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update

Insurer, Kerr-McGee share payment of Silkwood award

OKLAHOMA CITY—Coverage written by American Nuclear Insurers, a pool of about 110 companies that provides property/casualty coverage for energy-related concerns, is paying just less than half of the $1.38 million settlement awarded to the estate of Karen Silkwood.

Kerr-McGee Corp. is paying the rest of the settlement in the contro-

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Crump merger to lift James to No. 4

By LINDA J. COLLINS

NEW YORK—The merger of Fred S. James & Co. Inc. and The Crump Cos. Inc. announced last week will unseat the fourth-largest U.S. insurance brokerage and give James new strength in the South.

In addition, Sedgwick Group P.L.C., the Lloyd's of London broker that owns James, will narrow considerably the revenue gap between its position as the world's third-largest broker and Alexander & Alexander Services Inc.'s position as second-largest.

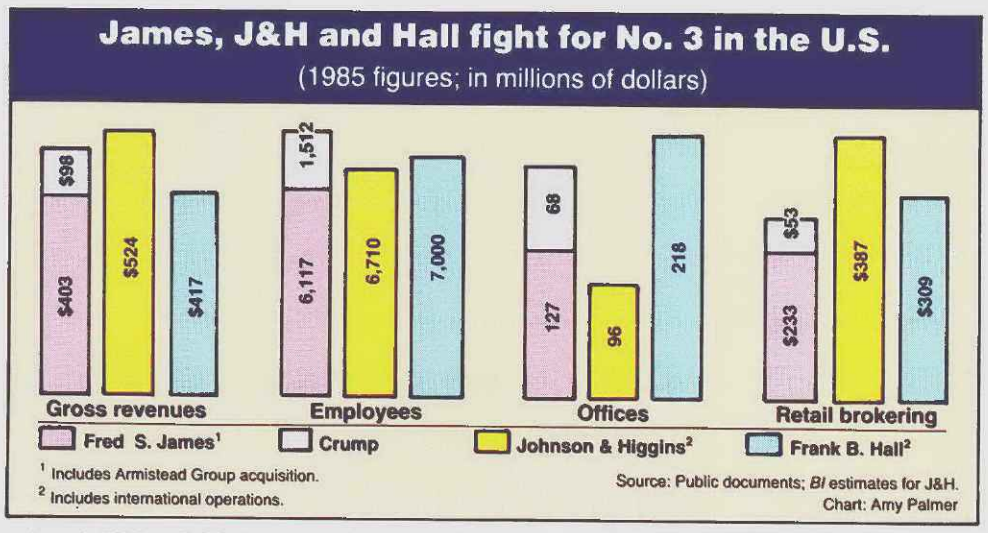
Sedgwick is buying Memphis, Tenn.-based Crump, the eighth-largest U.S. broker based on 1985 revenues of $97.9 million, for $33 a share in cash, or $307 million.

Counting James' 1985 revenues of $391.5 million and the $11.7 million in 1985 revenues reported by Nashville, Tenn.-based Armistead Group Inc., which James acquired earlier last month, the merged companies' 1985 revenues total $501.2 million.

That will unseat Frank B. Hall & Co. Inc., which ranked as the fourth-largest broker in 1985 based on $417.4 million in revenues.

In addition, the merged companies' 1985 revenues are not much smaller than those of Johnson & Higgins, the nation's third-largest brokerage with estimated 1985 revenues of $523.5 million.

"It's getting crowded at the top, isn't it?" quipped Richard M. Page, chairman and chief executive officer of James, which ranked fifth based on 1985 revenues.



However, the James/Crump combination will still trail both J&H and Hall in retail brokerage revenues, largely because a large portion—24%—of Crump's 1985 revenues were produced by its wholesale brokerage operation (see chart).

After the acquisition is completed about Nov. 1, Crump's retail brokerage operations will be merged with James'. The Crump wholesale operation, Crump E&S Group, and its reinsurance brokerage division, Crump Re Inc., will retain their identities.

Internationally, the Crump and Armistead acquisitions will close the gap between A&A, the world's second-largest brokerage, and Sedgwick, which held the No. 3 position based on 1985 revenues.

The inclusion of Crump's and Armistead's revenues will increase Sedgwick's 1985 worldwide revenues to $952.9 million, just $15 million less than A&A's worldwide 1985 revenues of $967.9 million.

"Our aim has been to establish the Sedgwick Group as a leading broker in the leading markets of the world," said Sedgwick Chairman Carel Mosselmans in London. The Crump acquisition "is a further strategic step to our expansion in the U.S. It is part of the development of this group's status to be a truly global broker.

"I think it is a good fit. It gives us an additional geographic spread in the U.S.," Mr. Mosselmans said, adding that "we are always looking for opportunities" to acquire other brokers.

"We felt that Crump and Armistead together would give us a commanding presence in the South," agreed Mr. Page.

The acquisition will give James "a considerable leg up in the Southeast, where Crump is quite strong," commented analyst Leonard M. Wilson, a principal at L.F. Rothschild, Unterberg, Towbin in New York. "While geographically there may be some overlaps, James was not that strong in the Southeast."

Mr. Page said geographic considerations attracted Sedgwick and James to Crump.

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Ambassador saga ends with liquidation

By MEG FLETCHER

MONTPELIER, Vt.—After winning a two-year court fight, the Vermont Insurance Department is preparing to liquidate Ambassador Insurance Co.

State officials applaud their victory against Ambassador's owners in the Vermont Supreme Court last month, but complain that the delayed liquidation allowed Ambassador's assets to be drained by more than $20 million in defense costs paid on behalf of policyholders over the past two years.

"Basically, we are delighted with the decision," said Vermont Insurance Commissioner Thomas P. Menson, who is Ambassador's court-appointed receiver.

"The New Jersey Insurance Department has been operating on the assumption that Ambassador is insolvent and the court's decision affirms our good judgment," a department spokesman said.

Although domiciled in Vermont, Ambassador wrote a large volume of premiums in New Jersey as a surplus lines insurer. In the wake of Ambassador's insolvency, New Jersey created a surplus lines guaranty fund, which has been paying claims filed by its residents against Ambassador.

In another contested liquidation, the New York Insurance Department has prevailed in its fight to liquidate the insolvent Dominion Insurance Co. of America, a reinsurer (see story, page 78).

In its Aug. 22 decision in the Ambassador case, Vermont's Supreme Court affirmed Superior Court Judge John Meaker's decision nearly two years earlier that the Vermont Insurance Depart-

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First-half earnings double for 15 of 24 major insurers

By JUDY GREENWALD

Major property/casualty insurers, coming off a second consecutive quarter of vastly improved operating results, can look forward to at least another year or two of strong earnings, analysts say.

Thanks to higher rates, tighter underwriting standards and the absence of any major catastrophes, 15 of the 24 major commercial property/casualty insurers surveyed by *Business Insurance* reported increases in operating earnings of at least 100% in the first half of 1986.

And some of the companies that reported smaller increases in operating income say the only reason they're trailing the pack is because their earnings never seriously deteriorated in the first place.

Overall, the aggregate operating income of the 24 surveyed insurers increased 216.2% in the first half of 1986 compared with the first six months of 1985. While this is not as large as the 532.2% jump in operating earnings reported by the insurers in the first quarter, industry analysts weren't disappointed by the first-half results.

"They confirm that the industry is on the mend," said Norman L. Rosenthal, vp and analyst at Morgan Stanley & Co. in New York.

"We see a great year," said David P. Wells, an analyst with Merrill Lynch Pierce Fenner & Smith Inc. in New York.

The industry's second-quarter results are "very indicative" of the results insurers will continue to post, predicted Samuel J. Weinhoff, first vp at Shearson Lehman Bros. in New York.

Lowest combined ratios

Insurer	First half 1986	1985
Hartford Steam Boiler	86.2%	96.9%
Chubb Corp.	99.5	109.9
American International Group	102.1	107.4
General Re Corp.	104.9	113.5
SAFECO Corp.	105.1	112.3

Highest combined ratios

Reliance Insurance Co.	126.8%	113.6%
Fremont General Corp.	120.7	132.5
CNA Financial Corp.	117.1	123.8
The Home Group Inc.	115.4	143.2
The St. Paul Cos. Inc.	115.1	121.1

Source: *BI* survey — Chart: Amy Palmer

The rebound in major property/casualty insurers' earnings was created by dramatic improvements in both underwriting and investment results:

- Boosted by rate hikes, net premiums written increased by 30.7% to just more than $38 billion in the

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The U.S. exchanges and Lloyd's . . . Page 3

update

Silkwood suit settled

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versial case of the worker who claimed she had been contaminated by radioactive plutonium. She was killed in an auto accident shortly after she began efforts to prove unsafe conditions existed at the Kerr-McGee facility.

Under Kerr-McGee's coverage with American Nuclear, the insurer did not have to contribute to the settlement, but the insurer did so to avoid paying additional legal expenses that might be incurred, a Kerr-McGee spokesman said. The amount of defense costs the insurer paid during the course of the 10-year-old lawsuit was not available, but the spokesman said that there were "ongoing reimbursements."

The agreement settles the suit that was first brought against Kerr-McGee in 1976, charging that Ms. Silkwood was contaminated by radioactive plutonium when she worked at the company's Cimarron plant in 1974.

A federal court jury award of $10.5 million to Ms. Silkwood's estate in 1979 was later overturned on appeal and a new trial had been ordered.

Kerr-McGee has denied blame in connection with any radioactive contamination Miss Silkwood may have suffered.

American Nuclear, based in Farmington, Conn., typically shares any coverage it writes with another pool, Mutual Atomic Energy Liability Underwriters in Chicago.

Richard Jones, supervising underwriter at American Nuclear, said the insurer kept 77.5% and Mutual Atomic Energy had 22.5% of the coverage. Those percentages are the routine amounts divided between the companies whenever a risk is written, he explained.

Arrow Air offers settlement

LOUISVILLE, Ky.—Arrow Air Inc. says it will not contest liability for compensatory damages stemming from the Dec. 12, 1985, crash of a jet in Gander, Newfoundland, that killed 256 people, if plaintiffs drop claims for punitive damages.

In a prepared statement, the company emphasized that the offer is not an admission of liability and does not indicate that any problem existed with the aircraft.

The Warsaw Convention, which governed the Gander flight, provides for unlimited liability for compensatory damages when no tickets are issued to passengers, the company noted. No tickets were issued to the 248 U.S. servicemen killed in the crash along with eight crew members, a company attorney said.

Arrow Air contends that punitive damages sought by the plaintiffs also are barred by the Warsaw Convention and has filed a motion asking for a dismissal of punitive damage claims.

The Canadian Air Safety Board is still investigating the crash.

About 100 cases are pending in federal court in Kentucky and about 60 in state court in Florida. Arrow Air has settled at least 14 suits, with seven of the settlements averaging about $260,000.

Arrow Air's $350 million in liability insurance is led by Associated Aviation Underwriters, followed by other insurers and underwriters at Lloyd's of London, the Arrow Air attorney said.

Beneficial for sale

WILMINGTON, Del.—Beneficial Corp. says it's for sale, after announcing that it will add about $260 million to the reserves of its property/casualty insurance subsidiaries before year-end.

The reserve additions, covering both claims and uncollectible reinsurance, will produce an aftertax loss of $150 million for Beneficial, the company announced.

"Almost all" of the reserve additions will go to American Centennial Insurance Co. of Peapack, N.J., a Beneficial spokesman said.

Part of the reserve-bolstering at American Centennial, the spokesman added, will cover losses from a reinsurance program written for Associated Electric & Gas Insurance Services Ltd., a Bermuda-based utility industry captive.

American Centennial continues to press a lawsuit filed in U.S. District Court in Newark in 1984 charging that John A. Kraeutler, a former managing general agent, and several others conspired to defraud American Centennial by stripping excessive commissions from AEGIS premiums and by intentionally arranging retrocessions for American Centennial with financially weak reinsurers (*BI*, Oct. 29, 1984).

The spokesman added, however, that American Centennial had as many as 10 MGAs at various times and that "all the MGAs' books have generated adverse loss development and high combined ratios."

A.M. Best Co. has dropped American Centennial's rating to C-plus for 1985 from B-plus in 1984.

American Centennial no longer is writing any new reinsurance business, although it continues to renew some contracts for MGAs that had rights to multiyear renewals.

Briefly noted

A group of 22 creditor banks is appealing a New York bankruptcy court's ruling authorizing **LTV Corp.** to continue providing group life and health insurance benefits to 78,000 retirees at a cost of $70 million, contending the payments discriminate in favor of one group of creditors. . . .Action was not expected on a major **workers compensation reform** package in California before the Legislature's anticipated adjournment Aug. 30, but the Legislature sent to the governor a bill that, among other things, permits self-insurers to post a combination of a letter of credit and a bond to satisfy the state's security requirements. . . .Seventy-one reinsurers reporting to the **Reinsurance Assn. of America** posted a 106.3% combined ratio for the first half, compared with a 120.3% combined ratio for the comparable period a year ago. Net premiums written by those reporting increased 55.9% to $5.9 billion.

Competition forces AMI to shutter fledgling PPO

By DONNA DiBLASE

BEVERLY HILLS, Calif.—An "extraordinarily competitive marketplace" and $25 million in losses are forcing American Medical International Inc., an owner and operator of hospitals, to discontinue its 1½-year-old AMICARE preferred provider group health product, company officials say.

Existing AMICARE contracts, which cover about 35,000 people, will be honored until they expire over the course of the next year, says an AMI spokesman.

The AMI spokesman said he could not estimate how many employers have contracted with AMICARE, but did say that the PPO network included several hundred hospitals and about 10,000 physicians.

"It seemed to us that the energy and capital used in the AMICARE programs could be better utilized in our hospitals, which are the core of our business," explained Walter L. Weisman, president and chief executive officer of AMI.

"We found an extraordinarily competitive marketplace," another AMI spokesman said. "Everyone is trying to get into the managed health care delivery field to the point where the competition was counterproductive, or even destructive, in some of our markets."

AMI lost $25 million—mostly due to PPO start-up costs—in the fiscal year that ended Aug. 31. And, AMI estimated it would have lost $100 million in fiscal year 1987 if it did not discontinue AMICARE.

AMI would not project its fiscal 1986 profits, but said it expects to report fiscal 1986 gross revenues of about $4 billion. AMI reported fiscal 1985 profits of $163.8 million on gross revenues of $2.7 billion.

AMICARE was created by AMI, which owns abou 90 hospitals—mainly in California, Florida and Texa —after AMI bought Los Angeles-based Fidelity Inter state Life Insurance Co. for $10 million in late 198 (*BI*, July 22, 1985).

AMI marketed AMICARE through its Group Healt Services division, which now is being discontinued resulting in the layoff of about 2,000 of AMI's 40,00 employees. The layoffs were in several corporat regional offices, he noted.

Although AMICARE and the Group Health Service division are being discontinued, Fidelity Interstat Life will continue to market four health maintenanc organizations.

One HMO is located in Denver and covers abou 100,000 people. Another HMO, which is a joint ventur between AMI and George Washington University Hos pital in Washington, D.C., covers about 30,000 people.

Two other HMOs have just begun operating i Omaha, Neb., and Birmingham, Ala. The spokesma could not say how many people are enrolled in thos plans, nor would he reveal the annual revenues of th HMOs.

One major AMICARE client says it is not going t wait for its contract to expire.

The Public Employees Retirement Assn. of Colorad in Denver says it will transfer the 10,000 retiree enrolled in AMICARE to a new group health pla within 90 days.

The association administers the pension and healt benefits for 26,500 retirees from Colorado publi schools and local governments, said a spokesman fo PERA.

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Proposed captive would provide high EIL limits

By ROBERT A. FINLAYSON

Johnson & Higgins, a major New York bank and a Washington, D.C., law firm are attempting to organize a major offshore insurance company that would provide environmental impairment liability coverage to large U.S. industrial concerns.

J&H is polling about 300 to 400 industrial companies to gauge the level of interest in establishing an offshore insurer that would provide substantial limits of EIL coverage, sources say.

Backers of the facility hope to capitalize it at $200 million to $300 million and to offer annual aggregate limits as high as $100 million, depending on how many companies decide to participate in the group captive.

The proposed insurer, tentatively named North American Casualty Cooperative Inc., is the brainchild of LaRoe, Winn & Moerman, a Washington law firm. The firm began work on the idea about 18 months ago.

An official of J&H, who spoke on condition he not be identified, confirmed that the broker also is involved in trying to set up the new insurer. Sources also confirmed the involvement of the New York bank in the project, but declined to identify it.

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Ruling expands 'dual capacity'

By STEPHEN TARNOFF

PHILADELPHIA—Employees may sue their employers in Pennsylvania for injuries suffered outside the workplace but allegedly caused by the employer, the 3rd U.S. Circuit Court of Appeals says.

A three-judge panel ruled last month that employees with asbestos-related diseases could recover in suits against their employers for diseases allegedly caused by exposure to asbestos outside the workplace.

The ruling, which is against the trend of many recent federal and state decisions, expands the circumstances in which employers may be sued by employees and specifically finds that the so-called "dual capacity" doctrine is viable in Pennsylvania.

Under the dual capacity doctrine, employees are permitted to sue their employers for injuries caused by the employer when either the employee or employer is acting outside of the scope of the employment relationship.

This is an exception to the exclusive remedy doctrine of state workers compensation laws, which gives employers tort immunity in exchange for accepting absolute liability for all work-related injuries.

The Pennsylvania case, *Shelly vs. Johns-Manville Corp.*, involved 10 separate actions in which former employees of Raymark Industries Inc. and their spouses sued the Trumbull, Conn.-based company, alleging they contracted various diseases from exposure to asbestos.

Johns-Manville Corp. and other original defendants in the suit—with the exception of Raymark—settled with the plaintiffs.

The employees sued Raymark rather than filing workers compensation claims because Raymark had contested work

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inside

Tax rulings are deterring potential individual investors from backing syndicates on the U.S. insurance exchanges, contends Peter H. Bickford, counsel to the New York law firm of Calinoff & Katz. The former vp, general counsel and secretary of the New York Insurance Exchange speaks out in this week's Perspective section. PAGE 45

What's the current property/casualty insurance climate in the Far East? See International Issues by Jerome Karter of the New York International Department of Johnson & Higgins. PAGE 46

Insurance buyers, brokers and ceding companies should reconsider any reservations they have about the U.S. insurance exchanges, this week's editorial advises. PAGE 8

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spotlight report

The exchanges

Despite image problems, U.S. markets growing

By JAMES M. BURCKE

The three U.S. insurance exchanges are seeking respectability.

While the New York Insurance Exchange, the Insurance Exchange of the Americas and the Illinois Insurance Exchange are seeing plenty of submissions seeking coverage during the property/casualty capacity crunch, brokers for the three exchanges admit that many brokers, insurers, risk managers and potential investors are not convinced the exchanges are secure markets.

For example, Pro Re Inc. is not able to use the New York Insurance Exchange "to the extent we would like," says Pro Re President Robert J. Byrne, because the exchange is not on the approved list of many of the broker's clients.

Brokers on the Illinois Insurance Exchange in Chicago say that some excess insurers will not provide coverage over a primary policy written by an IIE syndicate.

"If you use the exchange to place primary coverage, it's difficult to find an excess insurer that will write over the exchange's primary," said Terry Winkler, executive vp of Insurance Brokers Service in Chicago.

IIE observers also say some reinsurers will not reinsure IIE syndicates, which limits the gross capacity provided by the exchange.

But the quest for respectability is perhaps most pronounced at the Insurance Exchange of the Americas in Miami, where litigation filed against two IEA syndicates is scaring away potential investors and, according to a former IEA official, could threaten the exchange's existence (see story, page 38).

Omaha Indemnity Co. is charging that the two IEA syndicates did not have the financial strength to reinsure business written for Omaha Indemnity by two managing general agents and that the business now is creating large losses for the insurer.

The IEA says its $13 million guaranty fund would be protected from any claims by Omaha Indemnity if the syndicates are found liable for claims they cannot pay.

However, Richard Lehman, former deputy chairman of the IEA's board of governors and currently the controlling owner of IEA syndicate manager First Insurance Investors Group Inc., fears that the Omaha Indemnity litigation will scare off too many investors and "destroy us in the process."

Others associated with the IEA agree that the exchange has been the subject of too much bad publicity and must improve its respectability among potential investors, reinsurers, brokers and buyers.

"You've heard the comment, 'We have plenty of P.R. and it's all bad,'" says Ben F. Ricker, executive vp of Central Placement Brokers. "The exchange is like anything else. You start something and if it's successful, you get careless about extending your image.

"We need to get out there and get rid of the mystique."

While the exchanges improve their internal controls and try to polish their public images, they are becoming a growing force in the U.S. property/casualty insurance market.

The three exchanges wrote aggregate gross premiums of $505.2 million in 1985, a 27.8% increase from a gross premium volume of $395.2 million in 1984. Net premiums written by the three exchanges likewise increased 31.4% in 1985 to $343.2 million from $261.2 million the previous year.

However, the 1985 premium increase may be overstated because the $132 million in gross premium and the $117.8 million in net premium reported for 1985 by the IEA includes a disproportionate amount of business written in previous years but not recorded because of backlogs in the IEA's central processing system.

Aggregate policyholder surplus for the three exchanges also increased last year, but at a slower pace. The exchanges reported a combined surplus of $270 million at year-end 1985, a 16.4% gain from surplus of $231.9 million on Dec. 31, 1984.

But, as premium volume and surplus grew, so did the exchanges' aggregate statutory net losses. Syndicates on the three U.S. exchanges reported a combined 1985 net loss of $46.7 million, 12.8% greater than the 1984 aggregate net loss of $41.4 million.

Continued on next page

New York Insurance Exchange

Active syndicates: 25[E]
Licensed syndicates: 44
Broker members: 108
1985 capital and surplus: $194.1 million
1985 gross premiums: $309.5 million
1985 net premiums: $201.1 million
1985 net loss: $42.1 million
Guaranty fund: $36.4 million
[E] *BI estimate*

Illinois Insurance Exchange

Active syndicates: 13
Licensed syndicates: 20
Broker members: 135
1985 capital and surplus: $45.4 million
1985 gross premiums: $63.7 million
1985 net premiums: $24.3 million
1985 net loss: $3.8 million
Guaranty fund: $14 million

Insurance Exchange of the Americas

Active syndicates: 14
Licensed syndicates: 23
Broker members: 68
1985 capital and surplus: $30.5 million
1985 gross premiums: $132 million
1985 net premiums: $117.8 million
1985 net loss: $764,484
Guaranty fund: $13 million

Capacity crunch secures Lloyd's preeminent role

U.S. commercial insurance buyers that cannot find property and casualty insurance capacity in the U.S. market increasingly are looking to Lloyd's of London for help.

However, Lloyd's officials, underwriters and brokers say there is little capacity remaining this year for new U.S. business. And, while Lloyd's non-marine underwriters expect to have bolstered capacity for year-end renewals, which they will begin writing on Oct. 1, they say there still will not be enough capacity to satisfy the expected demand from U.S. buyers next year.

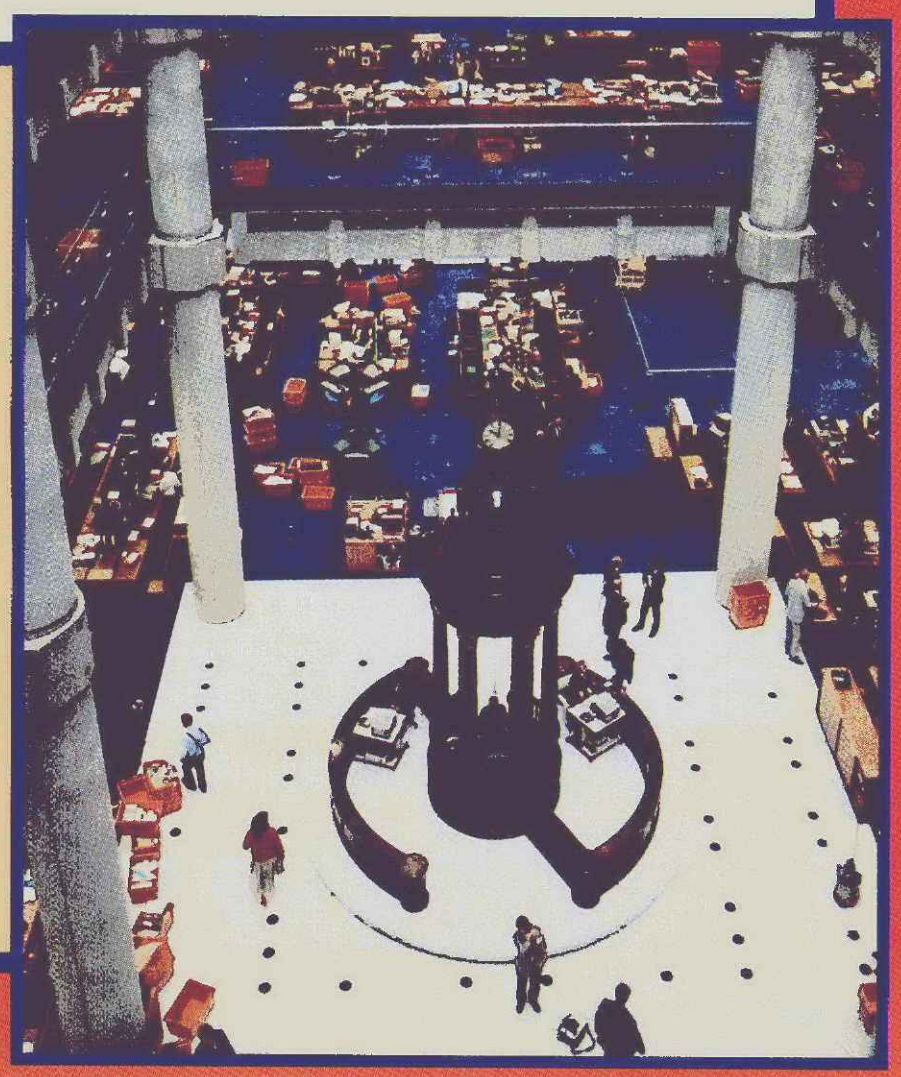
Despite this unfulfilled demand, Lloyd's over the past year has fortified its position as a vital market for U.S. buyers. "Lloyd's of London is more important (to U.S. corporations) than it has been in the past," Lloyd's Chairman Peter Miller points out.

Indeed, officials of the three U.S. insurance exchanges compare their markets to Lloyd's when they discuss their long-range goals.

Apart from its increased role, other big changes are occurring at the world's oldest insurance market. Most notably, Lloyd's is now carrying on its tradition-laden business inside a new headquarters building, the futuristic design of which has generated tremendous controversy within the market.

Yet, despite the building's striking architecture, Lloyd's is attempting to blend the old with the new. For instance, amid the atrium of the market's new underwriting room hangs Lloyd's most famous symbol—the Lutine Bell—in the oak rostrum that supported the bell in the 1928 Lloyd's building torn down to make way for the new structure.

A complete report on developments at Lloyd's of London begins on page 57.



U.S. exchanges

Continued from previous page

All three exchanges last year continued their metamorphosis from markets that primarily write reinsurance to what their founders had originally intended: major markets for excess/surplus lines coverage.

The three exchanges combined wrote about $45 million in gross premiums last year on a surplus lines basis, up almost 600% from only $6.6 million in 1984.

However, all three exchanges remained primarily reinsurance markets during 1985. Surplus lines premiums accounted for only 8.9% of the exchanges' aggregate gross premiums.

Officials at all three exchanges expect surplus lines business to account for a greater proportion of their volume this year, but the most dramatic increase is predicted at the Illinois exchange. James M. Skelton, the IIE's president and chief executive officer, expects surplus lines business to contribute 95% of the exchange's premium volume this year.

The New York Insurance Exchange, the oldest of the three U.S. exchanges, continues to dwarf the other exchanges in size, even though volume on the NYIE decreased last year for the first time in its history (see story, page 10).

Gross premium volume on the New York exchange declined 10.4% in 1985 to $309.5 million from a record $345.6 million in 1984.

Many of the NYIE's oldest and largest syndicates have stopped writing since 1984 and are now running off largely unprofitable books of property/casualty reinsurance written during the NYIE's first years of operations. Many of these syndicates halted underwriting after they reached exchange-imposed underwriting limits. Meanwhile, only five new NYIE syndicates have been formed since the beginning of 1985, and one of these new syndicates already has stopped writing after hitting the exchange's limits.

Despite the syndicate fallout, NYIE President Joseph Fayhs, who succeeded retiring President Donald E. Reutershan on Jan. 1, says the exchange's gross premium volume will decline only slightly in 1986 to about $300 million. Exchange observers say newly formed syndicates and established syndicates that either have recapitalized or are tapping underutilized surplus will largely make up for the volume lost by the syndicates that have shut down.

Exchange underwriters, meanwhile, are hoping they can reduce their losses this year. Exchange syndicates reported an aggregate $42.1 million statutory loss in 1985, up 19.6% from a $35.2 million net loss in 1984.

NYIE syndicates currently writing business are raising rates and restricting coverage availability, are shifting toward writing more property risks rather than casualty business and, in some cases, are focusing on surplus lines business rather than reinsurance.

The shift to primary and excess business is evident from the exchange's first-half 1986 results. Gross direct written premiums totaled about $23 million in the first six months, compared with $15.5 million for all of 1985.

While the New York exchange is aiming to cut its losses and to regenerate capacity lost by the syndicate withdrawals, the Insurance Exchange of the Americas is fighting these same problems—plus a few more (see story, page 28).

Perhaps the most worrisome problem confronting the IEA is the Omaha Indemnity litigation.

While exchange officials say the IEA's guaranty fund will not be tapped if the two exchange syndicates are held liable and cannot pay their portion of the Omaha Indemnity losses, they admit that the negative publicity is limiting the IEA's ability to attract new investors.

"Right now is the time this exchange should be growing, and the last thing we need is an Omaha Indemnity situation and the question marks that surround it," says Gene Witherspoon, the IEA's executive vp.

Like the New York exchange, the IEA also is suffering from a lack of capacity, in part caused by several syndicates that have stopped underwriting. For example, the two syndicates named in the Omaha Indemnity suit—RAM Syndicate Inc. and Administrative Management Services Syndicate Inc.—have stopped writing, putting the No. 1 and No. 3 syndicates in terms of 1985 gross written premiums on the sidelines.

All told, only 14 IEA syndicates currently are writing business, compared with 18 a year ago.

The lack of capital behind the IEA also can be seen by its bulging premium-to-surplus ratio.

The IEA's estimated 1986 gross premium volume of $180 million to $200 million, including business written in previous years, would greatly exceed the 6-1 maximum gross premium-to-surplus ratio allowed by the exchange, based on the IEA's current surplus of about $21.2 million.

However, IEA syndicates still are being permitted to write business as long as they can show the high ratios are the result of business actually written in previous years but just now reported because of the processing backlogs.

Gross premiums reported by IEA syndicates last year totaled $132 million, including business written in previous years, up 262% from $36.5 million in 1984. Net premium volume rose 261% to $117.8 million from $32.6 million.

The IEA's aggregate net loss, however, declined last year to $764,484 from $4.8 million in 1984. And the exchange's property/casualty syndicates actually posted a net gain of $402,777 in 1985.

While the Illinois Insurance Exchange also suffers from many of the problems plaguing the New York and Florida markets, IIE officials and underwriters are unabashedly proud of the exchange's progress toward becoming a major surplus lines insurance market.

Mr. Skelton predicts the exchange will write more than $200 million in surplus lines premiums this year, and as of July 31, that prediction appears on target.

In 1985, the Illinois exchange wrote $63.7 million in gross premiums, up 319% from $15.2 million in 1984. Net premium volume increased 129.2% to $24.3 million in 1985 from $10.6 the previous year. Despite this growth, IIE officials, underwriters and brokers admit they also face problems—worries that threatened the exchange's survival as recently as last year.

Providing brokers with adequate capacity ranks as one of the IIE's biggest problems. For example, the largest IIE syndicate in each of the last four years, LWB Syndicate Inc., stopped writing business at the end of last year.

They also note the exchange has been successful in attracting new blood. Thirteen of the IIE's 20 approved syndicates have been formed since the beginning of 1985. Thirteen syndicates currently are writing business, and Mr. Skelton hopes that 20 syndicates will be writing by year-end.

IIE syndicates posted an aggregate net loss of $3.9 million last year, compared with only a $1.4 million loss in 1984. ■

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opinions

Don't write off U.S. exchanges

TO OUTRIGHT dismiss any of the three U.S. insurance exchanges as a possible market for insurance or reinsurance is illogical and counterproductive.

Nonetheless, that is what some policyholders and ceding companies are doing when they tell brokers not to market their risks to any or all of the U.S. insurance exchanges or when excess insurers refuse to write coverage over an exchange's underlying policy.

And, the regulators in each of the states hosting exchanges aren't helping matters by refusing to approve exchanges outside their states as acceptable surplus lines markets and admitted reinsurers.

Potential policyholders and excess insurers apparently are concerned about the financial security of the exchanges. To put it bluntly, they are saying they are afraid that the syndicates will go broke and that the exchanges' guaranty funds won't be enough to cover policyholder claims.

Certainly, there is that possibility, just like there is the possibility that almost any insurance or reinsurance company will go broke in the future and not have the money to pay claims.

Insurance buyers, ceding companies and excess insurers that do not consider the U.S. exchanges approved markets should take a second look and then decide whether the exchanges pass security tests.

If the policyholder has purchased a surplus lines insurance policy from an insurance company that goes broke, there will be no guaranty fund to cover policyholder's claims, except in New Jersey. And, if the ceding company buys reinsurance from a company that goes broke, there is no guaranty fund coverage for the ceding company.

Furthermore, even if the insurance is purchased from an admitted insurer, the guaranty fund coverage available to pay claims varies from state to state, and the funds are collected only after the fact, except in New York.

In contrast, at least the three insurance exchanges have security funds, ranging from $13 million at the Insurance Exchange of the Americas to $36.4 million at the New York Insurance Exchange, available to pay all claims filed against insolvent syndicates.

Interestingly, the NYIE's security fund has more money to pay claims than remains in Lloyd's of London's Central Fund after earmarking 92% of the 260 million-pound fund to pay potential claims. At current exchange rates, Lloyd's central fund is down to $31.2 million.

To be fair, however, Lloyd's Central Fund has only earmarked those funds, not paid them, and Lloyd's has adopted new bylaws to permit it to replenish its Central Fund.

Of course, insurance buyers and ceding companies have to evaluate the financial security of their markets and, if they can buy all the protection they need from the industry giants whose financial strength is measured in billions of dollars, they don't need to do business with any of the U.S. insurance exchanges.

However, that is not the case in the current capacity-short commercial insurance marketplace. Corporations are not finding all the liability insurance they need. Insurance companies say they would buy more reinsurance if they could find it.

The U.S. insurance exchanges, as our spotlight report this week details, are proving themselves to be viable markets. Each exchange has obvious problems, but each exchange also is tackling those problems.

Insurance buyers, ceding companies and excess insurers that do not consider the U.S. exchanges approved markets should take a second look at each and then make up their minds about whether each exchange passes their security test.

Regulators in New York, Illinois and Florida could help matters by changing their laws as needed to approve the exchanges outside their states as admitted reinsurers and approved surplus lines insurers.

Currently, none of the states hosting exchanges recognizes another exchange as an admitted reinsurer in its state, meaning that ceding companies in New York, Illinois and Florida could buy reinsurance from exchanges in other states, but they couldn't take credit for it unless they withheld funds or obtained letters of credit.

The New York Insurance Exchange and Insurance Exchange of the Americas can issue surplus lines insurance policies in Illinois, but only because Illinois doesn't differentiate between approved non-admitted and all non-admitted insurers.

New York and Florida, meanwhile, won't recognize each other's exchange or the Illinois exchange as an approved surplus lines insurer. However, Florida is recognizing individual Illinois Insurance Exchange syndicates as approved non-admitted surplus lines insurers, which is to be commended.

A more realistic assessment of the financial strength of the three U.S. exchanges and state regulatory approval of the exchanges, however, will not solve the capacity crisis.

None of the U.S. exchanges, or even Lloyd's for that matter, has enough capacity to offer potential insurance and reinsurance buyers. Each of the exchanges and Lloyd's needs to attract new investors to increase their underwriting capacity.

But in the meantime, the capacity each of the U.S. exchanges now offers should be seriously considered by insurance and reinsurance buyers and be available to them if they want it.

letters

Hardware alone does not make RMIS effective

To the editor: Like many of your readers, I have been enthusiastic about the decreasing cost of personal computers and the impact that this opportunity has in providing risk management information systems (*BI*, July 21).

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

My caution is to appreciate that there are many critical ingredients in the delivery of a first-rate system. Based on the operating cost structure of my company, the actual hardware cost contributes less than 20% of the total cost of the operation. The remaining cost is associated largely with people: People who develop software, people who maintain it and, of course, people who design and operate individual systems.

Lowering the cost of personal computers and improving capabilities in the area of communications broadens the delivery power of risk management information systems. However, the most common system failure mode is the software and inadequate support. Over the years, I have become convinced that given the right people, nearly any data processing problem is soluble. I have rarely seen an example where increased hardware alone was able to solve the problem. Maybe that's why the computer fraternity refers to such solutions as "no-brainers."

Richard F. Denning
President
Risk Sciences Group Inc.
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Battered NYIE shifting gears, sees better 1986

By DOUGLAS McLEOD

NEW YORK—Battered by six years of steadily deteriorating underwriting results, the New York Insurance Exchange is undergoing significant changes and is approaching the end of 1986 a very different market than it was just 18 months ago.

The exchange—the largest of the U.S. efforts to emulate Lloyd's of London—has lost many of its oldest and largest syndicates since 1984. These syndicates—which accounted for almost half of the exchange's 1985 gross written premium volume of $309.5 million—are now running off large books of unprofitable property/casualty business written in the exchange's first years of operation.

At the same time, only five new syndicates have been formed since the beginning of 1985, and only one since last September.

One of the five new syndicates—Senate Syndicate Inc.—already has stopped underwriting after approaching exchange-imposed underwriting guidelines.

Though exchange officials report increased interest from potential syndicate investors, sources say the poor track record of several syndicates has been a deterrent to new investment.

Despite the loss of underwriting members, however, exchange officials expect only a slight decline in 1986 gross premium volume. Volume lost because of the shuttered syndicates will be made up by new syndicates and by established syndicates that have either recapitalized to write more business or are using previously underutilized surplus, sources say.

Meanwhile, the remaining exchange syndicates—like many insurers and reinsurers outside the exchange—have overhauled their underwriting practices in a drive to become profitable. This has meant not only increased rates for restricted coverage, but also a shift by many syndicates toward writing property rather than casualty business, and, for some, primary and excess insurance rather than reinsurance.

The one change that exchange underwriting managers hope to see in 1986 is black ink on their syndicates' bottom lines.

And, though the exchange as a whole continued to suffer the effects of the soft market in this year's first quarter, encouraging results were reported by several syndicates that are less burdened by prior underwriting mistakes (see story, page 14).

Other developments at the exchange include:

• Several changes in top management, including the appointment of Joseph Fahys to replace retiring President and Chief Executive Officer Donald E. Reutershan. Mr. Fahys, who took over Jan. 1, had been a managing director of Marsh & McLennan Cos. Inc. and head of the broker's Management Services Group.

• A move to expanded quarters at 111 Fulton St. in lower Manhattan, a building that the exchange bought from Aetna Life & Casualty Co. in early 1985 at a cost—including renovations—of about $24 million (*BI*, May 5).

• Implementation of a new data processing system to allow computer monitoring of the status of exchange certificates and policy endorsements, reducing the possibility of errors and lost paperwork.

• Efforts to correct numerous flaws in the exchange's accounting, claims and data processing systems noted in reports by the exchange's auditor, Coopers & Lybrand (see story, page 27).

• The formation of an exchange brokers' association, which joins the exchange's existing underwriting members' association. The exchange had 75 broker members and 33 associate broker members as of the first quarter, compared with 74 brokers and 32 associate brokers at year-end 1985.

The exchange syndicates' gross premium volume of $309.5 million last year represented a 10.4% decline from 1984 gross volume of $345.6 million.

Treaty reinsurance accounted for $211.7 million of last year's total, a 9.4% decline from $233.6 million in 1984.

INSURANCE EXCHANGE

Facultative reinsurance accounted for $82.3 million of 1985 gross premiums, down 23.4% from $107.5 million in 1984. Several syndicates—including those managed by Johnson & Higgins Willis Faber (U.S.A.) Inc. and Pan Atlantic Management—have discontinued writing casualty facultative reinsurance.

Primary and excess insurance volume more than tripled in 1985 to $15.5 million from $4.5 million in 1984.

But the exchange last year recorded the worst underwriting results in its six-year history.

Earned premiums fell 8.5% to $199.1 million last year from $217.7 million in 1984.

Meanwhile, incurred losses and loss adjustment expenses climbed 3.8% to $225.7 million from $217.4 million in 1984. Other underwriting expenses declined 3.9% to $78.2 million from $81.4 million in 1984.

Overall, the exchange reported an underwriting loss of $104.8 million, 29.2% greater than an $81.1 million loss in 1984.

The syndicates' aggregate combined ratio hit 152.3% last year compared with 137.3% in 1984. The overall combined ratio in 1985 was affected, however, by the especially poor experience of the exchange's several inactive syndicates, which produced an aggregate combined ratio of 183.9%, compared with 137.6% for the active syndicates.

The syndicates' underwriting losses were mitigated by investment gains of $46.5 million, up 26.4% from $36.8 million in 1984. The exchange's bottom line also was improved by a $4.8 million gain from loss portfolio reinsurance ceded by several syndicates.

After taxes and other gains and losses, however, the exchange finished the year with a net loss of $42.1 million, compared with a net loss of $35.2 million in 1984.

After capital and surplus contributions of $56.7 million by several syndicates and other charges and credits, the exchange syndicates reported total policyholder surplus of $194.1 million last year, an increase of 6.3% from $182.6 million at year-end 1984.

Underwriting results continued to deteriorate in the first quarter of 1986, though the exchange narrowed its bottom-line loss with

Continued on next page

Battered NYIE

Continued from previous page

Meanwhile, pro-rata treaty volume is down 10% in the first half and casualty facultative volume is down 70%, Mr. Fahys said.

"There are dramatic shifts in the mix of business placed on the exchange. That's understandable, and it's healthy, too," he observed.

One explanation for the decline in casualty underwriting—aside from poor loss experience—is the exchange's relatively stringent 1.5-to-1 net premium-to-surplus guideline for these risks, syndicate managers note.

"We are of the opinion that writing casualty business on the exchange is really not practical," says John H. Slattery, vp with Pan Atlantic Management.

"You just need too much surplus to support casualty business in the exchange environment," he said. "You could get more bang for your surplus buck off the exchange."

Exchange participants say that the underwriting shifts and the market changes of the last 18 months will produce better results for syndicates this year.

"We have confidence in the exchange as a market and we have particular confidence in the current market environment," Mr. Slattery said.

While this may be encouraging news for current syndicate investors, potential new investors are still being scared off by the poor results of the last six years, observers report.

One worry of potential investors is the possible loss of contributions to the exchange security fund in the event that one or more existing syndicates become insolvent.

The security fund consists of two parts: a deposit fund, to which each new syndicate contributes $500,000, and a surcharge fund, to which each syndicate contributes 0.75% of gross written premiums.

If these funds are exhausted by insolvencies, the exchange may assess each syndicate up to an additional $500,000.

Currently, the security fund totals $36.4 million, up from $34.2 million at the end of 1985. The deposit fund—including the contribution from IAT Syndicate—stands at $25 million, compared with $24.5 million at year-end 1985, while the surcharge fund stands at $11.4 million, up from $9.7 million at the end of last year.

While the exchange is attracting the attention of numerous potential investors, many are worried about how exchange officials will handle a small group of syndicates whose underwriting losses have severely eroded their surplus, according to Peter H. Bickford, former vp, general counsel and secretary of the exchange who is now with the New York law firm of Calinoff & Katz.

Several groups are trying to raise capital for new syndicates but are having "considerable difficulty closing the transactions" because of the poor results of some syndicates, Mr. Bickford said.

"I think investors are waiting to see how the exchange is going to resolve the problem of troubled syndicates," he observed, noting that the exchange could—if necessary—rehabilitate a problem syndicate, possibly using the security fund to "finance" a rehabilitation; sell the syndicate to a new group of investors; or liquidate it.

Mr. Bickford said he is handling prospectuses for two private placements that hope to raise $80 million to capitalize eight new syndicates with $10 million each.

"There's a lot of activity," he noted. "How much of it will bear fruit and how quickly is pure speculation."

Mr. Fahys acknowledged that potential investors have expressed concerns about the possibility that insolvent syndicates could tap their security fund contributions.

He added, though, that "most people come away with comfort from that security fund."

"Most of them see the benefits of the exchange greatly outweighing the potential negative aspects," he said.

In addition to the appointment of Mr. Fahys as president and CEO, several other top management positions at the exchange changed hands following the resignation last September of three officers over disagreements with Mr. Reutershan about exchange operations.

The three were Mr. Bickford; Patricia M. Witt, vp-audit; and Joan O. Sugar, vp-data processing.

A. William Urquhart, who had been with the New York law firm of Willkie, Farr & Gallagher, was named to replace Mr. Bickford.

William G. Hughes, who had joined the exchange in May 1985 as comptroller, was promoted to vp and treasurer, replacing Truman M. Dodson V, who retired earlier this year.

William L. Smith, who joined the exchange in January as vp-financial analysis and control, was promoted to vp-finance and accounting.

In addition, Donald G. Osenga, a former assistant vp with The Home Insurance Co., joined the exchange last year in the newly created position of vp-claims.

Exchange members also elected two new members of its board of governors earlier this year: John D. Feerick, dean of the Fordham University Law School, and Michael J. Del Giudice, senior vp with the New York investment banking firm of Lazard Freres & Co., were elected to replace Nicholas de B. Katzenbach, senior vp and general counsel of IBM, and Jerome Kretchmer, president of New York-based Jerome Kretchmer & Co., whose terms had expired.

Other exchange governors include John H. Bretherick, president of Continental Corp.; Jared J. Cummins, president of MONY-Re Group Inc.; Guy K. Patterson, senior vp with CIGNA Corp.; David J. Sherwood, the exchange's chairman and former president of Prudential Insurance Co.; Thomas R. Tizzio, president of the domestic brokerage division of American International Group Inc.; Richard Weiler, president of NRG America Syndicate Inc.; Ward B. Gordon, chairman and chief executive officer of Intere Intermediaries Inc.; Frank J. Tasco, chairman of Marsh & McLennan Cos. Inc.; T. Vincent Learson, former chairman of the exchange and former chairman and chief executive officer of IBM; and Robert J. Morgado, chief administrative officer of Warner Communications. ■

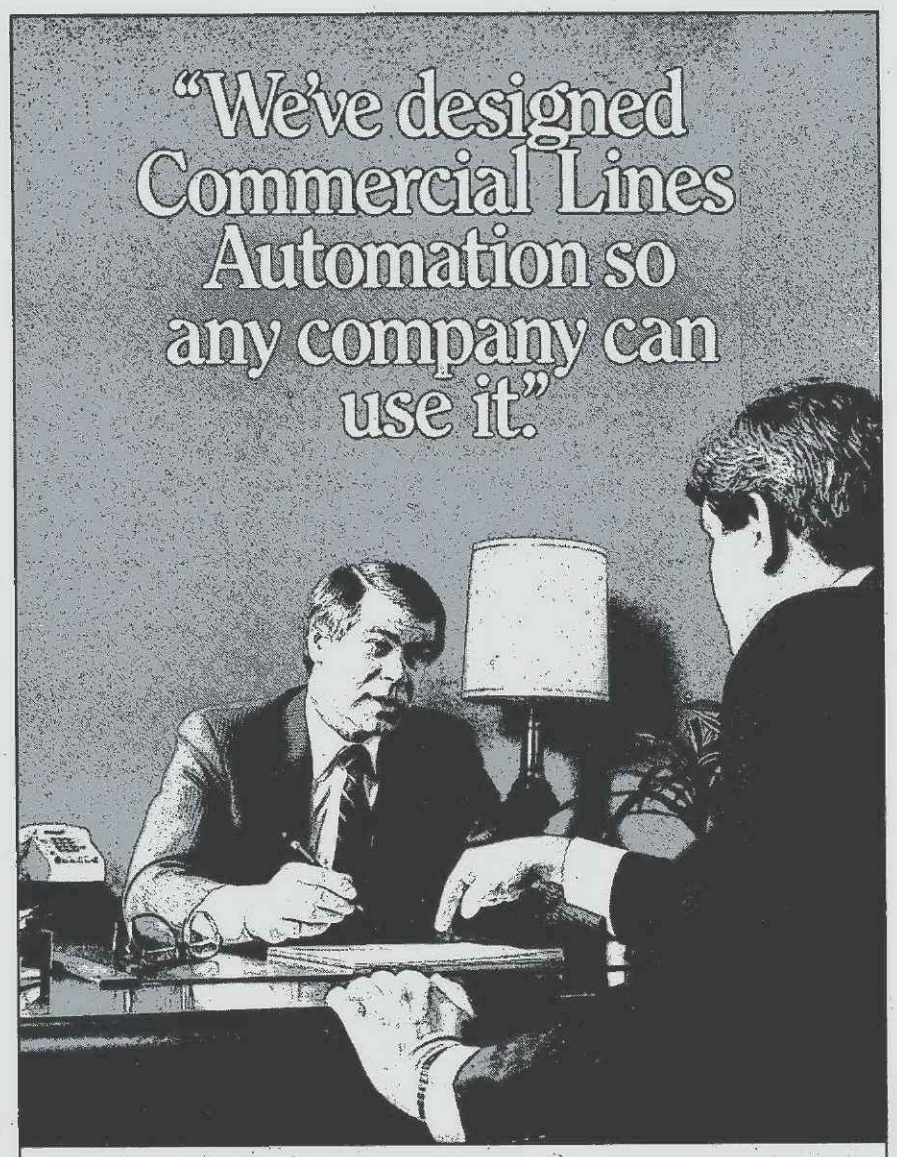
Syndicates that have withdrawn from the New York Insurance Exchange

Syndicate	Owner(s)	1985 gross written premiums (000)
CU Syndicate Inc.[1]	American Employers Insurance Co. (Commercial Union Insurance Cos.)	$ (31)
First State Syndicate Inc.	New England Reinsurance Corp. (Hartford Fire Insurance Co.)	2,600
North Star Syndicate Inc.	General Re Corp.	1,519
Polaris Syndicate Corp.	Several insurance company investors	1,484
William Street Syndicate Inc.	Several insurance company investors	7,772
Total		13,344

Source: *BI* survey

[1] Petition pending.

Chart: Amy Palmer



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Photo: Courtesy of the New York Insurance Exchange

Pillars and high ceilings blend tradition with modern furnishings in the underwriting room of the NYIE's new headquarters.

Continued from previous page
increased investment income and gains from loss portfolio transfers. Most of the exchange's largest syndicates in the first quarter produced net operating gains (see chart, page 16).

Gross written premiums in the first quarter of this year dropped 14.9% to $68.6 million from $80.6 million in the first quarter of 1985.

Earned premiums declined marginally to $51.4 million from $51.9 million in the first quarter of 1985.

Losses and loss expenses climbed to $59.1 million from $56 million in 1985's first quarter, while other underwriting expenses declined to $19 million from $19.6 million. Overall, the exchange's underwriting loss rose 12.8% to $26.7 million from $23.7 million in the first three months of 1985.

Investment income, however, jumped 43.4% to $14.3 million in the first three months of 1986 from $10 million in the the same period a year earlier. The exchange also reported a $2.4 million gain from loss portfolio transfers in this year's first quarter, compared with a loss of $1.4 million from portfolio transfers in 1985's first quarter.

After taxes and other gains and losses, the exchange narrowed its net loss to $8.8 million in the first quarter of 1986 from $11.3 million in the year-earlier period.

As of March 31, the syndicates' policyholder surplus had declined 5.2% to $184.1 million from $194.1 million at year-end 1985.

The number of exchange syndicates at the end of the first quarter stood at 44, down from 49 at year-end 1985. Absent are William Street Syndicate Inc., Polaris Syndicate Corp., North Star Syndicate Inc. and First State Syndicate Inc., whose withdrawal petitions have been approved.

CU Syndicate Inc., which also had announced plans to withdraw, has not completed the formal withdrawal process.

In addition, three syndicates managed by Pruco Managers Inc.—Essex Syndicate Inc., John Street Syndicate Inc. and Pruco Syndicate Inc.—had merged into a single entity, Golden Hill Syndicate Inc.

The exchange also added one new underwriting member earlier this year: IAT Syndicate Inc., managed by J&H Willis Faber and capitalized with $5 million from an individual investor, Peter Kellogg, chief executive officer of the New York investment firm of Spear Leeds & Kellogg (*BI*, Feb. 10).

Although only five exchange syndicates have formally withdrawn or are planning to withdraw, at least 18 others have stopped underwriting since 1984. Several of these—among the exchange's oldest and largest syndicates—wrote large books of business during the soft market and were forced to stop accepting new business after hitting exchange-imposed underwriting limits.

Under the exchange limits, syndicates:

- Must maintain net premium-to-surplus ratios of 3-to-1 on property business, 1.5-to-1 on casualty business and 1-to-1 on property catastrophe risks.
- Are forbidden to cede more than 50% of their gross written premiums to reinsurers or retrocessionaires within any 12-month period without prior approval from the exchange board of governors.
- Are forbidden to write a net line on any one risk exceeding 10% of policyholders surplus.

Among the syndicates that have ceased underwriting are Adena Syndicate Ltd., Anex Syndicate Inc., Burt Syndicate Inc., Candon Syndicate N.V., Chubb Syndicate Inc., Dorinco Syndicate Corp., First New York Syndicate Corp., Golden Hill Syndicate, Heartland Group, J&H, WF Syndicate A, KCC New York Syndicate Corp., Maiden Lane Syndicate Inc., Pine Top Syndicate Inc., The Realex Group N.V., Republic Western Syndicate Inc., Senate Syndicate, South Place Syndicate Inc. and U.S. Risk Inc.

Maiden Lane and South Place each have received capital infusion since the beginning of the year and are expected to resume underwriting this month. Others of these syndicates—including Candon and Senate Syndicate—also hope to resume underwriting in the future, syndicate officials say.

Together, however, these syndicates and the five that have withdrawn accounted for $138.6 million—or 44.8%—of the exchange's total gross written premiums last year (see charts, pages 12 and 27).

As would be expected, the gross written premium volume of most of these syndicates dropped dramatically last year or in the first quarter of this year, and several of the syndicates that were among the exchange's 10 largest in 1985 were absent from the Top 10 list in the first quarter of 1986.

Despite the loss of these syndicates—and despite the drop in gross premiums in the first quarter—Mr. Fahys projects that the exchange's 1986 gross premium volume will decline only slightly to about $300 million.


Mr. Fahys

Gross writings for the first six months amount to about $155 million, he said.

The lost volume will be made up not only by an increase in writings among the remaining active syndicates but also by a resumption of underwriting by some of the inactive syndicates, such as Maiden Lane and South Place, Mr. Fahys predicted.

