: Nationwide.

Officers: Roland G. (Skip) Roth, president; Thomas M. Thie, executive vp; John Broadnax, Ed Lukco, Don Nixon, Peter O. Norton, senior vps.

Contact: Peter O. Norton.

Jardine Sayer & Co. Inc.

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

	1993	1992
Premium volume...	\$172,000,000	\$140,000,000
% Treaty.....	99%	100%
% Facultative.....	1%	0%

Gross revenues.....	\$8,200,000	\$6,200,000
Total employees.....	26	25
Treaty.....	25	25
Facultative.....	1	0

Founded: 1979.

Parent: JIB Group P.L.C.

Specialties: Property, accident and health, medical, marine, aviation, workers comp, life, automatic facultative.

Licensed in: New Jersey, New York, Ohio.

Conducts business: Nationwide.

Officers: John D. Sayer, president; John S. Yeouroukis, executive vp; John E. Januszewski Jr., COO/controller; Joseph A. Zaffarese, Richard C. Moody, senior vps.

Continued on page 58

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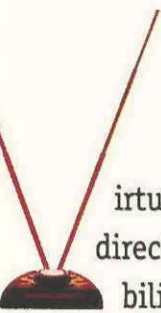
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If this is the reception your maybe it's time to



irtually no one would challenge the direct market's size or financial stability. But ask clients to evaluate the bigger picture—underwriting flexibility or responsiveness to unique needs and business opportunities—and its ratings often decline. If you share this view, we'd like to suggest an alternative solution: *Tune in to the broker channel.*

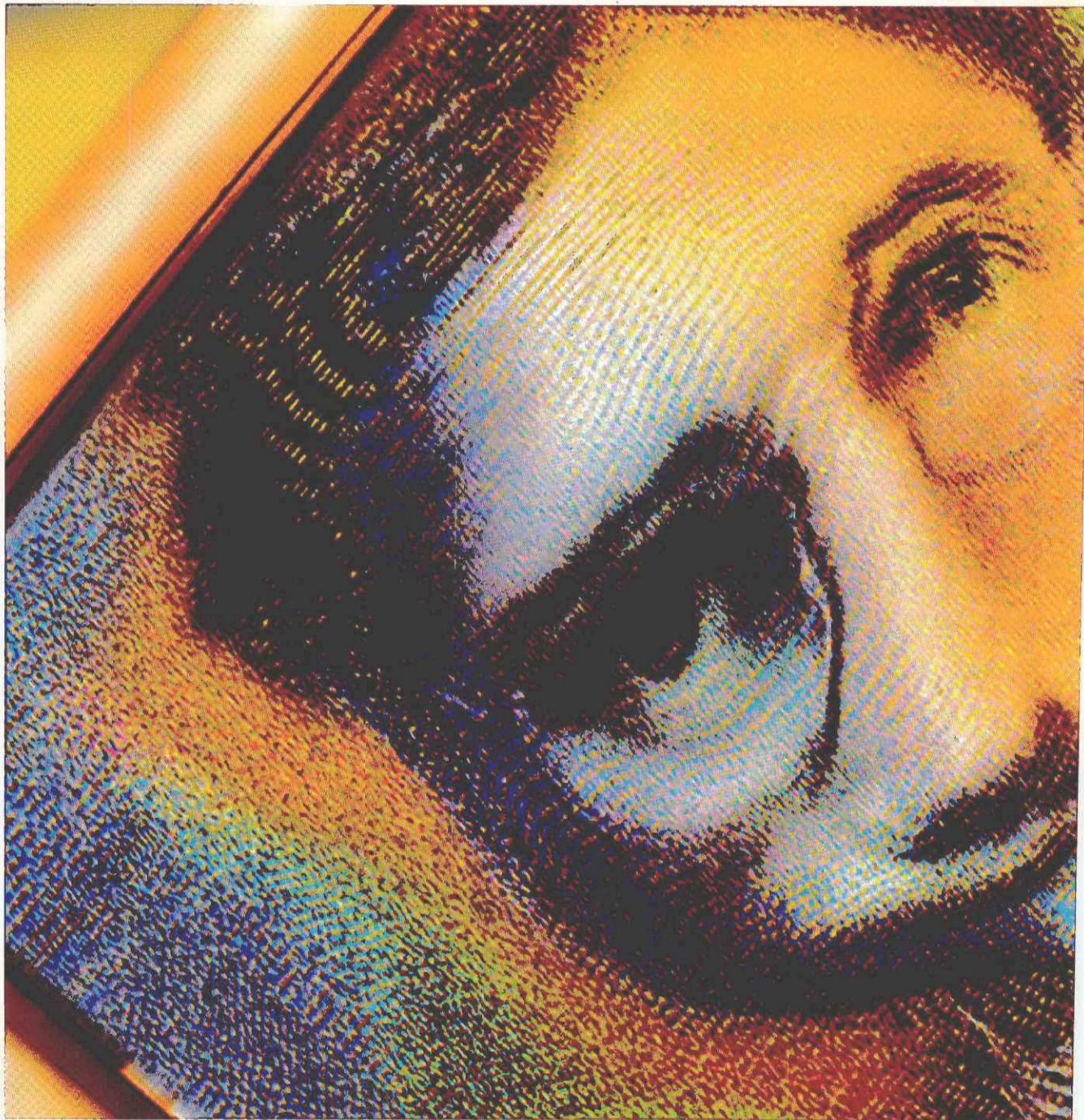
TUNED IN TO YOUR WAVE

Like the commercial banking profession a decade ago, the reinsurance brokerage industry is changing dramatically. Today's top reinsurance brokers work smarter, faster and are more responsive to clients' changing needs. In addition to directing reinsurance programs, most have created highly specialized consulting units to help clients deal with issues from financial and tax planning to complex risk-based capital requirements.

Broker-market reinsurers have also changed. Check the numbers: Half of

WELCOME TO THE INFORMATION SUPERHIGHWAY. The broker market provides access to problem-solving specialists across the globe.

Standard & Poor's "top tier" reinsurance companies are marketed through brokers. Led by innovators like Zurich Reinsurance Centre, the broker market is attracting top underwriting, actuarial, claims and financial professionals from throughout the industry, all to provide more innovative solutions to reinsurance buyers *without* compromising financial security.

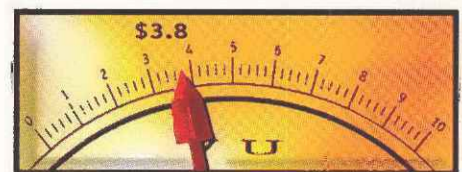


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Brokers share a simple philosophy: "What's best for you" rather than "What's in it for me?" They provide clients with a broad range of problem-solving ideas rather than promoting a single point of view.

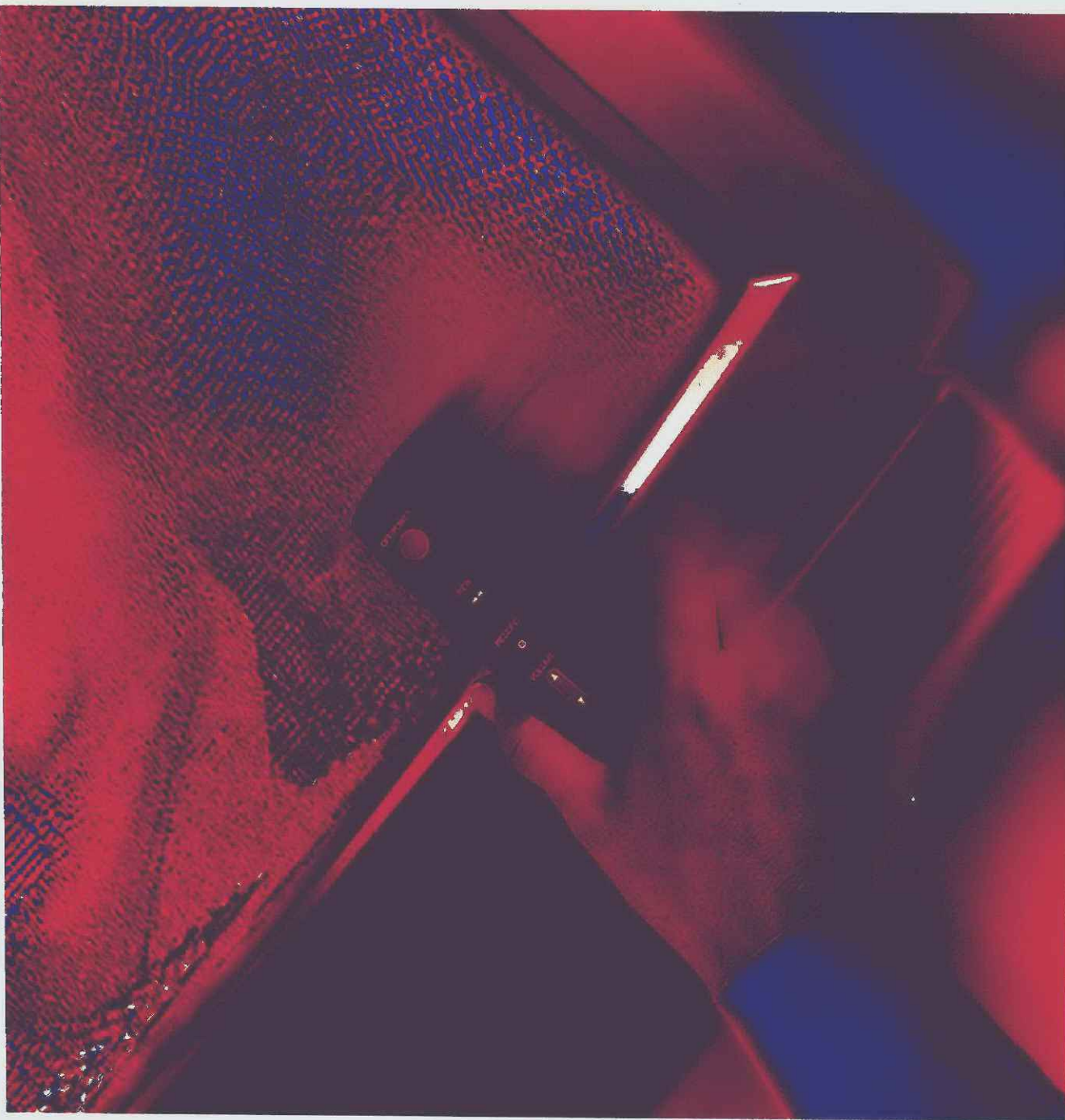
Brokers are tireless client advocates. They work on your side of the table, negotiating favorable terms and conditions, evaluating contract language, facilitating claims payments, and constantly challeng-

ing reinsurance companies to create more efficient solutions. The broker market doesn't tell you how to run your business. It shows you ways to make it stronger and more profitable, in part by designing pro-



DIRECT MARKET
(treaty reinsurance, in billions)

reinsurer gives new ideas, change channels.



grams to achieve an optimal balance of risk retention and risk transfer.

When traditional solutions have come up short, the broker market has developed new and more effective ones, including



BROKER MARKET
(treaty reinsurance, in billions)

the creation of finite risk protection and, most recently, the expansion of the property catastrophe market.

Brokers are managing their businesses to be more responsive, too. By upgrading technologies and automating many day-to-day service functions, brokerage firms and reinsurers are able to respond faster to client needs—from contract delivery to claims payments—and have set aggressive goals for continuous improvement.

WHO'S IN CHARGE HERE, ANYWAY? YOU ARE! Keep control over your reinsurance program using the help and advice of your broker.



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With more than \$600 million in statutory surplus, a AA-claims-paying rating from S&P and a clean, unencumbered balance sheet, ZRC leads the broker market in size and financial stability. But beyond capacity, it's our energy, creativity and innovative underwriting philosophy that we think set us apart. If you're looking to fine tune your reinsurance program this renewal season, call your broker and ask about ZRC. You'll be pleasantly surprised by the reception you'll receive.

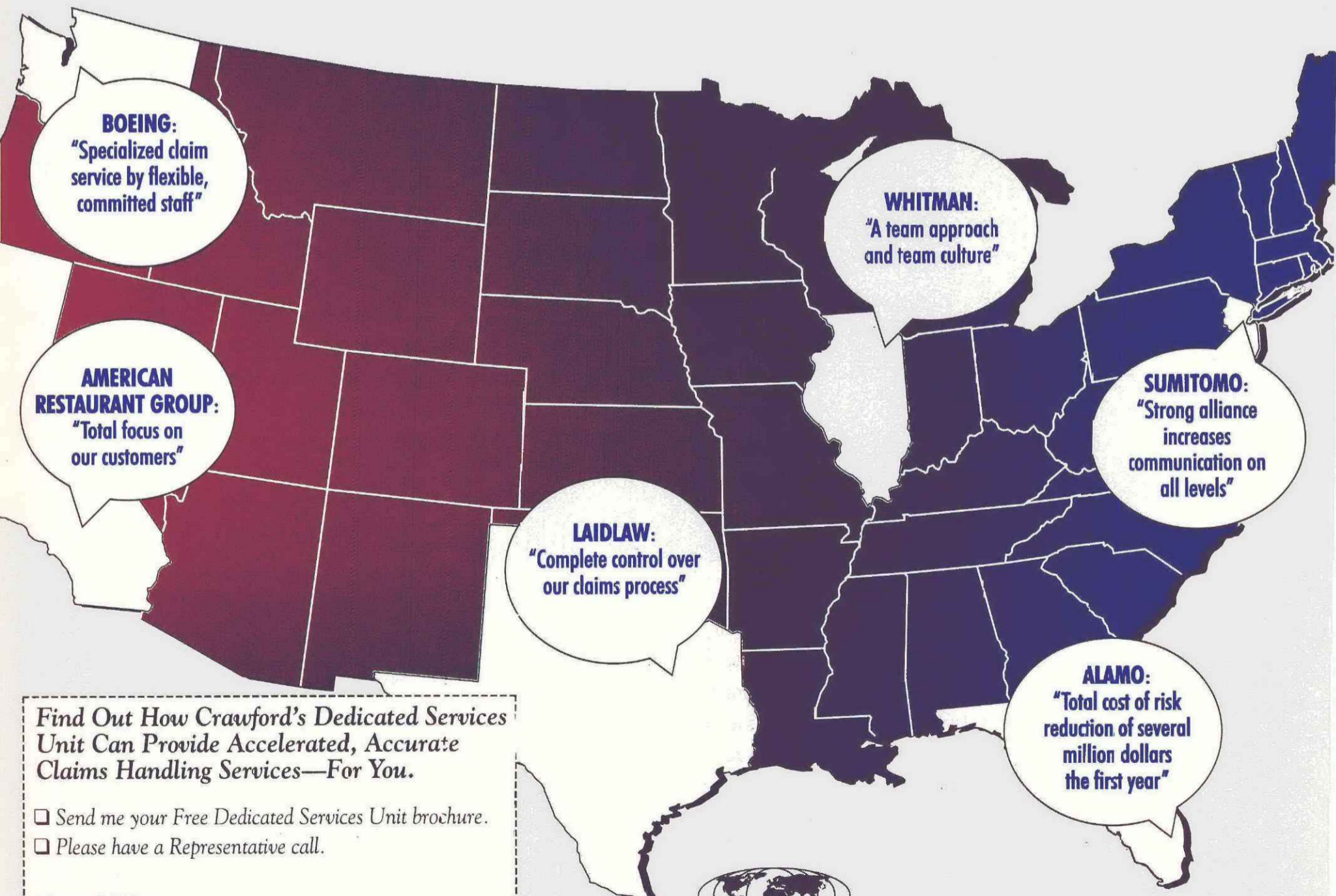


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ASK A BENEFIT MANAGER

Retirement issues to get more attention

A

During the past year, the focus in Congress has been health care reform.

Are there other major issues Congress will be focusing on in the future?

Q

I was surprised that there was no health care reform legislation passed at the federal level this year. There appeared to be a great deal of momentum in the early discussions regarding health care reform.

However, that momentum was lost with the distractions of other major

legislative issues, such as crime and welfare reform. These distractions, along with the extreme measures in the Clinton proposal, resulted in the demise of health care reform legislation this year.

The issue of health care reform will be present again in the 104th Congress. Discussions may be more efficient and productive since it appears that those elements of health care reform that are not acceptable have been identified. However, there will be new members of Congress that will be on a sharp learning curve. I hope Congress takes action on health care reform, but I hope it leans more toward incremental reform rather than an overhaul.

A major issue has been brewing in the background and should surface in Congress sooner rather than later. The issue is retirement—and more specifically the adequacy of retirement income for future retirees. In this 20th year after the passage of ERISA, there has been increased discussion on the adequacy of the retirement system.

The segment of the workforce that will potentially face a crisis and could make this a very visible issue are the "baby boomers," those born between 1946 and 1964. For the most part, baby boomers' parents enjoyed relative prosperity. Many retired after long careers at a single company, and the combination of company benefits, Social Security and personal savings resulted in a comfortable retirement. Based on what their parents have in retirement, most employees today are expecting the same comfortable retirement; but, for a number of reasons, there is a good chance it just won't happen.

Many facts and figures, when considered together, paint a fairly dismal retirement picture for baby boomers:

- Even when employees are given the opportunity to save for retirement and are encouraged to do so in plans like 401(k) plans where the employer often matches the contribution, many still do not seize the opportunity. Surveys show that 25% of employees eligible to participate in 401(k) plans do not.

- Another study showed that today's average 50 year old has only \$2,300 in savings.

- A government survey found that 40% of people between age 51 and 61 expect to have no retirement income except Social Security.

Social Security, as a retirement income source, may be in question. The latest report shows that the Social Security trust fund will be depleted by the year 2036, down substantially from the estimate of 2063 made in 1983. Additionally, many people are not aware that the normal retirement age for Social Security benefits has been modified. For much of the baby boomer group, normal retirement age is 66. The normal retirement age for those born after Jan. 1, 1960, is 67. Retiring and commencing your Social Security retirement benefit prior to your normal retirement age (as defined by Social Security) will result in a reduced benefit.

A further complication is the fact that we are living longer. With society's focus on fitness and wellness, I'm confident that our longevity will further increase. For example, in 1990, a man retiring at age 65 was expected to have approximately 15 years of retirement; for a woman,

nearly 19 years. Projections to the year 2030 show nearly 17 years for men and nearly 21 years for women. This is a good news/bad news scenario. It is certainly good news that we are living longer. The bad news is we have to find a means of financing our longer lives. What this also means is there will be a greater likelihood of us becoming disabled, which will most likely require additional health care expenditures.

Retirees are now required to absorb additional costs. With the implementation of FAS 106, which requires employers to account for retiree health care costs on an accrual basis, employers have been shifting the burden of retiree health care costs to the retiree. Some employers have eliminated their retiree health care plans and most are requiring retirees to pay for an increased percentage of the costs through increased levels of premium contributions and less generous plan designs, such as increased deductibles and decreased copayments.

There has been a change in the composition of retirement plans, as the number of defined benefit pension plans has declined and the number of defined contribution plans has increased. This change places increased responsibility for retirement income on the shoulders of employees.

If employees choose to participate in the defined contribution plan, they need to make the right investment choice. Many employees, though, are not making proper investment choices—the majority of 401(k) assets are in guaranteed investment contracts or short-term cash funds rather than equities, which over time are likely to provide a substantially higher rate of return.

Unlike their parents, baby boomers have not remained with just one employer during their career. The workforce has been much more mobile. Some of this is attributable to their search for the best opportunity. But, in recent years, many job changes have been the result of increased world competitiveness, which has led to large-scale workforce reductions.

The result of frequent job changes is limited buildup of retirement funds. This is true in both defined benefit and defined contribution retirement plans. Very often, when a defined contribution benefit is distributed to an individual who has changed jobs, the amount is not rolled over to another retirement plan or an individual retirement account.

With the growth of defined contribution plans, there has been an increase in the availability of lump-sum distributions when an individual leaves an employer. A survey conducted by Hewitt Associates L.L.C. found that 34% of defined benefit plans for salaried employees offered a lump-sum option and, of these, 67% made the option available to terminated employees who were vested, 72% to early retirees and 75% to normal retirees.

An Employee Benefit Research Institute study found that in 1990 there were 3.1 million IRA rollover contributions, totaling \$71.4 billion. For every 100 lump-sum total distributions in 1990, there were only 29 IRA rollover contributions, and for every \$100 distributed, only \$57 was rolled over into IRAs. These findings are consistent with previous EBRI research.

A study reported in an EBRI publication shows that a hypothetical worker holding four jobs with increasing tenure over 30 years, with constant defined contribution plan coverage, would lose 55% of the value of his or her retirement benefit by spending the preretirement lump-sum distributions rather than rolling them into a tax-qualified account at a moderate nominal interest rate.

The effect of spending preretirement distributions from final pay defined benefit plans rather than rolling them over would be smaller. This is true since final pay plans are more back-loaded than defined contribution plans.

Benefit accruals, as a percentage of pay, increase with worker tenure. The plan sponsored by the final employer—from which the worker retires—would contribute a disproportionately large share to retirement income, thus mitigating the loss. The study showed that final pay plan participants who spend their preretirement distributions will receive 19% to 27% less in benefits than workers who roll over such amounts.

What implications does this have for employee benefit managers? Benefit managers need to focus on employee

education and plan design. Educating employees to prepare for retirement is critical.

The focus of such programs is largely financial. The major thrust is to approximate how much income one needs in retirement and to determine if the income stream from various sources will be available.

Many people attending such programs discover that their projected expenses in retirement exceed their projected income stream. Once such a determination is made, hopefully employees will have adequate time to adjust their savings rate and possibly investment mix, which then results in increased income in retirement.

Employees also often need help in choosing investment funds in their company's 401(k) plan. Many companies have expanded the selection of funds offered in their 401(k) plans to meet 404(c) requirements.

However, employees will be less likely to invest in the additional funds if they are unfamiliar with them. It's basically "fear of the unknown."

The latest figures I have seen on investments in 401(k) plans shows that more than 50% of 401(k) plan investments are in GIC-type funds. Many employees are investing far too conservatively in 401(k) plans. Employees need to understand the risk of investing too large a share in conservative funds. That risk is having inadequate funds for retirement.

Employees need to understand the need for saving for retirement, as well as how to invest their retirement funds. This communication should not be a one-time event. Employees should be reminded of the need to save for retirement on a regular basis, as well as items to consider when investing their funds. Employee participation rates in savings plans, as well as investment direction, should be monitored on a regular basis.

Another issue is plan design. Although plans are not mandated to meet 404(c) requirements, the concept promoted by these regulations—investment diversification—is worthwhile. If employees are saving for retirement, they should be able to properly diversify investments. Plan sponsors should ensure an adequate array of options in their savings plans.

It is a good idea to determine the adequacy of retirement income from your organization's plans if such a review has not been done within the past five years. The general guideline for one to maintain their current standard of living into retirement is a 50% to 60% income replacement. The concept of the "three-legged stool" applies, with the three sources of retirement income being the company's plans, Social Security and personal savings.

If employees do not have adequate retirement income, they may be forced to work longer than they had intended and may not be as productive in their later years if they are "hanging on" in order to have adequate savings for retirement. **BI**

Would you like advice from an experienced colleague on a risk management, benefits management or actuarial problem? Four quarterly features in the Perspective section of Business Insurance can give you some answers.

Ask A Benefit Manager, Ask A Risk Manager, Ask A Benefit Actuary and Ask A Casualty Actuary answer written questions from readers on risk and benefits management issues and actuarial problems.

This month's column on employee benefit management issues is written by Dennis J. Nirtaut, manager of employee benefits at Bank of America Illinois in Chicago. Susan M. Werner, director of risk management at Hardee's Food Systems Inc. in Rocky Mount, N.C., answers questions on risk management issues. William J. Miner, an actuary with The Wyatt Co. in Chicago, answers actuarial questions on benefits issues.

And, Richard E. Sherman, president of Richard E. Sherman & Associates Inc. in Ashland, Ore., answers actuarial questions in the casualty field.

Address your questions to ASK, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please give us your name, title and employer; however, Business Insurance will consider unsigned letters.



Mr. Nirtaut

Craze beyond comparison

Use of benchmarking can lead to wrong conclusions

By Jay T. Deragon

BENCHMARKING IS BECOMING a risk management craze. But, without profound knowledge of the "process" that facilitates effective benchmarking, risk managers may find themselves trying to copy procedures that don't fit or attempting to reach goals relative to cost that have been accomplished only with careful planning and execution of specific strategies.

Our culture, and the fast pace of change, compels us to try to copy ideas, procedures or concepts without first achieving a fundamental understanding of what it is that drives a policy, procedure or concept. Benchmarking is being touted as a method of comparing best practices with the aim of motivating risk managers to improve.

Today, many risk managers are trying to compare their costs with others' costs and using those "benchmarks" as a tool for negotiation, either externally with brokers and insurers or internally with finance people in operations. The benchmarking concept can only be effectively used when one has a thorough understanding of the processes one is comparing and all the variables that go into the processes. Comparing costs of a process as a benchmarking fact does not tell the risk manager how a particular process worked.

The quality philosophy tells us that every process has inputs and outputs. Within every process, there are basically five variables of input:

- The person.
- The machinery.
- The methods.
- The materials.
- The environment.

These inputs are the variables that cause process variation, while the outputs are the results of variation in the process driven by the complexity of the process inputs.

For instance, if a risk manager wants to compare his costs of workers compensation claims to other risk managers' costs, measuring the cost by itself and comparing it will not provide the knowledge necessary to thoroughly understand the complexities underlying the cost; that is, the process and their inputs.

Many want to measure something without defining exactly what they are measuring. This seems to be a consistent complexity within the American culture as many organizations try to adopt some of the elements of quality. We have been taught and have subsequently managed our business by the measurement of results rather than the measurement of processes and their inputs. We do not have the fundamental knowledge needed to understand the root causes of variation, nor do we in general have any fundamental understanding of statistics and their

applications to measuring process variations or costs.

As an example, a risk manager measures the response time for claims handling by third-party administrators, insurers, etc. The response time will vary by these suppliers, and the variables that cause the variation of response time are significant. Thus, comparing response times of claims administrators must be further defined relative to types of claims, severity of claims and the definition of what is response time.

Considering that all process inputs have five fundamental variables as discussed above, one can see the complexity of making decisions or reacting based on process output measurement. It is a fallacy to think that by measuring process output only, one can improve operations, decrease costs, or increase knowledge. Many consultants tout benchmarking to risk managers as the new fad, but few of them have the necessary knowledge to add value to the role of the risk manager and its impact on a company's improvement efforts.

Before risk managers can use benchmarking effectively, they must first determine the following:

- What is the process that is going to be compared?

A process is different than a system. For instance, claims administration is a system responding to claims as a process within it.

- What does the proposed process look like? Can it be illustrated on a flowchart indicating the macro steps of the process, with each step having an identified attribute of data that can measure the steps' variation?

- Have the variables of inputs been identified and are they measurable?

- When comparing one process to another, is it clearly understood that these processes are either identical or very similar? Otherwise, in comparison to the output of the process, it may lead one to the wrong conclusion.

- What is the ultimate aim of benchmarking? If it is to evaluate the quality of one's efforts and/or results, then it can be an exercise in frustration if one doesn't understand the processes that are driving those results.

Many risk managers are beginning to ask insurance companies and brokers to do cost comparisons of their insurance programs relative to those of similar businesses. For instance, a chemical company wants to know what another chemical company's insurance cost is. This question is largely meaningless. Comparing one chemical company to another is a very complex comparison, considering operating cultural differences, personnel, orientation, training differences, equipment differences and differences in management philosophy and methodology, as well as differences in materials used, handled or manufactured. These types of comparisons will only lead to further adversarial relationships between

insurers, brokers and customers.

On the other hand, if both the suppliers and the customers can get together to learn what processes drive the cost of risk, most to least, and what practices can be applied to reduce the variation of those processes and their subsequent costs of risk, then and only then can real knowledge be gained on how to use benchmarking effectively.

A short article cannot adequately explain the depth of knowledge necessary to understand the value of benchmarking and/or how to execute the process effectively. Forewarned is forearmed.

Benchmarking reminds me of a parable I once heard:

Once there was a boy who kept a turtle in a sandbox in his backyard. He charged the other children in the neighborhood a nickel to come and look at it. For a while, the boy was prosperous. One day the boy next door put a goldfish into a wading pool in his backyard. He charged the other children in the neighborhood a nickel to come and look at it. The crowd around the sandbox grew smaller every day. It was standing room only at the wading pool. The boy next door raised his price to a dime.

After three days without a customer, the turtlekeeper walked over to the wading pool. The boy next door was scattering crumbs across the water. The children laughed and clapped as the fish darted around collecting them. The turtlekeeper walked back to his yard and looked down at his dingy turtle plodding slowly around in the sand. The boy picked the turtle up, carried it to the edge of the yard, and set it free among the tall grass.

He went to his room, gathered his money and rode off on his bicycle. A short while later, he returned carrying a large goldfish in a jar. He put the jar down, picked up a paintbrush and changed his sign to read "Admission 10 cents." Then he dumped the goldfish into the sandbox.

The moral of the story is that before we can copy what somebody else is successfully doing, before we can "move the goldfish," we must have a thorough understanding of both why the goldfish is working better over there and of all the conditions we must meet for it to thrive.

Is our present system capable of supporting goldfish? If not, our attempt to copy the kid next door is doomed to failure. **BI**



Jay T. Deragon is chief quality officer at Willis Corroon Corp. in Nashville, Tenn.

Builder has no claim on contractor for builder's risks

A builders risk insurer for the owner of an apartment complex could not recover, under the contribution theory, from a contractor's builders risk insurer for fire damage to an apartment complex, according to the 6th U.S. Circuit Court of Appeals.

The Jewish Federation Apartments entered into a construction contract with DeMaria Building Co. for the building of an apartment complex. The parties waived all rights against each other for fire damage to the extent covered by property insurance obtained pursuant to the contract. Both parties purchased builders risk policies—JFA from Reliance

Legal Briefs

Insurance Co. and DeMaria from Liberty Mutual Fire Insurance Co. Neither named the other as an additional insured or loss payee. In 1989, fire partially destroyed the complex, causing \$182,000 in damage. Each reported the loss to their insurer. Reliance paid JFA about \$181,000. Thus DeMaria informed Liberty Mutual it was not pursuing its claim. Reliance then sued DeMaria's insurer, seeking a declaration that Liberty Mutual must indemnify it for the full \$181,000, or in the alternative, that Liberty Mutual owed contribution in the

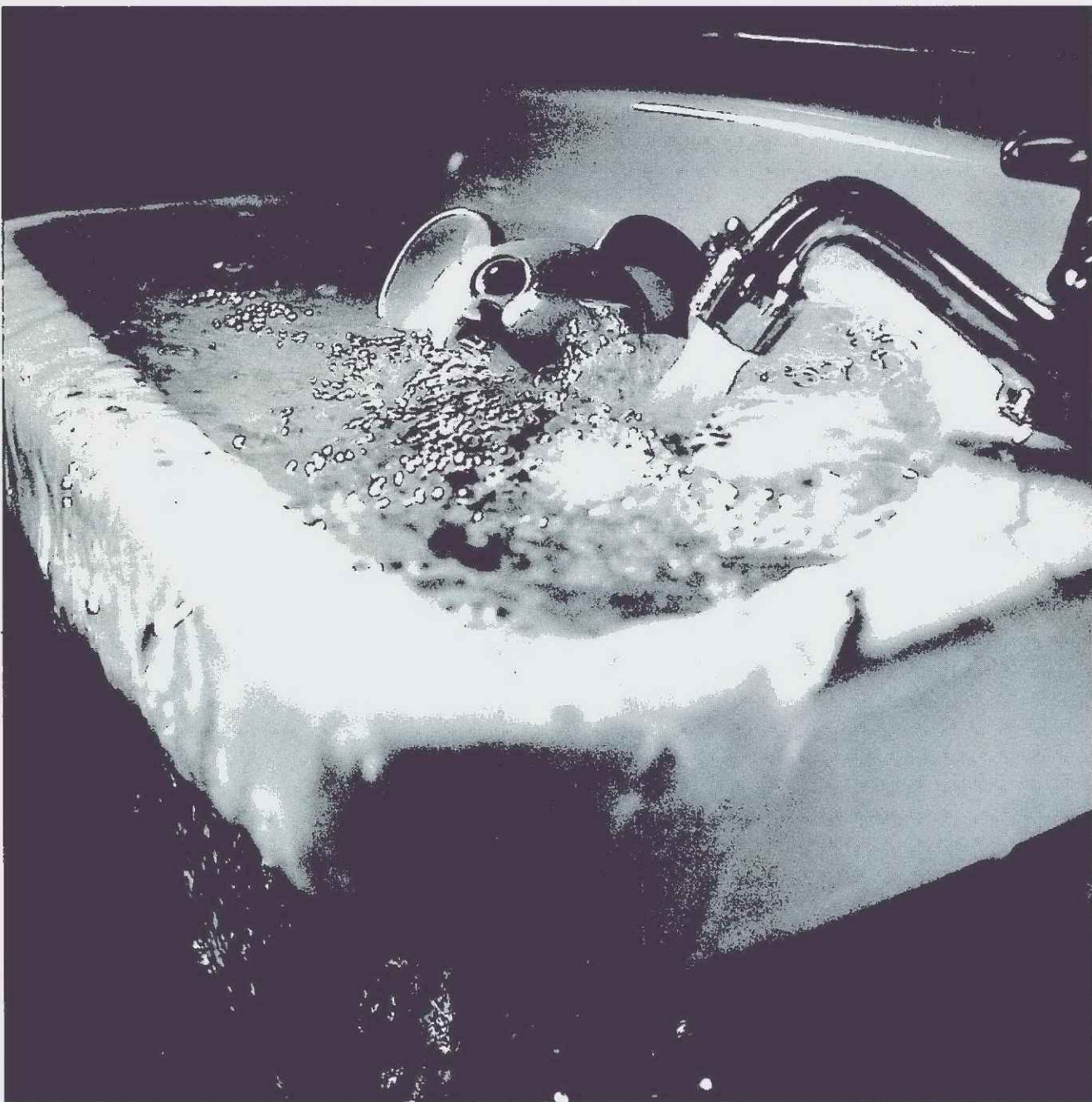
amount of 50% of the loss paid. The trial court ruled against Reliance.

The appellate court concluded that Reliance's claim for contribution was entirely without merit. According to the court, Liberty Mutual would be liable for contribution only where the insurers were equally liable for the discharge of a common obligation. The court ruled that while the property and risks in both policies were the same, the interests insured were different. The court noted that Reliance protected JFA's ownership interest in the complex and indemnification was payable only to JFA. Similarly, the court said, Liberty Mutual's

policy protected only DeMaria's contractual interest in completing and delivering the complex. The trial court decision was affirmed.

Reliance Ins. vs. Liberty Mutual Fire Ins., 6th U.S. Circuit Court of Appeals, Jan. 14, 1994 (BI/02/Jy.-\$10) **BI**

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



*... and then the monster
jumped into the lake
and made it overflow!*

Things happen. We are there when you need us.



HANNOVER RE
EISEN UND STAHL RE

Continued from page 51

**J.B. Johnson
Intermediary Inc.**1776 Woodstead Court, Suite 228,
The Woodlands, Texas 77380;
713-292-4023; fax: 713-292-1106

	1993	1992
Premium volume...	\$20,000,000	\$20,000,000
% Treaty.....	100%	100%
Total employees....	3	3
Treaty.....	3	3

Founded: 1979.**Specialties:** Accident and health, alternative workers comp.**Licensed in:** Kansas, Mississippi, New York, Texas.**Conducts business:** Nationwide, excluding Alaska and Hawaii.**Officers:** Joel B. Johnson II, president; Molly K. Johnson, secretary/treasurer.**Contact:** Joel B. Johnson II.**Le Blanc de Nicolay U.S. Inc.**140 E. 45th St., New York,
N.Y. 10017; 212-972-7090;
fax: 212-687-4852

	1993	1992
Premium volume...	\$62,000,000	\$55,000,000
% Treaty.....	100%	100%

Gross revenues	\$884,359	\$854,705
Total employees	6	9
Treaty	6	9

Founded: 1986.**Parent:** Le Blanc de Nicolay Reassurance.**Specialties:** Property and casualty; life, accident and health; credit and financial risks; international risks; marine and aviation.**Licensed in:** New York, Texas.**Conducts business:** Internationally.**Officers:** Oliver du Passage, president; William H. Asay, executive vp; Rycko Mochizuki, vp.**Contact:** William H. Asay.**W.J. Lehrke Co.**6600 France Ave. S., Edina,
Minn. 55435; 612-920-1667;
fax: 612-920-2039

	1993	1992
Premium volume...	\$20,000,000	\$18,000,000
% Treaty.....	95%	98%
% Facultative.....	5%	2%
Total employees....	10	10
Treaty	4	4
Facultative	2	2

Founded: 1973.**Specialties:** Catastrophe or loss ratio, flexible excess.**Licensed in:** Minnesota, New York.**Conducts business in:** Iowa,

Kansas, Michigan, Minnesota, Ohio.

Officers: Thomas A. Lehrke, president; S.P. Sorensen, vp; Mark Noack, assistant vp; W.J. Lehrke, secretary.**Lincoln National
Intermediaries**1 Reinsurance Place, 1700
Magnavox Way, P.O. Box 7808,
Fort Wayne, Ind. 46801-7808;
219-455-3290; fax: 219-455-1200

	1993	1992
Premium volume...	NA	NA
% Facultative.....	100%	100%
Gross revenues.....	\$6,069,578	\$5,147,224
Total employees....	26.5	27
Facultative	26.5	27

Founded: 1982.**Parent:** Lincoln National Corp.**Specialties:** Financial reinsurance, annuity reinsurance, mergers and acquisitions.**Licensed in:** Indiana, New York.**Conducts business:** Nationwide.**Officers:** Kenneth J. Clark, president; Thomas E. Skillman, Mark R. Troutman, Todd Spooner, vps.**Contact:** Kenneth J. Clark.**Edward Lloyd Ltd.**100 Merrick Road, Suite 510 W.,
Rockville Centre, N.Y. 11570;
516-763-9320; fax: 516-763-6722

	1993	1992
Premium volume...	\$6,000,000	\$5,000,000
% Treaty.....	2%	5%
% Facultative.....	98%	95%
Gross revenues.....	\$500,000	\$500,000
Total employees....	5	4

Founded: 1983.**Specialties:** International/global and reverse flow reinsurance.**Licensed in:** New York.**Conducts business:** Worldwide.**Officers:** John M. Mannix, president; Rambha A. Shukla, vp.**Stephen J. Lockwood & Co.**401 Edgewater Place, Wakefield,
Mass. 01880; 617-245-4559;
fax: 617-245-0052

	1993	1992
Premium volume...	\$130,000,000	\$83,000,000
% Treaty.....	98%	97%
% Facultative.....	2%	3%
Total employees....	11	11

Founded: 1977.**Parent:** LDG Management Co. Inc.**Specialties:** Occupational accident, aviation, workers compensation carve out, specific and aggregate medical stop loss, special risk accident and health.**Licensed in:** Illinois, Massachusetts, New York.**Conducts business:** Internationally.**Officers:** Stephen J. Lockwood, president; Carolyn A. Kirwin, senior vp; Jerilynn M. Ross, vp; Denise Donovan, assistant vp.**Contact:** Jerilynn M. Ross.

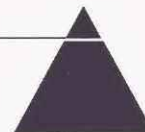
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BE CAUGHT DEAD
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Executive Risk Management Associates is an underwriting manager for The Aetna Casualty and Surety Company, Executive Re Indemnity Inc., and Executive Re Specialty Insurance Company.

Aetna

Executive Risk
Management Associates**M.I.M. Inc.**P.O. Box 260148, Highlands Ranch,
Colo. 80126; 303-791-8370;
fax: 303-791-8372

	1993	1992
Premium volume...	\$2,800,000	\$2,100,000
% Treaty.....	85%	85%
% Facultative.....	15%	15%
Total employees....	2	2
Treaty	1	1
Facultative	1	1

Founded: 1992.**Specialties:** Workers comp, product liability, alternative funding programs, strategic quota share planning.**Licensed in:** Colorado, Florida, Nebraska, New Mexico, New York, North Carolina, Wisconsin.**Conducts business:** Nationwide.

Continued on page 60

THE BIG CAT COVER.

IT'S LIKE LIFE INSURANCE FOR YOUR PROPERTY INSURANCE COMPANY.

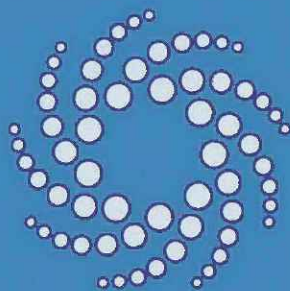
Blowing through your cat cover can kill your company. That's no great secret.

But not carrying enough coverage can affect your rating and even depress the price of your stock.

Even if we don't have the record-breaking catastrophes that we've seen in recent years, exposure to excessive volatility is damaging to your marketing and planning efforts and a threat to your balance sheet.

It may be your worst nightmare...but it's our business. We maintain large, liquid capital resources to help us absorb extreme volatility.

Put our property catastrophe capacity and expertise to use and keep your own company alive and well.



TempestRe

THE MONO LINE CAT RESOURCE

Spotlight report

Continued from page 58

Officers: Anne O. Morgan, president; C. Fred Morgan, secretary/treasurer; Jon M. Morgan, assistant secretary.

Contact: C. Fred Morgan.

Meadowbrook Intermediaries Inc.

144 E. 44th St., New York, N.Y. 10017; 212-297-1800; fax: 212-297-1802

	1993	1992
Premium volume*	\$14,500,000	\$5,500,000
% Treaty	100%	100%
Total employees	6	5
Treaty	6	5

* Company estimates.

Founded: 1985.
Parent: Meadowbrook Insurance Group.

Specialties: Alternative risk, including professional liability, products liability, municipal liability, workers comp, weather insurance, export credit and surety.

Licensed in: New York.
Conducts business: Nationwide.
Contact: Joseph Fahys.

Median Re Inc.

98 Cuttermill Road, Suite 346S, Great Neck, N.Y. 11021; 516-482-2111; fax: 516-482-2133

	1993	1992
Premium volume...	\$17,500,000	NA
% Treaty	100%	NA
Gross revenues	\$400,000	NA
Total employees	2	NA
Treaty	2	NA

Founded: 1993.
Branch offices: Stamford, Conn.
Specialties: Loss portfolio transfers, finite reinsurance, finite acquisition financing reinsurance.
Licensed in: Connecticut, New York.

Conducts business: Nationwide.
Officers: Henry H. Traendly, president; Gary L. Ketchum, treasurer; Robert M. Christie, John Milne, vps.
Contact: Robert M. Christie.



National Intermediaries Inc.

777 Long Ridge Road, P.O. Box 10167, Stamford, Conn. 06904-2167; 203-329-7700; fax: 203-329-9027

	1993	1992
Premium volume...	\$55,200,000	\$46,700,000
Total employees	7	7

Founded: 1976.
Parent: National Reinsurance Corp.
Licensed in: New York.

Conducts business: Nationwide and Canada.

Officers: Robert Eager, chairman/president; Carl Zuanelli, executive vp; James Brautigam, vp; Renee Walter, assistant secretary.

Northern States Intermediaries Inc.

206 S. Main St., Stowe, Vt. 05672; 802-253-6986; fax: 802-244-6230

	1993	1992
Premium volume...	\$5,500,000	\$6,000,000
% Treaty	40%	60%
% Facultative	60%	40%
Total employees	2	2
Treaty	1	1
Facultative	1	1

Founded: 1988.
Parent: Northern States Management Inc.