Based on first-quarter figures and interviews with underwriting managers, syndicates that have significantly increased their underwriting since last year include Allianz Syndicate Inc.; Fairway Syndicate Inc., which was formed in 1985; First Riverside Syndicate Inc., also formed in 1985; Gamma Re Syndicate Inc.; Home Re Syndicate Inc.; J&H, WF Syndicate B; Meadows Syndicate Inc., formed in 1985; and MML Syndicate Inc.

Mr. Fahys and the syndicate managers also noted that as the new group of active syndicates emerges, the overall composition of the exchange's business is changing.

"Generally, the most aggressive part of the exchange seems to be (writing) property risk and property treaty" business, Mr. Fahys explained.

Several syndicate managers—including Allianz Management, Continental-Reed Stenhouse Management Co. Ltd., Pan Atlantic Management Corp. and CIGNA Syndicate Managers—have announced intentions to emphasize property underwriting.

In the first six months of this year, excess property treaty volume is up 18% over volume in the first half of 1985, according to Mr. Fahys, while primary and excess insurance volume is up a staggering 700%.

Gross direct written premiums —premiums for primary and excess insurance—for the first half are about $23 million, compared with $15.5 million for all of 1985, Mr. Fahys said.

Major direct insurance writers on the exchange include Brougher Syndicate Inc. and Kansa-Brougher Syndicate Inc., and three syndicates managed by Pan Atlantic: Galleon Syndicate Corp., GoldStreet Syndicate Corp. and Pan Atlantic Investors Ltd.

Continued on next page

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NYIE syndicates hope the worst is over

By DOUGLAS McLEOD

NEW YORK—While this year may not be the best of times for New York Insurance Exchange syndicates, it won't be the worst of times either, syndicate managers say.

The worst of times was last year, when the exchange posted the most dismal underwriting results in its six-year history.

The exchange syndicates' aggregate combined ratio hit 152.3% last year, up from 137.3% in 1984. The combined ratio of the dozen or more inactive syndicates was worse: 183.9%, compared with 137.6% for the active syndicates.

Combined ratios for active, established exchange syndicates ranged from a low of 76.9% for MONY-Re Group Inc. to a high of 238.2% for Allianz Syndicate Inc.

Only two of the exchange's 49 syndicates licensed in 1985—Brougher Syndicate Inc. and Kansa-Brougher Syndicate Inc., both managed by North Atlantic Treaty Managers Inc.—reported underwriting gains. This was actually a slight improvement from 1984, when none of the syndicates had underwriting gains.

INSURANCE EXCHANGE

Investment and other income produced aftertax operating gains for 15 of the syndicates, though six of these—The Burt Syndicate Inc., Chubb Syndicate Inc., CU Syndicate Inc., North Star Syndicate Inc., Polaris Syndicate Corp. and Republic Western Syndicate Inc.—were no longer underwriting last year. Again, this was a slight improvement from 1984, when operating gains were reported by only six syndicates, of which one—CU Syndicate—was inactive.

None of the 10 largest exchange syndicates in 1985 reported underwriting profits. Six of these had stopped underwriting and were running off unprofitable business (see chart, page 19).

Since 1984, most syndicates—like most insurers and reinsurers outside the exchange—have adopted more restrictive underwriting policies, and syndicate managers are hoping that rising rates, tighter policy conditions and a general shift toward property business and away from casualty risks will improve results this year.

"We are seeing a general improvement in the quality of the business" submitted to the exchange, observed Francis J. McNamee, president of CIGNA Syndicate Managers Inc.

Syndicate results have "improved already," added Mercedes Davis, vp and underwriting manager of North Atlantic Treaty Managers.

While noting that the extent of the improvement will not be known until year-end, other underwriting managers point to first-quarter results of the exchange's most active syndicates as an indication of the market's direction.

Although the 155.1% aggregate combined ratio of the 45 syndicates reporting in the first quarter of 1986 was even worse than 1985's combined ratio, nine syndicates produced underwriting gains, and only one of these—Republic Western—is inactive. Aftertax operating profits were reported by 26 syndicates, of which nine are inactive.

Of the 10 largest syndicates in the first quarter, three reported underwriting gains and seven reported net operating gains (see chart, page 16).

The composition of the top 10 list has also changed markedly since December. Gone from the list are six of the exchange's oldest syndicates, which stopped underwriting in 1984 and 1985 and are running off large books of unprofitable business written during the soft market of the early 1980s. The six are First New York, Burt Syndicate, Heartland Group Inc., The South Place Syndicate Inc., The Maiden Lane Syndicate Inc. and Candon Syndicate N.V.

Replacing them are several more recently formed syndicates as well as established syndicates that have recently recapitalized to increase volume in the current more-favorable underwriting climate.

These include:

- Senate Syndicate Inc., which was formed last year by A. W. Lawrence Management Corp. and has assumed all of its business under a treaty with United Community Insurance Co., another Lawrence affiliate.

Senate—which wrote gross premiums of $8.9 million last year and $5.2 million in the first quarter—stopped accepting further business July 1 when it approached exchange underwriting limits concerning the net premium-to-surplus ratio. Senate hopes to resume underwriting during this year's fourth quarter, according to Robert F. McDonnell, vp of Lawrence Underwriting Managers.

- Allianz Syndicate, owned by Los Angeles-based Allianz Insurance Co., which last year received a $7.5 million contribution to surplus and finished the first quarter with surplus of $11.4 million.

Allianz Syndicate—which previously had written mainly casualty and surety risks—is now expanding into "short-tail business," according to Claus Cardinal, president of Allianz Management Inc. This business includes property treaty and facultative reinsurance, which accounts for 85% of the syndicate's current book, and short-tail casualty facultative reinsurance, which accounts for 15%, Mr. Cardinal said.

"It's almost a second start of Allianz Syndicate with a revamped underwriting philosophy," he noted.

Allianz has a per-risk gross capacity of $500,000 for casualty facultative risks, $1.5 million for property facultative and $300,000 for property treaty.

- Brougher Syndicate, which was formed in 1983 but wrote a relatively small amount of business until last year, when gross premiums reached $8.6 million. Gross premiums for the first quarter amounted to $2.8 million.

Kansa-Brougher—which was formed in 1984 but wrote only a nominal amount of business that year—reported $6.3 million in gross premiums last year and $2.1 million for the first quarter, making it the 11th-largest syndicate as of March 31. Brougher and Kansa-Brougher were the NYIE's two largest writers of primary and excess insurance in 1985 and in the first quarter of 1986. Each wrote $5.1 million in gross insurance premi-

Continued on page 16

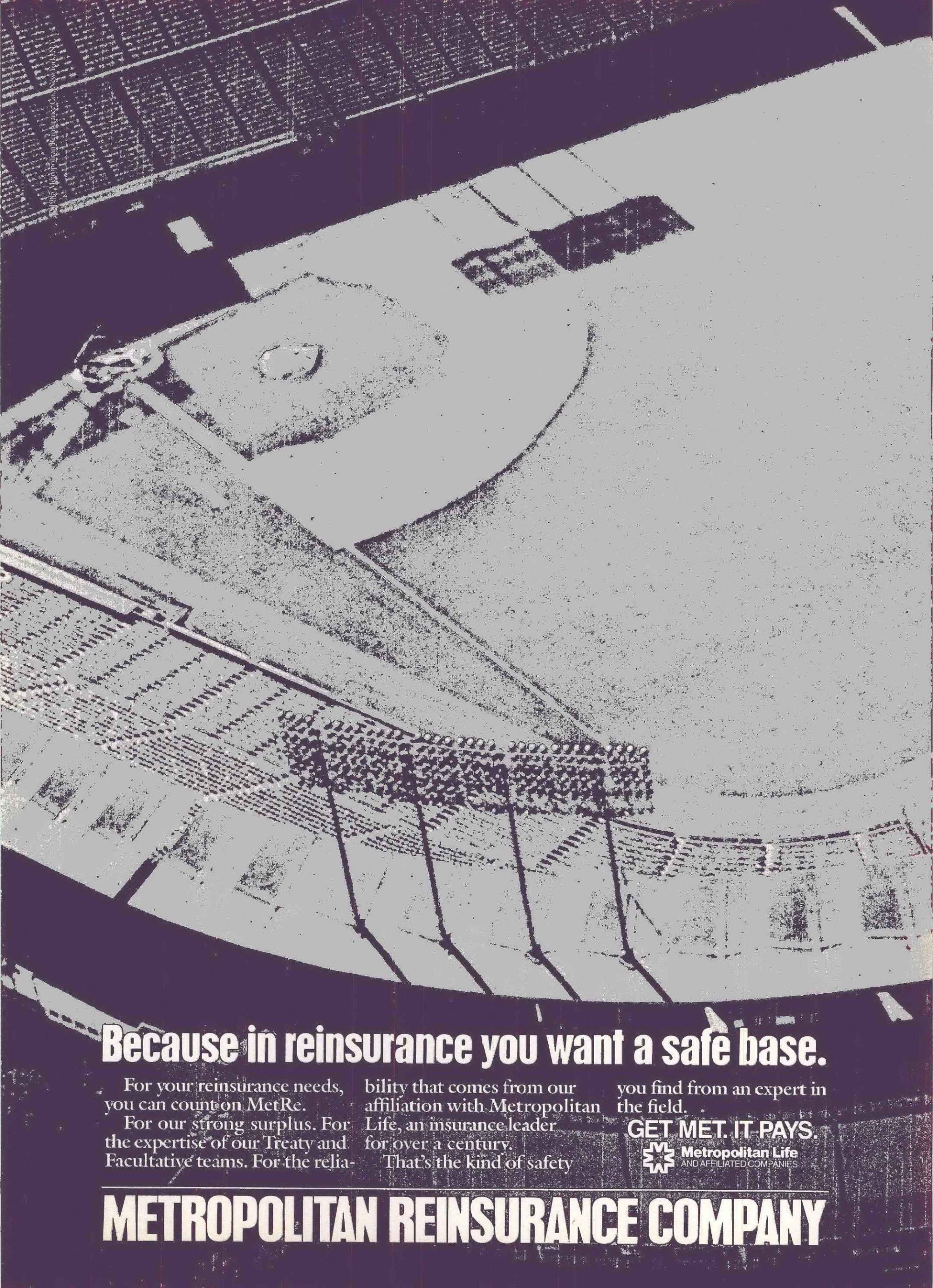
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Largest New York Insurance Exchange syndicates
(Ranked by first quarter 1986 premium volume in thousands of dollars)

Syndicate	Gross premiums written	Net premiums written	Policyholder surplus	Net income (loss)
The 1972 Co.	$9,180	$4,890	$8,455	($244)
Senate Syndicate Inc.	5,247	5,247	2,617	(363)
Pan Atlantic Investors Ltd.	3,835	2,252	6,031	543
GoldStreet Syndicate Corp.	3,492	2,404	5,958	870
Allianz Syndicate Inc.	3,148	2,529	11,415	(938)
Brougher Syndicate Inc.	2,764	2,189	3,868	193
Lancer Syndicate Inc.	2,667	1,299	3,807	44
Home Re Syndicate Inc.	2,342	2,019	5,342	161
Galleon Syndicate Corp.	2,243	1,401	5,029	159
MML Syndicate Corp.	2,139	1,980	10,093	217

Source: New York Insurance Exchange

Chart: Amy Palmer

NYIE syndicates

Continued from page 14

ums last year and $1.6 million in the first quarter this year.

In addition to managing Brougher and Kansa-Brougher, North Atlantic Treaty Managers is negotiating to assume the underwriting responsibilities for Syndicate of Wall Street Investors N.V., which had been managed by Nasco Syndicate Managers Inc., according to Ms. Davis.

Brougher and Kansa-Brougher each has a per-risk capacity of $250,000 for primary and excess insurance and facultative reinsurance, and $50,000 for treaty business. It's expected Wall Street Investors will write the same lines.

- Lancer Syndicate Inc., owned by Lancer Insurance Co. and formerly known as Transit Casualty Syndicate Inc. Lancer, managed by Delaney Management Co. Inc., is the exchange's third-largest writer of primary and excess insurance, with $1.4 million in gross insurance premiums for the first quarter, compared with $1.3 million for all of 1985.
- Home Re Syndicate Inc., owned by Home Reinsurance Co. and managed by City Syndicate Managers Inc. Home Re Syndicate reported first-quarter gross premiums of $2.3 million, compared with $6 million for all of 1985. Gross insurance premiums amounted to $510,000 for the first quarter, compared to $420,000 for all of 1985.
- Galleon Syndicate Corp., managed by Pan Atlantic Management Corp. along with Pan Atlantic Investors Ltd. and GoldStreet Syndicate Corp. Galleon received $3.1 million in surplus contributions last year, which has allowed it to resume underwriting after a temporary cessation.
- MML Syndicate Corp., owned by Massachusetts Mutual Life Insurance Co. and managed by Johnson & Higgins Willis Faber (U.S.A.) Inc. along with J&H, WF Syndicate B and IAT Syndicate Inc., which was formed earlier this year.

MML, formed in 1983, received a surplus contribution of $5 million from its parent last year and finished the first quarter with surplus of $10.1 million. The syndicate this year will double the $4.3 million in gross premiums it wrote in 1985, according to Richard E. Kane, vp-finance and operations for the management company. For the first quarter, MML wrote gross premiums of $2.1 million.

Most of MML's business last year was reinsurance, with gross insurance premiums accounting for $513,000 of the total. Like the other syndicates managed by J&H Willis Faber, MML is emphasizing treaty reinsurance and has discontinued writing property facultative risks, Mr. Kane said.

The three J&H Willis Faber syndicates combined have $500,000 of capacity per risk for property catastrophe business and $250,000 per risk for property and casualty excess treaty business. Capacity for facultative and primary and excess insurance is $1.5 million per risk.

While business was looking better for the top 10 syndicates in the first quarter, the story was not quite as rosy for the top 10 in 1985.

The 1792 Co.—perennially the largest exchange syndicate as measured by gross premiums—took the No. 1 spot again last year with $28.9 million in gross volume, down 5.2% from $30.5 million in 1984. All of this business was reinsurance.

Net premiums held relatively steady at $15.2 million, down marginally from $15.4 million in 1984.

The syndicate—with a combined ratio of 132.5%—reported an underwriting loss of $4.9 million on earned premiums of $15.2 million. Investment income of $3.5 million partially offset the losses, producing a net loss of $1.4 million.

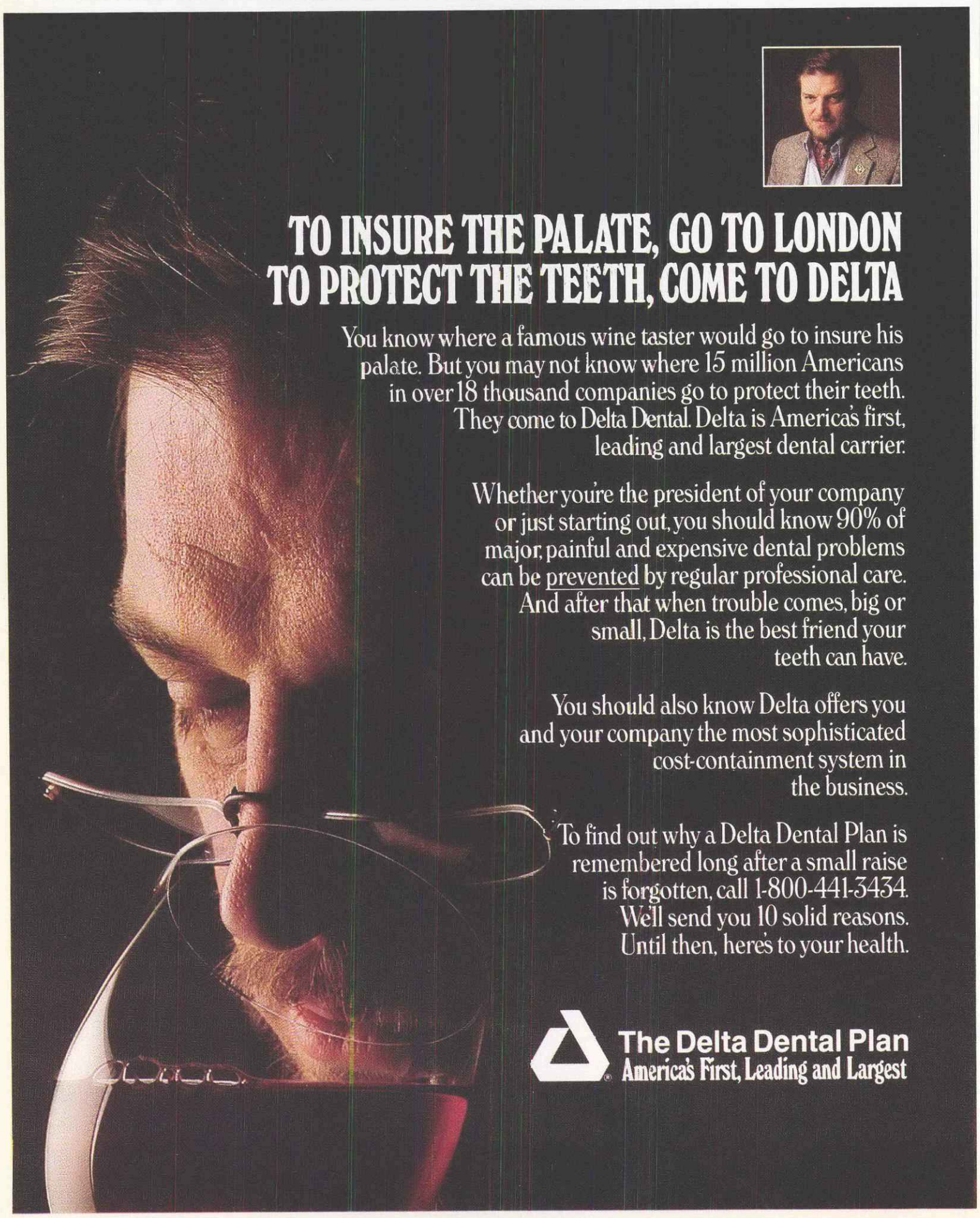
For the first quarter of 1986, 1792—managed by CIGNA Syndicate Managers and owned by a Bermuda-based CIGNA Corp. unit and other investors—reported $9.2 million in gross premiums, the largest first-quarter volume.

However, 1792 also recorded an underwriting loss of about $781,000 on earned premiums of $4.8 million. After investment income of $537,000, the syndicate finished the quarter with a net loss of $244,000.

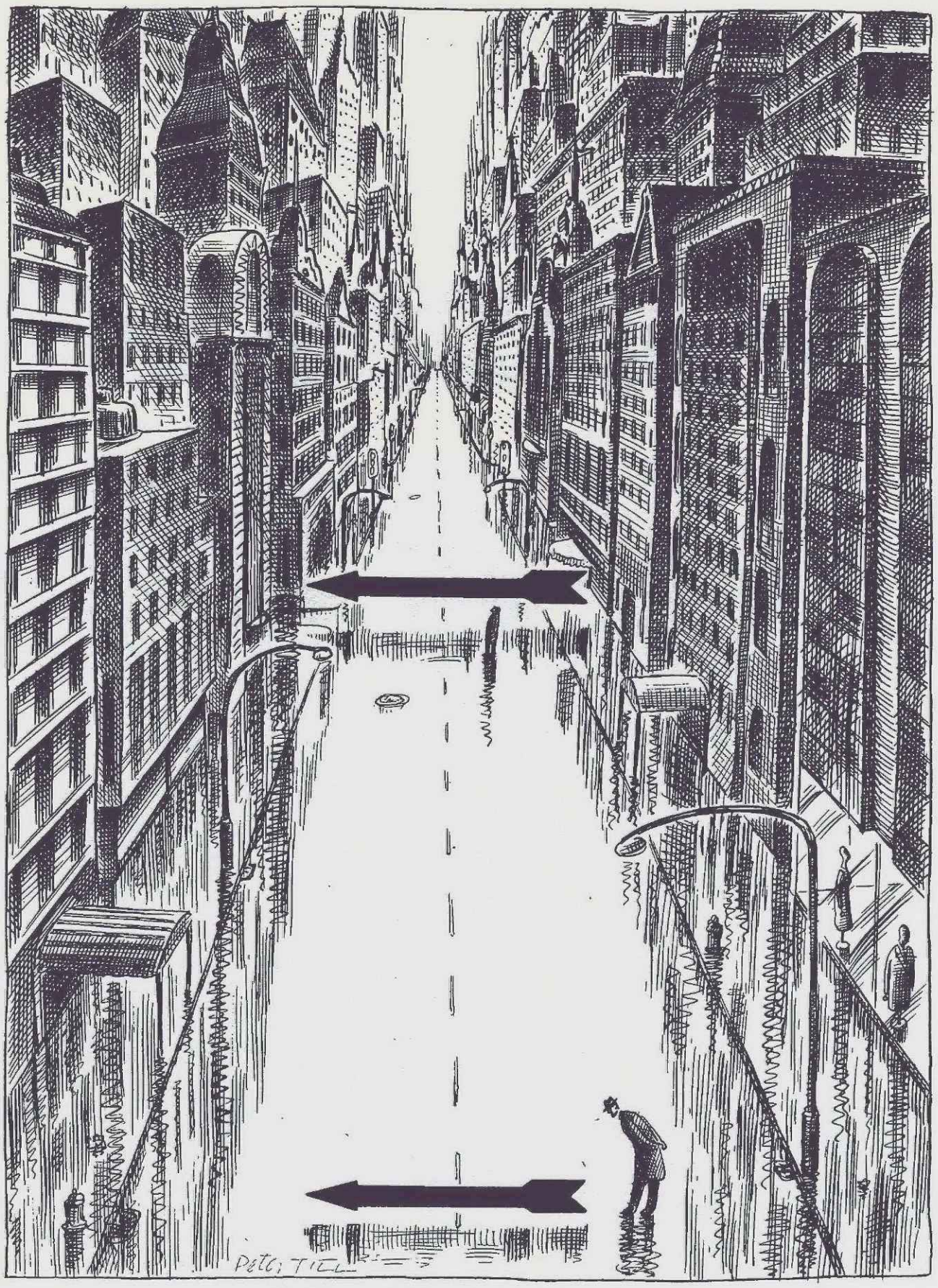
Although casualty reinsurance accounted for $5.6 million of the syndicate's 1985 gross premiums, 1792 has discontinued its casualty underwriting and is running off its casualty book, according to Mr. McNamee of CIGNA Syndicate Managers.

After tightening its underwriting

Continued on page 18



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NYIE syndicates

Continued from previous page

Candon, which wrote primarily property treaty reinsurance and stopped underwriting in early 1985, reported gross premiums of $10 million in 1985, down 12.5% from $11.4 million in 1984, making it the ninth-largest syndicate in 1985.

Earned premiums of $5.5 million last year were wiped out by losses and expenses of $8.6 million, producing an underwriting loss of $3.1 million. After investment income of $779,000, the syndicate finished the year with a net loss of $2.3 million.

For the first quarter, Candon suffered an underwriting loss of $183,000 on earned premiums of $1.6 million and a net gain of $68,000 after investment income of $252,000.

Candon last year received a $2 million contribution to its surplus, which stood at $2.7 million at year-end. The syndicate received another $500,000 contribution as of June 30, but its surplus, including the contribution, is now below the $2.8 million reported at the end of the first quarter, Mr. Ashby said.

While there has been no 'concrete' interest expressed so far in purchasing the syndicate, Phillip Roels, vp of Dorinco Syndicate Corp., says he is hopeful the New York exchange, aware of the situation, might 'refer some people our way.'

Also under W.J. Burt's management, Dorinco Syndicate, owned by Dorinco Reinsurance Co., a unit of Dow Chemical Co., continued to underwrite until early this year, when it decided to discontinue its operations and run off its book, according to underwriter Dan Marino.

The syndicate will not be reactivated, he added.

The syndicate ceased writing because Dorinco Reinsurance felt it was not gaining any advantages, "in today's market," from a presence in New York, said Phillip Roels, vp of Dorinco Syndicate Corp.

While the syndicate is considering a formal withdrawal petition, Mr. Roels indicated it is also up for sale. There has been no "concrete" interest expressed so far in purchasing the syndicate, he said, but he is hopeful the exchange, aware of the situation, might "refer some people our way."

Dorinco, which wrote gross premiums of $3.6 million last year, mainly on casualty business, suffered an underwriting loss of $934,000 on earned premiums of $2.9 million. After investment gains of $492,000, the syndicate finished the year with a net loss of $459,000.

For the first quarter, Dorinco reported $496,000 in gross premiums. With earned premiums of $518,000, the syndicate suffered an underwriting loss of $128,000 but finished the quarter with a net gain of $21,000 after investment income of $149,000.

Dorinco's policyholder surplus stood at $3.1 million at year-end 1985 and at the end of the first quarter of 1986.

South Place Syndicate and Maiden Lane Syndicate—the exchange's seventh- and eighth-largest in 1985, respectively, both of which are managed by Continental Reed Stenhouse Management Co. Ltd., stopped underwriting last October but plan to resume writing new business this month, according to William Edel, executive vp and chief operating officer of Continental Reed Stenhouse.

Each syndicate has received surplus additions of $2 million, and each now has capital and surplus of $5.4 million, Mr. Edel said.

While the two syndicates had been writing property and casualty facultative and treaty reinsurance, they will write only property facultative reinsurance when they resume underwriting, he said.

Mr. Edel added that the syndicates are still lining up retrocessional coverage and do not yet know what their gross capacity per risk will be.

South Place, owned by Continental Insurance Co. and a number of other U.S. and foreign insurers, reported $10.6 million in gross premiums last year, down 14% from $12.3 million in 1984, and net premiums of $5.5 million, down 35.3% from $8.5 million in 1984.

The syndicate suffered an underwriting loss of nearly $5 million on earned premiums of $5.9 million. After investment gains of $2.5 million, South Place finished the year with a net loss of $2.4 million.

For the first quarter, the syndicate suffered an underwriting loss of $679,000 on earned premiums of $846,000.

Investment income of $913,000 offset the underwriting loss, though, and produced a net gain of $234,000.

Maiden Lane, owned by Continental Corp. and several other U.S. and foreign insurers, reported gross premiums of $10.5 million last year, down 16% from $12.6 million in 1984, and net premiums of $5.8 million, down 34.5% from $8.9 million in 1984.

The syndicate suffered an underwriting loss of $4.8 million on earned premiums of $6.4 million last year and—after investment gains of $2.8 million—finished the year with a net loss of $2 million.

Earned premiums in the first quarter amounted to $1.1 million, but after paying losses and expenses of $1.4 million, the Maiden Lane syndicate suffered an underwriting loss of $295,000. The loss was offset by investment income of $1 million, however, and the syndicate reported net income of $717,000 for the quarter.

NRG America Syndicate Inc., not among the 10 largest in 1984, took the No. 10 spot last year with gross premiums of $9.7 million, up marginally from $9.4 million in 1984. Net premiums rose to $7 million last year from $6.6 million in 1984.

The syndicate, managed by NRG Syndicate Managers Inc., suffered an underwriting loss of $3.8 million on earned premiums of $6.8 million in 1985 and a net loss of $2.2 million after investment income of $1.7 million.

Gross premiums in the first quarter totaled $1.8 million while net premiums amounted to $1.5 million. With earned premiums of $2 million, NRG suffered an underwriting loss of only $227,000. Investment gains of $1.5 million more than offset the loss, and the syndicate reported net income of $1.3 million for the quarter.

Richard L. Weiler, president of NRG Managers, said that the underwriting operations of the syndicate have not changed much in the last year: Nearly all of NRG's business is reinsurance, though the syndicate has recently started writing a small amount of direct insurance. About 70% of NRG's book is property business, while 30% is casualty, he said. ■

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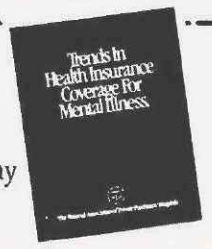
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Most NYIE brokers optimistic about future

By JUDY GREENWALD

NEW YORK—Most brokers placing business with the New York Insurance Exchange still have faith the exchange will survive and even flourish despite its problems, including a lack of capacity.

But some among the 108 brokers and associate brokers licensed to do business on the exchange say their faith is wavering and that they are either considering, or have already decided on, withdrawing.

There is virtual unanimity, however, that the appointment of Joseph Fahys Jan. 1 as the exchange's president and chief executive officer bodes well for its future.

In addition to insufficient capacity, brokers say other problems that the exchange faces include:

- The refusal of some ceding companies to buy reinsurance from the exchange because of security concerns.
- A dearth of underwriters, particularly experienced ones.
- Administrative difficulties, including slow claims payments.

INSURANCE EXCHANGE

Brokers blame the lack of capacity on market conditions in general and the fact that more than 20 NYIE syndicates have stopped writing business. Some syndicates also have stopped writing certain lines, including casualty and international risks, making these risks especially difficult to place, brokers note.

"There's the lack of capacity that's needed, but of course that's true all over," said Irving Bloom, president of Greig Fester (North America) Inc. in New York. Greig Fester ranks among brokers in the exchange's second quartile, which includes those who placed from $300,000 to $1.1 million in business on the exchange for the year ended May 31, 1986.

"I think they just need more players to be able to write the business," Mr. Bloom said.

Robert Jones, vp and director at Towers, Perrin, Forster & Crosby Inc., which placed more than $1.3 million in facultative and treaty reinsurance on the exchange for the period ended May 31, said: "Certainly, they are taking steps to attract new investors into the exchange and appear to be meeting with some degree of success."

Fred S. James & Co. of New York, which places excess property and casualty insurance on the exchange, has found limited capacity for both risks, said Frank A. McDougald Jr., senior vp and national marketing director.

On casualty risks, James uses the exchange "by and large" for difficult risks with capacity problems. Property business largely consists of difference-in-conditions policies and manufacturers output policies.

"I see a decrease in casualty and facultative reinsurance in the way of limits on the exchange. I see an increase in property business and direct property placements on the exchange," says Richard Foran, a vp at RGI Inc., an associate broker on the exchange. Associate brokers cannot vote on exchange issues and can broker only for their own accounts.

With facultative reinsurance business, "you're lucky if you can get $1 million with syndicates on casualty," Mr. Foran asserted. RGI does not place treaty business, he said.

"I think it's a very viable market for property, but for casualty capacity, it's very limited and difficult," agreed Jeremy Cooke, president of Major Surplus Inc., which placed an estimated $1 million to $1.5 million in excess and surplus business on the exchange last year.

Walter Groden, president of David C. White Agency Inc. of Rockville Center, N.Y., the largest broker of primary and excess insurance on the exchange, said the NYIE's "main strength" is property insurance, with up to $20 million of capacity available excess of $5 million.

There is about $1 million capacity available for primary and excess "first-dollar" property insurance business as well, he said.

Johnson & Higgins New York Inc. places only primary and excess insurance on the exchange, said Craig C. Perry, a J&H vp. He estimated there is about $12 million of capacity available for property risks and $2 million for casualty risks.

J&H New York, one of the exchange's most active brokers, was in the exchange's first quartile, which includes brokers that placed more than $1.3 million on the exchange for the year ended May 31.

No broker on the exchange placed between $1.1 million and $1.3 million in business on the exchange, accounting for the gap between the first and second quartiles.

There is a lot of capacity under the exchange's roof, said Kenneth G. Hague, president of Intermediaries of America. However, it is either not being used, or it is not available in the classes of business Intermediaries offers, which are standard property and casualty reinsurance.

The firm placed "no more than $2 million" in treaty reinsurance business on the exchange last year and has been placing a declining amount since 1983.

Mr. Groden noted also that as an international marketplace, the exchange has "about ceased to exist." The underwriters are not considering foreign treaties and will write facultative reinsurance for a foreign risk only if the risk

Continued on next page

How French's avoid whenever it s



The plain truth is, when a company ships cargo it has to deal with some very grim realities.

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And it isn't just the food that turns sour. It's retail sales. And shelf space. And with the market for damaged goods as highly regulated as it is, even salvaging the stock could leave French's with a bad taste in their mouth.

Continued from previous page
insured is owned by a U.S.-based company, said Mr. Groden.

"It's strictly a domestic reinsurance market," agreed Paul J. Apostolos, president of NSEW International Inc., which placed $1 million in reinsurance business on the exchange last year.

Other brokers have found that capacity for the coverage they wish to place is so restricted that they have stopped using the exchange or are considering withdrawing.

Rhulen Intermediaries Inc. has been inactive on the exchange "for the better part of the year," and may withdraw altogether, said Peter L. Rhulen, its president.

Rhulen had placed facultative reinsurance for animal mortality insurance with the exchange, but "there's no market there at this point," Mr. Rhulen said. Many of the syndicates Rhulen used have either stopped writing or gone out of business, he explained.

Warren O. Hart, president of W.O. Hart & Co. Inc. of New York, a Stamford, Conn.-based associate broker, also has not been active on the exchange over the past year.

"It's just inconvenient, plus there doesn't seem to be risk assumptive capacity on the exchange," Mr. Hart said.

Mr. Fahys admitted that casualty facultative capacity has diminished on the exchange. But, he said "capacity for property excess, property catastrophe and casualty treaty is significant," although it varies from line to line.

The amount of capacity available for excess and surplus lines business is increasing "rather dramatically," Mr. Fahys added.

The financial security of the exchange concerns some ceding companies and some brokers.

"It's quite a serious concern," said one broker. Some smaller insurance companies in particular, with premiums in the $50 million to $60 million range, "will not accept any reinsurance placed with the exchange, and I can't say that I blame them."

Some brokers, such as Mr. Hague, say they are concerned about the adequacy of the exchange's $36.4 million security fund, which would pay claims filed against an insolvent syndicate.

"If a couple of syndicates were to go belly up, I'm not sure that would be enough to cover it," Mr. Hague said. This means individual syndicates must be relied on, "so from a security point of view the brokers have to be very careful."

"Some clients will stipulate they don't want the exchange at all, some clients stipulate they only want certain syndicates used," Mr. Hague pointed out.

Patrick Agnew, president of Agnew International Inc., which placed about $1 million in domestic facultative reinsurance on the exchange last year, said the exchange overall is not accepted as security by some of his clients, although after a "bit of arm twisting" they will consider some of its individual syndicates.

"We're not able to use the exchange to the extent we would like," partially because it is not on the approved list of many clients, said Robert J. Bryne, president of Pro Re Inc., a unit of E.H. Crump Cos. Inc., which places facultative casualty reinsurance on the exchange. Compared with a year ago, "we're not doing that much business on the exchange," he noted. In addition to security concerns, needed capacity is not available.

Pro Re, nonetheless, was one of the more active brokers on the exchange for the period ended May 31, producing more than $1.3 million in business.

The "more sophisticated" companies have a list of syndicates they find acceptable, observed Ward Gordon, chairman and chief executive officer of Intere Intermediaries Inc., which places treaty reinsurance on the exchange and is among its major brokers.

But Mr. Gordon, who is on the exchange's board of governors, said security is less of a concern now than it once was. "I heard it more a year-and-a-half ago than I hear it now. The crisis has come and gone as far as I'm concerned."

Mr. Fahys would not comment on the exchange's security fund, or discuss the security issue.

Another broker concern is the lack of underwriters on the exchange floor. "It's like a morgue," said NSEW's Mr. Apostolos. A broker can always find underwriters at a few of the syndicate boxes, but at others, "you have to chase people to find them," he said.

"You can shoot a cannon at the exchange and not hit a body. The only thing you might hit is all the bloody partitions," said another broker.

"Usually when I go in there, there's maybe two or three underwriters open that are seriously open to write business," said Intermediaries' Mr. Hague. "It's ridiculous to go in there and see 36 empty boxes," he added.

And, when there is someone there, frequently it is a junior person who is "not trained to make good, quick decisions," Mr. Agnew said. Instead, the junior underwriters tell the broker they will get back to him or her, "so the paperwork piles up," he said.

"They want everything on paper in front of them," he said. "What's needed is people who'll learn how to say 'yes' and 'no,' within reason, on the spot."

Mr. Agnew suggests adopting a rule under which all underwriters would be required to be present on a particular day between certain hours.

But J&H's Mr. Perry predicts the underwriters' presence will improve in October, November and December, when underwriters get busy "with all the Jan. 1 business."

The exchange's syndicate association is now working on a proposal to set minimum standards for the time senior underwriters or their deputies spend on the exchange floor, Mr. Fahys noted.

He acknowledged there is a problem now with the number of available underwriters. "Unfortunately, many people, many syndicates got into the habit of doing business by telex, and mail and telephone," he said.

For the exchange to be more effective, "there needs to be decision-makers available on the trading floor to evaluate the risks," to process policies or "just to have conversations with the brokers," he said.

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NYIE brokers

Continued from previous page

Brokers also complain about administrative problems, including slow claims payment and policy processing.

If there is an unusual loss and a "cash call" for immediate payment on the claim, it can instead take "months and months," Mr. Apostolos complained.

Central processing has too many employees, and many of them "don't know that much about the business anyway," said Mr. Agnew, who added that his experience with the administrative end of the exchange has been "mixed."

The standards there are less than those of the typical reinsurance company, he complained. "In the exchange, things just sort of get lost and forgotten," he charged.

J&H's Mr. Perry sees two major reasons for the problems:

- The exchange's rapid growth.
- Brokers' improper use of the exchange system. "A lot of brokers, ourselves included, have never learned to use the exchange system," Mr. Perry said.

However, there are a lot fewer of these problems now than there were two years ago, "because now we know what we have to do to work within the system," he added.

Others agree that the administration is improving.

Greig Fester's Mr. Bloom said the claims problems on the administrative side seem to be in the process of "getting straightened out," although the broker would still like to see them expedited "in a more timely fashion."

"They've gone a long way" toward clearing up the difficulties, said White's Mr. Groden. Under William G. Hughes, vp and treasurer, employees are "working like the devil" to clear up the problems one by one, he said.

Mr. Groden also noted that he is one of seven members of an ex-officio committee created by brokers as a step to creating a brokers association to work with the exchange in solving problems.

RGI did have problems in claims payments and the issuance of endorsements and certificates, Mr. Foran said. "But most of our problems have been cleared up," he added.

"There's been tremendous improvement in the service to members of the exchange for premium processing," Mr. Fahys contended.

Mr. Fahys noted that when a claim payment is requested, records must be checked to determine if outstanding premiums are due. If an incorrect premium amount was entered two or three years ago, either because it was offset by a claim or credit for a commission, the records must be corrected before the exchange can authorize claim payment, he explained.

Mr. Fahys said 75% of the problem claims identified in April have already been cleared up, with the exchange working on the largest claims first.

"If a broker, or a company, is working on current business, there should be no delay whatsoever," said Mr. Fahys, adding that the problem is only with old claims. "We almost have to have an archaeologist to dig into the past and see what the problems were."

Brokers express confidence in Mr. Fahys' ability to help clear up any problems they may have with the exchange. "I like him," said John Mairs, president of Glanvill Special Risk Insurance Brokers Inc., which placed $800,000 in business on the exchange last year, primarily excess property.

"I think he's capable of giving the exchange the type of leadership" it needs at this point, Mr. Mairs commented. "He gets people together."

Hiring Mr. Fahys was a "good step" because previous management, led by Donald E. Reutershan, was "just too close" to the exchange and didn't see its problems, said J&H's Mr. Perry.

Obviously, to succeed, the exchange needs brokers to produce business and cannot assume a "take it or leave it" attitude, Mr. Perry said. And as a former broker, Mr. Fahys is "quite aware" of brokers' needs, Mr. Perry noted.

Mr. Fahys was managing director and head of the Management Services Group of Marsh & McLennan Inc. directly before coming to the exchange.

Some brokers now question the exchange's future.

"I would question as to whether or not it will continue as viable," said James' Mr. McDougald.

Many of the syndicates now on the exchange are run by insurance companies that already have their own distribution channels. In fact, one reason why there are too few underwriters working on the exchange floor is that "most of the underwriting decisions are being made back at the home office," Mr. McDougald observed.

Also, a lot of the new capital entering the marketplace is not going to the exchange.

"We need to go a lot further" before the market can be declared a success, noted Major Surplus' Mr. Cooke. His company will make a decision within the next 18 months as to whether it wants to continue to operate on the exchange, he said.

But others are more optimistic.

"We view the exchange as a potentially important marketplace," said TPF&C's Mr. Jones. "We support the concept, and we're hopeful it'll have success beyond anyone's expectations."

"I think they still are suffering from their teething problems," said Intermediaries' Mr. Hague. The exchange is a great concept, he said. "It just seems to be dying a natural death because they don't have the money to attract the type of business they should be writing."

However, Mr. Hague added: "I'm hoping that the changes they've made in the senior administration in the exchange, and the move to new quarters will, by 1986, make a significant change."

"The exchange is still viable, contends Mr. Fahys. "The exchange means different things to different people," he added, explaining that for a U.S. insurance company, it could represent an entry into the surplus lines market, while the exchange gives foreign reinsurers a presence in the U.S. market. ■



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Four NYIE syndicates fail capital mandate

By AVRA WING

NEW YORK—The future is uncertain for four New York Insurance Exchange syndicates whose capital and surplus have fallen below the $2.2 million required by the exchange.

Those syndicates—The Burt Syndicate Inc., First New York Syndicate Corp., KCC New York Syndicate and The Realex Group N.V.—are negotiating with investors, the exchange and the New York Insurance Department in an attempt to raise capital and resolve their status.

The syndicates have several alternatives.

- Raise enough capital to meet the $2.2 million exchange minimum.
- Arrange portfolio reinsurance to cover business they had written.
- Try to borrow from the exchange's security fund, accumulated through a one-time payment of $500,000 by each member syndicate and additional payments of .075% of premiums written.

Joseph Fahys, president of the exchange, would not comment if any of the syndicates without sufficient surplus had asked to borrow from the security fund.

That fund currently totals $36.4 million, up from $34.2 million at the end of 1985. The deposit fund stands at $25 million, compared with $24.5 million at year-end 1985, while the surcharge fund stands at $11.4 million, up from $9.7 million at the end of last year.

Asked about the future of the troubled syndicates, Mr. Fahys said that the exchange had been "talking about rehabilitations for a long time," indicating that those rehabilitations "take several forms —all now being used for syndicates."

The forms range from voluntary joint control through conservatorship to actual rehabilitation, he indicated, but declined to identify which syndicates were involved at which level.

Mr. Fahys also declined to comment on a meeting of the exchange's business review committee, which sources said was held Aug. 19 to discuss some of the syndicates' problems.

The Burt Syndicate, managed by W.J. Burt Management Inc. and owned by Ormond Re Group Inc., showed a negative surplus of $2.1 million at the end of the second quarter of 1986, down from a positive $287,000 as of March 31.

W. Lockwood Burt, president of Burt Management, said the syndicate, in its effort to raise additional capital, was "looking at a variety of alternatives," including "talking with investment advisors, the exchange, and others."

Mr. Burt declined to give further details, saying, "Raising capital is a sensitive and complex business. I'm not in a position to outline plans. Any disclosure would jeopardize negotiations."

The syndicate has been under the supervision of the exchange and Insurance Department since 1984, when it stopped underwriting, Mr. Burt said. Since that time and currently, he added, there have been discussions concerning rehabilitation of the syndicate.

First New York, also managed by Burt Management, had a deficiency of $2.3 million at June 30. The syndicate had reported a positive surplus of $1.3 million for the first quarter, but that amount is not accurate because first-quarter results were improperly reported and are being re-examined, an Insurance Department spokesman said.

The syndicate is equally owned by eight foreign and domestic insurance companies: Arkwright-Boston Insurance Co. of Waltham, Mass.; Capital Assurance Co. of Coral Gables, Fla.; Gjensidige Norsk Skadeforsikring of Norway; Mutual Fire, Marine & Inland of Philadelphia (currently under voluntary supervision by the Pennsylvania Insurance Department); Nouvelle Cie. de Reassurances; Ormond Re; Pearl Assurance of Great Britain; and Vakuutusosakeyhtio Pohjola of Finland.

First New York has "discussions going with the exchange and insurance department," said Terence Russell, president of Capital Assurance.

He says that since the syndicate stopped writing business more than two years ago, "the state is involved in an academic exercise."

At this time, Mr. Russell said, he doubts whether there would be "any utility, any benefit to formally withdrawing" from the exchange.

"The whole matter is rather vague," he continued, referring to the talks with the Insurance Department. "It's not clear if there's a deadline" for resolving the syndicate's status.

"There's a lot of confusion right now as to who (between the exchange and Insurance Department) is responsible for what," Mr. Russell said.

The negotiations have included discussion of various levels of rehabilitation for First New York, Mr. Russell indicated.

While saying he was "not sure of the proper terminology," he chose conservatorship as best describing the status of the syndicate. "We're operating under voluntary restraints agreed to with the exchange," he said.

Those measures include the monitoring, by the exchange, of First New York's investment activities and disbursement of claims and other payments.

The syndicate has "considered a number of items, subject to discussions we've had with the exchange," intended to raise capital, Mr. Russell said.

He declined to give details, except to say that the syndicate had not approached the exchange for a loan from the security fund, and that there had been talks among the eight First New York investors about increasing their capital commitments, but no discussions with potential outside investors.

There is no consensus among the syndicate's owners as to what the fate of First New York should be, Mr. Russell said. "There are differences of opinion as to what ought to be done," he noted, declining to say what his position is. There also are differences between the syndicate and the state, he added.

KCC, owned by Donald Kramer, principal of Kramer Capital Consultants and a leading architect of the exchange, and other individual investors, showed a second-quarter

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negative surplus of $781,000, a drop from a positive $501,000 for the first quarter.

KCC had attempted in its first-quarter statement to discount its loss reserves to increase its surplus, but the Insurance Department disallowed the discounting.

The syndicate is "doing a number of things in its attempt to raise money," according to Stanley Smith, secretary of KCC.

Realex showed a positive second-quarter surplus of $364,000, down from $440,000 in the first quarter.

David Gardner, managing director of the syndicate, said the owner, Realex Holdings N.V., was "committed to putting more" capital into the syndicate by the end of the year.

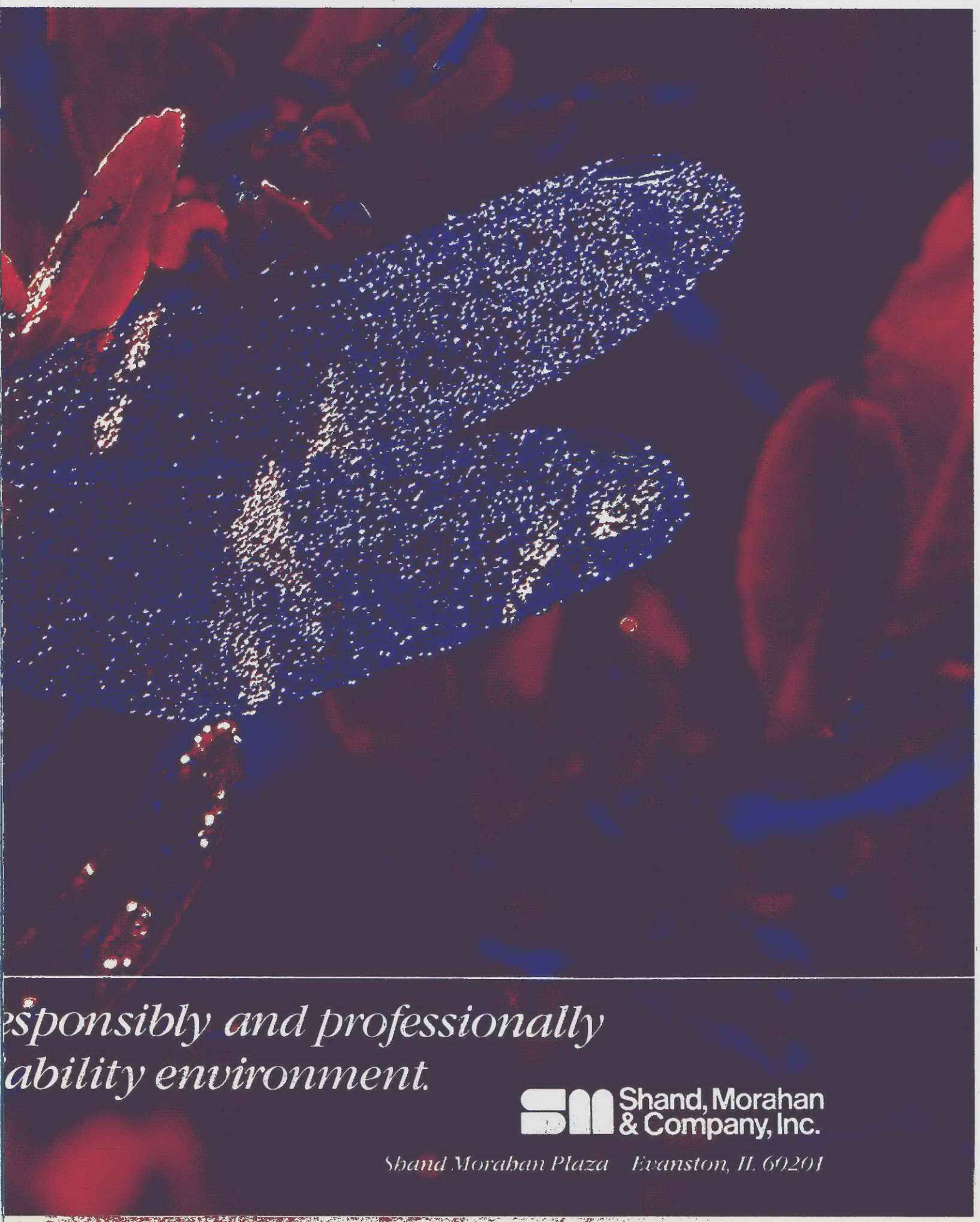
The amount of the extra capital would be about $1.8 million, which would bring Realex' surplus to the $2.2 million minimum. ■

New York Insurance Exchange syndicates no longer underwriting

Syndicate	Owner(s)	1985 gross written premiums (000)
Adena Syndicate Ltd.	Mead Reinsurance	$5,726
Anex Syndicate Inc.	Exxon Insurance Holdings Inc.	3,785
The Burt Syndicate Inc.	Ormond Re Group Inc.	11,228
Candon Syndicate N.V.	International Insurance Investors N.V.	9,954
Chubb Syndicate Inc.	Federal Insurance Co. and others	317
The Dorinco Syndicate Corp.	Dorinco Reinsurance Co. (Dow Chemical Co.)	3,595
First New York Syndicate Corp.	Eight U.S. and foreign insurers	11,818
Golden Hill Syndicate Inc.[1]	Prudential Reinsurance Co. and others	9,878
The Heartland Group Inc.	Several corporate investors	10,969
J&H, WF Syndicate A	Several corporate investors	6,186
KCC New York Syndicate Corp.	Individual investors	2,185
The Maiden Lane Syndicate Inc.[2]	Continental Insurance Co. and others	10,548
Pine Top Syndicate Inc.	Pine Top Insurance Co. (Greyhound Corp.)	3,483
The Realex Group N.V.	Realex Holdings N.V.	6,895
Republic Western Syndicate Inc.	Republic Western Insurance Co.	2,350
Senate Syndicate Inc.	A.W. Lawrence Management Corp.	8,854
The South Place Syndicate Inc.[2]	Continental Insurance Co. and others	10,574
U.S. Risk Inc.	Chesapeake Financial Corp.	6,876
Total		125,221

[1] Merger of Essex Syndicate Inc., John Street Syndicate Inc. and Pruco Syndicate Inc. [2] Stopped underwriting in 1985; plans to resume this month.

Source: *BI* survey



NYIE fixes accounting problems

By DOUGLAS McLEOD

NEW YORK—After receiving auditors' reports that were highly critical of its accounting, data processing and claims handling procedures, the New York Insurance Exchange is taking steps to correct its back office problems.

Most of the problems are expected to be resolved by the end of this year, said William G. Hughes, exchange vp and treasurer.

Two statements of auditing standards—known as SAS 44 reports—prepared in 1984 and 1985 by Coopers & Lybrand, the exchange's auditors, found problems with both the design of some accounting systems and compliance with systems found to be adequate.

The exchange's performance in the 1984 report politely could be called "poor," according to Mr. Hughes, who noted that the auditors found design deficiencies or compliance problems in 64% of the tests made of exchange systems.

Because the release of the 1984 report was delayed until May 1985, the exchange could not address several of the auditors' criticisms in time to have a major impact on the results of the 1985 report, he added. As a result, the exchange failed in 46% of the auditors' tests in 1985, he said.

Many of these criticisms have since been addressed, according to Mr. Hughes, with:

- A system for tracking syndicate transactions that were rejected by the exchange central processing facility's computers for various reasons—for example, because an incorrect broker code was entered. Now auditors can track when and where rejected transactions have been re-entered into the system.
- A new computer system that automatically provides monthly totals of all syndicate financial information, which previously had been produced manually.
- Provisions for a detailed cash suspense account that identifies individual checks being held in suspense by the exchange central processing facility. Previously, the system provided only the total amount being held in suspense.
- Increased supervisory review of data being entered into the system.

Earlier this year, the exchange also instituted a new procedure for dealing with brokers who remit premiums net of claims payments due policyholders. The exchange now keeps these premium remittances in a separate suspense account; it then asks the broker either to remit the balance of premiums due without netting out claims or to identify how the premium funds and the funds withheld for claims are to be applied in the exchange's accounting system.

Though not recommended in the SAS 44 reports, this change is expected to prevent confusion and improve the reliability of the exchange's financial reports to syndicate members.

The exchange is anticipating a "very good report" from Coopers & Lybrand for 1986, although two of the auditors' 1985 criticisms will not be corrected in time for this year's review, Mr. Hughes said.

One is a redesign of the exchange's claims processing system that will make more timely claims information available to members. This system will not be in place until 1987, he said.

The other is the provision of off-site data processing facilities that would serve as a back-up. ■

Obstacles hinder Florida exchange's growth

By MICHAEL BRADFORD

MIAMI—The Insurance Exchange of the Americas, the second-largest U.S. exchange based on 1985 reported gross premiums, is falling to third place this year as it confronts three major problems.

In its fourth year of operation, the IEA's problems include:

- Negative publicity created by litigation filed against two of its syndicates, which is scaring away new investors. The outcome of the litigation potentially could bankrupt the two syndicates and, under a worst-case scenario, expose the exchange's $13 million guaranty fund to claims.
- Too little capacity. The exchange has four fewer active syndicates this year than last year.
- Backlogs in its central processing facility. Correcting the backlogs now is creating confusion over how much business its syndicates actually wrote in 1985 and so far in 1986.

Nonetheless, exchange officials and members say they are optimistic that the IEA is, and will be, a viable marketplace. They say the guaranty fund is protected from claims, that the IEA will attract new investors and that already it is straightening out its central processing facility.

But currently, there is concern about the impact of litigation filed against RAM Syndicate Inc. and Administrative Management Services Syndicate Ltd. Inc. by Omaha Indemnity Co.

The insurer charges that the syndicates did not have the financial strength to reinsure business that was written for Omaha Indemnity by two managing general agents and that the business is creating large losses for the insurer (see story, page 38).

Although the IEA says its guaranty fund of around $13 million would be protected from any claims by Omaha Indemnity if the syndicates are found liable for claims they could not pay, investors have not been eager to start new syndicates and contribute to the security fund while the controversy looms.

"It's safe to say some (syndicates) have not been funded because of this Omaha Indemnity situation," said George Love, administrator of the surplus lines section of the Florida Department of Insurance.

Both AMS and RAM, which were the largest and third-largest syndicates in 1985 based on gross premiums written, stopped writing business in February.

Last year at this time, 18 of the 23 syndicates on the IEA were actively writing business.