Branch offices: Waterbury Center, Vt.

Specialties: Workers compensation, professional liability.

Licensed in: New York.
Conducts business: Nationwide.
Officers: John J. Middleton, president.
Contact: John J. Middleton.



PWS Holdings P.L.C.

52-26 Minories, London EC3N 1JJ, England; 44-71-480-6622; fax: 44-71-702-1689

	1993	1992
Premium volume*	\$271,000,000	\$479,000,000
% Treaty	6%	8%
% Facultative	94%	92%
Gross revenues*	\$25,500,000	\$29,900,000
Total employees	274	283
Treaty	20	20
Facultative	60	60

* Reported in U.S. dollars.

Founded: 1964.
Branch offices: New York; Hamilton, Bermuda; Toronto; Amsterdam, Netherlands; Warsaw, Poland; Singapore.

Subsidiaries: Burns-Crosson Ltd.; PWS Asia Pacific; PWS Energy; PWS International; PWS International Poland S.A.; PWS Life & Pensions; PWS North America; PWS Overseas Holdings; PWS South Africa PTY; PWS (USA) Inc.; Thurgood, Farmer & Hackett.

Specialties: International and U.S. domestic property and casualty, international property and casualty treaty, accident and health-facultative and treaty, international and domestic energy, aviation excess of loss, directors and officers, financial, Canadian binders and marine insurance services.

Licensed in: New York.
Conducts business: Nationwide.
Officers: Peter J. English, group managing director-London; Charles E. Aman III, director/vp-PWS (USA) Inc.; Kevin Hubbard, international director-London; Peter Smith, treaty director-London.

Contact: U.S.: Charles E. Aman III, 212-791-9350; London: Peter J. English, Kevin Hubbard or Peter Smith, 44-71-480-6622.

Park International Ltd.

P.O. Box HM 2062, Hamilton HM HX, Bermuda; 809-295-7396; fax: 809-295-4622 or 809-295-6052

	1993	1992
Premium volume...	\$12,500,000	\$10,000,000
% Treaty	92%	100%
Facultative	8%	0%
Gross revenues	\$300,000	\$200,000
Total employees	5	4

Founded: 1973.
Parent: Mutual Risk Management Ltd.
Specialties: Wholesale reinsurance brokering in all Bermuda markets, including catastrophe reinsurance facilities.

Continued on page 62

Meet The People Who Reinvented Reinsurance.



At Atrium, we anticipated the changing dynamics of the insurance industry and pioneered the use of reinsurance to achieve financial goals in today's marketplace. We developed innovative reinsurance structures with a focus on the bottom line—a perspective our clients share.

Our underwriting, actuarial and financial experts evaluate your company's needs so that they can customize a reinsurance program balancing risk transfer, cost and other financial impacts. These finite risk products address a variety of needs and can readily complement

your existing reinsurance program. As you consider your company's financial goals and reinsurance requirements, call the people who reinvented reinsurance—Atrium.

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THE TRANSPORTATION TEAM

There's no broker with more hard-won experience in Transportation than the Willis Faber Team.

Our Team knows trucking from the asphalt up.

We've been involved with the industry as it has gone through major changes like the challenges of deregulation.

We understand the impact of the move to bigger, more expensive rigs on the road, the deterioration of our highways and bridges, and cut-rate competition.

We're part of the risk management process that has resulted in better, safer trucking today.

We're rolling along ahead of the pack with a bigger staff, more satellite offices, more computerized

backup, and the enhanced clout that comes from being part of Willis Corroon Group plc and Willis Faber's worldwide reinsurance operations.

Our experienced team knows how to interpret those special risks that carrier companies face every day.

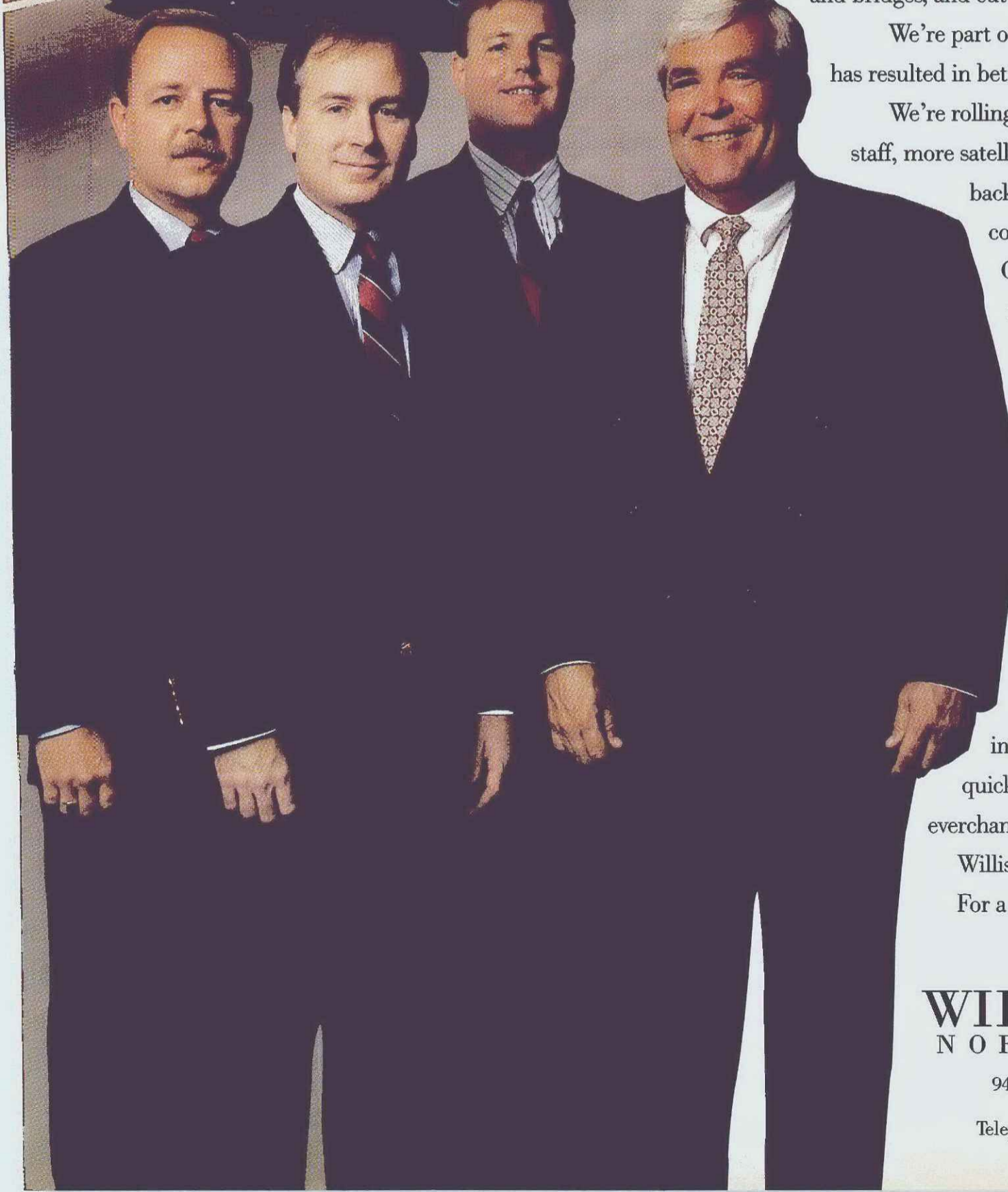
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We know the markets. We know the industry, and we know how to act quickly to ensure our clients are advised of everchanging regulatory requirements.

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940 Golf House Road West, P.O. Box 2500
Stoney Creek, North Carolina 27377
Telephone: 910-449-3200 Fax: 910-449-3232

Spotlight report*Continued from page 60*

Licensed in: Bermuda.
Conducts business in: Bermuda.
Officers: Paul Scope, president; Stephen Dean, Nan Pollock Grif-fiths, vps.
Contact: Stephen Dean.

Pearson & Georgi International Inc.

117 Washington St., P.O. Box 1597, Hoboken, N.J. 07030; 201-656-0800; fax: 201-656-3412

	1993	1992
Premium volume...	\$57,982,160	\$64,391,120
% Treaty.....	75%	85%
% Facultative.....	25%	15%
Gross revenues.....	\$1,349,554	\$1,609,778
Total employees.....	14	21
Treaty.....	11	17
Facultative.....	3	4

Founded: 1979.

Parent: Pearson & Georgi Holdings Inc.

Subsidiaries: Pearson & Georgi (Europe) Ltd., Athens, Greece;

Pearson & Georgi (Hellas) S.A., Athens, Greece; Pearson & Georgi (S.E. Asia), Manila, Philippines.

Specialties: International treaty and facultative reinsurance, medical insurance and auto credit guarantee risks.

Licensed in: New Jersey, New York.

Conducts business: Nationwide.
Officers: Fred H. Pearson, chairman; Ernest G. Georgi, president; Rodolfo A. Agatep, executive vp; Peter M. Graetzer, Aret M. Tasciyan, vps.

Contact: Ernest G. Georgi.

Donald B. Peat & Associates Inc.

2201 Cantu Court, Suite 200, Sarasota, Fla. 34232; 813-379-9122; fax: 813-379-6167

	1993	1992
Premium volume...	\$7,500,000	\$2,000,000
% Treaty.....	100%	100%
Total employees.....	10	3
Treaty.....	10	3

Founded: 1991.

Specialties: Property and casualty treaty reinsurance.

Licensed in: Florida, New York.

Conducts business: Nationwide, excluding Alaska and Hawaii.

Officers: Donald B. Peat, president.

Pegasus Advisors Inc.

86 Hopmeadow St., P.O. Box 398, Simsbury, Conn. 06070; 203-651-0641; fax: 203-658-5470

	1993	1992
Premium volume...	NA	NA
% Treaty.....	100%	100%
Gross revenues.....	\$1,455,300	\$1,463,700
Total employees.....	5	5
Treaty.....	5	5

Founded: 1989.

Parent: MBI Inc.

Specialties: Non-traditional, finite reinsurance, especially casualty business.

Licensed in: Connecticut, New Jersey, New York.

Conducts business: Nationwide.

Officers: Gregory E. Leonard, president; Lawrence G. Frank, vp; Joseph Abbott, assistant vp.

Contact: Rose Komanetsky.

Preferred Reinsurance Intermediaries Inc.

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

	1993	1992
Premium volume...	\$75,000,000	\$83,000,000
% Treaty.....	100%	100%
Total employees.....	19	21
Treaty.....	19	21

Founded: 1983.

Branch offices: Port Washington, N.Y.

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

Conducts business: Nationwide.
Officers: Robert H. Sanders, president; Karen N. Basso, senior vp; S. Oliver Hines, vp-accident/

health; Robert P. Hodson, Philip M. Russo, vps.

Contact: Charles Perry.



QSX Re (North America) Inc.

120 Wood Ave., Iselin, N.J. 08830; 908-494-4560; fax: 908-494-4505

	1993	1992
Premium volume...	\$31,000,000	\$25,000,000
% Treaty.....	20%	5%
% Facultative.....	80%	95%
Gross revenues.....	\$1,550,000	\$1,200,000
Total employees.....	11	9
Treaty.....	2	1
Facultative.....	9	8

Founded: 1925.

Parent: QSX Holdings B.V.

Specialties: Facultative and treaty property reinsurance.

Licensed in: New York.

Conducts business: Nationwide, excluding Alaska and Hawaii.

Officers: Willem P. Schuil, chairman/president; Steven L. Himes, vp.

Contact: Willem P. Schuil.



RFC Intermediaries Inc.

1117 Perimeter Center West, Atlanta, Ga. 30338; 404-392-9541; fax: 404-393-1541

	1993	1992
Premium volume...	\$100,000,000	\$120,000,000
% Facultative.....	100%	100%
Total employees.....	74	78
Facultative.....	74	78

Founded: 1972.

Parent: Minet Re North America Inc.

Branch offices: Los Angeles and San Francisco, Calif.; Hartford, Conn.; Atlanta; Itasca, Ill.; St. Paul, Minn.; New York; Philadelphia; Dallas.

Specialties: Domestic and international facultative reinsurance.

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

Conducts business: Nationwide.

Officers: Wallace E. Winter, chairman; Mark T. Hvidsten, president/CEO; Kenneth R. Fewell, executive vp; Michael G. Woll, Thomas F. McGrath III, senior executive vps; Robert Mikaloukas, Nicholas C. Mesogianes, senior vps.
Contact: Kenneth R. Fewell.

Re Advisory Services Inc.

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

	1993	1992
Premium volume...	\$67,000,000	\$61,000,000
% Treaty.....	99%	99%
Total employees.....	6	3
Treaty.....	6	3

Founded: 1991.

Specialties: Catastrophe, professional liability, medical malpractice, alternative reinsurance market responses.

Licensed in: Connecticut, New York.

Conducts business: Nationwide.

Officers: Peter B. Scanlan, president; Roland Pike, Geoffrey A. Axt, vps; James J. Cincotta, assistant vp; Jeanne C. Kehoe, controller.

Contact: Peter B. Scanlan.

Re/Insurance Brokers Inc.

100 Brookwood Place, Birmingham, Ala. 35209-6811; 205-871-4949; fax: 205-871-4950

	1993	1992
Premium volume...	\$10,522,500	\$9,020,000
% Treaty.....	100%	100%
Total employees.....	2	2
Treaty.....	2	2

Founded: 1990.

Specialties: Professional liability, pilot disability reinsurance.

Continued on page 64

The Get-Well Network.

THE MULTIPLAN NETWORK IS MORE than our 15,000 health care facilities nationwide — it is the tens of thousands of people who work with us in those facilities to keep health costs reasonable for the more than 15 million people who rely on us. As one of the largest Preferred Provider Organizations in the nation, and the fastest-growing, we offer our clients discounts at:

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- rehabilitation/orthopedic facilities
- psychiatric and alcoholism and substance abuse treatment facilities
- home health care providers
- facilities with specialties in organ transplants.

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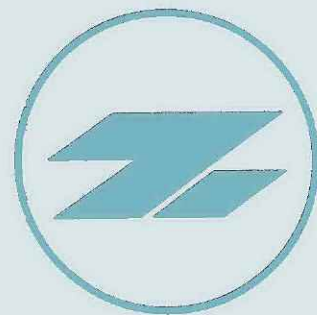
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recognizes no boundaries when it comes to creative risk management products and solutions. We're willing to take risks other companies won't. And we'll service our policies in a way other companies can't. Because we're backed by the financial strength, stability and The Power of Partnership only The Worldwide Zurich Insurance Group can provide. For more information, contact your agent or broker, or call 1-800-382-2150.



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INSURANCE GROUP**

The Power of Partnership™ in Environmental Insurance

A MEMBER OF THE WORLDWIDE



ZURICH INSURANCE GROUP

Continued from page 62

excess workers compensation, excess medical stop-loss.

Licensed in: Texas.

Conducts business: Nationwide, excluding Alaska and Hawaii.

Officers: Dale Busby, president.

Reinsurance Associates Inc.

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

	1993	1992
Premium volume...	\$40,000,000	\$37,000,000
% Treaty	95%	95%
% Facultative	5%	5%
Gross revenues	\$653,354	\$598,192

	1993	1992
Total employees	6	6
Treaty	5	5
Facultative	1	1

Founded: 1979.

Specialties: Credit life and disability, gap, involuntary unemployment insurance, product guarantee, workers compensation, impaired risk ordinary life, used car garage liability.

Licensed in: Illinois, Mississippi, New York.

Conducts business in: Nationwide.

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

Contact: Michael Gardner.

Reinsurance Brokers Co.

3545 N. I-10 Service Road, Suite 300, Metairie, La. 70002; 504-455-4545; fax: 504-455-9449

	1993	1992
Premium volume...	\$4,000,000	\$4,000,000
% Facultative	100%	100%
Total employees	3	3
Facultative	3	3

Founded: 1965.

Parent: Hilb, Rogal & Hamilton Co.

Specialties: Domestic and international risks.

Licensed in: Louisiana.

Conducts business in: Nationwide and overseas.

Officers: J. William Sherar, senior vp; William G. Sherar, vp; Virginia M. Baber, assistant vp.



Sedgwick Payne Co./ Crump Re

55 Farmington Ave., Suite 501, Hartford, Conn. 06105; 203-727-9727; fax: 203-293-0755

	1993	1992
Premium volume*	\$1,200,000,000	\$1,250,000,000
% Treaty	75%	80%
% Facultative	25%	20%

	\$61,500,000	\$62,500,000
Gross revenues*		
Total employees	395	425
Treaty	292	300
Facultative	103	125

* BI estimates.

Founded: 1928.

Parent: Sedgwick Group P.L.C. Branch offices: Los Angeles and San Francisco; Hartford, Conn.; Atlanta; Chicago; Minneapolis; New York; Philadelphia; Dallas; Seattle; Vancouver and Toronto, Canada.

Specialties: All major lines of reinsurance and most specialty categories; facultative specialist in property and casualty, international program business and financial reinsurance.

Licensed in: California, Illinois, Minnesota, New York, Texas.

Conducts business: Nationwide. Officers: Salvatore D. Zaffino, president/CEO; Charles A. Higham, COO.

Contact: Salvatore D. Zaffino. Membership: Brokers & Reinsurance Markets Assn.

Sentry Intermediaries Ltd.

Skandia International House, 16 Church St., Hamilton HM HX Bermuda; 809-295-2185; fax: 809-292-1143

	1993	1992
Premium volume	\$7,000,000	\$5,000,000
% Facultative	100%	100%
Total employees	2	2
Facultative	2	2

Founded: 1985.

Parent: Skandia.

Specialties: Bermuda market placements.

Licensed in: Bermuda.

Conducts business in: Bermuda. Officers: Nicholas S. Dove, president; Robert J. Rosser, vp.

Contact: Robert J. Rosser.

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

135 William St., 16th Floor, New York, N.Y. 10038; 212-374-1323; fax: 212-587-4170

	1993	1992
Premium volume	\$65,500,000	\$42,500,000
% Treaty	32%	35%
% Facultative	68%	65%
Total employees	19	20
Treaty	6	6
Facultative	13	14

Founded: 1987.

Branch offices: Coral Gables, Fla.

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

Licensed in: Florida, New York.

Conducts business: Nationwide and internationally.

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

Contact: Douglas L. King.

Specialty Reinsurance Intermediaries Inc.

600 Unicorn Park Drive, Woburn, Mass. 01801; 617-938-7100; fax: 617-938-0996

	1993	1992
Premium volume	\$3,150,000	NA
% Treaty	75%	NA
% Facultative	25%	NA
Gross revenues	\$284,150	NA
Total employees	3	NA
Treaty	1.5	NA
Facultative	1.5	NA

Founded: 1991.

Specialties: Personal accident, occupational accident, sports/entertainment, contingency.

Licensed in: New York.

Conducts business in: Massachusetts.

Officers: Edward A. Dipple, chairman/CEO; Candace J. Hallett, president; Kimberly A. Collins, treasurer.

Contact: Candace J. Hallett or Kimberly A. Collins.

Continued on page 66



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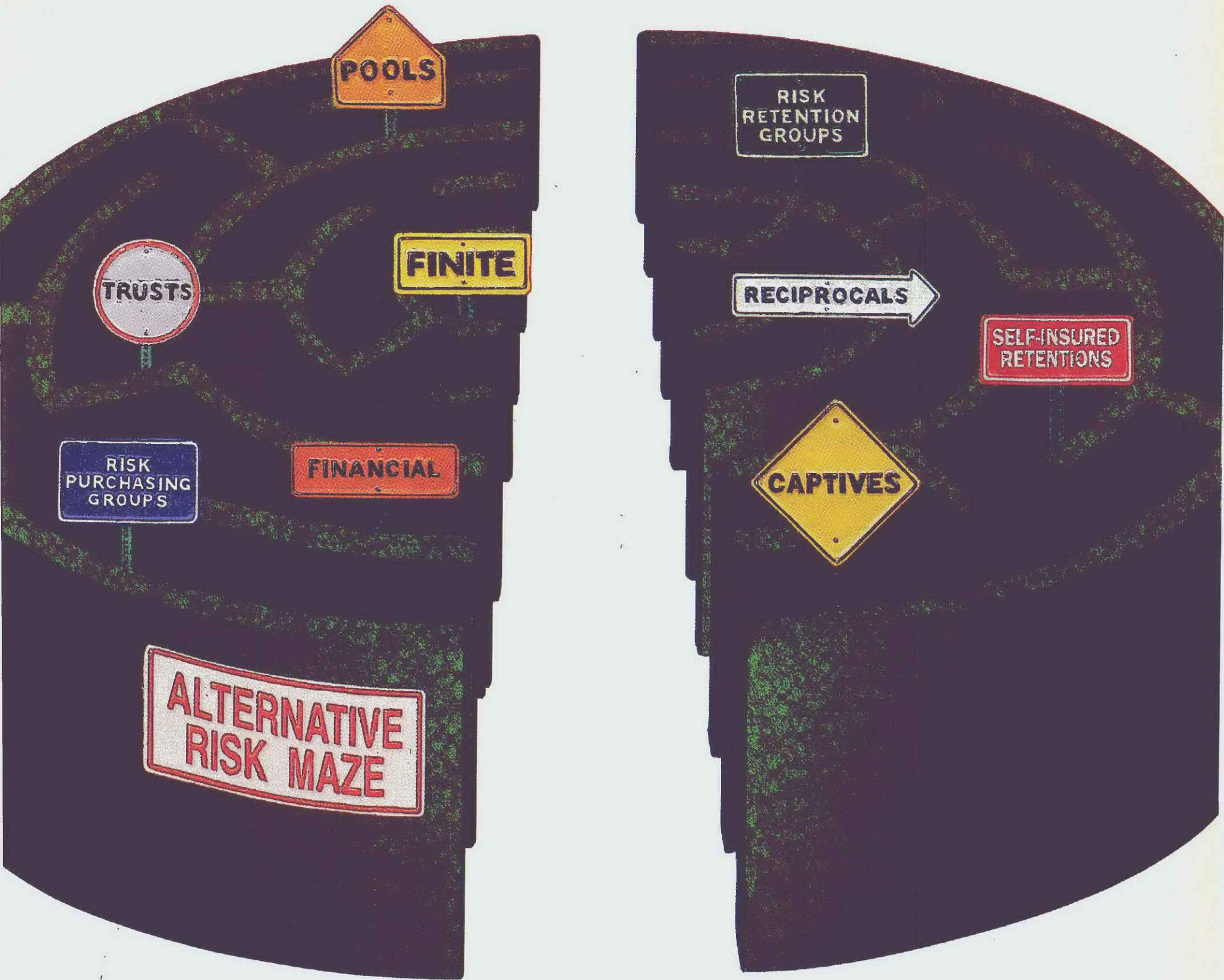
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NORTH AMERICAN **RE**

Spotlight report

Continued from page 64
Sterling Universal Ltd.

4 King St. W., Toronto, Ontario
M5H 1B6, Canada; 416-364-7231;
fax: 416-364-6826

	1993	1992
Premium volume*	\$195,300,000	\$185,400,000
% Treaty	97%	97%
% Facultative	3%	3%
Gross revenues*	\$11,625,000	\$10,712,000
Total employees	85	85
Treaty	29	28
Facultative	2	2

* Converted to U.S. dollars using the rate of Canadian dollar = \$0.775 U.S. dollar (1993); Canadian dollar = \$0.824 U.S. dollar (1992).

Founded: 1940.
Parent: Alexander & Alexander.
Branch offices: Montreal.
Licensed in: New York, Canada, Jamaica.
Conducts business in: Primarily Canada; also conducts business in Barbados, Bahamas, Bermuda, Jamaica, Panama, Puerto Rico, Trinidad & Tobago and English speaking Caribbean.

Officers: Bent Sorensen, chairman; Malcolm Thorn, president; John D. Holmes, senior vp/CFO; Pierre Asselin, senior vp/branch manager-Quebec; Gord Crutche, Robert McLean, Michael Mulville, Paul Mittertreiner, David Warren, senior vps.
Contact: Malcolm Thorn or John Holmes.

G.J. Sullivan Co.

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

	1993	1992
Premium volume...	\$264,000,000	\$278,000,000
% Treaty	100%	100%
Total employees	70	53
Treaty	70	53

Founded: 1980.
Parent: Gerald J. Sullivan & Associates.
Branch offices: Stamford, Conn.; Atlanta; Chicago; Seattle.
Subsidiaries: G.J. Sullivan Co.

Ltd., Toronto.
Specialties: Surety and fidelity, workers compensation, finite and financial, professional liability.
Licensed in: California, New York.
Conducts business: Nationwide, excluding Alaska and Hawaii.

Officers: Gerald J. Sullivan, chairman/CEO; Ronald J. Taylor, president/COO; William M. Allen, Julius Friedman, Steven V. Moccardini, Paul G. Wayne, Peter F. Zurfluh, senior vps.
Contact: Ronald J. Taylor, 203-363-5000.



THB Intermediaries Inc.

3333 Wilshire Blvd., Suite 711, Los Angeles, Calif. 90010; 213-388-6630; fax: 213-388-9117

	1993	1992
Premium volume...	\$26,475,000	\$24,500,000
% Facultative	100%	100%
Gross revenues	\$2,162,250	\$2,000,949
Total employees	22	22
Facultative	22	22

Founded: 1984.
Parent: Near North National Group.
Branch offices: Chicago, New York.
Licensed in: California, Illinois, New York.
Conducts business: Nationwide, excluding Alaska and Hawaii.
Officers: Victor H. Thompson, CEO; Richard DiClemente, senior vp-New York; William Ullmann, senior vp-Chicago; Larry Parks, senior vp-Los Angeles; Lisa Miles, vp/CFO; Charlie Taylor, vp-claims.
Contact: Richard DiClemente, 212-558-6630 or Victor Thompson, 213-388-6630.

Tanenbaum-Harber Reinsurance Intermediaries Inc.

320 W. 57th St., New York, N.Y. 10019; 212-603-0362; fax: 212-582-6256

	1993	1992
Premium volume...	\$50,000,000	\$48,000,000
% Treaty	100%	94%
% Facultative	0%	6%
Gross revenues	\$2,000,000	\$1,700,000
Total employees	5	6
Treaty	5	6

Founded: 1986.
Parent: Tannenbaum Harber Co. Inc.
Specialties: Property, casualty, life and health, small companies, risk retention groups, specialized casualty products, managed care.
Licensed in: New York.
Conducts business: Nationwide.
Officers: Walter L. Harris, chairman; Ronnie Ellen Raymond, president; Juan Carlos Maldonado, controller.
Contact: Ronnie Ellen Raymond.

Towers Perrin Reinsurance

Mellon Bank Center, 1735 Market St., Philadelphia, Pa. 19103-7501; 215-963-7700; fax: 215-963-7873

	1993	1992
Premium volume...	\$575,000,000	\$550,000,000
% Treaty	95%	92%
% Facultative	5%	8%
Gross revenues	\$39,000,000	\$37,000,000
Total employees	204	197
Treaty	184	177
Facultative	20	20

Founded: 1934.
Parent: Towers Perrin.
Branch offices: Hartford and Stamford, Conn.; Los Angeles and San Francisco, Calif.; Philadelphia.
Specialties: Accident and health, managed care, professional liability.
Licensed in: California, Ohio, New York, Pennsylvania, South Carolina, Texas.
Conducts business: Nationwide.
Officers: Philip W. Mitchell, managing director/CEO; Jacobus J. Van de Graaf, senior vp/COO.
Contact: Philip W. Mitchell.
Membership: Brokers & Reinsurance Markets Assn.

Tretis Group Inc.

101 Spear St., Suite 200, San Francisco, Calif. 94105; 415-495-3555; fax: 415-495-6735

	1993	1992
Premium volume...	\$15,000,000	NA
% Treaty	100%	100%
Gross revenues	\$1,500,000	NA
Total employees	10	20
Treaty	10	20

Founded: 1986.
Specialties: Property, casualty, finite financial risk, life, workers compensation.
Licensed in: California, New York.
Conducts business: Nationwide.
Officers: Robert N. Tremelling II, president; John Peeke-Vout, Urban Koagedal, directors.
Contact: John Peeke-Vout.

Triangle Reinsurance Intermediaries Ltd.

The Phoenix Building, 2 Reid St., P.O. Box HM 1838, Hamilton HM HX, Bermuda; 809-295-3973; fax: 809-295-3982

	1993	1992
Premium volume...	\$4,500,000	NA
% Treaty	93%	NA
% Facultative	7%	NA
Gross revenues	\$160,000	NA
Total employees	2	2
Treaty	2	2

Founded: 1993.
Parent: Triangle Holdings Ltd.
Specialties: Property catastrophe, facultative, captive reinsurance, financial or finite risk reinsurance.
Licensed in: Bermuda.
Officers: Thomas W.M. Masters, president; Giles B. North, executive vp.
Contact: Thomas Masters.

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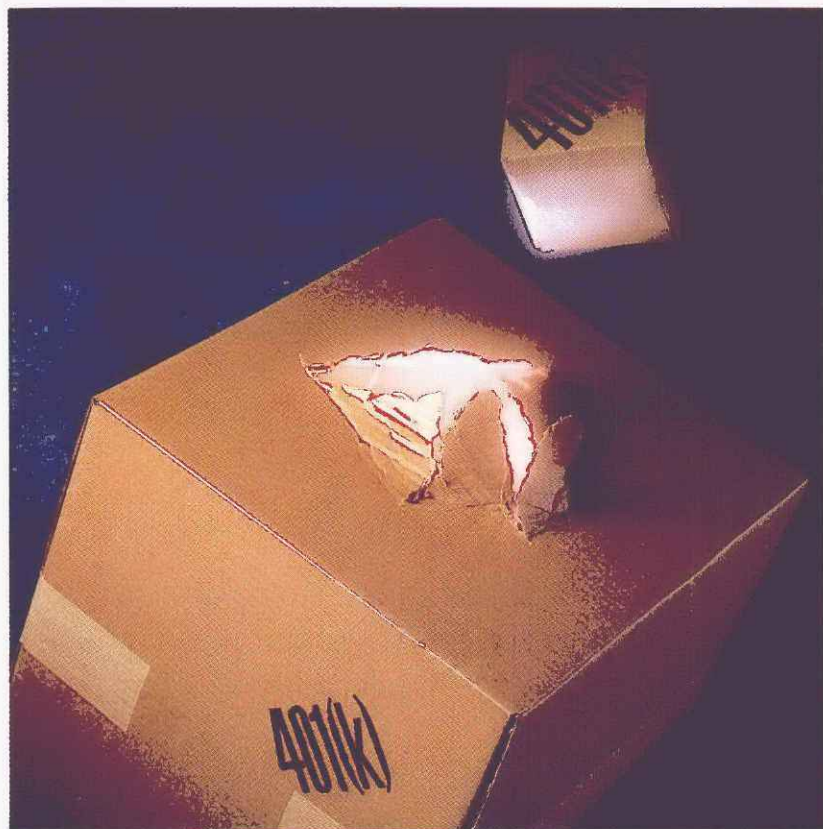
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Continued from page 66

Turnbridge Reinsurance Intermediaries Inc.

2 Preston Park S., 4965 Preston Park Blvd., Suite 360, Plano, Texas 75093; 214-612-9622; fax: 214-612-8572

	1994	1993
Total employees	7	NA
Treaty	7	NA

Founded: 1994.**Parent:** Fairfax Financial Holding Ltd.**Licensed in:** New York, Texas.**Conducts business:** Nationwide.

Officers: Thomas H. Friedberg, president; Barbara C. Bufkin, Michael J. Wybar, executive vps; W. Brant Chandler, senior vp; Thomas D. Nimmo, senior vp/CFO.

Contact: Barbara C. Bufkin or Michael J. Wybar.

U**U.R.T.S. Reinsurance Intermediaries Inc.**

2021 Union Ave., Suite 1110, Montreal, Quebec H3A 2S9, Canada; 514-284-9326; fax: 514-284-3112

	1993	1992
Premium volume*	\$11,625,000	\$8,240,000
% Treaty	85%	80%
% Facultative	15%	20%
Total employees	7	7
Treaty	5	5
Facultative	2	2

* Converted to U.S. dollars using the rate of Canadian dollar = \$0.775 U.S. dollars (1993); Canadian dollar = \$0.824 U.S. dollars (1992).

Founded: 1979.**Parent:** The David Group of Cos.**Specialties:** Motorcycle reinsurance, "risk attaching" treaties.**Licensed in:** Canada.

Conducts business in: Canada.
Officers: Raymond David, president; Joseph Lanzo, general manager.

Contact: Joseph Lanzo.**V****D.W. Van Dyke & Co. of Connecticut Inc.**

95 Rowayton Ave., Rowayton, Conn. 06853; 203-855-0499; fax: 203-852-6776

	1993	1992
Premium volume	\$1,500,000,000	\$1,500,000,000
% Treaty	98%	98%
% Facultative	2%	8%
Total employees	30	20
Treaty	29	19
Facultative	1	1

Founded: 1978.**Parent:** DDR Holdings Inc.**Specialties:** Physician/hospital organization, provider excess,

credit reinsurance, international reinsurance, special risk, workers compensation carve-out, surplus relief, capital risk transfer, individual life coinsurance and yearly renewable term life, excess and pro rata on special risk, accidental death and dismemberment, group life, group long-term disability, individual long-term disability, fully insured medical, high deductible medical, self-insured medical expense, occupational accident, 24-hour medical, catastrophe accident, abnormal mortality stop-loss.

Licensed in: California, New York, Oregon, Texas, South Carolina.

Conducts business: Nationwide.

Officers: Donald W. VanDyke II, CEO/chairman; Donald K. Drelich, president/COO; Robert A. Welke, Jeffery Jackson, Christopher Koehler, senior vps.; Lau-

ren Kennedy, vp/comptroller; Frederick Miller Jr., Steven Taylor, vps; Kimberly Kulesh, assistant vp.

Contact: Christopher Koehler.**Vermont Insurance Management Inc.**

P.O. Box 306, Montpelier, Vt. 05601; 802-229-5042; fax: 802-229-6280

	1993	1992
Premium volume	\$10,500,000	\$7,800,000
% Treaty	68%	61%
% Facultative	32%	39%
Total employees	27	24
Treaty	2	2
Facultative	2	2

Founded: 1980.**Parent:** USA Risk Group.**Branch offices:** Sarasota, Fla.

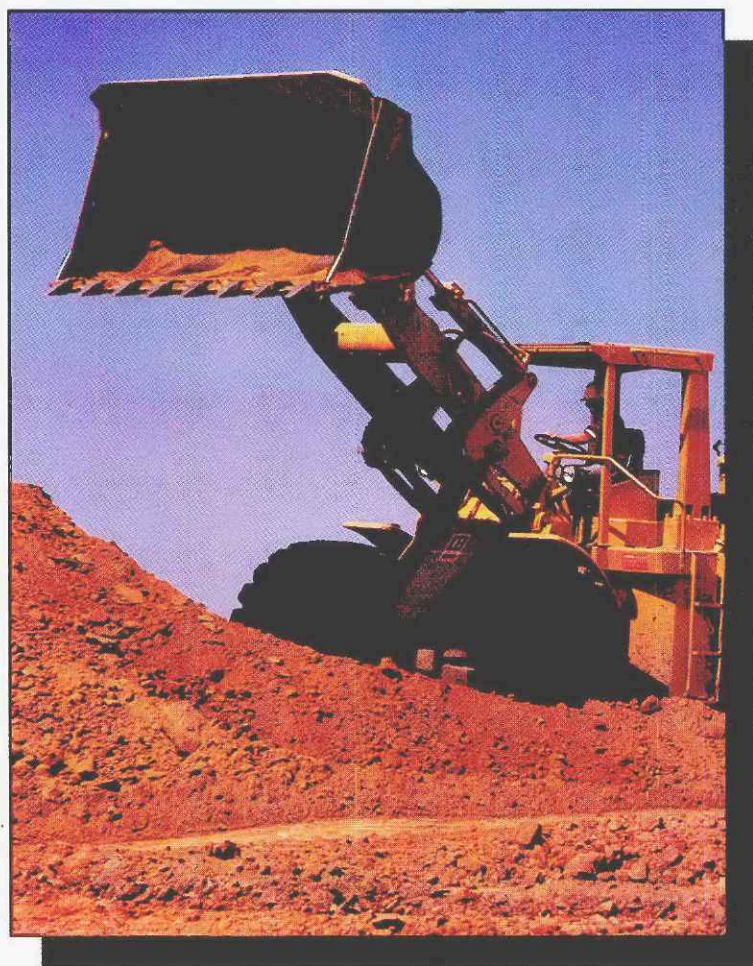
Specialties: Captive insurance, risk retention group and alternative market business.

Licensed in: Vermont.**Conducts business:** Nationwide.

Officers: H. Lincoln Miller Jr., president; Michael T. Rogers, COO; G. Wayne Harris, vp.

Contact: Michael T. Rogers.

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6 Sylvan Way
Parsippany, New Jersey 07054-0416
201 490-6600

W**Westport Reinsurance Intermediaries Ltd.**

205 Highway 9, Freehold, N.J. 07728; 908-431-2406; fax: 908-431-3543

	1993	1992
Premium volume	\$9,600,000	\$12,500,000
% Treaty	99%	100%
% Facultative	1%	0%
Total employees	4	4
Treaty	4	4

Founded: 1991.**Parent:** Winterbrook Holdings Ltd.**Specialties:** Accident and health, property and casualty.**Licensed in:** New York, Texas.**Conducts business:** Nationwide.

Officers: Brian Harrigan, president; Kenneth H. French, executive vp; Irene Bekech, secretary.

Contact: Kenneth H. French.**Westport Reinsurance Management LLC**

120 Post Road W., Westport, Conn. 06880; 203-454-0205; fax: 203-454-0432

	1994	1993
Total employees	8	NA
Treaty	5	NA
Facultative	1	NA

Founded: 1994.**Specialties:** Group life, medical, special risk, workers comp.**Conducts business:** Nationwide, excluding Alaska and Hawaii.

Officers: John Brophy, CEO; Steven Kurlansky, president; Sharon Brophy, treasurer; Steven Donnelly, Paul Skrtich, David King, James Obregon, managing principals.

Contact: Steven Donnelly, 302-222-6756.**Willcox Inc. Reinsurance Intermediaries**

180 Maiden Lane, New York, N.Y. 10038; 212-952-0650; fax: 212-952-0295

	1993	1992
Premium volume	\$1,000,000,000	NA
% Treaty	99%	99%
% Facultative	1%	1%
Gross revenues	\$40,500,000	\$38,000,000
Total employees	221	210
Treaty	217	206
Facultative	4	4

Founded: 1894.**Parent:** Johnson & Higgins.**Branch offices:** Los Angeles, Indianapolis, Philadelphia.

Subsidiaries: Willcox Intermediaries Ltd., London; Willcox Johnson & Higgins Asia Pte. Ltd., Singapore.

Continued on next page

CBOT cat instruments' future still cloudy

Potential investors cite complexity, but keep eye on progress

By MICHAEL SCHACHNER

Sixteen months after the first catastrophe insurance options and futures contracts were traded on the Chicago Board of Trade, the jury is still out on whether the contracts will ever draw capital into the property-casualty insurance market.

Options trading is on the rise. So far this year, about 7,300 trades of the Eastern catastrophe options have been registered, compared with about 2,400 for all of 1993. But the options market is still in search of an ample and equal number of buyers and sellers.

The pure futures market, which has garnered virtually no attention since its inception, remains dormant.

Insurers and reinsurers are considered the ideal buyers of catastrophe options because the contracts can be used as a hedge against catastrophic losses.

But companies are avoiding the market for a variety of reasons: only New York, Illinois and California regulators accept options as a bona fide hedge against underlying losses; options trading profits cannot be used to improve actual underwriting results; and options trading is downright difficult to understand.

Compounding the market's prob-

lems, is a shortfall of outside investors willing to sell the options that insurers and reinsurers might want to buy. Observers who are skeptical about the market's future say insurance industry outsiders—which could include pension funds or wealthy individual investors—will never feel comfortable assuming catastrophe insurance-related risk.

Meanwhile, many even inside the insurance industry do not feel comfortable with the options markets.

To begin with, four separate catastrophe contracts are traded—one for the Eastern, Midwest and Western regions of the country, as well as a National contract. Both futures and options trade as quarterly con-

tracts named March, June, September and December. Contracts settle seven months after the quarter ends, with values determined by the loss ratio for that quarter.

Loss ratios, which can range from 0% to 200%, are calculated by dividing incurred quarterly losses by estimated quarterly property premium. Final contract values are calculated by multiplying the loss ratio by \$25,000 (BI, April 11).

Both buyers and sellers perceive pure futures contracts to be too risky, so almost all trading centers around call options—contracts giving the right to buy or sell a futures contract at a particular price. Seeking protection similar to a layer of reinsurance, an insurer could buy a call option at one price and simultaneously sell a call option at another price tied to loss ratios.

Here's how it works: To hedge against underlying losses, an insurer might purchase options to buy contracts when the loss ratio for a given contract period reaches 60%. The insurer would also purchase the option to sell contracts for a greater value if the loss ratio climbed to 80%. Theoretically, in this "cat spread" scenario, the profit on contracts sold would function as reinsurance to offset underwriting losses.

If the loss ratio settles in between 60% and 80%, the insurer would collect the final contract value and offset losses with those profits. If the loss ratio for the quarter doesn't hit 60%, the option is worthless and it expires. If that happens, the insurer loses whatever it paid for the options, and the holder of the 60% sell option makes money.

Everyone that could potentially be involved in the futures market—insurers, reinsurers, intermediaries, traders and the CBOT itself—acknowledge that learning the system is difficult and time-consuming. As a result, it is too early to tell if cat options will grow into a healthy and stable market.

Some insurers and reinsurers are probably trading actively, though it's difficult to determine which ones. The CBOT will not disclose the identities of the traders, and the half dozen major insurers and reinsurers contacted by BI all denied current involvement. Almost unanimously, the insurance and reinsurance executives point to the acceptance problems, the unresolved accounting questions and the complexity of the contracts' operations.

Richard Sandor, chairman and chief executive officer of Centre Trading Partners in New York and a pioneer in the field of financial futures, said that despite little interest from insurers and speculators, the market is still off to a good start. He

Continued on next page

Continued from previous page

Specialties: Treaty property and casualty reinsurance, including marine, aviation, fidelity, surety, financial, accident and health, life and international.

Licensed in: California, Indiana, New York, Ohio, Pennsylvania, Texas.

Officers: Willis T. King Jr., chairman/CEO; Robert F. O'Leary, president/COO.

Contact: Lawrence P. Johnsen, senior vp, 212-530-2779.

Membership: Brokers & Reinsurance Markets Assn.

Willis Corroon (Bermuda) Ltd.

P.O. Box HM 1995, Hamilton HM HX, Bermuda; 809-295-1272; fax: 809-295-4143

	1993	1992
Premium volume ...	\$44,000,000	NA
% Facultative	100%	100%
Total employees	10	10

Founded: 1983.

Parent: Willis Faber International Ltd.

Subsidiaries: Willis Corroon Heddington Ltd., London.

Specialties: International reinsurance.

Licensed in: Bermuda.

Conducts business in: Bermuda.

Officers: R.C. Golden, president/CEO; J.D. Ryan, senior vp; M.G. Randall, senior vp-casualty; H.C. Scully, vp-casualty.

Willis Faber North America Inc.

Wall Street Plaza, 28th Floor, New York, N.Y. 10005; 212-820-7600; fax: 212-344-4646

	1993	1992*
Premium volume	\$1,266,000,000	\$1,105,000,000
% Treaty	95%	95%
% Facultative	5%	5%
Gross revenues	\$46,000,000	\$42,000,000
Total employees	326	325
Treaty	319	314
Facultative	7	11

* Restated to include U.K.-based offices.

Founded: 1924.

Parent: Willis Corroon Group P.L.C.

Branch offices: San Francisco; Stamford, Conn.; Miami; Atlanta; Chicago; Minneapolis; New York; Philadelphia; Stoney Creek, N.C.; Nashville, Tenn.; London.

Specialties: Accident and health, marine and aviation, financial reinsurance, medical malpractice, municipal liability, political risk, professional liability, surety, transportation, workers compensation.

Licensed in: California, Minnesota, New York, Texas, and other required states.

Conducts business in: Nationwide.

Officers: James F. Dowd, chairman/CEO; Horace Johnson, Richard E. Swager, George Reeth, executive vps; John R. Cashin, executive vp-marketing.

Contact: John R. Cashin.

Membership: Brokers & Reinsurance Markets Assn.

John P. Woods Co. Inc.

90 William St., New York, N.Y. 10038; 212-785-2500; fax: 212-269-4138

	1993	1992
Premium volume ...	\$525,000,000	\$500,500,000
% Treaty	100%	100%
Gross revenues	\$17,558,300	\$16,000,000
Total employees	54	55
Treaty	54	55

Founded: 1978.

Subsidiaries: Allegiance Inc., Mt. Laurel, N.J.

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

Licensed in: New York, Pennsylvania, South Carolina, Virginia.

Conducts business in: Nationwide.

Officers: John P. Woods, president; Josephine A. Hoey, senior executive vp/secretary; Ellsworth P. Whiteman, senior executive vp; Roderick P. Thaler, executive vp; John P. Woods III, vp.

Contact: Josephine A. Hoey.



H.E. Yerkes & Associates Inc.

127 John St., New York, N.Y. 10038; 212-344-1707; fax: 212-422-8473

	1993	1992
Premium volume ...	\$35,252,500	\$33,573,750
% Treaty	100%	100%
Total employees	5	5
Treaty	5	5

Founded: 1979.

Specialties: Ocean marine, offshore energy risks.

Licensed in: New York.

Conducts business in: New York.

Officers: Harry E. Yerkes III, president; Ann R. Kaplan, vp.

Contact: Ann R. Kaplan.



George G. Zimmerman & Co. Inc.

5 Cold Hill Road S., P.O. Box 372, Mendham, N.J. 07945; 201-543-3250; fax: 201-543-2947

	1993	1992
Premium volume ...	\$22,000,000	\$50,000,000
% Treaty	100%	100%
Gross revenues	NA	\$1,535,301
Total employees	15	24
Treaty	15	24

Founded: 1980.

Branch offices: Upland, Calif.; Sarasota, Fla.

Subsidiaries: U.S. Cap Insurance Co. Ltd., Tortola, British Virgin Islands.

Acquisitions: Global Accident Line Slip Inc.

Specialties: Life, accident and health, including workers compensation carve-out nursing home

care, professional athletes, college athletes, student accident cover.

Licensed in: New York.

Conducts business in: 45 states.

Officers: George G. Zimmerman, chairman/president/CEO; Eugene J. Schiller, president-Global Accident Line Slip Inc.; Charles J. Sharkey, executive vp-operations; Richard D. Boorman, assistant vp; Thomas D. Kinney, vp/controller.

Contact: Cynthia L. Kreckmann, assistant vp.

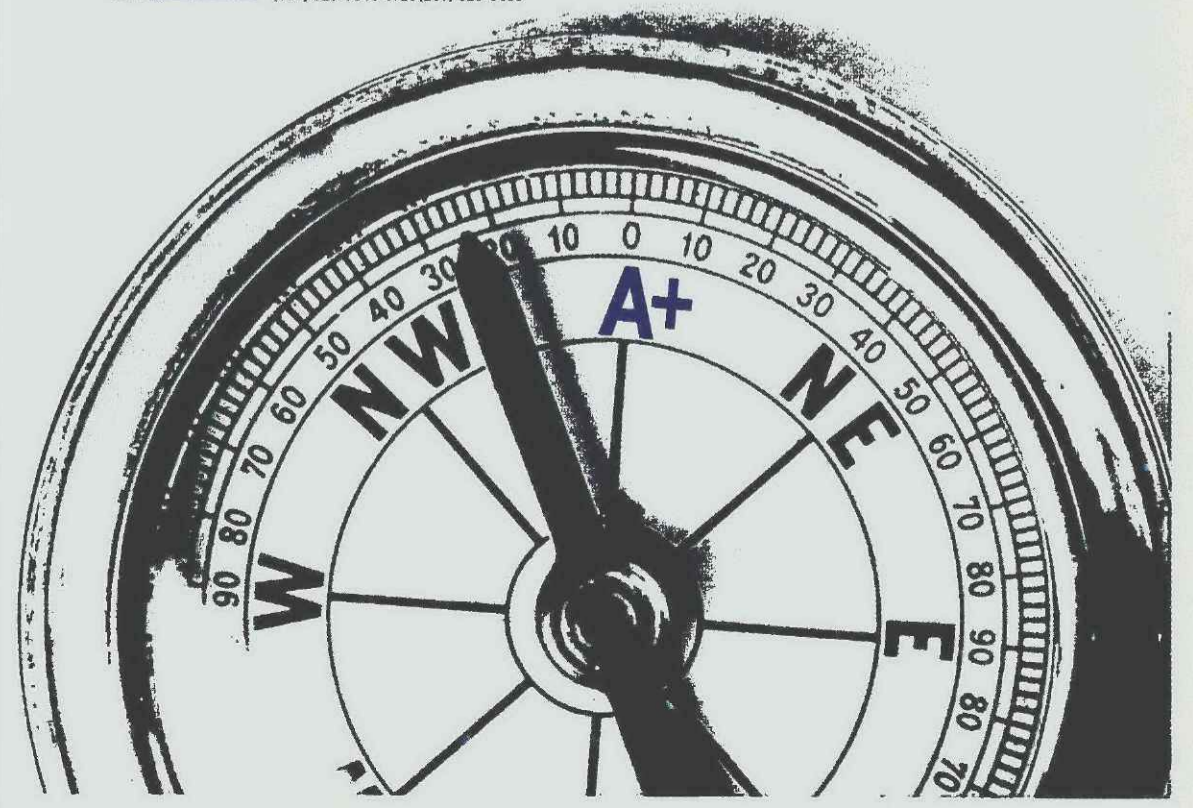


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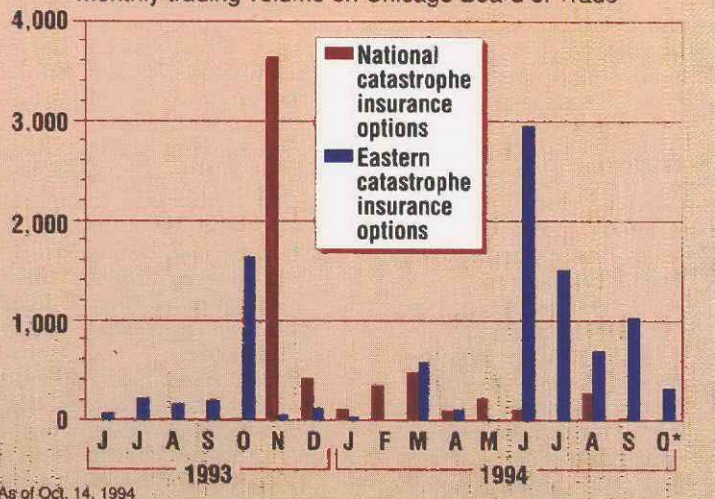
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Market with a future?

Monthly trading volume on Chicago Board of Trade



GRAPHIC BY JERRY FARNS

Cat futures

Continued from previous page
 noted that "open interest"—the number of contracts that have not been exercised, allowed to expire or closed out—in catastrophe insurance options is greater after less than two years of trading than on any other type of financial futures after a similar period of time.

"The acid test isn't done yet," he said. "One to two years is infancy, while two to five years is adolescence. It's after five years that we hit the critical juncture, whether the commodity is stocks, bonds, Eurodollars or Ginnie Maes."

Mr. Sandor said he remains confident that once insurers and speculators learn how the options market works, they will utilize it. "Like all things, it will take time and education. If you recall, 10 years ago we

were using typewriters, not PCs."

This market is not for the faint of heart, especially for the speculators looking to sell options they hope will never be exercised, said a trader in the Eurodollars market at the CBOT.

"To play in this market you have to have deep pockets. Sellers can build up some pretty major capital over several years. But if something like Hurricane Andrew hits, you can meet God in a hurry," said Bill Scott, a finance professor at the Katie Insurance School at Illinois State University.

Mr. Scott, like many other observers, said that while pure futures may expose speculators to too much risk, cat spreads are a perfect way both to bring new reinsurance capital to the insurance market and to offer investors a chance to make lots of money.

"With a spread the speculator has a cap. And the band works just like reinsurance for the buyer," he said.

George B. Flanigan, an insurance professor at Illinois State, said insurers would be wise to buy options. "The odds favor that the things will simply expire. If I'm an insurer, I buy a batch of options, see no losses develop, and then let them go. But if a big storm hits, I just may be covered if I bought the right spreads. If the buyers would come out, I know the sellers would follow. It's like any supply and demand business."

But for now, most insurers and re-insurers aren't buying the options.

"Despite questions about how (the market) really works, accounting and liquidity of contracts, it has an application. But for now there's a Bermuda catastrophe market with ample capacity," said John Berger, an executive vp with F&G Re, the Morristown, N.J.-based subsidiary of USF&G Corp.

Ajit Jain, president of the reinsurance division at Berkshire Hathaway Inc. in Stamford, Conn., was more critical of the options market. He said the system by which final contract values are determined is terribly flawed. For example, he pointed to the March 1994 contract, which encompassed the multibillion dollar Northridge earthquake that struck the Los Angeles area, but still closed with only a 105.8% loss ratio, or a value of \$26,450 per contract.

"The final contract value shows this product to be defective. That number is ridiculously low and it tells me that unless (the CBOT) can come up with something more credible, there's nothing to talk about," said Mr. Jain.

Dena Karras, who's in charge of market development for the CBOT, acknowledged that the Northridge earthquake wreaked havoc on the board's March contract.

"We're only as good as the industry reports we get. Our loss ratio is based on the reports of 26 companies. If those are slow and underestimated, there isn't much we can do," she said, adding that the CBOT planning committee is discussing ways to improve the product—possibly by extending the contract period.

Even with product improvements, some insurance industry experts just don't see the market taking off.

Michael Smith, an industry analyst with Lehman Bros. in New York, said the obvious void in the cat futures market is the dearth of options sellers.

Many market makers had hoped pension funds would be willing to assume the sell side of the equation, since the funds would have ample capital to buy large batches of contracts and then turn around and sell them, thus earning big returns in quarters with nominal loss activity.

This suggestion drew quite a barb from Mr. Smith. "What? Pension funds betting on the weather? It better not be mine or yours."

David Koegel, a senior vp with New York reinsurance intermediary Gill & Roeser, predicted the cat futures market will either take off within the next few years or die a quiet death. "The notion of using derivatives to increase industry capacity is good despite the general stigma attached to derivatives. It's just very hard to get people from outside the insurance industry to be comfortable taking meaningful insurance risk."

Assuming that nobody outside the insurance industry would ever sell contracts underestimates the intelligence of investors, counters Michael Crouch, a CBOT market maker in cat futures with Kottke Associates.

He did acknowledge the inherent risk. "It's not a question of if a major loss will occur, but when. Some day, L.A. will break off and float into the Pacific Ocean just like some day Miami will blow away. It's just a matter of when and there's a lot of money to make in between." **BI**

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Derivatives may be source of new capital in future

By RODD ZOLKOS

Use of derivatives to hedge risk only a matter of time, say reinsurers

For many people in the reinsurance business, the question of using financial derivatives to hedge risk isn't a matter of whether to do so but when.

The move toward securitization of insurance risk is inevitable, they say, noting that financial instruments can be developed to circumvent some of the inefficiencies inherent in traditional reinsurance.

What's more, derivatives—instruments that derive their value from some underlying asset—can stretch reinsurance capacity beyond current limits and provide new capacity in high-risk areas.

"The issue is pretty simple," said Richard Sandor, chairman and chief executive officer of Centre Reinsurance Co. unit Centre Trading Partners in New York. "The insurance industry needs more capital than is currently available and I think an investor-provided supply of capital is going to become a driving point in the industry."

That capital may take the form of bonds or other securities and may be listed on an exchange or sold over the counter, Mr. Sandor said.

"We believe this is going to be a huge business," said Joseph K. Taussig, managing director of First Bermuda Securities Ltd. "I think insurance professionals should be spending a lot of energy thinking about this stuff."

Mr. Taussig says the involvement of key investment firms in some of the newer Bermuda reinsurance facilities supports his belief that derivatives have a future in reinsurance.

"I find it kind of interesting that sponsors of these companies have names like Goldman Sachs, Morgan Stanley, J.P. Morgan, Merrill Lynch, because these people know a heck of a lot about this business," he said. "These guys play derivatives 60 ways to Sunday."

"Between the Goldman Sachs of the world, the Bankers Trusts, the J.P. Morgans, the Citibanks, the banks are setting up derivative units and they will be providing value added to the insurance and the reinsurance industry," Mr. Sandor said.

"Despite all the capital that has gone into Bermuda, that capacity and those companies have commitments to diversify, which they should," he added.

Diversification or not, reinsurers have not been putting capacity where it's needed most, such as in the California or Florida property markets, said Mr. Sandor. By helping to hedge risk more efficiently, derivatives can help provide that needed capacity, he explained.

Historically, property/casualty insurers have used derivatives only on the asset side of the balance sheet, where the benefits of, for example, hedging currency positions were more readily apparent.

Life insurers, by contrast, have used them to try to match assets with liabilities related to products such as annuities that have option-like characteristics.

"For property/casualty companies, we don't have much indication that very many of the liabilities have option-like features," said David F. Babbel, an associate professor of insurance and finance

at the University of Pennsylvania's Wharton School in Philadelphia.

The main purpose of derivatives on the asset side would be to help the company benefit from its expertise in maximizing investment returns, he said.

Now, however, there's a growing recognition of the role derivatives can play on the liability side of the property/casualty equation, and reinsurers are taking a long look. Essentially, the use of derivatives could allow reinsurers to transfer risk to private investors.

"I think we're beginning to see private investors who are willing to take some of these risks," Mr. Sandor said.

He noted that hedge funds in particular "are willing to take high risks for higher rewards" and could be logical counterparts for reinsurers in risk-hedging derivative deals.

Proponents of derivatives' use as a reinsurance vehicle note that the instruments can overcome some of the shortcomings of traditional reinsurance.

"Clearly the derivatives market has the characteristics that respond to the inefficiencies in the insurance market," said Gary Ferrick, an executive director of London-based Willis Corroon Group P.L.C. and managing director of Willis Corroon's derivatives operation.

With traditional insurance, such characteristics as fixed time periods and limited opportunities to negotiate price create inherent inefficiencies, he said. And reinsurance—simply by being available—distorts cost of risk calculations.

Derivatives, meanwhile, offer "just a substantially lower-cost way to do the same thing," Mr. Taussig said. "I think they'll look at the cost of this as a lot more attractive than a lot of reinsurance contracts that somebody has to administer and watch every *t* and *i*."

No longer do reinsurers use derivatives purely for speculation. "We're beginning to put some genuine hedge positions together," said Mr. Ferrick.

Right now, the primary way to hedge risk is the catastrophe insurance futures contract traded on the Chicago Board of Trade (see story, page 69).

Options are traded against an index based on the quarterly loss ratio of property insurers in each of three regions of the United States—the East Coast, the Midwest and the West Coast—and the nation as a whole.

"What is clearly happening is the Chicago Board of Trade has said, 'This thing works.' They've led the market by the nose, Bermuda has come in and said, 'We think this is a good idea,'" Mr. Ferrick said.

Now the next step is to develop similar mechanisms for hedging reinsurance exposures in other areas of the world.

"People like me are working in Europe to develop equivalent data streams to allow Bermuda, etc., to take advantage of similar opportunities in Europe," said Mr. Ferrick, adding that he sees the move toward exchange-traded insurance risk products for the rest of the world as "an inevitable process."

sees potential for over-the-counter traded products. Instead of relying on an index for determining payout, those products would be based on contracts spelling out specific exposure terms and setting exact conditions for payouts.

In fact, he is working with several states on programs that would provide that sort of "correlation" and complement the crop coverage offered through the federal program.

The mechanics of such programs could see local farmers

mortgages, divide the bundle up into shares, and then sell those securities to investors.

"I think inevitably we're going to see that," Mr. Sandor said. "People have done bonds that have been insurance-linked and I think these things are going to continue."

First Bermuda's Mr. Taussig said he believes it will take some time to bridge the communication gulf between the property/casualty reinsurance business and the derivatives security business.

It's clear, though, that a number of major players in the reinsurance industry are devoting considerable attention to finding ways to make derivatives work for them. "We're getting better at it," Mr. Ferrick said. "It's going to take some time."

Over time, the use of instruments like catastrophe reinsurance contracts and other reinsurance derivatives will increase and players will develop more confidence in their pricing, he believes.

"Whether we've got the mechanism right or not is another issue," Mr. Ferrick said. "Clearly, we're moving in the right direction." B1

'I find it kind of interesting that sponsors of these (Bermuda) companies have names like Goldman Sachs, Morgan Stanley, J.P. Morgan, Merrill Lynch, because these people know a heck of a lot about this business,' says Joseph K. Taussig.

That contract could be complemented by a hedge through some sort of derivative, such as using commodities futures or options in conjunction with crop insurance.

Using the crop insurance example, Mr. Ferrick said that with talk in Washington of limiting taxpayers' exposure to paying disaster relief claims, "we need to look at some products that will give us some correlation from the private sector that weren't available last year."

paying a premium to an agency or managed group for a layer of coverage that would apply if the federal disaster relief fund failed to cover them to the extent they expected. The agency or group running the program then would use an exchange to purchase a commodities product to hedge its position.

Another scenario for reinsurance derivatives involves the securitization of risk, similar to the way mortgage lenders now bundle

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21st century risk management: A case study

Broker provides glimpse at hedging catastrophe risks with derivatives

By STACY SHAPIRO

The date is Sept. 20, 2004. "It's right in the middle of the hurricane season 10 years from now," said Christopher M. McGhee, senior vp of Guy Carpenter & Co. Inc. in New York, setting the fictional scene for a case study of how a property/casualty insurance company might some day use financial derivatives to hedge its risks.

A major Force 5 windstorm is brewing in the Atlantic.

Nine months earlier, The New Millenium Insurance Co.—a regional underwriter on the East

Coast with a large commercial and small homeowners portfolio—had bought \$500 million of catastrophe reinsurance because its chief financial officer knew from computer models that a hurricane in the area was more likely to produce losses of \$500 million than of \$1 billion.

"Notice I say the CFO checks the company's risk exposure. One of the things we think that will happen in the future is that the risk management function of an insurance company is going to be concentrated in the financial people," who also will deal with currency and interest rate risks, Mr. McGhee said earlier this month at conference on derivatives sponsored by

Management Centre Europe in London.

"They will manage these types of risk on a balance sheet basis."

It's now September and New Millenium starts tracking the Force 5 storm in the Atlantic and notes that its path raises the probability of a \$1 billion loss to the company if the storm hits land. That would leave potential losses of \$500 million uncovered by cat reinsurance.

"Now they're concerned," said Mr. McGhee. "They could pray but that's not going to do them any good."

New Millenium calls its "risk intermediary," a combination of modern day reinsurer broker

and investment bank. Over the next 10 years, the lines between the reinsurance and financial markets will blur "so those roles will come closer and closer together," predicted Mr. McGhee.

The risk intermediary suggests buying bonds for this potential liability, but the storm is a short-term problem and concern about the storm has weakened the bond market.

Then the intermediary suggests protecting New Millenium by means of derivative instruments such as catastrophe insurance futures or options bought over the counter or traded on an exchange.

But the CFO eliminates that idea

because any derivatives are likely to be standardized contracts and there could be a "misrelation" between the individual insurance company's loss and the industry-wide loss ratios that might underpin futures or options contracts, he said.

"So they elect not to buy this kind of contract," said Mr. McGhee. But at least in 10 years time "the company would have choices to consider these kinds of things."

Instead, New Millenium opts for a customized, non-traditional reinsurance contract that will pay \$500 million when a loss occurs. "They may pay slightly more for that type of contract," said Mr. McGhee, "but the CFO is comfortable with that."

That is a huge sum from one reinsurance company, he said, but in the future, rating agencies may rate reinsurers much more carefully. This would make ceding insurers more comfortable with relying so heavily on one company.

The reinsurance company could retain the \$500 million risk if it helped diversify the company's portfolio or it could shift risk to a number of investors by way of the capital markets.

To spread its own risk, it will look at different forms of traditional retrocessions with other reinsurance companies, or at buying bonds, options, futures and other contracts traded either on an exchange or over the counter. In fact, said Mr. McGhee, such standardized instruments may work better in the highly diverse portfolios of reinsurers than in the more restricted holdings of an insurance company.

The reinsurer would then be involved in a "hot core of activity" among the marketmakers looking to make deals in those derivative markets. The reinsurer could seek a buyer or buyers for the \$500 million risk and others would bid for it. Some \$900 billion is currently traded daily in the currency markets and the same sort of thing can develop in the insurance sector, said Mr. McGhee.

Mr. McGhee noted there are a few things missing in the current market that could make all this possible in the future:

- Growth in the catastrophe options and futures markets at the Chicago Board of Trade (see story, page 69).
- Education to teach the insurance industry how to use the alternative financial markets.
- Acceptance by the investment community that the catastrophe insurance risk is a distinct asset class.

"Only two years ago the notion of currency as an asset class was not generally accepted," pointed out Mr. McGhee.

- New derivative products.
- Such products are currently being developed, such as flood contracts in the United Kingdom, according to Andrew Martin, managing director of Sedgwick Payne Insurance Strategy Ltd. in London.
- Enough long-term information to support markets now in their first generation.
- Answers to regulatory questions.

"I said 2004, but in fact a lot of these things are happening," said Mr. McGhee. The CBOT has cat contracts; over-the-counter deals are being done on a very private basis; the big banks are interested in insurance derivatives.

"The need is so great, particularly in the major catastrophic areas, that there is a big impetus to get this to happen sooner than later," he said. **BI**

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Reinsurers evolving with changes in health care

By JUDY GREENWALD

Group life and health reinsurers see development of new opportunities

The group life and health reinsurance business is experiencing healthy competition as the industry develops new strategies to meet the needs of the changing health care marketplace.

The business is shifting, with an evolution from indemnity insurance to self-insurance, HMOs and provider groups, "and so the reinsurers have moved with each one of those shifts," said Francine Newman, president of CIGNA Reinsurance Life, Accident & Health in Bloomfield, Conn.

The group life and health reinsurance business is considerably smaller than its property/casualty counterpart. According to an estimate by CIGNA Re, the medical reinsurance market now generates about \$800 million in premiums annually, with an estimated 10%-15% annual growth rate. The long-term care market adds another \$10 million to this total.

Group health reinsurance represents a relatively small proportion of the total U.S. reinsurance market, which posted \$15.09 billion in premiums last year (BI, April 4).

While there are many reinsurers in the group health market, including many pools, perhaps 10 reinsurers handle most of the business, said Ms. Newman. CIGNA Re has an estimated 10% market share.

The group life market is much smaller, with about \$225 million in premiums and an estimated 5%-10% growth rate, according to CIGNA Re. A relatively small number of reinsurers are in the business, said Ms. Newman.

"There tend to be maybe half a dozen of us. Probably the top three or four of us seem to have what I would call roughly equal shares of the biggest part of the group life book of business," said Ms. Newman, who estimates CIGNA Re's market share at 10%.

Group life and health reinsurance tends to be less complicated than its property/casualty equivalent, noted Mark Puccia, director at Standard & Poor's Corp. In group life, the reinsurance is based on the limits for each individual policyholder, with the reinsurer simply paying anything over the ceding company's retention.

Group health, he said, is "like property insurance without catastrophes."

"The need for reinsurance is not real significant," he said. While there are cycles in the business and methods that could smooth earnings out, "individual risks are not catastrophic" and there is no long tail, because claims are paid within a year.

There is plenty of reinsurance available for long-term disability, though, because it does have a longer-term claims pattern and many companies are realizing they are not good at underwriting for it, Mr. Puccia said. As a result, they are looking for reinsurers with underwriting expertise that can also provide claims management expertise.

There tend to be niches within the medical reinsurance market, including reinsurers that focus on the employer stop-loss area, those that reinsure insurers and those that are involved with the health maintenance organizations, a relatively new area, said Tim Alford, vp-group markets with Lincoln National Reinsurance Cos.

Health care offers some attractive possibilities because of its changing landscape, said Edwin M. Millette, president and chief operating officer for TIG Reinsurance Co. in Stamford, Conn., which is active in this area.

Every participant in the health care environment, including reinsurers and insurers as well as health care providers and institutions, must rethink their strategies in light of these changes, "and now each one of those entities is looking for other well-known, long-term players in all these fields" to help in this process, said Mr. Millette.

This opens the door to potential alliances of insurers and reinsurers, among other possibilities, he said.

William L. Munson, president and chief operating officer of the Mercantile & General Reinsurance Co. of America, based in Morristown, N.J., said health insurers are also facing operating in a more restrictive pricing environment. Reinsurers can bring their expertise to help primary insurers "maintain a reasonable return on their product," said Mr. Munson.

"We have certainly moved into joint ventures with people who provide claim services to look for cost efficiencies in providing medical care," said Mr. Munson. "As reinsurers, we must bring expertise that exceeds what might have been done in the past."

In addition, he said, over time the distinction between workers compensation and health care "will continue to blur." M&G Re's ability as a reinsurer to provide guidance and expertise to clients in this area represents a tactical advantage, said Mr. Munson.

Lincoln National's Mr. Alford said both group health and life reinsurers will be working more closely with primary insurers to help them cope with the changing environment.

"I think we're going to see a continued emphasis with carriers looking for alternative products to help diversify, so maybe they're not so much at risk, depending on what type of health reform movement takes place, whether it's at the state or federal level," he said.

Primary insurers will seek to enhance or expand their life products, group long-term disability and probably asset-based products like 401(k) plans, he said.

"On the medical side, we see a continued emphasis on the managed care concept to help control costs" as well as a strong emphasis on trying to link up with strong networks by insurers not big enough to put together their own.

Reinsurers are playing a role in this process by placing increased emphasis on services to help control costs, and developing transplant networks and other similar programs, said Mr. Alford.

"I think there's an increased emphasis in being able to help (insurer) clients access and evaluate networks out there to help save dollars for their employer clients," he said.

There is also a movement toward medical providers taking more risk "and that will be a new marketplace that some reinsurers will need to look to in order to continue following what's happening in the marketplace in general," said Mr. Alford.

In addition, he said, there will

be a continued, increasing emphasis on managed care and managed care techniques, with reinsurers working in tandem with their clients to try to bring about the most effective products possible for the primary buyers.

Another opportunity lies in globalization, said Mr. Alford,

Group health is 'like property insurance without catastrophes,' says S&P's Mark Puccia.

which is occurring with privatizations in countries outside the United States.

"I think there'll be opportunities for reinsurers who so choose to look at markets outside the U.S. and try to apply their expertise outside that as the countries go through this privatization movement and the commercial marketplace looks for expanded medical coverages."

"As reinsurers look at this mar-

ketplace, they're going to need to continue to look for solutions that they can provide to their clients' needs. The ones that will be more successful are those who can accomplish that, and not be there just to provide pure excess risk capacity.

"So if you can provide a wider range of services and solutions to your clients in addition to this risk capacity, that just helps make them more successful, which in turn makes you as a reinsurer more successful for your client," said Mr. Alford.

Focusing on the group life reinsurance market, Geoffrey Francis, second vp with Munich American Reinsurance Co. in Atlanta, said the business is "really very competitive, I think."

Unlike other types of reinsurance, group life coverage does not often see risks of more than \$1 million, so generally no more than one or two reinsurers are on the deal. This makes it tough from a competitive standpoint because if a reinsurer wants the account, it usually has to displace the incumbent, said Mr. Francis.

Health care reform is also indirectly impacting the life reinsur-

ance business. Because of concerns about reform's impact on margins, some companies are starting to offer only basic group life coverage in order to save costs. Basic group life coverage is paid by the employer, with additional voluntary coverage available at the employees' expense. This could also be offered as part of a cafeteria plan, he said.

"It is possible some employers, especially smaller employers, might drop altogether group life that is paid by the employer" but offer employees the option to buy it on their own, said Mr. Francis.

"I think by and large voluntary products represents an opportunity for reinsurers to help," commented Ms. Newman. "The basic trend that's going on in the reinsurance area is to try to assist the direct writing company in whatever way we can in product development and delivery."

While larger insurers are looking to rein in capacity, small to medium-sized companies are looking to reinsurers for assistance with product development, product delivery and turnkey types of products in the voluntary area, Ms. Newman said. **BI**



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Reinsurers set sights for '95

RAA to focus on Superfund, disasters and solvency

By MARK A. HOFMANN

With a longtime top issue—an excise tax on certain foreign reinsurers—about to be resolved by the General Agreement on Tariffs and Trade, the Reinsurance Assn. of America is concentrating its lobbying efforts on a trio of other areas in the 104th Congress:

- Superfund reauthorization.
- A national reinsurance facility to deal with natural disasters.
- Federal solvency regulation for reinsurers.

The Washington-based RAA is also continuing to work with the Brokers & Reinsurance Markets Assn. in New York on the creation of electronic standards for reinsurance transactions.

That three-year joint venture is “an excellent example of international cooperation within the insurance community,” said RAA President Franklin W. Nutter.

“We have a very cooperative relationship with the RAA,” agreed BRMA President and Chief Executive Officer Bob Gilligan. That the two bodies should work so closely together is hardly surprising since most of the 29 reinsurers that belong to the BRMA are also

members of the RAA.

In fact, BRMA—whose membership also includes 12 reinsurance brokers—relies on the RAA to do its lobbying.

For years, a key issue on the RAA’s agenda had been lobbying Congress to impose a 4% excise tax on reinsurance premiums collected by companies in low or no-tax domiciles.

But now that issue has fallen by the wayside.

“With the advent of the GATT treaty, even though it hasn’t been approved by the Senate, and the lobbying activities that we undertook early in the year to determine whether Congress was re-

ceptive to making adjustments in the excise tax, we concluded that increases in the excise tax were not politically attractive,” said Mr. Nutter.

Passage of the GATT treaty will “take it off the table” for good, he said. One of the concessions made during the GATT talks was that no change would be made to any reinsurance excise tax.

Another thing that’s off the table for good is a massive antitrust suit brought against more than 30 insurance industry defendants, including the RAA, by 20 state attorneys general. Six years after it was filed, that suit was settled earlier this month (*BI*, Oct. 10).

“It is a welcome development in that one doesn’t like the cloud of litigation hanging over your head personally or institutionally,” said Mr. Nutter.

Mr. Nutter expects the RAA to

be a player in whatever Superfund reauthorization negotiations take place in the 104th Congress. The RAA had opposed the Clinton administration’s reauthorization bill, arguing that it would have saddled domestic reinsurers with an inequitable tax burden to support the proposed Environmental Insurance Resolution Fund.

“It is our intention to remain involved with the industry groups, the administration and the Hill to the extent that Superfund becomes a part of the agenda next year,” he said.

Mr. Nutter remains critical of the administration for not including the RAA and several other trade groups in talks on the funding proposals.

“An inclusive process of reaching consensus is better than an exclusive process. I think that the industry tends not to do well when it goes before Congress divided or adversarial to other segments of the industry,” Mr. Nutter said.

“The industry would be well-advised to try and reach some agreement about that,” he added.

An issue on which there is considerable industry agreement, and on which the RAA is a major player, is the creation of a natural disaster reinsurance pool. A bill to create such a pool was introduced by Rep. Norman Mineta, D-Calif., and won the approval of the House Public Works Committee, chaired by Rep. Mineta, on Sept. 28. However, that proved too late to assure passage of the measure in the full House, let alone in the Senate.

“We feel quite satisfied that we have reached a point that the legislation is indeed a workable framework,” said Mr. Nutter. The task ahead is “fine-tuning the bill,” he said.

He noted that this year, both the RAA and the Natural Disaster Coalition, a broad-based group that replaced the insurance industry-supported Earthquake Project, spent much time negotiating the shape of the proposed legislation with the committee and with the Clinton administration.

Mr. Nutter said the bill likely to be reintroduced in 1995 will differ from its short-lived 1994 version in one critical way: the public corporation that would oversee the reinsurance pool would extend its coverage to commercial as well as personal lines.

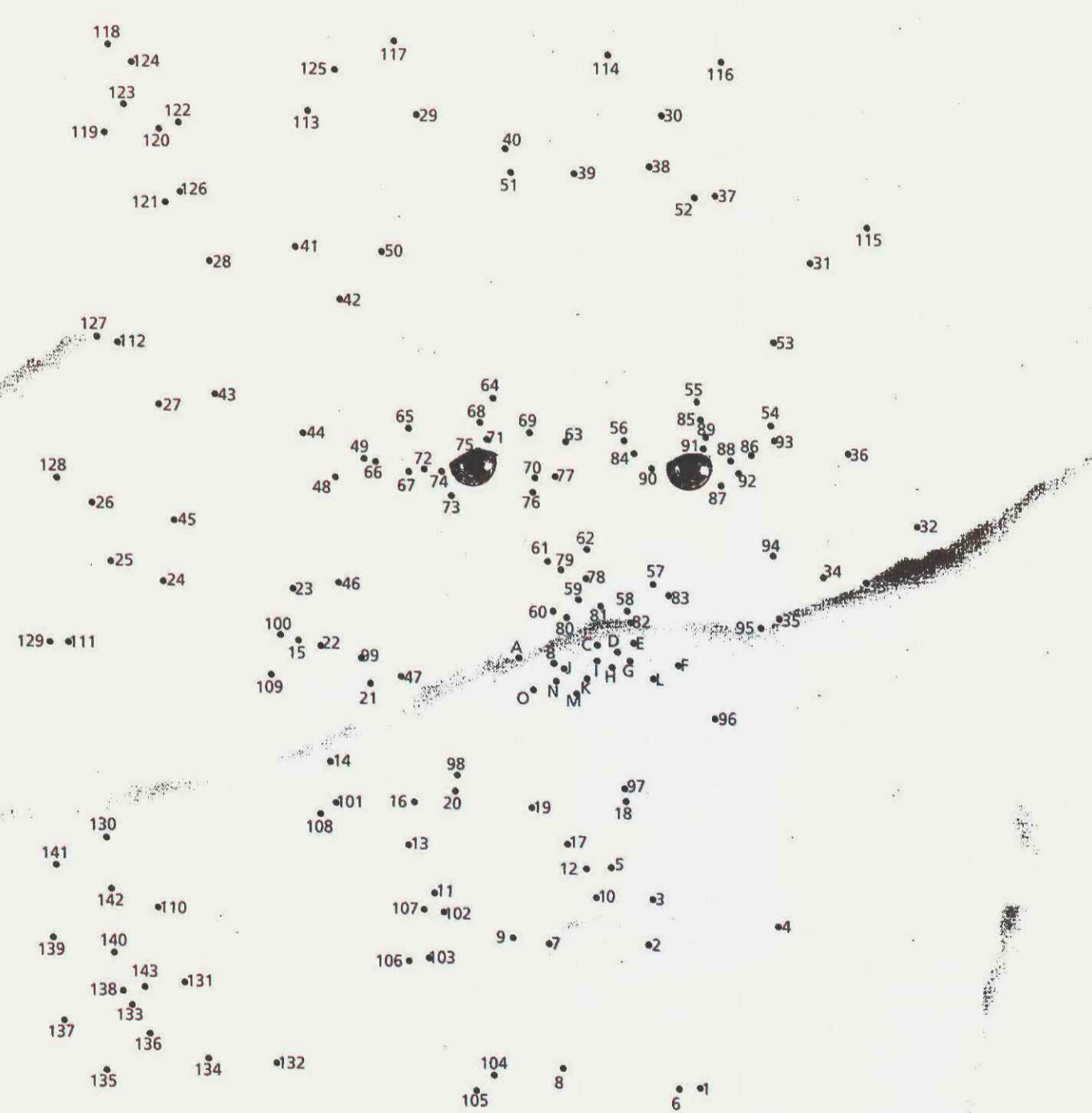
“We made a very clear point to Chairman Mineta that including commercial lines in this corporation that provides reinsurance was essential, not negotiable but essential,” said Mr. Nutter.

Rep. Mineta now says that commercial lines need to be addressed in the bill.

Another bill the RAA is tracking is H.R. 1290, the federal solvency regulation bill introduced by House Energy and Commerce Committee Chairman John Dingell, D-Mich. The bill is expected to reappear in the 104th Congress.

The RAA has endorsed H.R. 1290’s reinsurance provision, which would subject foreign reinsurers to federal—rather than state—regulatory oversight.

“It has been our policy position for some time that the federal level of government is a more appropriate level for regulation of reinsurance, both domestic and international, because it’s such an international marketplace and because reinsurance is really written on a multistate basis. The state-by-state system is not really compatible with the nature of reinsurance,” he said.



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Swiss Re details strategy behind sale of insurance units

By ADRIAN LADBURY

Now that the initial shock has worn off, Swiss Re-insurance Co.'s recent move to sell its direct insurance operations is seen by many observers as a common-sense decision to ditch a flawed long-term strategy.

In halving the company's annual gross premium base overnight, Lukas Muhlemann, the former McKInsey & Co. Inc. management consultant who has been chief executive for just over half a year, "has bitten the bullet," in the words of one London analyst.

Abruptly halting a decade of aggressive expansion into an increasingly tough direct insurance market in Europe frees up 5.5 billion Swiss francs (\$4.42 billion) for the company to use for bolstering reserves and capacity and expanding into selected markets and product lines.

Swiss Re executives' attention now will be focused on three main areas, said Walter B. Kielholz, a member of the Zurich-based company's executive board:

- Rapid expansion into Asia. By the year 2000, the company hopes this region will account for 25% of its business, up from 7% to 9% today.

- Further expansion of its financial reinsurance product range and market share. The company estimates it has 15% of the world's financial reinsurance market.

- Development of what the company calls "Grossrisikogeschäft," literally big-risk business, to take further advantage of the growing demand among big industrial and financial services firms for alternative risk transfer mechanisms and services.

"In the U.S., we would like to have a stronger position than we have now but the priority there is not to acquire. Despite all the offers we get, we are not going to buy problems. The priority is to enhance the strategic and operative position of our operations there," said Mr. Kielholz.

Swiss Re is not the only reinsurer to see opportunities in the key areas it has identified for growth, but Mr. Kielholz said it has the capacity and know-how to be the best.

Mr. Muhlemann is not alone in believing that the mature European direct market will be controlled primarily by a few very large companies, such as Allianz A.G. Holding, which along with Winterthur Swiss Insurance Co. bought Swiss Re's direct business (BI, Oct. 3).

And he had only to look at Swiss Re's own direct operations for evidence that poor prospects await medium-sized companies lacking clear strategy.

Swiss Re's dramatic announcement came on the back of healthy companywide profits of 325 million Swiss francs (\$261.3 million) in 1993, up 15.7% from 281 million Swiss francs (\$226 million) in 1992.

Those figures, though, mask poor non-life underwriting results.

Swiss Re's non-life insurance units posted group underwriting losses of 641 million Swiss francs (\$515.4 million) on gross premiums of 9.3 billion Swiss francs (\$7.48 billion) in 1993.

Non-life reinsurer subsidiaries had underwriting losses of 341 million Swiss francs (\$274.2 million) on gross premiums of 9.9 billion Swiss francs (\$7.96 billion).

And the company was forced to make an exceptional provision of 486 million Swiss francs (\$390.8 million) to cover auto insurance losses at its Schweiz Compania Anonima Espanola de Seguros y Reaseguros unit. The Barcelona, Spain-based company, which Swiss Re said fell victim to a "misguided management policy," was sold to Winterthur as part of the overall package announced at the end of September.

But it was not just poor underwriting results that persuaded Swiss Re to pull out of direct insurance underwriting. It was also management's belief that quicker-than-expected deregulation, following the introduction of European Union competition directives, is producing a cutthroat market in which only the very big or very specialized will be profitable.

"Unfocused and non-descript middle-field, multiline companies with traditional distribution channels will lose market share," Mr. Kielholz said. And Swiss Re's direct companies, though large in terms of total premium volume, neither dominated markets nor specialized niches.

Swiss Re felt it could afford to cut its premium base in half partly because it is very optimistic about global demand for reinsurance into the next century, Mr. Kielholz said. He said he believes there is plenty of scope to replace the lost premiums without having to make big acquisitions and reduce rates.

"The main argument is that the direct insurance market is growing very rapidly, much stronger than gross domestic product. Our estimates are for a real global growth rate of about 4%. This is for any mature industry a very good growth rate and we think that this is the outlook for the next 10 years. . . Also, the risk intensity or value of insurable risk is growing. We are more prone to risk," he said.

Swiss Re predicts 3.9% average annual growth in reinsurance premium from 1991 to 2005, though there are big geographical variations: 6.7% average annual growth in Asia; 3.3% in North America; 3.1% in Europe; and 4.3% in the rest of the world.

Trying to expand Asian business to account for 25% of the company's total "may sound a little crazy, but go back to the growth rate estimations and you will see that we don't have to do too much of this internally," he said.

Swiss Re currently has offices in Hong Kong, Manila, Singapore and Tokyo. By the year 2000, it hopes to have offices in Beijing and Shanghai, China, which are a top priority, followed by: Jakarta, Indonesia; Kuala Lumpur, Malaysia; Osaka, Japan; Seoul, South Korea; and Taipei, Taiwan.

Winning and keeping the business of fewer and bigger European insurance groups will not be easy. Swiss Re hopes that expansion of internal departments such as research and product development will give it an edge by letting its clients outsource risk management services and concentrate on their core business.

Yet, as the number of traditional insurers shrinks, the number and size of European companies requiring alternative risk financing will grow, said Mr. Kielholz. "We feel that the strong and quick growing number of captives, of bank assurance start-ups and worldwide privatization will create demand."

Captives represent a growth market. "We have captive and claims management service companies, financial engineering companies, underwriting expertise and financial capacity," he said.

The emphasis on "Grossrisikogeschäft" may mean more work for Swiss Re's captive management unit, International Risk Management Group of Bermuda, and its claims management unit, Thomas Howell Group Ltd. of London. At the same time, the move isn't likely to be welcomed by brokerages, which generally lose out when big reinsurers get closer to clients, Mr. Kielholz said.

Reinsurers that can fully service big clients need not deal with a distribution system that "atomizes the risk," he said. "The old system of insured-broker-insurer-broker-reinsurer-broker-retrocessionaire and so on is no longer accepted by the client because it is ineffective. It has to fill too many pockets on the way back to the risk carrier," he added.

Swiss Re also has high hopes for its financial reinsurance operations in New York and Zurich.