With three other syndicates no longer writing this year that were writing last year—Lahus I Inc., Lahus IV Inc. and Lahus V Inc.—brokers currently have only 14 of IEA's 23 syndicates to turn to when looking for coverage at the IEA.

Only one of the inactive syndicates last year is now underwriting. That syndicate, American Royal Syndicate Inc., also was the last syndicate to be capitalized at the IEA, in May 1985.

The 14 syndicates active now have about $21.2 million in policyholder surplus, permitting them to write a maximum of $127.2 million in gross premiums this year under exchange regulations limiting gross premiums to six times policyholder surplus.

The Illinois Insurance Exchange, which based on 1985 reported gross premiums written was smaller than the Florida exchange, expects to write $200 million in gross premiums in 1986.

However, the IEA is expected to report $180 million to $200 million in premiums for 1986, including premiums for business written in prior years. That would greatly exceed permitted premium-to-surplus ratios.

The huge influx of premiums written in prior years is due to inadequate computer facilities and staffing in the central processing facility that created backlogs in the exchange's data processing. Now that those problems are being corrected, business written in prior years is being booked (see story, page 36).

The exchange was still working with syndicates last month to determine where the current premium-to-surplus ratios actually stand. The Florida Insurance Department has said the IEA can let the syndicates continue to write as long as they can show the high ratios are the result of processing backlogs.

"I think they're going to have to fall back and retrench for the rest of this year," says Mr. Love of the Florida Department of Insurance.

"They've been writing an awful lot of premium," he added, pointing out that some syndicates likely will have to stop writing soon because they will have reached underwriting limits for the year.

"This is going to be a very tight market for the rest of the year," agrees Gene Witherspoon, executive vp of the IEA. "The syndicates are being very selective about what they underwrite."

While about $90 million in gross premiums had been booked at the exchange through June 30, only around $10 million had actually been written by syndicates in 1986, according to Mr. Witherspoon.

Using the year-end figures submitted to the state insurance department, the exchange and every one of the 10 largest syndicates based on 1985 gross premiums exceeded the permitted net premium-to-surplus ratio of 3-to-1.

Policyholder surplus as reported at year-end 1985 for all 23 syndicates totaled $30.5 million, while net premiums recorded in 1985 totaled $117.8 million.

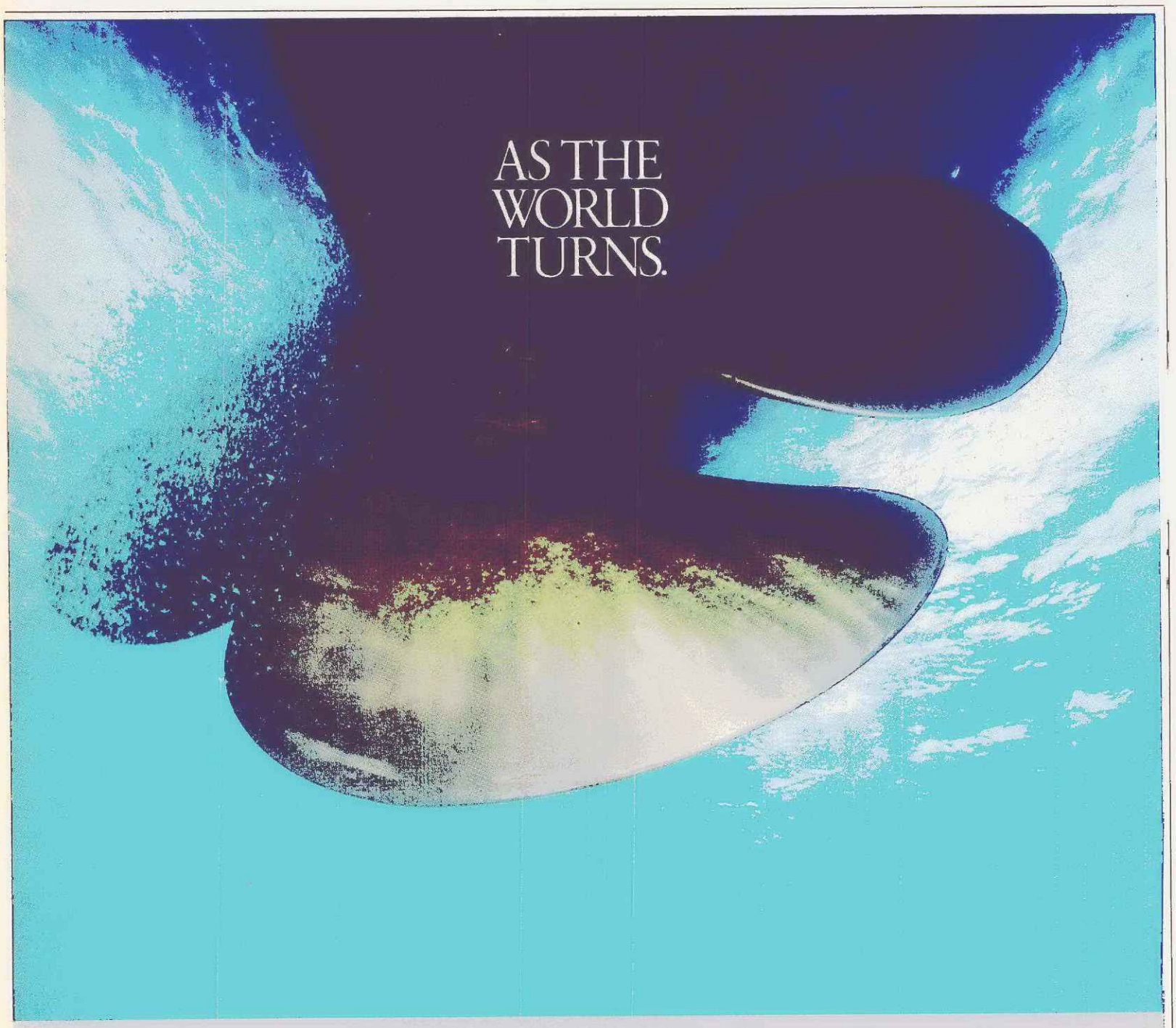
Gross premiums written totaled $132 million, a 261% increase from $36.5 million in 1984.

The 21 property/casualty syndicates reported $119.3 million in gross premiums, up 366% from the $25.6 million that was reported for 1984. The two syndicates licensed to write life insurance and annuity business produced $12.6 million in gross premiums, up from the $10.9 million they wrote the year before.

The exchange was created by a special act of the state Legislature in 1979, and began writing in April of 1983. That year, its syndicates recorded $3.4 million in gross premiums and $3 million in net premiums.

Last year, after two full years of operation, the property/casualty

Continued on page 30



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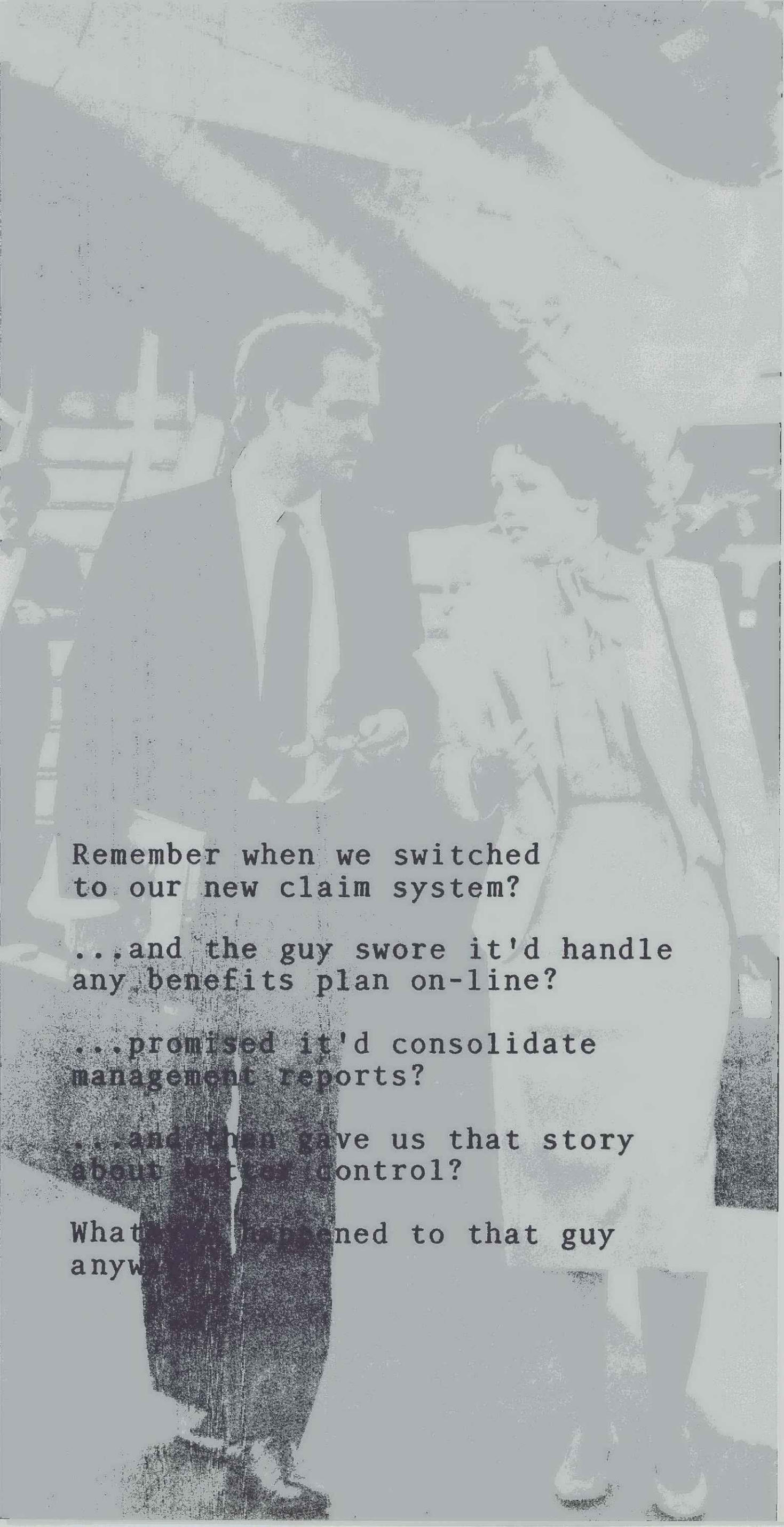
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Toro to retire as IEA president

MIAMI—The Insurance Exchange of the Americas Inc. is searching for a successor to President Arturo Toro.

Mr. Toro's three-year contract expires in December. But by taking unused vacation time, he advances his departure to November.

"I'll be 68," Mr. Toro says, explaining why he is leaving the top job at the Miami marketplace. "I'll be retiring.

During retirement, "I may do something as a consultant," he says, "but it's not going to be a five-day-a-week job, like this one—or a six- or seven-day job."

A committee is forming to find Mr. Toro's successor, but no potential candidates have been contacted, Mr. Toro said.

The second president to lead the exchange, Mr. Toro replaced then-IEA President Alan Teale in June 1984, when Mr. Teale's three-year contract expired.

Many said Mr. Toro was selected because he was well-respected in international insurance circles.



Mr. Toro

Before joining the exchange as executive vp in December 1983, Mr. Toro had been in charge of American International Underwriters' Latin American operation.

Mr. Toro also was described as more of "an operations man" than Mr. Teale.

Mr. Teale was well-known for his skills as a "promotions man" and he helped tout the new marketplace in its early years of development.

In some respects, Mr. Toro says, his retirement might be somewhat premature.

"I feel that I'm just now beginning to realize what an exchange is.

"It's been an education process, and most interesting."

Florida exchange

Continued from page 28

syndicates managed to record their first profitable year, with combined net income of $402,777. Investment income of $3.9 million offset an underwriting loss of $3.6 million.

The property/casualty syndicates reported a combined ratio of 100.4% for 1985.

In 1983, the syndicates posted a net underwriting loss of $2.8 million and a net loss of $2.1 million.

In 1984, the underwriting loss rose to $3.9 million, but an investment gain of $2 million helped shrink the net loss to $1.7 million.

Syndicates on the exchange are approved to write surplus lines business in 16 states, the District of Columbia and the United States Virgin Islands. They can write reinsurance in all states and in addition are allowed to write life insurance in the same areas where the surplus lines syndicates are approved.

Despite reduced capacity at the Florida exchange, IEA syndicates are being offered an increasing amount of surplus lines business, including a lot of applications for primary general liability coverage on commercial risks, excess liability insurance and liquor liability coverage.

Tight commercial insurance market conditions in general and new rate regulation on admitted insurers in Florida have sent many risks traditionally written by admitted insurers to the IEA.

Exchange officials estimate that this year about 40% of the business written at the marketplace will be surplus lines and facultative reinsurance, while 60% will be treaty reinsurance.

Treaty reinsurance accounted for 87% of premium volume recorded in 1985, down from 90% in 1984. Facultative writings brought in 6% of all premiums last year and 7% in 1984.

Surplus lines accounted for 7% of total premiums in 1985, compared with 3% in 1984.

In surplus lines underwriting, the exchange is becoming recognized as a big player in the liquor liability marketplace.

"There's a lot of liquor liability business on the exchange," said Robert W. Daum Jr., president of Robert W. Daum Management Co., which manages four syndicates. Rates for the coverage have nearly tripled during the hard market conditions after insurance companies stopped offering the insurance in Florida, he said.

Mr. Daum said insurers' decisions to stop writing liquor liability in Florida didn't necessarily come about because of bad loss experience in the state, but those insurers had made decisions not to offer the coverage anywhere.

Phil C. Gallagher, president of broker Gallagher-Cole Associates, said he places a lot of liquor liability business with exchange underwriters "because there are no other markets providing it."

A line slip led by W.F. Poe Syndicate Inc. and supported by 11 others will write the coverage up to $1 million for establishments in five states. Exchange syndicates together wrote around $10 million of liquor liability coverage from June 1985 through June of this year.

Other specialty coverages being written by exchange syndicates include hull and liability insurance for pleasure yachts and physical damage coverage for luxury automobiles. Contingency risks are also commonly written by IEA syndicates.

An average risk at the exchange is shared by about seven syndicates, according to Mr. Witherspoon, and often as many as 12 will appear on a policy. "I think that shows the strength of our market," he remarked.

Geographically, most of the exchange's surplus lines business comes from Florida. Of $8.9 million in gross premiums written on a non-admitted basis in 1985, $4.5 million was written in the IEA's home state.

Another $202,643 came from Hawaii, and Texas accounted for $79,935 in surplus lines premiums. Underwriters issued coverage in Illinois that produced $56,250 in premiums.

Outside the United States, the exchange wrote $507,000 in surplus lines coverage in Canada and $42,737 in the United Kingdom.

Although the growth in numbers of investors has stalled at the syndicate, those connected to the facility still speak optimistically about the market's future potential.

"There are still too few syndicates," concedes retiring President

Continued on page 32



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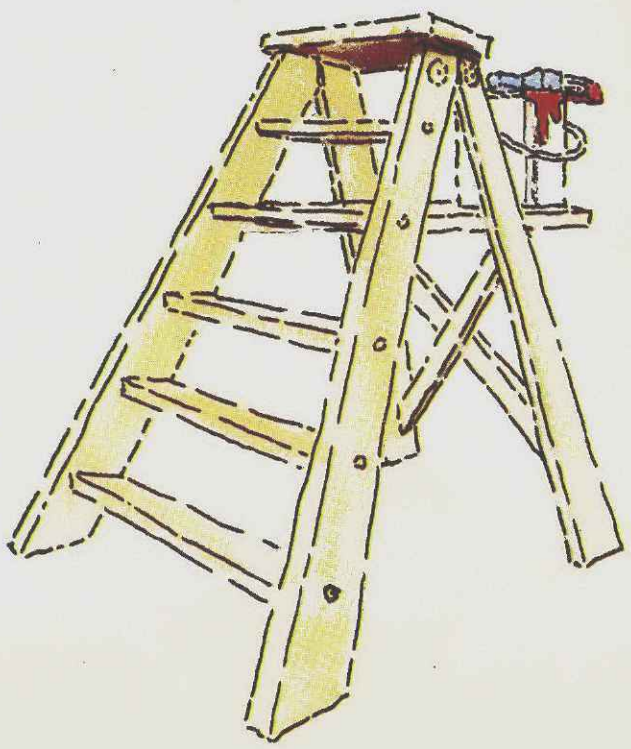
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Florida exchange

Continued from page 30

Arturo Toro. "But right now we're writing enough to keep the physical plant together. We're covering expenses quite adequately. As far as growth is concerned, we'll take all we can get."

The exchange has erased nearly half of its deficit that is made up largely of start-up costs, according to Mr. Toro. He says the rest of those costs should be paid by the end of this year.

The Insurance Department's Mr. Love said his office is "not all that unhappy" with the slowdown in new investment because he has heard three or four syndicates are "waiting in the wings" to join the exchange.

"We'd like to see more development," said Mr. Love, "but we have people asking us, 'Is there a moratorium on new syndicates?' The answer is no, there's not."

Some members say they currently are putting the finishing touches on syndicates and will be funding them shortly.

"We have a syndicate coming on right away," says Ben F. Ricker, executive vp of Central Placement Brokers. He said Cole-Associates Syndicate Inc. will be capitalized at $1.5 million to write property/casualty coverages. The syndicate's majority owner will be B.D. Cole Inc., a retail agency in West Palm Beach, Fla.

Mr. Ricker predicts that 30 syndicates will be writing business by the end of next year.

Part of the reason growth has been slow up to now at the IEA, he says, is because the exchange has been badly marketed.

"You've heard the comment, 'We have plenty of P.R. and it's all bad,'" said Mr. Ricker. "The exchange is like anything else. You start something and if it's successful, you get careless about extending your image.

"We need to get out there and get rid of the mystique. I've had retailers ask me if they can get on the exchange floor just to see it. It's like a mystery to them."

Felipe M. Palacio of Palacio & Weinraub, an IEA member broker, said he believes that more capacity is forthcoming at the exchange and that it eventually could grow to 100 syndicates.

Mr. Palacio is inviting investors to participate in a pool of reinsurance companies that would write on the exchange.

Under a law passed last year, insurance companies could be formed with minimum capital of $100,000 as long as they were part of a pool of others that was capitalized with at least $2 million.

The pool would for the most part function as any syndicate on the exchange, but would be permitted to write only reinsurance.

Pool company investors would be able to enjoy tax advantages on their individual investments under the arrangement. Mr. Palacio said preliminary discussions have found prospective investors to be "very excited." Those investors, he said, represent around $1 million in potential capital.

The pool could be writing reinsurance by Oct. 1, says Mr. Palacio, but may not be functioning until the end of the year. "We will be on time for renewals," he said.

If the pool does begin writing on the exchange, it would be the first to be formed under the law that allows their formation.

Richard S. Adeline, the IEA's former chief financial officer who left last December to form his own accounting firm, Richard S. Adeline & Co., says he is confident enough in the exchange to invest in a holding company that will acquire or form syndicates.

Mr. Adeline said he believes there could be as many as six or more new syndicates on the exchange by year's end.

In the meantime, Mr. Palacio says, the conservative ratio imposed by the exchange is adding to the capacity problem.

The Insurance Department permits insurance companies to write premiums net of authorized reinsurance totaling 8½ times policyholder surplus, Mr. Palacio points out. However, the exchange limits syndicates to net premiums of three times policyholder surplus.

"It has really put some of the underwriters in a situation that they cannot write much more business. Some of them are close to reaching the limits," he commented.

To cope with the capacity problem, some brokers are beginning to discuss how they could market a risk to all three U.S.-based insurance exchanges at the same time.

Mr. Ricker said has talked with brokers at the other exchanges about sharing capacity.

"I'm looking forward to doing business with the other exchanges. If the exchanges could work together, it could help capacity," he said.

Acknowledging the suggestion that risks could be marketed to all three exchanges, Mr. Witherspoon commented, "The brokers are promoting it much more than the syndicate organizers. The brokers would love to have a situation where they could place a much larger risk."

IEA underwriters handle business at desks spread throughout a 12,000-square-foot area, part of the 30,000 square feet occupied by the IEA at the Insurance Exchange Building in downtown Miami.

Several underwriting management companies and brokers have offices elsewhere in the building, giving them easy access to the underwriting floor.

On a typical day, a few brokers usually can be spotted meeting with underwriters, or underwriters will be manning phones or handling paperwork. The room has a busy atmosphere until around lunchtime, when it generally clears of all except a few who eat at odd hours.

The exchange is for the most part a self-regulating entity, although the Insurance Department holds ultimate authority over the IEA.

Members say one of the strong points of their facility is the relationship it shares with state officials.

"A primary strength of the exchange is Bill Gunter, the commissioner of insurance," said Richard Lehman, a former member of the board of governors and controlling partner of management agency First Insurance Investors Group Inc.

Mr. Lehman said the exchange has developed a sound relationship with Mr. Gunter and the Insurance Department that "permits us to establish a marketplace.

"There is a special relationship there," said Mr. Lehman, that allows the IEA to function under "controlled, self-regulation."

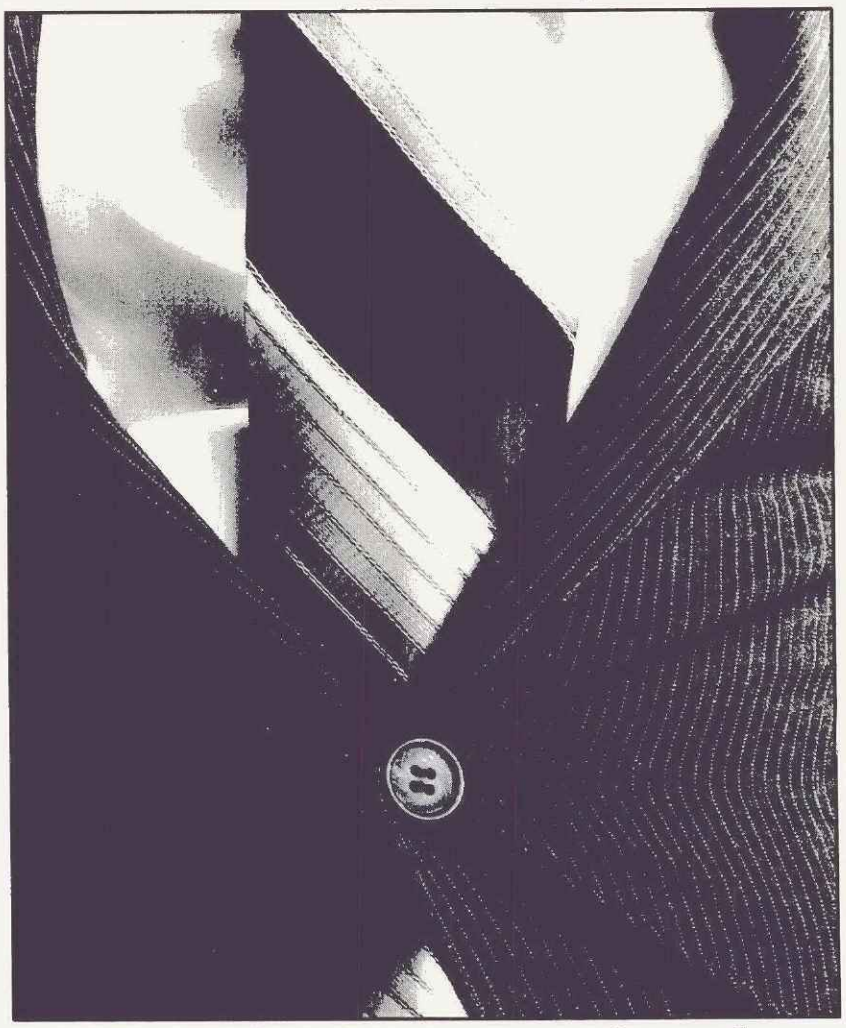
The department has the authority to discipline membersbut, according to Mr. Toro, no such measures have been taken. He said small fines have been levied against some syndicates for minor infractions, like late filing of convention statements.

Each syndicate that becomes a member of the exchange is required to contribute $500,000 of its minimum capital into the IEA's guaranty fund.

With an additional 1% premium assessment to the syndicates, the fund currently stands at around $13 million.

If needed, the exchange can ask syndicates to contribute an additional $500,000. The fund has never been called on to cover liabilities of any syndicate. ■

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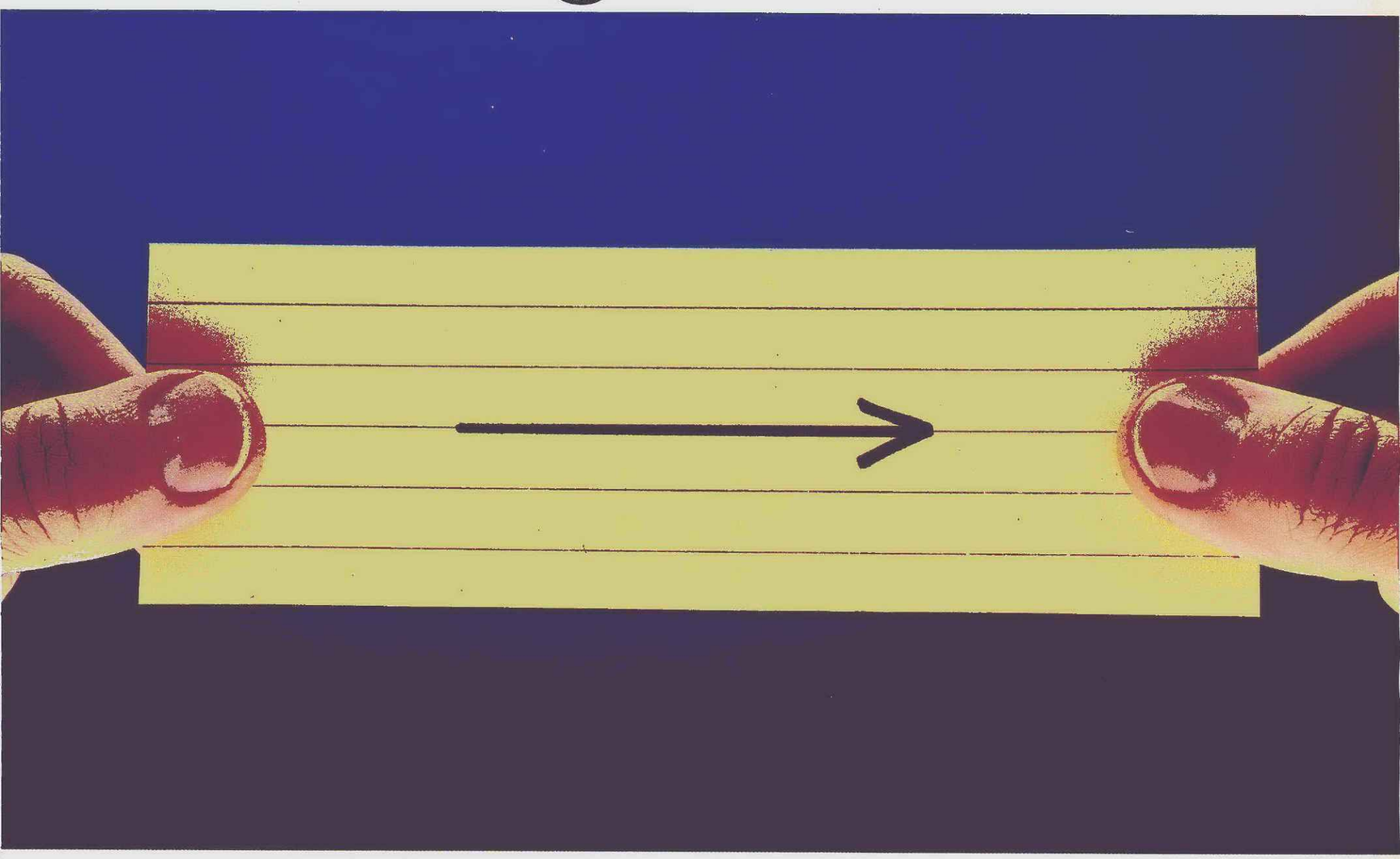


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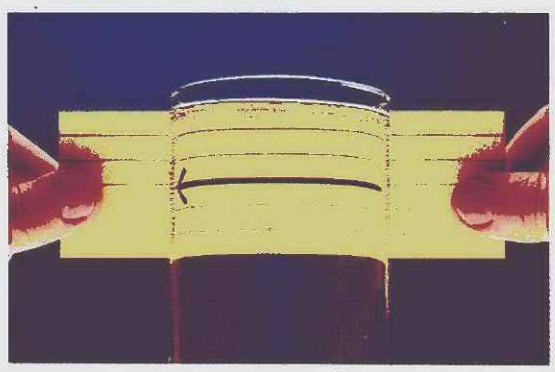
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Litigation clouds IEA future: Ex-official

By MIKE BRADFORD

MIAMI—Litigation against two syndicates on the Insurance Exchange of the Americas bodes a much darker future for the exchange than IEA officials are admitting, according to a former IEA official.

While current IEA officials maintain they are confident that the exchange's $13 million guaranty fund is in no danger of being exhausted by the outcome of the litigation, its former deputy chairman says that may or may not be true. And, nonetheless, the existence of the litigation could destroy the exchange, he says.

"We believe we have all the defenses in the world around that guaranty fund. We think that that fund is not touchable in this situation. And, yet, we could have these guys play for years in the courts and destroy us in the process," says Richard Lehman, controlling owner of management agency First Insurance Investors Group Inc. and the former deputy chairman of the IEA's board of governors.


Mr. Lehman

He fears that the litigation will scare off too many investors and suggests that the exchange seek to settle the suit to end the bad publicity.

Current IEA officials admit that the dispute has scared away potential investors at a time when the exchange needs additional capital, but they maintain the exchange will survive.

"I'm sure we'll persevere and we'll exist no matter how it goes," contends Gene Witherspoon, the IEA's executive vp.

The litigation involves the possibility that millions of dollars of reinsurance was ceded on behalf of Omaha Indemnity Co., a unit of the Mutual of Omaha Group, to Administrative Management Services Syndicate Ltd. Inc. and RAM Syndicate Inc., the largest and third-largest underwriting members of the IEA, respectively (*BI*, April 28; June 2).

The contracts were handled from 1983 through 1985 by Omaha Indemnity's managing general agencies: Royal American Managers Inc. and World American Underwriters Inc. in Kansas City, Mo.

Royal American owns the RAM Syndicate.

In addition, a portion of the reinsurance was ceded to Fielding Reinsurance Ltd., a company in Turks and Caicos that is owned by Royal American's parent, Kensu Holdings Inc.

In a suit filed by Omaha Indemnity in U.S. District Court in Kansas City, the reinsurer charges that Royal American and World American failed to report $67 million of $118 million in premiums written on reinsurance and excess and surplus lines business on behalf of Omaha Indemnity.

The suit also claims that the business was ceded to reinsurers, including AMS and RAM Syndicate, that were not financially capable of handling the business. Incurred losses on the business currently amount to around $169 million, according to Omaha Indemnity.

The Omaha Indemnity suit names Royal American, the RAM Syndicate, Administrative Management, Fielding, World American and Kensu.

Royal American Managers has asked for arbitration in the dispute, according to a spokesman for Omaha Indemnity.

In turn, Administrative Management Services has sued Omaha Indemnity and Royal American in an attempt to rescind the reinsurance agreement. Administrative Management Service's suit, filed in U.S. District Court in Miami, charges fraud and violations of the Racketeer Influenced and Corrupt Organizations Act and seeks an unspecified amount of compensatory and punitive damages.

The IEA is still investigating the syndicates' involvement in the matter and has not determined exactly what the syndicates' liability might be.

The facility also is trying to determine whether the syndicates failed to report the business according to IEA regulations.

The two syndicates, both of which were managed by C. Management Services Inc., stopped writing in February. RAM Syndicate no longer is under the management of C. Management Services.

In 1985, Administrative Management was the largest syndicate on the exchange, writing $21.9 million in gross premiums. It retained $16.4 million and reported net income of $273,511.

Its 1985 premium-to-surplus ratio was 14.7-to-1, which includes premiums written in prior years but only reported last year due to a backlog of processing at the exchange.

Meanwhile, RAM Syndicate ranked third on the exchange in 1985, writing $12.2 million in gross premiums, virtually all of it on a net-line basis. It lost $234,761.

RAM Syndicate's 1985 premium-to-surplus ratio was 5.96-to-1.

From 1983 to 1985, the two syndicates together reported $43.2 million in gross writings.

It's feared that the two syndicates could be forced into insolvency if they are ordered to pay a large portion of the losses on the Omaha Indemnity business. If they are, there could be an effort to tap the exchange's $13 million guaranty fund.

But, exchange officials contend that the IEA guaranty fund is sufficiently shielded against any recoveries by Omaha Indemnity because of the "highly irregular" manner in which the reinsurance transactions were handled.

Omaha Indemnity is charging its MGAs with fraud in the handling of the business.

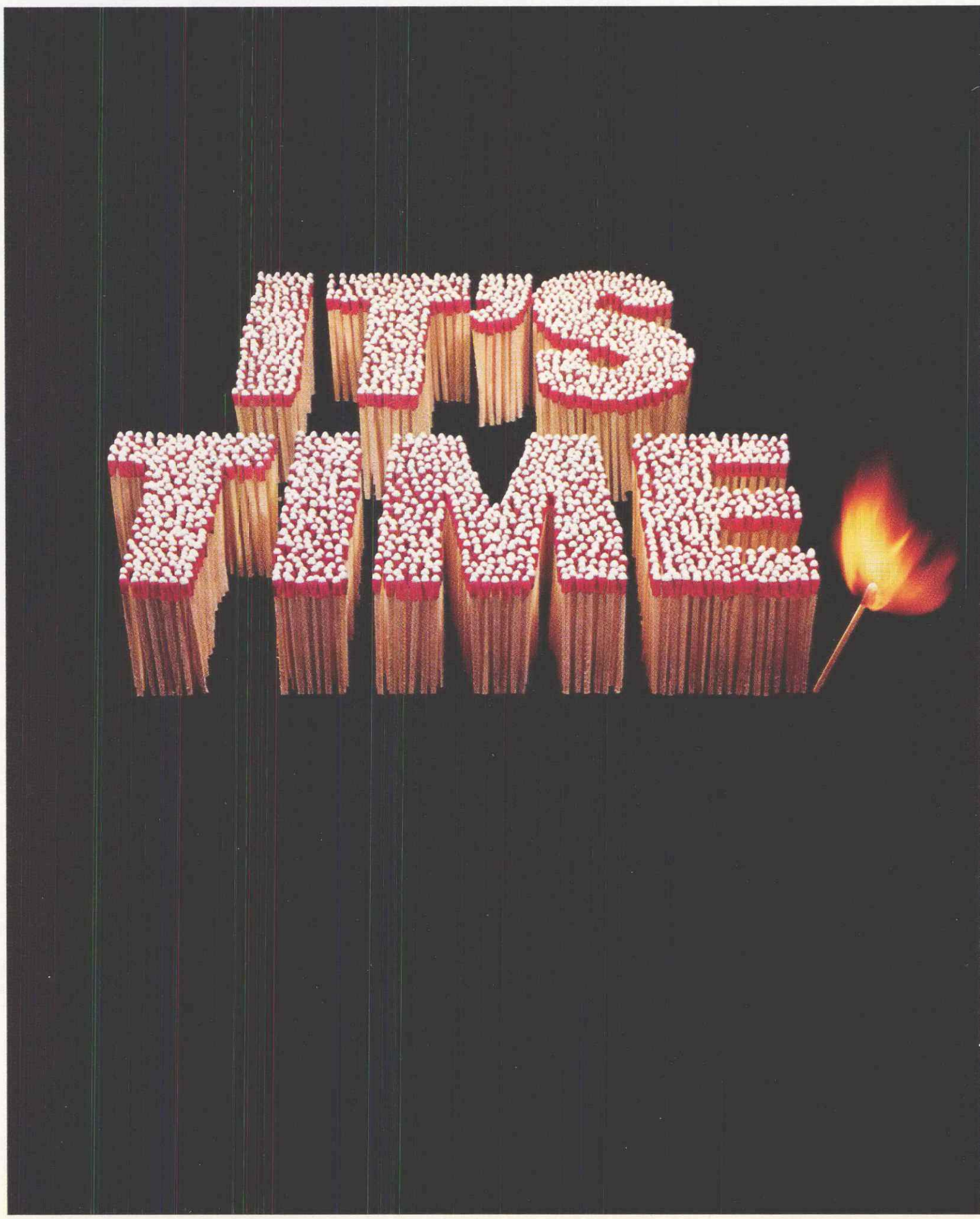
Mr. Witherspoon said the IEA's board of governors is satisfied that if Omaha Indemnity proves that its former MGAs committed fraud, the guaranty fund would not be liable for any payments.

"We feel fairly reasonably protected," he added.

"However, there is some concern relative to the health of the RAM syndicate and the AMS syndicate," should the two syndicates be found liable for large losses.

Nonetheless, assuming a worst-

Continued on page 39



Several large IEA syndicates cease writing

By MICHAEL BRADFORD

MIAMI—Only four of the 10 largest syndicates on the Insurance Exchange of the Americas Inc. reported a profit in 1985, and the biggest money-maker is no longer underwriting.

Indeed, three of the 10 largest IEA syndicates, based on 1985 reported gross premiums, are no longer underwriting (see chart, page 34).

Administrative Management Services Ltd. Inc., the most profitable and largest IEA syndicate in 1985, stopped underwriting in February after IEA officials found the syndicate had written too much in premiums.

Most of the premiums may be related to business ceded to the syndicate by a managing general agent for Omaha Indemnity Co.

Omaha Indemnity sued AMS in April along with RAM Syndicate Inc., the IEA's third-largest syndicate, which also had reinsured the business. RAM also stopped writing in February (see story, page 38).

AMS, whose $273,511 profit in 1985 outpaced that of the 10 largest syndicates, is expected to begin underwriting again.

"When we think we have our problems with over-writing premiums cleared up, I'm sure we'll be back in business," said Alan Pither, underwriter with the management company of C. Management Services Inc.

AMS reported $21.9 million in gross premiums in 1985, almost four times its 1984 volume of $5.2 million. The RAM syndicate reported $12.2 million in gross premiums in 1985, up from $3.3 million the previous year.

It's unknown how much of that volume is related to the Omaha Indemnity business, which was written from 1983 through 1985.

In addition, 1985 premiums for all IEA syndicates are inflated by premiums written in prior years. The premiums were recorded late due to a backlog of work in the central processing office, a problem that is now being corrected (see story, page 36).

Because of the late reporting of premiums, year-to-year comparisons of premium volume are not meaningful, and all of the syndicates' net premium-to-surplus ratios also are inflated.

As a result, the exchange is not enforcing its 3-1 net premium-to-surplus ratio based on 1985 reported premiums.

Hispano American Insurance Syndicate Ltd. Inc., with the fourth-largest premium volume among IEA syndicates, also is not writing and did not write any business in 1985.

The $11.5 million in gross premiums written reported for 1985 stems from business written in prior years. The business produced a loss ratio of 106.3%, contributing to the syndicate's $853,793 loss in 1985.

An audit is being conducted to determine Hispano-American's surplus, which was reported at $399,560 at the end of 1985, and the syndicate eventually may begin writing again, said Gene Witherspoon, the IEA's executive vp.

Six other syndicates also are inactive, leaving only 14 of the IEA's 23 syndicates actively writing business.

The other inactive syndicates, according to Mr. Witherspoon, are: Feico Syndicate Inc., Biscayne Insurance Syndicate Inc. (formerly Lahus I Inc.), Lahus II Inc., Lahus III Inc., Lahus IV Inc. and Lahus V Inc.

A group of investors is negotiating to purchase and reactivate the Biscayne Syndicate and Lahus II, III, IV and V syndicates, he said.

In addition, Feico is for sale by its owner, Florida Employers Insurance Co., said Mr. Witherspoon. The syndicate ended 1985 with surplus of $1.6 million.



Mr. Cordle

Among active syndicates, the W.F. Poe Syndicate Inc., which ranked as the second-largest syndicate based on reported 1985 premiums, is the largest property/casualty syndicate on the IEA.

Poe Syndicate reported $13.4 million in 1985 gross premiums written and net premiums of $9.6 million.

The syndicate, which is owned by William F. Poe, president of broker Poe & Associates Inc., and members of his family, recorded an underwriting loss of $200,074 and a net loss of $78,582 in 1985. The syndicate was profitable in 1984, earning about $28,000 in net income.

Besides late reporting of premiums, Poe Syndicate's huge increase in 1985 premium volume is attributable to higher rates and a steady stream of surplus lines business, according to James Cordle, president of Citadel Management Corp., which manages the syndicate.

About a third of the syndicate's 1985 premiums was generated from its position as lead underwriter on a surplus lines line slip that circulates among 11 other syndicates. About 55% of 1986 premiums will be generated by the line slip, he estimated.

About 60% of the surplus lines business in 1985 was casualty and 40% was property.

But unlike last year, the slip now is only writing casualty coverages, says Citadel underwriter George Bahm.

Citadel's staff is not large enough to devote enough time to both property and casualty lines, and most of the staff's experience is in the casualty area, he explained.

The slip offers limits of up to $1 million for primary general liability, liquor liability and excess liability insurance in several states, with a major emphasis on excess liability, Mr. Bahm said.

The slip will write excess of $500,000, but prefers to write excess of at least $1 million, he noted.

The slip increasingly is sought to participate in $10 million to $50 million umbrella programs for large Fortune 500 or 1,000 risks, says Mr. Bahm. "Even our $1 million is significant" in a capacity-tight insurance market, he noted.

Continued on page 34



Largest Insurance Exchange of the Americas syndicates[1]
(Ranked by 1985 gross premium volume in thousands of dollars)

Syndicate	Gross premiums written		Net premiums written		Policyholder surplus		Net premium to surplus ratio[2]		Combined ratio		Net investment income		Net income (loss)	
	1985	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985	1984
Administrative Management Services Ltd. Inc.[3]	$21,888	$5,246	$16,423	$3,212	$1,117	$1,215	14.70:1	2.60:1	100.7%	106.0%	$590	$184	$274	(189)
W.F. Poe Syndicate Inc.	13,391	1,562	9,605	1,138	1,921	1,232	5.00:1	0.92:1	100.9	98.7	121	63	(79)	28
RAM Syndicate Inc.[3]	12,225	3,303	12,212	3,303	2,050	1,935	5.96:1	1.70:1	105.6	117.8	329	193	(235)	(216)
Hispano American Insurance Syndicate Ltd. Inc.[3]	11,516	3,724	11,052	2,982	400	1,239	27.66:1	2.41:1	106.3	104.8	262	195	(854)	(50)
B.G.H. Syndicate Inc.	9,354	1,371	9,213	1,360	1,013	1,550	9.09:1	0.87:1	103.6	100.6	302	174	(150)	88
American Royal Syndicate Inc.	9,183	—	5,693	—	1,157	—	4.91:1	—	94.2	—	114	—	(111)	—
AIB Syndicate Inc.	8,253	1,427	8,229	1,423	1,096	1,262	7.51:1	1.10:1	91.8	110.0	260	163	58	(34)
Syndicate Two Inc.	6,655	1,039	6,655	1,036	1,033	1,149	6.43:1	0.90:1	96.0	150.0	137	114	228	(414)
Syndicate One Inc.	6,359	1,289	6,334	1,280	1,979	1,400	3.20:1	0.92:1	106.0	99.2	256	162	(543)	23
Miami Savings Insurance Syndicate Inc.	4,142	174	3,958	170	1,266	1,436	3.12:1	1.02:1	97.0	117.5	108	(15)	8	(64)

Source: Insurance Exchange of the Americas

[1] Excludes life syndicates. [2] 1985 ratios inflated because premiums written in prior years reported in 1985. [3] Not currently underwriting.

Chart: Amy Palmer

IEA syndicates

Continued from page 33

In addition, the slip often writes buffer layers, usually $500,000 excess of $500,000, for commercial risks that need the layer to satisfy an umbrella insurer that wants $1 million of underlying coverage.

The Poe Syndicate usually retains 15% of a $1 million risk.

In the year that ended June 30, the line slip wrote $14.5 million in gross premiums and paid 51 claims totaling $434,000. The program wrote its first risk in June 1985.



Mr. Bahm

Mr. Bahm said he expects the line slip to write around $18 million in gross premiums this year.

"There's been a dramatic increase in the number of submissions," said Mr. Bahm, citing the new Florida law that tied tort reform to tighter rate regulation of admitted insurers. Several admitted insurers have restricted their writings as a result.

"It seems to have gotten critical about six weeks ago; our mail was about three times what we would have had. It was all new submissions," Mr. Bahm said.

"It's not true surplus lines business," says Mr. Bahm. "It's business that is unable to find a home because of this temporary dislocation."

The applications are mostly for primary general liability coverage, including "a lot of contractors, hotels, motels, restaurants, apartment houses, condos," he said.

Most of the business pouring in is not being written, however.

"We're putting out quotes on that business that appeals to us," Mr. Bahm remarked. "But we're rating it up to non-standard rates. We've gotten a few orders, but not many."

The 45% of Poe Syndicate's premium volume coming from business not written on the line slip this year will involve 20% commercial automobile policies, 14% inland and ocean marine and 11% accident and health insurance. Limits written normally are below $100,000.

B.G.H. Syndicate Inc. ranks as the fifth-largest syndicate based on gross premiums of $9.4 million last year.

However, B.G.H. showed a net loss of $150,034 after finishing 1984 with about an $88,000 gain. Its combined ratio rose to 103.6%, eating into investment income of $301,922.

In addition, large reserves were set up in 1985 for losses incurred but not reported, says Michael Griffiths, vp of B.G.H.'s manager Global Underwriting Management Inc.

American Royal Syndicate Inc., which was activated in May 1985, ranks as the IEA's sixth-largest underwriting member.

American Royal, which is managed by C. Management, finished the year with $9.2 million in gross premiums, $5.7 in net premiums and a net loss of $110,569.

Mr. Pither of C. Management said 70% of the syndicate's gross volume last year was generated by reinsurance and 30% by a broad spectrum of surplus lines business.

American Royal typically writes to limits of around $50,000, said Mr. Pither.

"The surplus lines business has shot up dramatically," he noted.

The syndicate will not write financial guarantees, professional liability, malpractice, directors and officers liability insurance and avoids any primary liability that indicates "a lot of loss frequency."

A small part of American Royal's business includes contingency risks, like hole-in-one coverage for golf courses.

"We would entertain any form of prize indemnification where you can control the honesty of the endeavor and generally ascertain that the contestant had done what he was supposed to do to get the prize," Mr. Pither said.

The AIB Syndicate Inc. ranks as the seventh-largest IEA syndicate, recording gross premiums of $8.3 million last year.

AIB, like some other syndicates, found itself in the odd position of recording a combined ratio of below 100% while showing an underwriting loss for 1985. The syndicate reported an underwriting loss of $201,738, while its combined ratio registered 91.8%. Its loss and loss expenses and other underwriting expenses exceeded earned premiums. Net income totaled $58,429 for the year.

Two syndicates managed by the Robert W. Daum Management Co. finished 1985 as the eighth- and ninth-largest IEA syndicates.

Syndicate Two Inc. recorded $6.7 million in gross premiums, all of which was retained. Syndicate One Inc. finished 1985 with $6.4 million in gross premiums.

Syndicate Two's net income in 1985 was $228,418, which followed a 1984 loss of $413,771. Syndicate One reported $542,747 loss last year after posting a $22,665 profit in 1984.

According to Robert W. Daum Jr., the management company's president and underwriter, the two syndicates write a broad mix of excess/surplus lines coverages and reinsurance, sharing business equally with two other syndicates under the management company's wing—Syndicate Three Inc. and Syndicate Four Inc.



Mr. Daum

Until this year, Syndicate Two operated as Synvex Corp. and Syndicate Three was named Zinopa Corp.

Mr. Daum writes hull and liability coverage with limits up to $150,000 for personal yachts.

Reinsurance written by the four syndicates includes limits of $500,000 to $1 million for companies based in the Caribbean that write fire insurance on commercial risks.

The syndicates wrote mostly reinsurance in 1985, Mr. Daum said, but this year the split should be about even between reinsurance and excess/surplus lines.

Miami Savings Insurance Syndicate Inc., which ranks as the tenth-largest syndicate, wrote $4.1 million in premiums in 1985 and reported $7,718 in income. The syndicate participates in Exchange Aviation Underwriting Group (see story, 40).

In order to write all lines except life insurance or life insurance only, a syndicate needs initial capital of $1.5 million and is required to maintain policyholder surplus of $1 million.

Syndicates with minimum capital of $3 million that maintain surplus of $2 million can write all lines and life insurance.

Indian Life Insurance Co. and Lahus IV Inc. are the only syndicates that wrote life business last year.

According to Mr. Witherspoon, most of the business was annuity writings connected with portfolio transfers.

Indian Life recorded $7.2 million in gross premium in 1985 and Lahus IV wrote $5.4 million. ■



Brokers say IEA fills important niche

By MICHAEL BRADFORD

MIAMI—Member brokers acknowledge that the Insurance Exchange of the Americas has capacity problems, but they believe the facility is filling an important niche—and has strong potential for growth.

"The marketplace exists at a time when the market needs all the capacity it can get," notes Phil C. Gallagher, president of broker Gallagher-Cole Associates in Miami.

"One of the biggest strengths is that it is a pure exchange," says Ben F. Ricker, executive vp of Central Placement Brokers.

"The syndicates aren't owned by large insurance companies. Individuals are putting their individual wealth into sharing risks.



Mr. Ricker

"It's so much like London, it's amazing," Mr. Ricker added.

Underwriters can decide to write coverage and actually bind the coverage quickly, because "they don't have to check with the home office," like a branch of a large insurer might, Mr. Ricker said.

A syndicate on the exchange "is a profit center that stands on its own," he said.

The IEA offers brokers the opportunity to deal with an underwriter whose compensation is tied to performance, Mr. Gallagher adds.

In many instances, underwriters at the IEA either have an investment in the syndicates for which they write or are paid according to how the underwriting results shape up.

"When his income or his share in the syndicate's capital is based on underwriting results, he is rewarded very directly for being right," Mr. Gallagher observed.

Exchange brokers also cite the facility's reputation as a market for liquor liability coverage as a strong point in its favor.

"Liquor liability is probably the key," said Mr. Ricker, noting, "there's no other market in Florida for it, as far as I know. And it's a very good, stable product."

Despite the bullishness on the part of member brokers, the number of brokers at the exchange remains at 68, the same as last year.

IEA President Arturo Toro pointed out that while some new brokers have joined, others have dropped out, realizing that "this wasn't their cup of tea."

"They felt they were more creative if they were in the outside market rather than this one," Mr. Toro observed. "That's perfectly understandable."

One of the top producers of exchange business in 1985 was the broker Palacio & Weinraub. Felipe Palacio, a partner in the brokerage, said his firm placed around $10 million in premiums with the exchange in 1985 and expects to place around $12 million there this year.

Palacio & Weinraub will place only around $2 million in writings outside the IEA, mostly with Lloyd's underwriters, said Mr. Palacio.

Of the business Palacio & Weinraub takes to the exchange floor this year, around 80% will be surplus lines business and the rest will be reinsurance, said Mr. Palacio. Of the surplus lines business, about 20% will be excess policies.

In addition, Palacio & Weinraub provides a sponsorship that allows Canadian excess/surplus lines agency Assurance Pierre Brodeur to hold binding authority for various syndicates.

The Quebec-based agency has the authority to write limits of $500,000 on property/casualty risks. Typically, property risks are written to limits of $150,000 and general liability and special multiperil coverages are written to limits of around $200,000.



Mr. Palacio

The arrangement should send around $2.5 million in premiums to the IEA this year, said Mr. Palacio, about the same as in 1985. Much of the coverage is for substandard property/casualty exposures like restaurants, nightclubs and motels.

Mr. Ricker's Central Placement was one of the original members of the exchange, but it has only recently begun devoting full-time attention to the marketplace.

Central Placement only placed around $500,000 in premiums with exchange syndicates in 1985 and about the same through July of this year. However, Mr. Ricker thinks the brokerage will begin dealing steadily with underwriters now that Central Placement has opened an office in the IEA headquarters.

Mr. Ricker said he currently is putting together a program that would provide pawn shops in Florida with property/casualty coverage and is negotiating with a syndicate that would serve as a lead underwriter on the risk.

Mr. Gallagher, who says he is placing more business with the exchange, also notes that it is a much-needed market for liquor liability.

"There's no other market providing it," he said, adding that he places up to $1 million in coverage with IEA underwriters for liquor liability risks in several states.

The coverage is written frequently on a line slip led by the W.F. Poe Syndicate Inc. and supported by 11 other syndicates. From June 1985 to June 1986, the syndicates on the Poe slip wrote around $6 million in liquor liability coverage, usually to limits of $500,000.

At the same time, other syndicates on the exchange generated gross premiums that put the facility's total liquor liability writings at about $10 million.

Besides liquor liability, Mr. Gallagher placed various property accounts, contingency risks and reinsurance with the exchange syndicates.

The reinsurance, he said, was partly on European marine risks written by Lloyd's syndicates.

A small percentage of Cole-Gallagher's business went to the Exchange Aviation Underwriting Group Inc., which underwrites aviation risks on behalf of a dozen syndicates.

One of the newer brokers on the floor is Roy Bray, who is in the process of licensing East-West Brokers Inc. as a member broker at the IEA. Despite the capacity shortage at the IEA, Mr. Bray says he is confident the market is stable and will expand.

There is not enough capacity, but "there is a sufficient amount to visit and place business," said Mr. Bray, who formerly was with Amberco Brokers Corp. in Bermuda. "It would obviously help if there were more syndicates, but everybody's suffering," he said, referring to the insurance marketplace as a whole.

The exchange, he said, "will be around for a long time, I hope. . .and will be seeing more capacity and more syndicates."

Like other member brokers, Mr. Bray's new company will place reinsurance and excess/surplus lines business with the exchange.



Mr. Bray

Under the exchange's rules, syndicate underwriters can only accept business produced by member brokers.

Of the 68 brokers on the exchange, 57 are member brokers placing surplus lines business and reinsurance. They are required to hold a Florida license and also can place business with the exchange on behalf of non-member brokers.

Reinsurance brokers are restricted to placing only reinsurance with syndicates. They are not required to be licensed in Florida but must be approved by the state's insurance commissioner.