As with the alternative risk transfer market, financial reinsurance growth has been greatest so far in the United States, and the

New York office is expected to continue to grow fastest. Demand in Europe has been slow so far but is predicted to pick up along with the growth of big-risk business.

Mr. Kielholz said that the company is developing financial engineering and funding products and sees a future in securitization of insurance programs. But, he stressed that one of the company's strengths is its capacity and its ability to use that to carry risk.

"We are not a commodity market for this kind of product. Real risk is an important element because the pure banking transaction is not helping companies that much," he said.

Meanwhile, analysts have reacted favorably to Swiss Re's groundbreaking move.

"The problem was that they hadn't had a clear strategy for the last 10 years. They decided the reinsurance business had no future in the mid-'80s and bought up direct insurance companies. But in the last 10 years reinsurance has actually grown and the direct insurance companies have not done so well. Now, of course, there is a big increase in demand for reinsurance and insurance in Asia and a downsizing in the level of capacity. Having made that dreadful mistake,

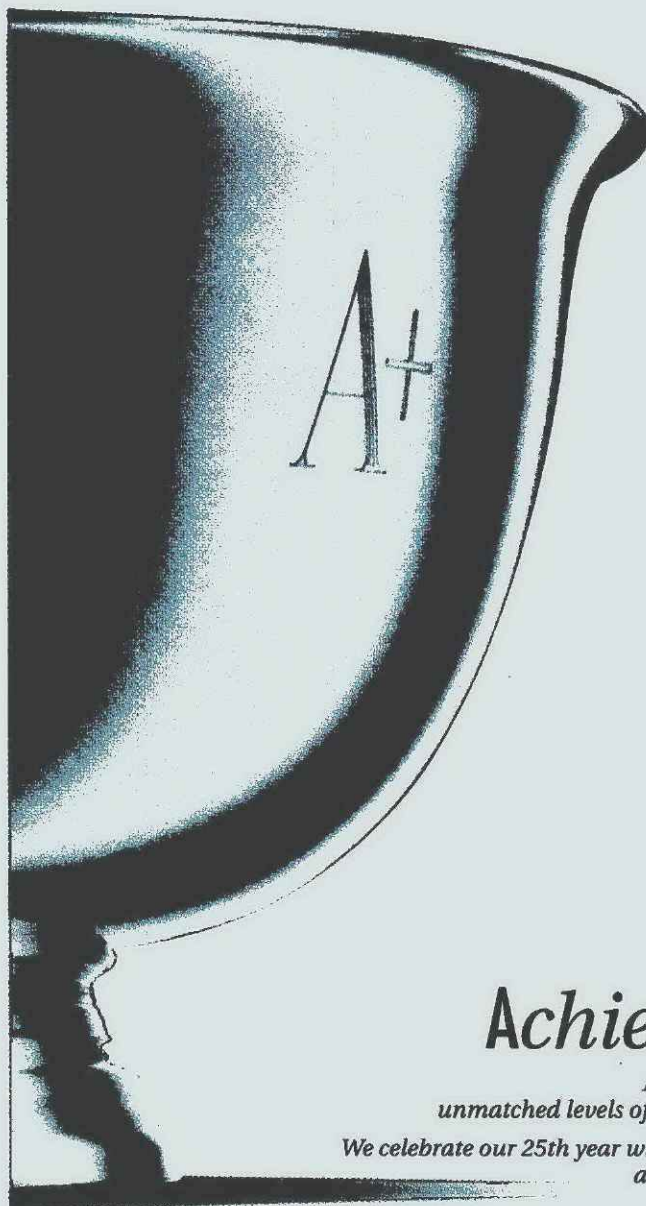
they have decided to return to what they do best," said Stephen Dyas, insurance analyst with Goldman Sachs & Co. in London.

"I'm surprised (Mr. Muhlemann) took such drastic action so quickly, but it seems to be a good move," said Andrew Goodwin of UBS Phillips & Drew in London.

"It's a real volte-face and the new chief executive has decided to focus on core activities. The justification for going direct was because of the counter cycles of insurance and reinsurance, but it didn't quite work out that way. We may see an acquisition on the reinsurance side, but it's a question of profitability, not scale," said Jonathan Lawler of Kleinwort Benson Securities in London.

After Swiss Re's announcement, New York-based Standard & Poor's Corp. put Swiss Re and its AAA rating on CreditWatch, largely attributable to the surprise of the move.

"Earnings were suffering more than expected and this, plus the rapid growth, meant that capital was starting to look more stretched than their AAA rating merited. But there is no question they are still extremely strong," said Karen Knoller, an S&P analyst in London. **BI**



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Gen Re, Cologne Re deal seen as a boon to both firms

By DOUGLAS McLEOD

In an industry where smart strategic moves are not all that common, General Reinsurance Corp.'s agreement to take control of Cologne Reinsurance Co. and its subsidiaries looks like a coup for both companies.

Gen Re, the largest reinsurer in the United States and seventh-largest in the world, announced earlier this year that it will acquire control of Cologne Re, the world's sixth-largest reinsurer, through a new holding company to be owned jointly by Gen Re and Colonia Konzern A.G., Cologne Re's parent.

Based on 1993 net written premium volume, the combined operations will make Gen Re the world's third-biggest reinsurer, trailing only Munich Reinsurance Co. and Swiss Reinsurance Co. (*BI*, Aug. 29).

The deal greatly boosts Gen Re's small international operations while diversifying its mix of business and giving it an international outlet for products it has sold successfully in the United States.

The unusual structure of the transaction also gives Colonia Konzern a chance to sell Cologne Re with huge tax advantages. Colonia Konzern is ultimately controlled by Union des Assurances de Paris, which also

owns another major reinsurer, SCOR S.A. of Paris.

"This represents an important step in our efforts, extending back over the past few years, to position ourselves among the first-tier reinsurers outside the U.S.," said James E. Gustafson, Gen Re executive vp.

The deal is not without risks. Reinsurance analysts note, for example, that it is uncertain how well the two operations will mesh and whether Gen Re can duplicate its U.S. success on the international stage.

Reaction to the move has been generally positive, though.

"It was a necessary move from a defensive standpoint," said Michael Morrissey, a principal with Firemark Consultants Inc. in Morristown, N.J., noting that competitors Employers Reinsurance Corp. and American Re-Insurance Co. both had bigger international books.

"It's hard to think of the industry leader as playing catch-up ball, but in the international market, they've had to a little bit," he said.

"It was a very clever deal for Colonia," added Michael Drepper, an equity analyst with DB Research, a unit of Deutsche Bank A.G. in Frankfurt, Germany. "It is being done in a very, very tax-effective way."

The Gen Re-Cologne Re joint ven-

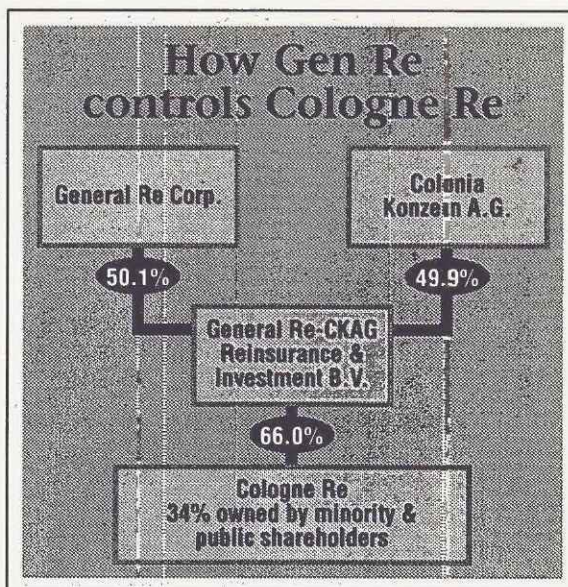
ture is not expected to start a new wave of U.S. acquisitions in Europe, though, in part because there aren't enough suitable targets.

"I don't think this is going to begin a whole rash of deals," predicted Jay A. Cohen, an analyst with Salomon Bros. in New York. "It's still difficult to find a good European company."

Gen Re has long drawn less of its overall business from foreign markets than its largest U.S. competitors have. Foreign risks accounted for 9.9% of its 1993 net volume, compared with 22.3% for Employers Re and 16.7% for American Re (*BI*, Aug. 29).

Gen Re had been looking to change that situation for some time.

A 1991 plan to acquire Royal Reinsurance Co. Ltd. and its U.S. affiliate American Royal Reinsurance Co. from Royal Insurance Holdings



GRAPHIC BY JERRY PARKS

P.L.C. of London fell apart when the two sides couldn't agree on terms (*BI*, July 8, 1991).

A year later, Gen Re bought the Zug, Switzerland, branch of Allstate Reinsurance Co. Ltd., which had about \$70 million in annual premiums, and merged it into its Swiss unit (*BI*, June 29, 1992).

Neither of those previous forays into the international market was on the scale of the Cologne Re deal, which will instantly and dramatically raise Gen Re's profile abroad.

Under the terms of the deal—expected to close by year end—Gen Re and Colonia Konzern will form a new Dutch holding company, General Re-CKAG Reinsurance & Investment B.V.

In return for a 49.9% stake in the holding company, Colonia Konzern will contribute its roughly two-thirds interest in Cologne Re, which will become a subsidiary of General Re-CKAG.

Gen Re will take a controlling 50.1% interest in the holding company by contributing 922 million deutsche marks (\$617.4 million) in cash and an 8% 10-year note equal to 475 million deutsche marks (\$318.1 million).

The remaining one-third of Cologne Re's stock is owned by minority shareholders and the public.

General Re-CKAG is planning to increase its stake in Cologne Re by buying 75% of a 400 million deutsche mark (\$259 million) rights offering Cologne Re plans to make to existing shareholders during the first half of 1995.

Colonia Konzern will be entitled to an annual dividend of 43 million deutsche marks (\$28.8 million), while Gen Re, with its controlling stake, will consolidate Cologne Re's results with its own for financial reports prepared using generally accepted accounting principles.

Gen Re also has the option of buying out Colonia Konzern's stake in the holding company after seven years, and analysts expect that it will.

Analysts estimate Gen Re's cost of acquiring control of Cologne Re at between two and three times Cologne Re's book value.

"For a strategic investment, the price was reasonable," said Mr. Drepper of DB Research. "Yes, it seems to be a bit high, but if they really have synergy in this case, then why not?"

The deal's structure also provides huge tax savings for Colonia Konzern, he added. Under applicable European law, the joint venture is not considered a sale by Colonia Konzern for tax purposes, and Colonia Konzern thus avoids immediate liability for capital gains taxes, he said.

The governing Dutch law also provides that Colonia Konzern's capital gains will not be taxable at the end of the seven-year period if Gen Re opts to buy its partner out, Mr. Drepper added.

"It's very, very positive for Colonia Group," he observed.

The joint venture will leave Gen Re with a dramatically larger and more diversified book of business. Analysts expect non-U.S. business to account for roughly 45% of the combined operations' premium volume, compared with the 9.9% for Gen Re alone in 1993.

Cologne Re and its 14 subsidiaries with offices in 22 countries generated about \$2.7 billion in 1993 net premiums, while Gen Re produced \$2.5 billion.

Combined, the operations will be eclipsed only by Swiss Re, which reported \$7.8 billion in 1993 net premiums, and Munich Re, with \$9.2 billion.

Cologne Re's mix of business also differs from Gen Re's in that it includes a larger component of life reinsurance and consists mainly of proportional, rather than excess-of-loss business, on the property/casualty side.

Of \$2.1 billion in 1992 gross premiums written by Cologne Reinsurance Co., the group's principal unit, 36% were written in casualty lines, 30% in property, 21% in life products and 13% in other lines, according to figures compiled by Lehman Bros. in New York.

In a report on the joint venture, Michael A. Smith, an analyst with Lehman, cited several reasons the deal is a smart move for Gen Re.

The combined companies will be even better positioned to benefit from the much-discussed "flight to quality," in which ceding insurers are moving their business to the largest, most financially secure reinsurers.

In addition, as Europeans begin suing each other with the same frequency Americans do, long-tail liability will become a greater concern, he observed.

Cologne Re already writes more casualty business than many of its European competitors and stands to benefit from Gen Re's underwriting expertise, especially as the European casualty market moves away from traditional proportional coverages to excess-of-loss coverages.

The European market is also ripe for the kind of facultative reinsurance products Gen Re pioneered: With the elimination of European trade barriers, more insurers will be competing for large accounts, increasing demand for facultative reinsurance support, Mr. Smith observed.

None of this is to say Gen Re won't face challenges in making the joint venture work.

It is uncertain whether Gen Re can transplant the underwriting skills it has developed in the United States to foreign markets, observed Charles Gates, an analyst with CS First Boston in New York.

While there's no question Gen Re will have financial control of the joint operation, it also remains to be seen whether it will be able to maintain operational control, added Firemark's Mr. Morrissey.

"The management of Cologne Re does not think it has to take a back seat to General Re," he said. "It's not exactly what I would call a malleable group of people."

"I think possibly we will have some culture clash between the people in Connecticut and the people in Deutschland," said Joanne Morrissey, also a Firemark principal. **BI**

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Bermuda's reinsurers eager to please

Cedants can expect lower rates, enhanced coverage during renewals

By GAVIN SOUTER

Insurers are expected to see somewhat lower rates and enhanced coverage from Bermuda catastrophe reinsurers as the renewal season warms up.

In particular, rates may be reduced by more than 15% for regional U.S. programs unaffected by the Northridge earthquake near Los Angeles, one brokerage executive said. Many insurers also are seeking aggregate coverages to ease the burden of higher retentions imposed over the past two years.

Capacity for new North American national account business remains limited, though Bermuda cat reinsurers are still expected to take on some new business programs.

Already feeling pressure on rates, they say they are determined to avoid large-scale rate reductions and will instead consider aggregate coverages or offer some other types of policies, including some casualty. But excess-of-loss catastrophe property reinsurance remains by far the dominant source of business for Bermuda's new breed of reinsurers.

For insurers, the primary characteristic of the upcoming renewals may be lower rates.

"We are expecting rate decreases for some of our programs," said Chris Walker, executive vp at E.W. Blanch Co. in Minneapolis. Each program stands on its own, he said, and premiums for those with good loss records should be lowered this year after two years of large increases.

Rate reductions of 15% to 20% are expected for U.S. regional programs that suffered no losses in the Northridge quake, said one reinsurance broker.

Bermuda underwriters still have a healthy appetite for new business and that will put pressure on some rates, agreed Robert O'Leary, president and chief operating officer of Willcox Inc. in New York.

"Their infrastructure is strong. Their return on equity is not what they thought it was going to be, but there is no radical diversion from their original business plans," he said.

Despite the claims of several Bermuda reinsurers that they have little if any capacity left for national account business in the United States (BI, Sept. 19), Mr. O'Leary is confident that some new accounts will be placed in the market.

"I believe that they will entertain a good rate from North America," he said. "We believe that they will be very active in the 1995 renewals and we think that they will have adequate capacity for North American intermediaries' requirements."

Underwriters in Bermuda are expecting brokers to press for lower rates for clients with good loss records, said Larry Doyle, chief executive officer of Global Capital Reinsurance Ltd. in Bermuda.

"There will be some downward pressure on rates for accounts that have not suffered a loss, but in the U.S. we have experienced a major loss in the Northridge earthquake and we expect rates will be stable for those people that have large exposures in California," he said.

In fact, rates for cedants in California are likely to increase, said Paul T. Hasse, CEO of Centre Cat Ltd. "We price on exposure and in California prices are going up...there are a lot of clients on payback."

It is too early to tell whether rates will increase or decrease or by how much, said John P. Dowling, president and CEO of International Property Catastrophe Reinsurance Ltd. in Bermuda, who bases his assessment in part on personal experience.

"I arrived in Tokyo a few weeks ago and I was in my hotel room when it shook for a full minute due to the earthquake in Japan," said Mr. Dowling, recounting his experience with an Oct. 5 quake in northern Japan.

That quake—which measured 7.9 on the Richter scale (BI, Oct. 10)—followed three other minor earthquakes and a typhoon, "all of which tells me that the talk of any rate adjustments is premature" in the catastrophe reinsurance market, said Mr. Dowling.

Some cedants may be looking for reductions when their exposures do not warrant it, Mr. Dowling said. "There are three elements that go into pricing: exposure, experience, and supply and demand. People tend to ignore the first two."

Another feature at upcoming renewals will be aggregate coverages designed to reduce pressure on insurers with large retentions.

"We don't think that they are going to lower the deductibles, but they may offer some form of aggregate coverage," said John Cashin, executive vp at Willis Faber North America Inc. in New York.

For example, ceding companies are hoping to get some coverage where attachment points can be triggered by an accumulation of losses that individually fall below the deductible, he said.

Clients accept that they may have to buy the coverage on a multiyear basis to make it attractive to reinsurers, Mr. Cashin said.

Aggregate coverages are a possibility if they are bought as a separate coverage, said Guy Hengesbaugh, executive vp and chief underwriter at LaSalle Re Ltd. in Bermuda.

"We are not seeing any reduction in retention on current policies...we might give an aggregate excess but it would have to be a separate policy," he said.

The policy would cover a certain number of occurrences within a retention and LaSalle Re could probably offer around \$3 million in capacity per program, Mr. Hengesbaugh said.

The coverage would vary with the size of the cedant, he said.

For example, a large U.S. insurer might have coverage after three or four market losses of more than \$1 billion whereas a regional company might be offered coverage after three or four market losses of more than \$500 million, Mr. Hengesbaugh said.

However, several losses from clients in the same area could lead to large losses for catastrophe reinsurers offering aggregate coverages, said Mr. Hasse of Centre Cat.

"You can have a lot of companies ending up with a lot of aggregate losses in the same three or four areas," he said.

Consequently, Centre Cat is re-

luctant to offer traditional aggregate coverages. However, as the company customizes many of its programs to meet specific needs it can tackle the problem of large retentions through non-traditional coverages in conjunction with finite risk reinsurers, Mr. Hasse said.

Some casualty coverage is also being offered in the Bermuda catastrophe reinsurance market.

LaSalle Re will offer some casualty clash coverage. The product covers an insurer when more than one policyholder suffers losses in one event. However, LaSalle Re's primary focus, like the rest of the reinsurers recently formed in Bermuda, remains property catastrophe reinsurance.

Only around 2% of its premiums are expected to be derived from casualty clash business, said Mr. Hengesbaugh.

One year after most of the catastrophe reinsurers formed in Bermuda, the market there has established its reputation as a serious and professional market.

"They came through their first loss situation very well," said Mr. Walker of E.W. Blanch.

Brokers had confidence in the

Bermuda market prior to the Northridge earthquake, but their claims settling after the loss established their reputation, Mr. Walker said. "They responded very well and they were very good at paying claims promptly."

And despite speculation that the Bermudian reinsurers are not achieving the returns they promised investors, none seems desperate to increase its premium income by diversifying or radically

cutting rates, brokers and underwriters say.

"In general terms I think people are getting the returns they were expecting," said IPC's Mr. Dowling.

The zero income tax in Bermuda helps the reinsurers gain an edge over their competition, he said.

The reinsurers' tax status, though, prevents them from marketing their business at the National Assn. of Independent Insurers meeting in Hawaii this week.

Several of the reinsurers will attend the meeting but none will solicit business, they say.

"For us it is just a social event," said Mr. Hasse.

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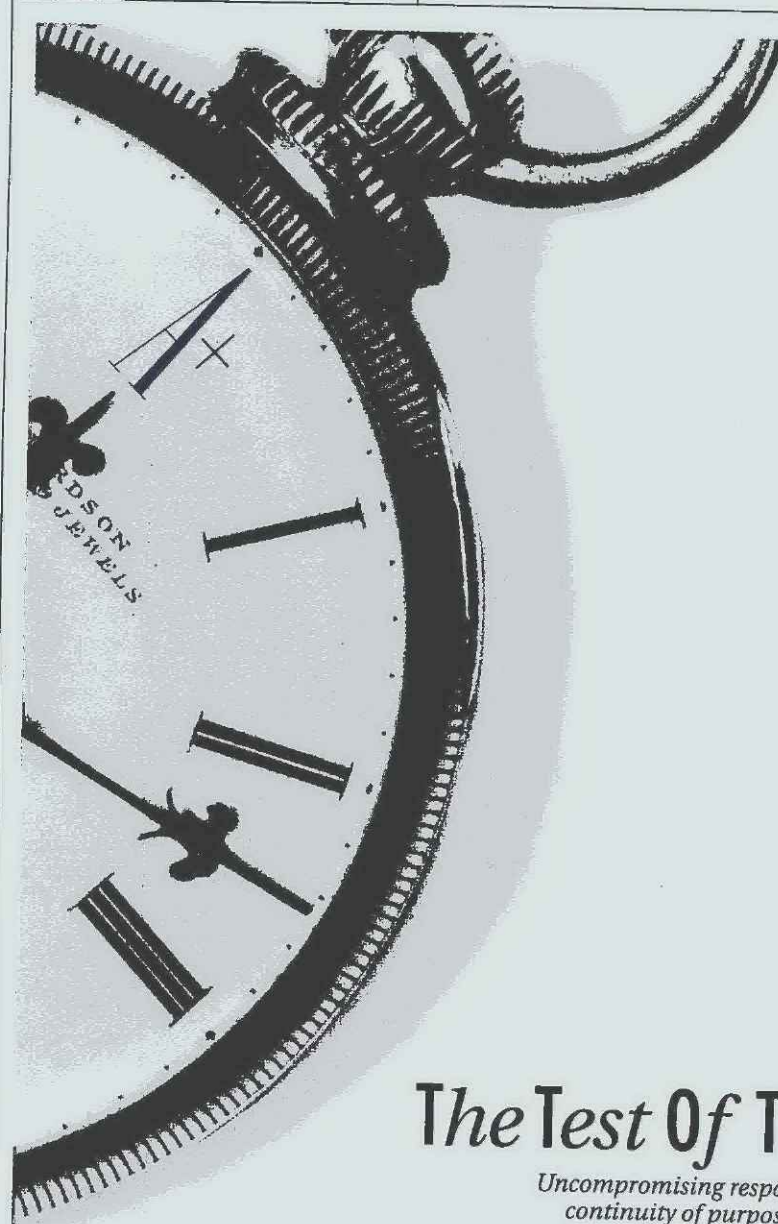
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Growing D&O exposure

Risk managers urged to seal gaps in D&O coverage

By MICHAEL SCHACHNER

SANTA FE, N.M.—Because there are now numerous legal premises under which directors and officers can face liability, it is critical there are no gaps in a company's D&O insurance program, a broker warns.

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As the frequency of shareholder, employee, competitor and product user lawsuits against directors and top executives increases, corporations need to become keenly aware of the environment that is giving rise to more legal action and learn how to protect themselves and their directors.

"How can directors and officers get sued? Let me count the ways. There's no stopping someone from bringing a suit out of just about any grievance. And, shareholder claims are now the most frequent and severe," said Kelly Reyher, a vp with Rollins Hudig Hall of New York Inc.

Years ago, it used to take two days to a week or more for a corporate action to give rise to a shareholder lawsuit. But today, with improved technology, "if your stock drops you could see an action filed within a couple of hours. The lawyers have complaints pre-written on their computers and they just put the appropriate names and numbers in and off they go," Mr. Reyher said during a seminar on D&O coverage during the annual conference of the Society of Risk Management Consultants, held earlier this month in Santa Fe.

"Professional plaintiffs," whom D&O plaintiffs lawyers can call on a whim, are growing in numbers, Mr. Reyher said. "These are people that buy a basket of stock," or at least one share of most of the major corporations listed on the various stock exchanges. "They're available to the plaintiffs lawyers that specialize in shareholder suits and there is no dearth of them."

Mr. Reyher cited a recent study by The Wyatt Co. that found that shareholder claims now account for 47% of all actions against directors and officers, followed by employee claims at 22%, and customer/client claims at 19% (BI, Feb. 28).

But what the study doesn't show, he added is that shareholder actions are almost always the most severe in terms of monetary damages sought. He said the average cost of defending and settling a claim arising from

shareholder-generated class action litigation is more than \$10 million.

"Employee claims are also on the rise," Mr. Reyher said. "Because courts have expanded the scope of acceptable causes of action, frequency and severity of claims rise in accordance." He said the average cost to a defendant company to dispose of an employee-generated D&O suit is about \$500,000, while the cost is about \$2.5 million for competitor suits.

This jump in litigiousness requires that directors and officers take more precautions to protect themselves from liability. "Directors and officers can protect themselves by taking minutes at all meetings and being informed, among other things. Today, even press releases may be considered disclosure and are actionable. So, tell everyone the same thing at the same time. Telling some analysts something, but not all, can create different information in the marketplace," Mr. Reyher said.

Directors and officers liability coverage protects officers in two ways: It reimburses them for anything the corporation doesn't pay for during litigation, or it reimburses the company for all expenses it puts out related to defending and settling a D&O claim.

"State statutes empower a corporation to indemnify an officer or director involved in litigation, but usually, the statutes are permissive, or voluntary," Mr. Reyher said. However, it makes sense to study state statutes pertaining to indemnification of directors because most states do not allow for indemnification of settlement amounts or judgments if the action is a derivative suit, meaning that it was brought by shareholders on behalf of the corporation.

"This doesn't happen that much. Most shareholder suits are class-action, non-derivative cases," he said.

To secure a D&O policy that serves its function, which is covering directors and officers so they can fulfill their duties without having their personal assets at stake, corporations must realize that there is no such thing as a standard D&O package, Mr. Reyher said.

"All carriers have different language, but policies do follow a certain format. We just need to be aware that wording pertaining to what is covered can be broader or narrower, depending on the policy," he said.

As a result, policyholders must thoroughly read the policy's definition of a wrongful act, a loss, and a claim—before signing.

"Usually, the definition of a loss is what is not covered, including events like fines and penalties imposed under law, punitive damages, investigation costs and taxes, among other things," Mr. Reyher said.

Corporations should also distinguish between a standard claims-made policy and one that stipulates that claims must be made and reported during a policy period. "A claims made and reported policy isn't as good. It's a critical difference and you want your people in the marketplace to understand this element and it should be negotiated out of the policy whenever possible."

More key policy language centers around exclusions. Thus, directors and officers, as well as risk managers and consultants, need to recognize in advance what is conduct excluded from coverage. Commonly excluded conduct includes fraud, insider trading and personal profiteering. "Good policy language will stipulate that an allegation by itself isn't means for exclusion," he said.

Once faced with a D&O claim, it is advisable for the company to immediately contact legal counsel. "This is what small and mid-size firms do right away, but they often pass the claim on to lawyers who don't understand D&O policies. If possible, try to identify in advance the law firms that have some good D&O experience."

To help companies find those attorneys, some D&O insurers have put together a list of designated defense attorneys with whom they will work in tandem. Mr. Reyher acknowledged that this might not appear to be the best arm's length relationship, "but lawyers have as their first responsibility a duty to represent their client, not the insurer."

"One of the great contributions risk management consultants can make is in counsel selection and counsel education," added David Beattie, executive vp with RHH in New York. "Many lawyers are great litigators, but know little about D&O."

Lastly, Mr. Reyher said having good legal representation is important for settling cases, not to mention if the case goes to court.

"About 95% of shareholder suits settle prior to trial. But if the case is headed for trial, a lot of insurers will want to play the dice game, whereby they won't settle thinking there's fraud. But if only recklessness is found at trial, the carrier is on the hook for any judgment," Mr. Reyher said. ■

Policyholder persistence may turn a claims denial into a settlement

By MICHAEL SCHACHNER

SANTA FE, N.M.—When a policyholder initiates a claim against its insurer and the insurer responds that the claim is targeted for denial, should the policyholder say 'Oh, well' and move on to the next line of business?

Absolutely not, according to a leading policyholder attorney, who says far too many businesses overlook opportunities to get coverage simply because they back down at the first sign of tough talk from in-

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surance companies.

For many insurers, their first instinct is to reject a claim, William Shernoff of Shernoff, Bidart & Daras in Claremont, Calif., told attendees at the Society of Risk Management Consultants' fall conference earlier this month in Santa Fe, N.M.

But policyholders should not cower, he said. Instead, they must stand up for their rights and realize that a first denial isn't a final denial.

"There's something out there called the doctrine of bad faith and many people don't understand it. What it means in a court of law is money for policyholders," Mr. Shernoff said.

He said there are three basic prin-

ciples that policyholders should use in collecting from insurers:

- Every event that could possibly result in a loss should be scrutinized by risk managers and consultants for the purpose of filing a claim.

Mr. Shernoff pointed out that the period of analysis need not be rushed.

"Most state courts will not recognize late notice as a reason for claim denial unless the insurer can prove that it was prejudiced," he said, adding that examining an event closely to justify filing a claim would not likely be considered prejudicial to an insurer.

It boils down to a fair reading of

Continued on next page

Continued from previous page the policy's intentions, he said.

• Notice of a claim should be provided to any insurer that wrote a policy that might be applicable.

This underscores the importance of never throwing away old policies and looking at all policies for possible coverage, Mr. Shernoff said.

• Never accept a first denial by an insurance company as the final, unequivocal word.

"This is probably most important. You should not take an insurance company's denial as gospel. They very much like to deny claims, but in response, you should conduct your own investigation and read all the policies yourself. If you can't decipher everything in the policy, show it to a coverage specialist.

"This is important because too often policyholders believe and accept the denial. It then becomes the risk management consultant's duty" to see the policyholder gets what they deserve," he said.

Even if denial isn't an insurer's ultimate goal, by playing the denial game, it can achieve something almost as advantageous—a lengthy delay in paying the claim, he said. "The longer they can hold on to their money, the better off they are."

Insurers will restrict the terms of coverage by specifying in a policy what pieces of property are covered, Mr. Shernoff warned. To combat this, policyholders should seek language that affords coverage to unspecified properties as well.

For example, Mr. Shernoff's firm represented a California-based clothing maker that had a property policy specifying eight manufacturing locations that were covered. But, its policy also noted that "other miscellaneous locations" were insured. When the company had a major loss at its home office, which was not one of the eight specified sites, the insurer denied the claim. "We argued that the home office was a miscellaneous location under terms of the policy and we got coverage," he said.

In cases where a court defense is at stake, insurers will often seek not to defend the policyholder by invoking an "intentional acts" exclusion. In response to this tactic, Mr. Shernoff said merely asserting an act is intentional is insufficient to deny a defense.

"Everything is intentional, but the true measuring stick for denying a defense is intentional harm. Basically, the duty to defend is very broad under our laws," he said.

One of the heaviest clubs a policyholder can wield to strike back at an insurer is the doctrine of bad faith. One way in which an insurer can act in bad faith is by not investigating a claim with an eye toward providing coverage, he said.

"The investigation should be geared toward paying the claim, not denial. Nine out of 10 times, however, that investigation is designed to turn something up that justifies denying the claim. Their eye should be toward protecting their policyholder, but it's not," he said.

He advised risk management consultants to "not assume that insurers are trying to find coverage for (their) clients. Unreasonable handling of a claim constitutes bad faith."

Lastly, Mr. Shernoff said insurers will often deny coverage if an individual or entity not specifically named in the policy is involved in a claim-causing act.

"Just because something or someone isn't named in the policy in black and white, there could still be coverage due. If you look at auto insurance, if you give your keys to a friend and they are involved in an accident, they're covered even though they aren't named in your policy. Don't give up on a claim just because it is denied because someone isn't a named insured," he said. ■

Quake teaches engineers a lesson

By MICHAEL SCHACHNER

SANTA FE, N.M.—Assessing how buildings will hold up in a powerful earthquake is an art, not a science, and it's based entirely on experience, says a structural engineer with a leading loss identification and mitigation firm.

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Ronald Hamburger, senior executive vp at earthquake loss control consulting firm EQE Inc. in San Francisco, said engineers are constantly learning what types of buildings will stand up best to powerful tremors and all-out quakes, and the Northridge earthquake that rocked

the Los Angeles area in January taught them quite a lot (*BI*, Jan. 24).

"By the start of the 1990s, structural engineers thought they had it all worked out. We felt all buildings constructed to code would suffer so little damage that repairs would be minor. With Northridge, we now know that there are at least four types of buildings that still won't hold up," Mr. Hamburger said at the annual fall conference of the Society of Risk Management Consultants, held earlier this month in Santa Fe, N.M.

One of the major lessons learned from the Northridge quake, according to Mr. Hamburger, is that steel-framed buildings do not do as well as expected (*BI*, June 6).

"Before Northridge, we'd say go with a steel-frame structure. But

more than 100 buildings of this type sustained major damage and more than six months of business interruption for tenants," he said.

Most of the damaged steel-frame buildings were high-rises, Mr. Hamburger said. "We thought rigid construction of beams and columns would hold, but because the joints were welded, they didn't."

A second form of construction that fared poorly was pre-cast concrete structures. "These are normally parking garages and bridges. The pieces are made in advance and shipped to the site. Then, they're put together like Lincoln Logs. I don't think there was one parking garage in the San Fernando Valley that wasn't damaged," said Mr. Hamburger.

The third type of building that

proved incapable of holding up to the ground shaking were tilt-up and reinforced masonry buildings. The problem with these was the weak connection between the prefabricated, tilt-up wall and the ceiling, he said, noting that it was at the juncture of the wall and ceiling where damage occurred.

Finally, the wood-framed buildings used in strip malls and apartments fared disastrously. "This is where the fatalities occurred, especially where there was a soft first story," usually carports, Mr. Hamburger said.

"This shows the need for effective earthquake retrofitting, although many companies won't do anything because they don't feel the facilities that would require changes are that important," he said. ■

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Planning for crises absent in many risk management programs

By MICHAEL SCHACHNER

SANTA FE, N.M.—Straight from the 'It Makes No Sense But It's True Department,'

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ant says.

In spite of the lessons learned from a number of natural and man-made disasters during the past few years, many companies that

build risk management programs around complying with building and safety codes, reserving offsite computer space and duplicating important documents still do not include a thorough crisis management plan in their overall risk management plans.

"All too frequently, creative risk and insurance management programs lack the vital but elusive crisis management segment. Even when logical, proven risk and insurance management techniques and effective loss control activities are utilized, crises must still be anticipated," said Richard H. Soper, a principal with Soper & Associates Ltd. in Kirkland, Wash.

Speaking at the annual fall conference of the Society of Risk Management Consultants earlier this month in Santa Fe, N.M., Mr. Soper said crisis management planning is grossly overlooked during risk and insurance management audits.

"How is it that executives responsible for life, safety, risk funding, loss control and legal compliance activities can justify not having an implemented crisis management plan?" he asked.

Crisis management 'plans are not overly expensive to draft and implement,' says Richard Soper.

"A crisis usually lasts for a period of less than three days. It's before and afterward that counts. The aftermath could last several years," he said.

Mr. Soper defined a crisis management plan in two ways:

- A strategic technique that reduces the adverse effects of an organizational loss incident through risk identification, measurement, loss mitigation, legal compliance and management accountability.

- A program that ensures appropriate emergency response capabilities and restoration strategies that focus on pre-loss planning and post-loss recovery are in place.

Inherent to any good crisis management plan is an emergency response team capable of reacting and maintaining control until professional emergency response people arrive.

"The response team has responsibility until outside help gets there, and this is most important in hard-to-reach areas," Mr. Soper said.

The emergency response team at an industrial facility like a mill or factory usually comprises "hourly workers that are trained by crisis management people such as managers and supervisors," he said.

To put together a crisis management program and emergency response team, a company must evaluate its crises exposure, including frequency, severity, variation and impact. Beyond that, estimating loss magnitude and probable maximum loss is imperative to measure necessary backup facilities and alternative sources of raw materials, if the company is a manufacturer, for example.

"These plans are not overly expensive to draft and implement," said Mr. Soper. "A Mercedes-Benz plan can be put in for about \$40,000 and a small project can be taken care of for \$5,000 to \$10,000." ■

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Elections

Continued from page 1
of sweeping health care reform legislation—Sens. Edward Kennedy, D-Mass., and Harris Wofford, D-Pa.—are battling conservative challengers. Sen. Kennedy is leading his opponent, but Sen. Wofford's race against a Republican congressman is too close to call.

The Senate, though, could gain a new member who crusaded for scaled-back reform legislation. Rep. Jim Cooper, D-Tenn., an early advocate of the so-called managed competition approach to health care reform, is running against attorney and actor Fred Thompson for an open seat in a tight race.

A handful of health care reform supporters will return to the Senate next year, including Sens. John D. Rockefeller IV, D-W.Va., perhaps the administration's most loyal backer, and Thomas Daschle, D-S.D., another advocate of comprehensive health care reform legislation.

In the House of Representatives, nearly all reform advocates are expected to return. Among those who aren't is Rep. Roy Rowland, D-Ga., a key sponsor of a so-called consensus bill that called for certain insurance underwriting reforms like curbs on pre-existing medical condition exclusions. Rep. Rowland is retiring.

Other representatives who played a role in health care reform legislation this year and won't be returning include Rep. Michael Andrews, D-Texas, a supporter of the managed competition approach, and Rep. Fred Grandy, R-Iowa, an outspoken opponent of an employer mandate. Rep. Andrews was defeated in the Democratic Senate primary election in Texas, while Rep. Grandy was unsuccessful in the Republican gubernatorial primary in Iowa.

This year's standard bearers for comprehensive legislation in the House, including Ways and Means Chairman Sam Gibbons, D-Fla., Pete Stark, D-Calif., chairman of the Ways and Means Health Subcommittee, and John Dingell, D-Mich., chairman of the Energy and Commerce Committee, are all expected to win re-election.

Despite the relative stability expected among the House's health care reform supporters, the pruning of advocates in the Senate almost certainly will affect efforts to enact legislation in the 104th Congress.

By itself, the sheer reduction of the number of health care reformers in the Senate will reduce the likelihood that the issue will dominate the next congressional session as it did during the last session.

"It is clear that there will be fewer advocates of both comprehensive reform as well as those seeking less substantive approaches," said Stuart J. Brahs, vp-federal government relations in the Washington office of The Principal Financial Group.

For example, it is unlikely that the new Senate majority leader will devote the amount of time to health care reform that Sen. Mitchell, the outgoing leader, did. At one point, Sen. Mitchell, who turned down President Clinton's invitation to be nominated to the U.S. Supreme Court, tried to keep the Senate in session 24 hours a day to get a comprehensive reform bill passed. Long after most members of the Senate recognized that reform legislation had no chance of passage, Sen. Mitchell continued efforts to try to broker a compromise.

promise.

But the retirements of Sens. Durenberger and Danforth could prove even more important than the departure of Sen. Mitchell in affecting the chances that reform legislation will be enacted during the next session, lobbyists say.

Both Sens. Durenberger and Danforth were key members of the Mainstream Coalition, a group of about 20 Senate Republicans and Democrats that tried to develop a bipartisan reform package that could win congressional approval.

Their departure removes from the Senate two members who, through respect, experience and service on the pivotal Senate Finance Committee, may have been in a good position to develop a consensus on a health care reform package.

"Sens. Durenberger and Danforth were highly regarded and

'Sens. Durenberger and Danforth were highly regarded and trusted. Their word was their bond. The fact that they were in a position to broker a compromise is a serious loss to the Senate and to employers,' says the ERISA Industry Committee's Mark Ugoretz.

trusted. Their word was their bond. The fact that they were in a position to broker a compromise is a serious loss to the Senate and to employers," said Mark Ugoretz, president of the ERISA Industry Committee in Washington.

The retirement of Sen. Durenberger has another implication—a negative one—for employers. In recent years, the Minnesota Republican championed a pre-emption provision in the Employee Retirement Income Security Act that bars states from implement-

ing laws, like an employer mandate, that "relate" to employer-provided benefit plans. Employers throughout the country are particularly opposed to any weakening of ERISA pre-emption. They fear they could be confronted with a maze of varying state requirements.

Sen. Durenberger's defense of ERISA pre-emption has become so well-known in Senate circles that members of the Mainstream Coalition recently gave him a copy of the ERISA statute with a

chain around it as a joke.

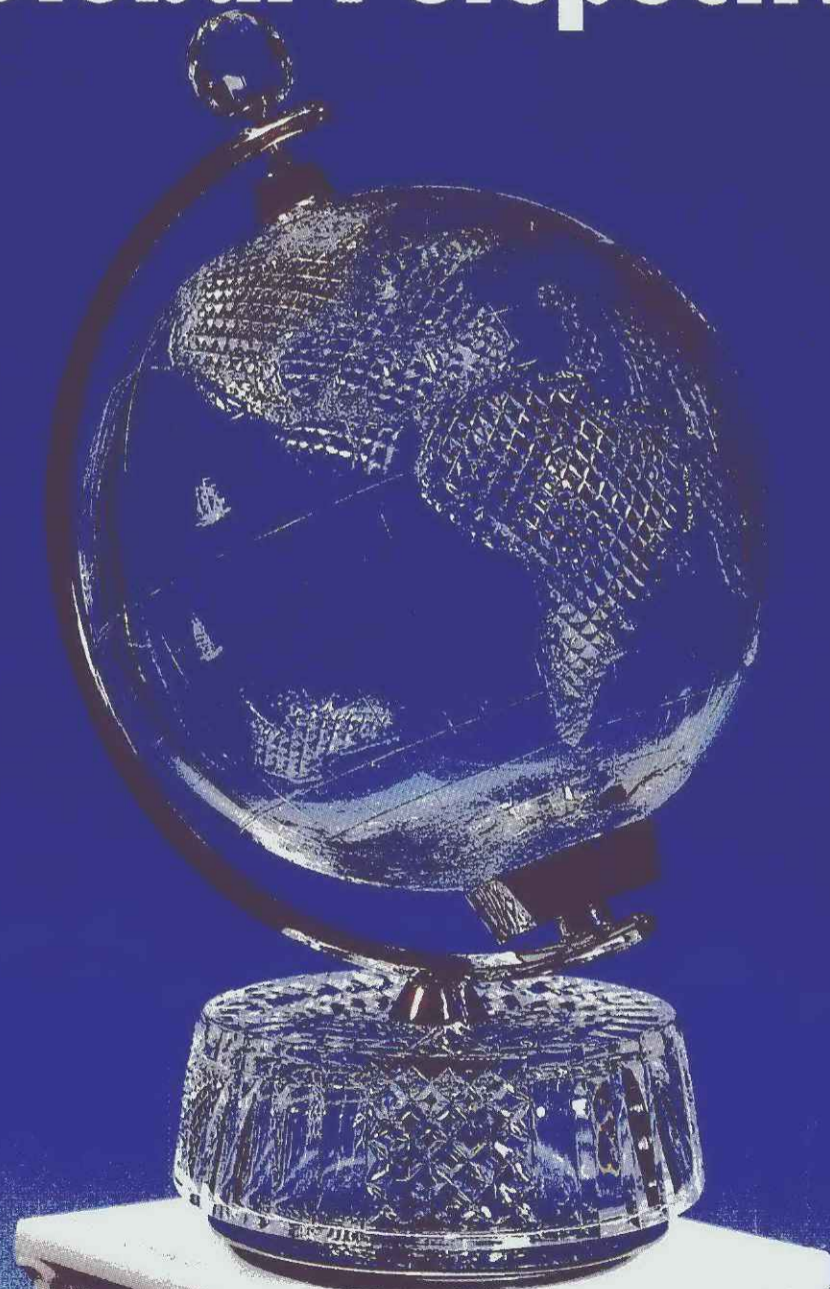
With his retirement, it remains to be seen who, if anyone, will fill his role as the champion of ERISA pre-emption.