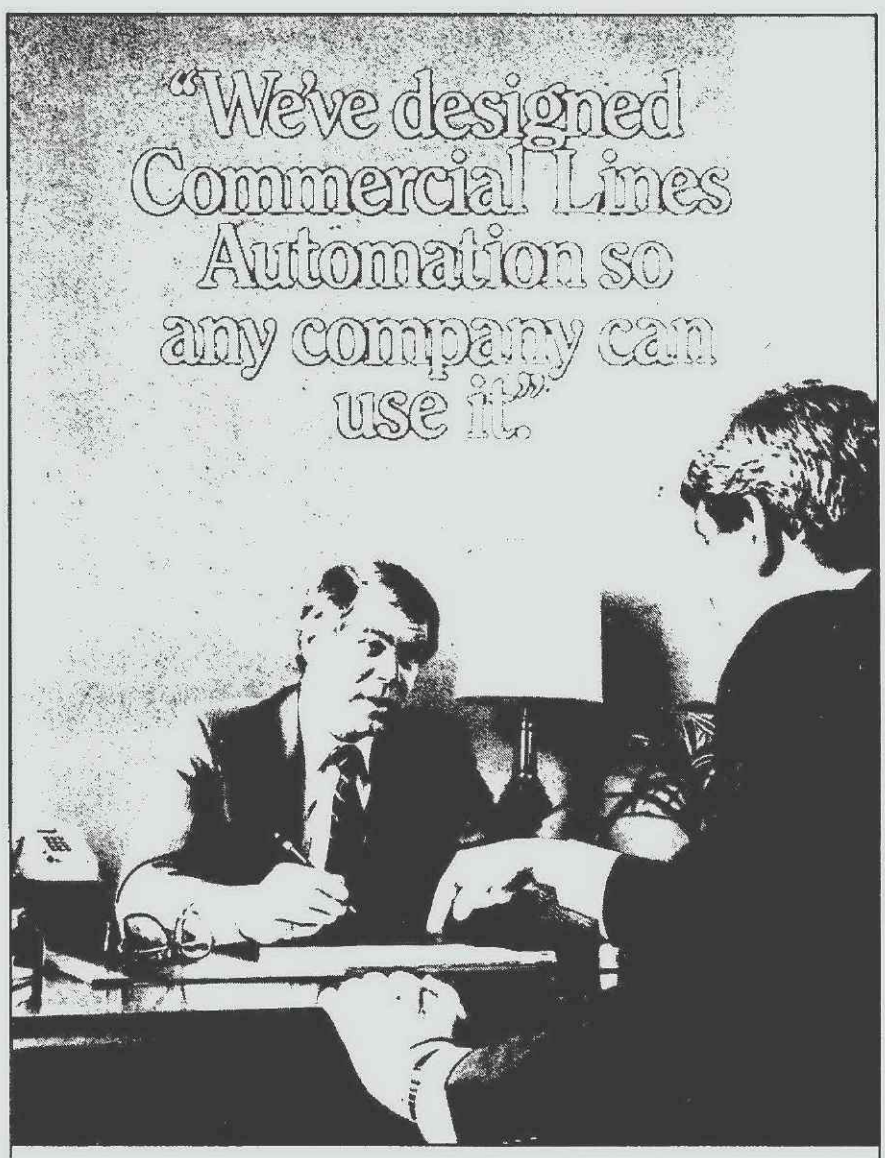
The exchange's constitution formerly provided for associate brokers, which could place business on the exchange that they produced.

Gene Witherspoon, IEA executive vp, said the associate broker designation was removed because only one broker sought such membership.

Brokers are required to pay a $6,000 application fee and, once approved, are charged varying dues determined by the exchange.

A licensed Florida agent, which can represent a brokerage formed by out-of-state owners from an office in Florida, pays $1,000 in annual dues. A licensed Florida surplus lines broker pays $1,500.

A reinsurance broker earning less than $250,000 in commissions worldwide must pay $1,750 in annual dues and a reinsurance or other member broker earning more than $250,000 pays $2,500. ■



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IEA focuses on 'back shop' changes

By MICHAEL BRADFORD

MIAMI—The Insurance Exchange of the Americas is cleaning up the mess it previously had in accounting, data processing and policy issuance, exchange executives and members say.

"We've gotten the back office together," declares Gene Witherspoon, the exchange's executive vp.

Members' accounts are current and "the system is producing more credible numbers," Mr. Witherspoon says.

Just how behind the "back office" was in processing premium transactions is apparent from the Florida exchange syndicates' 1985 results.

According to 1985 annual statements submitted to the Florida Insurance Department, each of the 10 largest exchange syndicates busted the 3-to-1 premium-to-surplus ratio that syndicates are permitted.

However, a significant amount of the $132 million in gross premiums reported by the exchange's 23 syndicates last year actually was written in prior years. Last month, the exchange was still working with syndicates to determine how much business actually was written in 1985 and in the first six months of 1986.

Problems in central processing also created heavy backlogs in issuing policies.

"A year ago, if you called and said you would like to have a policy, everybody would go into uproarious laughter," said Ben Ricker, executive vp of exchange member Central Placement Brokers. "That's not true anymore."

"For awhile, we had some teething trouble processing documents," admits IEA President Arturo Toro.

"But slowly, by adding to the staff, we're up to the point now where policy issuance is up to date."

The central processing department now has a staff of more than 40 people, he noted.

Exchange executives say these problems in the central processing department scared away potential investors.

"We were so far behind, that new syndicates were leery about coming on," said Mr. Witherspoon.

However, now that the administrative problems are being solved, an investigation into two syndicates' reinsurance underwriting for The Omaha Indemnity Co. is scaring investors away (see story, page 38).

"Prior to the Omaha Indemnity situation, the greatest problem here was inadequate administration," according to James Cordle, a member of the board of governors and president of Citadel Management Corp.

Mr. Cordle's management company has a syndicate ready to begin writing on the exchange, but administrative problems "made us think twice about capitalizing the one we had incorporated," he explained.

"Then of course, the Omaha Indemnity thing reared its head about the time the new administration started showing results," Mr. Cordle added.

The data processing and policy issuance problems developed because, until this year, the exchange didn't have the cash it needed to develop an adequate computer facility, Mr. Witherspoon said.

George Love, administrator of the surplus lines section of the Florida Department of Insurance, observed: "The exchange knew what it needed, but didn't have the money or personnel to do it."

Premium growth in 1985 generated the funds needed. Syndicates pay 3.5% of written premiums to the exchange.

A lot of the credit for the improved computer system goes to the efforts of former chief financial officer Richard S. Adeline and his staff, said Mr. Witherspoon.

"They laid a lot of the groundwork," Mr. Witherspoon remarked. "A lot of blood, sweat and tears went into their work."

Mr. Adeline left the exchange at the end of last year to form his own accounting firm, Richard Adeline & Co.

Jules E. Reese, a former independent management consultant whose clients were financial and manufacturing companies, joined the insurance exchange in February to replace Mr. Adeline.

In addition, Mr. Reese has held management positions with RLI Insurance Co. and USX Corp., formerly called U.S. Steel Corp.

One of his first moves at the exchange was to rewrite the exchange's business plan, Mr. Reese said.

"Doing that made people realize why they did things and what it cost to do things," he remarked.

In addition, Mr. Reese hired additional computer personnel and "got the management infrastructure balanced out" in an effort to make the computer department more responsive to members' needs.

"Prior to the arrival of Jules Reese, we didn't have people who could process paper and move money on a timely basis," commented Mr. Cordle.

Improvements to the BIS Solar software that operates on the exchange's Wang-based computer system allow, for example, calculation of premium payments to syndicates, which had been manually performed.

Mr. Reese said changes to software give the system the ability to improve the timeliness of contract closings, provide additional management reports and "improve accuracy substantially."

The department is currently working on a user-friendly addition to the software program that the staff has named "What's Available."

The program will allow users to "light up the tube" without being a sophisticated computer operator, Mr. Reese explained.

"What's Available" will allow the user to access a variety of reports and data through an easy, menu-driven approach, Mr. Reese said.

And by the end of the year, the system may have an even greater capacity, he predicted.

The exchange is considering upgrading the system to accommodate as many as 100 computer terminals.

Currently, 20 terminals are logged on with the capability of adding 10 more. ■

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Continued from page 38
case scenario, if Omaha Indemnity were allowed to recover from the IEA guaranty fund and the recovery exhausted the fund, syndicates then could be assessed an additional $500,000 to shore up the tapped fund.

After such an assessment, nearly every syndicate on the exchange probably would fall below the minimum $1 million surplus level the IEA requires property/casualty syndicates to maintain to underwrite, Mr. Lehman points out.

"There are maybe one or two that would still have the $1 million in surplus. Maybe there's even as many as five that would have it, but not many more," Mr. Lehman said.

Twenty-three syndicates are on the exchange, 14 of which are active.

"They all would be pretty close though. They all would be at $700,000 or $800,000," he estimated.

"I think you could get your investors to come up with those few hundred thousand dollars to go back into business," Mr. Lehman said.

"But, I think that all we would ever have here after that would be a Florida surplus market, and then it would be pretty second-rate as to everything else."

And that would be "a shame," he said.

"We really were headed for greatness. We were headed for raising some healthy money and getting some healthy respect. We were the ones closest to following the Lloyd's concept.

"I think if Omaha really broke the bank, so to speak, we would for sure get stopped in our tracks."

Therefore, Mr. Lehman says, "I am going to make a suggestion that I hope somebody listens to around here," he declared.

"I am going to suggest that we go out and find three of the most respected people in the insurance world, whether they be lawyers or presidents of companies, I'm not sure. I'd like them to look at this whole cockamamie situation and I'd like them to say, 'Insurance exchange or guaranty fund, based on litigation hazards, based on everything we see, you should make an offer to Omaha Indemnity.'"

The amount should be enough to convince Omaha Indemnity to drop its claim against the guaranty fund, but not enough to exhaust the guaranty fund.

And, if Omaha Indemnity rejects the offer, "let them reject it with the knowledge that by not accepting that offer and by having this cloud hanging around, that they could possibly be dooming the exchange," Mr. Lehman explained.

Mr. Lehman added that Omaha Indemnity has "to be put on notice that the questions over the guaranty fund are causing the exchange to reel and are hurting it tremendously."

But, whether it is his plan or another one, the exchange has to develop a settlement plan to end the controversy quickly, he emphasized.

Officials admit that the publicity surrounding the litigation is scaring away potential investors who are afraid of not only committing $500,000 to the fund, but also of the IEA's power to slap syndicates with a special guaranty fund assessment.

Exchange officials are discussing measures they can take to allay those fears and bring investors into the exchange.

One idea is to amend the exchange's constitution to exempt any contributions to the guaranty fund by new investors from any recoveries stemming from incidents that occurred before the new syndicate joined the IEA.

However, Mr. Lehman is concerned that such an amendment may not be enough to attract new members to the exchange.

"I am extremely concerned that the new amendment might not accomplish all that it's hoped it would accomplish," said Mr. Lehman.

And, if the situation involving Omaha Indemnity "continues to prevent us from raising capital, I feel that the inability to raise capital in this kind of market could hurt us rather severely," Mr. Lehman noted.

"I fear for what it would turn us into."

Mr. Witherspoon does agree with Mr. Lehman that the timing of the incident is unfortunate for the exchange.


Mr. Witherspoon

"Right now is the time this exchange should be growing, and the last thing we need is an Omaha Indemnity situation and the question marks that surround it to prevent us from growing in the way that we should.

The exchange's investigation into the matter is continuing, Mr. Witherspoon noted. "We're in the process of continuing to gather facts and will present them to the board of governors."

Mr. Witherspoon said the negative publicity surrounding the exchange because of the matter has cast "a general cloud" over the exchange but has not caused any specific problems.

"What we're trying to do about it is go about our business to ferret out the facts and defend our position on it and act responsibly," Mr. Witherspoon said.

"Certainly if it requires cleaning house here, as far as some membership, I'm sure the exchange would consider taking those kinds of actions," he said.

"If we've found that our members have acted in good faith, I'm sure you're going to find that we're going to support them 100% as we do right now."

Meanwhile, the reaction to the matter from the underwriting floor is relatively calm.

James Cordle, president of Citadel Management Corp., said he believes the situation is being somewhat "overplayed."

"The security fund is not an automatic give-me," Mr. Cordle said. "Several things have to happen to trigger a payment. If there is one, I think it will be well down the road and not for sums that would exhaust the guaranty fund."

However, Mr. Cordle believes that until the exchange can convince investors that their contributions to the security fund would be sheltered from a settlement connected to Omaha Indemnity, "it's going to be difficult to lure new investors."

Broker Felipe M. Palacio of Palacio & Weinraub agrees with Mr. Cordle.

"In my opinion, it's overblown. It's scared a lot of people," Mr. Palacio said.

An amendment shielding guaranty fund contributions "might encourage new syndicates," he added.

But, George Bahm, an underwriter with Citadel, said he does not believe that bad publicity has scathed the exchange.

"It does not seem to have hurt the credibility of the exchange. People are still coming to us with business. It's very much business as usual," he said.

And Arturo Toro, the IEA's president, contended: "There is absolute calm in the exchange. We expect that this too, shall pass." ■

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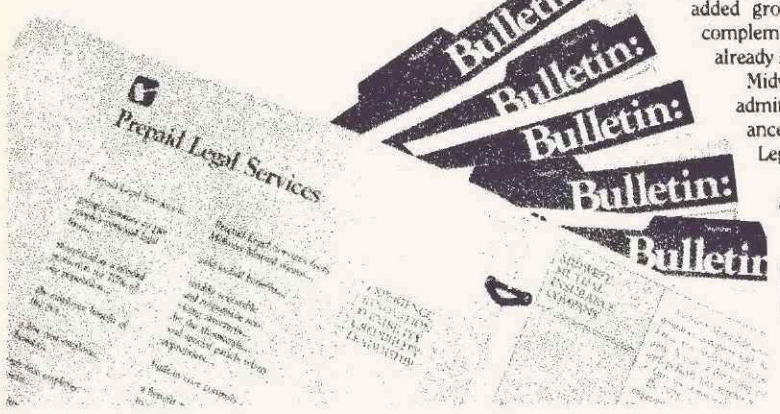
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IEA facility offering airlines extra capacity

By MICHAEL BRADFORD

MIAMI—Commercial airlines are finding needed insurance capacity at the 2-year-old Exchange Aviation Underwriting Group Inc.

The aviation facility, supported by 12 syndicates on the Insurance Exchange of the Americas, is writing more coverage for airlines while continuing to write general aviation insurance, says Trevor Jarvis, vp and aviation underwriter.

The facility can provide airlines with liability insurance limits of $5.5 million and hull insurance limits of $500,000, the same capacity it had last year.

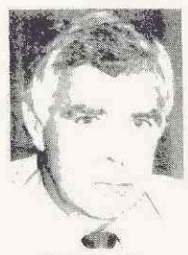
"I'm an extra market for the brokers at a time when they are finding it exceedingly difficult to get their risks out," Mr. Jarvis says, referring to the lack of aviation insurance capacity.

Already this year, the facility has matched 1985's premium writings of $3.5 million. Mr. Jarvis predicts 1986 premiums will total about $5 million.

"Contrary to last year, I am involving my line more deeply in airlines," Mr. Jarvis said, "because now I'm getting a spread of business behind me. I'm getting some income behind me which I believe will help pay the losses."

Rates also are going up, notes Mr. Jarvis, a 20-year veteran of the London aviation market. Rates are rising 10% for airlines' hull coverage and 25-100% for liability insurance.

The loss ratio on business written in 1985 is running at around 62%, said Mr. Jarvis. Business written this year is producing a loss ratio of around 52%.



Mr. Jarvis

He noted that he missed some major losses since his facility got off the ground in August 1984.

"There were several major losses that I was not on, simply because I was not offered them in any event," Mr. Jarvis said, naming disasters like the crashes of an Air India Boeing 747 in June 1985 and a Japan Air Lines Boeing 747 in August 1985.

But Exchange Aviation did have an exposure in the crash of a Delta Air Lines Lockheed L-1011 in August 1985: reinsurance of 0.275% of the hull and liability insurance. The value of the destroyed hull was $24.7 million; liability reserves were set at $125 million (*BI*, Aug. 12, 1985).

Besides large airline risks, Mr. Jarvis writes "an across-the-book portfolio" including coverage for commuters, charters, and aircraft used for private business and pleasure.

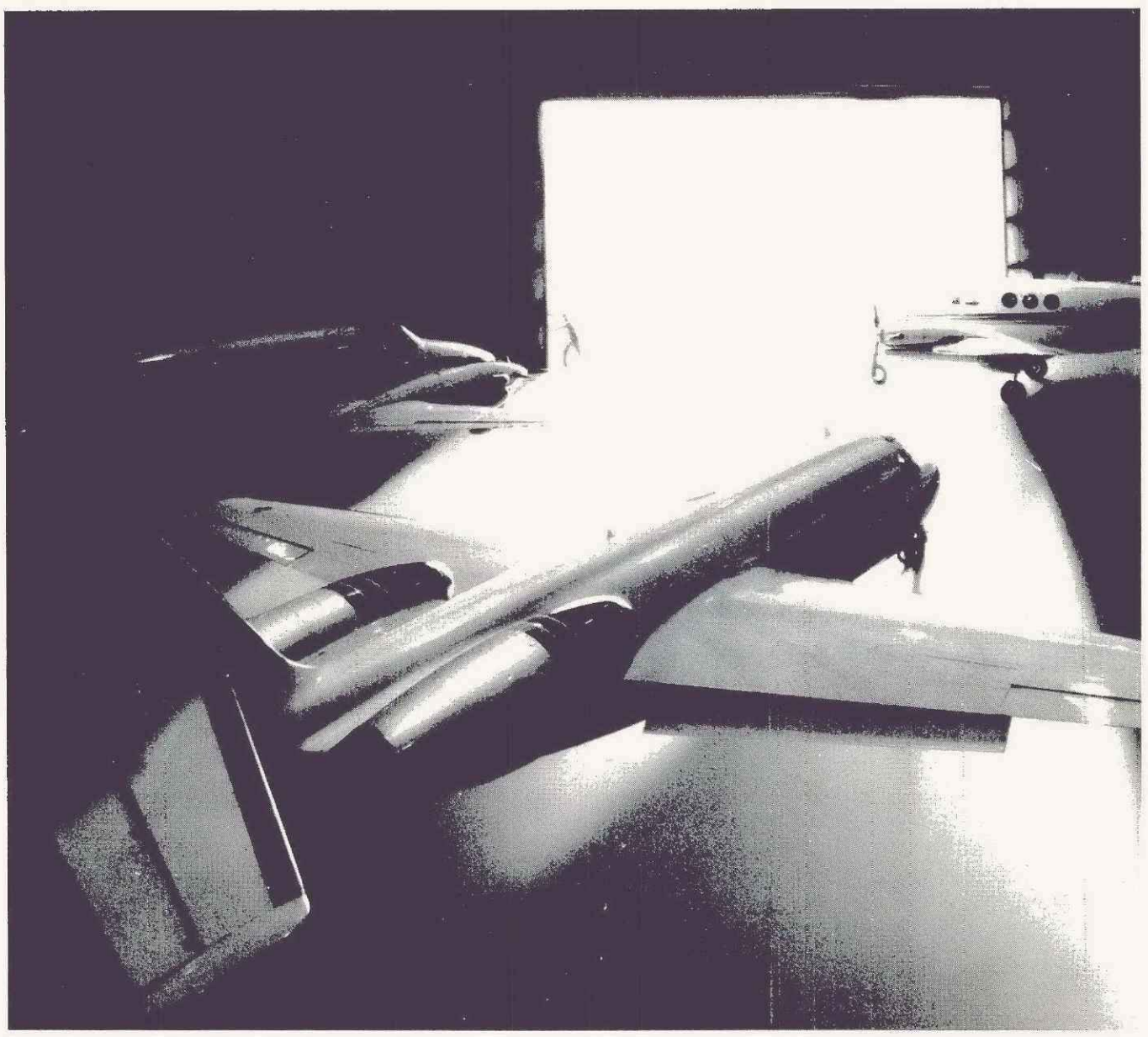
On the general aviation side, Mr. Jarvis offers liability limits of $2.25 million. He has the authority to write limits of $500,000 but usually writes limits of around $200,000.

"I am not writing satellites, manufacturers products, helicopters, fixed-base operators, crop dusters or accounts of a high-risk nature," Mr. Jarvis pointed out.

The majority of business comes to Exchange Aviation from Lloyd's of London brokers, Mr. Jarvis said. If he decides to write the business, he contacts the broker, who in turn contacts an exchange member broker. All business written on the exchange must be submitted by a member broker.

In addition, business also comes from Aviation Offices of America, an aviation underwriter based in Dallas.

The largest participation in the facility is by American Royal Syndicate Inc., which writes 18.27% of the risks. Three syndicates managed by Michael Griffiths take 27.27% and four syndicates managed by Robert W. Daum Management Co. together take 24.24% of a risk. Four other syndicates fill out the capacity. ■



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UNREALIZED POTENTIAL

Tax rulings hamper growth of U.S. insurance exchanges

By Peter H. Bickford

AT A FORUM on reinsurance at the June meeting of the National Assn. of Insurance Commissioners in Boston, the chief executive officer of a major insurance company commented that because the U.S. insurance exchanges could not attract new capital to the insurance industry the exchanges should not be considered part of any solution to the industry's capacity problems.

Despite this CEO's obvious prejudice against the insurance exchanges, he legitimately raises one of the unfulfilled promises of the exchanges: the ability to attract significant amounts of new, non-traditional source capital to the U.S. property/casualty insurance industry.

Based on the concept of a central trading floor with many syndicates taking small pieces of risks, the exchanges were envisioned to provide a means for the "small" investor, like the multitude of names at Lloyd's of London, to participate in a meaningful insurance market in the United States.

The limited success of the New York, Florida and Illinois exchanges in achieving this objective is largely the result of one thing: the failure of the federal government to give exchange syndicates the advantage of passing losses and profits directly through to investors without adverse tax consequences.

The government's action is particularly distressing on two counts:

- In an agreement with Lloyd's of London, the government has given favorable "pass-through" ability to U.S. investors in Lloyd's syndicates while denying this to investors in syndicates on the U.S. exchanges.
- The U.S. exchanges, even with this severe limitation on their U.S. capital sources, have been able to establish themselves as meaningful markets, despite the soft market at the time they were founded.

In other words, the exchanges work and, given an even break with their London model, could add significant capacity to the property/casualty insurance industry and more fully meet their market promise.

To appreciate the severity of the government's penalty against the U.S. exchanges, it is necessary to review the history of the exchanges' tax situation.

During the course of 1979 and in early 1980, before any of the U.S. exchanges had opened, several requests for tax rulings were presented to the Internal Revenue Service. The objectives of these requests—made on behalf of corporate and both limited and unlimited partnership investors in exchange syndicates—were to obtain the IRS' agreement that:

- Syndicates on the U.S. exchanges are insurance companies entitled to insurance tax law treatment.
- Syndicates that are partnerships would be classified as partnerships for federal income tax purposes, allowing the pass-through of income, gains, losses, deductions and credits to the individual partners.

These rulings would help assure the exchanges' access to venture capital expertise and funding vehicles that are not normally available to the plain corporate entity.

The three U.S. exchanges cooperated in the coordination and support for these ruling requests. Notwithstanding this united effort involving many months of meetings, memos and legal briefs, it became clear that the IRS and the Treasury Department had fixed the government's position intractably: Any organization that conducts an insurance business, including a syndicate on an insurance exchange, is to be taxed as a corporation.

In the government's view, a syndicate is an insurance company for tax purposes, and as an insurance company, it must be taxed as a corporation with no pass-through to the individual investors.



speaking out

The exchanges tried to point out that the government's position was inconsistent with the agreement with Lloyd's. They argued that the federal government could not take the position that the law *requires* an entity conducting an insurance business to be taxed as a corporation, yet allow an exception for Lloyd's syndicates. Nor could the government justify giving a competitive advantage to a foreign institution over a domestic entity specifically created to prevent the excessive flow of U.S. premium dollars to that foreign market.

Yet, that is exactly the position taken by the federal government.

Despite the obvious discrimination against its own domestic market, this position by the Treasury Department spanned from the Carter administration to the Reagan administration without diminution, emphasizing that policy decisions were being made by the Treasury Department bureaucracy on such unimportant matters as the then-fledgling U.S. insurance exchanges.

In April 1980, while the negotiations were going on between the government and the exchanges, the Lloyd's agreement providing favorable treatment for U.S. investors in Lloyd's syndicates was renewed by the IRS.

The exchanges themselves were unwilling to carry the fight too far. The fear of the tail wagging the dog—the prospect of the whole topic of insurance taxation being put on the table by these upstart exchanges—resulted in the withdrawal of all ruling requests in February 1982, to avoid the issuance of a negative ruling by the Treasury Department.

At least, the exchanges reasoned, they still had Subchapter S.

In 1974, the Treasury issued Revenue Ruling 74-437, which said that a casualty insurance company was eligible to elect Subchapter S status, allowing the corporation to pass through earnings and losses to its shareholders for tax purposes. Subchapter S was not a total answer, however, mainly because of the limitations on the number of shareholders—but it was something.

Several exchange syndicates were organized as Subchapter S corporations, providing at least some avenue for individuals to participate in exchanges absent the tax ruling on partnerships.

However, in April 1982, just two months after the exchanges withdrew their ruling requests, legislation was proposed in Congress to eliminate the election of Subchapter S status for casualty insurance companies. This move was apparently based on the fact that there were few electing casualty insurers and a lack of awareness of exchanges and their potential.

Again, the exchanges argued against the loss of this pass-though tax treatment, and again to no avail. The exchanges argued reliance on Revenue Ruling 74-437 in setting low minimum capital requirements to attract investors and the discrimination of such treatment vis-a-vis Lloyd's. However, the legislation was adopted eliminating Subchapter S election for casualty insurance companies after Dec. 31, 1982.

Thus, Congress completed the elimination—started by the Treasury—of any pass-through opportunity for exchange syndicates. The Treasury, however, insisted on the last word by issuing Revenue Ruling 83-132 on Sept. 6, 1983, formalizing its already well-known position that a non-corporate business entity engaged primarily in insurance is an insurance company taxable as a corporation.

Effective Dec. 31, 1984, Lloyd's agreement with the Treasury was again renewed, continuing the favorable treatment of U.S. investors in Lloyd's syndicates.

It is unfortunate that this activity all occurred during a time of insurance industry overcapacity, underpricing and easy access to most markets. If there had been a public dialogue on the crisis of availability, as there is today, perhaps the bureaucrats in the Treasury Department might not have been able to make policy decisions contrary to the expansion of the domestic insurance market.

Perhaps, too, the exchanges would have been more willing to "go to the mat" for equal treatment with the foreign competitors and Congress may have listened a little more closely to the cries of foul before eliminating another source of capital for an industry whose lack of capacity was affecting almost every aspect of American life.

The exchanges were specifically designed to provide alternative means of bringing new capital to the insurance arena. Perhaps it is time to give them the proper tools to fulfill their promise.



Peter H. Bickford is counsel to the New York law firm of Calinoff & Katz. He was formerly vp, general counsel and secretary of the New York Insurance Exchange.

perspective

Asian nations share market similarities

By Jerome Karter

international issues

A CURSORY GLANCE at the Asian property/casualty insurance market shows strong superficial similarities in insurance practices among countries in the Pacific basin. On closer inspection, however, the similarities become more apparent.

Starting with Japan and working south, the following is a brief summary of the current property/casualty insurance scene in various Asian nations:.

• **Japan.** The Japanese property/casualty market is the second-largest in the world, with direct written premium in excess of $40 billion annually. Nineteen Japanese-owned companies write 97% of all property/casualty business, while 35 foreign companies exist quite profitably on the rest.

Innovation has not been widespread in the Japanese insurance industry, though a degree of flexibility can be found in some areas. For example, policy deductibles and blanket rating are uncommon in Japan, but exceptions are made for large industrial properties. Also, the recently promulgated highly protected risk tariff rating provides improved rates for superior risks.

Non-admitted insurance is illegal and generally unpractical.

Japan is divided into several earthquake zones but the amount of available insurance in a zone depends more on the demand for coverage than on the severity of the exposure. As a result, 100% coverage is often available in some highly exposed remote areas, while in areas of greater demand, such as Greater Tokyo/Zone 5, capacity is severely restricted.

General liability is commonly insured, but claims are normally settled through negotiation rather than in court. Potential plaintiffs are discouraged from suing by having to pay substantial advance retainers to lawyers, who are prohibited from charging contingent fees. Social custom puts strong pressure on the injuring party to make a reasonable settlement.

Fire legal liability is an exposure since tenants may be held legally responsible for replacing damaged or destroyed property even when negligence cannot be proved.

The compulsory workers compensation system allows subrogation against "grossly negligent" employers. Since the local labor law does not clearly define "gross negligence," employers liability insurance is recommended.

• **Korea.** Eleven Korean-owned non-life insurers dominate the property/casualty market. The Korean Fire Protection Assn., a pooling arrangement funded by the 11 companies, has a virtual monopoly on all industrial property insurance.

CIGNA Corp. and AIU Insurance Co., an American International Group Inc. unit, are the only foreign companies permitted to operate in their own right, although other U.S. insurers have minority interests in Korean insurers. Foreign companies are precluded from direct participation in the fire pool and, therefore, primarily write business interruption coverage and property policies for non-pool risks.

Tariff rates apply to all classes of business. Rates and policy wordings are totally controlled by the state-owned Korean Insurance Corp. Non-admitted insurance is expressly prohibited and effectively banned through strict foreign exchange controls. U.S. multinationals should locally insure liability exposures.

Liability awards are usually small. Deductibles are common even though basic coverage costs are fairly modest.

Workers compensation coverage must be purchased from the government, but banks and insurance companies are currently excluded from coverage.

• **Taiwan.** Fourteen Taiwanese-owned companies share in Taiwan's $500 million property/casualty market. The few licensed foreign insurers are currently restricted to insuring only 100% foreign-owned business and participating in reinsurance programs. A change is expected in 1987, putting foreign companies on an equal basis.

Tariff rating is generally enforced for property, automobile and some marine cargo insurance.

Typhoon and earthquake are major exposures in Taiwan. Blanket rating and deductibles are available for larger risks and replacement cost coverage is becoming popular for newer properties.

Business interruption coverage is available on either a loss of profits or a gross earnings basis. General liability insurance is widely purchased, even by local companies. A restrictive product liability law effectively denies claims for personal injury caused by defective products.

Unlike Japan and Korea, all employed Taiwanese residents—including expatriates—must be covered under the state workers compensation program.

• **Hong Kong.** Competition in the Hong Kong insurance market is intense, with more than 300 registered insurers and very few rules. Market security is inadequate but improving through greater government financial supervision.

Automobile and workers compensation tariff rates are generally used as guidelines due to marginal experience. Discounts are often quoted as a percentage of the "tariff" rate, though larger brokers generally operate on a net-rate basis.

Non-admitted coverage is rarely necessary since any type of exposure can be insured locally—in any hard currency—at extremely competitive rates and conditions.

All-risk property coverage and sizeable deductibles are common. Landslide is an exposure in certain areas of Hong Kong. While the gross earnings business interruption form is available, the loss of profits form is more common.

The law governing product liability is essentially British tort and contract law, but without the carryover of most British consumer protection provisions. In fact, there are no recorded civil judgments for damages caused by a defective product used in Hong Kong.

Workers compensation and employers liability coverages are provided under one policy form for all employees, including expatriates.

• **China.** The People's Insurance Co. of China has a national monopoly on all lines of insurance. Any fixed property in China, whether owned or leased by a joint venture, must be insured through the PICC. Non-admitted insurance is permitted only for wholly foreign-owned property in China (such as machinery on loan to a joint venture that is sold to the joint venture over a period of year).

• **Singapore.** The Singapore and Hong Kong markets, both important regional insurance centers, bear many similarities. More than 60 licensed insurers compete for a share of Singapore's $300 million market.

There are no tariffs or enforced rate agreements, but underwriters must meet strict government financial standards. The need for non-admitted insurance is rare.

Rates are kept low by a lack of allied perils exposure. The most serious natural hazard is occasional flooding from drain sewers after a tropical rain.

Most large American companies buy standard U.S. fire policies. All-risk coverage is the norm, and large deductibles are available. Business interruption coverage can be written on a gross earnings basis, but the loss of profits form is more popular.

General liability exposures are commonly insured. Singapore's product liability law is based on British legal principles. A consumer's rights to recovery are broadened by the 1979 Sale of Goods Act, but tort suits are rare except in bodily injury cases.

The workers compensation scheme has several tiers of eligibility, but all manual-labor employees are covered as well as workers earning less than $600 monthly when hired.

• **Malaysia.** The Malaysian market is a mix of many small, undercapitalized local insurers and some foreign insurers that operate joint-venture companies. A government-owned reinsurer takes a compulsory 5% to 25% of most property and marine business.

The Intermarket Agreement Committee—composed of 60 insurers—sets tariff rates, yet the market system is quite fluid. The IAC recently increased business interruption rates following a review of local practices in regarding coinsurance percentages and indemnity periods.

General liability is patterned on British common law, and awards are increasing in size. A local claimant recently was awarded $400,000.

All employers with five or more workers must provide compulsory workers compensation coverage through private insurers.

• **Indonesia.** The local market is a jumble of Dutch, British, American and Indonesian practice. Seventy licensed insurers share in a $400 million property/casualty market, but two largely state-owned insurers write almost half of the direct premium. One monopolizes all oil business; the other all government business.

A relatively new property tariff is generally enforced. Non-admitted insurance is illegal, but there is a ready market in Singapore for coverages that cannot be effectively written in Indonesia.

The basic fire policy follows the Dutch form.

A very basic social security system proscribes benefits, but large employers generally provide private benefits, particularly group life insurance.

• **Philippines.** More than 100 Filipino companies compete in a $400 million property/casualty market.

The local market traditionally had one of the highest property tariff rating structures in Asia, but a declining book of property business has been encouraging more imaginative tariff interpretations. Typhoons, windstorms and earthquakes are serious exposures in this country. Policy deductibles are commonly insured.

Product liability claims are rare.

Both the workers compensation scheme and the social security system are entirely with the state and expatriates must be covered.

• **Thailand.** More than 60 companies, including a few foreign insurers, make up a $250 million property/casualty market.

Fire and automobile tariff rating is generally enforced. Fire rates were recently revamped and industrial rates rose an average 20%, while commercial non-industrial rates were moderately reduced.

Non-admitted insurance is prohibited for workers compensation and automobile liability. Local corporations cannot deduct non-admitted premiums, but there are no restrictions on importing loss proceeds from a non-admitted cover.

Underwriters insist on deductibles as a condition of covering certain extraneous perils, particularly flood, which can be very expensive in the greater Bangkok area.

Business interruption rates are higher than elsewhere in Asia. The loss of profits form is favored locally.

General liability exposures are usually insured. The Thai legal code creates a product liability exposure for the seller but not the manufacturer of a product.

Employers with more than 20 workers must comply with the government workers compensation fund. All other employers can purchase private voluntary insurance.



Jerome Karter is vp and manager of the New York International Department of Johnson & Higgins. His column on international issues appears the first Monday of every month.

Illinois exchange focusing on surplus lines

By DAVE LENCKUS

Only a year after they masked private concern about survival with a public veil of optimism, Illinois Insurance Exchange officials say the exchange is developing into one of the nation's largest surplus lines insurance markets.

The IIE, bolstered by new capital, will generate more than $200 million in gross premiums written on a primary and excess basis, predicts James M. Skelton, president and chief executive officer of the exchange.

The projection does not include any reinsurance assumed by the syndicates. Mr. Skelton says primary and excess business will account for 95% of the exchange's 1986 premium volume.

In comparison, the nation's two largest excess/surplus lines insurers, Lexington Insurance Co. and California Union Insurance Co., last year wrote $361.7 million and $192.1 million in direct, non-admitted business, respectively (*BI*, Aug. 11).

In 1985, the exchange wrote $63.7 million in gross premiums, $20.6 million of which was primary and excess business and $43.1 million of which was assumed reinsurance. Total gross volume rose 319% last year from $15.2 million in 1984.

As of July 31, IIE syndicates had already written $126.7 million in gross premiums in 1986, but exchange officials could not break down how much of this was primary and excess business.

"We've kind of made a dramatic switch," Mr. Skelton noted. "But, we've always looked at ourselves as an excess/surplus entity."

Despite the growth, Mr. Skelton, reflecting the view typical of most connected with the exchange, observed that the IIE "is not out of the woods yet."

Exchange officials, underwriters and brokers still have several major concerns, including:

- Whether the IIE can attract additional syndicates and capital to continue its growth.
- Whether it can develop a lead/follow underwriting system, modeled after Lloyd's of London, to further build its capacity.
- Whether the exchange can improve its image among brokers and buyers.
- Whether it can maintain its underwriting integrity during future soft markets.

Still, investors, board members and brokers say they believe the IIE has its bearings set and is cutting through the thicket of potential problems.

Bernard E. Epton, a board member and the former Illinois state representative who first introduced enabling legislation for the exchange in 1974, likens the IIE to a child who has battled back to health from infant maladies.

"If you had asked me 18 months ago, I would have said, 'I'm afraid my baby isn't very healthy.' But, today, we have a healthy child, though we're certainly not bothering Lloyd's," said Mr. Epton, an attorney with the Chicago firm of Epton, Mullin & Druth.

"Going into 1985, we were concerned we wouldn't be here in '86," Mr. Skelton admitted. "Five of the original eight syndicates had ceased underwriting. Our goals going into 1985 were pretty minimal—survival."

But last year, the exchange began attracting new investors. "Most of the syndicates that currently are underwriting began business in the second half of 1985," Mr. Skelton pointed out.

The exchange now has 20 approved syndicates, 13 of which were formed between Jan. 1, 1985, and July 31, 1986, he said.

Thirteen syndicates currently are writing business, three are gearing up to write business—including a syndicate that was inactive in 1985—and four are inactive (see story, page 53).

Mr. Skelton hopes 20 syndicates will be writing business by year-end.

In 1985, 10 syndicates were active on the exchange, and four were inactive.

Aggregate net premium volume written by IIE syndicates in 1985 totaled $24.3 million, 130.2% greater than the $10.6 million net premium volume posted in 1984.

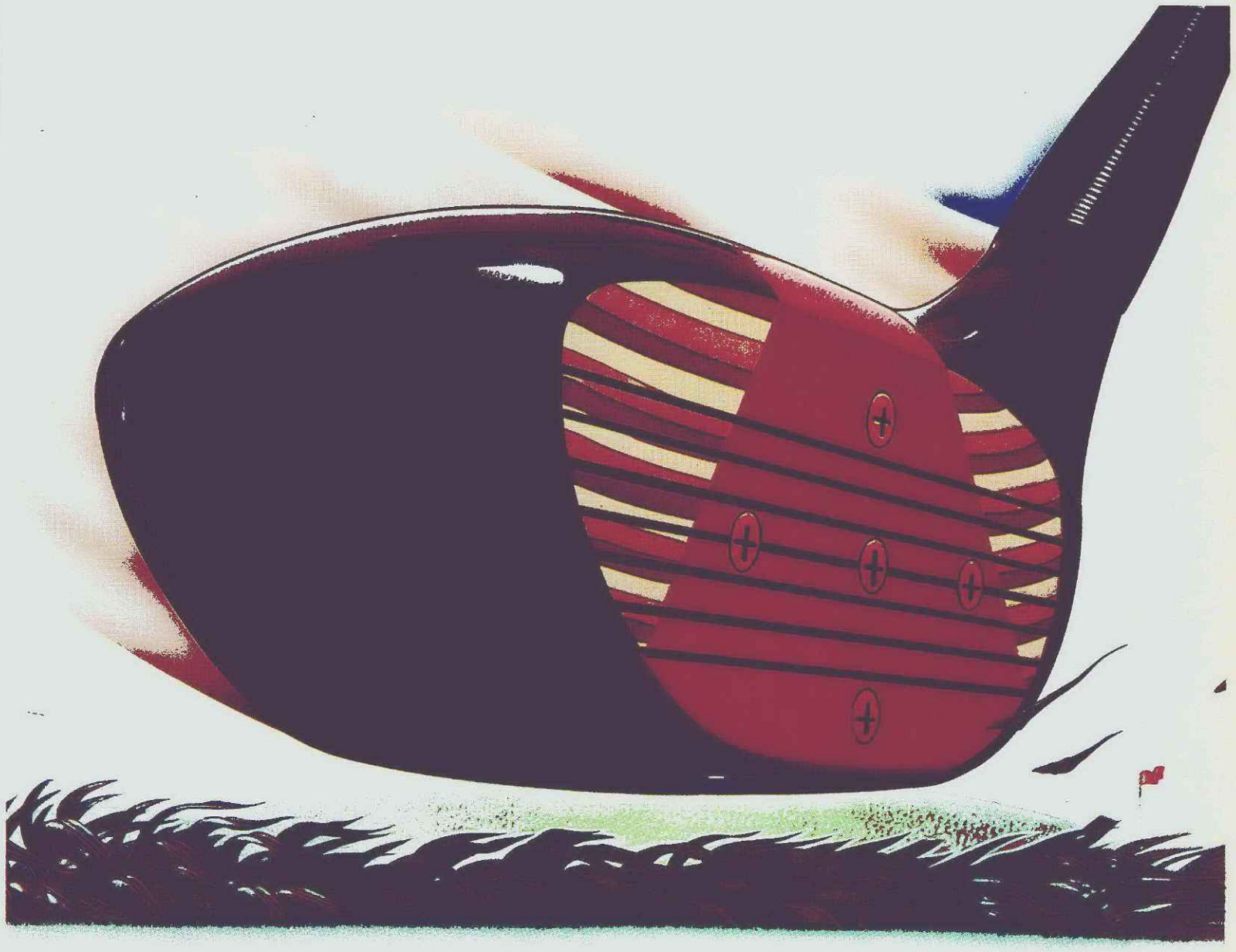
The exchange's aggregate policyholder surplus jumped 160.2% to $45.4 million from $17.4 million at year-end 1984. And, Mr. Skelton expects that policyholder surplus will grow to between $65 million and $100 million by year-end 1986, depending on the number of new syndicates approved and activated.

Although six of the active syndicates in 1985 realized net income, ranging from $1,002 to $27,953, IIE syndicates posted an aggregate net loss of $3.9 million. LWB Syndicate Inc., which stopped writing at year-end 1985, alone posted a $3.9 million loss.

While the IIE's aggregate combined ratio declined for the fourth consecutive year in 1985, the exchange posted its fifth consecutive net underwriting loss: $6.5 million, up 68.7% from the aggregate $3.8 million net underwriting loss reported in 1984.

The exchange's aggregate combined ratio fell nearly 10 percentage points to 126% from 135.7% in 1984, due to an improvement in the expense ratio to 28.1% from 38.3%. However, the IIE's loss and loss expense ratio rose slightly last year to 97.9% from 97.4% in 1984.

Continued on page 48



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Illinois exchange

Continued from page 47

Many observers contend the exchange is fortunate that it did not begin growing any sooner than it did because, despite the high loss ratio, it is relatively unhampered by problems created by the soft market of the early 1980s.

"Really, the advantage of the Illinois exchange compared to the other exchanges is it didn't really start writing business of any volume until late 1984 and 1985," noted Myron Burdge, executive vp of Britamco Underwriters Inc., an IIE syndicate that began writing business in July 1985. "It isn't weighted down by any business written in the soft market at inadequate prices."

As the number of syndicates and capacity has grown, the number of IIE member brokers has skyrocketed. There currently are 135 member brokers, and 50 more are seeking approval. There were only 65 member brokers at the same time a year ago (see story, page 51).

While exchange and syndicate officials are pleased with the IIE's growth, they believe the exchange still needs more capacity, which they hope will be added by attracting more investors in syndicates to the exchange.

"We have to have more capacity, and, frankly, I don't understand why people aren't beating down the door to form a syndicate," Mr. Skelton said, noting that "the cost of doing business is minimal.

"We're not out of the woods, yet. You've got to grow, or you'll die," he commented.

Mr. Epton said he is certain the IIE will attract the new capacity.

"In 1987, I would be disappointed if we didn't have 25 active syndicates," he said.

Last year, Mr. Epton predicted that the IIE would "see a tremendous increase" in the number of syndicates and brokers.

"More is better," agreed Jeffrey W. Beresford-Wood, president of Classic Syndicate Inc. and an IIE board member. "I think the exchange is well-poised to succeed."

But, because of its bright future, the exchange "has to be more selective of whom it admits," Mr. Beresford-Wood noted. "As it becomes more valuable, it has to become more protective."

The main obstacle that will inhibit the IIE's growth is the lack of a strong lead/follow underwriting system among the exchange's syndicates, according to many syndicate officials.

"It would be nice if it would develop," Mr. Beresford-Wood observed. "It would give us the ability to set terms and rates for that many more risks."

"We talk about it on the Illinois exchange and try to put it together, but there's the U.S. phobia of no one trusts the lead underwriter. Everyone wants to do their own underwriting," observed Donald Hopfensperger, president and underwriting manager of Alliance Syndicate Inc., which began writing in May.

"We're pushing very hard, and we have working relationships with four or five syndicates that will fill out some pieces," he added.

Given the exchange's overhaul during the past year, however, syndicate and exchange officials agree that underwriters need more time to develop trust in other IIE syndicates and to develop their own area of underwriting expertise before a lead/follow system will develop.

"It takes a while to build up trust with a stranger," Mr. Beresford-Wood pointed out.

"There's a lot of room for growth in it, but the stones are in place for it," noted Chuck Podczerwinski, an underwriting deputy for the Classic Syndicate.

"I'm not disheartened at all by the progression of the lead/follow system," said Lawrence T.P. Molloy, vp and underwriting manager of Comprehensive Ensurers Market Syndicate Inc., one of the exchange's original syndicates. "It's getting a better reception than in the past."



Mr. Skelton

A stronger lead/follow underwriting system also would increase the exchange's capacity, Mr. Skelton noted.

With a strong lead/follow system, the exchange probably could offer up to $10 million in capacity for both property and casualty risks, he estimated.

"But, that's not going to happen," he pointed out. "The brokers, at maximum, are able to get $2 million limits," because syndicates most of the time do not follow other syndicates' leads and participate on the same piece of business.

Louis W. Biegler, the IIE's chairman and president of Corporate Advisors Inc. of Northbrook, Ill., hopes that "a couple more syndicates would develop as general underwriting syndicates," including writing more reinsurance coverage. He believes that some syndicates have become too specialized in the type of coverage they will provide.

"I would like to see them develop more of a Lloyd's business," he said, referring to some syndicates' limited books of business.

Another stumbling block for the IIE, as well as the other U.S. exchanges, is its image. Some excess insurers do not like to provide coverage over a primary policy written by an IIE syndicate, and many reinsurers will not reinsure syndicates, officials say

According to those connected with the exchange, the problem is a lack of education among excess insurers and reinsurers, as well as those insurers' poor experience with claims-handling procedures at other exchanges.

The solution is time, IIE officials and members say.

"Reinsurers haven't been properly educated yet," said Richard E. Foss, president and chief executive officer of LUI Syndicate Inc. and an IIE board member.

"Reinsurers don't understand who and what we are. Eventually they will—we will be writing enough. I'd eventually like to have enough net-line capacity not to have reinsurance," he said.

"We're a market to be reckoned with," he added.

"Frankly, a lot of people in the industry have not taken the time to study how the policyholders are protected on the exchange" by the exchange guaranty fund, Mr. Biegler said.

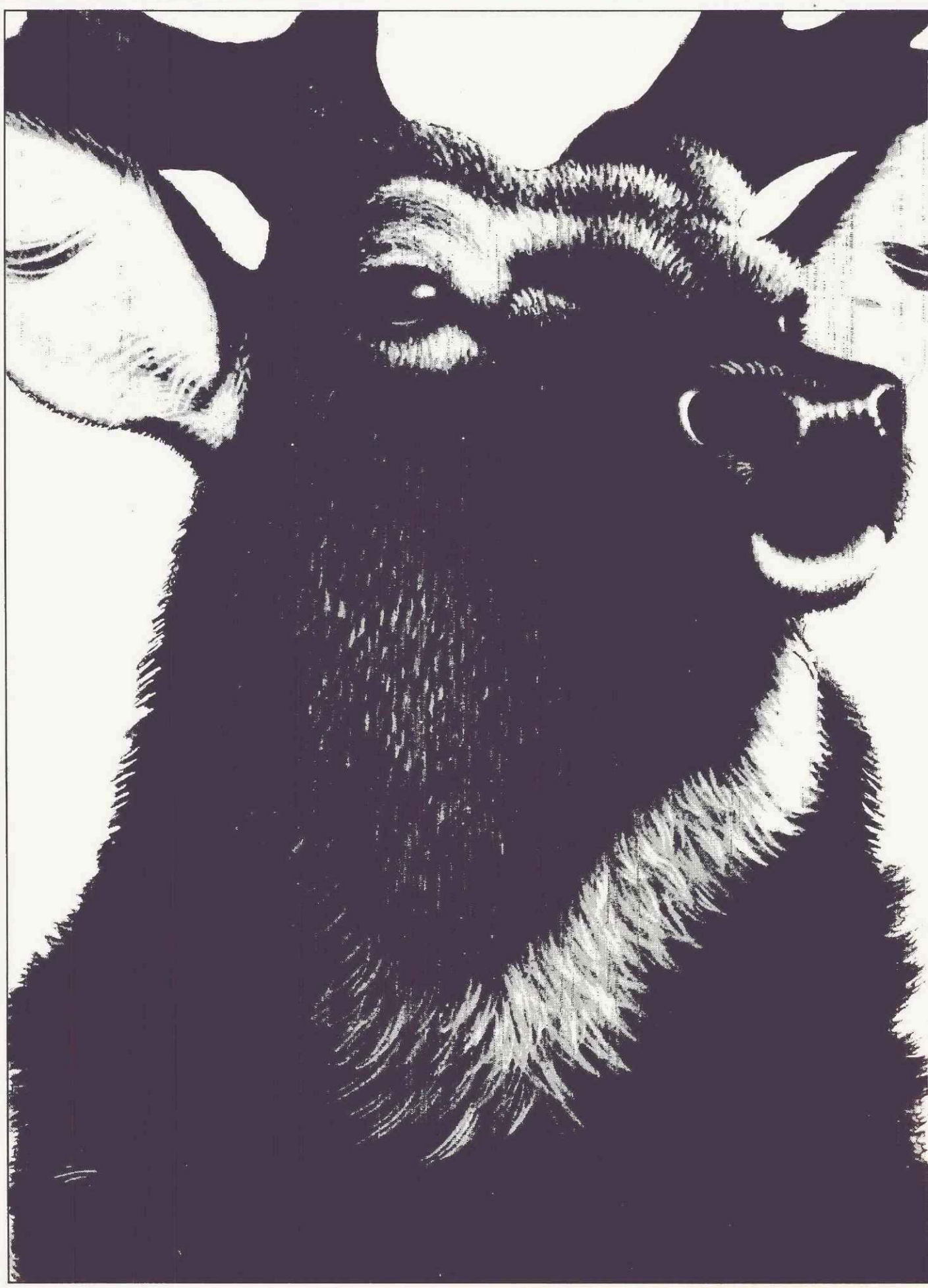
The IIE guaranty fund, which guarantees claims payments if a syndicate becomes insolvent, contains about $14 million, double its level a year ago. Mr. Foss hopes the fund eventually will reach $200 million-$300 million.

Exchange rules require syndicates to deposit $500,000 of their capital in the guaranty fund, as well as an amount equal to 1% of their net written premiums.

Some surplus lines brokers say the IIE is becoming more acceptable to their clients and other brokers that are not exchange members.

"They're becoming more receptive to the fact that the Illinois Insurance Exchange is a respected, viable market," said

Continued on page 49



agent/broker topics

A monthly editorial section sent exclusively to agents and brokers



Looking down the road

Agents should draft perpetuation plans long before retirement

By LINDA J. COLLINS

An agent should map out his agency's future long before he sets out on the road to retirement.

After spending most of his or her life building an agency, it is important that an agent get the most out of the investment, experts stress.

And, regardless of whether an agent plans to sell his business to family members, current employees or another agent, a perpetuation plan can be as important as a marketing plan in increasing the agency's value, agency consultants and attorneys agree.

"Perpetuation planning is absolutely critical. The agency that waits too long to plan for perpetuation never gets the value it could have, had it been planning for perpetuation properly," stressed David Hales, president of Hales & Associates Inc., an agency consulting firm in Oak Brook, Ill.

Also, situations can change abruptly. If a principal dies or is disabled prior to establishing a perpetuation plan, the agency's future and monetary value are placed in immediate jeopardy.

"I'm not sure the principal's age really matters. If there's no perpetuation plan, it's worse than dying without a will," said David A. Bakst, a partner with the law firm of Morrison, Mahoney & Miller in Boston. Mr. Bakst specializes in agency valuation, perpetuation, mergers and acquisitions.

He urged agency principals to consider implementing a perpetuation plan "as soon as reasonably possible," even if the initial plan is simply a buy/sell agreement with a friendly competitor.

A buy/sell agreement between two agencies usually guarantees a buyout upon either party's death or disability. These agreements also can be used as a contingency plan to protect both parties until they develop another type of perpetuation plan.

"We have no guarantee of tomorrow. Retirement can come suddenly. Some kind of a perpetuation plan —a buy/sell agreement or another type—is advisable at all times," said E.J. Leverett Jr., a professor of risk management and insurance at the University of Georgia in Athens.

While observers agree a perpetuation plan is necessary, opinions differ on when it should be implemented. However, a consensus say some kind of plan should be in place before an agency principal reaches the age of 50.

"We recommend that anyone planning on retiring in the next 20 years start thinking about what they plan on doing to perpetuate their agency. Too many agents get left holding the bag at the last minute," said Carol A. Hammes, president of The Middleton Group, an agency consulting firm in Naperville, Ill.

A perpetuation plan becomes especially critical when the principal owner is 45 years of age or older, said Thomas K. MacDonald, vp with Russell Miller Inc., an agency consultant in San Francisco.

"In the early years, an agency owner's creative efforts and strategic planning should be devoted to marketing," Mr. MacDonald said. "Once the agency is established and successful, perpetuation should go to the top of it's priority list. The plan should be reviewed and modified, as needed, every two to three years."

If the principal plans on perpetuating the agency internally, he should "start bringing in younger people—members of his family, key producers or whomever"—several years before he plans on retiring, said Armando M. Castellini, president of Castellini & Hric Insurance Services in Denville, N.J.

Agents nearing retirement age who don't have perpetuation plans may consider looking for an outside buyer for their business.

Edwin L. Overmyer, president of Berwanger Overmyer Associates Inc., an agency in Columbus, Ohio, has acquired three agencies whose principals were near retirement age with no perpetuation plans in place. He said his agency agreed to acquire them because they represented attractive business oppor-

Continued on page 50B

More next issue on perpetuation

Several financial and tax considerations should be examined before agencies finalize an agency perpetuation plan, experts say.

With the proper care and planning, a perpetuation plan can be designed to maximize the benefits and minimize the risks to both the buyer and seller.

The Oct. 6 issue of *Agent/Broker Topics* will include a discussion of how agents can calculate the approximate value of an agency.

The issue also will examine different ways a buyer and seller can structure a perpetuation plan, and some of the available methods of financing.

Buyout can rescue retiring agents

By LINDA J. COLLINS

The absence of a perpetuation plan doesn't always sound the death knell for an agency.

In fact, some agencies have found ways to rescue another agency while, at the same time, increasing their own value.

For instance, a Columbus, Ohio, agency increased its book of business by acquiring three agencies that didn't have perpetuation plans.

Berwanger Overmyer Associates Inc. will consider acquiring an agency if it accomplishes at least two of three goals: the ability to gain specific, desirable accounts; access to new insurance markets; or the opportunity to acquire talented people, explained President Edwin L. Overmyer.

Mr. Overmyer made his first agency acquisition in 1984. The selling principals were 62 and 65



Mr. Overmyer

After completing that transaction, "the word was out on the street that we were seeking acquisitions of this type and the other two agencies came to us," Mr. Overmyer said.

Those agencies, which were both acquired within the last year, were sole proprietorships, one with a 70-year-old principal and the other with a 60-year-old owner.

In each case the book of business was purchased on a retention basis, in which the purchase price is adjusted based upon the buyer's ability to retain the agency's clients over a predetermined length of time. Using this method, the seller does not receive as much money for the business if there is a high attrition level.

The selling principals remained with Mr. Overmyer's agency to help smooth the transition. Two of the four still remain with the agency on a full-time basis and one on a part-time basis, he said. They are compensated for servicing the accounts, with incentives for new business production.

But agents who have not developed perpetuation plans should not expect to find potential buyers knocking down their doors.

Mr. Overmyer has turned down several other agencies that have approached him because he did not feel they represented attractive business opportunities.

Agency principals also regularly approach Frederick J. England Jr., president of Hastings-Tapley Insurance in Cambridge, Mass., since his agency began purchasing small agencies without perpetuation plans several years ago.

When interested, his agency usually buys these agencies on a retention-of-business basis. Sometimes the seller remains with his agency for a few years after the acquisition, Mr. England said.

Recently his agency made another arrangement with an agent who wanted help managing his agency, but was not yet ready to sell.

Continued on page 50C

Planning ahead

Continued from page 50B

tunities.

But not all agency acquisitions are attractive investments.

"The value of an agency will be reduced if the agent finds himself in a distress situation, where he has to sell because of health," Mr. Overmyer said. "Some agents are burying their heads in the sand and waiting for a catastrophe before they realize that the time is here to perpetuate."

But current market pressures are starting to "make these people realize the situation they are in."

Expers also recommend agency principals quietly negotiate with potential purchasers rather than openly advertise their agency on the market. An agent too obvious about his desire to sell loses his bargaining power, because potential buyers will suspect that the agency has problems.

"The worst thing you can do is to run an ad saying that your agency is for sale," said John H. Jaques, assistant vp of agency development services for Fireman's Fund Insurance Co. in Novato, Calif.

He suggested that agencies identify two to three potential buyers if there is no internal candidate for perpetuating the agency, then quietly negotiate with them.

Outside sales must be conducted confidentially, agreed Lou VonVille, president of The House of Fament in Columbus, Ohio. "When the word gets on the street that the agency is interested in selling, the value of the agency drops. Employees start to feel that their jobs are in jeopardy, and competitors start to compete for the agency's key accounts."

Agents also should make sure their agencies are in top shape.

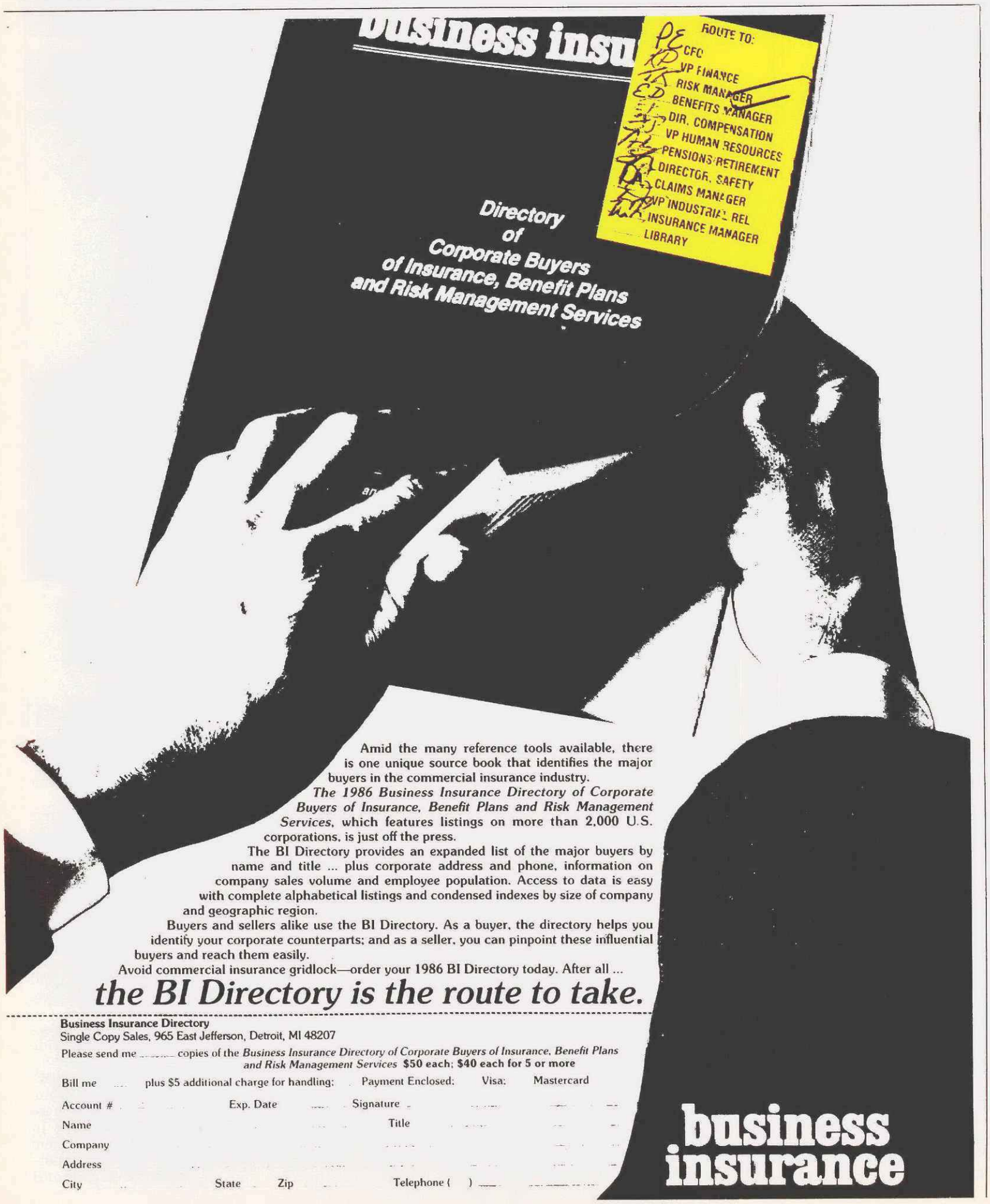
Prior to negotiating a purchase agreement with a potential internal or external buyer, agency principals should closely examine their agencies' work flow, client base, personnel, markets, profit and loss statements and procedures, and correct any existing problems.

"If the agency's focus is on a well-run operation, its value will be maximized," Mr. Jaques said.

"The first priority is to start working on increasing the value of the agency. . .getting the agency in the position to command the biggest dollars to an outside purchaser," Mr. VonVille agreed.

He added that while agency principals may retain the option of finding someone within their agency to assume ownership when they retire, they should focus on increasing the agency's value to outsiders in case the internal plan falls through.

But the most important thing to remember is to "start early. Put something in place. Don't put it off," Mr. Castellini added. ■



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IIE adds new officers, space to handle increased activity

CHICAGO—The Illinois Insurance Exchange is adding new officers to handle the growing administrative demands created by the increase in exchange activity.

Gary Hackley joined the IIE in June as vp-regulatory compliance, a newly created position. He is responsible for maintaining financial oversight of IIE syndicates and serving as a liaison with state insurance regulators. In addition, Mr. Hackley will advise the exchange's new audit and regulatory oversight committee.

Among Mr. Hackley's first tasks at the exchange is verifying the reinsurance security reported by each syndicate.

Before joining the exchange, Mr. Hackley was vp and chief financial officer at SAIF Corp. in Salem, Ore., which operates the Oregon state workers compensation fund. He started his career in 1968 at the California State Compensation Insurance Fund in San Francisco. In 1975, he helped form Beaver Insurance Co. of San Francisco.

Donald M. Wulf also joined the exchange in June as vp-operations, another newly created position. He is responsible for all non-regulatory exchange operations.

His top priority has been to monitor conversion of policy and claims records reporting to an automated system. He also has been monitoring the IIE's new centralized claims payment system, from which all claims will be paid when all of the syndicates eventually are incorporated into the system.

Prior to joining the exchange, Mr. Wulf was a vp in charge of the client services division at Ryan Insurance Group Inc., a subsidiary of Chicago-based Combined International Corp. He also was executive vp and controller of Euclid Insurance Agencies in Chicago and assistant deputy director of the Illinois Insurance Department.

In addition to Messrs. Hackley and Wulf, Edward G. Arnold joined the exchange in January as controller. He formerly was director of internal audits for The Signature Group in Schaumburg, Ill.

Former IIE comptroller James E. Ryan now is the chief financial officer for the IIE's Classic Syndicate Inc.

Syndicate officials give the new officers high grades for their efforts so far.

"The exchange has done an awful lot in adding to its personnel and working on some internal points. I think they're kind of impressive, personally," noted William MacMillan, underwriting manager for the RCA Syndicate #1 Inc.

In addition to the audit and regulatory oversight committee, the IIE has developed an operations committee, a rules committee and a membership committee.

"The board of trustees wanted to be more intimately involved in the regulating process," said IIE President James M. Skelton. "The responsibilities are more defined with what we're doing now."

To accommodate the new officers and anticipated staff additions, the exchange is leasing an additional 5,000 square feet on its 12th-floor headquarters in the Insurance Exchange building in the Chicago Loop.

Transco chief predicts business boom for IIE

By DAVE LENCKUS

CHICAGO—From his Illinois Insurance Exchange board room view, Peter O'Shaughnessy sees the financially and administratively strengthened exchange as an heir apparent to the surplus lines underwriting throne.

And, from his view behind the president's desk of Transco Syndicate #1 Ltd., Mr. O'Shaughnessy sees the syndicate as a kingpin in the IIE's climb to the top of the surplus lines market.


Mr. O'Shaughnessy

Transco Insurance Services, an underwriting manager based in Solvang, Calif., currently is operating only the Transco Syndicate #1 on the exchange, but the #1 in its name is a telling sign: Mr. O'Shaughnessy plans to help form at least two more syndicates by this time next year and possibly manage several more.

"We hope by next year to be managing anywhere from three to four syndicates with an aggregate surplus in the range from $35 million to $50 million," said Mr. O'Shaughnessy, a 25-year insurance industry veteran.

Each of the new syndicates could be capitalized with as much as $10 million each, he said.

Transco Syndicate #1 had $5.2 million in policyholder surplus at year-end 1985.

Mr. O'Shaughnessy's plan to form and manage more syndicates is ambitious, given:

- The 5-year-old exchange, with 13 new syndicates approved within the last 18 months, is only in its first full year as a predominantly surplus lines market.
- Only one other operation currently connected with the exchange, LUI Management Inc., plans to form as many syndicates and capitalize them to the extent that Transco envisions. LUI manages LUI Syndicate Inc. and CalFed Syndicate Inc.

The IIE expects to write more than $200 million in gross premiums this year.

Through July, Transco Syndicate #1 wrote approximately $25 million in gross premiums, and Mr. O'Shaughnessy expects that the syndicate will write between $40 million and $50 million for the year—or as much as 25% of the exchange's aggregate volume.

Meanwhile, LUI Syndicate and CalFed Syndicate combined expect to write $40 million of gross premiums this year, or about 20% of the IIE's projected gross volume.

Last year, Transco Syndicate #1 wrote $9.4 million in gross premiums, or 14.7% of the $63.7 million in gross premiums written by the 10 active IIE syndicates, even though the syndicate only started writing business in July 1985.

Mr. O'Shaughnessy's efforts to establish Transco Insurance Services as one of the busiest IIE syndicate managers currently are under way. Transco late last month issued a private offering memorandum to form Transco Syndicate #2. Transco is offering 666 common shares in the syndicate at $30,000 per share, with a minimum required investment of five shares. If fully subscribed, the offering would raise almost $20 million.

Mr. O'Shaughnessy expects that Transco Syndicate #2 will be capitalized at approximately $10 million and will begin writing by January.

In addition, Mr. O'Schaughnessy said a group of private investors has asked Transco to manage a syndicate it is forming, which is expected to be capitalized at $5 million to $7 million.

But, Mr. O'Shaughnessy does not plan to stop there.

"I hope to have three ready to go by early 1987. Beyond that, it depends on how much capital we have and how much business there is."

At least some of the new syndicates that Transco would form or manage, as well as Transco Syndicate #1, would each write a percentage of the same business.

Transco Syndicate #1 currently specializes in writing primary product liability coverage, offering up to $500,000 in limits. The syndicate also writes umbrella liability coverage with a $1 million limit; property coverage with a $500,000 limit; ocean marine coverage with a $500,000 limit; and excess workers compensation coverage with a $1 million limit.

If Mr. O'Shaughnessy's plans unfold as he hopes, the growth of the syndicates owned or managed by Transco Insurance Services will further improve Transco's successful 10-year track record.

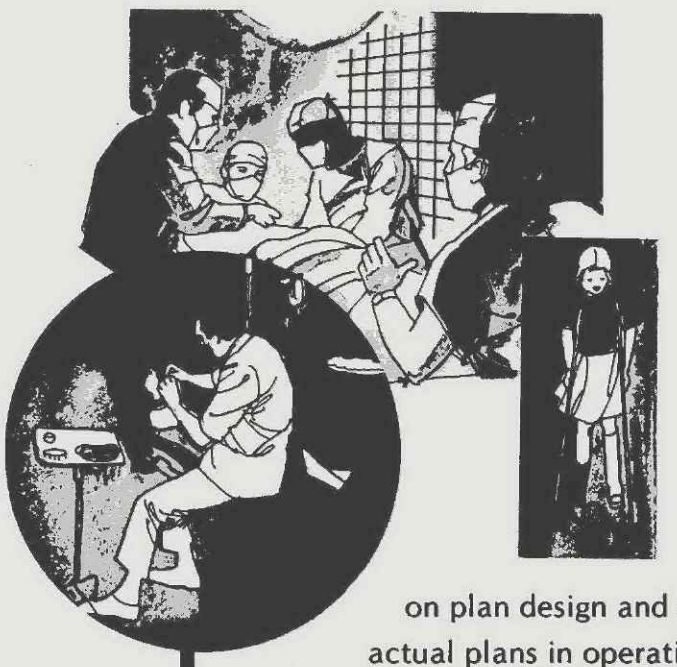
Since its first year of operation in 1978, when the underwriting manager reported $4 million in premium volume, Transco has grown 66% each year, Mr. O'Shaughnessy said. Transco reported $175 million in premium volume in 1985 (*BI*, Aug. 11).

In addition to its IIE syndicate, Transco and its subsidiaries are underwriting managers for United National Insurance Co. of Philadelphia; Diamond State Insurance Co. of Philadelphia; and Imperial Casualty & Indemnity Co. of Omaha, Neb.

Mr. O'Shaughnessy—who began his insurance career in 1961 as an assistant supervisor in the commercial examining division of the Pacific Fire Rating Bureau in Los Angeles, which since has been incorporated into the Insurance Services Office—believes he fairly easily will obtain his goal of writing as much as $50 million in gross premiums on the IIE next year. He cites as factors in his favor:

- Transco's California headquarters, which has not produced much business for the exchange so far, is beginning to write more business.
- The exchange, which is attracting new investors and increasing its capacity, has taken measures to strengthen its position in the surplus lines marketplace. The most notable of those measures is the IIE's move to increase its self-regulation, pointed out Mr. O'Shaughnessy, who is a member of the IIE board of trustees' audit and regulatory compliance committee.

"We've brought in a guy whose only job is to regulate the syndicates," he said, referring to Gary Hackley, who joined the IIE in June as vp-regulatory compliance. "I want to see that nobody causes any problems." ■



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Continued from page 48

Alison Renner, president of Chicago-based A.J. Renner & Associates Inc., an IIE broker. "They're also seeing that it's a stable market."

As the exchange's capacity increases, "the response is increasingly positive," said Dan Real, executive vp of Tri-City Brokers of Illinois Inc. in Chicago.

"The Illinois Insurance Exchange is very acceptable security to most brokers," agreed Dick Ruhe, president of wholesale broker Illinois R.B. Jones Inc. of Chicago., a unit of Alexander Howden North America Inc.

But, some brokers are finding that the exchange's image is changing slowly.

"Within the last year, the overall view of the exchange is that it's a viable market," agreed Bill Yurek, vp at Avreco Inc. in Chicago. "But, I don't think anyone's attitude has changed that much."

Others say the exchange is in a period of transition.

"When any organization starts out, there are certain handicaps that it faces, and that's what the exchange is going through now," said Terry Winkler, executive vp of Chicago-based Insurance Brokers Service Inc.

A problem that has beset another exchange—but could have implications for the IIE—involves the possibility that two syndicates on the Insurance Exchange of the Americas in Miami have assumed business that eventually could result in liabilities that exhaust the syndicates' own surplus and, under the worst scenerio, the IEA's guaranty fund (see story, page 38).

The IEA is investigating whether business was ceded to the syndicates and not reported—as required by exchange guidelines—to the exchange's central processing facility.

"Technically speaking, that shouldn't happen" at the IIE, Mr. Skelton said. "Nothing is bound until the exchange has assigned it a policy number.

'The Illinois Insurance Exchange is very acceptable security to most brokers,' says Dick Ruhe.

"But, in reality, it can happen because the syndicate agrees to assume the risks. They're morally bound, but not legally," he added.

"There is a continual monitoring of syndicates" on the IIE, Mr. Skelton said, "but not of individual slips."

Information on each risk written by an IIE syndicate is entered into the exchange's central data processing system, and each syndicate's business is reviewed monthly. "But we don't make judgmental determinations" on individual risks, he said.

In addition, each syndicate must file with the exchange a business plan every year so the exchange can determine whether syndicates are deviating from the plan, Mr. Foss said.

As the IIE continues its transformation into the excess/surplus market it was originally designed to be, it is building its foundation for the future on today's hard market. Most of those connected with the exchange believe that it can survive future soft markets by building strong relationships with policyholders now and using some imagination to generate premiums from coverage of unusual risks. Or, syndicates could cut back writing and let investors rely on other sources of income until rates eventually rebound.

"We feel we can keep the bulk of business we've written" during the next soft market, Mr. Skelton noted. Capacity may not be as plentiful during the next cycle as it was during the early 1980s, he speculated.

"At least for the next two years we'll be in excellent shape," Mr. Epton said. "By that time, I hope we'll be an established force. Even if that happens in 1987, we'll still have a track record for brokers to place risks at reasonable prices. The soft market won't hurt us."

But, if exchange syndicates cannot write coverage at adequate prices during the next soft market, some syndicate officials say they will not write coverage at all. "We want to have the ability to sit back and do nothing," Mr. Beresford-Wood of the Classic Syndicate noted.

"The trick is to get people like the Classic Syndicate to make a buck today and scale back when the soft market returns," said Mr. Molloy of Comprehensive Ensurers Market.

"I don't apologize for my premium writings in the past," he said, referring to CEM's gross written premium volume of $240,000 in 1982, during the apex of the competitive market.

IIE syndicates also can survive a soft market by developing niches and providing creative coverages, Mr. Molloy said, noting, as an example, defense cost coverage for sexual harassment suits.

"Our syndicate made a profit in the soft market," Mr. Molloy pointed out. "It wasn't substantial, but I'm happy with it. That's what an E&S market ought to be doing."

The IIE is an approved or eligible surplus lines market in 38 jurisdictions and is an approved or accredited reinsurance market in 28 jurisdictions.

The exchange is not approved in either New York or Florida, the home states of the other two U.S.-based exchanges, but regulators in both states are considering approving the IIE.

The Florida Insurance Department is evaluating each IIE syndicate separately for approval, and seven syndicates were approved in June as surplus lines insurers.

One of those syndicates, Midwest General Syndicate, no longer is writing business. An examiner for the Florida department, who spoke on condition of anonymity, said that the department was not aware the syndicate stopped writing business in 1983. The examiner noted that Midwest General met the department's capital and surplus requirements and has realized profits for several years.

The New York Insurance Department currently is modifying its regulations to specifically address out-of-state exchanges, according to Stewart Keir, chief of the department's insurance exchange and excess line bureau.

Mr. Keir said the IIE has not been approved as a surplus lines market primarily because New York insurance regulations do not address either out-of-state exchanges or syndicates.

"Definitely by year-end we'll have new regulations, and those regulations will address exchange regulations," he said.

Obtaining approval as a surplus lines market in New York and Florida is important to the IIE, exchange officials said.

"I think it's detrimental to some extent," Mr. Skelton said.

On the home front, the IIE's board of trustees next week is scheduled to fill the seats of five board members whose terms are expiring, as well as the seat of a board member who is retiring this month. The board also will elect a new chairman to replace Mr. Biegler, who is retiring as chairman but will remain as a member of the board. ■

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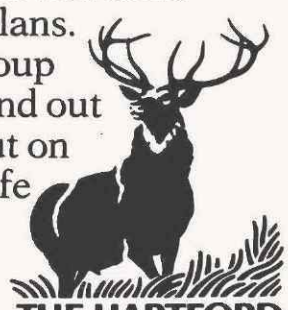
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Continued from page 50B

The two agencies negotiated a set future date for the purchase, Mr. England explained.

The seller "will become a part of our agency sales force and will be relieved of his management duties upon the acquisition," Mr. England said.



Mr. England

"It boils down to finding out what the person wants, and we've become adroit at doing that," he explained, adding that the buyout of the agency is guaranteed upon the agent's death or disability.

Another agent, George B. Snelten, vp of Henrich-Snelten Insurance in Rolling Meadows, Ill., began negotiating buy/sell agreements and acquisitions in 1970.

"In each instance the agency was a one-man operation with limited growth potential and no family members or producers interested in taking it over," said Mr. Snelten. "Many one-man agencies never give a thought to perpetuation."

Two agents with which Mr. Snelten had negotiated buy/sell agreements died within a few years of signing the agreements, and their agencies were incorporated into his own operation.

In 1981, Mr. Snelten sold his original agency to Coldwell Banker, which assumed his contractual arrangements with the other agencies. He continued to manage the agency for two years.

This June, Mr. Snelten became a partner with another agent. He and his partner continue his practice of acquiring sole proprietorships without perpetuation plans, and are moving into a larger office to make it easier for them to furnish these agents with office space.

The Iroquois Group, a modified agency cluster arrangement with 180 agencies in New York, Pennsylvania, Maryland, Ohio and Vermont, has "become a perpetuation vehicle for small agents. We can finance the acquisition and buttress the agency enough to ensure its success," said Iroquois President William A. Branch.

The cluster employs two people to scout smaller agencies as acquisition targets.

"They identify what fits our group and they try either to buy the agency outright or pick up an option to buy it in the future, which allows security for an agent who doesn't want to sell right now," Mr. Branch said.

When the Iroquois Group buys an agency, it retains two-thirds ownership of the agency and sells one-third ownership to the person who will manage it for $1. A principal's children or valued employees "would have first shot at becoming the new one-third owner. . . .Quite often the guy who's leaving picks his own successor," he said.

The minority owner is given operating control of the agency, and access to the Iroquois Group's property/casualty, life and health insurers and special programs. The group also automates the agencies, Mr. Branch explained.

As long as the agency remains profitable and uses the insurers with which the group has contracts, Iroquois does not interfere in management decisions.

Agency owners without perpetuation plans, or whose internal perpetuation candidate is unable to come up with enough money to pay for the agency, usually are happy to enter into the agreement because they can designate their successor, said Mr. Branch.

There is no security for a principal if the person he wants to perpetuate his agency cannot afford the purchase price, Mr. Branch said. But if the principal sells to the Iroquois Group, "we stand behind the payment and make sure the agency continues to have products and companies," he added.

Since the combined annual premium volume of Iroquois Group members is about $120 million, the smaller agency gains a more stable relationship with insurers.

"We also have a lot of special programs and improved profit-sharing or extra commissions from a lot of our carriers," Mr. Branch stressed.

And, if the new owner does not make a go of the business in this arrangement, the seller still gets all of his money. "If the agency becomes unprofitable, we would buy out the one-third owner. We have a formula established for that," Mr. Branch added. ■

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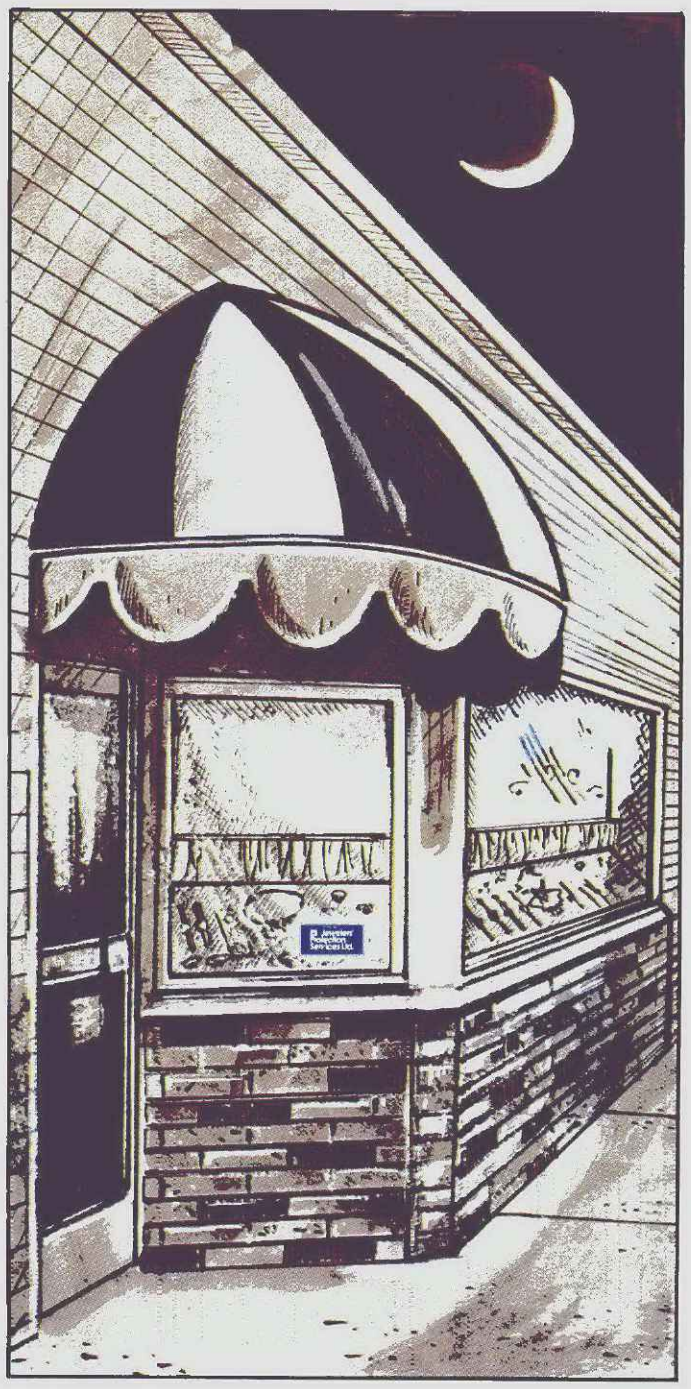
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Some agents keep business 'in the family'

By LINDA J. COLLINS

Keeping the business "in the family" is one way a principal can perpetuate his agency.

A family member or a trusted employee can make an excellent guardian of the principal's business estate, since they already have a vested interest in its continued success, experts say.

These people usually have a greater understanding of the business—having devoted several years of their lives to its growth—and have already developed a rapport with clients and insurers.

In addition, internal perpetuation—transferring ownership to someone already involved in the business operation—provides greater continuity between managements, experts point out.

A retiring principal interested in this type of perpetuation plan should look for certain characteristics when selecting an "heir apparent," they say.

The "No. 1 criteria is to find a risk taker with an entrepreneurial spirit, and that's the hardest thing to find. The person needs to be able to put his heart and soul on the line," said Carol A. Hammes, president of The Middleton Group, an agency consultanting firm in Naperville, Ill.

She suggests that the candidate be good with people, have the ability to see "the bigger picture," and be at least 20 years younger than the retiring principal.

"I would be pleased to see a little impatience in a person being considered" because impatience usually indicates that the candidate is aggressive, said John R. Riley, president of Agency Management Services Inc., a consulting firm in Bedford, Mass.

"He has to have some drive to succeed in his own right," he added.

An agency principal "should answer two questions before selling stock to a relative or producer," advises John H. Jaques, assistant vp of agency development services for Fireman's Fund Insurance Services in Novato, Calif. They are:

- Does this individual have the ability at some point to manage this agency to a profit?
- Does this person have the capability to continue the growth of the agency in my absence?

The principal also should be fairly certain that the individual will remain with the agency and maintain the business for several years—"at least long enough to take care of the payout on the note," Mr. Jaques added.

A viable perpetuation candidate should display the "desire to be owner, loyalty, good financial sophistication, a willingness to go that extra mile, a willingness to take risks, leadership ability and maturity," said David Hales, president of Hales & Associates Inc., an agency consultant based in Oak Brook, Ill.

The candidate also should be a "good team player," and "willing to invest personal income back into the business" to ensure its continued success, Mr. Hales added.

And, to the extent that the candidate and the owner "will need to work together for a few years, they should have compatible personalities," said Armando M. Castellini, president of Castellini & Hric Insurance Services in Denville, N.J.

All of the agency's employees—not just producers—should be considered as perpetuation candidates, Mr. Castellini says.

"Other employees who have been with the organization for a number of years should not be overlooked. If they are interested in becoming owner or part-owner, they should be given first consideration," he said.

Consultants offer a word of caution to agency owners who hire someone to take over the business: Do not strike an oral or written agreement until the employee has been with the agency for a few years and has proven his or her ability.

This allows time for a "get-acquainted period," said Thomas K. MacDonald, vp with agency consultant Russell Miller Inc. in San Francisco.

"People should not be given promises when they are hired," Mr. MacDonald stressed. "Somebody should first be with the agency three to five years minimum, so that you have the chance to see if they are working out and are consistent with the style of the organization."

There should be "no guarantee of ownership until two years are up. You need to test the candidate out at least two years in the agency," according to Ms. Hammes.

A principal needs to exercise patience when selecting a perpetuation candidate, Mr. Riley said. After investing two to three years in the individual, the principal "may find he has made a mistake. He must realize that it will take time to make it work, and then it may not work."

At the end of this trial period, some form of an agreement can be made to encourage the candidate to remain with the agency, sources say

The key to an agency perpetuation plan is to detail specifically "what is going to happen and when—what ownership they will have, the basis for turning the agency over to them and when it will occur," Mr. Castellini advised.

As an inducement, an agency principal can offer a key producer partial ownership of the business he brings in. This is done by keeping a separate record of that producer's business. Then, when the producer is ready to buy the agency, his or her business can be subtracted from the sale price so that he or she is not "buying back accounts that he has produced."

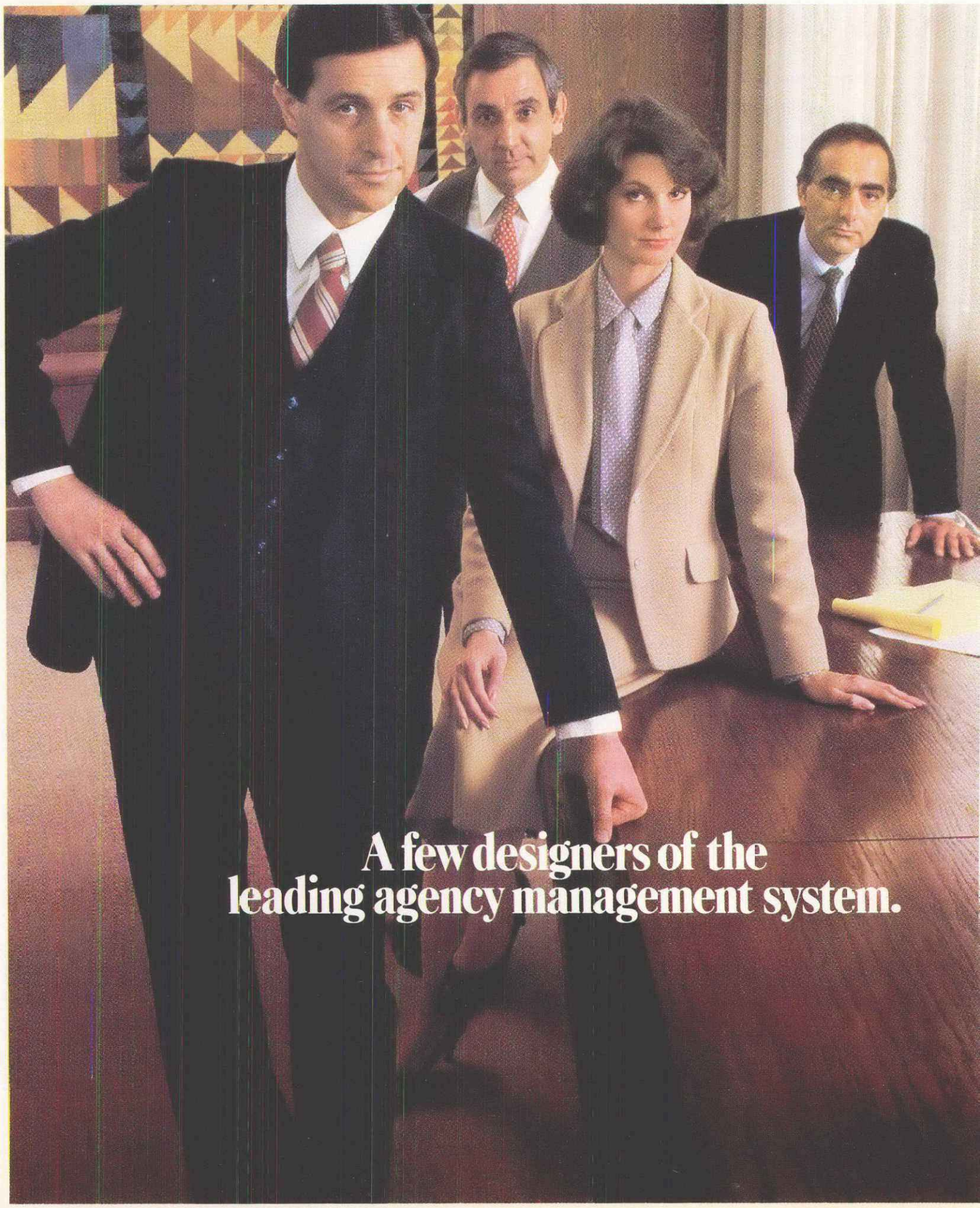
The owner also can include a clause making ownership of the key producer's business contingent upon his or her eventual purchase of the agency, Mr. Riley added.

A "smart owner will allow the producer who will purchase the agency to maintain separate records of the business he produces," agreed David A. Bakst, a partner with the law firm of Morrison, Mahoney & Miller in Boston.

Keeping separate records make it easier to place a value on the producer's business. It also is "an effective tool for keeping the person around," and restrains the person from trying to push the owner out of the door before he is ready to retire, he said.

When the internal perpetuation candidate is a family member, particularly a son or daughter, the agency principal is faced with

Continued on page 50E



Fine-tuned agencies bring highest prices

By LINDA J. COLLINS

An agency that runs like a well-oiled machine will bring the highest dollar, agency experts say.

To maximize that agency's potential, its principals should fine-tune its operations before developing a perpetuation plan, they advise.

"You have to take a close look at the agency's strengths and weaknesses, both on the financial side and the people side," said David Hales, president of Hales & Associates Inc., agency consultants based in Oak Brook, Ill.



Mr. Hales

"I'm absolutely convinced that the profitability of an insurance agency depends upon the organizational structure," he said, adding that agents need "a system of doing business that is efficient and productive to support their producers."

An agency principal will increase his agency's value and make it easier for someone else to assume control if he develops "well-documented manuals on the whole operation of the agency. The whole management of the organization should be institutionalized," said Thomas K. MacDonald, a vp with agency consultant Russell Miller Inc. in San Francisco.

The agency needs a "formal personnel and compensation policy," agreed John H. Jaques, assistant vp-agency development services for Fireman's Fund Insurance Cos. in Novato, Calif.



Mr. Jaques

Agents also should examine how their new business is "coming in the door and how it's being developed—through passive referrals or through active pursuit of and prospecting for clients," according to Mr. Jaques.

To show a prospective buyer that the agency will be profitable, an agency should have an aggressive marketing plan for bringing in new business and for filling out existing accounts, sources agree.

The agency's balance sheet is another indication of its profit potential.

"One thing agents have traditionally done is to maximize their expenses rather than their profits" by charging many of their personal expenses to their agency, said E.J. Leverett Jr., professor of risk management and insurance at the University of Georgia in Athens.

While many of these expenses can be legitimately charged to the agency, reducing the principal's taxable income, Dr. Leverett suggests that agents modify such behavior prior to negotiating a sale.

If most of these personal expenses are eliminated, the potential purchaser will be better able to "examine the agency's true profits and expenses. To make the purchase attractive, the seller has to demonstrate to the buyer that there will be sufficient profits," he added.

An abundance of overdue accounts receivable will send warning signals to a potential buyer. Agencies should "try to make their balance sheets as clean as possible," before displaying them, said David A. Bakst, a partner with the law firm of Morrison, Mahoney & Miller in Boston.

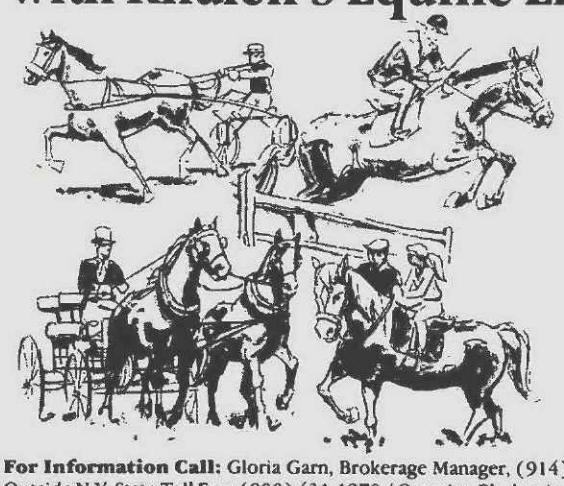


Mr. Bakst

The aging of accounts receivable is one of the greatest problems an agency can face, said Mr. Bakst, a specialist in agency valuation. "If the average receivable in an agency is 75 days old, and the agency has to pay its

Continued on page 50H

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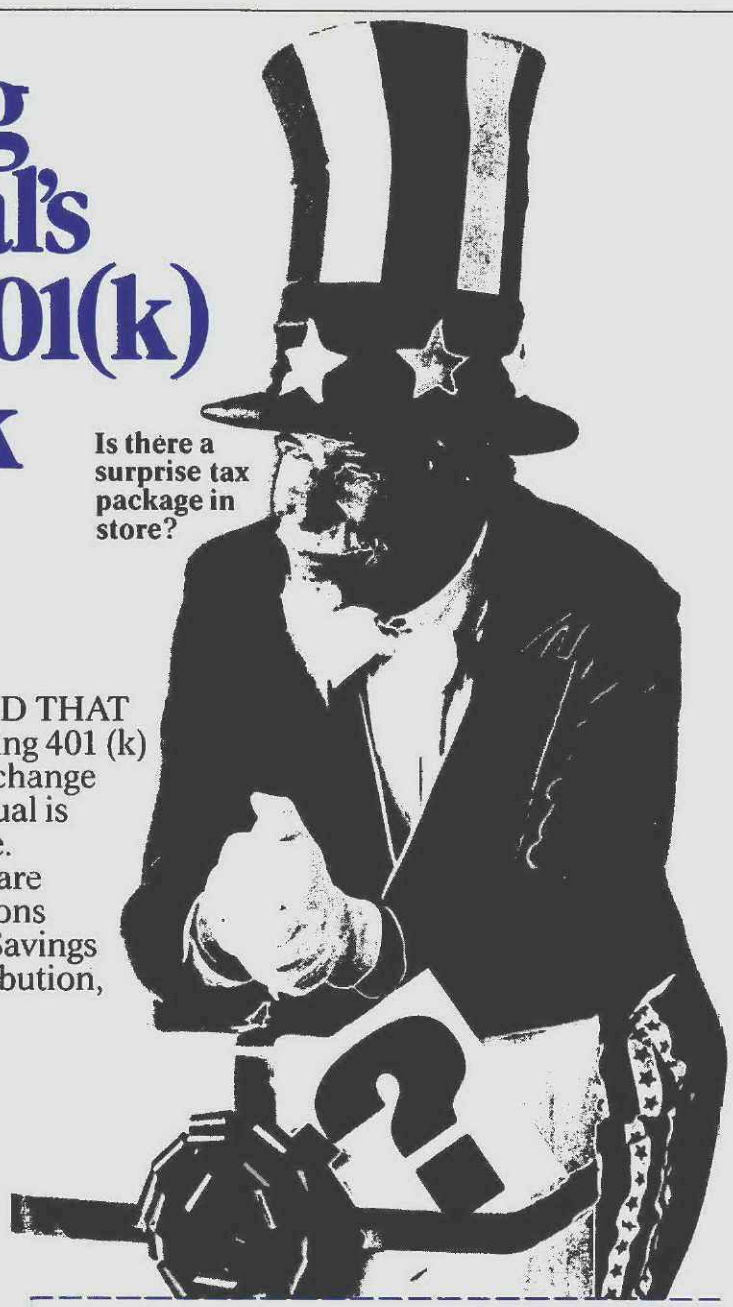


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Ideas worth quoting.

Prepared agency

Continued from page 50G

companies in 45 days, the agency is financing its clients' premiums."

Since a buyer usually acquires an agency's accounts receivable along with its assets, agents must make clients pay on time.

If "clients are used to paying late and the purchasing agent tries to re-educate them," the new owner could be faced with a higher than normal attrition level, said Mr. Hales. It will be difficult for an agency with these problems to find a purchaser, he said.

Agencies should have enough cash flow to cover "two to three months of expenses," said consultant Carol A. Hammes, president of The Middleton Group in Naperville, Ill.

An attractive agency will not have "too many or two few companies, should have a good mix of business and should have a decent loss ratio with its companies," Ms. Hammes added.



Ms. Hammes

A well-balanced mix of commercial and personal lines business, in addition to a blend of different types of accounts within those lines, will make an agency more attractive, agreed Armando M. Castellini, president of Castellini & Hric Insurance Services, an agency consulting firm in Denville, N.J.

Mr. Castellini said that not only an agency's book of business but also its "markets should be balanced, with accounts not concentrated in one or two companies. Buyers also should be concerned about the agency's loss ratios, because they affect the agency's profit-sharing or contingency commissions."

Most prospective agency buyers will want to retain talented employees, so to get top dollar, principals should make sure their agencies are properly staffed and that employees are well-trained.

If an agency has too many employees, or if its employees are overpaid for the work they do, it will cut into its profits. Employees may leave the agency if the new owner remedies this situation.

One way to tell if an agency is well-run is to look at its personnel turnover. Buyers should look for "a steady workforce with long tenure among some employees and a good age spread. Some younger employees also should have tenure, including producers and customer service representatives," said Lou VonVille, president of The House of Fament, an agency consulting firm in Columbus, Ohio.

And the agency's staff should be following proper work procedures. For instance, employees should be in the habit of documenting all transactions with clients and filing them in a coherent manner so that "whoever looks at the files can understand the client's history and see that the file is current," Mr. Castellini said.

"Filing systems should be computerized with hard-copy backup. If the agency is not automated, files should be well-organized and well-documented—neat and orderly with some kind of chronological arrangement," he added.

Attorney Mr. Bakst warned that if client files are sloppy, or if calls and correspondence have not been properly documented, a new owner could "run into an errors and omissions problem."

In addition, agencies "definitely should be departmentalized. The personal lines department should be run by customer service representatives who are responsible for rounding out accounts," said John R. Riley, president of Agency Management Services Inc. in Bedford, Mass.

According to Mr. Riley, the workload among CSRs should be split alphabetically. He added that many commercial lines clients, especially those with commercial package policies, also can be serviced by CSRs, freeing producers to sell new business and service key accounts that demand a greater level of expertise.

The views of consultants differ on how important it is for an agency to be automated. But, the value of an automation system depends on its capabilities and how well it is being used, the note.

Most agree that an agency with a system capable of storing all client information that also can perform marketing functions will increase the value of the agency.

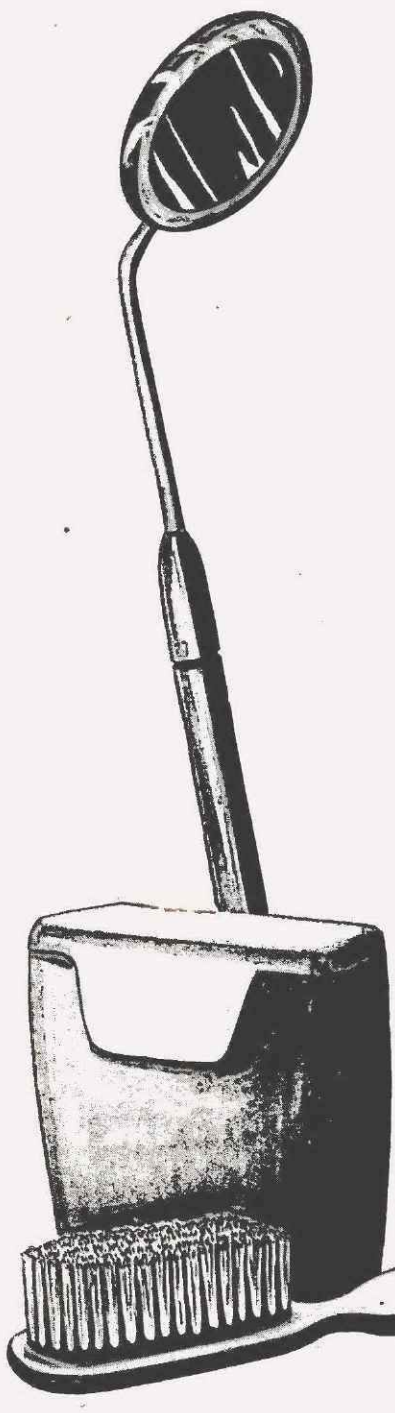
But, they add that many agencies with such systems do not use them fully.

"Systems must be used properly" to add value to an agency, said Mr. Hales. "If the agency automation process is in midstream, or if the system is not fully utilized, it could detract from the sale," he added.

Mr. VonVille agreed that any agency generating less than $15 million in premium volume must have an automation system capable of more than accounting functions to be valuable to a prospective buyer. A system that only performs accounting functions can cost an agency more than an outside batch-accounting system, he explained.

However, a computer that can perform marketing functions can add value to a sale, Mr. VonVille said.

But, even if the automation system is not fully utilized, or if it has limited capabilities, Mr. Jaques feels that a staff familiar with automation will be more valuable to a new owner, because he will "not have to change the culture and mindset of the employees." ■



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Internal perpetuation can take many forms

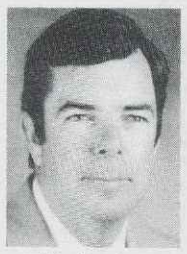
By LINDA J. COLLINS

Internal perpetuation plans can be established in several ways, involving family members, valued employees, or both.

Mary Love, vp of Dodder Mutual Insurance Agency in Washington, D.C., said she and her brother bought the agency from their father in 1981 after four years of negotiations. Ms. Love became vp and her brother became president of the agency.

Both had worked for the agency for several years and were familiar with agency operations.

Soon after the acquisition, Ms. Love and her brother had the agency appraised. Then they struck a buy/sell agreement with each other, designed to protect their 50-50 investment in the agency in case of either party's death or disability, even though both of them were still in their mid-30s, she explained.



Mr. Davies

Ms. Love said that while this buy/sell agreement set up an immediate perpetuation mechanism, she and her brother now are discussing the possibility of allowing their existing employees to buy the agency.

"We think now is the time to offer our employees something for their service to the agency, so we are beginning to examine the options," Ms. Love explained.

She said that because the agency has "some really good employees, and we don't want to lose them to someone else, we want to reward them for what they have given us."

Other agency perpetuation plans involving family or employees can be more complex.

For instance, William G. Bailey, president of the George B. Bailey Agency Inc. in Dryden, N.Y., has struck different deals with two of his key employees.

Through an agreement with one of his producers, Bob Robinson, Mr. Bailey has established a satellite corporation 50 miles from his agency.

Mr. Bailey holds 51% ownership in the corporation and Mr. Robinson holds 49%.

Business that Mr. Robinson produces through the satellite corporation, the Robinson-Bailey Agency, is coded separately from that produced through the Bailey agency. Since 1983, Mr. Robinson has been responsible for producing the satellite's business, while the Bailey agency has provided support services and markets.

The agreement also provides that if either party becomes dissatisfied with the relationship, it can be dissolved.

Or, Mr. Robinson can choose to turn in his stock in the satellite in return for part ownership in the Bailey agency.

In 1984, Mr. Bailey made a different arrangement with his agency vp, Charles Spaulding, who joined the business in 1979. Mr. Bailey gave him the option of purchasing up to 25% of the agency's stock for an agreed upon per-share price, exercisable over a 10-year period.

Another perpetuation plan is in the making that will involve Mr. Bailey's son, Robert Bailey, who is "just starting in the business" after a four-year stint as a military officer. Robert currently is attending an agents' school run by a major insurer.

When Mr. Bailey's son completes his education, he will be put in charge of his own satellite corporation. And, if he can turn a profit within three years, he will become 49% owner of that new satellite corporation.

Continued on page 50F

'Family ties'

Continued from page 50D

other considerations, sources agree.

Real or perceived, agency employees may feel that the family member is receiving preferential treatment, which can cause internal friction, resentment and possibly employee turnover.

Mr. Hales suggests that if owners plan on turning their business over to a son or daughter, the children first go to work for another employer "so that they can pay their dues and have an opportunity to become successful elsewhere."

Insurers sometimes hire the son or daughter of a principal of an agency with which they have a good relationship, Mr. Hales said. They will train the agency heir, knowing that he or she eventually will return to the agency.

Or, if the owner runs a large commercial lines agency that frequently works with brokers at Lloyd's of London, Mr. Hales suggested that an agent arrange for a Lloyd's broker to hire the heir.

An agency principal's children should have "at least three years of work experience for someone else" prior to coming to work for the family agency, agreed Lou VonVille, president of The House of Fament, an agency consulting firm in Columbus, Ohio.

This makes for "a better business relationship," Mr. VonVille explained. "They have to grow on their own and they have to make it. If they show talent, it is wise for the principal to keep them out of the agency as long as possible, gaining outside work experience and management skills," he suggested.

Once the internal perpetuation candidate has been selected, tested and proven, the agency principal can begin a "gradual transfer of management responsibilities," said Mr. Riley. "This absolutely helps in the retention of accounts."

A gradual takeover gives the principal "a chance to watch the individual manage and gives the younger person a chance to put together his own management team," according to Mr. Riley.

Mr. Hales agreed, adding that the principal should "give that person increasing authority so that he can learn from his mistakes."

The potential buyer should work with the principal on the agency's accounts for at least one renewal season prior to his retirement so that the clients will have a chance to become familiar with the new owner, he said.

Also, since this may be their first involvement in an agency purchase, the perpetuation candidate should have access to a consultant or an independent third party to advise them as they go through the financial negotiations, Mr. MacDonald suggests. ■

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Agency management consultant Gary Holgate is now offering video consulting for agencies that can't afford on-site evaluations.

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The videotape consulting service costs $1,750 for a one- to 12-employee agency, compared with $3,500 plus travel expenses for an on-site evaluation of the same-sized agency, Mr. Holgate explained.

For additional information on the service, or for costs to larger agencies, contact Mr. Holgate or Liz Albrecht at Holgate & Associates Inc., P.O. Box 08238, Fort Myers, Fla. 33908-8238; 813-433-1211. ■

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Internal buyers

Continued from page 50E

Mr. Bailey feels his son's experience in the military and with the insurance company has taught him to make his own decisions.

Mr. Bailey's other son, who is now in college, probably also will join the agency. Meanwhile, Mr. Bailey is encouraging him to gain outside work experience.

"I'm getting in place what I feel will be potential buyers for my agency. My goal is to walk away and continue to see the agency prosper," Mr. Bailey added.

James H. Davies, president of Davies & Associates in Murray Hill, N.J., and president of the National Assn. of Professional Insurance Agents, has modified his perpetuation plan three times as his agency has evolved.

Mr. Davies first worked out a buy/sell agreement with an agent in a nearby town. The agreement was designed so that either agent could terminate it at any time unless one died or became disabled.

Mr. Davies eventually terminated that buy/sell agreement and struck a similar agreement with the vp of his agency, Bernadette Alliston, who is in charge of internal operations.

Two years ago, Mr. Davies again amended his perpetuation plan when his two sons joined the agency.

Both of Mr. Davies' sons have attended company-sponsored agent schools and one had two years' experience as an accountant before joining the agency.

Ms. Alliston now owns 10% of the agency's stock through nonvoting stock contributions, with options to purchase additional shares under certain conditions.

And, as the perpetuation plan stands right now, Mr. Davies will split the remaining stock between his two sons, with 46% going to his oldest son and 44% going to his other son.

This perpetuation plan also can be modified if Mr. Davies' daughter, who is now in college, becomes interested in joining the agency.

But family perpetuation does not always make for a smooth transition, Mr. Davies warns.

Family perpetuation can become "very emotional, because you're dealing with blood relatives and trying to satisfy everybody," he Davies said. "You have to be able to treat it like a business transaction."

He explained that one of his sons was given controlling interest in the agency because "somebody has to have control. An equal stock split or partnership is the most hazardous thing you can do," because then an agreement must be reached on every business decision, which can create conflict, he explained. ■

Maturing IIE attracting more brokers

By DONNA DiBLASE

CHICAGO—The Illinois Insurance Exchange is attracting more broker members as they search for new sources of capacity in a tight market.

The number of IIE broker members has more than doubled to 135 today, compared with 65 in August 1985, according to James M. Skelton, president and chief executive officer of the exchange.

Many of the new brokers have lost capacity in other markets and "are jumping at what they think is the capacity at the exchange," Mr. Skelton says.

"More brokers are using the exchange now than last year because of the increased availability of insurance on the exchange," said Terry Winkler, executive vp at Insurance Brokers Service Inc., a Chicago-based wholesale broker.

Others contend more brokers are joining the exchange to meet competition from member brokers.

"There are a lot of brokers that became members to regain business they may have lost to other brokers who were members and could place certain risks on the exchange," commented Alison J. Renner, president of Chicago-based A.J. Renner & Associates Inc., a surplus lines broker.

However, because some syndicates only write for favored or affiliated brokers, new brokers are not placing a lot of new business with the exchange, according to syndicate and exchange officials.

The business placed by new brokers "is not that big a difference," Mr. Skelton said.

Some brokers agree that they have only limited access to some syndicates.

"There is a problem with certain syndicates that give out exclusive agreements to certain brokers," said Charles Ellman, executive vp at Delaware Valley Underwriting Agency Inc. in Hatboro, Pa. "If you are a broker on the exchange, you should have access to all of the syndicates."

Others, though, say this situation is improving.

"For the most part, some syndicates have operated much for their own benefit. But, we're now starting to see more sharing and that's encouraging," said Donald Gaddis, president of Donald Gaddis Co. Inc., a wholesale broker in Chicago.

And soon all brokers will have a greater voice in the exchange's operations.

The exchange's board of trustees last month approved the formation of a brokers' association, which will serve in an advisory capacity to the board.

There is currently an underwriters' association that serves in a similar capacity.

"I think the brokers' association is a great idea," Ms. Renner said. "The brokers should become more organized in the exchange," she said, and be better aware of what the different IIE syndicates can do.

Brokers "are the producers of the business we write. Without the brokers, we're not going to grow," noted Richard E. Foss, president and chief executive officer of LUI Syndicate Inc. and a member of the IIE board of trustees.