Finding such an advocate could be crucial to ward off efforts of certain senators who will advance proposals that would waive ERISA pre-emption so health care reform laws in their states can take effect. More and more senators are expected to argue that if Congress can't pass health care reform legislation, it shouldn't stand in the way of states that want to enact legislation but can't because of ERISA pre-emption, said James Klein, executive director of the Assn. of Private Pension & Welfare Plans in Washington.

"With Sen. Durenberger gone, the prospects for state waivers become much greater," said Frank McArdle, a consultant with He-

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Elections

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with Associates L.L.C. in Washington.

Even if there were no changes in Congress, it is questionable how much interest the Senate and House will have in comprehensive health care reform legislation.

Indeed, as the elections draw near, state business lobbyists and others say that health care reform is not playing a role—in fact it hardly is being discussed in congressional races—where well-known reform advocates are up for re-election.

In Massachusetts, where Sen. Kennedy, chairman of the Labor and Human Resources Committee

and the Senate dean of health care reform legislation, is battling conservative businessman Mitt Romney, health care hasn't been a big issue, said Brad Kimler, a Hewitt Associates consultant in Boston.

Similarly, in Pennsylvania, where Sen. Wofford—whose election three years ago captured national attention because he ran on a platform of universal health care coverage—is opposed by Rep. Rick Santorum, R-Pa., issues like crime have taken precedence over health care, said Tim Lyden, state director of the National Federation of Independent Business in Harrisburg.

In part, the decline of health care reform as an important issue with voters may simply be due to public "burnout," said Bill

Custer, president of Custer Economic Research in Washington.

More substantively, the improving economy may have deflated health care reform as an issue.

"People are more secure in their own jobs and less worried about losing those jobs and the health insurance that comes with those jobs. The crisis mentality has passed," Mr. Custer said.

The November elections also could affect other employee benefit issues. Sen. Joseph Lieberman, D-Conn., is being challenged by Dr. Gerald Labriola, a pediatrician, in his re-election race. Sen. Lieberman led this year's successful battle to delay enforcement of a federal law that requires employers to report health care coverage information to the federal

government. But, Sen. Lieberman is the odds-on favorite to hold onto his seat.

And, on pension issues, employers face somewhat of a tradeoff. On the one hand, Sen. Howard Metzenbaum, D-Ohio, a perennial thorn in the side of employers, is retiring. He led the drive—ultimately successful several years ago—that essentially eliminated employers' ability to terminate overfunded pension plans to recapture surplus assets.

More recently, Sen. Metzenbaum pushed legislation that would have made employers liable

for state damages awards, including punitive damages, if they mishandled benefit claims.

In the House, though, the retirement of Rep. J.J. Pickle, D-Texas, will leave Congress without a certified expert on problems relating to the Pension Benefit Guaranty Corp. Rep. Pickle campaigned for years for legislation to require employers with underfunded pension plans to accelerate contributions to those plans. The PBGC legislation is part of a broader trade bill that Congress will vote on after the elections during a lame-duck session. **BI**

Initiatives

Continued from page 1

dental and vision care, mental health counseling and prescription drugs.

"It's an ugly one," said Mark L. Wagar, president and general manager of CIGNA HealthCare of California in Glendale. "Theoretically, it would take all 31 million Californians and wipe out the existing coverages they have. It would put everyone under a funding mechanism that would include a combination of individual, corporate and tobacco taxes in the state."

CIGNA is among the health insurers participating in business community lobbying against the initiative. Leading that effort are the California Chamber of Commerce, the National Federation of Independent Business and various companies.

Existing single-payer systems like Medicare, Medicaid and Medi-Cal in California have demonstrated that without a move to a

managed care approach a single-payer system isn't financially viable, Mr. Wagar contends. "We think a combination of managed competition solutions and good insurance reform would be healthy."

Backers of Proposition 186 emphasize its promise of universal coverage.

"Nurses believe everyone ought to have access to health care and that health care is a right, not a privilege for those who can afford it and meet underwriting criteria," said Beth Capell, co-chairwoman of the campaign for Proposition 186 and director of government relations for the California Nurses Assn.

"We also believe that the underlying premises of insurance are a bad fit with the notion that everyone should be entitled to health care," she said.

Reliance on private insurance, Ms. Capell contends, has promoted a focus on expensive technology rather than primary care. Much of what insurance companies cur-

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Continued from previous page
rently spend on overhead, would be better spent on providing care.

Given the fragile state of California's economic recovery, the initiative's potential impact on the state's employment picture is of paramount concern.

With payroll taxes ranging from 4.4% for companies with 10 or fewer employees to 8.9% for companies with 50 or more workers, many observers predict that an increase in payroll taxes would force jobs to leave the state—up to 300,000, by some estimates.

What's more, many business leaders predict that payroll taxes would be raised further as costs soared under a single-payer system (BI, Oct. 17).

Others, though, argue that the initiative would actually create jobs by freeing small firms of the burden of providing health care benefits.

"I think from an employer standpoint to get out of the business of purchasing health benefits would be an enormous relief," said Ms. Capell. In fact, she added, a single-payer system would encourage many people now fearful of starting their own businesses because of a lack of health care benefits to take that step.

Republican Gov. Pete Wilson and his Democratic challenger, California Treasurer Kathleen Brown, both have come out against Proposition 186.

But that doesn't matter, the initiative's supporters say. "Neither one of them is regarded as an expert on health care and neither one of them has made it an issue in the campaign," said Ms. Capell.

Even if the measure fails, it may set the stage for future health care reform efforts in California. "It's the creation of a grass-roots movement and the kind that doesn't go away," said Ms. Capell.

Californians also will vote on another measure that should get national attention on election night, Proposition 188, an initiative that would reverse California anti-smoking laws by permitting restaurants and other businesses to allow smoking in ventilated areas.

In Colorado, businesses are lobbying against Amendment 11, which would amend the state constitution to ensure injured workers' right to choose their own doctors.

Employers contend that the measure would hamper their efforts to contain workers compensation medical costs with managed care networks and would erode much of the progress they have made under a 1991 pro-business workers compensation reform law (BI, Sept. 12).

Also under the amendment, fees charged by health care providers treating work-related injuries would be subject to state regulation.

Under the 1991 workers compensation law, Colorado employers are allowed to select occupational injury specialists to treat injured workers.

A similar workers comp measure was knocked off this year's ballot in Arkansas. Amendment 6 would have amended the constitution to let injured workers select their own doctors and allow them to sue employers that knowingly maintain unsafe workplaces.

However, the Arkansas Supreme Court struck down the ballot measure Oct. 14, ruling that the initiative's title was misleading.

In Michigan, voters next week will weigh in on Proposal C, a measure that asks whether auto insurance premiums should be reduced by an average of 16% from 1992 levels for six months in exchange for lower benefits.

Essentially, passage of the proposal would enact 1993 auto insurance reforms passed by the Michigan Legislature and later signed by Gov. John Engler before being forced by petition to a referendum. Michigan's constitution allows voters to seek public approval of laws.

Under the act, mandatory medical coverage for drivers would be reduced to \$1 million—with additional coverage up to \$5 million available at a higher price—rather than the unlimited coverage currently required.

"No other state has unlimited benefits," said Robert A. Bailey, Michigan's first deputy insurance commissioner.

"It also would further restrict the no-fault system," said Mr. Bailey, noting that among other things the measure would prohibit drivers who are more than 50% at fault for an accident from suing the other parties in the accident.

The debate over the proposal's merits was fueled recently by the release of a National Assn. of Insurance Commissioners draft report that showed Michigan auto insurers reap a higher profit percentage than their counterparts in the rest of the country.

According to the report, Michigan auto insurers made profits of 26.3% in 1993 compared with nationwide average of 9.1%. A similar report a year earlier showed Michigan auto insurers averaging 21.3% in profits compared with a national average of 8.8%.

But, Michigan Insurance Commissioner David J. Dykhouse has argued that for various reasons those NAIC figures are flawed and, in fact, Michigan companies showed an average profit of 10.4% last year, he contends.

Arizona voters will face two tort reform proposals on the November ballot.

Proposition 103 would enact state law changes that were approved by the Arizona Legislature in April on the condition that voters accept the measure, which among other things would restrict the filing of frivolous suits against police, firefighters, volunteers and innocent citizens and would deny damages to people injured while driving drunk or committing a crime.

The measure also would amend the state Constitution to allow the Legislature to limit the circumstances under which a person could file an injury lawsuit, limit recoveries for death or personal injury and remove juries' sole discretion over determining whether a person's negligence should reduce injury recoveries.

Proposition 301 would enact a 1993 Arizona tort reform legislation package.

Among other things, that legisla-

tion would require a person to bring a lawsuit within 12 years of injury unless prevented from discovering the claim because of fraud; and set a gross negligence standard for recovering damages from the government in cases related to the operation of roads and bridges.

Also, the initiative would modify the state's collateral source rule to allow defendants in personal injury suits to tell jurors that plaintiffs have insurance or other ways to recover damages. Since 1976, such disclosures have been permitted in medical malpractice cases (BI, May 10, 1993).

Proposition 301 also would allow Arizona juries to deny claims by anyone found to be at least 50% responsible for his or her injuries. It would also allow installment payments for future health care costs and lost earnings resulting from injuries. **BI**

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Slight change of course

Impact from congressional turnover fairly predictable for such issues as McCarran-Ferguson, product liability

By MARK A. HOFMANN

WASHINGTON—Even with an edgy electorate calling for change, next week's congressional elections will probably produce little change on property/casualty insurance issues.

With no liability insurance crisis looming, property/casualty issues are conspicuously absent from congressional agendas. Although no one can predict how and when the Superfund debate will reignite, the course of many other property/casualty-related matters appears already charted.

Among the certainties is that no matter who emerges victorious in any race, defenders of the McCarran-Ferguson Act will have to find a new champion on the House Judiciary Committee because Rep. Hamilton Fish Jr., R-N.Y., has retired.

Another certainty is that advocates of federal product liability reform can count on having one less roadblock before them because their most formidable opponent, Senate Majority Leader George Mitchell, D-Maine, is retiring.

But the biggest question—

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which party will control Congress—remains far from decided. Recent polls have indicated that Republicans have roughly an even-odds chance to win enough seats to take control of the Senate. They also have about a 1-in-3 chance of winning a majority in the House, a status they haven't enjoyed in 40 years.

A very informal poll of business and insurance industry observers came up with a consensus net gain of five Senate seats for the Republicans, bringing the GOP total to 49, or two short of majority. The same unscientific poll saw the GOP picking up 26 House seats, more than a dozen short of a majority. However, defections on key votes by conservative Democrats could give the Republicans an operating majority on economic matters.

"It's going to be very difficult for incumbent Democrats—and there are so many more of them than Republican incumbents—to present themselves as agents of change," said David M. Farmer, senior vp-federal affairs in the Alliance of American Insurers' Washington office. Mr. Farmer said he foresees more of an "anti-incumbent" than a pro-Republican vote next week.

"It's actually going to be exciting and undoubtedly there will be some surprises," he said.

In fact, the fate of some of the Capitol's most venerable lawmakers is unclear less than two weeks before the elections. House Speaker Thomas Foley, D-Wash., is currently running behind a GOP challenger. And the McCarran-Ferguson Act's most vocal foe—House Judiciary Chairman Jack Brooks, D-Texas—will become the longest-serving member of the House if he wins re-election. Only Rep. Jamie Whitten, D-Miss., who is not seeking re-election, has served longer.

Since his first election in 1952, Rep. Brooks has worked his way up to become one of the most powerful barons on Capitol Hill. But the Texas Democrat faces a serious challenge this year in the form of Republican Steve Stockman, an accountant who managed to garner 43% of the vote when he first ran against the incumbent in 1992.

This year, Mr. Stockman is enjoying the financial support of some groups, such as the Gun Owners of America, that regard Rep. Brooks as a traitor for voting in favor of the crime bill's ban on assault weapons in spite of his longtime support of gun rights. Although Rep. Brooks is still favored to win, his re-election is not the given that it would have been only four years ago, when he won 72% of the vote, or six years ago when the GOP didn't bother to field a candidate.

What is a given if Rep. Brooks wins re-election is that he'll have a new sparring partner on the Judiciary Committee when the McCarran issue arises. Rep. Fish, the ranking minority member of the committee, decided earlier this year not to seek re-election because of health problems. Rep. Fish had been a steadfast defender of the McCarran-Ferguson

Act. The lawmaker most often mentioned as inheriting Rep. Fish's mantle is Rep. Henry Hyde, R-Ill. "We would love to have someone like Henry Hyde" leading the pro-McCarran forces, said Jack Ramirez, executive vp and chief operating officer of the National Assn. of Independent Insurers in Des Plaines, Ill. Mr. Ramirez said Rep. Hyde has been an ally of McCarran defenders and would enjoy enhanced stature if the GOP picks up more House seats.

Rep. Hyde is an "effective, articulate advocate" of maintaining the McCarran-Ferguson Act, said the Alliance's Mr. Farmer. He said he would not be surprised if Rep. Hyde becomes the ranking GOP member of the Judiciary Committee.

The next in line after Rep. Fish is Rep. Carlos Moorhead, R-Calif., but Rep. Moorhead is already the ranking member of the Energy and Commerce Committee and would have to choose between the two.

On the other side of the aisle, the leadership of the Energy and Commerce Committee appears likely to remain intact. Although Chairman John D. Dingell, D-Mich., faces a GOP challenger for the first time in years, the chairman is favored to win re-election over Ken Larkin. Mr. Larkin, an electronics engineering technician who is making his first bid for elective office, said that he has not made insurance in particular an issue but rather Rep. Dingell's pro-regulatory stand for all types of business. Rep. Dingell is the author of H.R. 1290, which would create a partial federal regulatory system for insurance and reinsurance.

The Alliance's Mr. Farmer also noted that few changes are expected at the House Education and Labor Committee. "Absent a (GOP) landslide, I see no changes in the fundamental posture of the Labor Committee," he said. The committee's chairman, William Ford, D-Mich., is retiring. Rep. Ford was considered a close friend of organized labor and has been a vigorous proponent of amending the Occupational Safety and Health Act. But, as Mr. Farmer pointed out, there appears to be little chance that any of his likely successors on the Democratic side would follow a different course.

On the Senate side, insurers are paying special attention to the Ohio senatorial race. Although the Senate's most vocal McCarran foe is retiring, he is trying to keep the seat in the family. Sen. Howard Metzenbaum, D-Ohio, wants to be succeeded by his son-in-law and fellow Democrat, Joel Hyatt. Mr. Hyatt, a plaintiff attorney who founded a chain of law offices, faces Republican Lt. Gov. Mike DeWine.

"One of the big Senate races to us is the DeWine-Hyatt race. If we went from Howard Metzenbaum to Mike DeWine, that would certainly be a 180-degree turn for that seat," said Mr. Ramirez of the NAI.

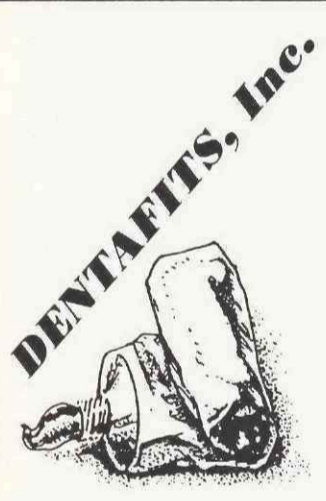
Lt. Gov. DeWine currently holds a commanding lead in the election, with some polls showing him as much as 20 percentage points ahead of Mr. Hyatt.

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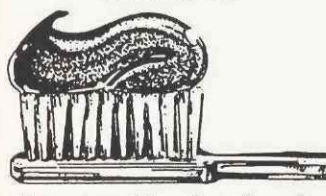
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P/C issues

Continued from previous page

Ohio is one of several seats the Republicans now appear likely to pick up, raising the possibility of GOP control of the Senate for the first time in eight years. That would mean new chairmen for critical committees.

For example, if the Republicans were to win control of the Senate, Sen. John Chafee, R-R.I., would replace Sen. Max Baucus, D-Mont., as chairman of the Environment and Public Works Committee, the panel with jurisdiction over Superfund. Sen. Chafee was one of three Republicans who voted in favor of the administration's Superfund bill when it was approved by the Senate Finance Committee.

Meanwhile, the Senate Finance Committee chairmanship would pass to Sen. Bob Packwood, R-Ore., from Sen. Daniel Patrick Moynihan, D-N.Y., if the GOP wins a Senate majority. Sen. Packwood voted against the Superfund reauthorization bill.

Sen. Larry Pressler, R-S.D., would become chairman of the Commerce Committee, a post now held by Sen. Ernest Hollings, D-S.C., who is the Senate's fiercest opponent of a uniform product liability code. Sen. Pressler—who previously supported product liability reform—was one of a handful of Republicans who voted against cutting off a filibuster against the most recent product liability reform bill, S. 687, in late June and the measure subsequently died (BI, July 4).

But, the biggest change in the product liability debate will have less to do with who chairs the Commerce Committee than who won't be Senate majority leader—Sen. George Mitchell. He chose not to seek re-election and pursue instead the possibility of becoming commissioner of Major League Baseball, a career switch that product liability reform advocates are cheering.

"I think the fact that George Mitchell is not going back to the Senate" will give product liability reform efforts a boost, said Sherman Joyce, president of the American Tort Reform Assn. in Washington. Sen. Mitchell vehemently opposed S. 687, the bipartisan product liability bill that fell victim to a filibuster early this summer. Mr. Joyce said that no matter who becomes Senate majority leader—Sens. Thomas Daschle, D-S.D., James Sasser, D-Tenn., or Bob Dole, R-Kan.—the atmosphere for reform will be more favorable, as each of the three has either co-sponsored previous reform legislation or voted to kill filibusters against previous bills.

"In all likelihood, you're going to have the same basic core of support" for reform, despite the retirement of Sen. John Danforth, R-Mo., one of S. 687's most vigorous supporters, he said.

Mr. Joyce was not so certain about the impact of the Republican House candidates' "contract with America," which pledges quick action on tort reform if the GOP gains control of the House. The contract "raises the profile of the issue but runs the risk of making it partisan." ■

An eye on state races

Insurers, employers fretting over some P/C initiatives

Insurance-related issues aren't pivotal in state races, though there are a handful of exceptions.

Whether Hawaii should become the first state to adopt a "pay-at-the-pump" automobile insurance plan is an issue in that state's three-way gubernatorial race. Under pay-at-the-

pump in its simplest form, the cost of automobile insurance would be added to the price of gasoline, so that people who drove the most paid the most and every driver would be insured.

Democratic candidate Ben Cayetano and independent candidate Frank Fasi have endorsed the pay-at-the-pump concept. They do not, however, agree on the specifics of a pay-at-the-pump scheme for Hawaii. Mr. Cayetano wants to couple a repeal of the state's no-fault law with adoption of his pay-at-pump plan, whereas Mr. Fasi hasn't disclosed the specifics of his plan. The GOP candidate and current front runner, former Rep. Pat Saiki, opposes pay-at-the-pump.

Insurance comes up on the campaign trail in a few other states.

In Rhode Island, the Democratic gubernatorial candidate—State Sen. Myrth York—has filed a "large number" of insurance-related bills along the lines of Cali-

fornia's Proposition 103, said Ed Donahue, the Alliance of American Insurers' New England regional manager in Boston. She also has close ties to Citizen Action, which has been critical of the insurance industry.

And, in neighboring Massachusetts, Democratic candidate Mark Roosevelt has attempted to make a campaign issue out of insurance industry contributions to incumbent GOP Gov. William Weld, but the attempt has fallen flat.

But, in Texas—where insurance is often a contentious campaign issue—it is unusually quiet.

"Gov. (Ann) Richards hasn't started in on insurance yet," said Wayne Stratton, regional vp in the Alliance's Austin office. Gov. Richards' opponent, Republican George Bush, son of the former president, has emphasized other issues like crime.

The insurance industry has focused more attention on the state Supreme Court races, where a conservative pro-business majority could be reversed if Democratic candidates backed by the trial bar win.

Debate over Florida's Hurricane Catastrophe Fund has also been muted as Democratic Gov. Lawton Chiles attempts to stave off a strong challenge from Republican Jeb Bush, another son of the former president. Once again, crime and other perennial issues have overshadowed insurance.

This doesn't surprise Brice Oakley, director-state services for the Blue Cross & Blue Shield Assn. in Washington and a longtime observer of statehouse politics. He said state elections have historically tended to focus on three issues or variations thereof: the general economy and taxes, crime and education. The 1994 elections are following that pattern, he said.

As a result, health care-related issues have been put on the back burner, said Mr. Oakley. "I can't recall an instance where an issue has spiked and fallen so quickly," he said. He noted that health care is not the No. 1 issue in any gubernatorial race, and in most it doesn't rate more than a passing mention.

"There's no political mileage in it," he said.

In fact, the only state where health care reform has sparked much political interest is Oregon. Dr. John Kitzhaber, the Democratic gubernatorial candidate who as a state legislator spearheaded Oregon's massive health care reform effort, faces former Republican U.S. Rep. Denny Smith.

Mr. Smith has criticized Dr. Kitzhaber for backing down from his own health care plan and promising to cut \$65 million in appropriations from it if he is elected governor, Mr. Oakley said.

—By Mark A. Hofmann

Newcomers mark commissioner races

By MEG FLETCHER

Newcomers are the news in the five state insurance commissioner races set for next week.

A total of six newcomers are facing each other in California, Florida and Oklahoma, after the incumbents in those states chose not to run for the commissioner's seat.

In California and Florida, the elections mark the end of the tenure of a pair of high-profile regulators, John Garamendi and Tom Gallagher, both of whom lost gubernatorial primaries.

Ethics questions, specifically about the propriety of accepting contributions from the insurance industry, are more common campaign rhetoric in several races than are specific recommendations for changing the operations of insurance departments.

Here are summaries of the nation's five insurance commissioner races:

CALIFORNIA

Only in California could one candidate criticize another for accepting a free trip from Saddam Hussein, and have it be true—sort of.

Republican Charles Quackenbush didn't mention though, that the trip Democrat Art Torres took to Iraq was "approved and encouraged" by the Reagan administration and then-Secretary of State George Schultz, who is now honorary chairman of the Quackenbush committee.

That's campaigning California-style and reflects the heat generated by a neck-and-neck race that pits Assemblyman Quackenbush

against Sen. Torres, chair of the state senate's Insurance Claims and Corporations Committee.

Assemblyman Quackenbush, a conservative businessman with Silicon Valley roots, opposed Proposition 103 and is seen as more pro-industry than his opponent. He calls for protecting business and individual consumers by fostering competition, creating a consumer ombudsman, attacking fraud, streamlining regulations and reining in the department's mushrooming growth.

Sen. Torres, a liberal Los Angeles lawyer who supports Proposition 103 and the state's single-payer health initiative, is considered more pro-consumer.

Among the legislation he sponsored are pro-business measures cutting the workers compensation minimum rate by 16%, giving businesses a seat on the Workers' Compensation Rating Board and giving small firms easy access to information about insurance rates and practices.

Insurance industry contributions are playing a central role in the campaign.

Assemblyman Quackenbush has received at least \$1 million in cash and loans and may receive more money from companies and individuals regulated by California's insurance commissioner, according to estimates by consumer advocates Harvey Rosenfield and others.

Meanwhile, Sen. Torres is on record as refusing direct contributions from those he would regu-



Mr. Quackenbush

late, but opponents contend he is soliciting indirect contributions through law firms and others.

FLORIDA

Two conservative-leaning candidates are squaring off in the race for the single office of insurance commissioner/treasurer/fire marshal.

Democrat Bill Nelson, a lawyer and ex-astronaut who served on a space shuttle crew, lost the Democratic nomination for governor four years ago after representing Central Florida in Congress for 12 years. He also served in the Florida House from 1972 to 1978.



Mr. Nelson



Mr. Ireland

Challenging him is Republican Tim Ireland, a state representative and an insurance broker with Sedgwick James of Florida, who has handled large business accounts. As his party's whip and a Florida House member since 1986, Rep. Ireland is a member of the Legislature's Finance and Taxation Committee.

Both candidates consider it important to depopulate the state's residential joint underwriting association, which has grown from its originally intended status of market of last resort. They also want to encourage a business-friendly environment.

But they differ on health care.

Mr. Nelson supports the Florida Health Security Program for low income earners, which can be funded with savings from applying managed care to Medicaid. Also, he would like to give managed care and preventive care more of a chance to work.

On Florida's health care initiative, Rep. Ireland said, "I think Bill, Hillary and Lawton Chiles are headed in the wrong direction and I am determined to stop them."

Mr. Nelson emphasized his goals of keeping rates as low as possible and balancing consumers' rights with the insurance industry's health.

In addition, he plans to fight fraud by increasing the number of investigators and accountants and strictly enforcing criminal sanctions against companies that file false data.

He also favors a national catastrophe fund to spread the risk of natural disasters, impoundment of license tags and vehicles of uninsured motorists, insurer rating of building code enforcement activities and stricter controls on annuity sales.

Rep. Ireland said he supports the concept of the state's catastrophe reinsurance pool, but he worries about its effect on small domestic insurers.

KANSAS

Democratic State Rep. Kathleen Sebelius of Topeka is giving Republican incumbent Ron Todd a run for his money.

She is criticizing Mr. Todd's close ties to the insurance industry, which is the primary source of his campaign contributions, and wants to increase consumers' access to regulatory proceedings and

their voice in setting the legislative agenda as well as rate and policy decisions.

Rep. Sebelius says she is refusing contributions from groups that are related to the insurance industry.



Ms. Sebelius



Mr. Todd

"Kansas deserves an independent insurance commissioner, who can balance the need of the insurance industry to earn a reasonable profit on their products with the right of Kansas consumers to purchase good insurance products at a fair price," Rep. Sebelius said.

She is also criticizing Mr. Todd for his ties to former Kansas commissioner Fletcher Bell, who served from 1971 to 1991.

Mr. Bell was charged last month with two counts of theft by deception stemming from a \$94,000 workers compensation award he received after allegedly injuring his back by lifting a briefcase out of his car trunk in 1989. In 1993, Mr. Bell agreed to forgo nearly \$40,000 in weekly benefits after the case was reopened. Publication of his injury and his award are credited with aiding the state's workers compensation reform (BI, May 10, 1993).

Supporters of Mr. Todd say Mr. Bell's indictment is politically inspired.

Mr. Todd is also coming under fire for an unusual retire/rehire

Continued on next page

Regulators

Continued from previous page
arrangement that his supporters insist was legal. Mr. Todd resigned from his post as assistant insurance commissioner for one day in 1988 so he could obtain his state pension before the state enacted more restrictive rules. Mr. Bell re-hired him the next day as assistant commissioner.

Rep. Sebelius, 46, has been a state representative for eight years and currently serves as House Whip for the Democrats. She also serves on House committees overseeing financial institutions and insurance, federal and state affairs and interstate cooperation. She previously worked as executive di-

rector of the state's trial lawyers association.

Lawyers for workers compensation claimants are a main source of her funding, Mr. Todd's camp alleges.

Politics is a family affair for Rep. Sebelius, whose father is a former governor of Ohio and whose now-deceased father-in-law was a long-time congressman from Kansas.

Mr. Todd, 64, has been employed by the Insurance Department for more than 36 years, including nearly four years as commissioner. He also chairs the State Committee on Surety Bonds and Insurance, is a member of the State Health Care Commission and serves on numerous NAIC subgroups.

During the first three legislative sessions, he has sponsored, supported and obtained enactment of nearly a dozen laws that protect consumers of life and health insurance as well as one that permits suspension or revocation of an agent's license when he or she is convicted of a felony.



Mr. Ryles



Mr. Oxendine

GEORGIA

Incumbent Tim Ryles is leading Republican challenger John Oxendine in the polls.

Messy primary and general election campaigns have featured numerous charges and countercharges of ethical misconduct including allegations of disclosure omissions.

Most recently, State Ethics Commission rulings resulted in Mr. Ryles returning \$2,500 in campaign contributions and barred some opponents from additional anti-Ryles spending.

Mr. Ryles is campaigning on his record of no rate increases to either auto or workers comp insurers, which has won him the enmity of both. He also has made no friends among the more than half of the department's 300 employees

he has replaced.

But that doesn't bother the former political science teacher, who also previously worked as a state consumer advocate, public TV host and producer, political consultant and newspaper columnist.

As a first-term accomplishment, he cites the fact that the consumer services division of the commissioner's office has been "greatly expanded and taken on a much more pro-consumer tone."

It has recovered more than \$20 million since January 1991 for consumers, and market conduct examinations of insurers have returned almost \$1.5 million to consumers in the form of refunds.

Mr. Ryles said he helped pass S.B. 110 during the 1991 session, repealing the "no fault" system of auto insurance in Georgia and making medical coverage optional under the auto policy, rather than mandatory.

Despite the failure of a recent health reform measure, Mr. Ryles plans to push for reform and has adopted regulations requiring all health insurers to use standardized claim forms.

His Republican opponent, Mr. Oxendine, is a Duluth, Ga., attorney who is a member and past chairman of the State Personnel Board, which regulates the state's merit system, health insurance and deferred compensation plan.

Mr. Oxendine favors the current system of private health insurance but with portability required and pre-existing conditions banned. He'd also like to privatize the state Medicaid bureaucracy.

He wants to address workers

comp costs by reforming the assigned risk pool and fighting fraud.

OKLAHOMA

Democrat Carroll Fisher of Tulsa is facing off against Republican John P. Crawford of Oklahoma City to replace Catherine J. Weatherford, who is not seeking re-election for personal reasons.

Mr. Fisher, who runs an insurance agency bearing his name, graduated from Oklahoma State University. He also holds a registered health underwriter designa-



Mr. Fisher



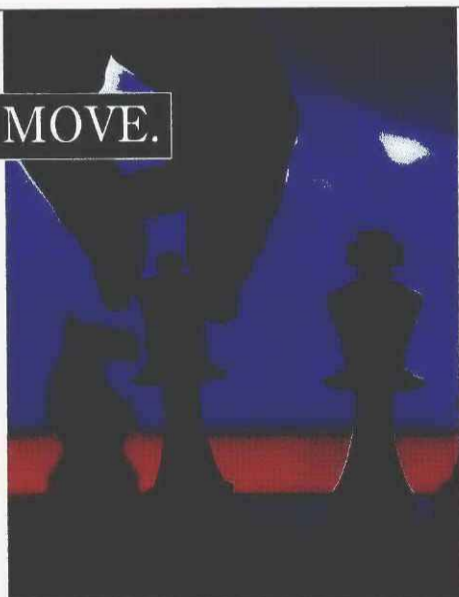
Mr. Crawford

tion and long has been active in state and national professional groups, including a one-year term as president of the National Assn. of Health Underwriters.

Mr. Crawford is a former chief actuary for the Oklahoma Insurance Department who left it two decades ago to establish a private consulting practice on life, accident and health matters.

He is a graduate of the University of Oklahoma and also is a member of the American Academy of Actuaries and a fellow of the Conference of Consulting Actuaries. **BJ**

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Deposition reveals false comp claim

OKLAHOMA CITY—In a workers compensation case involving horseplay in the workplace, the line of questioning by an insurer attorney was more than an 18-year-old claimant could bear.

The claimant, Terry D. Peltier, suffered broken teeth and mouth lacerations in early 1993 when a thin piece of wood splintered and struck him in the face at work at

Hughes Lumber Co. of Shawnee, Okla.

The company is insured by Boca Raton, Fla.-based Lumbermen's Underwriting Alliance, which is not affiliated with Kemper National Insurance Cos.

Mr. Peltier, who sought payment of his medical bills and temporary disability, claimed the wood splintered while he was at-

tempting to resize it for use in his work, said insurer attorney D. Wade Christensen of Day, Edwards, Fiederman, Propester & Christensen P.C. of Oklahoma City.

But at the conclusion of a 90-minute deposition conducted by Mr. Christensen, Mr. Peltier admitted he was hurt when the wood broke during a "sword fighting" duel with a co-worker.

Workplace injuries that result from horseplay are not compensable in Oklahoma.

Though he signed a statement at the hospital where he received treatment that his injuries re-

The claimant admitted he was hurt when a piece of wood broke during a 'sword fighting' duel.

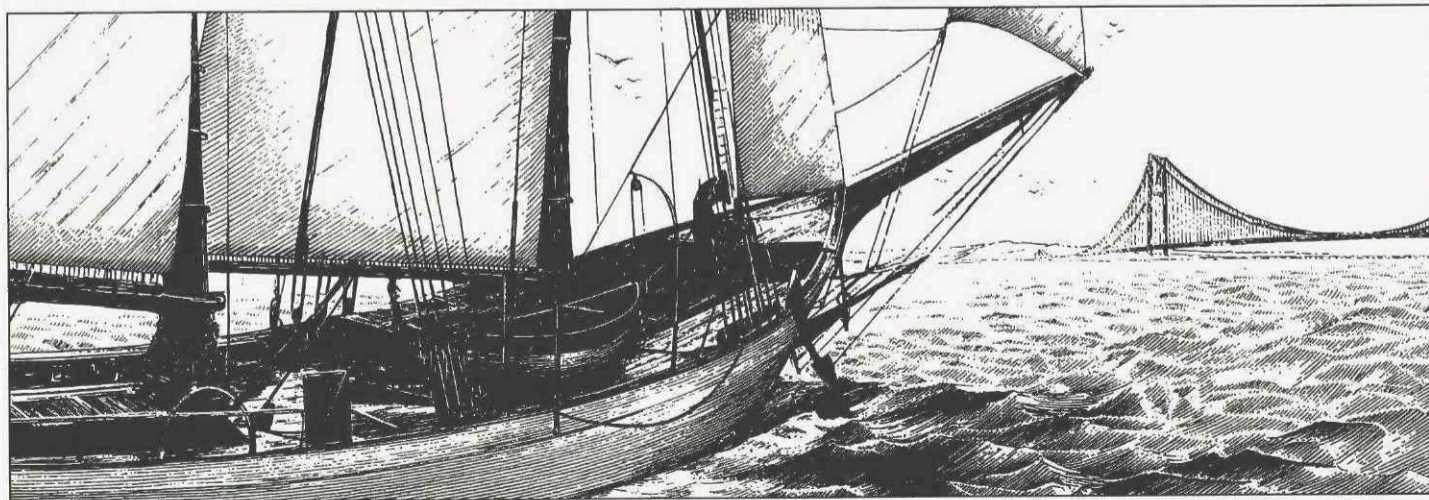
sulted from horseplay, Mr. Peltier changed his story two weeks later because his father was upset that Hughes Lumber was not paying his son's medical bills, he admitted during the deposition.

In September, the state's workers compensation court in Oklahoma City ordered Mr. Peltier, now 19, to pay the \$2,750 of attorneys fees that Lumbermen's Underwriting incurred to fight his claim.

Mr. Peltier agreed to pay the legal fees over the next 4½ years in \$50 monthly increments beginning in October.

But Hughes won't deduct the payment from Mr. Peltier's wages. The company fired him after the accident when he changed his story.

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Quality

Continued from page 2
ing director for casualty claims at broker Willis Corroon in Nashville, Tenn.

Benchmarking is more than just a comparison study; it's the identification and emulation of best practices within an organization.

"It's not just a matter of identifying something within an organization but finding the best practices in an organization and translating it into a variety of issues and exporting it to other parts of the organization," Mr. Pinckney explained.

Because of its wide scope, employers should not rely on any individual study for benchmarking, but rather should gather as much information as is available, the experts advised employers attending the Second Annual *Business Insurance Workers Compensation Cost Containment Conference*, held Oct. 19-21 in San Diego.

For example, in addition to statistics from the National Council on Compensation Insurance, workers compensation data are available from industry trade and safety groups, brokers and consultants.

"We have access to competitors' studies and may divulge it in confidence," said Mr. Lane.

Insurers are hesitant to release such information, however, to avoid the appearance of collusion, Zurich-American's Mr. Myers explained. "Insurers are hesitant to do studies on a large group basis because they have an aversion to anti-trust allegations," he said.

Other good sources of data are studies commissioned by groups of similar organizations conducted by an independent third party, such as a consultant.

Admittedly, "that's cumbersome, time-consuming and costly," Mr. Pinckney said. "But if you really want to benchmark, you've got to go outside your own backyard. Companies have to benchmark with other companies."

In addition to obtaining data on loss costs, employers conducting a benchmarking project should look at how claims are handled, Mr. Mandel suggested.

For example, KFC's benchmarking project found that: financial incentives for third-party administrators improved their performance; early reporting of injuries and return-to-work programs enhanced injured workers' recovery time; and communication facilitated the claims adjudication process.

"It's not only the ultimate value of the loss but how they are handling the process" that should be measured through benchmarking, he said.

Employers unfamiliar with the benchmarking process are encouraged to consult with experts before pursuing such a project.

"We've seen some employers use the wrong figures to benchmark," said Mr. Pinckney. "The data must be specific and characteristic to your organization. For example, survey results on the cost of risk aren't always applicable."

Mr. Mandel agreed. While the restaurant associations to which KFC belongs made available workers comp claim cost data, much of it was inconsistent and not well-managed, he said.

"That's why third parties, such as brokers and consultants, should be involved," Mr. Pinckney said.

"It's difficult to make the jump from specific information to generalization and turn it into something that is meaningful," he said.

While benchmarking data helped Mr. Mandel get the attention of KFC management, most risk managers have no authority to conduct

such studies even though they are ultimately responsible for their organization's cost of risk, the experts pointed out.

"Benchmarking is wonderful, but no matter what the stats show, the risk manager must have the authority to hold those responsible for generating the costs accountable," Mr. Myers observed.

And even if a risk manager does get the green light to conduct a benchmarking project, "the payoff may take longer than the attention span of senior management," Mr. Pinckney warned.

For example, while senior management may want results in 90 days, it may take as long as two years to generate the results needed to measure the effectiveness of a workers comp cost containment program, he said.

"The 'best practices' have to be on all sides—even the employer," Mr. Myers said. **BI**

Claims audit troubles?

Positive attitude, teamwork yield benefits for both parties

By JOANNE WOJCIK

SAN DIEGO—Employers may get more out of auditing their workers compensation claims administrator if they take a positive approach to such a service review.

The focus of such an audit should be on improving communication and ensuring that the claims handling process is going smoothly—not on trying to "catch" the third-party administrator doing something wrong, experts say.

"I look at a TPA audit as a veri-

fication that things are going right, not to catch the TPA," said Susan M. Werner, director of risk management at Hardee's Food Systems Inc. in Rocky Mount, N.C.

"You've got to remember that it's a partnership," Ms. Werner said during a session on claims audits at the Second Annual *Business Insurance Workers Compensation Conference* in San Diego earlier this month.

"The audit must be viewed as positive—mutually beneficial for everyone," agreed Audrie Lawton, risk control consultant at AIG Risk Management in Houston.

Audits of TPAs, insurers and others involved in the claims han-

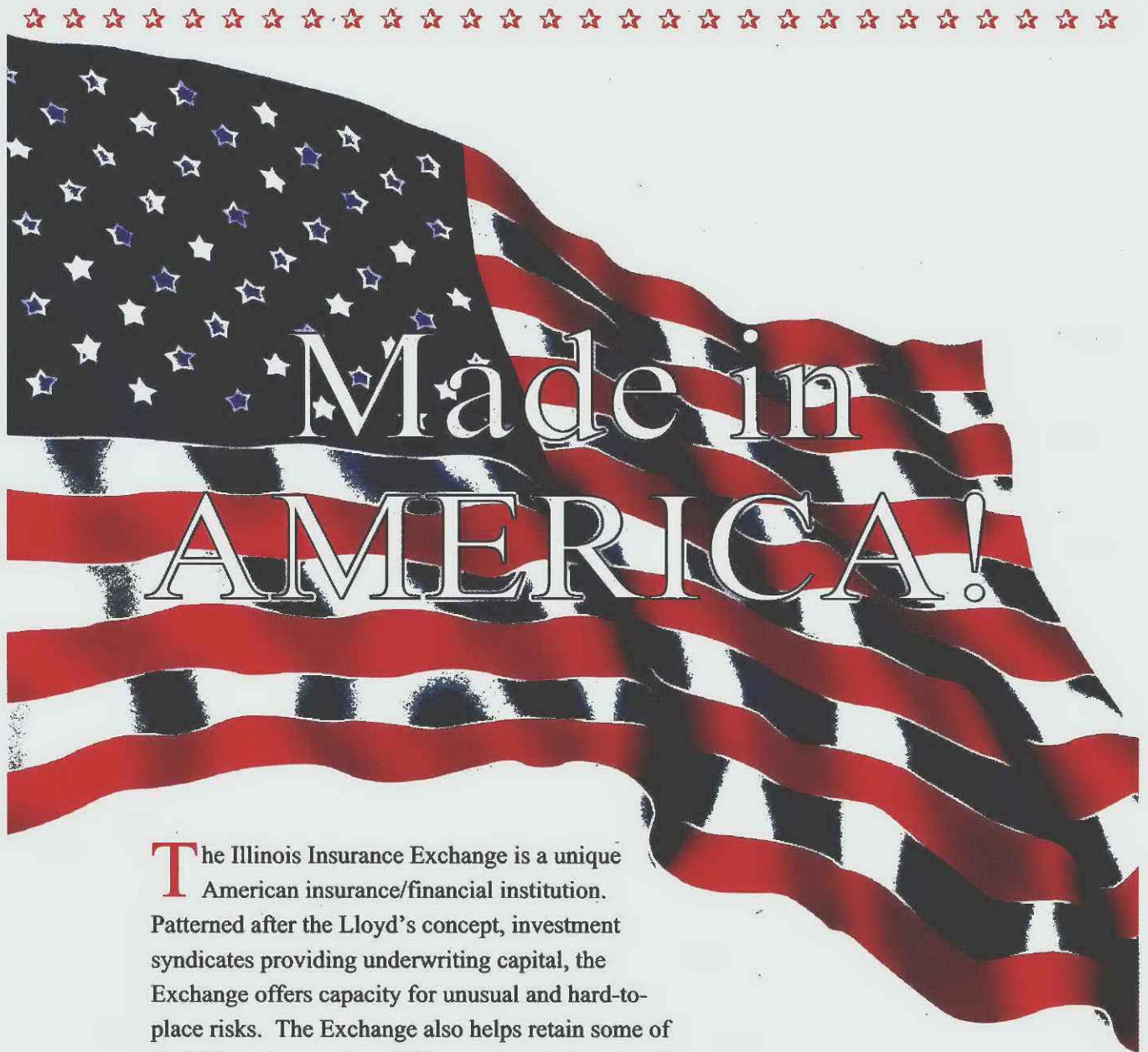
dling process have several purposes, according to Ms. Werner.

"Audits can serve as a review of client instructions," she said, explaining that employers should have specific objectives against which to measure the program's progress.

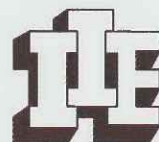
Audits also "provide the insuring company's clients with monitoring tools to evaluate all vendor services and cost containment efforts," added Ms. Lawton.

Depending on the findings, an audit can help the employer establish new objectives, such as targets for reducing claim costs, Ms. Werner added.

"If you have a program where *Continued on next page*



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Claims

Continued from previous page

there are several entities involved and they are not communicating with one another, you do not have an effective claims handling program," said Barry R. LaFleur, vp and southern regional sales manager for risk management services at Crawford & Co.

Atlanta-based Crawford serves as the third-party administrator for Hardee's workers compensation program.