The brokers say the exchange is becoming a much more viable market as it grows in size and maturity.

"There are now several syndicates developing a lead/follow system, which is what we've been waiting for," said Dick Ruhe, president of Illinois R.B. Jones Inc. in Chicago, a unit of Alexander Howden North America Inc.

Alexander Howden North America is a subsidiary of Alexander & Alexander Services Inc.

"This is a very significant development. Before, the syndicates weren't really operating like an exchange market," said Mr. Ruhe.

Under a lead/follow underwriting system, like that used at Lloyd's of London, one underwriter sets the terms and conditions of a policy, and other underwriters "follow" that lead, each writing a portion of the risk (see story, page 47).

"If this develops further, it will be very helpful in placing risks. But, it's not Lloyd's by any means," Mr. Ruhe said.

Other brokers have also observed the development of a lead/follow system, but they note that development has been slow.

"This is occurring in some of the primary areas," Ms. Renner said. "As the underwriters become more confident with each other, this will develop."

Although "some syndicates have begun to team up to build limits, it has taken time to determine who's going to be a lead," observed Rufus J. Williams III, president of Chicago wholesaler Neal, Lloyd & Co.

But brokers say the Illinois exchange offers many advantages besides its fledgling lead/follow system.

"The exchange really fills a need for excess risks and tough product liability in this hard market," said Bill Yurek, vp at Avreco Inc., a wholesaler in Chicago.

Avreco places mainly primary product liability, comprehensive general liability and "excess for hard risks like hospitals. Coverage is not available elsewhere for these high-risk insureds," Mr. Yurek said.

"We use the LUI Syndicate to fill in gaps on hard risks like these," he said, adding that Avreco is able to obtain $4 million limits for these excess liability risks from the exchange.

"On primary product liability, we can get limits from the first $500,000 and sometimes up to $1 million from the Transco Syndicate," he said, referring to the Transco Syndicate #1 Ltd.

Avreco placed more than $2 million in premiums on the exchange in the first half of this year, he said, adding that the brokerage will probably place a total of slightly more than $3 million in premium with IIE syndicates by the end of the year.

In addition to accepting tough risks, "the exchange is a flexible market," said Dan Real, executive vp at Tri-City Brokers of Illinois Inc.

"You're able to place many difficult risks like Fortune 500 companies and tough products," he said. "We can get $1 million on primary product liability and collectively as much as $5 million on excess liability."

Tri-City, which has been a broker on the exchange since last fall,

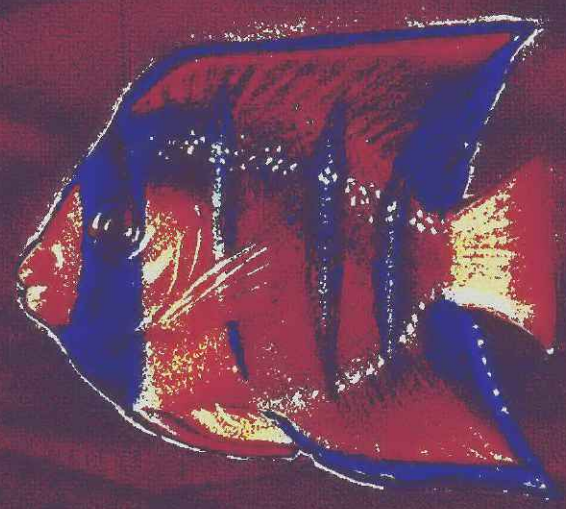
Continued on page 52

In the turbulent sea of today's professional liability insurance market, one company still represents the old school.

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IIE brokers

Continued from page 51

will place a total of $8 million to $10 million in premiums with IIE syndicates this year, Mr. Real said.

International Special Risk Services, which uses the exchange to build capacity in excess automobile liability layers, also finds that "the exchange is not as restricted as licensed insurers," says Peter Durkalski, vp of the Rolling Meadows, Ill.-based wholesaler.

And, brokers are finding needed capacity.

"There are a lot more syndicates building limits on the exchange now. We can get $500,000 limits, but you can use two or three syndicates to get you to the first $1 million," explained Mike Berend, area assistant vp in International Special Risk's casualty department.

The brokerage placed almost $1 million in premiums with the exchange during the first half of this year. "If we keep going, we'll be at $2 million by the end of the year," Mr. Durkalski said.

"Two, three or four syndicates can offer us a lot for our smaller accounts and large capacity risks," said Mr. Winkler of Insurance Brokers Services. "We can get $1 million on primary product liability. On large capacity risks, we can get $5 million on property or casualty."

The broker places about $3.5 million in premiums annually with exchange syndicates, said Mr. Winkler, adding that, "It will probably be a little more this year because of the high prices."

Delaware Valley Underwriting is able to build limits of up to $2 million for the hard-to-place primary casualty risks it places on the exchange, said Mr. Ellman. As of last month, the broker had placed more than $1.5 million in premiums on the exchange so far this year.

Some brokers say the method of transacting business on the exchange is an advantage in itself.

"The exchange lends itself to the personal presentation of risks or the 'Lloyd's way,'" said Ms. Renner.

The nature of business transaction at the exchange is also important to Neal, Lloyd & Co., said Peter Woan, vp and casualty manager.

"We don't use the other exchanges. One of the reasons we work with the Illinois exchange is the personal contact we have with the underwriters. And that's more effective if you're in the same city," he explained.

Also, "there is also a distinct advantage to having a market that's relatively new," Ms. Renner added.

"The exchange didn't write in the soft market, so it doesn't have to worry about what it did in the past that could cause losses now," she explained.

Ms. Renner has been a broker on the exchange since it began operating in 1981, she said, recalling, "It wasn't much of a market then."

But, during the first half of this year, A.J. Renner & Associates placed more than $3 million in premiums on the exchange, she said, noting that "doesn't even include the July 1 renewal business. I would anticipate that we'll place in excess of $5 million this year."

While brokers point out many advantages of working with the exchange, they also note a significant disadvantage.

"If you use the exchange to place primary coverage, it's difficult to find an excess insurer that will write over the exchange's primary," said Mr. Winkler of Insurance Brokers Service. "This mainly has to do with the fact that the exchange is unrated" by A.M. Best Co.

But, "no one can change that," said Mr. Woan of Neal, Lloyd & Co. "It just means that our ability to get big limits is reduced."

Even though the exchange is becoming a more viable and respected market for excess/surplus lines risks, convincing other insurers to write excess coverage over IIE primary policies "is going to be a problem for the forseeable future," said Ms. Renner.

"Brokers should sit down and take a more active role in helping carriers to understand how the exchange works," she added.

"Getting the other insurers to write in excess of the exchange's primary will make it an even more viable market," Mr. Ruhe of Illinois R.B. Jones noted. "The Illinois Insurance Exchange has to go out and sell insurance companies on this."

The exchange is currently trying to do just that, according to Mr. Skelton.

"We are getting the excess insurers educated about what the exchange is and how it works," he said.

'There is also a distinct advantage to having a market that's relatively new,' says broker Alison J. Renner. 'The exchange didn't write in the soft market, so it doesn't have to worry about what it did in the past that could cause losses now.'

"We picked out 20 major excess carriers and corresponded with them and we are getting some responses," he said. "They are sorting through necessities like asking for details on the syndicates' claims reserves."

Exchange brokers have other improvements on their wish lists.

"It would probably be to the exchange's advantage to have a centralized claims facility, or at least make it more apparent to brokers how claims are handled," said Mr Winkler. "The syndicates could get more support from the rest of the insurance industry if they did this."

The IIE now is implementing a central claims handling facility.

And, "since we handle a lot of business for clients in New York and Massachusetts, we'd like to see the exchange get approved excess/surplus lines status in those states," said Ms. Renner. "I think this is moving ahead, though."

Other brokers also say they cannot place coverage for some clients with IIE syndicates because the exchange is not approved in all states.

"We get a lot of business from the East and West coasts. But, we're hopeful. We know they're trying," said Mr. Yurek of Avreco.

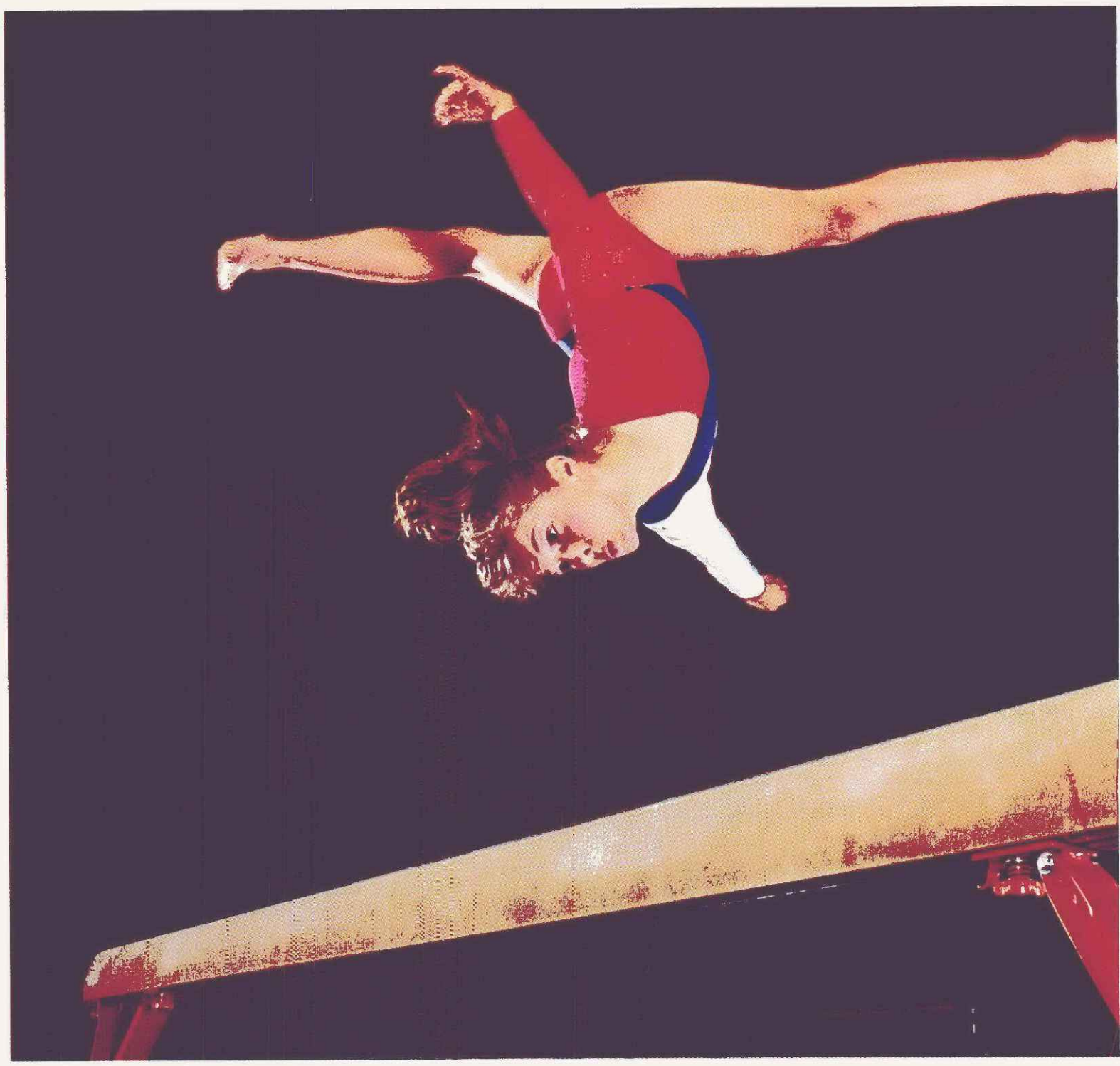
Despite these problems, IIE brokers say they are enthusiastic about the growth of the exchange.

"We're bullish on the exchange," said Mr. Ruhe. "It's developing but it's developing slowly. But, we're hoping that now that there is more capital coming into the insurance industry that some will come to the exchange."

Slow growth would be best, according to Mr. Woan. "I think it's important that it doesn't mushroom."

Ms. Renner characterizes the exchange as a stable market.

"It's a market that's going to be there," she said. "It will fill in the gaps and that's what the surplus lines business is all about." ■



PERFORMA



Photo: Carol Cain

William J. Ullmann, left, assistant vp of LUI Management Inc., works in the LUI Syndicate box on the floor of the IIE with LUI Assistant Vp Frank McGovern and Property Manager Dennis J. Bieda.

Syndicates on IIE target $200 million in 1986 premiums

By DAVE LENCKUS

CHICAGO—Illinois Insurance Exchange syndicates this year could write more than double the gross premium volume written on the exchange during the previous four years combined.

The 5-year-old exchange projects that IIE syndicates will write more than $200 million in gross premiums in 1986, more than triple the $63.7 million written by 10 active syndicates last year.

So far, the exchange looks like it will meet that goal: As of July 31, IIE syndicates had written nearly $126.8 million in gross premiums.

The IIE wrote only $88.3 million in gross premium in its first four years combined.

The underwriting explosion on the IIE is being orchestrated by new faces: Only two of the 13 currently active IIE syndicates were writing before Jan. 1, 1985.

And, the searing premium pace is being set without the syndicate that wrote the bulk of the IIE's volume during prior years: LWB Syndicate Inc.

LWB wrote $30.6 million in gross premiums last year, or 48% of the exchange's business, up from $12.4 million in 1984. However, the syndicate, owned by Crum & Forster Managers Corp. (Ill.), stopped writing at year-end 1985 so CFMC could concentrate on its other operations (*BI*, March 31; Sept. 2, 1985).

The syndicate, which reported a 1985 combined ratio of 186.3%, posted a $3.9 million statutory net loss last year.

The second-largest IEA syndicate in 1985, however, hopes to increase its gross premium volume at least four-fold this year.

Through July, Transco Syndicate #1 Ltd. wrote approximately $25 million in gross premiums, according to Peter O'Shaughnessy, president of both the syndicate and its parent, Transco Insurance Services in Solvang, Calif.

Transco will write between $40 million and $50 million in gross premiums in 1986, he says.

And, Mr. O'Shaughnessy says he hopes to form several more syndicates on the exchange over the next 12 months with total capital and surplus of up to $50 million (see story, page 50).

Transco Syndicate, which began writing business in July 1985, wrote $9.4 million in gross premiums and $5.6 million in net premiums in 1985, its first year of operation. It posted an 88.5% combined ratio.

The syndicate specializes in primary product liability coverage, offering limits of up to $500,000. However, Transco also writes up to $1 million in umbrella liability limits; $500,000 in property limits; $500,000 in ocean marine limits; and $1 million in excess workers compensation limits.

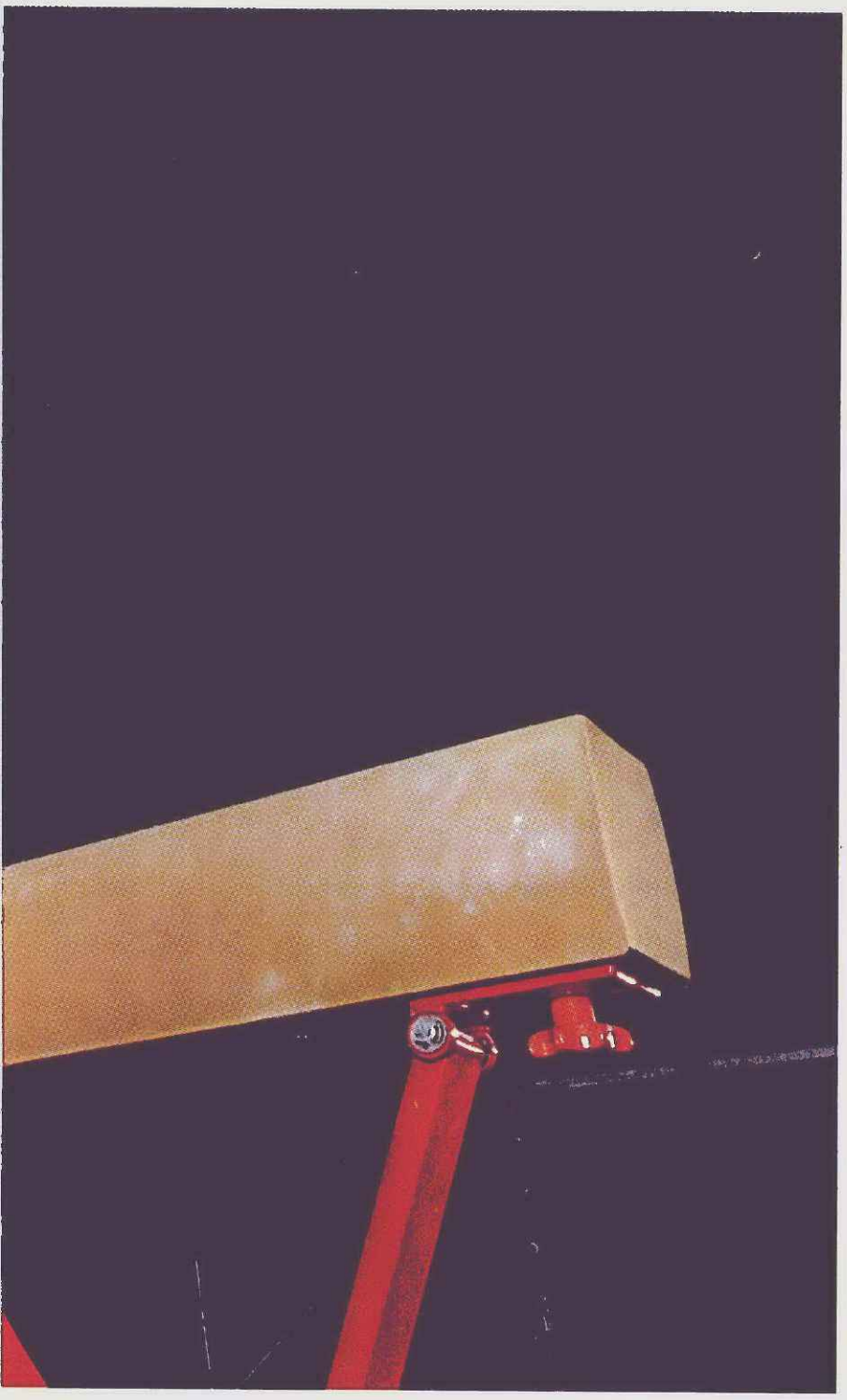
First Mercury Syndicate, approved by the IIE board in August 1985, wrote $13 million in gross premiums through June 30, according to Jerome M. Shaw, president of the syndicate. Mr Shaw also is president of the syndicate's parent, Southfield, Mich.-based underwriting manager CoverX Corp., and First Mercury's management company, Mercury Management Inc.

First Mercury will write between $23 million and $25 million in gross premiums in 1986, its second year of underwriting, Mr. Shaw says.

The syndicate wrote $7 million in premiums last year, all on a net basis, and reported a 93.8% combined ratio.

First Mercury specializes in writing primary and excess general liability coverage for security industry companies—including investigative firms and armored

Continued on next page



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Largest Illinois Insurance Exchange syndicates

(Ranked by 1985 gross premium volume in thousands of dollars)

Syndicate	Gross premiums written		Net premiums written		Policyholder surplus		Net premium to surplus ratio		Combined ratio		Net investment income		Net income (loss)	
	1985	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985	1984
LWB Syndicate Inc.[1]	$30,623	$12,367	$5,253	$8,891	—	$3,378	—	2.60:1	186.3%	118.8%	$1,111	$733	($3,910)	($1,289)
Transco Syndicate #1 Ltd.	9,381	—	5,628	—	$5,198	—	1.10:1	—	88.5	—	9	—	14	—
First Mercury Syndicate	7,040	—	7,040	—	6,321	—	1.10:1	—	93.8	—	(24)	—	(11)	—
LUI Syndicate Inc.	5,148	—	610	—	8,878	—	0.07:1	—	518.5	—	316	—	7	—
Britamco Underwriters Inc.	4,852	—	972	—	3,123	—	0.03:1	—	97.6	—	104	—	1	—
Classic Syndicate Inc.	2,577	—	1,758	—	3,401	—	0.52:1	—	87.1	—	21	—	(288)	—
Travelers Illinois Syndicate Inc.	1,671	1,296	1,623	784	2,700	2,949	0.60:1	0.27:1	156.0	165.5	400	342	(249)	(108)
Titan Holdings Syndicate	1,078	—	638	—	3,506	—	0.24:1	—	98.1	—	43	—	28	—
Comprehensive Ensurers Market Syndicate	735	430	655	345	2,572	2,519	0.25:1	0.14:1	94.0	114.4	83	80	2	30
Sentry Syndicate Illinois Inc.[1]	344	548	(104)	291	2,023	1,962	—	0.14:1	—	257.9	99	151	57	(307)

Source: Illinois Insurance Exchange 1985 annual statement

[1] Deactivated.

Chart: Amy Palmer

IIE syndicates

Continued from previous page

car services—and safety equipment installers.

The syndicate also started writing two additional lines of coverage:

- Product liability coverage for what Mr. Shaw describes as specialty contractors, such as roofers.
- Catastrophe excess liability coverage over owners, landlord and tenants coverage. This coverage is written primarily for building materials contractors with annual receipts of less than $3 million.

The minimum premium for the coverage is $2,500.

The syndicate provides limits up to $1 million for the lines it writes.

LUI Syndicate Inc. wrote approximately $17.5 million in gross premiums through July, according to Richard E. Foss, president and chief executive officer of the syndicate and its management company, LUI Management Inc. of Chicago.

Both companies are owned by London United Investments Inc., a London-based holding company.

LUI will write up to $25 million in gross premiums this year, he says.

Mr. Foss also predicts that LUI Syndicate, a new sister syndicate called CalFed Insurance Syndicate Inc. and several other syndicates that he currently is attempting to form will have as much as $50 million in aggregate capital and surplus within 18 months.

LUI Syndicate, which started writing business in July 1985, was the fourth-largest syndicate on the Illinois exchange last year with $5.1 million in gross premium volume.

Net premiums in LUI Syndicate's first year of operation totaled $610,309.

Because of its policy of establishing as-high-as-possible reserves for incurred-but-not-reported claims, LUI Syndicate's 1985 combined ratio was 518.5%, Mr. Foss explained.

However, the syndicate still realized a net gain of $7,120 for the year.

LUI Syndicate's main book of business is excess property and casualty coverage. The syndicate provides excess casualty coverage on a claims-made form with limits up to $5 million. It also offers $350,000 in limits on some property risks, including facultative excess-of-loss reinsurance for property insurers.

Meanwhile, LUI Management "is getting relatively close" to forming a third syndicate, which would write coverages for small commercial businesses, and is in the early stages of forming a fourth IIE syndicate.

Britamco Underwriters Inc., managed by Weicholz Management Corp. of Coral Springs, Fla., wrote $13.5 million in gross premiums through June 30 this year and anticipates writing approximately $22 million for the entire year, says Executive Vp Myron Burdge.

The syndicate, which began writing business in July 1985, was the fifth-busiest syndicate on the exchange last year, writing $4.9 million in gross premiums and $972,259 on a net basis. It reported a 97.6% combined ratio.

About 65% of Britamco's book of business consists of special multi-peril policies for small retail stores, restaurants and taverns. Britamco offers limits of up to $200,000 on property risks and up to $500,000 combined single limits on liability risks. Its net retention is $200,000.

Britamco also offers liquor liability coverage in 12 states with a combined single limit of $100,000.

The syndicate also "will entertain submissions in the excess and buffer-layer arena," Mr. Burdge said.

Britamco will write limits of $500,000 to $1 million excess of $500,000, although it will drop down to a $300,000 attachment point for some risks, he explained.

The syndicate will retain $200,000 per risk on excess liability policies.

Classic Syndicate Inc. wrote $10.7 million in gross premiums through July this year, and it expects to write between $20 million to $25 million in gross premiums for the year, according to Jeffrey W. Beresford-Wood, chief executive officer of the syndicate's parent company, Concord General Inc. of Concord, Calif.

Mr. Beresford-Wood is also president of Concord General subsidiaries J.W. Beresford-Wood & Co., a reinsurance intermediary, and Classic Insurance Co., a Bermuda-based insurer, which also have a stake in the syndicate.

The syndicate started writing business in October 1985 and wrote $2.6 million in gross premiums through December to make it the sixth-largest on the IIE. Net premiums written in 1985 totaled $1.8 million, and it reported an 87.1% combined ratio.

Classic Syndicate is managed by Classic Underwriting Services Inc., a Concord General subsidiary.

The syndicate provides up to $1 million in limits for a range of primary and buffer-layer casualty coverages.

In addition, it provides up to $1 million in capacity for property risks with insured values of less than $10 million and $500,000 in limits for property risks with an insured value exceeding $10 million.

Travelers Illinois Syndicate Inc., one of only two original IIE syndicates that were active at the beginning of 1986, wrote $1.3 million in gross premiums through June 30, nearly all on a net-line basis, said Donald L. Cole, the syndicate's president.

The syndicate will write between $2.5 million to $3 million in premiums for the year, again nearly all on a net-line basis, he says.

Last year, Travelers Syndicate wrote $1.7 million in gross premiums, up 28.9% from $1.3 million in 1984. Net premiums rose 107% to $1.6 million from $783,957 in 1984, while its combined ratio fell to 156% from 165.5%.

The syndicate, a subsidiary of Travelers Indemnity Co., is managed by Constitution State Management Co., another Travelers Indemnity Co. subsidiary.

The syndicate's book of business in 1985 consisted almost exclusively of assumed reinsurance, but this year its business is split evenly between reinsurance and primary property/casualty coverage, Mr. Cole noted. It usually offers between $50,000 and $100,000 in limits per risk.

Titan Holdings Syndicate, a subsidiary of San Antonio, Texas-based Titan Holdings Inc., wrote $19.5 million in gross premiums through June 30 and $4.9 million on a net basis.

Titan, which was approved by the IIE board in October 1985, wrote $1.1 million in gross premiums last year. Net premium written totaled $637,897 and its combined ratio stood at 98.1%.

Titan writes primary property/casualty coverages with limits up to $1 million for small- to medium-sized public entities, such as cities, counties and school districts.

Several months after the IIE approved Titan, the exchange ordered the syndicate's managers to stop writing business because it "felt they were overwriting," noted James Skelton, IIE's president and chief executive officer.

"We thought there was more premium than the syndicate could stand, especially in light of a less-than-substantial reinsurance program," he said earlier this year.

The action was taken after the syndicate assumed a portfolio of InsBrok business produced by InsBrok Inc., the Texas managing general agent that had formed the syndicate, for Great Global Assurance Co. of Scottsdale, Ariz., which is in rehabilitation (*BI*, Aug. 18).

The IIE lifted the syndicate's suspension in late January after Titan implemented a two-pronged rehabilitation program established by the exchange by:

- Obtaining additional reinsurance and letters of credit from reinsurers.

Continued on next page

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Continued from previous page

● Providing documentation of the risks transferred to Titan from Global.

Comprehensive Ensurers Market Syndicate, another original IIE syndicate, wrote $1.5 million in gross premium volume through July this year, according to Lawrence T.P. Molloy, vp and underwriter.

Mr. Molloy predicts that the syndicate will write between $5 million and $6 million in gross premiums this year, pointing out that most of the syndicate's business is written in the latter part of the year.

CEM, which is backed by 10 private investors, wrote $734,982 in gross premiums in 1985, up 70.9% from $430,052 in 1984. Net premiums written rose 89.9% to $655,367 from $345,052 in 1984, while CEM's combined ratio improved to 94% from 114.4%.

CEM writes strictly casualty coverage with limits up to $1 million.

Resure Syndicate Inc. wrote $4.2 million in gross premiums during the first six months of this year, all on a net basis, according to Wolfgang Daniel, president of Los Angeles-based Talon Re Inc., which manages the syndicate. Mr. Daniel estimated that the syndicate will write $6.5 million in gross premiums for the year.

Resure, which began writing at the tail end of 1985, wrote a single reinsurance policy last year that generated $140,000 in premiums, all on a net basis, according to Mr. Daniel.

It reported a combined ratio of 116.6% on the business.

Talon Re and Hexco Inc., a Los Angeles-based property management subsidiary of Ramak Corp., capitalized Resure, which reported $3 million of surplus at year-end 1985.

Resure offers capacity of up to $150,000 per primary property/casualty risk, but the syndicate on average offers $75,000 limits, according to Mr. Daniel.

"We write everything net," Mr. Daniel explained.

In addition, Mr. Daniel said Talon Re is planning to form another syndicate that will write reinsurance. That syndicate could be capitalized at $10 million, he said.

Four IIE syndicates were inactive in 1985, but one of those, RCA Syndicate #1 Ltd., is planning to resume writing his month.

"We were anxious to reactivate," said William MacMillan, underwriting manager for the RCA Syndicate, which is owned by Chicago-based Reinsurance Co. of America.

"It's a ripe time for the Illinois exchange," he added.

RCA, which reported $2.6 million in surplus at year-end 1985, will write primarily excess-of-loss treaty reinsurance and some facultative property reinsurance, according to Mr. MacMillan.

The other three inactive syndicates in 1985 were:

● Sentry Syndicate/Illinois Inc., owned by Sentry Insurance Group of Stevens Point, Wis.

The syndicate, which stopped writing at year-end 1984, reported gross premiums of $344,232 in 1985 and negative net premiums of $104,457.

● Midwest General Syndicate, which has been sold by Philadelphia-based Reliance Group Holdings Inc. to members of the Steinberg family, who also own Reliance, according to a Reliance official.

The syndicate stopped writing at year-end 1983.

● Northbrook Underwriters Syndicate Inc., owned by Northbrook Excess & Surplus Insurance Co., a unit of the South Barrington, Ill.-based Allstate Insurance Group.

The syndicate stopped writing in 1983, while parent NESCO stopped writing in 1984.

The IIE has approved five new syndicates this year, four of which have begun writing business.

CalFed Insurance Syndicate, approved by the IIE board in March and capitalized at $5 million, wrote $4.5 million in gross premiums through July and is on pace to write $15 million in gross premiums by year-end, according to Mr. Foss of LUI Management, which manages CalFed.

The syndicate was capitalized by CalFed Inc., a Los Angeles-based holding company.

George P. Rutland, vice chairman and chief executive officer of CalFed Inc., is the president of the syndicate.

CalFed Syndicate participates equally on all risks with LUI Syndicate.

Alliance Syndicate Inc., which

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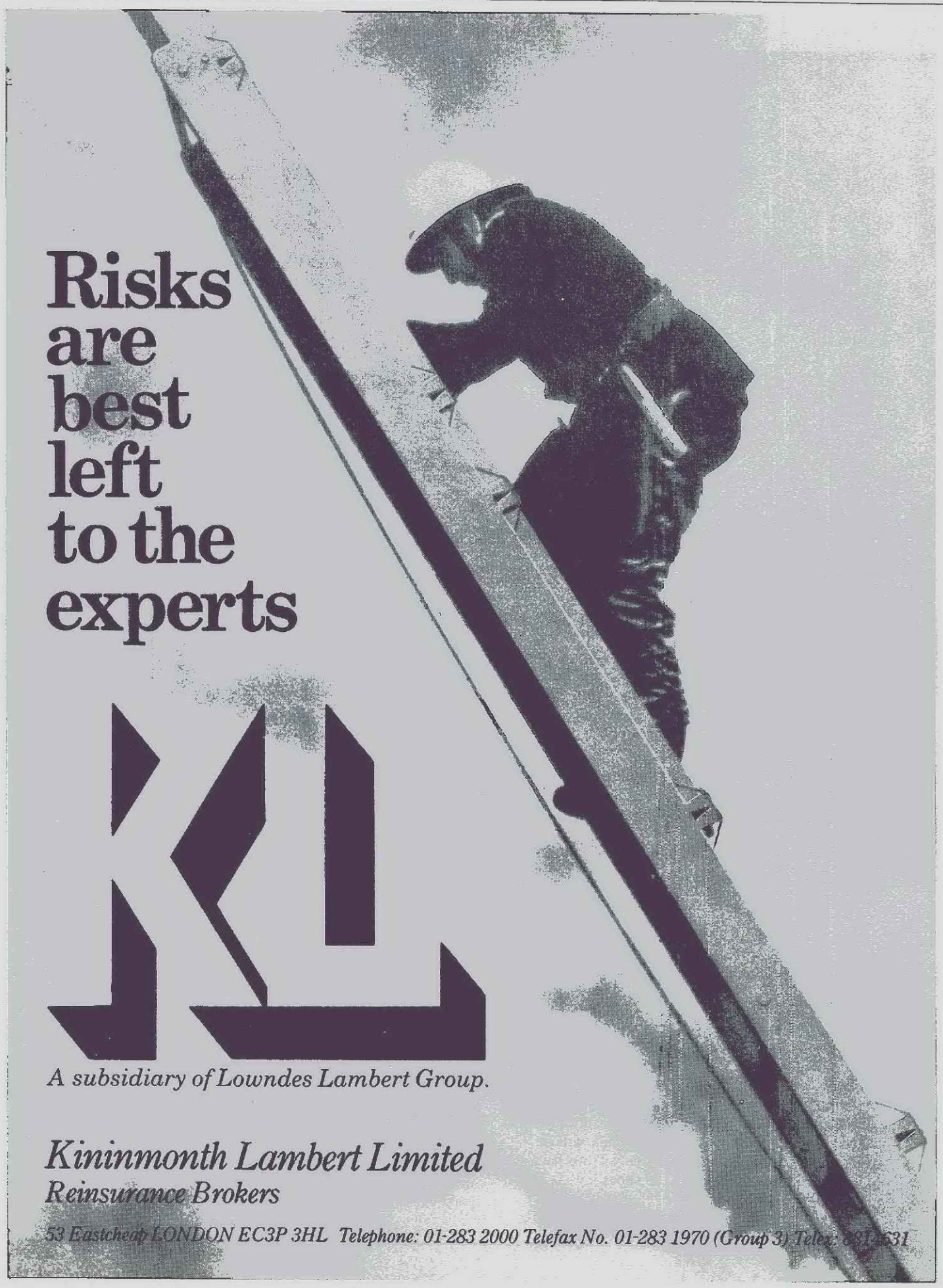
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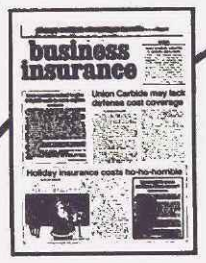
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IIE syndicates

Continued from previous page

was capitalized at $2.5 million by investors Donald V. McCann and Ralph Applegate Jr., began writing business on May 1.

The syndicate wrote $5.2 million in gross premiums through July and probably will write between $7 million and $9 million in gross premiums for the year, according to Donald Hopfensperger, president of the syndicate.

While the syndicate offers primary and excess casualty coverages and a variety of property coverages, product liability coverage for businesses such as machinery manufacturers comprises between 90% to 95% of its book of business, Mr. Hopfensperger noted.

Alliance writes up to $500,000 of combined single limits on casualty risks and up to $1 million in limits on property risks.

Second Mercury Syndicate Inc., capitalized at $7.6 million, began writing business in July and wrote approximately $1 million in gross premiums for the month, according to First Mercury's Mr. Shaw, who is also president of the new syndicate.

Second Mercury, which writes the same types of primary and excess liability coverage as First Mercury, will write between $12 million and $14 million in gross premiums for the year, Mr. Shaw says.

Mr. Shaw says he also hopes to form a third IIE syndicate by the first quarter of next year.

First Oak Brook Corp. Syndicate was approved by the IIE board in May and started to write business in mid-August.

The syndicate expects to write $15 million in gross premium on an annualized basis, according to Joseph P. Nicosia, president of the syndicate and one of its three investors.

The syndicate, a subsidiary of United Financial Holdings Inc., which is owned by Oak Brook, Ill.-based United Financial Group of Illinois, writes primary and excess property, casualty and special multiperil policies.

It offers limits of $700,000 for property risks and $300,000 for casualty risks.

It currently writes a net line of $100,000, equal to the exchange limit of 5% of its $2.5 million of capital.

However, "We are very much considering adding additional capital to the syndicate of up to $5 million by year-end," Mr. Nicosia said.

United Commercial Affiliated Inc., a UFGI subsidiary, is the underwriting manager for the syndicate.

The IIE approved Midwest Syndicate Ltd. in April, but it probably will not begin writing business until next month, according to Sue Robinette, president of the syndicate.

Ms. Robinette would identify the investors in the syndicate only as two individuals and a company.

Ms. Robinette also is president of Midwest Horizon Insurance Agency Inc. of Minneapolis, Minn., the agency that will produce the syndicate's business, and M.H. Management Inc., which will manage the syndicate.

Midwest Syndicate, which is capitalized at $3 million, was formed to write property/casualty coverage for restaurant and hospitality business clients that has been developed by the retail agency over several years, Ms. Robinette said.

The syndicate will provide $1 million in limits for property coverage and $500,000 limits for liability risks.

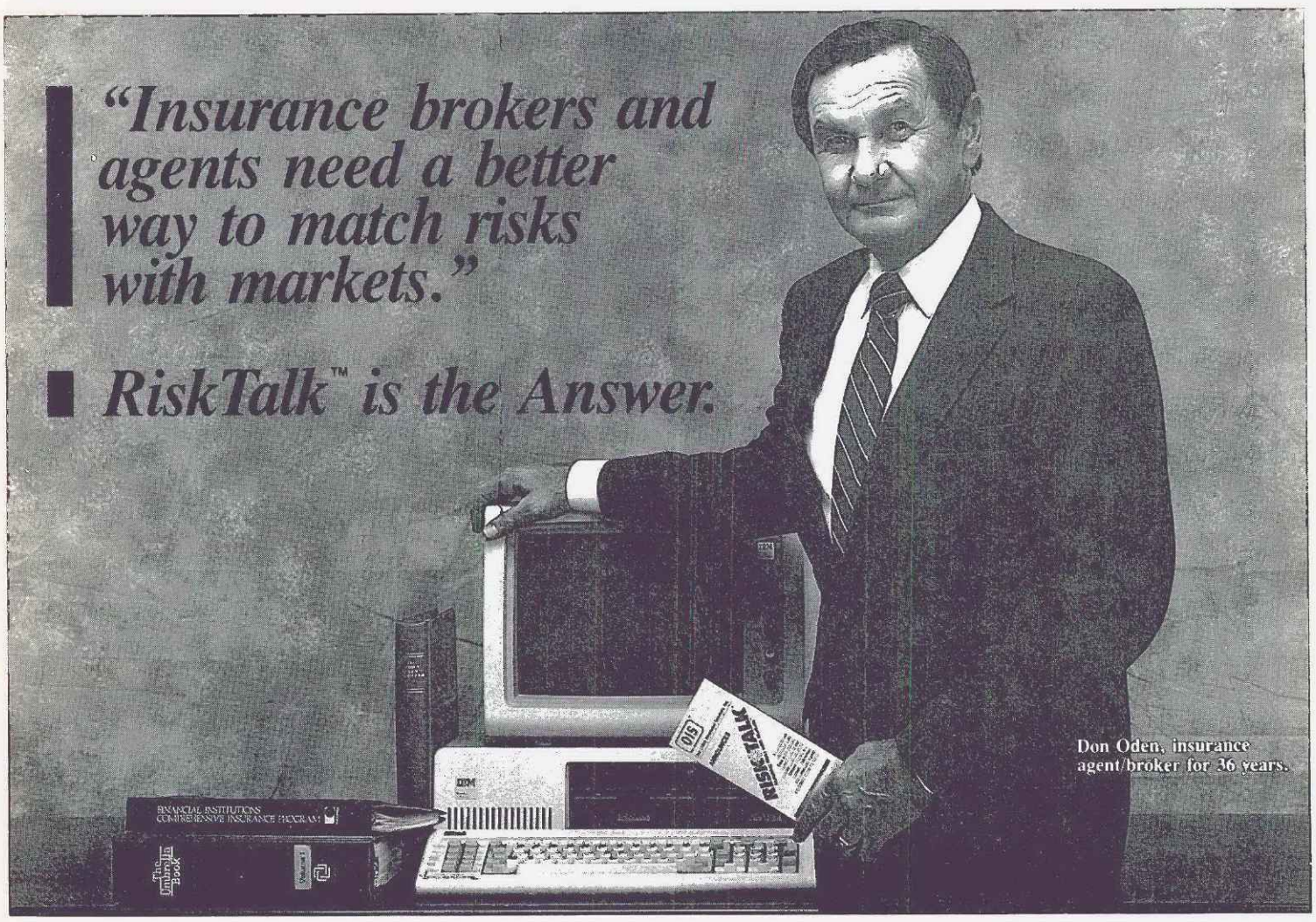
The syndicate also is considering writing coverage to shopping center businesses and hotels, she said.

The syndicate will write between $16 million and $20 million in gross premiums during its first full year of operation, Ms. Robinette said.

Meanwhile, Gary Copp, a broker involved in the formation of Midwest Syndicate, said that he expected to apply to the IIE board by Sept. 1 for approval of two additional syndicates, each of which would be capitalized at $2.5 million.

Mr. Copp is president of St. Paul, Minn.-based Phoenix Risk Services, a retail broker.

Inspro Insurance Syndicate Inc., which the IIE approved early last year subject to obtaining reinsurance and meeting the exchange's $2.5 million capitalization requirement, still is attempting to line up investors, according to Roger Broders, executive vp of Inspro Insurance Services Inc., the Walnut Creek, Calif.-based underwriting manager that is organizing the syndicate. ■



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Lloyd's of London

Market 'more important' than ever to U.S.: Miller

By STACY SHAPIRO

LONDON—The relative quiet inside Lloyd's of London's new $250 million building shouldn't fool anyone.

While few U.S. risks are currently being placed at Lloyd's, underwriters say they expect a deluge of North American business when Lloyd's syndicates begin writing 1987 renewal business on Oct. 1.

For the past year, U.S. insurance buyers have looked to Lloyd's to find capacity that they could not find in the U.S. property/casualty insurance market. Although Lloyd's itself has been capacity-pinched throughout 1986, many U.S. buyers found there at least some of the coverage they were so desperately seeking.

And, observers expect Lloyd's role as a source of capacity for coverage of U.S. risks to continue to grow.

"Lloyd's of London is more important (to U.S. corporations) than it has been in the past," says Lloyd's Chairman Peter Miller. "During this so-called crisis of capacity, while American insurers have cut back, we have doubled our capacity in three years."

"In the foreseeable future, I expect that the United States will remain our most important market," Mr. Miller says.

"Lloyd's is the leader of the free world's insurance industry," said Robin A.G. Jackson, director of Merrett Holdings P.L.C. "A syndicate of a couple of hundred million pounds can have more influence than a $2 billion American insurance company because the underwriter controls the running of the business. We have more influence than our market share would indicate."

"Lloyd's is very important to North American clients," concurred Brian Hibbert, chairman of the non-marine division of Lloyd's broker C.T. Bowring & Co. Ltd. "Not only does it provide new thinking to old classes of business, but it also backs it up with reinsurance for U.S. insurance companies."

About 40% of Lloyd's annual premium volume is generated by insurance and reinsurance written for North American risks, according to Mr. Miller.

With its aggregate 1986 stamp capacity of 8.6 billion pounds ($12.5 billion at Jan. 1 exchange rates), Lloyd's will write about $5 billion in premiums for North American policyholders, based on Mr. Miller's estimate.

Based on an expected increase in membership, Lloyd's officials say the market's 1987 stamp capacity could reach as much as 10 billion pounds ($15 billion at current exchange rates).

Lloyd's capacity is determined by the amount of capital supplied by its members, who have unlimited liability for each policy underwritten by Lloyd's syndicates. This year, there are 28,597 Lloyd's members, of which 2,395 are American citizens.

Each member must show that he or she is worth 100,000 pounds before joining Lloyd's. Each member can write up to 1 million pounds ($1.5 million) in premiums, depending upon the capital committed.

The added capacity at Lloyd's will be available for U.S. risks in October when Lloyd's starts writing 1987 renewals.

However, Lloyd's non-marine underwriters, who insure and reinsure property/casualty risks, say they need a 30% to 40% increase in capacity for 1987 to accommodate U.S. demand, instead of the 10% to 14% growth in the non-marine market that Lloyd's predicts for next year.

On the other hand, Lloyd's marine underwriters, glutted with capacity because of the downturn in world oil and shipping business, do not want any increase in capacity.

Lloyd's members probably will not commit more capacity to the non-marine market unless they can also write more marine premiums, so Lloyd's non-marine growth may be stunted.

Mr. Miller says there is nothing the Council of Lloyd's, the market's ruling body, can do to ease Lloyd's capacity woes. "It is not my business to solve so-called capacity crises," he said. "As the chief executive of one of the most respected American companies said, 'Shortage of capacity? What shortage of capacity? Long live the shortage of capacity.'

"You ask me what I am doing to ease the capacity crisis. That is tantamount to saying, 'Will you please interfere in the law of supply and demand?' My answer is certainly not," Mr. Miller said.

"We shall not—repeat, not—allow our underwriters to write more business by relaxing our standards. We will not do that. We will not relax our solvency margins. We will not relax our ratios. It is up to our underwriters to make profits out of their business to attract capital."

There are currently 370 syndicates at Lloyd's, down from 384 syndicates in 1985, due to amalgamations and the prohibition on so-called baby syndicates, which had been used by some underwriters to funnel

Continued on next page



Escalators connect the different levels of the underwriting room in the new Lloyd's building.

Brokers keep U.S. buyers up-to-date

By STACY SHAPIRO

LONDON—It's not unusual to find several Lloyd's of London brokers heading for the United States on the same flight.

"North American clients really do have to know what is going on over here and they are much more clued-in now," explained Brian Hibbert, chairman of the non-marine division of C.T. Bowring & Co. Ltd., the British affiliate of Marsh & McLennan Cos. Inc.

"Communications between us in London and the U.S. wasn't that good before," he said. "Now, we travel more to visit existing clients and make them happy."

"I go to the States now because London is more important to U.S. clients," said Ian Donaldson, director of the North American casualty division at Alexander Howden Ltd., a unit of Alexander & Alexander Services Inc.

Mr. Donaldson says he travels to the United States at least four times a year. "Everyone in the U.S. wants to know what is going on in London," he explained.

John Wooderson, managing director of the international division of Lloyd's broker Willis Faber P.L.C., also thinks it is important to keep U.S. risk managers and brokers in touch with what's happening in London.

"Instead of just writing risks in London or just writing risks in the U.S., brokers now write risks with participation in both the London and U.S. markets," Mr. Wooderson said. "London is more important because of capacity—there isn't much around. We think that risk managers and corporate finance managers also coming over here helps."

While U.S. business has been increasingly placed at Lloyd's during the past year because of reduced capacity in the U.S. market, brokers note that U.S. business at Lloyd's began increasing in the late 1970s when U.S. brokers started to acquire Lloyd's brokers.

And, the formal links between U.S. and London brokers have prompted changes in the way the major Lloyd's brokerages are managed and operated, London market observers say.

"There has been more change in the London market in the last five years than in the 20 years before that," said Martin Howell, managing director of the casualty division of Lloyd's broker Price Forbes Ltd., a subsidiary of Sedgwick Group P.L.C.

"I can't think of anything that has had such a big effect on Lloyd's as the input of American management and style," said Terry Mann, managing director of Price Forbes' property division. "As a result of the North American influence, too, syndicates at Lloyd's have grown at a phenomenal rate in size."

Sedgwick, the world's third-largest broker, is the largest brokerage group at Lloyd's based on 1985 gross revenues.

Sedgwick also was one of the last large Lloyd's brokers to make a formal link with a U.S. company. Rather than be acquired by a U.S. broker, Sedgwick last year acquired Fred S. James & Co. Inc., the fifth-largest U.S. broker, from Transamerica Corp.

Including James' operations, Sedgwick is now more than three times the size of any other Lloyd's broker,

Continued on page 60

Lloyd's

Continued from previous page
the best risks to preferred groups of Lloyd's members.

There are now 257 Lloyd's brokers, down one from last year.

The Lloyd's non-marine market is the largest of the four insurance markets at Lloyd's. The non-marine market, made up of 158 syndicates, provides 2% of the world's non-marine insurance capacity and is mainly used by U.S. buyers, according to Lloyd's.

The marine market is Lloyd's second-largest market and its oldest, dating back to the 1680s, when marine underwriters started to gather at Edward Lloyd's coffee house.

Today, the marine market has 131 syndicates and provides about 40% of the world's marine insurance capacity.

Lloyd's marine market also provides capacity for non-marine risks through incidental non-marine syndicates, which brokers increasingly are tapping to complete liability insurance programs.

The Lloyd's aviation market, with 40 syndicates, accounts for 20% of the world's aviation capacity. The motor market, with 41 syndicates, primarily writes British automobile risks.

The relative quiet at Lloyd's over the past several months contrasts with the scene a year ago. U.S. corporations began pounding on Lloyd's door last year after they found a severe lack of capacity for casualty risks in the U.S. market (*BI*, Jan. 6; July 14).

Lloyd's underwriters first renewed existing policies—at higher rates. Then, with whatever capacity remained, the underwriters started writing new U.S. liability accounts.

As a result of the increased demand, much of Lloyd's capacity for U.S. property/casualty coverage was exhausted early in the year, and many underwriters who would normally write U.S. business through the autumn have stopped writing new business because they have nearly reached their premium limits.

For example, Mr. Jackson's non-marine syndicate 799, the largest market for U.S. casualty risks at Lloyd's, has stopped writing most new business until 1987 renewals.

"Lloyd's underwriters do have dramatic premium income problems," observed Martin Howell, managing director of the casualty division of Lloyd's brokers Price Forbes Ltd.

"Look at the casualty premium hikes they have had in the last three years, up 200% to 500%. Then look at the increase in their premium capacity, which is only up 40% in dollar terms. Then bear in mind that they are servicing their existing volume of business first at higher prices. They just can't devote more premium income into new business," Mr. Howell said.

"The problem is that Lloyd's can't absorb the premium income," added Dennis Mahoney, chairman of broker Alexander Howden Ltd., a unit of Alexander & Alexander Services Inc.

"There aren't as many North American clients over here now as there were last year," admitted John Fenn, deputy underwriter for non-marine syndicate 799, managed by Merrett Underwriting Agency Management Ltd. "There isn't as big a rude awakening this year as last year.

"Also, their expectations are more realistic now than last year. Last year when the client wanted $200 million limits for X and he was told that he could only get $25 million, he was shocked. But he's not shocked now."

"It's just as busy, but not as hectic," Mr. Hibbert added. "Last year, everyone was dashing around haphazardly looking for coverage. This year, though, we know more and we can predict what will happen."

Brokers say Lloyd's role as an underwriter of U.S. excess liability risks may have been diminished in the past year with the introduction of Lloyd's claims-made excess liability insurance policy form.

Lloyd's claims-made form is more restrictive than another London market claims-made excess liability form used by H.S. Weavers (Underwriting Agencies) Ltd.

"Most people who buy excess liability coverage from Lloyd's are either desperate or have not studied what they are getting," said one Lloyd's broker.

Nearly all of the U.S. excess liability business placed by Price Forbes is written on the Weavers form, according to Mr. Howell.

But, Merrett's Mr. Fenn, who leads most of the coverage written on the Lloyd's claims-made form, says he still sees lots of submissions. And, he notes, he will provide a following market for certain risks written on the Weavers form.

"Brokers are able to get more participation today on excess liability risks than they were able to at the beginning of the year," Mr. Fenn observed. "They can finish the limits, though they are not as big as the limits they want."

Also, rate increases for renewal coverage now are smaller than last year, Mr. Fenn said.

Lloyd's property insurance underwriters also say they may not see as much U.S. business next year because of renewed competition from the U.S. market.

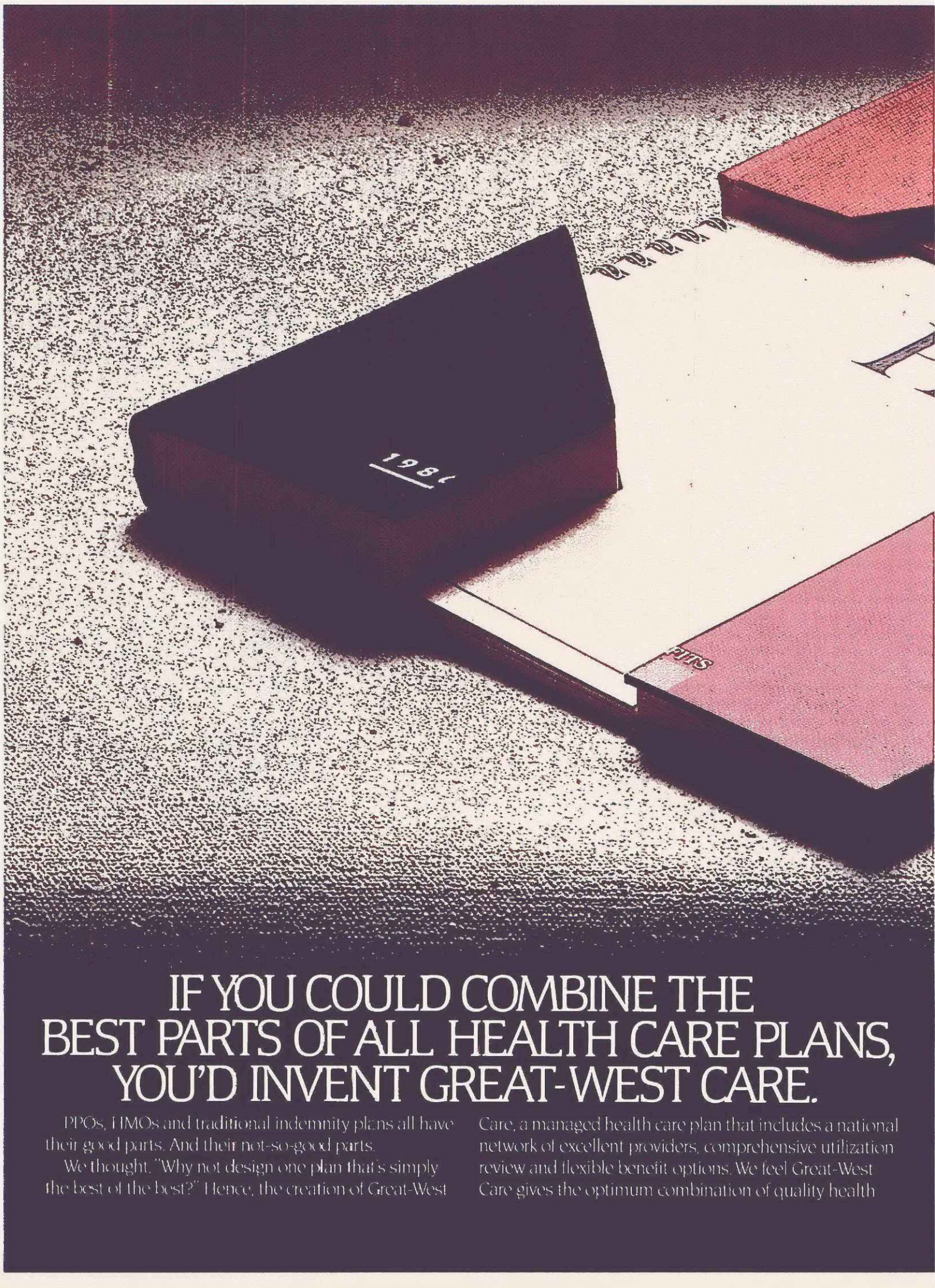
Property insurance rates quoted by Lloyd's underwriters are sometimes undercut as much as 40% by U.S. insurers, said John Wooderson, managing director for U.S. non-marine division of Lloyd's brokers Willis Faber P.L.C.