Employers shouldn't lose sight of their risk management objectives: "to prevent claims and to handle them swiftly and properly when they do happen," he explained.

"Promptness of contact can prevent the injured employee from seeking legal aid," Mr. LaFleur said.

To avoid taking an adversarial stance, the panelists encouraged employers to give their vendors advance notice of an audit.

"Give them time to prepare," urged Ms. Lawton. "Preparation for an audit is crucial to its success."

She also suggested that all parties to an audit be provided pre-audit material—such as computer printouts of claims financial data—"so everyone can be on the same page."

There is no hard and fast rule for determining how many claims filed should be reviewed to ensure they are being handled correctly, according to Mr. LaFleur.

"A lot depends on the types of claims a company has," he explained.

For example, Hardee's takes a look at only about 2% to 3% of its workers compensation claims because those claims are high-fre-

quency, low-severity.

In comparison, an auditor may want to examine 5% of the comp claims from a manufacturing company, he said.

The summary report that is produced by the audit should identify locations requiring improvement as well as those that are ahead of the curve, according to Ms. Werner.

And, in some cases, employers may use the audit findings to determine financial compensation for their claims administration providers, according to Mr. LaFleur.

"Your TPAs will do more if you offer them bonuses to save you money," he said.

Conversely, the insurer or TPA may offer to refund some fees if the employer follows certain loss control steps or other risk management guidelines, Mr. LaFleur added. **BI**

Database helps target cause of frequent loss

By JOANNE WOJCIK

SAN DIEGO—Employee No. 1008 posed a problem for Allen Impaglia, risk manager for the City of Glendale, Ariz.

In the 2½ years that he worked as a driver for the sanitation department, employee No. 1008 struck 18 parked cars, costing the city an average of \$2,550 per accident. Yet, instead of being reprimanded, employee No. 1008 got a raise.

That was before Mr. Impaglia's

risk management department developed a relational database six months ago that can identify which employees are responsible for the most frequent and severe losses.

Not only can the system, which runs on an IBM-compatible 486 computer, identify the individual involved in a loss, it also can find correlations between the employee involved and any other pertinent information, such as the day of the week or the time of day the incident occurred, the location, the type of equipment used, even the names of medical providers and attorneys used.

"After we put the puzzle pieces together to show which employees are having what accidents, we found that less than 10% of our employees are costing more than 90% of what we spend on claims," Mr. Impaglia said during a luncheon speech at the second annual *Business Insurance* Workers Compensation Cost Containment Conference, held Oct. 19-21 in San Diego.

"Soon we'll input more information, such as employee vacation and sick leave," to determine whether employees involved in accidents do so to extend their paid time off, he said.

"Now that we know who they are and where they are, our next question will be why," he said. For example, "why does one police officer have no accidents while another has several?" Mr. Impaglia asked.

"Employee attitude does make a difference," he believes.

Indeed, "a bad attitude," or failure to follow established procedures, in 1992 caused the worst single accident an Arizona city ever experienced, he said. In that case, a police officer disregarded procedure and drove 90 mph down residential streets in a high-speed chase that ended in the death of one person and left another disabled. The city paid out almost \$1 million in a resulting civil suit.

"A bad attitude can cost you a lot of money," Mr. Impaglia asserted.

While "it's not our job to see to it that someone is disciplined," risk managers should provide city management with a flexible way to prevent losses, he said.

As a means to this end, Mr. Impaglia is using the information culled from his relational database to charge the cost of losses back to city departments.

"And we changed the performance appraisal so that safety is one of five key components."

Mr. Impaglia also is spending more time in the field learning how specific jobs are done so that he can develop effective loss prevention strategies.

"We must learn what our employees are doing. As a risk manager sitting at my desk, I have no idea," he said.

While private-sector employees have been doing these things for some time, the strategy is new to the public sector, according to Mr. Impaglia.

Due to budget constraints, "the mayor and the city manager are holding everyone accountable, all the way down to the sanitation driver with the bad attitude," he said.

The next step will be "to figure out a training program for people with bad attitudes." **BI**

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TAILORED AWARDS

Risk managers provide cost-cutting tips

By ROBERTO CENICEROS

SAN DIEGO—Many employers still lack a detailed program for reducing and eliminating cumulative trauma disorders, yet federal safety regulators are stepping up their scrutiny of employers' safeguards for such

injuries, a risk manager says. Lucille A. "Lucky" Gallagher, vp of risk management for Greeley, Colo.-based ConAgra Red Meat Cos. and Monfort Inc., presented one of three case studies on controlling workers comp costs during a session at the Second Annual Business Insurance Workers Compensation Cost Control Conference in San Diego earlier this month.

Ms. Gallagher and Gregory Worrell, director of ergonomics for Monfort Inc., said the meatpacking company has developed aggressive programs to reduce workers comp losses caused by cumulative trauma disorders in its plants.

It employs ergonomic training coordinators and ergonomic maintenance and engineering specialists and has conducted job analyses studies and employee physical demand assessments.

Consequently, the company has thwarted Occupational Safety and Health Administration inspections and attempts to fine the company even though the meatpacking industry has faced more scrutiny than most when it comes to cumulative trauma disorders.

Ms. Gallagher said OSHA is currently planning to strengthen and expand cumulative trauma disorder guidelines adopted in 1990 for meatpacking plants to other industries (*BI*, Sept. 10, 1990).

"It's out there and they're going to try to put this into a standard for all manufacturers, so you need to be aware of it," Ms. Gallagher warned. "And if you don't have a copy of that guideline, I suggest you get it."

The 1991 document—titled "Ergonomics Program Management Guidelines for Meat Packing Plants," with reference No. 3123—is available from OSHA.

OSHA's guidelines for meatpackers provide a good start for employers in other industries to develop an in-house program, Ms. Gallagher said.

"You need to be aware of that because when OSHA epidemiologists come to look at your plant and attempt to make citations, that is what they are looking at."

Another area that can result in workers comp savings is case management.

Marriott International Inc. reduced lost-time claims and litigation by employing nurses as case managers, said Rachel Ebert, director of occupational health services in Washington.

The nurses are notified of worker injuries within 48 hours and help assure the employees receive the appropriate medical care.

Nurses must be professionally recruited to assure they have a background in occupational health or case management, Ms. Ebert said.

"You can't pull a hot shot out of (a hospital intensive care unit) and make them a good case manager," she said.

The nurses' first priority is to

act as an employee advocate.

"It's better that the nurse case manager take the side of the employee than that (the employee) see an attorney," Ms. Ebert explained.

"Every once in a while we have one of our supervisors say 'That nurse is just too much on the side of the employee.'"

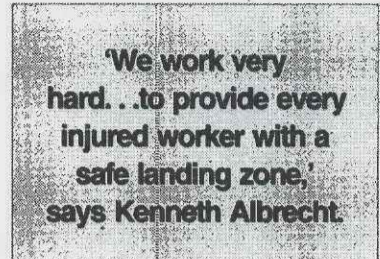
"We come back with, 'Would you rather have them hire an attorney?'"

Ms. Ebert said the program, which costs between \$70,000 and \$100,000 per nurse, has reduced Marriott's lost-time claims and litigated claims, though she could not quantify its savings.

Reducing workers comp fraud is another area that can yield savings for employers, according to

Kenneth Albrecht, director-risk management for Frito-Lay Inc. in Plano, Texas.

Mr. Albrecht said Frito-Lay determined that employment



screening provides one of the best protections against workers compensation fraud committed by an employee.

"Nobody comes to work for us

without a drug test and that means the president of the company, the senior vp of marketing, everybody," Mr. Albrecht said. "We do background checks, we really do background checks," he said.

The company compares application information provided by the employee with information available by accessing Social Security documentation.

But spreading the word that Frito-Lay will investigate and prosecute is one of the most effective ways of combating fraud, Mr. Albrecht said. Employers should establish a broad policy that clearly spells out a means of enforcement and rewards for reporting fraud.

"We don't just slap a poster up

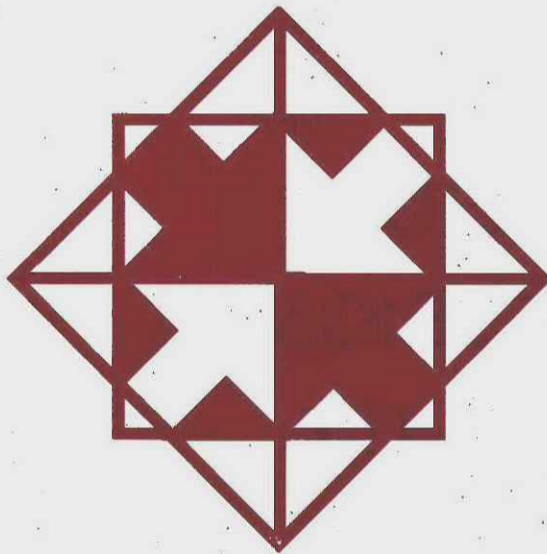
on the wall. We really have employee training in relation to what (our) fraud program means," Mr. Albrecht said.

Once an employee reports an injury they, or their families, are quickly contacted with explanations of available benefits, medical treatment and an explanation of the workers compensation process.

"We work very hard at Frito-Lay to provide every injured worker with a safe landing zone," Mr. Albrecht explained.

"And with that we really smother them with care," he said. "And if you want to be fraudulent with your claim, our smothering really gets in the way...and then our safe landing zone has spikes in it." **BI**

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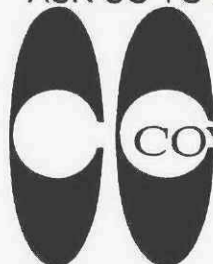
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Many new options seen for financing work comp risks

By MEG FLETCHER

SAN DIEGO—A rush of traditional insurers offering alternative risk financing vehicles is providing employers with more options for funding their workers compensation risks.

In the face of added choices, companies still need to take time to understand the various financing alternatives so they can choose the most appropriate one, experts agree.

A broad look at all the options is worthwhile because "there is no perfect way for an insured to fund workers comp," said Richard M. Inserra, assistant treasurer-risk management and insurance for Union Carbide Corp. in Danbury, Conn.

The topic was discussed during a session of the Second Annual Business Insurance Workers Compensation Conference earlier this month in San Diego.

Companies can best analyze the various risk financing alternatives for workers comp if they consider them "as gradients along a continuum" from low to high in terms of assumption of risk, said Norman G. Hainlen, western regional manager for AlexComp Consulting Plus in Costa Mesa, Calif., which is a unit of broker Alexander & Alexander Services Inc.

Among the alternatives are:

- Guaranteed-cost insurance with a complete transfer of risk to the insurer.
- Guaranteed-cost insurance with the built-in potential for dividends and retentions.
- Large-deductible plans.
- Retrospectively rated programs.

The most typical of these programs are incurred-loss retro plans, which consider both paid and incurred losses in determining the rate, while a paid-loss retro plan considers only paid losses.

• Captives.

These typically include fronted programs, "rent-a-captives" for smaller companies and stand-alone captives for larger companies.

• Self-insurance.

Choosing the most appropriate of these risk financing alternatives for workers compensation depends upon several factors.

One factor is the nature of the company's operations and its geographical location, especially within the United States, according to Union Carbide's Mr. Inserra.

For example, Union Carbide uses a mixed risk financing program for workers comp that includes self-insurance in states with exclusive state funds, and insured large-deductible programs in other states, especially in states with large residual market loadings, he said.

The loadings represent the costs incurred by insurers for state-run assigned risk pools, which the insurers pass on to their policyholders.

Choosing an alternative also requires a company to consider its comfort level with assuming risk.

"Union Carbide retains \$2 mil-

lion on each and every workers compensation loss," Mr. Inserra said.

Most companies are risk-averse, but Mr. Inserra and other panelists encouraged companies to "be aggressive" in taking risk because significant losses are infrequent.

Once a company decides on an appropriate risk level, it needs to revisit that decision periodically, Mr. Inserra said.

"It's a dynamic type of thing and we are constantly looking at it," he said.

Companies also need to evaluate the cost of the risk financing mechanism, including tax and administrative costs as well as premiums.

Costs vary with the alternatives, depending upon how companies structure their programs and how aggressively they approach tax issues like the deductibility of premiums.

The general rule is that companies can deduct for tax purposes premiums paid to captives if the captives write a significant amount of unrelated business.

In addition, a 1989 court ruling involving Humana Inc. established the principle that subsidiaries of a company are allowed to deduct premiums paid to their parent's captive (BI, Aug. 7, 1989).

That decision was further strengthened in December 1993

'There is no perfect way for an insured to fund workers comp,' says Union Carbide's Richard M. Inserra.

The U.S. Tax Court ruled in *Malone & Hyde Inc. vs. Commissioner of Internal Revenue* that a small number of affiliated companies that insure or reinsure their property/casualty risks with a thinly capitalized offshore captive owned by their parent can take tax deductions on the premiums they pay (BI, April 18).

The ruling rejected IRS arguments that the arrangement was not true insurance because the captive was undercapitalized and there were too few subsidiaries to achieve an adequate distribution of risk.

Companies should "be careful" in dealing with captives that they do not directly own, advised John Kessock Jr., chairman of Commonwealth Risk Management Services Inc. in Philadelphia.

A corporation should figure out who owns the captive, if its account is segregated and how it could get its money back. For example, a captive could issue non-voting redeemable stock as a guarantee, Mr. Kessock said.

Companies also need to remember that the amount of money they can save by choosing the appropriate risk financing mechanism "pales" in comparison with potential savings from reducing losses, stressed E. Randall Clouser, president of Continental Risk Management Services in New York.

"The real emphasis needs to be on managing their losses," Mr. Clouser said.

Tackling causes of high claims

Preventing comp fraud, litigated claims

By ROBERTO CENICEROS

SAN DIEGO—Attorney/client privilege remains a powerful tool for combating workers compensation fraud, a defense attorney says.

Susan England, a former Workers Compensation Appeals Board judge in California and now a partner in the San Diego law firm England, Hodik & Trevillion, told attendees at the Second Annual Business Insurance Workers Compensation Conference in San Diego that an attorney's "work product" remains protected under attorney/client privilege.

That means surveillance videos, witness statements and activity checks are not "discoverable" if they are ordered by an attorney. But that is not the case if an insurance adjuster orders them and later asks for an attorney's guidance.

That protection can be lost through disclosure, however, if for example a surveillance video is shown to a doctor or witnesses for their opinion. The video then becomes discoverable.

But, Ms. England offered a strategy for beating that problem.

"Give the injured worker an opportunity to lie under oath," she advised. "Now, that opportunity to lie under oath can be done in a deposition before the video is disclosed (to a doctor for evaluation) and that counts as perjury. Maybe not as dramatic (as lying) under the work comp judge. But it certainly counts because he swore under penalty of perjury he was home resting at all times."

Other segments of the panel discussion focused on preventing the need to contest claims due to the costly nature of that practice.

C. David Sullivan, senior vp for Kemper National Insurance Cos. in Long Grove, Ill., said employee education can prevent costly claims. Employees should know up front that the company cares, that their indemnity and medical bills will be taken care of and that they will have a job when they are ready to return to work, he said.

Ms. England agreed, adding that it is vital for companies to stay in contact with injured employees, re-assuring them constantly.

"The longer they are hanging out there without contact from you, they start developing this syndrome," she said. "Everything in my life that is wrong is because of this employer. They don't even care about me. All I was was a mechanical thing to perform a function."

One of Ms. England's former clients, an insurer, had a claims representative exclusively dedicated to contacting workers within 24 hours of an injury.

The client's litigation rate was 5%, compared with the California average of between 15% and 20%, she said. Then another company purchased her client and discontinued the practice.

"Immediately, the litigation rate went up," Ms. England said. "So that contact is a very important one. Keep that injured worker feeling like you do care."

Panelist Ronald Guilfoile, risk manager for the city of St. Paul, Minn., said he only protests illegitimate claims that are likely to be won in court.

That is a reversal from a former policy of contesting all back injury claims filed by fire department

workers, regardless of the claim's legitimacy.

"The key is, if it's a legitimate claim, don't contest it," he said. "And don't bluff through the process. Bluffing never works."

Mr. Guilfoile recommends setting up performance measures to which a third-party administrator or insurer should be held. For example, he expects a 60% success rate from contesting claims.

But, success rates can vary depending on circumstances and state laws, he said. After reviewing 10 years of data, he has decided that between 3% and 5% of claims require contesting.

"I also, every three years, employ an independent auditor to come in and look at our claims practices so

I get a third-party, objective review as to how we are handling our cases."

Panelist Dr. John Warbritton III, an orthopedic surgeon in private practice in Oakland, Calif., with extensive experience in treating patients with work-related injuries, said he often is caught between workers and employers.

Employees under direction to return to modified duties tell him they often return to find they are expected to perform all their old functions. Meanwhile, employers claim they have modified their employee's duties.

"If one is going to have a true modified work program, it's very important that it really be modified and that the employee feel that they have a say in what they are doing," he advised. **BI**

Fund aids the children of workers hurt on the job

By ROBERTO CENICEROS

SAN DIEGO—Permanently etched in Douglas McCoy's memory is the telephone call his family

received in 1963 when his father slipped off an icy girder, tumbling 13 stories before dying at the bottom of an elevator shaft.

Mr. McCoy was 11 years old at the time and remembers the financial deprivation and missed meals that followed the loss of the family bread winner, he said while pitching Kids' Chance Inc.

to a rapt luncheon audience attending the Second Annual Business Insurance Workers Compensation Conference held earlier this month in San Diego.

Kids' Chance provides scholarships for high school-age and college-age children of workers who are severely injured or killed in job-related accidents. Funds for the program are provided by corporate sponsors.

Mr. McCoy is the president of Kids' Chance and resident vp of The Travelers Corp. in Atlanta.

"It is imprinted upon my mind, even as old as I am today, the call that my mother took that evening,

Continued on next page

High Tech Workers' Comp

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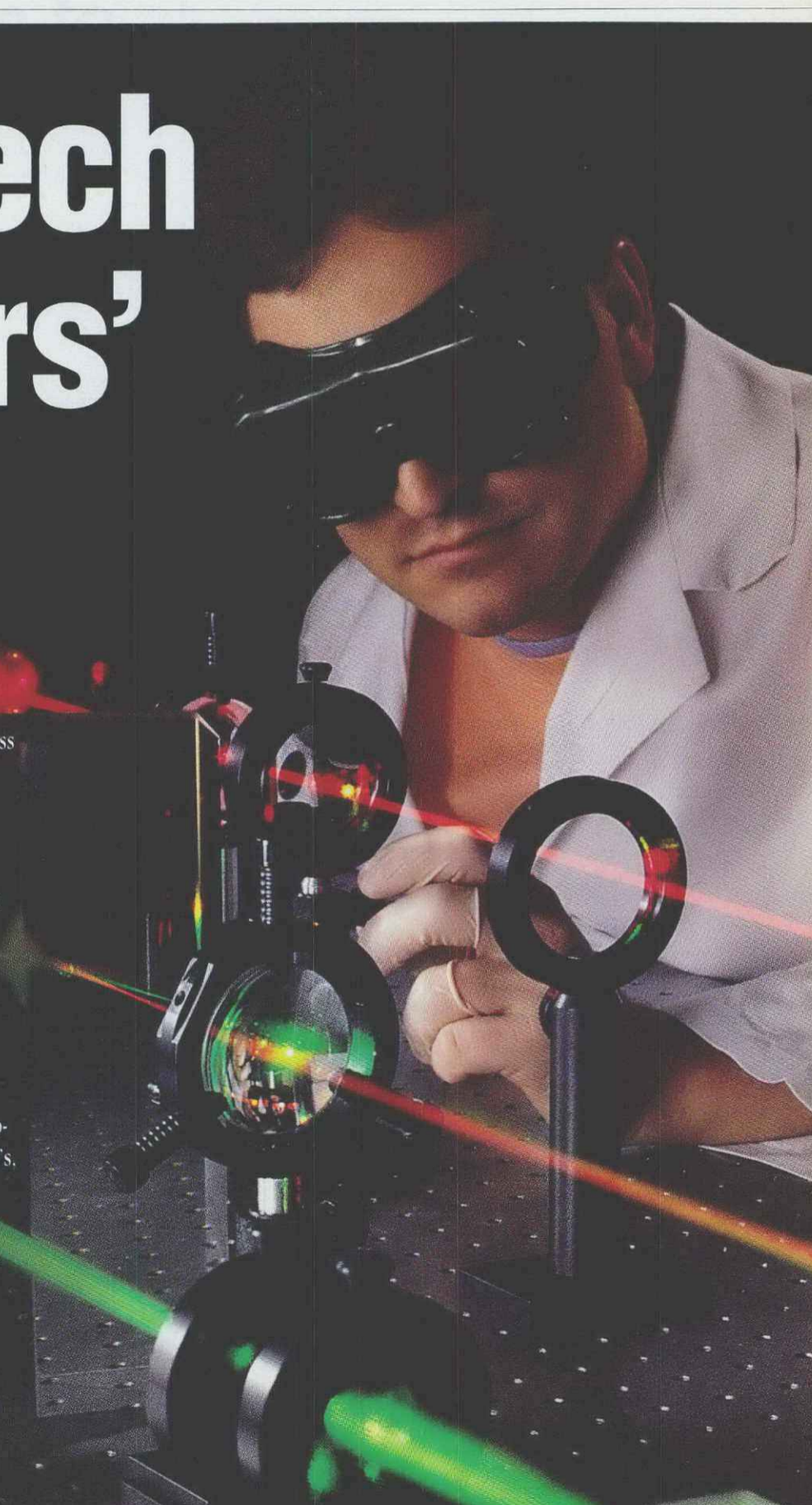
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Children

Continued from previous page
when she was told her husband was not coming home," Mr. McCoy said. "Even though it was an uncontested fatality, it took the insurance carrier six months to issue the first benefit check. We received 12 dollars and 50 cents per week."

Now Mr. McCoy understands the difficulties that families of injured or killed workers face in educating the young survivors. Often the opportunities are not there for them.

"We need a system where we can help the young people move on with their dreams," Mr. McCoy

said. "I do understand personally how difficult it is for many children in the same circumstances I was in to continue with their education."

So Mr. McCoy wants others to help as Kids' Chance moves to become a national organization. Kids' Chance was started in 1988 by the Workers Compensation Section of the State Bar of Georgia in association with insurers, employers, attorneys, labor and medical groups.

Similar programs have sprouted in Alabama, Florida, New Mexico and South Carolina. About 100 scholarships have been awarded. But the push now is for a national organization called Kids' Chance of America.

Mr. McCoy said he needs volunteers who can launch the program in remaining states. Kids' Chance will provide all the necessary support and materials free, even information on how to become a charitable organization.

"We want to help you form that program," Mr. McCoy said. "We want to give you the model. It won't cost you anything. We will give it to you and you can go to your states and you can talk to your bar associations. You can talk to the insurance carriers, the self-insured groups and establish a Kids' Chance in your state."

For information write: Kids' Chance Inc., P.O. Box 623, Valdosta, Ga. 31603. Or, call 912-244-0153. **BI**

Integrated effort aids control of cumulative trauma costs

By MEG FLETCHER

SAN DIEGO—Cumulative trauma disorders can best be controlled through an integrated combination of consulting, insurer services and in-house medical oversight, a team of occupational health experts recom-



mends.

Coordinating those services are becoming increasingly necessary because CTDs are "a workers compensation monster" that show no sign of abating soon, said Patrick Venditti, a director of the Industrial Consultants Group Inc. in St. Louis.

He coordinated the panel and spoke at the Second Annual Business Insurance Workers Compensation Conference, held Oct. 19-21.

Historically, the "American epidemic" began in the mid-1980s, affecting first the arm and hand with carpal tunnel syndrome being the most prominent complaint. In the 1990s, more problems have emerged involving the neck and upper and lower back known as CTDs and repetitive motion disorders, he said.

"It is estimated by the year 2000, over 60% of the workforce will be affected, causing over \$1 trillion in direct workers compensation costs," Mr. Venditti said.

In earlier years, CTDs hit especially hard in Japan and Australia.

In Japan, he said, neck problems affected up to 28% of typists and other types of keyboard or telephone operators between the mid-1960s and 1980.

Australia also experienced massive problems with injuries affecting the neck, arm and hand from the late 1970s to 1985. The reporting rate for repetitive strain injuries, as they were called, "rose sharply in 1983, peaked in 1984 and rapidly declined in 1985. One-third of the workforce was affected with as much as 76% of the claimants out of work for some period of time," he said.

CTDs in the United States are a fairly recent phenomenon and pose some specific problems for a variety of reasons, Mr. Venditti said.

Medical knowledge and training are inadequate to understand and diagnose these problems. Symptoms are often vague and ambiguous, as are the diagnostic criteria for identifying the ailment.

Physical demands are not the sole, or even the primary, factor in their occurrence, and psychosocial

factors often are "a predominant component."

The subjective nature of the most common medical-legal definition makes it difficult to determine cause and effect.

Also, preventive and remedial measures have not been "a magic bullet," though they have helped reduce physical demands on the employee, he said.

CTDs pose particular problems for the workers comp system, because such claims "are almost exclusively found in the workers compensation arena."

"It is the primary avenue of employees with fraudulent intents, symptom magnification syndrome or those who just want to play the system," Mr. Venditti said.

Once an employee enters the workers comp system, the cost factors are difficult to predict or control. Traditional medical treatments have not proved to be cost-effective.

"CTDs have become the litigious icon of high-volume workers com-

its patient-oriented program "Mama Bear" and sees it as a way to keep claimants away from unscrupulous doctors and attorneys, Ms. Briskey said.

In addition, a company needs to develop "aggressive" programs to return employees to work and manage computerized claims.

Most large workers comp insurers have responded to these challenges with: retention-based policies that put the direct costs of workers comp under the company's direct control; aggressive cost containment programs; reduced medical fees through negotiated discounts; sophisticated claims tracking software, toll-free telephone reporting services; early intervention with nurses as case managers; and ergonomics programs to help companies identify potential hazards.

"The primary difference (among insurers) may be packaging, true service and accountability," said Charles Manzo, national director of claims service for major ac-

Cumulative trauma disorder 'is the primary avenue of employees with fraudulent intents, symptom magnification syndrome or those who just want to play the system,' says Industrial Consultants Group Inc.'s Patrick Venditti.

pensation plaintiff attorneys," he added.

There are three main keys to controlling "the CTD monster," said Ann D. Briskey, a nurse who acts as occupational health coordinator for a Warnaco Inc. unit that manufactures mens apparel in Altoona, Pa.

To prevent and reduce injuries, a company needs to get senior managers involved in and supporting an integrated program. Companies should identify factors that could precipitate CTDs, develop systems to track trends to predict potential problems and develop in-house ergonomic capabilities.

To prevent claims, a company should implement strategies including establishing an onsite health care facility and tracking employees' use of it. In addition, all company health care personnel should receive special training about the problem, she said.

To contain costs, a company should also select the specialists to whom workers will be referred.

The company should also guide the claimant through medical treatment with a patient advocate system, she said. Warnaco dubbed

counts for The Home Insurance Co. in New York.

But, "clients really want drastically reduced workers compensation costs, low-fee service, increased customer satisfaction, immediate return on investment and reduced lost time," Mr. Manzo said.

An integrated program at Warnaco using the team approach cut claims and costs 80% at two plants that had previously had more than \$2 million in workers comp costs, Mr. Venditti said.

Warnaco's experience was presented as one of five capsule case studies. Overall, those programs experienced a 40% to 90% drop in direct workers comp costs, he added.

Mr. Venditti urged companies to stay away from "high-tech" work hardening centers because the best work hardening program is job site-oriented. For example, executives at a poultry processing plant eventually supported establishment of a new, slower-moving production line because it added output while giving recuperating employees and trainees a place to work. **BI**

Coordination is crux of managed comp care

By JOANNE WOJCIC

SAN DIEGO—Everyone involved in workers compensation managed care should be focused on one thing and one thing only: the injured worker.

And everyone involved in that effort—doctors, rehab nurses, supervisors and family members—should share information to ensure the best possible outcomes, a panel of experts said at the Second Annual *Business Insurance Workers Compensation Conference* in San Diego.

Managed care in workers compensation differs fundamentally from managed care in group health plans, said John Ryan, a vp at Liberty Mu-

tual Insurance Co. in Boston.

"Managed care in workers compensation is not necessarily cheaper medicine, it's better medicine," he said. "The goal of occupational medicine is to get the patient back to work, not just out of bed."

So managed care networks for workers comp should include only doctors "who are responsible, who are responsive and who are competent," said Gregory Saxum, director of workers compensation at Eastman Kodak Co. of Rochester, N.Y.

"It serves me no good purpose at all to direct my injured workers' care to somebody who's going to do it on a storefront basis, who's going to charge discounted rates for discounted treatment and attempt to force someone back to work prematurely," Mr. Saxum said. "If an employee returns to work too early, he

or she can be re-injured and the cycle starts all over again."

"Managed care" may not even be the right term for optimal work comp programs, an occupational physician said.

"Is that a managed care system or is that an information system of medical knowledge?" asked Dr. Stephen Dawkins, of Occupational Health International in Atlanta. "There is a difference between the two."

"One of the big concerns I have is we are spending a tremendous amount of time and energy developing managed care organizations that I do not feel are going to solve the problem of poor medical care in workers compensation," Dr. Dawkins said.

One problem with care today, he said, is workers being sent back to work before they should be.

As an example, he cited a case involving a bus driver who was sent back to work despite a painful, swollen, "fiery red" knee.

"I had to argue that this bus operator can't depress an accelerator peddle all day," he said.

"But that orthopedist, trying to win over the company, trying to get more patients from that employer, is willing to return that person perhaps too soon, running the risk of creating complications and creating

a disgruntled employee, maybe perhaps directing someone to a lawyer to get some help," Dr. Dawkins said.

Other experts warned against necessarily letting employees choose their own doctors, many of which may lack the needed expertise to treat workplace injuries.

While California gives employers control over choice of provider for the first 30 days after an accident, "we don't make a great deal of use of that 30-day control," observed John W. Roberts, manager of workers compensation at the University of California at Oakland.

After examining the various workers compensation preferred provider organizations and the physicians participating in the state's 24-hour pilot projects, "my big concern is whether the physicians in those networks are capable of understanding the return-to-work requirements of occupational medicine," Mr. Roberts said.

Since "nobody knows who the best doctors are or how to select them...you build relationships in a step-by-step process of trial and error," he said.

There are only 1,600 occupational medicine specialists in the nation and until dedicated occupational networks can be established, perhaps treatment protocols can be developed to guide physicians treating

occupational illness and injuries, some panelists said.

For example, Mr. Roberts suggested "best practices" be applied to those doctors who provide treatment under workers compensation. "The only way to do that is to collect the information, distill it and create an expected set of practice procedures that can be communicated to all of us."

But the protocols must provide for variations in treatment since not all patients respond the same.

"All back injury cases aren't the same. And all carpal tunnel cases aren't the same. But even if you have a protocol, managing that is going to vary," according to Dr. Dawkins.

Another problem with protocols is that it takes time to develop them, said Cindy Zehnder, international representative of the International Brotherhood of Teamsters in Seattle.

"It's taken three years for practice parameters to be developed for one diagnosis" under Washington's managed care program, Ms. Zehnder said.

Since labor doesn't trust employers or insurers and employers don't trust employees, perhaps the solution is to develop a team approach to establishing practice parameters, she suggested. ■

Managing disability costs worth extra effort

By MEG FLETCHER

SAN DIEGO—Disability management should be part of a company's workers compensation program, experts say.

Integrating the ongoing management of disabilities with the administration of workers comp benefits, though, is easier said than done.

Historically, there has been "vendor fragmentation" and "limited coordination of care from the provider side," said David J. McLean, chief executive officer of care management services for United HealthCare Corp. in Minneapolis.

Mr. McLean coordinated a session at the Second Annual *Business Insurance Workers Compensation Conference*, held earlier this month in San Diego.

Currently, though, "employers are becoming aware of problems" and many are trying to adopt best practices approaches so physicians and patients interact effectively, Mr. McLean said.

He said the primary approaches for developing an integrated disability management program are: using a nurse as the primary caregiver and patient advocate; improving an existing program; and developing sophisticated provider networks.

Using a nurse as a primary caregiver helps resolve problems created by a company's fragmented processes in dealing with injured employees and encourages early return to work, even if workers may have short-term limitations.

Nurse managers also often smooth out problems between patients and physicians, and may help companies better control an employee's return to work and collect more case management data.

Unfortunately, no studies have ever determined when and in what type of cases nurse managers would be most effective, said Gail E. Nethercut, director of workers compensation managed care for Price Waterhouse in San Francisco. "Only rarely do (physicians) see nurses get involved up front," said Dr. Jonathan C. Greenberger, an occupational health physician practicing in San Diego. He usually encounters them only after a patient has been off work for six weeks.

The second approach, improving an existing program, should stem from an understanding that "disabil-

ity costs need to be managed through loss prevention and loss control," Mr. McLean said.

He advised companies to put in centrally managed tracking systems that feature a toll-free telephone number to expedite reporting and claims filing. They should also implement medical case management and consolidate benefit payments under one manager, he said.

Other key components include using a local "best practices" approach to onsite treatment and rehabilitation and return-to-work programs.

A disability management program for occupational and non-occupational injuries helped cut lost-time workdays to 16 in 1993 from an annual average of 40, said Nancy Frush, human resource manager of H.M. Stauffer & Sons Inc., a Leola, Pa.-based lumber products manufacturer with annual gross sales of more than \$16 million and about 150 employees.

The program also helped cut annual incurred losses to \$14,000 last year from \$40,000 in 1992-1993 and \$133,000 in 1991-1992.

Stauffer's experience modification factor also declined markedly, to 0.653 this policy year, down from 1.19 in 1988-1989, she said.

One key reason: encouragement from a rehabilitation nurse in 1992, which helped the company establish physician-approved rehabilitation and work-hardening programs at the job site.

Also, Ms. Frush's human resources manager role was expanded into manager of "facility support services," which includes oversight of maintenance, housekeeping and clerical support. That makes her aware of various jobs that recuperating employees can fill, often with little training.

Using that approach, she was able to successfully train a panel assembler, who had accidentally driven nails through two of his fingers, as a fill-in receptionist/switchboard operator.

Ms. Frush warned, though, that "employees won't buy into any program if they don't truly believe that you value and respect them."

A third approach to integrating disability management is provider-driven: Finding caregivers with proper credentials, experience, philosophy, negotiating skills and a "team" orientation, Dr. Greenberger said. He believes occupational medicine specialists are the best trained for this, though there are only 500 to 600 of them practicing today. ■



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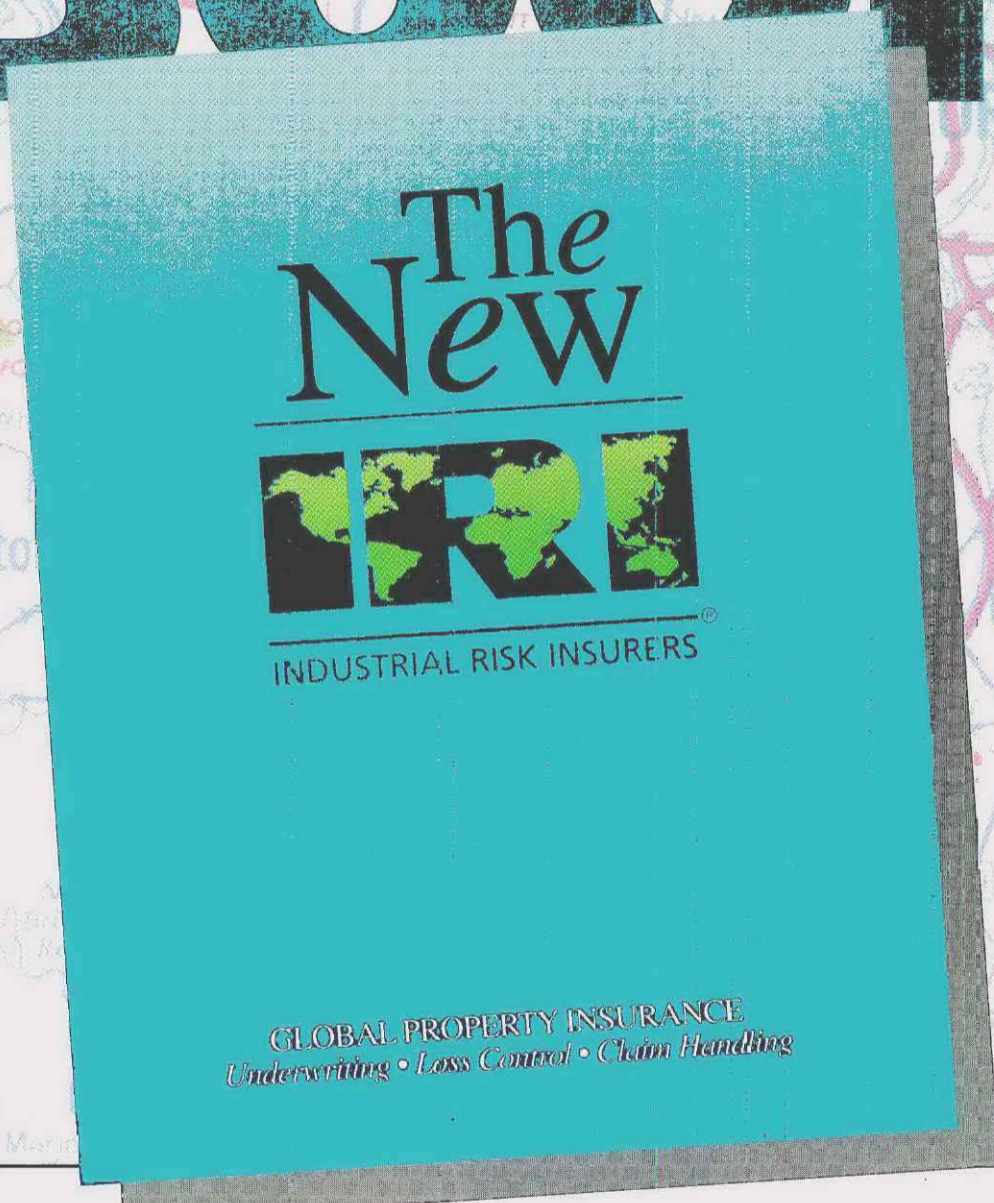
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INTERNATIONAL

Misled British pensioners seek redress

By ADRIAN LADBURY

LONDON—U.K. employers that offer private pension plans are expected to resist Securities and Investments Board proposals for taking on pensioners who were misled into opting for inadequate personal pension programs.

The SIB, the U.K.'s chief financial regulator, outlined how, since 1988, as many as 2 million indi-

viduals may have been improperly advised to withdraw from their company's pension plan—or not join a company plan in the first place—by independent financial advisers and insurance company agents.

The report was prompted by a wave of complaints by people who were lured to personal pensions by promises of high returns but later found themselves with less

retirement income than if they had opted to remain in an employer-provided plan.

The SIB report recommended that financial advisers insurers' voluntarily make pensioners whole for any shortfall between promised and actual pension income.

That could mean another massive hit for Lloyd's of London professional liability underwriters—

already facing a huge exposure to claims by managing and members agents—to cover the cost of administering and compensating these claims. Professional liability insurers are expected to deny the agents' and advisers' claims, though.

British employers were pleased that the SIB report does not propose they bear any of the massive cost—estimated to reach as high 2

billion pounds (\$3.28 billion) in compensation shortfalls alone—of making these pensioners whole.

Employers are not as pleased, however, with an SIB suggestion that they should take back all former plan members that were advised to leave their plans in favor of personal pensions. The SIB and government officials have suggested that this would be the opti-

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AP/Wide World photo

Picasso's "Seated Woman"

Stolen Picassos were uninsured

ZURICH, Switzerland—The recent theft of eight paintings valued at \$44 million—including seven Picassos—from a private art gallery in Zurich was not covered by insurance.

Thieves broke into the Modern Art Centre gallery through the basement of a neighboring house sometime between Saturday, Oct. 22, and Sunday, Oct. 23, said gallery owner Max Bollag. Although the Modern Art Centre has burglar alarms at its entrance and roof, no alarms were installed in either of the gallery's two basement rooms.

The building that houses the gallery is owned by the Zurich City Council, which provides a security guard. But, the gallery closes at 4 p.m. on Saturdays and the guard does not go on duty until 6 p.m. Police are investigating the theft.

"I have too many pictures. I don't believe in insurance," Mr. Bollag said. "I believe in the big boss in the sky but this time he let me down."

The stolen Picassos, which were painted between 1900 and 1906, were: "Christ at Montmartre," which alone was valued at \$12.5 million; "Seated Woman"; "Old Woman and Two Nudes"; "Woman's Head"; "Young Man on a Horse"; "Seated Negro"; and "Old Man with a Girl."

The other stolen painting, "Nude on a Bed" by Jules Pascin, was valued at \$70,000.

Mr. Bollag, 81, who founded the Modern Art Centre in 1962, said he acquired the Picassos from his family. His father, who owned one of Europe's oldest galleries, bought them in 1908 when the artist had financial problems.

Two other Picassos in Mr. Bollag's collection, "Christ at Montmartre" and "Seated Woman," had been stolen in 1991 and recovered in 1992.

—By Maria Kielmas

Costly delays possible in rail tunnel collapse near Heathrow airport

BY STACY SHAPIRO

LONDON—It will be a few weeks before damages can be assessed from last week's collapse of an underground railway tunnel being built under Heathrow Airport.

Third-party property damages may be smaller than they could have been, though. An office building that sank and was badly cracked when the tunnel collapsed had been vacant and was used only to house construction workers on the site of the project.

However, the cost of completion delays could be substantial on the 300 million pound (\$491 million) Heathrow Express railway project. There could also be costly delays of a separate 1.3 billion pound (\$2.3 billion) London subway extension project that is using the same tunneling technique.

Heathrow Express is a joint venture between the British Airports Authority and the British Rail Board to provide a non-stop high-speed rail link between Paddington Station in London and Heathrow. The project, created by an act of Parliament, The Heathrow Express Railway Act of 1991, employs 650 people and was expected to open in December 1997.

Early last week, work came to a halt at Heathrow after a section of a train tunnel near Terminal 3 collapsed, taking the office building with it. Though no one was injured, the collapse caused chaos at the airport with passengers missing flights because of the backed-up traffic. The airport's Terminal 3 parking lot was closed temporarily and London Underground Ltd.'s existing subway

service to Terminal 4 continues to be disrupted.

U.K. news reports questioned whether the technique used in constructing the tunnel—in which concrete to make the tunnel walls is sprayed directly into the hole, rather than using precast concrete—caused the collapse. A portion of the subway system in Munich, Germany, that used the same method, called the new Austrian technique, also collapsed recently, giving rise to concern about the technique.

Some experts, however, have questioned whether the Heathrow Express contractors, Balfour Beatty, adequately checked the soil to make sure it was conducive to the technique and also whether two tunnels should have been bored at once as the contractors are doing.

Heathrow Express officials would not comment on the cause of the collapse or the costs until after an investigation headed by BAA Technical Director David H. Williams is completed.

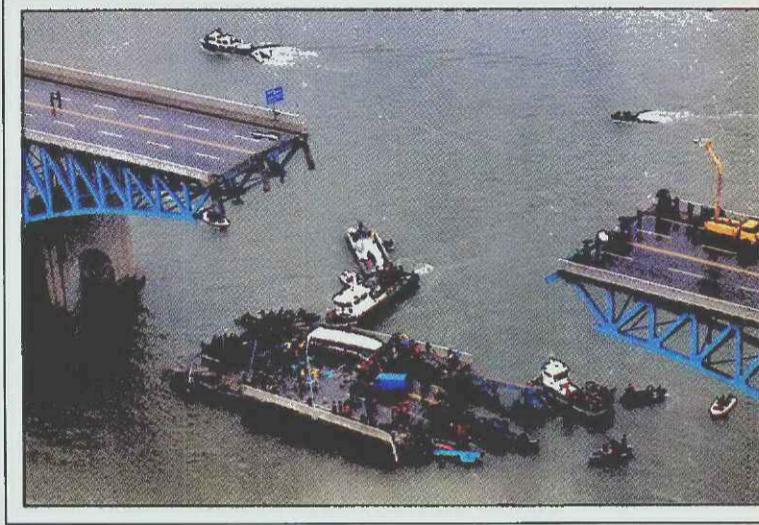
Heathrow Express, Balfour Beatty and the other contractors and subcontractors are all insured under one owner-controlled insurance program, or wrap-up, said a BAA spokeswoman.

She said the coverage, which includes business interruption and costs of delay, is led by the Allianz Cornhill International division of Cornhill Insurance P.L.C.

Meanwhile, the collapsed rail tunnel has caused peripheral problems for London Underground, which oversees the London subway system.

The collapsed railway tunnel

Continued on page 97



AP/Wide World photo

A section of Seoul's Sungsu bridge collapsed during rush hour on Oct. 21.

Seoul likely self-insured for fatal bridge collapse

SEOUL, South Korea—Neither property nor liability insurance is likely to be available to cover damages from the Oct. 21 collapse of a bridge here that killed 32 people.

Five city officials have been arrested on negligence charges in connection with maintaining the 17-year-old bridge and could be jailed if convicted.

The Seoul city government is most likely self-insured for any property or liability risks stemming from damage to or injury from city property, say people familiar with South Korea's insurance industry.

"It's not normal for the local governments to buy insurance," said one foreign broker in Seoul.

Foreign brokers are licensed only to operate liaison offices in South Korea and must work on a wholesale basis with local brokers.

South Korean legal restrictions on foreign companies would have prevented foreign insurers from covering the bridge, said one foreign underwriter.

The bridge's builder, Dong Ah Construction Co., last week agreed to rebuild the bridge at cost.

The company, though, denied it was responsible for the collapse of the bridge.

Business interruption cover would not have been written unless it had been a toll bridge.

—By Kate Tilley

Pace of change quickens in Asia

Vietnam, other Asian markets realizing potential

By KATE TILLEY

SINGAPORE—Insurance markets throughout Asia are undergoing transformations, as developing nations increase activity and more developed countries grapple with hard and soft markets.

Vietnam's insurance market, widely considered rich with potential, is on the road to development, a brokerage executive says.

Stephen Crabb, general director of Inchinbros Insurance Brokers in Hanoi, said the Vietnamese Ministry of Finance intends to build a strong local insurance market to stop premiums from going overseas.

Mr. Crabb spoke during a session on emerging insurance markets in Asia at the Asia-Pacific Risk Management Conference

and Trade Exhibition, sponsored by the Risk & Insurance Management Assn. of Singapore.

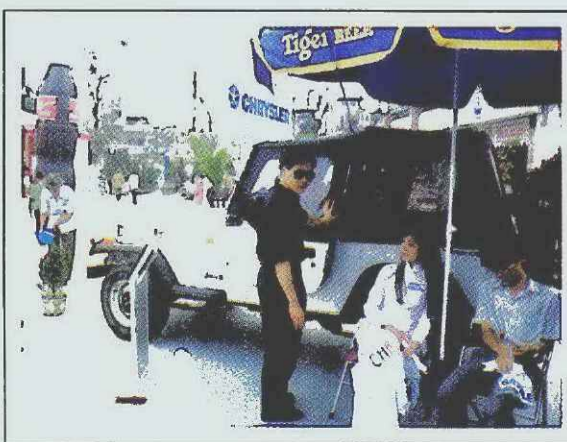
This year has witnessed some significant development in Vietnam as a result of the lifting of the trade embargo with the United States, he said.

Inflation has been brought under control, to an anticipated 8.2% this year, and more than 1,000 foreign investment licenses have been issued.

In April, Inchinbros became the first company in Vietnam to obtain a full broker's license.

Sedgwick Group P.L.C. recently received a license to establish a representative office in Vietnam. It plans to set up an office be-

Continued on next page



AP/Wide World photo

An international trade fair in Hanoi offers evidence of the growing economic vitality of Vietnam

INTERNATIONAL

Pensions

Continued from previous page
mum solution to this problem.

Any costs incurred by company pension plans reinstating former pension members could potentially be charged to the financial advisers and insurance agents that advised plan members to leave the plan.

The workload, however, could prove heavy for many, especially smaller, employer-sponsored plans.

The Securities and Investments Board refused to predict how much the process of compensating pensioners would cost the U.K. life insurance industry, but accounting firm Coopers & Lybrand estimates that the bill could be anywhere from 1 billion (\$1.64 billion) to 2 billion pounds (\$3.28 billion) over the next few years in compensation costs alone. Other estimates range as high as 4 billion (\$6.55 billion) or 5 billion pounds (\$8.19 billion).

Insurers are expected to cover any expenses associated with this movement from reserves.

The SIB recommends that the financial advisers and insurance agents that sold the personal pen-

sion plans should be responsible for investigating pensioners' claims of inadequate benefits.

However, this may invalidate financial advisers' professional liability insurance policies, some experts say.

"The need to review cases proactively may invalidate certain (professional liability) policies. Firms should discuss with their (professional liability) insurers the procedures to follow. If this interferes with the processes set out by the SIB, then firms must raise this with their regulators," advised Coopers & Lybrand.

Andrew Large, chairman of SIB, said last week that the process of checking and compensating individuals should not impair financial advisers' professional liability coverage.

Professional liability insurers and brokers, though, were not so sure and predicted coverage litigation is likely to follow.

If financial advisers' costs of investigating these complaints and making customers whole are not covered or exceed their limits, widescale bankruptcies are expected. In these cases, the liability would fall back onto the industry compensation plan, which is funded by the industry as a whole.

The SIB has identified 2 million cases that it recommends for investigation, dividing these into three distinct groups. These are then subdivided into priority cases, which the SIB need to be settled by December 1996 and generally include older employees and retirees, and non-priority cases, which it said should be settled by December 1997.

The three categories are:

- Transfers, which are individuals who took money out of a former employer's plan and put it into a personal pension. There are thought to be 600,000 individuals who did this, of which SIB identified 100,000 as priority cases.

- Opt outs, which are people who are still employed but were persuaded to take out a personal pension instead of joining the employer-sponsored plan. SIB estimates there are 450,000 opt outs, of which 150,000 are priority cases.

- Non-joiners, which are individuals who could have joined a company pension but on their own opted for a personal pension instead. There are up to 1 million non-joiners, of which 100,000 are priority cases.

Altogether, the SIB identified 350,000 priority cases.

The government has instructed all pensions run by its various departments and agencies to accept all those that request reinstatement.

But the National Assn. of Pension Funds, which represents most leading U.K. pension fund managers, reminded private plan managers that they are not obligated to take back former members. It seems likely that many, especially smaller, private-sector pensions will balk at the administrative work involved and refuse to reinstatements.

The Confederation of British Industry, the leading trade association of U.K. employers, welcomed the SIB paper but also was cool to the suggestions on reinstatements, especially for former employees.

"It is a matter for individual employers and the trustees of their pension schemes to decide policy. Employees who have been mis-sold personal pensions should receive adequate compensation, and, in these circumstances, there is no reason why an employer should feel obliged to reinstate them in the company pension scheme.

"Employers will need to consider whether the compensation offered by the company providing

the personal pension is sufficient to cover reinstatement and the administrative costs," stated the CBI.

Administration costs are predicted to average about 1,000 pounds (\$1,638) per employee for reinstatements.

"It is important that the public continue to have confidence in pension provisions. We have asked our members to respond to any inquiries which will help remedy these situations. However, decisions on the readmission for future service and reinstatement for past service of employees who were given bad financial advice are for each scheme to determine individually," said Ron Amy, chairman of the NAPF.

"Our trustees will have to discuss this, but it seems likely we will be able to take back transfers as long as there is no cost to us. The NAPF has asked us to help (financial advisers) and insurance companies with their investigations, which we will do. But we will hopefully see common forms used because we don't want this to prove an administrative burden," said Brian Halcrow, U.K. pensions manager at Guinness P.L.C., the beverage manufacturer. **BI**

Asia

Continued from previous page

fore the end of November, and its first task will be to apply for a full license, said Ross W. Bovill, regional development director-Asia for Sedgwick Asia Pacific Ltd. in Singapore.

"The scale and speed of changes have had far-reaching effects on the economy as a whole, and particularly the insurance sector," he said.

For example, after the market began to open up, BaoViet, the government-run insurer established in 1965, initially focused on placing coverage overseas for the nation's trade risks. But, with the increase on foreign investment in Vietnam, a domestic market is building up, Mr. Crabb said.

BaoViet now has 54 branches and 1,500 employees in Vietnam and a London office. While it initially wrote hull and cargo covers, it has expanded into other classes and is forming a reinsurer.

Other Asian markets that were examined during the conference included:

- China.

Michael I.D. Morrison, general

manager-non-life at American International Assurance Co. Ltd. in Shanghai, China, also spoke at the conference.

China is a rapidly growing market that, with careful management, could avoid "the sins of reckless pursuit of market share," he said.

But, the nation's political and economic outlook remains uncertain. The country could face political upheaval when its aging leader, Deng Xiaoping, dies. And China will have to contend with an uneven distribution of wealth, subsidizing state-run enterprises that generate large operating losses, possible inflation, an overloaded economy and corruption.

Among the more immediate concerns of foreign investors, however, are the lack of suitable buildings. Fire is a major peril, Mr. Morrison said.

Another problem, he said, is underwriting liability risks. In most other countries, it is possible to base liability exposures on past experience, but in China there is "nothing to go on." Public liability cover is available, but it "may be overpriced on occasion, due to fear of the unknown."

American International Assurance Co. Ltd., a unit of American

International Group Inc., was granted a license to operate in the Shanghai area in 1992, though it is restricted to insuring foreign-owned or joint venture companies in the Shanghai area only (BI, April 25).

Tokio Fire & Marine Insurance Co. Ltd. was granted a license in

into the marketplace."

- India.

T. Ramanan, group controller-risk management for Hindustan Lever Ltd. in Bombay, India, offered a view of the Indian insurance market.

India nationalized its insurance industry in 1971, merging 107 com-

In India, 'risk management's potential to contribute to economic prosperity... is relatively untapped. Even where the risk management process is understood, it is rarely followed in an organized, professional manner,' says T. Ramanan.

panies into four, all of which are units of the General Insurance Corp. of India. A report by the head of the government's Insurance Reforms Committee recommends privatization of the insurers, but labor unions are opposed to that idea, seeing it as a threat to their employment in the government-owned companies (BI, March 28).

Mr. Ramanan said risk management is still in its infancy, though India has had a risk managers' association since 1984.

"Risk management's potential to contribute to economic prosperity... is relatively untapped. Even where the risk management process is understood, it is rarely followed in an organized, professional manner," he said.

The regulated tariff premiums charged by insurers mean there is no incentive for organizations to "work systematically to prevent and minimize losses," Mr. Ramanan said. Premium reductions are needed for corporations with good loss experience, he said, and the government should encourage employers to maintain safe working conditions by rewarding them with reductions in their contributions to the workers compensation pool.

Without risk management, many corporations are led by their insurers, he said. "The philosophy may be that if the insurer does not provide the coverage, we don't need it."

- Indonesia.

In a separate session on Indone-

sia, Jeffrey J. Whittaker, technical adviser at MultiSentra Wahana Asuransi Reinsurance Brokers of Indonesia, said while risk management principles should apply in all fast-developing markets, the prime concern of many Indonesian commercial ventures is quick growth. "Inevitable corners are cut and such things as firefighting teams, contingency disaster planning... are often missing when a risk is surveyed."

Risk management is usually only a major concern after a loss, Mr. Whittaker said. "The only way to push for safer systems and practices is to save the client money, and by this I mean a direct saving of premiums."

For many years, risks have been accepted without site surveys "or even a bar chart or site plan being asked for or studied." But the hard market in Indonesia has changed that and underwriters are seeking more information on risks, he noted.

Often construction workers are housed near sites in temporary quarters with high-risk cooking facilities. Mr. Whittaker's company insists that workers be housed well away from construction sites to prevent the risk of accidents.

- The Philippines.

Discussing the Philippines, Ramon N.P. Ureta, deputy manager of Nicholson Leslie Asia Pvt. Ltd. in Manila, said Filipino risk managers tend to be risk-averse and rely too much on insurance. The local insurance industry is heavily taxed and very dependent on foreign reinsurance support. There are no meaningful retentions, and a hardening market—with rates being increased, coverage restricted and, in some cases, reinsurance support being withdrawn—has affected Filipino insurers' capacity, he said.

Mr. Ureta said the government increased insurers' capital requirements last year to \$2.8 million Singapore (\$1.9 million). "It remains to be seen how this will affect overall market capacity to retain risk."

Filipino risk managers, confronted with catastrophe losses, heavy taxation and a lack of local capacity, need to be innovative in analyzing and handling risk exposures, he said. **BI**

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INTERNATIONAL

Risk manager honored

Award reflects Chiu's ability to make loss prevention a priority

By KATE TILLEY

SINGAPORE—A determination not to make mistakes and unusual support from his chief executive are two of the factors that Chan-fa Solomon Chiu credits with helping him become the first Asia-Pacific Risk Manager of the Year.

Mr. Chiu, 40, is deputy junior vp of the risk management division at Evergreen International Corp., a major shipping and transportation conglomerate based in Taoyuan Hsien, Taiwan.

The award was presented at the Asia-Pacific Risk Management Conference and Trade Exhibition held last month in Singapore.

CIGNA International sponsored the competition.

Evergreen has 28 offices and 12,000 employees worldwide. The company owns Evergreen Marine, a major container fleet, and has three hotels in Thailand, Hong Kong and Taiwan, with plans to expand the chain to 10 within three years.

Evergreen also builds ships, has a shipping container manufacturing arm and owns Eva Air, an international passenger airline with 18 planes serving southeast Asian ports, Australia, France, New Zealand, the United States and the United Kingdom. By the end of the year, it will add Japan to its destinations. By the end of 1995, its fleet will grow to 26 planes.

The company adds a new ship, valued at \$90 million, to its fleet every three months, Mr. Chiu said.

Mr. Chiu joined Evergreen as a seaman and spent 12 years on container ships before moving to an onshore job eight years ago, when he was put in charge of insurance for the marine fleet.

Evergreen centralized its insurance and claims functions into one department in 1988. A year later, Mr. Chiu was named head of the

department.

Mr. Chiu oversaw the department's growth into a full-fledged risk management division that currently employs 11 people.

Convincing senior management of the value of risk management was the first priority, he said. "It took about two years. It's a new concept in Taiwan."

The company's chief executive,



Chan-fa Solomon Chiu

Yang-fa Chang, "had a sense of risk management but was not so familiar with the term." Today, risk management is high among company priorities and Mr. Chiu meets daily with Mr. Chang.

In 1992, Mr. Chiu's division established a captive insurer, Marin Aire Insurance Co., on the Isle of Man.

Last year, risk management programs implemented at Evergreen were credited with saving the company an estimated \$4 million.

Mr. Chiu's risk management expertise is fueled by his desire to "avoid doing it wrong in the first place." He said much of his knowledge comes from conferences. He attends the Risk & Insurance Management Assn. of Singapore's bi-annual conference and has attended the RIMS conference in the United States twice, in addition to

other conferences worldwide.

He said his broker, Sedgwick Ltd., and his insurers are also key sources of risk management information.

Mr. Chiu said another challenge is to incorporate the things he learns with Evergreen's culture.

Mr. Chang has "taught our people that insurance is just protection against an unfortunate event. If you rely too much on it, you will pay too much for it. The most important thing is loss prevention, and that's been our group philosophy for a long time."

As a result, Mr. Chiu says insurance is only one of the risk management tools his division uses. There is a heavy emphasis on loss control analysis, with two risk control engineers in the division. Personnel in other business units are trained in risk control procedures.

Evergreen also retains as much risk as possible,

The company retains the first \$1 million of aviation and marine hull losses through its captive. "Other classes depend on the markets and the loss record for the risk," Mr. Chiu said, adding that the company always keeps an eye toward increasing its retentions.

All marine hull, aviation, casualty and non-marine property risks are insured through Marin Aire, which has annual premium volume of \$40 million and is managed by Sedgwick. The captive retains about 10% of each risk, ceding the remainder to reinsurers.

The Isle of Man was chosen as a domicile after Singapore and Bermuda also were considered. The Isle of Man's zero taxation rate was "the key consideration finally," Mr. Chiu said. Bermuda's reputation as a tax haven was seen as a negative factor, plus the Isle of Man was close to U.K. markets.

Mr. Chiu said the reinsurance market recognizes Evergreen's willingness to bear a portion of its own risks, and it is able to get cheaper rates because reinsurers have confidence in the company. When the aviation renewal for Eva Air's reinsurance was due in June, Mr. Chiu said it was the only international airline to get a rate reduction of 15%. The 4-year-old airline has had no losses, he said.

And, Evergreen's marine fleet has never had a total loss, he said.

Business units must report all losses to the risk management division, where they are analyzed. The risk management division's staff have come from many different departments within the company, so they have a good understanding of the company's business, Mr. Chiu said. But the division still needs to build its reputation among the other business units so that they understand the importance of the real cost of

Singapore commissioner faults some insurers' practices

SINGAPORE—Some Singapore non-life insurers have "forgotten the fundamental need for prudent underwriting practices," says the country's insurance commissioner.

Opening the Fourth Asia-Pacific Risk Management Conference and Trade Exhibition, hosted by the Risk & Insurance Management Assn. of Singapore, Lim Shu Chia told corporate insurance buyers that the soft market cannot continue.

Rates will rise and, "judging from the experience of underwriting circles in developed insurance markets, such as the United Kingdom and Australia, such upward revisions in premium rates are often dramatic and accompanied by more restricted coverage terms," she said.

The commissioner said knee-jerk reactions by the insurance market, after prolonged periods of declining profitability, pose difficulties for corporate buyers. Ms. Lim said she sees such a dramatic turn ahead in the Singapore market.

One factor precipitating such a turn, she said, is that the Singapore market last year suffered its first underwriting loss since 1979. There was great variation in performances of individual classes and individual insurers, but a main factor behind the loss had been that some insurers were responding to competitive pressures by "imprudently cutting their premium rates for certain classes."

Prudent underwriting is particularly important in Singapore, where low interest rates limit non-life insurers' ability to offset underwriting losses through investment income, she noted.

Insurers "must not fall into the trap of suicidal rate competition that has led to the downfall of many insurers in other markets," Ms. Lim warned.

At the same time, Ms. Lim said, corporate buyers must "resist the temptation" to buy on price alone and look at the quality of companies and the services they provide, building stable relationships for the long term.

The next RIMAS conference will be in 1996 in Kuala Lumpur, Malaysia.

—By Kate Tilley

losses.

Communication is an important skill for a risk manager, he noted. Without positive assistance from the managers of each business unit, it was hard to implement risk management programs. The division publishes a risk management newsletter, but Mr. Chiu said face-to-face communication is better. "It helps avoid misunderstandings."

The division holds seminars for staff in other business units, and profits from the captive are used to send staff to training courses in risk management in Taiwan and abroad.

While Mr. Chiu says he is "still a learner" when it comes to risk management, he is the author of seven books on risk management and insurance, writes for Taiwanese publications on risk management and has been asked by Taiwan's Ministry of Finance to give a speech on risk management to the Centre for Insurance Development.

Mr. Chiu's achievements were recognized by his company last year when he received a double promotion to his current position as deputy junior vp.

Broker Huichih Ko, president of Sedgwick Ltd. in Taipei, said that is unusual in Taiwanese companies.

Mr. Ko, who nominated Mr. Chiu for the award, said Mr. Chiu is "a great communicator" who tries to bring new ideas into his

company and make positive proposals to management. "That requires confidence and courage in Chinese society."

Mr. Chiu's advice to his fellow Asian risk managers is to be patient and "maintain your physical condition. You need to be strong enough to overcome setbacks." Mr. Chiu jogs regularly.

He said risk managers must not care about individual success. "You must concentrate on the company... This award is for Evergreen, not myself."

The selection panel for the award was Michael Wan, RIMAS president and a risk management consultant; Soek Koon Lee, assistant director-development division, Singapore Insurance Commissioner's Office; Chris Meller, CIGNA's senior vp of southeast Asia; Ross W. Bovill, regional development director of Asia for Sedgwick Asia Pacific Ltd. in Singapore; and Robert Watson, program director at Singapore's Nanyang Polytechnic.

Mr. Chiu won a trip to the RIMS conference in San Francisco next year. During the presentation ceremony, he said he "requests to fly on our own airline."

Although risk management is in its infancy in Taiwan, a risk management association has been formed. Mr. Chiu said it has about 80 members, most of whom are students of risk management or academics. It has five risk management practitioners as members. **BI**

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Heathrow

Continued from page 95

has closed a parallel subway tunnel that leads to Heathrow's Terminal 4.

While loss of income is slight, the Terminal 4 tunnel could be damaged, though there is no evidence of any damage, said Clive Pracy, London Underground's risk manager.

Under the Heathrow Express Act, London Regional Transport,

the parent of London Underground, should get compensation from the Heathrow Express contractors for any losses caused by the collapsed tunneling.

A second concern for London Underground is whether the tunneling technique might have caused the problem. This technique also is being used in the Jubilee Line extension of the London subway system.

"The jury's out on the tunneling technique," said Mr. Pracy. The Jubilee Line project has been shut

down "for a few days" to make sure it is safe. Extensive safety surveys were done before the project was started, he said.

The Jubilee Line extension also has an owner-controlled construction insurance program covered by Allianz Cornhill, said Mr. Pracy.

The coverage includes the "additional cost of working" if an alternative technique must be used or if the tunnel has to be rerouted. But a decision to do something like that "would not be taken lightly," he said. **BI**

Education

Continued from page 2
national Business Forum.

The issue of employee education is one employers should "pay serious attention to," said Jonathan L. Mercier, a partner with Turco & Mercier in Manchester, Conn.

Employers who adhere to the 404(c) rules will reduce their fiduciary exposure because the responsibility for investor decisions is shifted from the employer to employees, he said. But, if the employer engages in an aggressive education program, it may inadvertently reacquire the fiduciary risk it thought was shifted to its employees. This could happen, he said, if employees misunderstand the goals of an education program.

The "line between information and education and advice is not

clear cut," said Mr. Mercier. What an employer "may view as education could be perceived as advice."

If participants experience investment losses by following employers' perceived advice, employers could end up with a lawsuit, Mr. Mercier warned. The focus of a suit is not likely to be whether the employer was trying to help the employee, but whether the employee was reasonable in viewing the information provided as advice, he said.

The common wisdom today is that employees should diversify into higher return, high-risk investments. There is concern, however, that investors will not react in the disciplined way this approach requires, Mr. Mercier said.

"Does the average non-investor have the discipline to stay the course when his account has incurred substantial losses?" he

asked.

Another potential issue arises when the plan participant needs money from his or her investments immediately and the account has incurred substantial short-term losses, said Mr. Mercier.

Mr. Mercier added that he is not sure there is a practical way to provide employees with a meaningful investment education that will not be misconstrued. The best that plan sponsors can do is to carefully comply with 404(c), he advised.

In response to a question about giving employees textbooks to learn more about making investments, Mr. Mercier said there is no risk if investors follow the advice in a textbook.

But in many cases, employees are given abbreviated versions of textbooks. Then, "you do run the risk... of giving them suggestions

and direction as to what you think a sound investor would do." In that environment, some risk for the employer is created, said Mr. Mercier.

Despite employers' fears of potential fiduciary liability, an aggressive education program is needed to help employees make the best investment decisions, said David L. Wray, president of the Chicago-based Profit Sharing Council of America.

If the plan is going to work, "then you've got to provide the employees with the tools they need to get the job done," said Mr. Wray.

There is no question the issue of advice vs. education is a "very murky area," Mr. Wray acknowledged.

Since whatever the employer tells the employee may be perceived as advice anyway, Mr.

Wray said employers need to do what they think best. Employers, he added, expose themselves to liability if investments turn out poorly, regardless of what they do.

Mr. Wray noted that with extended life spans, employees must rethink how they manage their money over a lifetime. This means all employees have a responsibility to learn how to be investors, he said.

"Being a saver is not an effective money management technique if you're going to live a long time," said Mr. Wray, adding he believes people can be taught to be investors.

Mr. Wray said he has been impressed by some companies' education programs, following which some plan participants have diversified. He said he is confident employee investors can stay the course. **BI**

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NOTICE IS HEREBY GIVEN that Anthony James McMahon and Roger Smith, as Joint Provisional Liquidators of English and American Insurance Company Limited (the "Company"), obtained, on October 14, 1994, a continuation of the Preliminary Injunction Order originally issued on June 10, 1993 by the United States Bankruptcy Court for the Southern District of New York, which Order (a) enjoins all persons from (i) commencing or continuing any judicial, administrative or regulatory action or proceeding against the Company (when used herein the term "Company" shall also include Slater Walker Life Assurance Company, Arrow Life Assurance Company Limited, and Providence Capitol Life Assurance Company Limited with respect to any liabilities incurred on account of property and casualty policies they issued during the years 1972 through 1976) or any of its property in the United States; (ii) enforcing any judicial, administrative or regulatory judgment, assessment or order and commencing or continuing any act or any judicial, administrative or regulatory proceeding to create, perfect or enforce any lien or other claim against the Company or any of its property in the United States; and (b) requires all persons to turn over and account to the Joint Provisional Liquidators for all funds resulting from the draw down of letters of credit in excess of what is expressly authorized by the terms of the agreements pursuant to which such letters of credit have been established, in their possession, custody or control, with certain limitations as set forth in the Preliminary Injunction. The Preliminary Injunction Order shall remain in effect pending a hearing to consider whether it shall be continued, which hearing is scheduled to be held in Room 601 of the Alexander Hamilton Custom House, One Bowling Green, New York, New York, on February 15, 1995 at 10:00 a.m. Any party who has not received a copy of such Order should contact counsel for the Joint Provisional Liquidators at the following address:

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Sub-total **28,309**

Associations 369
Government, Unions and Educational Institutions 974

Commercial Consumers
Sub-total **29,652**

Insurance Agents and Brokers 8,408
Insurance Companies 8,181
Accountants, Actuaries, Attorneys & Consultants 3,611
Managers & Health Care Providers 1,903
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★ Source Business/Occupational breakdown of qualified circulation, May 30, 1994 Issue, as submitted to BPA for June 1994 BPA Publisher's Statement.

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Guaranty fund reform needed: Regulator

By JUDY GREENWALD

WASHINGTON—The life and health guaranty fund system needs reform, but given the intransigence of the National Assn. of Insurance Commissioners, it is likely to take Rep. John D. Dingell's attention to spur any action, charges Maryland's insurance commissioner.

State insurance commissioners tend to act only when they see an outside threat, said Dwight K. Bartlett III, adding, "I wish I could get Congressman Dingell to focus on this thing."

One current problem with the guaranty fund system is that coverage is triggered by a court-ordered rehabilitation or liquidation, which could occur only "some time" after a commissioner deems an insurer impaired, Mr. Bartlett said.

As examples, he cited the rehabilitation of Executive Life Insurance Co. and Mutual Benefit Life Insurance Co. In both cases, three years passed from the time state regulators took control to the time a court approved a rehabilitation plan and guaranty funds were finally tapped (BI, March 21; Feb. 3, 1992).

Mr. Bartlett discussed guaranty funds earlier this month at the 1994 GIC/Stable Value Assn. National Forum. *Business Insurance* was among the sponsors of the conference, which was presented by the association in conjunction with International Business Forum.

State guaranty funds are typically financed by premium assessments on insurers in a particular line that do business in that state. Assessments are usually capped at 2%.

Many states permit insurers that have to pay an assessment to offset that amount against state premium taxes.

Under the current system, Mr. Bartlett noted, holders of "unallocated" guaranteed investment contracts generally receive limited coverage or none at all. Defined benefit plan participants are generally considered unallocated investors, while defined contribution plan participants are generally considered "allocated" and receive full coverage.

Rather than distinguishing between different types of plans, Mr. Bartlett favors allocating guaranty fund coverage on the basis of who bears the consequences of a failure.

Mr. Bartlett also discussed the impact of rehabilitation on policyholders.

Under the current system, policyholders who opt out of rehabilitation plans can receive partial compensation right away. Those who agree to participate in rehabilitation plans can receive higher amounts, but it may only come years later.

Policyholders of both Mutual Benefit and Executive Life have been "ill-served" by the current system, which was designed in an era when companies essentially sold life insurance and were not heavily involved in annuities, said Mr. Bartlett.

Among his suggestions for a new guaranty fund system:

- Make it uniform across the country in order to provide greater capacity to compensate policyholders.

He emphasized that he did not favor a federal government plan, but instead one created by interstate compact.

- Make sure it provides "reasonable liquidity" of funds. "Policyholders should not be denied access to funds for three years as with Executive Life or Mutual Benefit," he said.

Mr. Bartlett said this system should be comparable to the one offered by the Federal Deposit Insurance Corp., in which policyholders would be assured of getting 100% coverage up to a stipulated amount.

This will prevent claims runs, said Mr. Bartlett, who said the system should be publicized to

help in this effort.

There is reason to believe that both Mutual Benefit and Executive Life could have "muddled through" had they not been exposed to runs, Mr. Bartlett added.

- Promote rehabilitation over liquidation, said Mr. Bartlett, pointing to cases in which policyholders of liquidated companies sometimes cannot obtain coverage from another company.

- Do not insulate managers so they feel protected by the guaranty system. Managers must still manage prudently, Mr. Bartlett

said.

- Protect the "most vulnerable" policyholders, those who are less sophisticated.

- Share the cost of insolvency. "Policyholders should not get off scot-free," he said. They should bear some cost for picking a company that becomes insolvent, perhaps by receiving only 85% of the cash value of their policies rather than 100%.

- Trigger the system not by a court's approval of a rehabilitation plan but by a commissioner's declaration that a company is im-

paired, so policyholders do not face the long delay they did with Executive Life and Mutual Benefit.

- Pre-fund the system with assessments in proportion to financial strength so that weaker companies are assessed more to cover their higher risk. This could be measured using a risk-based capital formula, based on the ratio of surplus to risk-based capital, Mr. Bartlett suggested. At least part of the assessment could offset insurers' premium tax payments to the state. **BI**

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NAIC views regulations for GICs

Proposed outline expected by December

By **JUDY GREENWALD**

WASHINGTON—As the National Assn. of Insurance Commissioners moves toward the development of a model law covering guaranteed investment contracts, a number of issues must be addressed, says a state regulator.

These include differences between GIC products, the adequacy of reserves, the fact that synthetic GICs' underlying assets may not be owned by the insurer, and the disclosure of risk to beneficiaries, said Robert M. Willis, the District of Columbia's insurance commissioner and chairman of the NAIC Synthetic GIC Working Group.

Mr. Willis discussed these and other issues at the 1994 GIC/Stable Value Assn. National Forum, held in Washington last month. Sponsors of the forum, which was presented by the association in conjunction with International Business Forum, included *Business Insurance*.

Mr. Willis noted the recent fallout over derivatives "has helped to shape" regulators' sensitivity when it comes to new and innovative financial products.

Many consumers are now asking where regulators were when it came to derivatives.

In addition, general account GICs "ran into trouble" a few years ago because of junk bonds, he said, referring to Executive Life

Insurance Co.

Now regulators are faced with separate account or synthetic GICs, Mr. Willis said, adding that regulators' concerns about the nature and structure of these products are understandable. "There are public policy issues at work here," he said.

"Many regulators still have unsettling feelings about GICs," he said, noting that several states plus the District of Columbia now exclude GICs from guaranty fund coverage.

There is still the perception, Mr. Willis said, that Executive Life's failure was tied to GICs, which is creating the unsettling feeling that GICs equate with junk bond funding. Mr. Willis said the GIC Assn.'s recent name change to the GIC/

Stable Value Assn. "is clearly a step in the right direction," because it accurately describes the role these products are intended to play.

Life insurers should also provide a better description of these products so that consumers better understand them, Mr. Willis said.

The NAIC has been looking at this issue since December 1993. The Synthetic GIC Working Group, whose members also include Illinois and New York, was created in February to: understand the design of stable value products like GICs; assess the need for the products; determine the direction life insurers plan to pursue in the products' sale; and open a dialogue on the extent to which these products should be regulated and

why.

Illinois and the District of Columbia have both said stable value products could be sold by insurance companies under the structure of regulation.

New York, however, has said that under its laws synthetic GICs cannot be sold by life insurers within the state. While the working group "respects the unique facets of New York law," said Mr. Willis, it is nevertheless charged with examining the issue.

A synthetic GIC typically consists of a "wrapper" provided by a financial institution—including some insurers—that guarantees the book value of an underlying portfolio of securities, often AAA-rated government agency issues.

A "white paper" by the Synthetic GIC Working Group suggesting potential regulatory approaches will be issued in December.

In anticipation of a regulatory structure, the NAIC also is taking other initiatives on GICs. One working group, for example, will design new information lines in the statutory blank where stable value product data can be reported.

The reality is that stable value products are now being sold, said Mr. Willis.

Mr. Willis said the four major concerns that must be addressed in developing a model law are:

- The model law should address and allow for differences in stable value products.

The law "should be flexible enough to accommodate new and emerging non-traditional stable value products," said Mr. Willis.

Some of these products, he noted, will also be regulated by the Securities and Exchange Commission. But, it should be remembered that life insurers already sell contracts with insurance and investment components that are regulated by different government entities.

- The model law should quantify risk-based capital criteria to assure there are adequate reserves to support the different GIC structures.

In the application of risk-based capital standards, companies that sell stable value products should be required to comply with risk-based capital requirements in the same manner as other companies that do not sell these kinds of products, said Mr. Willis.

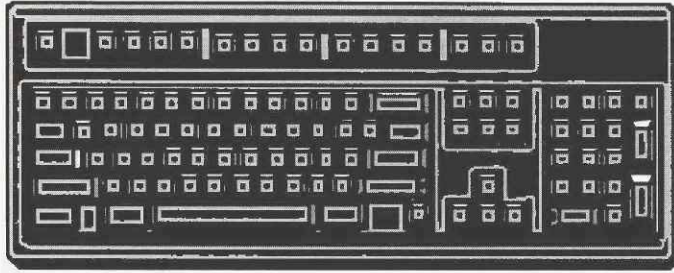
- The assets and/or asset management characteristics of stable value products should also be taken into account, said Mr. Willis.

The model law should recognize that some stable value assets are not owned by the insurance company, explained Mr. Willis. The different configurations that allow for the holding of plan assets need to be recognized.

- Disclosure of risk to beneficiaries must also be taken into account, said Mr. Willis.

The model law should estimate the "parameters for disclosure of potential financial risk" to beneficiaries, he said. It should be recognized that while a significant amount of this product will be sold to more sophisticated corporate buyers, these buyers' experience varies from company to company.

While these are the major issues, there are other important concerns that need to be addressed as well, said Mr. Willis. These include: Should the purchase of stable value products be covered by guaranty funds? And if the stable value products are sold as separate account products, should the plan be treated as an annuity holder or general creditor? **BI**



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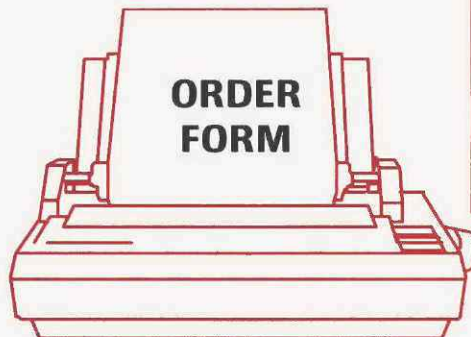
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Confed rehab tricky, liquidator says

By JUDY GREENWALD

WASHINGTON—The ultimate outcome of the Confederation Life Insurance Co. rehabilitation in the United States, including the fate of its \$2.2 billion in guaranteed investment contracts, has still not been determined, says Victor M. Palmieri, who is overseeing the rehabilitation of Confed's U.S. operations.

But putting the company's U.S. operations under the aegis of its Toronto-based liquidator may not be the best approach, he adds.

Mr. Palmieri, who has been appointed special deputy liquidator of Confed by the insurance department in Michigan, Confed's entrypoint into the U.S. market, said one of the unresolved issues in the rehabilitation is \$600 million that was sent from the United States to Canada in exchange for intercompany investors notes.

Mr. Palmieri, who had directed the three-year rehabilitation of Mutual Benefit Life Insurance Co., spoke last month at the 1994 GIC/Stable Value Assn. National Forum in Washington. *Business Insurance* was a sponsor of the conference, which was run by International Business Forum.

Canada's Superintendent of Financial Institutions took over Confed and its Confederation Trust Co. unit in August amid concerns that losses in its real estate and mortgage portfolio damaged its liquidity (*BI*, Aug. 22).

Later that month, a U.S. unit of Great-West Life Assurance Co. of Canada said it would assume most of the insurer's U.S. group life and health insurance business (*BI*, Aug. 29). The Manufacturers Life Insurance Co. subsequently said it would acquire the insurer's Canadian group insurance business as well (*BI*, Sept. 5).

Mr. Palmieri noted three jurisdictions are involved in the Confed rehabilitation—Canada, Michigan and Georgia, which is the headquarters of Confederation Life & Annuity Co.

But despite this apparent complexity, "I think that international issues of regulatory jurisdiction are not our biggest problem here," he said. While there are important legal questions to be answered, the interface between the three regulatory agencies is not at "the top of our problem list by any means," said Mr. Palmieri, who said good relationships have been established between the three jurisdictions.

Mr. Palmieri also discussed the differences between Confed and Mutual Benefit, which was also active in the GIC market. Mr. Palmieri said while real estate investments were a factor in the problems of both companies, Confed's underwriting was a "good deal better" than Mutual Benefit's.

"Mutual Benefit's underwriting was a disaster, a real disaster, and did much to shape the plan that

had to be put in place." At Confed, "the quality of underwriting was much better," said Mr. Palmieri.

Furthermore, three years ago the real estate market was in "far more drastic shape than it is today," he added.

"We are working very hard to stabilize management and the workforce" at Confed in the United States, said Mr. Palmieri, who noted he is working with life insurance and GIC policyholder groups.

Confed's quality of underwriting was better than Mutual Benefit's, says Victor M. Palmieri.

"In the end, we do have to have a capable workforce" to administer a plan, he said. "You need people to work hard."

The company's employees are "as thoroughly demoralized as it is possible to be," said Mr. Palmieri, adding he has still not been able to give the workforce the kinds of answers he would like to be able to give.

Still, Mr. Palmieri added that he has had considerable experience working with a workforce under these conditions and said, "We are

getting there."

One possible approach to handling Confed's U.S. business is to have a single Canadian proceeding, in which responsibility would rest with the Toronto-based liquidator for administering the company for the benefit of all policyholders.

"On the face of it" this looks like a good idea because people will look at the company's financial statement blank at year end and see surplus and unsecured debt," said Mr. Palmieri. "In fact, it's problematic for a number of reasons."

One is "these are uncharted waters," said Mr. Palmieri. There has never been a Canadian life insurance company liquidated that has the scale and complexity of Confed Life.

Canada's Winding-Up Act, under which the liquidation would proceed, to date has primarily been applied to small property/casualty companies, he said. Therefore, many of the complications involving liquidation of a major life company are unknown to Canadian regulators.

One of these is the status of its GIC business. There is certain to be a "determined challenge" from Confed's major institutional creditors on the status of GIC policyholders, said Mr. Palmieri.

Mr. Palmieri said he is confident these creditors will challenge GIC holders' position in court to get a higher priority in the settle-

ment of Confed's liabilities, and "you know what that means in terms of the time line of liquidation," he warned.

Another complication is that the Canadian liquidation could take three to five years. Normally, said Mr. Palmieri, U.S. guaranty funds are activated by a U.S. liquidation. It "remains to be seen" how a Canadian liquidation would activate U.S. guaranty fund payouts.

There is also the question of different benefit payments and protocols with regard to U.S. and Canadian policy and contract holders, said Mr. Palmieri.

Pointing to the issues that must be addressed, Mr. Palmieri said dryly, "This is a new welfare system for the Canadian bar."

Mr. Palmieri said he would like to find "the most effective way to secure the rights of all policyholders—Canadian and U.S.—fairly and equitably in the shortest time possible."

To accomplish that goal, Mr. Palmieri suggested asking other insurers to assume Confed's liabilities.

Rather than split up the assets, which would create technical problems, insurers could manage them in a pool, he said.

Insurers would indicate in their financial statements that they would get their share of the assets when and if there is a sustainable rise in the real estate market, said Mr. Palmieri. **BI**

Lilly

Continued from page 2

portedly pushed for such restrictions on the Lilly-PCS merger as requiring Scottsdale, Ariz.-based PCS to give clients access to an open list of drugs rather than using formularies, which could be used to push Lilly products.

The FTC also is said to want to somehow "blindfold" Lilly from learning the prices at which competitors would sell drugs through PCS, and to obtain a consent order that would give the FTC the right of prior approval over any future Lilly mergers.

While a spokesman for Indianapolis-based Lilly confirmed the company is in negotiations with the FTC, he would not comment on published reports that an agreement had been reached, nor would he confirm the specifics of the FTC's concerns.

"We're still having dialogue with the FTC on a daily basis. We're still negotiating things," he said. "We're still in the mode of trying to bring a final resolution to the process."

The spokesman said Lilly wasn't surprised by the FTC's concerns. "We have been anticipating some of these things."

Lilly has extended the FTC waiting period on the PCS deal to Nov. 3 and its deadline with PCS's parent, McKesson Corp., to Nov. 7. "If we need to, we will extend that again," the Lilly spokesman said.

While the FTC didn't block earlier deals, it could be that as the move toward drugmakers acquiring pharmacy benefit managers became a trend, the federal regulators came to see such relationships as "the fox guarding the chickens," said David W. Stewart, professor of marketing at the University of Southern California School of Business Administration in Los Angeles.

"The issue here is whether this is going to create a restraint of trade that harms the consumer," Mr. Stewart said. In looking at the Lilly-PCS deal, federal regulatory authorities now appear to be asking, "Is it possible for someone to make recommendations regarding economic and efficacious medication and simultaneously make and sell product?"

It's not uncommon for federal regulators to see a deal as potentially anti-competitive even after permitting similar deals to occur, experts say.

"The first one of these that occurs may not be perceived as a problem," Mr. Stewart said. "But if it becomes perceived that this is going to be the normal course in

The FTC may view these relationships as 'the fox guarding the chickens,' says David W. Stewart.

the industry, then it may become a problem."

"The FTC is basically looking at the structure of the industry and asking if the transaction before them is likely to reduce competition and cause harm," the University of Chicago's Mr. Landes said.

Even though earlier deals weren't seen as anti-competitive, it could be that their occurrence changed the structure of the industry so that now such mergers are viewed as potentially harmful to consumers, he said.

"The fact that competitors have been able to merge before you doesn't really help you," Mr. Landes said.