"There was intense activity in London for property coverage under any terms this time last year," said Terry Mann, managing director of the U.S. property division at Price Forbes. "Queues were so long it took days rather than hours to see underwriters."

Now, however, "Lloyd's is not as busy because your domestic market has awakened. The inquiries into London have diminished. This week, we haven't seen many inquiries—maybe seven or eight," Mr. Mann said.

Despite signs that rate competition for property insurance may be beginning anew, Lloyd's still remembers the profit drain that accompanied the soft market of the early 1980s. In fact, because of its unique three-year accounting sys-

Continued on next page



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tem, the results from those lean times are still not completely known.

In its 1983 global results, to be released later this week, Lloyd's is expected to announce a profit of between 103 million pounds and 170 million pounds ($154.5 million to $255 million), compared with 1982 profits of 57 million pounds. But, profits may still be less than 151.9 million pounds recorded in 1981 and 263.8 million pounds in 1980.

Under Lloyd's three-year accounting system, the market does not release its financial results until three years after the end of an accounting year to allow time for claims to be reported.

Losses from Hurricane Alicia and U.S. winter storms, as well as increased reserves for past U.S. liability losses, are being blamed for reducing Lloyd's profits in 1983.

Lloyd's 1983 results may be further reduced by up to 235 million pounds ($352.5 million) in losses relating to syndicates managed by PCW Underwriting Agencies Ltd. The losses of these syndicates are not included in the estimates of Lloyd's 1983 profits.

Lloyd's has earmarked a record 238 million pounds ($357 million) from its Central Fund to pay the PCW losses and other potential claims.

Lloyd's is expected to publish two sets of accounts: one including the PCW losses and one excluding them.

PCW members have refused to pay the losses, claiming that PCW underwriters acted fraudulently and that the Council of Lloyd's and various Lloyd's agencies and brokers acted negligently. Lloyd's currently is negotiating a settlement with the PCW members and 37 other parties to pay these claims.

Mr. Miller says the earmarking of money from the Central Fund is only a temporary measure to allow the PCW syndicates' 2,200 names, including himself, to pass Lloyd's solvency test until the matter can be resolved.

After investigating the PCW scandal, Lloyd's expelled former PCW Chairman Peter Dixon and condemned another PCW chairman, Peter Cameron-Webb. Lloyd's could not discipline Mr. Cameron-Webb because he resigned from Lloyd's.

"I remain of the firm hope that our director of public prosecutions" will file criminal charges against Mr. Dixon and Mr. Cameron-Webb, Mr. Miller said. "I look for them to do something."

Mr. Miller believes that tough regulations enacted at Lloyd's during the past three years will prevent a scandal like the PCW affair from again occurring at Lloyds. ■

Lloyd's awaits another report on regulation

By STACY SHAPIRO

LONDON—The self-regulatory system at Lloyd's of London is under scrutiny, from both outside and within the marketplace.

Lloyd's Chairman Peter Miller and Chief Executive Alan Lord over the past few months have provided information to a British government committee investigating Lloyd's self-regulatory system.

The committee, headed by Sir Patrick Neill, wants to know if Lloyd's self-regulation under the Lloyd's Act of 1982 provides the same protection to Lloyd's members that the proposed financial services bill will give to other British investors.

However,"Lloyd's primary concern is not with the names but with the policyholder," Mr. Lord points out.

Nonetheless, Mr. Lord says he looks forward to the Neill committee's report, which is due to be issued next month.

"I hope they will say that self-regulation at Lloyd's is the right way to proceed," he said. "I guess that even if they do that, they will have recommendations of extra things we have to do.

"We almost invited them to do that because in our evidence we indicated what our future work program was," Mr. Lord added.

In addition, Lloyd's underwriting agencies are trying to update the systems they use to pay claims and allocate premiums.

"I am trying to analyze the trigger points of this business," said Peter Rawlins, managing director of Sturge Holdings P.L.C., Lloyd's largest underwriting agency. Mr. Rawlins is one of the Lloyd's members working on the systems review.

"The transaction of business in Lloyd's should be efficient and unexciting. There should be sophisticated support systems," Mr. Rawlins said.

"We also want to look class-by-class to see if we are making the best use of the information available in Lloyd's," Mr. Rawlins added.

In another regulatory matter, the divestment of all Lloyd's underwriting agencies from Lloyd's brokers, as mandated in the Lloyd's Act of 1982, is nearly complete.

All major underwriting agencies have been sold by broker parents and re-registered except Janson Green Ltd., a subsidiary of Hogg Robinson Group P.L.C., said a Lloyd's spokesman.

Janson Green is in the process of being sold.

The 10 largest underwriting agencies in terms of stamp capacity at Lloyd's this year are:

- Sturge.
- Merrett Underwriting Agency Management Ltd. (formerly Merrett Syndicates Ltd.).
- Wellington Underwriting Agencies Ltd. (formerly syndicates managed by Willis, Faber & Dumas (Agencies) Ltd.).
- Murray Lawrence & Partners.
- A.J. Archer & Partners.
- Janson Green.
- Methuen (Lloyd's Underwriting Agents) Ltd. (formerly Sedgwick Forbes (Lloyd's Underwriting Agents) Ltd.).
- F.L.P. Secretan & Co.
- Gardner, Mountain & Capel-Cure Agencies Ltd..
- Bankside Syndicates Ltd. (formerly Stenhouse Reed Shaw (Underwriting Agencies) Ltd.).

While Lloyd's could rank the syndicates by stamp capacity, it said it could not provide the syndicates' capacities. ■



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10 largest Lloyd's brokerage groups
(Based on 1985 revenues in millions of dollars)

Name	Gross revenues[1]	Employees	U.S. affiliate
Sedgwick Group P.L.C.	$843.2	12,375	Fred S. James & Co. Inc.[2]
Willis Faber P.L.C.	255.6	3,548	Johnson & Higgins[3]
C.T. Bowring & Co. Ltd.	198.8	3,784	Marsh & McLennan Cos. Inc.[4]
Hogg Robinson Group P.L.C.	185.0[5]	4,833	Republic Hogg Robinson Inc.[2]
Jardine Insurance Brokers	169.5	1,357	Jardine Emett & Chandler Inc.[2]
Minet Holdings P.L.C.	149.2	2,821	Corroon & Black Corp./St. Paul Cos. Inc.[6]
Stewart Wrightson Holdings P.L.C.	127.6	2,631	Stewart Smith Holdings Inc.[2]
C.E. Heath P.L.C.	123.0[5]	1,866	None
Alexander Howden Group Ltd.[7]	120.4[8]	3,300[8]	Alexander & Alexander Services Inc.[4]
Bain Dawes P.L.C.	62.5	1,635	None

[1] British pound = $1.45 (Dec. 31, 1985); $1.48 (March 31, 1986)
[2] U.S. subsidiary.
[3] No ownership interest
[4] Parent company.
[5] Fiscal year ending March 31, 1986.
[6] U.S. shareholders.
[7] Includes revenues from Alexander Stenhouse (U.K.) Ltd
[8] *BI* estimate.

Source: *Business Insurance* survey

Chart Amy Palmer

Lloyd's brokers

Continued from page 57

with 1985 revenues of 531.5 million pounds ($843.2 million at year-end 1985 exchange rates), up 27.5% from 456 million pounds in 1984 ($529 million at year-end 1984 exchange rates).

Sedgwick also owns the largest individual Lloyd's broker, S.G. Services Ltd., based on 1984 revenues, according to Financial Intelligence & Research, a British market analyst.

Sedgwick's Price Forbes unit caters to U.S. corporate risk managers looking for capacity at Lloyd's (see story, page 62). Sedgwick's reinsurance brokerage business is transacted through subsidiary E.W. Payne Cos. Inc., which now includes former James subsidiary John F. Sullivan Co. Sullivan was ranked last year by *Business Insurance* as the second-largest U.S. reinsurance broker.

Willis Faber P.L.C., the second-largest Lloyd's brokerage group, reported 1985 revenues of 176.3 million pounds ($255.6 million), up 15% from 153.3 million pounds ($177.8 million) in 1984.

Willis Faber owns Willis Faber & Dumas Ltd., the second-largest individual Lloyd's broker, according to Financial Intelligence & Research.

Willis Faber is known for expertise in marine, reinsurance and aviation brokerage and currently is strengthening its U.S. property/casualty brokerage division. About 23% or 24% of Willis Faber's revenues is generated by U.S. business, said Mr. Wooderson.

Willis Faber has maintained an informal relationship with privately owned Johnson & Higgins, the third-largest U.S. broker, for 88 years. However, only about 13% to 14% of Willis Faber's U.S. business is generated by J&H, said Mr. Wooderson. But, he says, J&H has indicated that it will place more property business in the London market through Willis Faber.

"I want—and there is now—a total commitment by J&H to use London," Mr. Wooderson noted.

Lloyd's third-largest brokerage group is C.T. Bowring, Marsh & McLennan's British subsidiary.

Bowring's 1985 revenues increased 19.2% to 137.1 million ($198.8 million) from 115 million pounds ($133.4 million) in 1984.

Bowring wrote more U.S. business in the London market than any other broker, observers say. An estimated 40% to 50% of Bowring's revenues are generated by U.S. business.

"North American business is easily Bowring's biggest area of business," Mr. Hibbert said.

Bowring's reinsurance division, C.T. Bowring Reinsurance Ltd., also generates the most U.S. business of any single broker in London through its ties with M&M subsidiary Guy Carpenter & Co. Inc., market observers say. Bowring Reinsurance, based on 1984 revenues, was the fourth-largest individual Lloyd's broker in 1984, according to Financial Intelligence & Research.

Hogg Robinson Group P.L.C., Lloyd's fourth-largest brokerage group, is increasing its ties with the United States.

Hogg Robinson acquired sole ownership of Republic Hogg Robinson Inc., the 12th-largest U.S. broker, in June 1985 by purchasing the remaining 50% of RHR from LTV Corp. (*BI*, July 15, 1985).

So far this year, Hogg Robinson has acquired five other U.S. brokerages and merged them with RHR (*BI*, June 23). Future U.S. acquisitions are planned, said Christopher Price, chief executive of Hogg Robinson's brokerage division.

Hogg Robinson's revenues in fiscal 1985-86 increased 32.6% to 125 million pounds ($185 million at the March 31 exchange rate) from 91.8 million pounds ($113.8 million) in the previous fiscal year.

About 51% of Hogg Robinson's revenues are generated by insurance brokerage.

Hogg Robinson is the last of the large Lloyd's brokers to retain its Lloyd's underwriting agency. However, the company says it is now in the process of selling Janson Green Ltd. to comply with the divestment provision of the Lloyd's Act of 1982.

Besides its brokerage and underwriting operations, Hogg Robinson also has travel agency and real estate agency subsidiaries.

Hogg Robinson is known at Lloyd's for its expertise in political and credit risk brokerage. In addition, Hogg Robinson subsidiary Hogg Robinson & Gardner Mountain Ltd. is the fifth-largest individual Lloyd's broker based on 1984 revenues, according to Financial Intelligence & Research.

Jardine Insurance Brokers Group, Lloyd's fifth-largest brokerage group, jumped two places this year following the purchase of Emett & Chandler Cos Inc., the 13th-largest U.S. broker, by Jardine's U.S. subsidiary.

Including Emett & Chandler, JIB's worldwide revenues total 116.9 million pounds ($169.5 million).

JIB's U.S. operations—now called Jardine Emett & Chandler Inc.—contribute about 38% of JIB's revenues.

JIB's retail brokerage operations performed well in 1985, while the broker's British wholesale operation had a mixed year, says Harold R. Talbot, president and chief executive officer of JIB's U.S. operations. Revenues at JIB's marine wholesale division remained static last year, though JIB's wholesale aviation, North American and oil and energy divisions showed improved results, he said.

The sixth-largest Lloyd's brokerage group, Minet Holdings P.L.C., is the only Lloyd's broker with two American corporate shareholders. About 26% of the Lloyd's broker is owned by The St. Paul Cos. Inc., while another 25% is held by broker Corroon & Black Corp.

Minet's gross revenues rose 11.2% in 1985 to 102.9 million pounds ($149.2 million) in 1985 from 92.5 million pounds ($107.3 million) in 1984.

Minet subsidiary J.H. Minet & Co. Ltd. is the seventh-largest individual Lloyd's broker based on 1984 revenues, according to Financial Intelligence & Research.

Minet Chairman Ray Pettitt has credited Minet's "skill and charm" for its success, singling out the company's expertise brokering energy risks and international reinsurance.

In addition, Minet is well known for placing professional liability insurance through its Minet International Professional Indemnity unit, which operates from offices in London and Montreal.

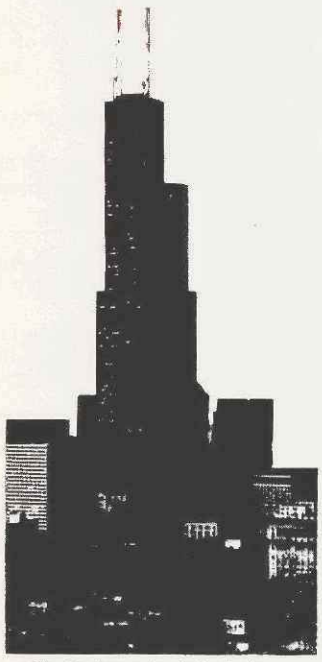
Minet last year bought two U.S. brokers with professional liability brokerage expertise—Neslon Charlmers Inc. of Teaneck, N.J. and Osborne Post & Kurtz Inc. in Far Haven, N.J.—for a total of $8.4 million.

Minet currently is trying to negotiate a settlement with Lloyd's

Continued on next page

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Continued from previous page
members of syndicates formerly managed by PCW Underwriting Agencies Ltd., a former Minet subsidiary, which owe up to 235 million pounds ($352.5 million) in losses. The members are refusing to pay the losses and have threatened legal action against Lloyd's, Minet and 40 other potential defendants.

Stewart Wrightson Holdings P.L.C. is now the seventh-largest Lloyd's brokerage group, propelled by a 12.8% increase in revenues to 88 million pounds ($127.6 million) in 1985 from 78 million pounds ($90.5 million) in 1984.

In addition, subsidiary Stewart Wrightson U.K. Group Ltd. is the 10th-largest individual Lloyd's broker based on 1984 revenues, according to Financial Intelligence & Research.

At the end of August, Stewart Wrightson announced it is forming a new company in London to specialize in placing business produced by North American retail brokers.

The new company, which has not yet been named, will be headed by three men who just left Lloyd's broker C.E. Heath P.L.C., confirmed Tony Keys, Stewart Wrightson's group development director: Nigel Chamberlain, formerly chairman and managing director of C.E. Heath (International) Ltd., and Heath Directors Graham Addiscott and Anthony Fell.

All three are known in the market for handling a substantial amount of large U.S. property/casualty accounts.

Stewart Wrightson also owns Stewart Smith Holdings Inc., the third-largest U.S. surplus lines broker.

Heath, Lloyd's eighth-largest broker, dropped two places from sixth place last year based on a 1% decline in revenues to 83.1 million pounds ($123 million) in the fiscal year ending March 31 from 83.9 million pounds ($104 million) during fiscal 1984-85.

The group owns C.E. Heath & Co. (Insurance Broking) Inc., the sixth-largest individual Lloyd's broker in 1984, according to Financial Intelligence & Research.

Heath Chairman Derek Newton has blamed the broker's Australian underwriting operations and currency exchange for Heath's sluggish performance in fiscal 1985-86.

While Heath has no U.S. brokerage affiliate, it recently announced it would acquire Boston-based Falcon Insurance Co. from Commercial Union Assurance P.L.C. It also has announced the acquisition of two Australian underwriters.

The ninth-largest Lloyd's brokerage group is a combination of two Alexander & Alexander affiliates: Alexander Howden Group Ltd., whose units include wholesale and reinsurance brokerage, and Alexander Stenhouse (U.K.) Ltd., a British retail broker.

A&A does not break out revenues for Howden and Alexander Stenhouse, but *Business Insurance* estimates their 1985 combined revenues at 83 million pounds ($120.4 million). The two brokers are expected to file statements next month with the British Department of Trade and Industry separately from A&A.

Alexander Howden Group alone generated estimated 1985 revenues of about 55 million pounds ($79.8 million).

Alexander Howden Ltd., under Chairman Dennis Mahoney, brokers U.S. wholesale business to Lloyd's syndicates.

"Our motto is professional, professional, professional," he said. "First we concentrated on placing U.S. business with A&A. But now we place business from Canada, Australia and other links introduced by the Stenhouse/A&A merger."

'Our motto is professional, professional, professional,' says Dennis Mahoney.

Rounding out the 10 largest Lloyd's brokers is Bain Dawes P.L.C., the only Lloyd's brokerage group that has its group name registered with Lloyd's as an individual broker.

Bain Dawes' revenues increased 10.2% to 43.1 million pounds ($62.5 million) in 1985 from 39.1 million pounds ($45.4 million) in 1984.

Simon Arnold, the brokerage's chairman, is placing more emphasis on North American business. The brokerage's new North American division already employs 25 people. ■

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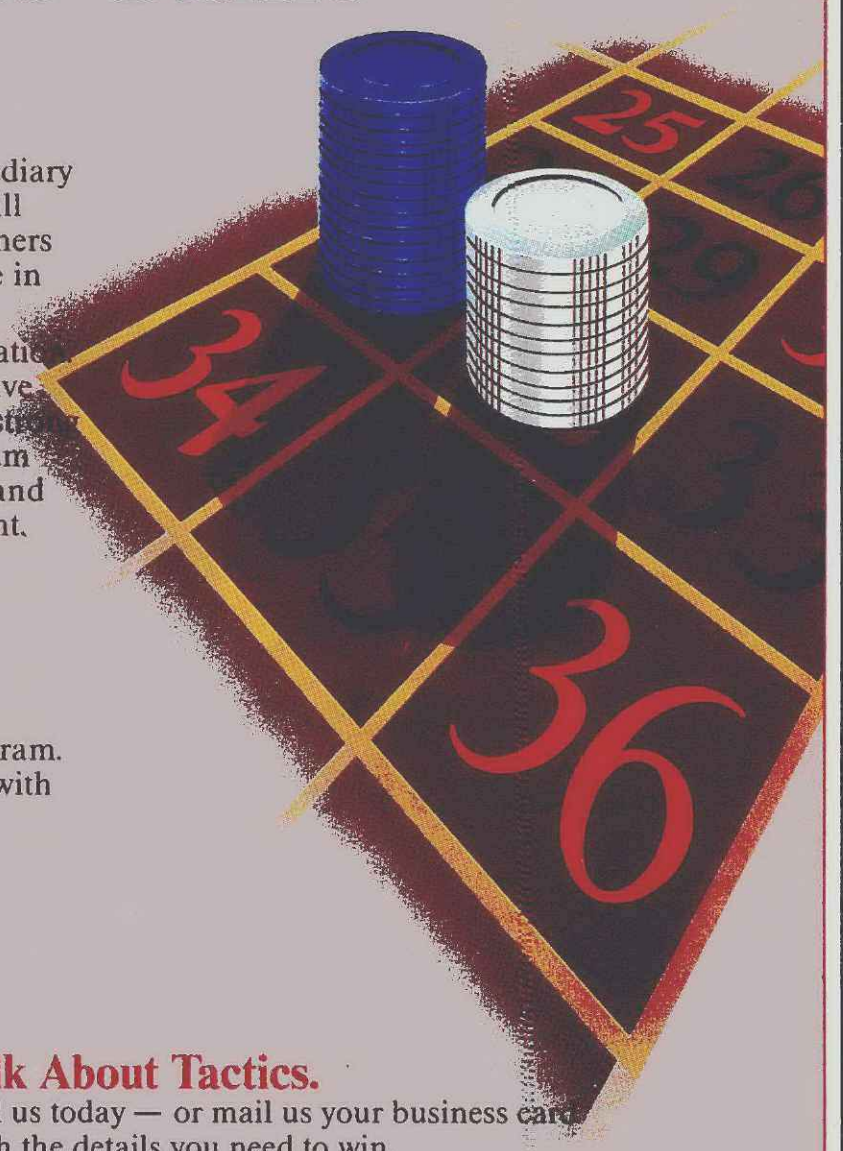
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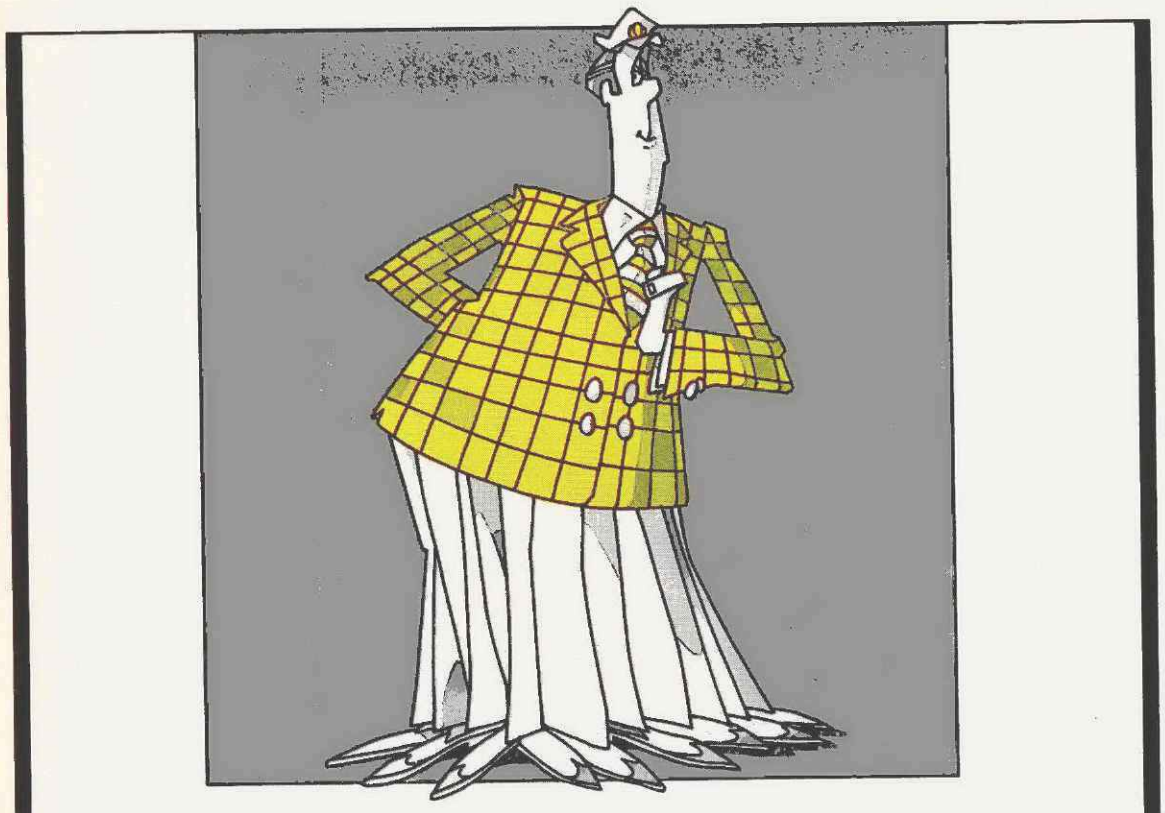
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'New' Price Forbes carries on traditions

By STACY SHAPIRO

LONDON—Lloyd's of London broker Price Forbes Ltd. needs little introduction to U.S. insurance buyers.

Price Forbes in its current incarnation is the 18-month-old North American brokerage unit of Sedgwick Group P.L.C. But the name Price Forbes dates back more than a century.

The original Price Forbes, which was formed as an independent Lloyd's broker in 1853 and went public in 1965, had a long history of specializing in the placement of North American risks.

For example, Price Forbes was the first London broker to place North American umbrella liability insurance policies in London.

In addition, many prominent London brokers and underwriters that specialize in North American risks at one time worked at Price Forbes, including Peter Wilson, managing director of H.S. Weavers Underwriting Agencies Ltd.; Dennis Mahoney, chairman of Alexander Howden Ltd.; John Fenn, deputy underwriter for syndicate 799 managed by Merrett Underwriting Agency Management Ltd.; and Brian Hibbert, chairman of the non-marine division of C.T. Bowring & Co. Ltd.

In 1972, Price Forbes merged with Sedgwick Collins Ltd. to form Sedgwick Forbes Group. In 1979, Sedgwick Forbes merged with Bland Payne Ltd. to form what is now known as Sedgwick Group P.L.C.


Mr. Swinglehurst

However, Sedgwick revived the Price Forbes name in February 1985 for its division specializing in North American brokerage.

"One of Price Forbes' main strengths historically has been handling North American business," said John Swinglehurst, chairman of Price Forbes and a director of Sedgwick Group.

"The name is known in the U.S. Maybe the younger generations will not know the name, but the older generation will know it and welcome its return," he said.

Today's Price Forbes brokers all primary and excess North American risks that come to Sedgwick from U.S. brokers, including Fred S. James & Co. Inc., which Sedgwick acquired last year.

"We serve U.S. brokers on a first-come, first-serve basis," Mr. Swinglehurst said. "Say Marsh & McLennan comes to us first with a risk to place. Then we will not act for anyone else, including James," in the placement of that risk, he explained.

Sedgwick will not disclose the revenues generated by Price Forbes.

Most of Price Forbes' operations are based in Sackville House, located near Lloyd's and in a different building from Sedgwick's other divisions.

However, North American aviation, offshore oil, gas and energy, political and banking risks are brokered by Sedgwick's specialized divisions based in Sedgwick's headquarters, even though the risks are brokered under the Price Forbes banner.

"It can get confusing," said Mr. Swinglehurst. "All our North American business is handled in the name of Price Forbes. But in some areas, like aviation and offshore exposures, it is difficult to divide the non-U.S. side of the business from the U.S. side. So we bring in the broad range of skills we have in the various areas of our group to handle the risks."

Price Forbes employs 25 full-time brokers in its casualty division, says Martin H. Howell, the division's managing director.

The division's clients are mainly Fortune 1,000 companies, he said. Types of coverage placed for these companies include excess liability and directors and officers liability insurance.

Most of the excess liability coverage brokered by Price Forbes for U.S. buyers is written on Weaver's claims-made excess liability insurance form rather than the more restrictive Lloyd's claims-made form, he said. In fact, he adds, Price Forbes now places very little North American casualty coverage with Lloyd's underwriters because of the lack of capacity at Lloyd's.

Price Forbes' property division employs about 50 brokers, said Terry Mann, that division's managing director. "One of the problems we have today is that we have one of the best reputations for a team of brokers in the market," said Mr. Mann. "So our brokers get poached by other companies."

About 75% of the property division's business is placed with Lloyd's underwriters, said Mr. Mann. "Lloyd's is very important to the North American property business." ■

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Lloyd's broker stresses contact with his clients

By STACY SHAPIRO

LONDON—Peter Lloyd, a founder of Lloyd's of London broker Lloyd Thompson Ltd., says the joy of insurance brokerage comes from dealing with clients.

That's why Mr. Lloyd says he helped establish Lloyd Thompson in 1981.

Mr. Lloyd had been a marine broker at Morice, Tozer & Beck Ltd. from 1955 until 1975, when the Lloyd's broker was acquired by Alexander Howden Group P.L.C. Mr. Lloyd made the move to Howden and eventually succeeded Eric Thompson as chief executive of Howden's marine division when Mr. Thompson retired.

Although Mr. Lloyd says he learned a lot about management as head of the Howden marine division, he preferred dealing with corporate clients to managing a staff.

Managing such a large division, "was a pretty horrendous task," he recalls. "I got disenchanted because most of my clients were disenchanted. Howden was too big, and they preferred their broker to be much smaller. They basically liked to deal with a broker who was hurt if he lost the business.

"So when I told my clients one day that I was at the end of my tether and I was leaving, they said fine and 90% of them came across with me."

Mr. Lloyd, Mr. Thompson and a group of other brokers founded Lloyd Thompson in May 1981, backed by Lloyd's broker Colburn, French & Kneen, whs6ch holds a 10% stake in the company.

In its first year of operation, the brokerage reported $50 million in premium volume and a pretax profit of $750,000.

Today, the company is divided into Lloyd Thompson Ltd., the Lloyd's broker, and parent company Lloyd Thompson (Holdings) Ltd. The brokerage specializes in oil, gas and energy, marine hull and cargo, political and credit risks and North American property accounts.

About 44% of Lloyd Thompson's business emanates from the United States. Roughly 80% of its business is primary and excess insurance brokerage, while 20% is reinsurance brokerage. Premium volume has risen to more than $200 million annually, while pretax profits for the fiscal year ending June 30, 1985, totaled 2.3 million pounds ($3.45 million). The company employs more than 100 people.

By the end of last year, Mr. Lloyd says he faced a familiar dilemma: The business had become too big for him to manage comfortably. "I suddenly realized that I was probably ending up in a worse position than I had left Howden for."

Mr. Lloyd and his partners started and stopped looking for a new manager with Ken Carter, who at the time was chairman of Price Forbes Ltd., the North American brokerage subsidiary of Sedgwick Group P.L.C.

Mr. Carter joined Lloyd Thompson as chief executive six months ago and on July 1 became chairman of Lloyd Thompson Ltd. Mr. Lloyd became a deputy chairman of the brokerage unit along with John Lloyd, who is no relation. Peter Lloyd also is chairman of Lloyd Thompson Holdings.

Even though he now is the brokerage unit's top officer, Mr. Carter says he still has time to deal with clients at Lloyd Thompson.

"I suppose the biggest difference (from Sedgwick) is that whilst I have the responsibility for running Lloyd Thompson, the time demanded of me of running a company with 100 people is much less than the management demands I had from Sedgwick," he said.

"I probably spend 70% to 80% of my time getting business, placing it, dealing with clients and the rest on non-insurance matters of management, whereas at Sedgwick it was the other way around."

Mr. Carter hopes in the next two years to develop Lloyd Thompson's reinsurance brokerage business, so the mix between primary and excess brokerage and reinsurance brokerage is about 50-50. ■

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Futuristic Lloyd's home brews criticism



Photo courtesy of Lloyds of London

Underwriters and brokers trashed the old Lloyd's building in a raucous party the day before the move across the street.

By STACY SHAPIRO

LONDON—Controversy is percolating over the new ultramodern Lloyd's of London building—a structure that is a far cry from the market's original home in Edward Lloyd's coffeehouse 298 years ago.

"I think it's awful," said a Lloyd's broker of the $250 million structure's architecture. "If the appearance could have been justified by its functionality, then fine. But its functionality has not justified its ugly-duck image."

"Lloyd's looks like a toilet," said another Lloyd's broker.

"The whole thing is a misconception and a missed opportunity," according to A.J. "Fred" Archer, chairman of Lloyd's underwriting agency A.J. Archer & Partners.

Fans of the new headquarters, on the other hand, agree with Lloyd's Chief Executive Alan Lord that the building "makes the rest of the buildings in London look about as innovative as an igloo."

"I think it is magnificent," said Peter Rawlins, managing director of the largest group of Lloyd's underwriting agencies, Sturge Holdings P.L.C. "There is a lot of fresh air and space."

"I am about the only person I know who likes it," said John Wooderson, managing director of the international division of Willis Faber P.L.C. "It points the way Lloyd's is going to go in the future."

Lloyd's underwriters celebrated the move into the new building with a raucous party that the traditionally conservative market has tried to keep under wraps.

The move began on Friday, May 23, when Lloyd's was supposed to close the old market in the 1958 building at 4:30 p.m.

But, just before lunch, underwriters opened bottle after bottle of champagne and tossed thousands of computer cards and files into the air. Syndicates put up "For Sale" signs, and brokers and underwriters donned party hats.

An inflatable woman tied to the end of a bunch of helium-filled balloons floated to the ceiling of the old market while Lloyd's members tried to shoot her down with champagne corks.

The party got so out of hand that Lloyd's Chairman Peter Miller—grazed by flour bombs—decided to close the market early at 12:30 p.m.

"It was a smart move," said a Lloyd's spokesman. "Imagine what they would have been like after lunch."

The old building later was officially closed by Sir Walter Barrie, who, as Lloyd's chairman in April 1958, formally opened it.

The party mess was cleaned up over the weekend.

From May 24 to May 26, underwriters for Lloyd's 320 syndicates moved from their booths in the old building into their new home across the street.

The Lutine Bell, Lloyd's most famous symbol, was ceremoniously moved May 24 on an oar by four red-liveried Lloyd's waiters to the new building and hung on the oak rostrum that supported the bell in Lloyd's 1928 building.

Finally, on May 27, the bell was rung twice, which traditionally means good news, and Mr. Miller officially opened the market in the new building (*BI*, June 2).

Lloyd's underwriters now sign slips in the 12-story barrel-vaulted glass atrium building designed by Italian-born Richard Rogers, who also designed the Pompidou Center in Paris.

The entrance, rostrum and library dating from the 1928 building have been incorporated into the new building, which took five years to construct.

The glass, steel and concrete structure stands in sharp contrast to nearby centuries-old buildings in London's financial district.

The building was designed with all service elements—like staircases, elevators and restrooms—on the outside to allow repairs to be made without interrupting market operations.

The market itself consists of a main floor, which houses marine underwriters, and three galleries connected to the main floor by escalators. Marine, non-marine, aviation and motor underwriters are located on the first two floors of the gallery, while only non-marine underwriters reside on the third floor.

The new underwriting boxes, which resemble the old wooden booths in the 1958 building, have been modified to meet each syndicate's needs. The boxes also are air-conditioned and computerized.

The new Captain's Room, where underwriters and brokers dine, is in the basement. Above the gallery floors are offices that can be converted into new market floors as Lloyd's expands.

When construction is completed, the 12th floor will house the offices of Lloyd's chairman, deputy chairmen and chief executive, as well as the Lloyd's Council's meeting room.

Besides its critical reception, the new Lloyd's building has been plagued with other problems.

First, the move coincided with London's hottest spell of weather in two years. When Lloyd's discovered that the air conditioning wasn't working properly, members took off their jackets at work for the first time that anyone could remember.

The intermittently operating elevators have stranded passengers, and several glass panes have crashed onto the market floor, but building has been unoccupied when this has occurred.

In addition, communications are erratic because some of the brokers' phones, which were to be housed in telephone kiosks, still are not installed, while others do not work.

"Part of the trouble is that the building is still a building site," explained Mr. Lord. "That means that the lifts which would ordinarily be there for passengers are being used for builders."

Mr. Lord hopes that construction will be finished by year-end. He would not say whether a member of the royal family will open the building officially when construction is completed.

Brokers and underwriters believe the new building still needs some improvements, especially with respect to the underwriters' seating arrangements.

Lloyd's determined by ballot where each underwriter would sit in the new building.

Marine underwriters want the marine market to be based on the ground floor and first gallery, overflowing onto the second gallery only if necessary, and the non-marine market above that.

Continued on next page

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Continued from previous page

"The marine market is now spread over three floors," complained Richard Outhwaite, chairman of Lloyd's Underwriters Assn. "That is a disadvantage."

While he is pleased with his location on the ground floor, "there are several underwriters in the galleries, particularly those on the second gallery, who feel they are unnecessarily far away from the remainder of the bulk of the marine market, and working conditions are nothing like as satisfactory as they are on the ground floor."

Rearranging the market would "make a great deal of sense. I think the markets should be as concentrated as possible," he said.

"The only way to improve the conditions now is to move the whole marine market back into the building we have just left and let the non-marine market have the new building," added Mr. Archer. "But I am biased. I am on the second floor."

Some marine underwriters also complain that the seating arrangement is costing them business that is going to underwriters housed in the new Institute of London Underwriters building.

"The new ILU building is more efficient than the new Lloyd's market," said Mr. Maitland. "There are more marine underwriters in close proximity than in Lloyd's. I believe the marine market was right in wanting the markets in Lloyd's to be in close proximity to each other."

Non-marine underwriters also would like to regroup the markets.

"Initially, when the building was designed, it was decided that there would be a totally integrated market," said Richard Hazell, underwriter for non-marine syndicate 190, which is managed by Three Quays Underwriting Management Ltd.

"Then, the mariners revolted and claimed the ground floor as their right. Once they did that, they destroyed the concept of the building. In the 1928 building, Lloyd's was a totally mixed market."

In the 1958 building, the marine market was on the ground floor and the non-marine market was on the second floor.

Mr. Hazell doesn't mind where he sits. But, he thinks the new building is "rotten."

"It has destroyed the feeling of a marketplace where you could look over your shoulder and see what your competitors were doing," he said.

Lloyd's will consider changing underwriters' seating after the year-end renewal season, Mr. Lord said.

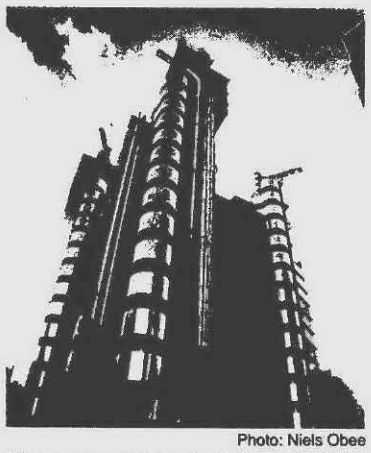


Photo: Niels Obee

Many are critical of the design of the new Lloyd's building.

Other improvements critics have suggested include improving maneuverability within the building; increasing meeting space; improving conditions on the gallery floors; and making the Captain's Room more attractive.

Lloyd's officials say these recommendations are being considered. However, Mr. Lord says criticism of the building "shouldn't be taken too seriously.

"They are a very conservative lot of young men who work in this market. In fact, the building is settling down very nicely," he said.

Ken Carter, chairman of Lloyd's broker Lloyd Thompson Ltd., agreed. "By Christmas, I expect the brokers and underwriters will stop comparing the new building to the old building and look at the benefits.

"Lloyd's has geared itself technically for the 1990s onwards. I have no doubt that within a few years the wisdom of Lloyd's moving into the new building will be recognized," he added.

"I like the building because it has stirred up controversy and has shown the world that Lloyd's is still very much alive and kicking," added Mr. Rawlins. of Sturge. ■

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Gallagher increases presence in London

By STACY SHAPIRO

LONDON—Arthur J. Gallagher & Co., the 11th-largest U.S. broker, is building a stronger presence in the London market through its new Lloyd's of London brokerage subsidiary, Gallagher Plumer Ltd.

Gallagher Plumer will generate gross revenues of $15 million and employ 180 people by year-end, estimates Colin Formby, the company's chairman.

Gallagher Plumer began operations as a Lloyd's broker at the end of August, following the merger of AJGCo.'s Lloyd's brokerage affiliate, Arthur J. Gallagher & Co. (U.K.) Ltd., and Lloyd's broker John Plumer & Co. Ltd. AJGCo. acquired Plumer in exchange for stock worth about $25 million, said Mr. Formby (*BI*, May 12).

Gallagher Plumer will place North American property and casualty risks at Lloyd's, including reinsurance, Mr. Formby said. Gallagher Plumer also will oversee AJGCo.'s international operations, including the broker's offices in Bermuda and Brussels, Belgium.

AJGCo. "realized some 20 years ago the importance of the London market and was one of the first American brokers to place large chunks of business into Lloyd's," Mr. Formby explained.

AJGCo. established Arthur J. Gallagher (U.K.) in 1974, he said, adding that Gallagher was one of the first U.S. brokers to own a Lloyd's broker.

About 70% of Gallagher (U.K.)'s business last year was produced by AJGCo. Another 10% of Gallagher (U.K.)'s business was produced by other U.S. brokers, while 20% consists of reinsurance brokerage, he said.

Gross revenues in 1985 totaled $4.5 million, and the company employed 55 workers at the time of the merger.

Mr. Formby, formerly chairman of Sedgwick Risk Management Services, joined Gallagher (U.K.) last year.

"My major objective was to look at the London operation," Mr. Formby explained. "I decided that I either had to expand our business internally or go on the acquisition trail. So, I looked at a number of brokers in the market."

Mr. Formby settled on Plumer, a company formed seven years ago by a group of brokers from Lloyd's broker Lowndes Lambert Group Ltd.

Plumer, which reported 1985 gross revenues of about $9 million and 120 employees, specialized in construction, marine and aviation risks. It also had a growing international division.

The merger "is the best of all worlds because we are both gaining in dimension and strength," said Mr. Formby. "Plumer did not have a large North American presence, so they get that, and we get more international exposure.

"The only challenge is to combine our international operations and our administration."

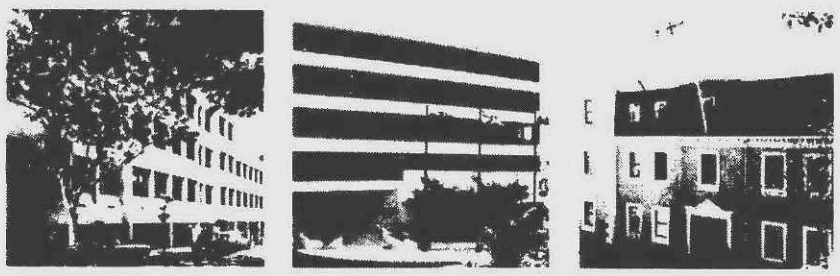
The biggest problem created by the merger is finding an office to house both the Plumer and Gallagher (U.K.) staff because office space near Lloyd's in London's financial district is hard to find. Mr. Formby says he has looked at 20 possible locations, but either they were too small or were taken by another company before he could sign a lease.

"We will merge under one roof as soon as possible," he said.

Gallagher Plumer will be directly owned by an AJGCo. unit called Arthur J. Gallagher Investments Inc. and will be run by an executive committee that includes Mr. Formby as chairman and chief executive and Trefor Evans and Richard Helman as co-managing directors. Dereck Parker, Dick Owles and John Plumer, former managing director of Plumer, will serve as directors. ■

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Only the strong survive Lloyd's floor maneuvers

By STACY SHAPIRO

LONDON—Lloyd's of London brokers need strong legs.

Lloyd's brokers must maneuver amid the four floors of underwriting boxes in the new Lloyd's building, galloping up and down escalators. They must then fight their way through the maze of underwriting boxes before they get to the one they are looking for.

Then, the brokers have to stand in line for hours—sometimes even entire days—before they can present a risk to the underwriter.

And, if the underwriter does not like the submission, the broker's journey—and waiting—can begin all over again.

Those are the observations of a reporter who spent a day following broker Ian Donaldson, director of the North American casualty division of Alexander Howden Ltd., around the market and another day sitting next to Stephen Merrett, underwriter for marine syndicate 418 and incidental non-marine syndicate 417 managed by Merrett Underwriting Agency Management Ltd.

Mr. Donaldson left Howden for Lloyd's at 11:30 a.m. one Thursday last month to see John Fenn, deputy underwriter for Lloyd's non-marine syndicate 799, also managed by Merrett.

Seeing Mr. Fenn, "is like seeing God," Mr. Donaldson said, noting that Mr. Fenn leads the Lloyd's claims-made excess liability insurance policy and is one of the few Lloyd's underwriters who still writes new North American casualty business.

Mr. Donaldson wanted to show Mr. Fenn one particular North American casualty risk, which Mr. Fenn had agreed in principle to lead if some questions were answered.

The prospective policyholder, a U.S. manufacturer that has been hit in the past with asbestos claims, had purchased in January liability insurance limits of $19.5 million excess of $2 million each accident on the Lloyd's claims-made form.

Mr. Donaldson now wanted to place another $10 million layer excess of $19.5 million.

While Howden had already placed 87% of the layer, with Mr. Fenn as the provisional lead, the manufacturer insisted that the coverage be fully completed before it would purchase it. So, Mr. Donaldson returned to Mr. Fenn, hoping the underwriter would increase his leading line by a couple of percentage points, so other underwriters would follow.

Mr. Donaldson walked up the escalators to Mr. Fenn's box, where he found one of his Howden colleagues, North American casualty broker Peter Scott, and a broker from another company jointly trying to place a North American excess liability risk with Mr. Fenn. The two brokers discussed the risk with Mr. Fenn from 10:30 a.m. until 3:00 p.m., with a lunch break, but Mr. Scott afterwards still was not sure that Mr. Fenn would write the account.

Besides Mr. Scott and his companion, about a half-dozen brokers were in line ahead of Mr. Donaldson. Only rarely does Mr. Fenn see anyone by appointment; brokers normally just have to wait.

Despite the line, Mr. Donaldson says Lloyd's was relatively quiet last month, although some July 1 renewals still remained uncompleted.

"I think that last year the market was changing," said Mr. Donaldson, referring to the higher pace of activity in August 1985. "But now it has changed. The ground rules are down. We are not chasing our tails now."

Mr. Donaldson finally saw Ian Hacker, Mr. Fenn's deputy underwriter, at 4 p.m., showed him that the additional questions had been answered and asked for the additional support for the coverage. He got it—after the five-hour wait.

"That was a waste of a day," Mr. Donaldson said. But, now he says he will be able to obtain support from other underwriters and has high hopes that the coverage can be completed.

"The one thing I hate about this job is the waiting," Mr. Donaldson said. "But it is constructive. You get to see the boss, which you don't necessarily in a U.S. insurance company. It impresses the clients that you have spoken to the boss."

Compared with a Lloyd's broker, the Lloyd's underwriter has it relatively easy: At least he can sit down on the job.

Mr. Merrett sits at his underwriting box in the corner of the second floor of the new Lloyd's building, where he watches his syndicate, one of Lloyd's largest, hum while he underwrites.

In his "corner" are 33 employees—underwriters, deputy underwriters claims managers, assistants and clerks for Merrett-managed syndicates.

Mr. Merrett arrived at the box around 11 a.m. one day last month and was faced with a queue of brokers that didn't quit, except for lunch, until around 4 p.m.

Mr. Merrett is sought by brokers to write aviation product liability, excess general liability and professional liability coverages—all on claims-made policy forms.

Professional liability is a relatively new area for Mr. Merrett. Up until last year, "the premiums weren't right, which they are now. And the wordings are more carefully structured," he said.

The day's submissions included a major aircraft manufacturer's product liability risk, an excess liability construction risk and an oil company's excess liability and professional liability risks.

Mr. Merrett even looked at a small aviation hull and liability insurance account because he told the broker to come back when the premium had been doubled. The broker returned—with double the premium included in the submission.

But Mr. Merrett does not sign any policies quickly. He waits until he has all the information he wants, rereads the submission during the evening or over the weekend "away from the brokers" and only then decides, he says.

He negotiates with a stone face, though occasionally a grin will cut through his scowl, and a laugh can sometimes be heard.

The younger brokers seem nervous of him, while the older ones are chatty, understanding how far they can go with him.

"He is frightening at times, he is that professional," said Dennis Mahoney, chairman of Lloyd's broker Alexander Howden Ltd., who was one of the brokers who stood in line to see Mr. Merrett last month. "Stephen Merrett is tough, but fair." ■

Marine market opposes capacity increase

By STACY SHAPIRO

LONDON—Members of Lloyd's of London's marine market do not want marine insurance capacity increased substantially next year, which would make it difficult for Lloyd's non-marine underwriters to offer new capacity to U.S. buyers.

Lloyd's members want a balanced book of business from all Lloyd's markets before they commit additional capacity, underwriters say. If the marine market does not need to increase its capacity, members will refuse to increase the capacity they provide for non-marine and aviation syndicates, underwriters explain.

Thus, Lloyd's capacity would increase only about 10% next year, instead of the 30% to 40% that the non-marine market would like (see story, page 57).

"There really isn't any scope for any expansion of business on the marine side," said Richard Outhwaite, chairman of Lloyd's Underwriters' Assn. "When you consider that most marine syndicates have ample capacity for what they do, they are not really interested in taking on much more capacity.

"It makes life difficult because the non-marine market would love to have significant increases in capacity," he admitted. "But names want a balanced spread over a range of syndicates. If they can't get significant marine increases, then they do not want an overwhelming increase in the non-marine field.

"This means the non-marine market is going to be short of capacity continually for a year or two," he said.

Lloyd's marine market, with 131 syndicates, is Lloyd's oldest, with its roots in the coffeehouse founded by Edward Lloyd sometime around 1688. Non-marine syndicates spawned from the marine market 200 years later, while Lloyd's aviation market is only about 50 years old.

The Lloyd's marine market writes marine hull, cargo and war risks. Altogether, about 40% of the world marine insurance and reinsurance is placed at Lloyd's.

The marine market also writes umbrella liability, professional indemnity, satellite and aviation insurance. It is also a key market for huge property/casualty insurance programs of U.S. conglomerates, particularly oil companies. And, it is a market tapped by fine art exhibitors.

In the last year, some marine underwriters like Stephen Merrett, chairman of Merrett Holdings P.L.C., have increased the amount of such "non-marine" business they will write.

To underwrite these non-marine risks, marine syndicates at Lloyd's establish "incidental non-marine syndicates," though the results of these syndicates are combined with the marine syndicates' results.

Traditionally, a marine syndicate can allocate up to 10% of its total capacity to write incidental non-marine business, said Mr. Outhwaite.

"Most syndicates just write a little incidental business and act as a following market, although there are one or two syndicates that. . .have a very substantial non-marine premium," he said.

Today, these incidental non-marine syndicates are being tapped heavily by Lloyd's brokers to complete non-marine insurance programs that cannot be completed in London's non-marine market, brokers and underwriters say.

Brokers can place non-marine risks in the marine market if brokers can prove to the lead marine underwriter that 80% of the risk is marine-related, or if brokers obtain an "inter-market agreement" from the Lloyd's Non-Marine Underwriters' Assn., which allows a non-marine risk to be placed in the marine market.

Mr. Outhwaite said the marine market has ample capacity to cover these varied classes of business, noting the "overall marine account into London is not expanding."

"Shipping is depressed. Freight rates are depressed. World trade, although it is growing, is only growing marginally. If you offset that with the reduction in oil shipments, I suspect overall world trade is actually down in 1986 from 1985," he said.

In addition, the collapse in the price of oil has laid up almost half of the world's mobile drilling units, which produce 15% to 20% of the Lloyd's marine market's premium volume, said Mr. Outhwaite.

'So there will be a reduction of premiums in the area of 25% to 30%," he said.

Because the U.S. dollar is the universal currency of the shipping industry, the marine market writes about 65% of its premium volume in dollars, said Mr. Outhwaite. However, only about 20% of the risks risks written by the marine market are based in the United States and only about 40% are underwritten for U.S. companies for property either in the United States or abroad, he said.


Mr. Outhwaite

The marine market is expected to show a substantial profit in 1983, the year just closing under Lloyd's three-year accounting system. The market's 149 syndicates in 1983 will show a profit of 171 million pounds (about $256.5 million at current exchange rates), excluding the syndicates managed by PCW Underwriting Agencies Ltd., according to the Assn. of Lloyd's Members.

Altogether, the marine market in 1983 had a total stamp capacity of 1.3 billion pounds, according to the ALM.

Lloyd's three largest syndicates, based on 1985 stamp capacity, were also the top three in 1984.

The largest marine syndicate last year was syndicate 206, underwritten by Michael Maughan and managed by R.W. Sturge & Co. The syndicate's 1985 capacity increased 32.3% to 133.9 million pounds from 101.2 million pounds in 1984.

Mr. Maughan also underwrites for syndicate 203, which writes short-tail marine, cargo and war risks, said Peter Rawlins, managing director of R.W. Sturge's parent company, Sturge Holdings P.L.C. In 1987, however, the underwriter for syndicate 203 will be Mr. Maughan's deputy, Simon Wilmot-Smith, said Mr. Rawlins.

The second-largest marine syndicate in 1985 was syndicate 418, underwritten by Mr. Merrett and managed by Merrett Underwriting Agency Management Ltd. Its stamp capacity increased 38.3% to 125.8 million pounds from 90.9 million pounds in 1984.

The third-largest marine syndicate in 1985 was syndicate 317, underwritten by Mr. Outhwaite and managed by R.H.M. Outhwaite (Underwriting Agencies) Ltd. Its stamp capacity increased 46.2% to 98.3 million pounds from 67.2 million pounds in 1984.

The fourth-largest syndicate, up from fifth place in 1984, was syndicate 932, underwritten by William Maitland and managed by Janson Green Ltd. Its stamp capacity increased 34.2% to 78.9 million pounds in 1985 from 58.8 million pounds in 1984.

Mr. Maitland will retire as underwriter for syndicate 932 in January and will be replaced by his deputy underwriter, Richard Youell. Mr. Maitland will become chairman of a new agency that is acquiring the management of the Janson Green syndicates from Lloyd's broker Hogg Robinson Group P.L.C.

The fifth-largest syndicate, and a newcomer to the top five, was syndicate 367, underwritten by A.D. Pilcher and managed by F.L.P. Secretan & Co. Its 1985 stamp capacity was 70.8 million pounds.

Moving down a notch from fifth place in 1984 was syndicate 741, underwritten by A.J. Archer and managed by A.J. Archer & Partners. The syndicate's stamp capacity increased only marginally to 66.5 million pounds from 64.5 million pounds in 1984.

Mr. Outhwaite says the biggest change this year for the London marine market, including Lloyd's marine syndicates, "is geographic," referring to Lloyd's move across Lime Street to its new building and the Institute of London Underwriters' move to a new building near Lloyd's. The ILU represents insurance company marine underwriters.

"The ILU companies are all concentrated together for the first time," he said. But Lloyd's marine underwriters, "funnily enough, are more spread out than we ever have been. Now Lloyd's marine market is on three floors" of the new Lloyd's building. ■

Largest Lloyd's marine syndicates
(Based on 1985 stamp capacity in millions of pounds)

Syndicate	Managing agency	Underwriter	Stamp capacity
206	R.W. Sturge & Co.	M.J.H. Maughan	133.9
418	Merrett Underwriting Management Agency Ltd.	S.R. Merrett	125.8
317	R.H.M. Outhwaite (Underwriting Agencies) Ltd.	R.H.M. Outhwaite	98.3
932	Janson Green Ltd.	W.W. Maitland	78.9
367	F.L.P. Secretan & Co.	A.D. Pilcher	70.8

Source: Financial Intelligence & Research
Chart: Amy Palmer

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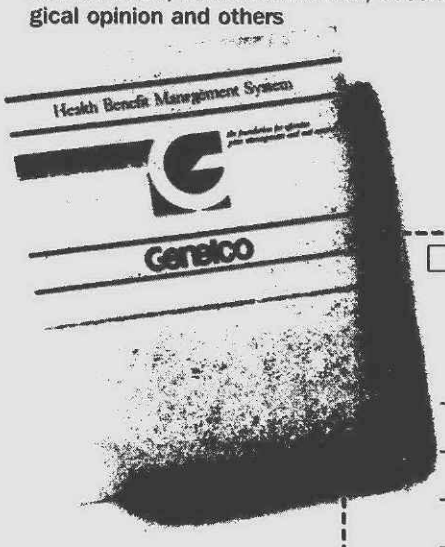
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'Tough' youth prepares Archer for Lloyd's

By STACY SHAPIRO

LONDON—A.J. "Fred" Archer may be best known as the man who succeeded Ian R. Posgate as underwriter of one of Lloyd's of London's largest marine syndicates.

But, Mr. Archer has other claims to fame.

Mr. Archer, who had retired from Lloyd's in 1978, is now chairman of A.J. Archers & Partners, the fifth-largest underwriting agency at Lloyd's in terms of stamp capacity.