"It could cut the other way around," he noted. The FTC could block a transaction as anti-competitive, then allow a similar

merger later if changes in that industry had increased competition since the first deal was reviewed.

FTC officials would not comment on the status of the Lilly-PCS merger or even confirm that commission staff members are examining the deal. An FTC spokeswoman did allow, however, "We look at everything individually."

It is possible that a merger might be approved only to have new facts come to light in the review of a subsequent transaction that cause the commission to revisit its thinking on that earlier merger, the spokeswoman said.

The Lilly spokesman said the drugmaker remains optimistic that it will close the PCS deal. As for competitors merging with pharmacy benefit managers without the restrictions Lilly apparently now faces, the spokesman said that for now the company is "only concerned about Lilly."

"Right now, we're focused on what we're going through. What's happened with other companies—as far as we're concerned, what's been done's been done."

If Lilly does intend to complete the PCS merger, reaching agreement with the FTC is probably the only option. A court challenge of FTC action on a proposed merger usually isn't an option companies embrace, said Mr. Landes of the University of Chicago.

"There, you're talking about a fairly long time before you're able to complete the merger so then it's usually dead," he said. "Most parties hope they don't wind up in court and they reach some kind of accommodation with the FTC or the Department of Justice."

Ironically, some suggest, if the current trend of pharmaceutical companies acquiring pharmacy benefit managers does continue, the long-term effect could be market demand for independent pharmacy benefit managers, who can use their lack of ties to any drugmaker as a selling point. **BI**

Defection

Continued from page 2

that matter was rejected by Judge Ira Gammerman.

M&M had sought a temporary restraining order against Minet. But that request was effectively rendered moot before a hearing when Minet agreed to let M&M representatives look at all materials that were taken by the four former employees and take back whatever M&M believes is its property, a lawyer for M&M said.

Named in the lawsuit are: Minet, the U.S. unit of London-based Minet Group P.L.C.; and Jennifer McElroy, Eric Andersen, Cathy Cummins and Paul Kim, all former employees in M&M's financial and professional services insurance division in New York, which procures D&O insurance for large corporations.

The suit alleges that before the four resigned on Oct. 12, they "either individually or collectively, systematically removed approximately eight to 10 file cabinets of documents containing confidential information about plaintiff's business and clients. They also removed computer diskettes containing information from a separate computer system."

M&M alleges that Ms. McElroy, while still acting as a managing director of M&M's financial and professional services division, "went so far as to have thousands of pages of documents belonging to M&M sent to her home, utilizing messenger services that she charged to M&M."

Furthermore, the complaint states that one or more of the defendants started contacting M&M clients while still employed at the brokerage "in an effort to persuade them to do business with defendant Minet Inc. and not plaintiff."

Mitchell Auslander, of New York law firm Willkie Farr & Gal-

agher, which is representing M&M in the case, declined to comment on the suit or whether M&M will withdraw the complaint now that it has been permitted by Minet to peruse whatever information was taken by the defendants and take back what M&M believes it owns.

Melvin A. Brosterman of Stroock & Stroock & Lavan in New York, which represents Minet, said there was absolutely nothing proprietary or confidential taken by Ms. McElroy, Ms. Cummins or Messrs. Andersen and Kim.

"Over time, people collect all sorts of things at their job. Most of what these people took was garbage and articles and dusty materials of little importance. We told M&M to come to our offices and look at it all. If they believed something was theirs, they could have it," said Mr. Brosterman.

A Minet spokeswoman, meanwhile, said M&M has no legal grounds for its assertions and denied the allegations. "Allegations are just that, allegations," she said. "They're just trying to stifle competition and they're also seeking to create a chilling effect among current employees so they won't leave. These individuals were under no contractual constraints."

The spokeswoman said it is Minet's hope that "M&M will see the light and withdraw this complaint. If not, we will vigorously defend ourselves."

This suit is only one example of how major brokerages, under pressure to attract and retain large accounts, are going to court when employees or clients switch to rival firms. In a noted case earlier this year, Willis Corroon Group P.L.C. sued Rollins Hudig Hall Group Inc. after about 50 employees and four key executives defected to RHH from Willis Corroon's construction division (*BI*, June 27). **BI**

Satisfaction

Continued from page 1
 than we did," she said. "It's extremely important to measure employee satisfaction so we can work on changing it. We, and most large and mid-sized employers, want to send the message that we are truly committed to quality health care. We also want to spend money more wisely," Ms. Darling said.

But these types of surveys aren't just about cost containment, Ms. Darling said. "They ask what is working and what isn't."

The employers involved in the Chicago Health Plan Value Project expect their survey to find that out.

"We all realize there is an opportunity to influence health care delivery in terms of cost, quality and access if you get a sense of how the key players—especially employees who are the ultimate beneficiaries of care—view health care and rate the health care they are getting," said Paul Knuti, senior vp of human resources at First Chicago Corp., a sponsor of the Chicago Health Plan Value Project.

"We are very confident we will end up with a statistically valid sample of the health plans in Chicago," he noted.

But some benefits experts warn against viewing corporate-sponsored employee satisfaction surveys as the definitive tool for measuring plan performance.

"I think that people often look at these activities as alternatives, but they are meant to be complementary" to existing health care survey tools and measures, said

Digital and GTE survey did.

The Chicago area survey will also ask employees some new questions, including how they view their relationship with their primary care physician and what they expect from their health care plans.

The corporate sponsors of the survey project include some rather heavy hitters: Ameritech; Andrew Corp.; Bank of America; First Chicago Corp.; Kraft General Foods Inc.; Marriott International Inc.; Navistar International Corp.; Northern Trust Co.; Quaker Oats Co.; Sears, Roebuck & Co.; United Airlines Inc.; and Whitman Corp.

Collectively, those employers spend more than \$200 million annually on health care in Chicago and have more than 76,000 employees in managed care plans in the Chicago area.

One of things that attracted the group to the Health Institute's survey is that it provides a standardized way to measure employee satisfaction, said Mr. Knuti of First Chicago.

But, more importantly, the instrument measures the health burdens of employees in different health plans. That analysis will help employers determine how people with different health problems view their health plans.

For example, based on findings in the Xerox, GTE and Digital survey, it became clear that people with chronic conditions are more dissatisfied than healthier people with their health plans. That kind of insight may sound simplistic, but it gives employers and health plans a great way to measure the quality of services provided.

'We will provide an employer satisfaction survey that will parallel what's important to employees, but also what's important to employers, like whether a health plan has a proactive account manager,' says Hewitt's Mindy Kairey.

Alan Peres, manager of benefits planning for Ameritech Corp.

Tools such as the National Committee for Quality Assurance's Health Plan Employer Data and Information Set are in their infancy, though they will have much to offer in the future.

"I hope employers don't abandon the interest they have in HEDIS," said Kevin Gulino, senior manager with Ernst & Young L.L.P. in Boston. "You have to put it in the proper context. It's in the embryonic stage, but it's evolving."

The employers involved in the Chicago project understand that and many already require their health plans to submit data for standardized quality assessment surveys, like HEDIS.

But few employers have found a survey instrument that tracks how well health plans are performing in the eyes of the people getting health care services—the patients.

Beginning in November, the Health Institute of Boston will distribute employee satisfaction surveys to thousands of employees of 12 corporations, asking roughly 140 questions about the care they receive from their managed health care plans. The study will not examine indemnity plans, but will focus on health maintenance, point-of-service and preferred provider plans.

The survey will provide baseline data on employees' perception of health plan quality, accessibility and cost, much like the Xerox,

ied are marketed by some big names in health care: Aetna Health Plans of Illinois; CIGNA HealthCare; EPIQual/Community Care Network; Humana Health Plan Inc.; HMO Illinois, sponsored by Blue Cross & Blue Shield of Illinois; United HealthCare of Illinois Inc.; and Rush-Prudential Health Plans.

Employers involved in the project are heralding the health plans' cooperation.

"Chicago is one of the toughest markets to crack. I've knocked my head against a concrete wall" for years, trying to get local health care providers to cooperate in employer efforts to achieve value-based purchasing, said Robert Penzkover, director of employee benefits for Quaker Oats in Chicago.

"What has changed is (providers) now understand that if they are going to be a big player in Chicago, they will succeed by giving customers what they want," Mr. Penzkover said.

Meanwhile, Hewitt's involvement in the project brings an added dimension to the survey.

By collecting and analyzing financial and operational statistics on area health plans, employers will be able to make comparisons based on the things they find important in purchasing health care.

"We will provide an employer satisfaction survey that will parallel what's important to employees, but also what's important to employers, like whether a health plan has a proactive account manager," explained Mindy Kairey, a Hewitt consultant in Lincolnshire, Ill.

Much of the information Hewitt will collect is typical of the data it gathers when it sends out a request for proposal, so most health plans will be accustomed to providing the consultant with what it needs, she said.

Plan information gathered by Hewitt will fall under major headings that parallel the employee satisfaction survey headings, such as Access, Quality Assurance, Financial and Appropriateness of Care.

Hewitt is also contributing major funds to the project.

"Some people believe this combination of players—the big employers, Hewitt and the health plans—will end up changing the health care market for the better," Mr. Knuti said.

"It is clear that when you have employers sitting down with seven major health plan sponsors and you've given them a perspective of what employees think and what employers think, the health plans will be in a better position to evaluate their performance," he said.

The employers and health plans also hope the survey results in wider use of managed health care plans.

HMO penetration in Chicago is much lower than in other metropolitan areas, remarked Quaker Oat's Mr. Penzkover.

For example, only 9% of eligible employees at Quaker Oats are enrolled in HMOs. Nationwide, the percentage of eligible employees enrolled in HMOs is about 20% on average.

The reasons for low participation aren't clear, but employers are hoping the survey results give them some statistically valid and objective evidence to help them sell their employees on managed care.

The results are due out in May. The group has yet to decide how it is going to disseminate the information to other employers and the public. **BI**

Updates

Trouble for Massachusetts law

BOSTON—The Massachusetts "play or pay" law that requires employers to pay a hefty tax if they don't offer health plans and pay part of employee premiums could be further delayed or even repealed.

Under that law, passed in 1988 but delayed until Jan. 1, 1995, employers face a medical security tax of up to \$1,680 per employee.

But employers can offset the tax by money spent on health plans, meaning employers that spend more than \$1,680 per employee annually would be exempt from the tax.

Because group health care expenses now average nearly \$4,000 per employee, the impact of the law would be largely limited to employers not offering health care benefits.

Legislators are considering several bills to further delay or repeal the law, which attracted national attention when it was enacted in 1988.

Separate proposals have been introduced in the Legislature that would: delay the law until Jan. 1, 1996; delay it until Jan. 1, 1998; and repeal it. Gov. William Weld favors repeal.

Legislative staffers say the law will almost certainly be delayed or repealed by the end of the year.

D&O cover in shareholder suit

CHICAGO—Directors and officers liability insurers for Information Resources Inc. will pay \$7.25 million of a proposed \$12.5 million settlement of a shareholder class-action lawsuit.

The suit, which accuses the company of insider trading and misrepresentation of its financial prospects, was filed in federal court in Chicago after a sharp drop in the company's stock price earlier this year.

Chubb Corp. and National Union Fire Insurance Co. of Pittsburgh, Pa., a unit of American International Group Inc., are the insurers, said Dan Knight, vp-treasury operations for Information Resources.

Information Resources, a marketing information and software services company, will pay the balance in either cash or stock under the agreement, which must still be approved by the court.

NewCo becomes Equitas Ltd.

LONDON—Lloyd's of London's proposed runoff reinsurer finally has a name: Equitas Ltd., from the Latin "aequitas," meaning fair or reasonable.

Lloyd's Chief Executive Peter Middleton headed a team that chose the name, based on a suggestion of "United Equity" by Dayrell Gallwey of Tramore, Ireland, from more than 800 submitted ideas.

The ideas for a name ranged from the ridiculous—"Heidi-Ho Co.," for project director Heidi Hutter—to the sublime—"Limejuice" after Lloyd's address on Lime Street, or "Lemon Re."

Separately, the Equitas timetable was revised so there will be no official estimates of reserving needs this year. The project team had said that reserve estimates would be published by the end of this year as a sort of dress rehearsal (*BI*, Aug. 29).

Equitas said that it plans to publish by the end of this year details of the company's expected operation structure, "quantifying—wherever possible—the savings achievable over the current Lloyd's structure."

Briefly noted

Lloyd's of London broker Indemnity Insurance Services Ltd. and investment bank Samuel Montagu & Co. Ltd. hope to raise 20 million pounds (\$32.8 million) among institutional investors for Euclidian P.L.C., a new Lloyd's investment trust. Euclidian already has secured 28 million pounds (\$45.9 million) from Centre Reinsurance (Bermuda) Ltd. . . . **Pan American World Airways Inc.** will pay the Pension Benefit Guaranty Corp. \$115 million under a settlement approved last week by a U.S. Bankruptcy Court judge in New York. The PBGC, though, must pay approximately \$700 million in guaranteed benefits to 37,000 participants in terminated underfunded Pan Am plans (*BI*, Oct. 10). . . . Only halfway through its 1994 policy year, the **United Kingdom Mutual Steam Ship Assurance Assn. (Bermuda) Ltd.**, the world's largest marine mutual, is maintaining its supplementary call of 40% on members' annual levies, saying there are "early indications that claims will be higher than in 1993". . . . Dr. Michael A. Stocker, who had been president of CIGNA Healthplans, tomorrow will become president and chief executive officer of **Empire Blue Cross & Blue Shield** in New York. Dr. Stocker replaces G. Robert O'Brien, an early proponent of managed care, who resigned in August after only a year on the job. . . . An **interstate compact proposal on receiverships** of insolvent multistate insurers, which was developed by subgroups of the National Assn. of Insurance Commissioners and the National Conference of Insurance Legislators, will be discussed Nov. 14 at a public hearing in New York City. . . . Utah employers are expected to save \$15 million to \$18 million next year after the state insurance department announced a **workers compensation rate decrease of 8.2%**. . . . Moody's Investors Service Inc. has downgraded the insurance financial strength ratings of **Continental Corp.**'s property/casualty subsidiaries to Baa1 from A3, despite the company's recent announcement of a \$200 million capital infusion and its naming of a new chairman and chief executive officer, Richard M. Haverland (*BI*, Oct. 17). A Moody's senior analyst, Anna B. Iacucci, said the rating agency is concerned about Continental's plans to focus on competitive specialty lines, as well as its ability to manage its expense base as it seeks to decrease premium volume. . . . **20th Century Industries** announced that James O. Curley resigned as president and as a member of the board of directors. Mr. Curley's duties will be assumed by Chief Executive Officer Neil H. Ashley and William L. Mellick, executive vp/chief operating officer.

Pipeline

Continued from page 1 line.

A leading London market broker said the London energy market is not overly concerned about the damaged line, because there does not appear to be much physical damage or any loss of life. However, it is too early to estimate the business interruption loss, he added.

The larger of the two lines will not reopen until permanent repairs are done, said Bill Copenhaver, senior manager of transportation services for Colonial Pipeline Co. in Atlanta.

The company is still assessing damage and gathering bids for the repair work, which experts say could take several weeks. Flooding has created another channel near the site of the breach, forcing pipeline officials to work from an island with no road access, Mr. Copenhaver said.

"We felt that because there are other lines in the area, we can temporarily get full demand out of Houston," he said.

Seventy-five miles of the pipeline are closed, from Houston to Beaumont. Late last week, the pipeline was operating at 70% of its previous capacity, and it was expected to return to near normal with the opening of Line 2 today.

Line 2, which is 36 inches in diameter and typically carries oil, fuel oil, kerosene oil and diesel fuel, will carry gasoline for several days to reduce the backlog that has built up since flood waters breached the pipeline Oct. 20.

Line 1, at 40 inches in diameter, has a capacity of more than 1 million barrels per day, while Line 2 can carry about 900,000 barrels.

Colonial Pipeline would not release damage estimates or details of its insurance coverage.

Oil Insurance Ltd., a Bermuda-based captive owned by 48 oil companies, does not write business interruption coverage, so no claims are expected from members that had to scale back operations or couldn't deliver their product because of the pipeline break or the flooding, said Doug Kline, senior vp of OIL.

Colonial is owned by Amoco Pipeline Co., ARCO Pipe Line Co., CITGO Pipe Line Co., Conoco Inc., Koch Industries Inc., Marathon Oil Co., Mobil Pipe Line Co., Phillips Pipe Line Co., Texaco Inc.'s Trade and Transportation Division and Unocal Corp.

The two Colonial pipelines are the largest affected, but 19 others—including four intrastate lines—remained closed late last week.

The pipelines range in size from eight to 28

inches and carry crude oil, hydrogen, gasoline, nitrogen, oxygen, natural gas and fuel mixes. They are owned by Exxon Corp., CITGO, Explorer Pipeline Co., Texaco, Chevron Pipe Line Co., Channel Industries Inc., Marathon, Valero Energy Corp., Phillips Petroleum Co., Houston Lighting & Power Co., Amoco and Enerfin.

At least 13 other pipelines had restarted or been approved for operations a week after the flood.

The Property Claim Services division of the American Insurance Services Group Inc. has issued a preliminary loss estimate of \$175 million from the flooding, wind and hail in Texas. The estimate does not include the Colonial pipeline, and PCS is still evaluating whether to treat that as a separate catastrophe.

To be designated a catastrophe, an event must generate at least \$5 million in insured property claims.

"Companies like Amoco and Chevron are totally self-insured or have a very high self-insured retention," said Harvey Michaels, a risk management consultant with Deloitte & Touche in Houston. "Some of these companies have \$50 million (retentions). How much of this will flow to the insurance industry is questionable."

An Amoco chemical plant on Cedar Bayou was flooded on Oct. 18 and is expected to reopen early this week, a spokesman for the Chicago-based company said. Power had not yet been restored to the plant. However, another plant was operating and maintaining normal supply to Amoco's customers.

A nearby Chevron Chemical Co. plant was also flooded and remained closed last week. The outage affected more than 50% of Chevron's ethylene and polyethylene production capacity.

Amoco reduced operations at its Texas City refinery by 100,000 barrels to 340,000 barrels daily due to the break in the Colonial Pipeline. The company was storing its output of gasoline and diesel fuel and transporting it via barge to other points in the pipeline.

Operations at Shell Oil Co.'s Deer Park refinery have returned to normal despite its dependence on the Colonial Pipeline. Solvents are the only product not being distributed due to high waters in the shipping channel.

Highways—as well as shipping ways and pipelines—were also affected by the flooding. The eastbound bridge of Interstate 10 between Houston and Beaumont was battered by heavy debris floating down the San Jacinto River, according to a spokesman for the Texas Depart-

ment of Transportation.

The bridge was scheduled for reconstruction in March 1995, but the project has been moved up to November because of the flood damage. The project will last from 12 to 18 months and will cost \$5.1 million. Neither the flooding nor the accelerated schedule will increase the cost, the spokesman said. "It may cost less. There's less to tear down."

Eastbound traffic will be shifted to the westbound bridge, but two lanes will be maintained in both directions.

That will still cause serious traffic delays, predicted Paul Clark, manager of the risk management division for the city of Houston.

"Eighteen-wheelers will be lined up waiting to get through," he said. "Normally, it's wall-to-wall trucks in both lanes in both directions."

The city suffered very little damage in the flooding. An assessment of one sewage treatment plant is being completed.

The Houston Independent School District suffered between \$100,000 and \$150,000 in damage at one school that took in about three inches of water, said Brad Bailey, director of risk management.

Carpet was replaced and asbestos tiles repaired over the weekend after the flood, and the school reopened last Monday. Dehumidifying the building was expected to continue into this week, he said.

Seven to more than 30 inches of rain fell on the southeastern part of Texas, according to PCS. Houston received 14 inches and College Station nearly two feet. Rain and winds also caused damage in Dallas and Fort Worth.

Insurers expect about 46,500 claims from the catastrophe, PCS said.

State Farm Insurance Co. estimates it will get 12,500 claims, generating payments in excess of \$17.5 million, for wind and water damage to property and automobiles. In addition, the insurer expects to process 4,000 National Flood Insurance Program claims.

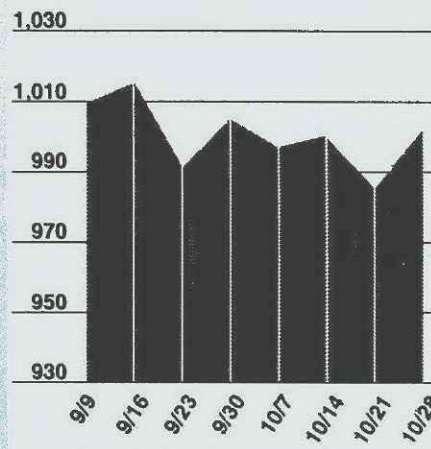
Farmers Insurance Group, the second-largest personal lines insurer in Texas, estimated that the 9,000 claims it received so far will total between \$10 million and \$12 million. The insurer said it could receive as many as 15,000 claims from the flood.

Allstate Insurance Co. expects 6,000 claims.

The National Flood Insurance Program has nearly 160,000 policies in force in the area and has received 4,600 claims.

Adrian Ladbury and Crain News Service contributed to this story.

BI Insurance Index



Base = 100 on Dec. 29, 1978
Source: Nordby International Inc.

Insurance stocks rose last week, as the *Business Insurance Index* gained 16.1 points to 1,002.3 Oct. 28 from 984.2 on Oct. 21. Advancing issues for the week were led by: EMC Insurance Group Inc., up 16.2%; Titan Holdings Inc., up 10.5%; and Humana Inc., up 8.2%. Declining issues for the week followed: Home Holdings Inc., down 9.1%; Torchmark Corp., down 9.0%; and Acceptance Insurance Cos., down 7.7%. The most active issue was U.S. Healthcare, 6.5 million shares traded. The *BI Index* rose 1.8%; the Dow Jones 30 Industrials rose 1.0%; the NYSE Composite gained 1.5%; and the Standard & Poor's 500 rose 1.9%.

British Issues

Oct. 27 Companies	Price pence	P/E*	Div.* %	Yield %	1 week high—low
Comm Union	533	17.0	31.0	5.8	533—518
Genl Accident	562	11.2	34.4	6.1	562—550
Gdn Royal Exch	185	11.9	9.5	5.1	188—132
Independent	253	8.5	10.4	4.1	254—253
Royal	282	12.3	9.4	3.3	282—277
Sun Alliance	322	14.4	18.4	5.7	325—317
Brokers					
Bradstock	94	10.6	6.9	7.3	94—94
Fenchurch	144	11.2	9.0	6.2	146—144
CE Heath	235	8.4	20.0	8.5	240—235
JIB Group	132	11.6	9.4	7.1	134—132
Lloyd Thompson	181	12.6	9.8	5.4	181—173
Lowndes Lmbert	165	10.4	9.4	5.7	170—155
Nelson Hurst	174	17.1	7.0	4.0	174—174
PWS Holdings	34	N/M	1.9	5.6	34—34
Sedgwick Grp	146	16.2	7.5	5.1	152—146
Steel Bri Jones	113	N/M	11.3	10.0	113—113
Willis Corroon	142	13.3	8.3	5.8	154—142

Source: Philip Olsen, London * Latest actual year

BI Industry Stock Report OCT. 24, 1994, THROUGH OCT. 28, 1994

BROKERS															INSURERS/REINSURERS															HEALTH MAINTENANCE ORGANIZATIONS																					
Company	Price	Weekly % change	Year to date % change	Annual High	Annual Low	Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value	Company	Price	Weekly % change	Year to date % change	Annual High	Annual Low	Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value	Company	Price	Weekly % change	Year to date % change	Annual High	Annual Low	Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value																
Accordia Inc.	NYS	28.25	2.73	14.72	28.75	21.00	11	0.60	2.12	14	13.24	2.13	NAC Re Corp.	NDQ	25.88	-6.33	-11.16	32.00	24.00	392	0.16	0.62	13	19.75	1.31	Accordia Inc.	NYS	28.25	2.73	14.72	28.75	21.00	11	0.60	2.12	14	13.24	2.13	NAC Re Corp.	NDQ	25.88	-6.33	-11.16	32.00	24.00	392	0.16	0.62	13	19.75	1.31
Alexander & Alexander	NYS	20.50	-0.61	3.14	22.75	14.00	185	0.10	0.49	-	6.08	3.37	National Re Corp.	NYS	24.75	1.02	-19.18	33.75	23.50	437	0.16	0.65	10	17.31	1.43	Alexander & Alexander	NYS	20.50	-0.61	3.14	22.75	14.00	185	0.10	0.49	-	6.08	3.37	National Re Corp.	NYS	24.75	1.02	-19.18	33.75	23.50	437	0.16	0.65	10	17.31	1.43
E.W. Blanch Holdings Inc.	NYS	20.75	-3.49	19.42	23.00	15.75	5	0.32	1.54	22	4.55	4.56	Navigators Group	NDQ	17.00	6.25	-51.43	39.00	14.25	6	0.00	0.00	-6	10.21	1.67	E.W. Blanch Holdings Inc.	NYS	20.75	-3.49	19.42	23.00	15.75	5	0.32	1.54	22	4.55	4.56	Navigators Group	NDQ	17.00	6.25	-51.43	39.00	14.25	6	0.00	0.00	-6	10.21	1.67
Gallagher Arthur J. & Co.	NYS	32.63	3.98	-8.74	37.13	28.13	72	0.88	2.70	17	6.48	5.33	Nobel Insurance Ltd.	NDQ	8.38	-1.47	9.84	8.75	6.75	18	0.20	2.39	5	6.84	1.23	Gallagher Arthur J. & Co.	NYS	32.63	3.98	-8.74	37.13	28.13	72	0.88	2.70	17	6.48	5.33	Nobel Insurance Ltd.	NDQ	8.38	-1.47	9.84	8.75	6.75	18	0.20	2.39	5	6.84	1.23
Hill, Rogal & Hamilton	NYS	11.88	0.00	-9.52	13.63	11.13	136	0.48	4.04	14	4.72	2.52	NWNL Companies	NYS	28.63	-3.78	4.72	34.50	27.00	474	0.90	3.14	9	24.81	1.15	Hill, Rogal & Hamilton	NYS	11.88	0.00	-9.52	13.63	11.13	136	0.48	4.04	14	4.72	2.52	NWNL Companies	NYS	28.63	-3.78	4.72	34.50	27.00	474	0.90	3.14	9	24.81	1.15
Marsh & McLennan	NYS	75.00	-2.28	-7.83	88.75	73.75	877	2.90	3.87	15	19.40	3.87	Ohio Casualty Corp.	NDQ	29.75	3.03	-6.67	33.75	26.50	406	1.46	4.91	11	24.68	1.21	Marsh & McLennan	NYS	75.00	-2.28	-7.83	88.75	73.75	877	2.90	3.87	15	19.40	3.87	Ohio Casualty Corp.	NDQ	29.75	3.03	-6.67	33.75	26.50	406	1.46	4.91	11	24.68	1.21
Poe & Brown	NDQ	21.75	4.19	20.83	22.75	16.88	38	0.48	2.21	15	4.49	4.84	Old Republic Int'l	NYS	20.63	-1.79	-8.33	25.13	20.63	456	0.48	2.34	8	24.60	0.84	Poe & Brown	NDQ	21.75	4.19	20.83	22.75	16.88	38	0.48	2.21	15	4.49	4.84	Old Republic Int'l	NYS	20.63	-1.79	-8.33	25.13	20.63	456	0.48	2.34	8	24.60	0.84
BROKERS AVERAGE															INSURERS/REINSURERS AVERAGE															HEALTH MAINTENANCE ORGANIZATIONS AVERAGE																					
AVERAGE															AVERAGE															AVERAGE																					
0.6															4.6															0.3																					
4.6															4.6															-6.4																					

Cocaine

Continued from page 1

"In addition, they may well have agreed to underwrite the risks of an airline actively engaged in narcotics importation; without understatement, it is obvious those risks are considerably higher than those of a legitimate airline," Mr. Martin wrote.

Late last month, the U.S. Department of Justice—through Britain's Commissioners of Customs and Excise—attempted to freeze hundreds of thousands of dollars in airline insurance premiums in London paid for by companies allegedly owned and/or controlled by Luis Carlos Herrera-Lizcano.

Mr. Herrera-Lizcano was extradited from Colombia to Chicago earlier this month and charged in U.S. District Court in Chicago on Oct. 17 with drug trafficking and money laundering. Mr. Herrera-Lizcano has pleaded not guilty.

Prosecutors allege that Mr. Herrera-Lizcano operated the "air wing" of the Colombian drug cartel, using a fleet of 22 large cargo aircraft to smuggle tons of cocaine and marijuana worth billions of dollars—much of which has been seized—into the United States, Canada and Central America during the past 12 years. The planes, which included Boeing 707s and 727s and McDonnell Douglas DC-3s, are valued at about \$22.2 million and were bought with drug money, the federal authorities charge.

The federal prosecutors involved in "Operation Golden Jet" also have indicted eight other defendants and 17 air cargo corporations on charges of narcotics importation conspiracy and money laundering. These include: AVIACO, also known as AVIACOL and Aviacion Colombiana Ltda.; and AVESCA, also known as Aerovias Especiales de Carga Ltda., both of Bogota and allegedly owned and operated by Mr. Herrera-Lizcano.

According to U.S. Attorney James B. Burns, "Operation Golden Jet" represents the first direct strike by U.S. prosecutors against the Colombian air cargo companies that service the Colombian drug cartels.

In addition, on Sept. 30, the U.K. Commissioners of Customs and Excise filed an order in the High Court of Justice in London giving four Lloyd's of London brokerages 28 days to account for airline insurance premiums paid through them after March 1 this year to London-based underwriters for Mr. Herrera-Lizcano's aircraft fleet.

The intent of the order is to freeze and force the brokerages to forfeit any of the aircraft insurance premiums they may still hold, say the prosecutors.

Failure to answer the order is contempt of court, which is punishable by sequestration of each of the brokers' assets and imprisonment.

Two of the named brokerages—Leslie & Godwin Ltd., now a part of Aon Corp.'s Nicholson Leslie Group, and Sedgwick Group P.L.C.—would not comment on the order. Another, Jardine Insurance Brokers International Ltd., is giving the authorities the information they requested, said Vivian Wade, general counsel for Jardine in London. "Our involvement is peripheral," she said.

The other named brokerage, Manning Beard Ltd., has responded to Customs and Excise, said Chairman John Manning. The order only named one aircraft

whose coverage was placed through Manning Beard—and that information was incorrect, said Mr. Manning. He says he has told Customs and Excise that "we have no connection with (the said companies), we place no insurance for them and we don't do business in Colombia."

Manning Beard has a "tiny" aviation account with very little business in the region, said Mr. Manning.

This is the first time the U.S. government has gone after aviation insurance premiums allegedly paid out of drug proceeds and to protect drug-related assets, according to Mr. Martin, the assistant U.S. attorney.

But likely won't be the last.

Mr. Martin urges aviation brokers and underwriters to volunteer information about suspected drug traffickers seeking coverage.

Aviation market more selective

Steep rate hikes expected only for airlines with poor loss experience

BY STACY SHAPIRO

LONDON—Selective underwriting is the order of the day during the autumn renewal season for the world's major airlines.

Airlines with good loss records are flying through their current hull and liability insurance renewals with relative ease, since underwriters are offering them pretty good deals. Premiums may be up slightly from last year, but that is usually because fleet values also have increased.

On the other hand, airlines with major losses in the past 18 months are facing premiums of up to double what they paid a year ago.

"Any airline with a bad record will get hammered, and any airline with a good record will get small premium increases aligned with the growth of the airline," said Peter Sweet, chairman and chief executive of Bowring Aviation Ltd.

"The airlines with problems are getting heavy treatment, and those that haven't had any problems are getting very little increases," agreed Peter Butler, executive director of Nicholson Leslie Aviation, a unit of Aon Corp.

The airlines with good loss records are getting some increases, but this is being mitigated by profit commissions that allow an airline to receive some of the premium back if the loss record remains good next year, said Mr. Butler.

But the anticipated worldwide airline insurance premium this year is hardly going to pay for the losses that have been incurred, warned Geoffrey Hargreaves, director of the aviation and aerospace division of Johnson & Higgins Ltd.

Since Jan. 1, airline losses total \$1.5 billion, with about a 50-50 split between hull and liability losses, said Paul Hayes, director of Airclaims Ltd.

This includes the crash of USAir Flight 427 in Pittsburgh last month, killing all 132 people on board (BI, Sept. 12). The liability reserve on this crash alone is set at \$375 million.

The total also includes the hull losses from an Oct. 25 Thai Airways International P.L.C. accident in Bangkok, in which a McDonnell Douglas Md-11 ran into an Airbus A300-B4 and both aircraft were damaged. Mr. Hayes would not say what the loss would be, but London underwriters estimate the damage could cost as much as \$80 million.

Over the 12 months since Oct. 1, 1993, airline insurance losses have totaled \$2 billion, according to Mr. Hayes. This includes attritional

"The Drug Enforcement Administration in Operation Golden Jet (and its progenitor program in Phoenix, named Operation Emerald Clipper) has over the years developed an extensive and expanding database cataloging the Colombian and Panamanian airlines engaged in international narcotics trafficking," said Mr. Martin. "We believe that if aircraft insurers contact these DEA programs when they are first approached to underwrite Colombian and Panamanian airline risks, they can not only aid law enforcement efforts to stop the traffickers, but they can also protect themselves from writing unknown and extraordinary risks."

London brokers and underwriters—none of whom would speak on the record—have mixed views about the request to call in federal agents.



losses—such as lost baggage or burn claims—which are excluded from the year-to-date estimate.

Airline underwriters have been trying to boost 1994 premiums to \$2 billion from \$1.4 billion last year. But competition has heated up again in the market due to insurers' willingness to increase their stake in it, so brokers and underwriters do not believe this premium boost will be achieved. They estimate 1994 premiums will total between \$1.65 billion and \$1.75 billion.

The aviation market is in the middle of the largest concentration of airline hull and liability insurance renewals during the year. Since Oct. 1, at least 26 airlines have renewed their programs, including British Airways, United Airlines Inc. and Trans World Airlines Inc.

On Tuesday, about 20 airlines will renew, including Japan Air Lines, Qantas Airways Ltd., Singapore Airlines Ltd. and the KSSAF group of 50 European airlines, which has a fleet value of \$20.5 billion.

At least another 10 airlines renew in December, including Air France, American Airlines, Inc. and Delta Air Lines Inc.

So far, as one London broker put it, the "glitzy" airlines, like British Airways and United, are getting some rate reductions and/or profit commissions, though their overall premium is rising due to increased fleet values and increased revenues per passenger miles, both of which are used to calculate the premium.

On average, premiums are up 7% for these airlines, mainly because fleet values are growing, according to one London underwriter.

But some airlines' hull and liability rates may be decreasing as much as 20% even though they are paying more in premiums, underwriters note. For example, if the value of a fleet increases by 15%, but the rate decreases by 10%, the hull premium will still be slightly higher.

These hull and liability premium hikes are far below levels in 1993, when rate increases resulted in most airlines paying between 60% and 70% more in premiums during

One London aviation underwriter asked for Mr. Martin's address because the underwriter is denying a South American hull claim that he believes is drug-related.

A London aviation broker said he stopped placing an aircraft policy once after the DEA contacted him and told him not to place it.

However, the broker added, "you can't call the DEA every time you get a phone call from Colombia or Panama. You'd go mad. Brokers are commercial animals, don't forget."

Another London broker said he assumes that the local broker based in the South or Latin American country has done his homework before seeking coverage in the London market.

Brokers and underwriters add that they have no intention of

contacting the DEA when Colombia's largest airline, Aerovias Nacionales de Colombia S.A., or AVIANCA, renews its coverage this autumn.

Mr. Martin admitted that there has only been "limited" dialogue with aviation insurance brokers and underwriters so far. And he suspects a lot of airline premiums are being accepted with very little investigation by the underwriters about who the owners are.

But he urged the aviation insurance community to redress this situation, for commercial if not moral reasons.

Although it might be more work to contact the DEA, "if you accept the money and we find out, we'll come after it," warned Mr. Martin. "Then you have to consider (the cost of defense and losing the premium) as the cost of doing business." **BI**

autumn renewals (BI, Aug. 29).

Some aviation underwriters also are offering profit commissions of up to 10% of the airlines' premiums if there are no losses by the end of the policy period, brokers say. So, while premiums may be rising, airlines might get some of it returned next year.

There are some exceptions to the rule of this renewal season, however.

For example, U.S. domestic airlines are seeing liability rates increasing about 7% to 10% following the USAir loss and the huge increase to \$475 million from \$90 million on the liability loss reserve for the 1988 explosion of Pan American World Airways Inc.'s Flight 103 over Lockerbie, Scotland (BI, Oct. 3; April 11; Feb. 21; Feb. 7).

"North American U.S. liability rates are holding the line come what may," said one aviation broker. Even though there is some pressure on U.S. hull rates, "there is a stronger feeling now post-USAir

'The perfume of the premium is overpowering the odor of the risk,' says John Westcott.

that underwriters won't reduce (U.S.) liability prices."

Meanwhile, premiums are soaring for some airlines, primarily those that have suffered major losses in the past few years. They include:

- Taiwan-based China Airlines Ltd., which saw its hull and liability premium increase roughly to \$50 million from \$14 million, underwriters say. The airline has had two major crashes in the past year with losses possibly totaling \$415 million (BI, May 2).

- Mainland China's C.A.A.C.—The Civil Aviation Administration of China—also saw premiums increase roughly to \$122.5 million from \$60 million.

Both airlines' London coverage is placed by Nicholson Leslie Aviation, but Mr. Butler would not comment on his clients.

Underwriters anticipate that the five or six airlines that will have hefty increases because of bad loss records will bring in an additional \$250 million in premiums this year.

Despite this selective underwriting, however, aviation underwriters are not happy.

"I'm disappointed, personally, be-

cause I think we were really underwriting a year ago and now we're being commercial again," said a U.S. aviation reinsurer. "The hard market is gone."

"In light of all the losses, I don't know what direct underwriters are doing giving rate reductions," added a London aviation reinsurer.

"The sort of (rate) increases the sector needs on airlines is 25% on existing terms, and we're not getting it," said Lloyd's of London aviation underwriter John Westcott. "There are only increases on airlines which have cost us dearly... The major loss accounts have substantial increases... but that goes against the theory of insurance (which is) that we spread the cost of a few over the many."

True, U.S. liability rates have increased, but they need to increase even more, added Mr. Westcott. The market "needs a substantial increase in dollars and it's not getting it. Mainly it is staying at the level of last year, but we're not achieving the (premium amounts) of what underwriters know U.S. liabilities are costing them. The perfume of the premium is overpowering the odor of the risk."


It isn't new capacity that is causing the competition, Mr. Westcott added, echoing other brokers and underwriters. There are very few new players, though Reliance National Insurance Co. (U.K.) Ltd. has opened an aviation insurance department in London headed by former Lloyd's underwriter Darren Redhead.

But some players are increasing their capital. For instance, Polygon Insurance Co. Ltd., the Guernsey-based captive insurer of the KSSAF group, increased its capital by 10 million pounds to 50 million pounds (\$81.2 million).

And continental European reinsurers are acting like direct insurers and offering discounts from existing rates of up to 20%, said Mr. Westcott, again echoing other people in the market.

London underwriters say this includes Swiss Reinsurance Co. which is offering a five-year long-term reinsurance "agreement" through airlines' captives, via local insurers or through Swiss Re's insurance affiliates (BI, May 23).

But Swiss Re isn't offering discounts or profit commissions, said Carol Franklin Engler, head of aviation for Swiss Re in Zurich. Nevertheless, Swiss Re's approach has attracted 13 choice airlines so far and hopes to attract another two or three by the end of the year, she confirmed. **BI**

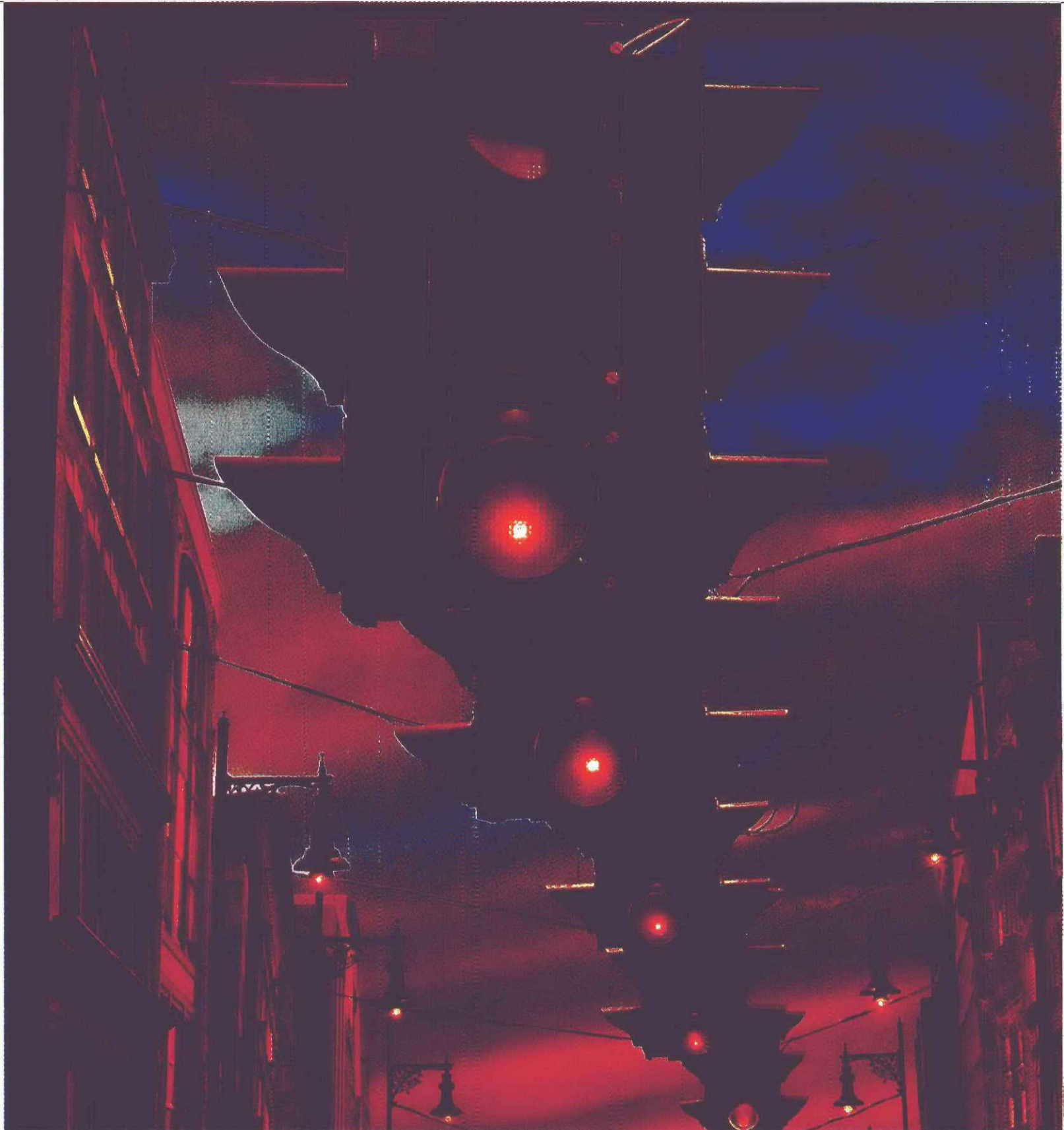


**SOMETHING
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