A.J. Archer manages several syndicates—including the successor to Mr. Posgate's marine syndicate—that until last year were managed by an affiliate of Alexander Howden Group P.L.C.

And Mr. Archer can tell a true-life "rags to riches" story as he traces his career.

"I came from very humble means," Mr. Archer recalls. "My mother died when I was 5, my dad when I was 6. I was educated in an orphanage—that was a tough school to go to."

He first joined Lloyd's in 1939, working for Lloyd's underwriter Percy Cranmer at Philip N. Christie & Co. Ltd. for six months before joining the British army.

"The education in the orphanage made the army so easy," he said.

In 1946, after serving during World War II in the Far East, Mr. Archer returned to Lloyd's to work at Christie's. He became underwriter for marine syndicate 764 in 1962, and later, syndicates 908 and 145. He was named chairman of Christie's in 1974.

Then, in 1978, at age 56, Mr. Archer retired, believing his career at Lloyd's was over.

But that retirement ended 18 months later in July 1980 when a "great personal friend," former Howden Chairman Kenneth Grob, pleaded with Mr. Archer to come back to Lloyd's to restore marine syndicate 868 to profitability.

"I turned it down two or three times, but Ken Grob was a great personal friend and I listened to the sob story of him being chairman of the group and how he had to manage 16 syndicates. So, out of personal friendship to Mr. Grob, I returned," said Mr. Archer.


Mr. Archer

By 1983, the last fiscal year that has closed at Lloyd's under its three-year accounting system, Syndicate 868 produced a profit for its names.

In 1986, Syndicate 868 has 28 million pounds ($42 million) in stamp capacity.

In 1981, Mr. Archer set up another marine syndicate, 505, which now has a stamp capacity of 12.5 million pounds ($18.8 million).

By 1982, however, trouble was brewing at Howden.

Alexander & Alexander Services Inc., which had bought Howden in 1981, accused Mr. Posgate, Mr. Grob and three other ex-Howden executives of misappropriating 55 million pounds ($82.5 million at then exchange rates) of syndicate funds for their own benefit (*BI*, Sept. 27, 1982).

A&A fired Mr. Posgate as underwriter for Howden non-marine syndicate 126 and marine syndicate 127, and asked Mr. Archer to replace Mr. Posgate as the underwriter for marine syndicate 127, at the time one of Lloyd's largest.

Of Mr. Grob, Mr. Archer says, 'I would always consider him a friend, although the route he went down to achieve success is completely incomprehensible to me. But never once did Ken Grob try to embroil me in anything.'

When Mr. Archer took over the syndicate, he says he discovered that the 120 million pounds ($180 million) of premiums written during 1982 exceeded the syndicate's 90 million-pound ($135 million) stamp capacity.

"The syndicate lines were top heavy and lopsided. The reinsurance program to protect the syndicate from catastrophe was extremely poor in quality and depth," he added.

Mr. Archer's first step was to beef up the syndicate's reinsurance program to cap any losses.

Then, on Jan. 1, 1983, Syndicate 127 was closed and a new syndicate, 741, was formed. However, most of Mr. Posgate's names remained as members of the new syndicate.

Syndicate 741 in 1983 had a stamp capacity of 49.3 million pounds ($79.9 million at then exchange rates).

Overall, the syndicate produced profits of 28.3 million pounds ($45.8 million) that year, according to syndicate accounts, which is "one of the best results in the Lloyd's market," boasts Mr. Archer.

The syndicate, which has a 1986 stamp capacity of 66.5 million pounds ($99.8 million), now writes short-tail marine risks, war risks, cargo, hull and machinery risks.

About 60% to 70% of premiums collected are from U.S. policyholders and at least 50% of that volume is for reinsurance coverage, he says.

Mr. Archer has high praise for A&A. "All the executives of A&A that I have met since 1982 are of the highest integrity," he said.

"A&A has set a wonderful example in the London market. Not once have they blamed anyone else for their problems or cried over spilled milk," he observed.

Of Mr. Grob, Mr. Archer says, "One cannot cut oneself off completely from old friends. I would always consider him a friend, although the route he went down to achieve success is completely incomprehensible to me. But never once did Ken Grob try to embroil me in anything."

In December of last year, A&A sold the management of syndicate 741 and six other syndicates to A.J. Archer & Partners to comply with the divestment provisions in the Lloyd's Act of 1982.

The price is believed to have been around 10 million pounds ($15 million), but Mr. Archer will not comment.

A.J. Archer & Partners now manages three marine syndicates, one aviation syndicate and three non-marine syndicates. The combined stamp capacity of these syndicates exceeds 200 million pounds ($300 million).

Even though Mr. Archer has set his second retirement date for December 1990, he says he still has two ambitions in life: to see his two granddaughters, now ages 8 and 10, become Lloyd's members when they are 21, and "to attempt to restore in the world's view the wonderful image of Lloyd's as a commercial center.

"This has sadly been tainted, unfortunately by some who were personal friends of mine," Mr. Archer notes.

But, on a more positive note, he says that "it has become increasingly easier for people of modest means to become successes" at Lloyd's.

"Any young man—any young person—who works hard at Lloyd's will find that there is no end to what they can achieve," Mr. Archer contends. ■

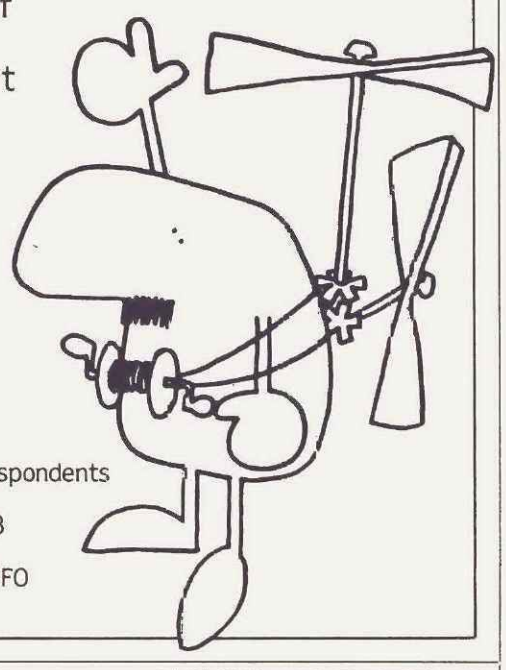
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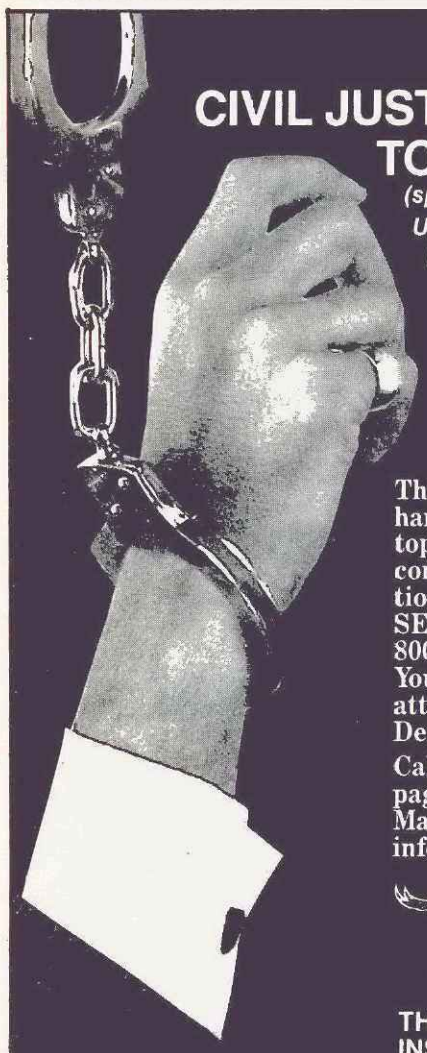
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Janson Green last to sever broker ties

By STACY SHAPIRO

LONDON—Janson Green Ltd., the sixth-largest underwriting agency at Lloyd's of London, is now in a class by itself.

Janson Green, owned by Lloyd's broker Hogg Robinson Group P.L.C., is the only large Lloyd's underwriting agency that is still owned by a Lloyd's brokerage.

Under a provision in the Lloyd's Act of 1982, all Lloyd's brokers are required to divest their Lloyd's underwriting agency subsidiaries by July 1987. However, Lloyd's subsequently required all underwriting agencies to re-register by the end of 1986. To be re-registered, an agency must be divested from a brokerage parent.

Janson Green's management and Hogg Robinson are currently negotiating the sale of the agency through a management buyout, according to Bill Maitland, deputy chairman of Janson Green. He would not comment further on the sale except to say that Janson Green is beginning the re-registration process.



Mr. Maitland

Lloyd's observers note that the divestment of Janson Green will be a major blow to Hogg Robinson. The underwriting agency in recent years has contributed as much as 30% of Hogg Robinson's earnings (*BI*, June 23).

Mr. Maitland admits that the transaction between Hogg Robinson and the Janson Green management must be carefully structured.

"It is important that nothing is done to harm the relationships between buyer and seller in the act of divestment," Mr. Maitland said. "We, after all, all work in the same market."

Mr. Maitland will retire as the senior underwriter for Lloyd's marine syndicates 932, 79 and 936 to become chairman of the new agency on Jan. 1, 1987.

The new agency will manage the syndicates currently managed by Janson Green; syndicate 79, now managed by Scimitar Underwriting Agencies; and syndicate 936, now managed by Crescent Underwriting Agencies Ltd.

In addition, a new holding company will be formed to function as the parent of the new underwriting agency, a Lloyd's members' agency and another underwriting management agency currently known as Michael Payne & Co. Ltd. Mr. Maitland says it has not yet been determined who will serve as chairman of the holding company.

Despite the new challenges presented by the formation of an independent underwriting agency, Mr. Maitland says it will be difficult to leave his post as senior underwriter for marine syndicate 932, the fourth-largest marine syndicate at Lloyd's.

"I have been underwriting for 30 years," Mr. Maitland explained. "I have enjoyed working in the (Lloyd's underwriting) room very much. But, I have had an interesting career and due to divestment and reregistration, it is necessary for me to move upstairs a year before I planned."

Syndicate 932 had a stamp capacity of 78.9 million pounds in 1985 ($114.4 million at the applicable exchange rate) according to Financial Intelligence & Research, a British analyst.

The syndicates managed by Janson Green have an aggregate gross premium capacity of 170 million pounds ($255 million) this year, according to Mr. Maitland.

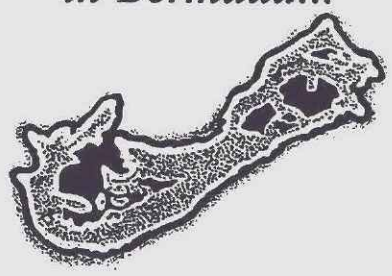
Syndicate 932 is one of several marine syndicates that still writes marine, non-marine and aviation coverage under the banner of one syndicate. Mr. Maitland says that the syndicate has been structured in such a manner since it was founded more than 100 years ago.

As senior underwriter, Mr. Maitland oversees all underwriting conducted by the syndicate.

Mr. Maitland's deputy underwriter, Richard Youell, will

Continued on next page

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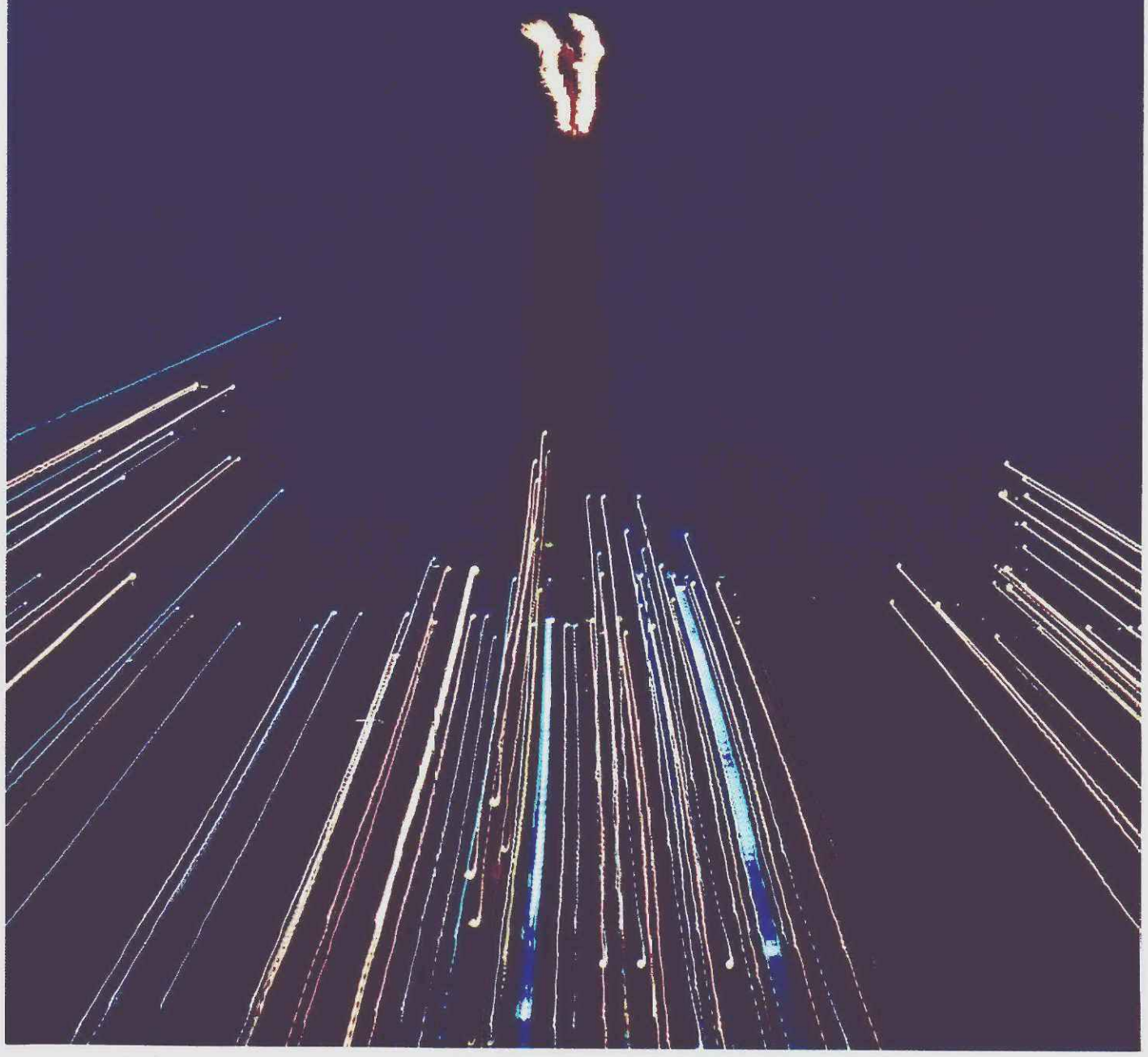
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Janson Green

Continued from previous page
become the senior underwriter for the syndicate when Mr. Maitland retires at year-end. Mr. Youell currently specializes in hull, energy and marine casualty underwriting.

The other underwriters for the syndicate are:

- David Peachey, the current chairman of the Lloyd's Aviation Underwriters' Assn., who underwrites the aviation account.
- Peter Lowsly-Williams, who writes the non-marine account.
- Tom Aldridge, who underwrites cargo risks.
- Jamie Crookenden, who writes marine hull and liability risks.
- Christopher Compton-Rickett, who writes oil and energy-related risks. Mr. Compton-Rickett replaced Gale Coles as energy underwriter when Mr. Coles left Janson Green earlier this year.

Market sources say that Mr. Coles disagreed with Janson Green management over issues not relating to the agency's divestment.

Mr. Coles, who is expected to be underwriting again at Lloyd's by the end of the year, has not commented about his departure.

"I am sorry Gale left" Janson Green, Mr. Maitland says. "I sincerely hope that he finds his niche in Lloyd's as it is today."

Mr. Maitland found his niche at Lloyd's, even though working at Lloyd's was not his first choice. Mr. Maitland began his career at Lloyd's after he was discharged from the British navy in 1955 because of an injury. While he wanted to pursue a farming career, his relatives—including Toby Green, father of Sir Peter Green, former Lloyd's chairman and current chairman of Janson Green—convinced him to join Lloyd's. ■

Largest Lloyd's non-marine syndicates
(Based on 1985 stamp capacity in millions of pounds)

Syndicate	Managing agency	Underwriter	Stamp capacity
799	Merrett Underwriting Management Agency Ltd.	R.A.G. Jackson	113.0
210	R.W. Sturge & Co.	H.R. Rokeby-Johnson	111.7
190	Three Quays Underwriting Management Ltd.	R.D. Hazell	77.5
362	Murray Lawrence & Partners	R.J.R. Keeling	66.1
582	Cassidy, Davis Ltd.	A.A. Cassidy	65.3

Source: Financial Intelligence & Research
Chart: Amy Palmer

Non-marine market anchored to marine capacity in 1987

By STACY SHAPIRO

LONDON—With Lloyd's of London's marine market restraining its growth in capacity, the non-marine market will have less maneuverability than it wants next year.

As a result, the non-marine market will be unable to satisfy all the demand for coverage from the North American market, according to the chairman of the non-marine market.

"I do not believe that there will be sufficient capacity in Lloyd's non-marine market for 1987" to meet coverage demands, predicted Robin A.G. Jackson, chairman of Lloyd's Non-Marine Underwriters' Assn.

The non-marine market wants its capacity to grow by 30% to 40% to meet policyholders' needs, noted Mr. Jackson, underwriter for syndicate 799, Lloyd's largest non-marine syndicate, which is managed by Merrett Underwriting Agency Management Ltd.

However, Lloyd's is predicting only a 10% increase in its overall capacity next year because the marine market, historically the backbone of Lloyd's, expects to limit the number of new names it accepts. Marine underwriters have more than enough capacity now.

"A lot of people are anxious to join Lloyd's, but they want a balanced book of business with participation on marine and non-marine syndicates," Mr. Jackson explained. "But the marine market does not want more names, so they are not joining."

Currently, many Lloyd's non-marine syndicates have stopped underwriting new business and some renewal business for 1986 because they have reached the 130% of net premium income—or stamp capacity—that Lloyd's allows them to write, Mr. Jackson noted.

Among the syndicates that have drastically cut back include Mr. Jackson's syndicate 799 and syndicate 190, the third largest non-marine syndicate, managed by Three Quays Underwriting Management Ltd. Both are writing mostly renewal business, although they are writing some new business.

However, non-marine underwriters will begin to write 1987 business beginning in October, underwriters say.

Nearly half of the non-marine market's premium volume is generated by North American business, according to Mr. Jackson.

Lloyd's non-marine market, with 158 syndicates this year, is tapped by major U.S. corporations for nearly every type of property/casualty coverage, excluding marine hull, aviation hull and liability and war risk coverages.

Lloyd's non-marine market leads U.S. professional indemnity, directors and officers liability and medical malpractice insurance and reinsurance and is a vital market for North American property business. For example, about 75% of Price Forbes Ltd.'s North American property business is placed with Lloyd's syndicates, according to Terry Mann, managing director for Price Forbes' property division.

Lloyd's non-marine market participates on just about every property/casualty reinsurance program of every insurance company in the United States, Mr. Jackson said.

The non-marine market's participation in U.S. excess liability insurance, however, has decreased somewhat since two different claims-made forms were introduced last year by Lloyd's and H.S. Weavers Underwriting Agencies Ltd., according to observers.

Traditionally, Lloyd's has been a market for excess liability insurance, filling out the first $25 million layer above primary coverage and leading layers up to $100 million.

Lloyd's has shared excess liability coverages in the past with the London insurance company market led by Weavers.

However, late last year, Lloyd's introduced its restrictive claims-made excess liability policy wording shortly after Weavers introduced its own excess liability policy form.

Because Lloyd's and Weavers are intent on using their own forms, the two separate wordings have cut capacity for policyholders who do not want to mix forms (*BI*, July 14).

Brokers also say that insurance buyers are avoiding the Lloyd's claims-made form as too restrictive.

But, Mr. Jackson disagrees. He says about 50 to 60 policies have been written on Lloyd's claims-made form.

He added that John Fenn, class underwriter for syndicate 799 who leads Lloyd's claims-made form, will "write a lot of new business next year" on the claims-made form when he establishes his own syndicate, which will be managed by Merrett.

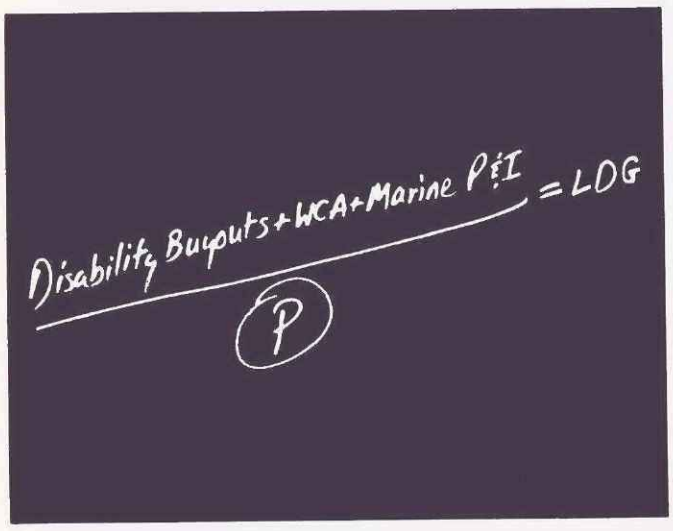
However, like other market sources, Mr. Jackson says, "I hope someday there will be one London market form."

While Lloyd's non-marine market represents only

Continued on next page

Challenge #2

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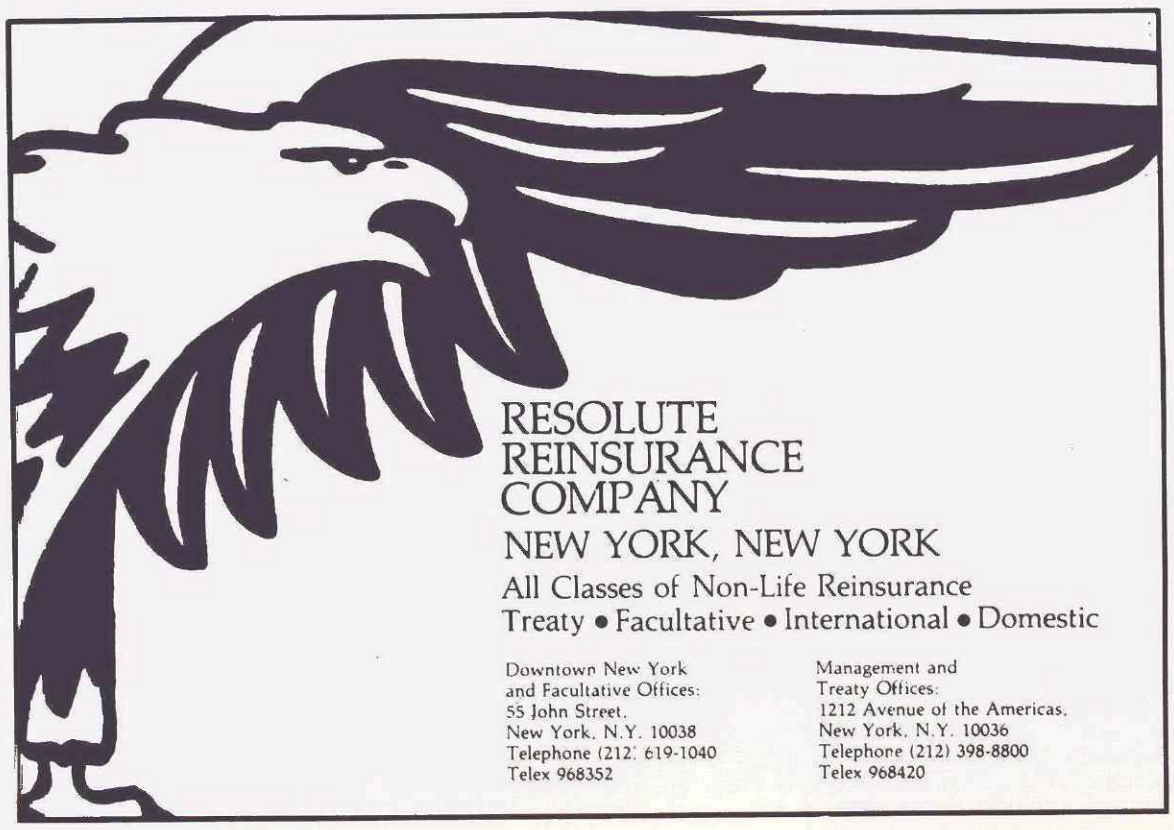
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Continued from previous page

2% of worldwide non-marine capacity, the expertise and influence of its underwriters in setting terms and rates makes it a vital market. Indeed, Lloyd's has spoken out on virtually every issue that affects U.S. policyholders.

"Lloyd's has shown tremendous leadership," Mr. Jackson asserted.

In addition, Lloyd's Non-Marine Underwriters' Assn. is leading Lloyd's in improving Lloyd's reputation for paying claims.

For example, as of this year, non-marine underwriters settle undisputed claims on a weekly basis.

And, the non-marine underwriters say they also recently decided to require policyholders to pay premiums on a structured time scale or the policies will be null and void. The time scale ranges from 30 days to three years, depending on the country in which the risk is located, according to the underwriters.



Mr. Jackson

According to the Assn. of Lloyd's Members, Lloyd's non-marine market will show a total loss of 85.7 million pounds in 1983 the year just closing under Lloyd's three-year accounting system. In 1982, the non-marine market lost only 26 million pounds.

The non-marine market and the motor market are the only two of the four Lloyd's markets expected to report losses in 1983. Lloyd's motor market, however, is expected to report a loss of only 125,000 pounds.

The ALM's figures, compiled by Financial Intelligence & Research, exclude losses from syndicates managed by PCW Underwriting Agencies Ltd.

The ALM also notes that the non-marine market in 1983 had 142 syndicates, excluding PCW syndicates, with a total of 1.2 billion pounds in stamp capacity.

"The year 1983 will be a very bad result," said Mr. Jackson. He noted that Lloyd's and world markets were hit by losses from Hurricane Alicia and U.S. winter storms.

"1983, liability-wise, was a damned bloody awful year," he said, adding that reserves had to be strengthened for previous years' losses.

But, Mr. Jackson believes that 1984 results will be better and 1985 and 1986 "will be better still."

Mr. Jackson's syndicate 799, with a stamp capacity of 113 million pounds, moved up from second place last year with a 48.1% increase in capacity from 76.3 pounds in 1984, according to Financial Intelligence & Research.

Lloyd's second-largest non-marine syndicate in 1985, which ranked in first place the year before, is syndicate 210, underwritten by Ralph Rokeby-Johnson and managed by R.W. Sturge & Co., a subsidiary of Sturge Holdings P.L.C. The syndicate's capacity increased 25.9% in 1985 to 111.7 million pounds from 88.7 million pounds in 1984.

Syndicate 210's underwriting is intertwined with the underwriting for syndicates 212 and 204, noted Peter Rawlins, managing director for Sturge Holdings.

Syndicate 212, which writes short-tail non-marine coverage, will be split off in 1987 and underwritten by John Prestage, Mr. Rawlins noted. Syndicate 204, will be split off in 1988 and underwritten by Roger Field, according to Mr. Rawlins.

Lloyd's third-largest non-marine syndicate in 1985, syndicate 190, is underwritten by Richard Hazell. The syndicate's stamp capacity increased 23.2% in 1985 to 77.5 million pounds from 62.9 million pounds in 1984.

Lloyd's fourth-largest non-marine syndicate in 1985, jumping a notch from fifth in 1984, is syndicate 362, underwritten by Richard Keeling and managed by Murray Lawrence & Partners. Its stamp capacity increased 55.5% in 1985 to 66.1 million pounds from 42.5 million pounds in 1984.

Lloyd's fifth-largest non-marine syndicate is syndicate 582, underwritten by Tony Cassidy and managed by Cassidy, Davis Ltd. The syndicate, with 65.3 million pounds in stamp capacity in 1985, bumped syndicate 510, managed by R.J. Kiln & Co. Ltd., from the top five. Syndicate 510 ranked as the sixth-largest syndicate with 65.2 million pounds in 1985 stamp capacity. ■

Brokers form long lines at Richard Hazell's box

By STACY SHAPIRO

LONDON—It's easier to find Richard Hazell, underwriter for Lloyd's of London's third-largest non-marine syndicate, at his underwriting box than in his office.

"It will take a broker at least three weeks to see me here in the office," says Mr. Hazell. "My diary is so full that I don't have any opening until the end of September."

But, even when he's at his box in the Lloyd's underwriting room, brokers must wait up to two days to see him, Mr. Hazell admits.

Mr. Hazell is the senior underwriter for non-marine syndicate 190, also called the F.R. White syndicate, which is managed by Three Quays Underwriting Management Ltd.

Three Quays' non-voting shares had been owned by Bland Welch Underwriting Ltd., a subsidiary of Sedgwick Group P.L.C., until last year, when they were sold to banking group Cater Allen Holdings P.L.C. for 2.5 million pounds ($3.75 million at current exchange rate).

Voting shares of Three Quays are owned by the executive directors, which include Mr. Hazell.

Three Quays only manages syndicate 190 and syndicate 375, a small marine syndicate.

Four other syndicate numbers—191, 199, 244 and 565—are used in conjunction with syndicate 190 for statistical purposes only, explained Mr. Hazell.

These other syndicates have the same Lloyd's membership as syndicate 190, he added.

The three senior deputy underwriters on the syndicate are:

- Bob Edwards, who specializes in American excess property coverages.
- L.G. Graham-Taylor, a specialist in U.S. property and boiler and machinery risks.
- Derek Johnston, senior deputy reinsurance underwriter.

Mr. Hazell, who was trained as a reinsurance underwriter, oversees all syndicate underwriting.

About 65% of the syndicate's business is derived from U.S.-based property/casualty risks, said Mr. Hazell.

Syndicate 190 had a 1985 stamp capacity of 77.5 million pounds ($89.9 million at the year-end 1984 exchange rate), according to Financial Intelligence & Research.

In 1986, the syndicate has premium capacity of 116 million pounds ($168.2 million at year-end 1985 exchange rates), with more than 3,500 Lloyd's members, said Mr. Hazell.

The syndicate's premiums are derived about equally from reinsurance and primary and excess coverages, said Mr. Hazell.

"Because I am a reinsurer at heart, we handle insurance the same way we handle reinsurance—with long-term relationships," he said. "We look for substantial policyholders which do not need first-dollar coverage, but do need catastrophe insurance."

The syndicate will write coverage above underlying layers of $2 million to $100 million for casualty insurance, and above underlying layers of up to $500 million to $600 million for property risks, depending on the client.

"We don't want the nickel and dime stuff," Mr. Hazell said.

The syndicate writes both North American property and casualty risks, "although there is a great temptation to think in terms of property" because it is less hazardous, said Mr. Hazell.

"But there is more opportunity in writing casualty coverage now," because rates have increased and policy terms have tightened, he said.

Mr. Hazell is one of the authors of Lloyd's claims-made excess liability insurance policy form and will support the policy, although he does

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Richard Hazell's syndicate

Continued from previous page

not like to lead it "unless pressed," he said.

Normally, Lloyd's underwriter John Fenn at Merrett Underwriting Agency Management Ltd. leads the Lloyd's claims-made form.

However, Mr. Hazell refuses to follow the other London market claims-made excess liability policy form designed by H.S. Weavers Underwriting Agencies Ltd.

Last year, Mr. Hazell's syndicate stopped writing new business early in the year to avoid exceeding its premium income limit which is set by Lloyd's at 130% of a syndicate's stamp capacity.


Mr. Hazell

Business was cascading into Lloyd's last year after buyers in the United States could not find sufficient capacity from U.S. underwriters. New business, coupled with higher rates, provided many syndicates with explosive premium growth.

"Now, we are still writing some new business," but not much, he said.

Mr. Hazell pointed out that there is not much competition for the large risks that his syndicate prefers to write.

In the meantime, underwriters are starting to gear up for 1987 renewals, which begin as early as October.

For Mr. Hazell's syndicate, 1987 will be a year of consolidation.

"There comes a point in time when you have to stop growing and evaluate where you are," Mr. Hazell explained.

The syndicate will shed between 20 million pounds and 25 million pounds of business next year, he said. However, he did not specify in which areas.

Three Quays would like to expand its small marine syndicate by finding a talented marine underwriter, Mr. Hazell says. "If we want to round out Three Quays portfolio, we have to have a marine counterpart," noted Mr. Hazell. ■

Largest Lloyd's aviation syndicates
(Based on 1985 stamp capacity in millions of pounds)

Syndicate	Managing agency	Underwriter	Stamp capacity
960	R.W. Sturge & Co.	B.E. Beagley	34.3
48	Methuen (Lloyd's Underwriting Agents) Ltd.[1]	W.E. Simms	23.6
97	Wellington Underwriting Agencies Ltd.[2]	R.F. Morse	22.5
53	G.P. Eliot & Co. Ltd.	R.F. Eliot	21.3
270	A.J. Archer & Partners	R.J. Maylam	17.6

[1] Formerly Sedgwick Forbes (Lloyd's Underwriting Agents) Ltd [2] Formerly Willis Faber & Dumas (Agencies) Ltd.
Source: Financial Intelligence & Research
Chart: Amy Palmer

Lloyd's aviation underwriters strive to keep syndicates open

By STACY SHAPIRO

LONDON—Most underwriters in Lloyd's of London's aviation market are still offering capacity for new and renewal business, although some underwriters "are on temporary holiday," says the market's chairman.

"There is even a suggestion that there will be new aviation syndicates next year to offer more capacity," said David Peachey, chairman of Lloyd's Aviation Underwriters Assn.

"It's true that one syndicate stopped underwriting temporarily and a couple are cutting back, but the vast proportion are still underwriting and they will be until the end of the year," said Mr. Peachey.

"A lot of underwriters have worked damned hard to make sure that their syndicates are still going," he added.

Lloyd's aviation market, with 40 syndicates this year, represents about 20% of the world's aviation capacity.

More than half of the aviation market's premiums are from North American risks, including: hull and liability coverage for airlines; aircraft manufacturers product liability coverage; airport liability coverage; general aviation coverage for commuter and charter airlines and corporate fleets; and satellite coverages.

The Lloyd's aviation market still leads coverage for some of the world's biggest airlines.

Among its customers are U.S.-based Pan American World Airways, Delta Air Lines Inc. and American Airlines. It also is the lead reinsurer for Air India and Japan Air Lines.

Some of the largest aviation underwriters write aviation risks for marine syndicates.

Lately, too, some marine underwriters have been writing aviation risks themselves, according to Mr. Peachey, "but only on the periphery of Lloyd's aviation business."

One such marine underwriter is Stephen Merrett, chairman of Merrett Holdings P.L.C. Underwriting for Lloyd's second-largest marine syndicate 418, Mr Merrett has become a dominant force in writing aviation products liability coverages, brokers and underwriters say.

The fluctuation of the dollar against the pound sterling, the currency Lloyd's uses to monitor each syndicate's premium income, forced at least one aviation syndicate to close temporarily this year to avoid overwriting.

Lloyd's Council directed Lloyd's underwriting agency E.R.H. Hill (Agencies) Ltd., managing agent of Lloyd's aviation syndicate 800, to cease underwriting all new and renewal business in February. Lloyd's said the aviation syndicate, with about 1,900 names and 24 million pounds ($34.8 million) in stamp capacity, was close to exceeding its underwriting limits for 1986 (*BI*, March 10). Lloyd's sets underwriting limits at 130% of stamp capacity.

In August, Lloyd's rescinded the directive and allowed syndicate 800 to continue underwriting.

Last year was a rough one for Lloyd's aviation underwriters, along with other aviation insurers around the world.

Worldwide hull and liability claims for 1985 aviation accidents totaled at least $660 million, and when satellite losses and other aviation-related losses are included, underwriters eventually will pay out more than $1 billion—a record—for 1985 claims.

At least 1,300 people were killed in commercial aviation accidents last year, compared with only two fatalities during 1984 (*BI*, Dec. 9, 1985).

"We have gone through difficult times," said Mr. Peachey.

"It's good we started to improve the premium base before 1985. If the premium base had not been that strong, there would have been some underwriters who might not have been able to pay claims," he added.

So far in 1986, there are only six total losses with 258 lives lost on commercial aircraft disasters, underwriters note.

"It's quiet aviation-wise," said Mr. Peachey. "But after last year we needed it. Of course, it's only August."

To recoup from last year's record losses, underwriters are:

- Increasing hull rates, but only marginally.

The hull rate for one U.S. airline, for example, will increase only 5% from last year, said a London underwriter.

- Significantly boosting liability rates.

The same U.S. airline may see a 50% increase in its liability rate, the underwriter said.

- Sharply increasing aviation products liability insurance rates.

Small aviation products manufacturers are seeing 40% to 50% increases in premium from last year, while large aviation products manufacturers are seeing 200% to 300% increases, underwriters say. One underwriter said that there is about $1.5 billion of premium in the world aviation products liability insurance field.

- Not writing satellite launch insurance.

Since the shuttle disaster in January and the loss in June of an Ariane rocket carrying an $82 million satellite, there have been no satellite launches.

- Imposing a terrorist surcharge on world airlines and airports that

Continued on next page

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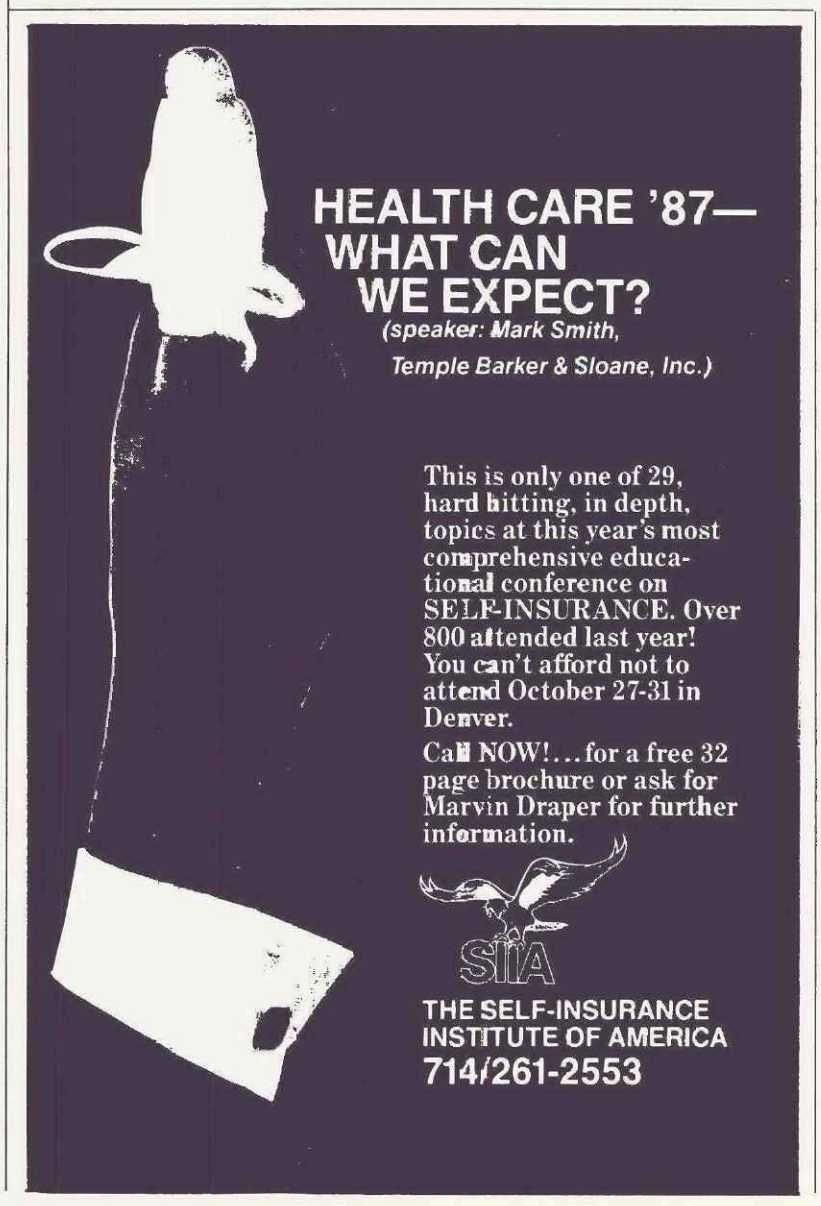
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Continued from previous page

bought liability war risk coverage from aviation underwriters in June.

The terrorist surcharge cost U.S. airlines about $17.5 million this year (*BI*, June 23).

"It is hoped that this surcharge will not be around for too long a period," commented Mr. Peachey.

Hull aviation war risk underwriters are still disputing the loss of the Air India Boeing 747 that exploded in midair and crashed into the Irish Sea, killing 325 people last June, Mr. Peachey confirmed.

The aircraft was insured for $98.5 million plus $3.5 million for a spare engine.

So far, half of the loss has been paid by war risk underwriters and half by non-war risk hull underwriters.

The Indian government has not released its report on the explosion, so underwriters are not sure whether the loss was caused by a bomb or a technical fault. Underwriters may settle the claim soon, sources in the London market say.


Mr. Peachey

Lloyd's aviation market will show a profit of 18 million pounds in 1983, the year just ended under Lloyd's three-year accounting system, according to Financial Intelligence & Research.

In 1983, there were 46 aviation syndicates with 203 million pounds in stamp capacity.

Lloyd's largest aviation syndicate, based on 1985 stamp capacity, is syndicate 960, which is underwritten by Brian Beagley and managed by R.W. Sturge & Co.

Syndicate 960's stamp capacity increased 48% to 34.3 million pounds in 1985 from 23.2 million pounds in 1984, when it also was the largest Lloyd's aviation syndicate.

Lloyd's second-largest aviation syndicate, up from third last year, is syndicate 48, underwritten by Eddie Simms and managed by Methuen (Lloyd's Underwriting Agents) Ltd., formerly known as Sedgwick Forbes (Lloyd's Underwriting Agents) Ltd.

The syndicate's stamp capacity increased 49% to 23.6 million pounds from 15.8 million pounds in 1984.

Lloyd's third-largest syndicate, down from second last year, is syndicate 97, which is underwritten by R.F. Morse, who took over from David Willis in 1985, and managed by Wellington Underwriting Agencies Ltd., formerly known as Willis Faber & Dumas (Agencies) Ltd.

The syndicate's stamp capacity increased 31% to 22.5 million pounds from 17.2 million pounds in 1984.

Lloyd's fourth-largest syndicate, the same as last year, is syndicate 53, underwritten by Robin Eliot and managed by G.P. Eliot & Co. Ltd. The syndicate's stamp capacity increased 45% to 21.3 million pounds from 14.7 million pounds in 1984.

Lloyd's fifth-largest aviation syndicate, also the same as last year, is syndicate 270, underwritten by Richard Maylam and managed by A.J. Archer & Partners.

Syndicate 270's stamp capacity increased 41% to 17.6 million pounds from 12.5 million pounds in 1984. ■

Lloyd's 'changed its spots,' declares new chief executive

BY STACY SHAPIRO

LONDON—Lloyd's of London is open to change, its chief executive says.

"The only thing that has surprised me since I joined Lloyd's of London is the way in which an organization nearly 300 years old has managed to absorb change," said Alan Lord, Lloyd's deputy chairman and chief executive.

"It's done so much better than a government department would do or some respected institution one would think of in the city (of London)," he said.

"I think this is something important which people do not understand about Lloyd's. They look back and they think that the leopard hasn't changed its spots. I think with the council and the bylaws and the rules of disclosure, accounting standards and so on, the leopard didn't have any choice but to change its spots—even it if was reluctant to do so."

These observations come from a relative newcomer to the market. Mr. Lord, the former managing director at Dunlop Holdings P.L.C., joined Lloyd's as chief executive March 1, succeeding Ian Davison (*BI*, Feb. 24).


Mr. Lord

Mr. Lord, 56, said he was reluctant to take the position, pointing to a long career in finance.

Educated at Rochdale and St. John's College at Cambridge University, he had served as commissioner and deputy chairman of the Inland Revenue Service; principal finance officer at the Department of Trade and Industry; permanent secretary of the British Treasury Department; and director of corporate planning and managing director at Dunlop.

During his tenure at Dunlop, the company suffered financial losses and, in 1984, a group of banks that had supported the company drafted a reconstruction plan that called for the replacement of Mr. Lord with Sir Michael Edwardes, who is known for bailing out financially troubled British companies.

"I left Dunlop because I didn't see eye to eye with the banks and they wanted a new man as part of the capital reconstruction," said Mr. Lord. "It was quite tough, but I did what had to be done to that company. When I left the board of Dunlop in 1984, I took all the British directors with me—with the exception of two, who left subsequently."

Twelve weeks later Dunlop was sold to BTR Inc. P.L.C.

When Lloyd's approached Mr. Lord in February 1986 to replace Mr. Davison, Mr. Lord said he initially was not attracted to the post "because when I left Dunlop, I had reasonable financial security. My wife and I have modest tastes. I didn't need the money and I pretty well promised her that I wouldn't work more than three days a week again because she hadn't seen me for several years—she would say 33 years.

"But, this was such an attractive job. The challenge was so great. And, the importance of Lloyd's as a national institution is, in my view, so considerable that I didn't think I could say no."

Mr. Lord now works a six-day week—with his wife's approval.

About half his time so far has been taken up with the British government's investigation of Lloyd's that is being conducted by a committee headed by Sir Patrick Neill, he says.

The committee will determine if Lloyd's self-regulation provides Lloyd's members with the same degree of protection that the proposed financial services bill will give to London Stock Exchange and life insurance company investors. Lloyd's will not be regulated under the bill.

So far, Mr. Lord says that Lloyd's has submitted 90 pages of evidence and answered the Neill committee's 300 written questions. The committee also has investigated the information available to present and potential Lloyd's members, the way members are recruited and the way they are treated, says Mr. Lord.

Mr. Lord says he wants to achieve three goals during his term at Lloyd's: keep up the momentum of Lloyd's self-regulation reforms; provide better services to Lloyd's market; and improve the quality of Lloyd's administrative staff.

"I want to see Lloyd's business prosper, the capital base grow and profitability increase faster than the capital base," he said.

"I want to see an end to nasty cases, a regulatory system which ensures good compliance and a staff which doesn't necessarily increase in number but, which increases greatly in morale and from which, when I go, my successor will be chosen." ■

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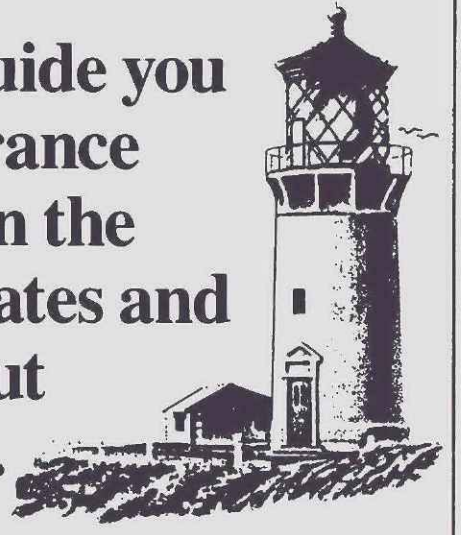
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Lloyd's may issue two sets of results for 1983

By STACY SHAPIRO

LONDON—For the first time in its history, Lloyd's of London is expected to publish two different sets of accounts when it announces its 1983 global results this week, Lloyd's sources say.

One set of accounts will exclude losses from syndicates managed by PCW Underwriting Agencies Ltd., while the other set will include those losses.

Groups of Lloyd's members say the market's 1983 global profits, not including the PCW losses, will be more than triple than the 1982 profit of 57 million pounds and more than the market's 1981 profit of 151.9 million pounds.

Lloyd's will not comment on its global results until after it announces them this week.

While the two sets of accounts are unique, Lloyd's Chairman Peter Miller notes the market never before has faced a situation such as the PCW affair.

"I do not think we will have to face a situation like PCW again," Mr. Miller adds.

Lloyd's already has earmarked 92% of its Central Fund, or 238 million pounds ($357 million at current exchange rates), to pay for potential claims.

Of this, Lloyd's has set aside 225 million pounds ($337.5 million) from its 260 million-pound ($390 million) Central Fund to pay the maximum potential claims expected by PCW syndicates 2, 157, 859, 900 and 918.

Those syndicates had a total stamp capacity in 1983 of 78.6 million pounds, according to Financial Intelligence & Research.

"The use of the Central Fund is a temporary measure to allow 2,200 names of PCW (including Mr. Miller) to get through the Lloyd's solvency test," Mr Miller said. "This is good for the policyholder because they can then count on these names to underwrite, which means extra capacity."

The 225 million pounds earmarked for potential PCW losses include the 62 million pounds Lloyd's set aside last year to meet PCW losses.

In addition, another 10 million pounds have been earmarked from the Central Fund to meet potential claims on syndicate 970, managed by Gardner Mountain & Caper Cure Agencies until mid-August, when Lloyd's Council appointed Additional Underwriting Agencies (No. 3) Ltd to manage it. AUA already manages the former PCW syndicates.

Syndicate 970 has a close relationship with the PCW syndicates. former PCW Chairman Peter Cameron-Webb underwrote for the syndicate.

Lloyd's has said that the 235 million pounds earmarked for PCW syndicates and syndicate 970 represent the maximum amount of losses those syndicates will face. AUA has not yet totaled the exact amount of claims the syndicates must pay.

PCW members so far have refused to pay these claims, charging underwriters, brokers and Lloyd's were negligent and that underwriters committed fraud.

Lloyd's is trying to negotiate a settlement with PCW members and 37 other parties named in a draft lawsuit prepared for the PCW members.

Mr. Miller hopes that a settlement will come by year-end.

If that happens, then the 225 million pounds earmarked from the Central Fund will be eventually restored to the fund.

Mr. Miller does not believe the amount earmarked from the Central Fund for PCW losses will be reduced until at least June 30, 1987.

Meanwhile, two Lloyd's members' associations have predicted that Lloyd's 1983 global profits—excluding PCW syndicates' losses—will be more than triple the amount they were last year.

One of the groups is known as Chatset Ltd., a breakaway group from the Assn. of Lloyd's Members that originally started producing tables of syndicates' performance a few years ago.

Chatset predicts that Lloyd's will report profits of about 170 million pounds ($255 million), excluding PCW syndicate losses. Last year, the group predicted that Lloyd's global profits for 1982 would be about 64 million pounds ($103.7 million), including PCW losses (*BI*, July 7).

Charles Sturge, a Chatset member, has said that syndicates' results for 1983, excluding the PCW results, look stronger than the 1982 results.

While an average Lloyd's member would have paid a negligible loss during 1982, in 1983 the average member would have made 300 pounds in profit on every 10,000 pounds underwritten, he said.

Chatset also estimates that agency commissions will be about 64.2 million pounds ($96.3 million). Not including agency commissions, Lloyd's global profits will be about 105.8 million pounds ($158.7 million) in 1933.

Chatset says Lloyd's would have suffered a 7 million pound loss ($11.3 million) in 1982 if agency commissions had not been included in Lloyd's profit.

Chatset bases its 1983 global estimates on figures from about 90% of Lloyd's membership, Mr. Sturge says.

The ALM, whose Lloyd's predictions are compiled by Financial Intelligence & Research, recently published a booklet on Lloyd's syndicate results for 1983 that includes all 406 syndicates at Lloyd's in 1983, except the six PCW syndicates.

The figures come from Lloyd's Central Registry office.

The ALM predicts that Lloyd's global profits, excluding PCW and agency commissions, will be about 103.2 million pounds.


Mr. Miller

Last year, the ALM predicted that Lloyd's profits for 1982, including PCW losses but excluding agency commissions, would be about 80 million pounds (*BI*, July 21).

The ALM does not say how much agency commissions will be, although these commissions are included in Lloyd's official global profits.

The ALM notes that in 1983, Lloyd's 400 syndicates, excluding the PCW syndicates, had a total stamp capacity of 3.1 billion pounds.

The marine market, with 149 syndicates, has a stamp capacity in 1983 of 1.3 billion pounds, said the ALM. Together, the marine syndicates produced a net profit of 171 million pounds.

Lloyd's best-performing marine syndicate was syndicate 72, managed by H.G. Chester & Co. Ltd., producing a profit of 8,629 pounds for every 10,000 pounds written, said the ALM.

The syndicate wrote business on behalf of 57 names, the ALM said.

Lloyd's worst-performing marine syndicate was syndicate 514, managed by Gooda & Partners Ltd., producing a 4,332-pound loss for every 10,000 pounds underwritten, said the ALM. The syndicate included 52 names, the ALM said.

Lloyd's non-marine market, with 142 syndicates excluding the PCW syndicates, had a 1983 stamp capacity of 1.2 billion pounds, says the ALM. The non-marine market will show an 85.7 million pound net loss in 1983, the ALM predicts.

Lloyd's best-performing non-marine syndicate in 1983 was syndicate 503, managed by K.F. Alder (Underwriting Agency) Ltd. Made up of 51 names, the syndicate produced 3,929 pounds in profit for every 10,000 pounds underwritten, the ALM said.

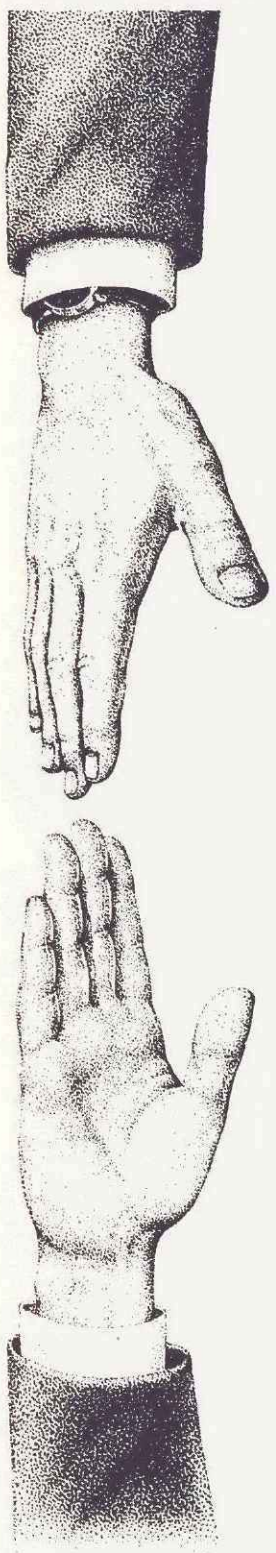
Lloyd's worst-performing non-marine syndicate in 1983 was syndicate 551, managed by Oakley Vaughan (Underwriting) Ltd. With 178 names, the syndicate produced a 7,914-pound loss for every 10,000 pounds underwritten, the ALM said.

The ALM said that Lloyd's aviation market, with 46 syndicates in 1983, had a total stamp capacity of 203 million pounds that year, producing an 18 million-pound profit.

The best-performing aviation syndicate was syndicate 998, with 91 names, managed by R.W. Sturge & Co. The syndicate produced 5,888 pounds of profit for every 10,000 pounds underwritten, the ALM said.

Lloyd's worst-performing aviation syndicate was syndicate 496, managed by Chandler Graham Ltd. With 62 names, it produced a 9,352-pound loss for every 10,000 pounds underwritten, the ALM said. ■

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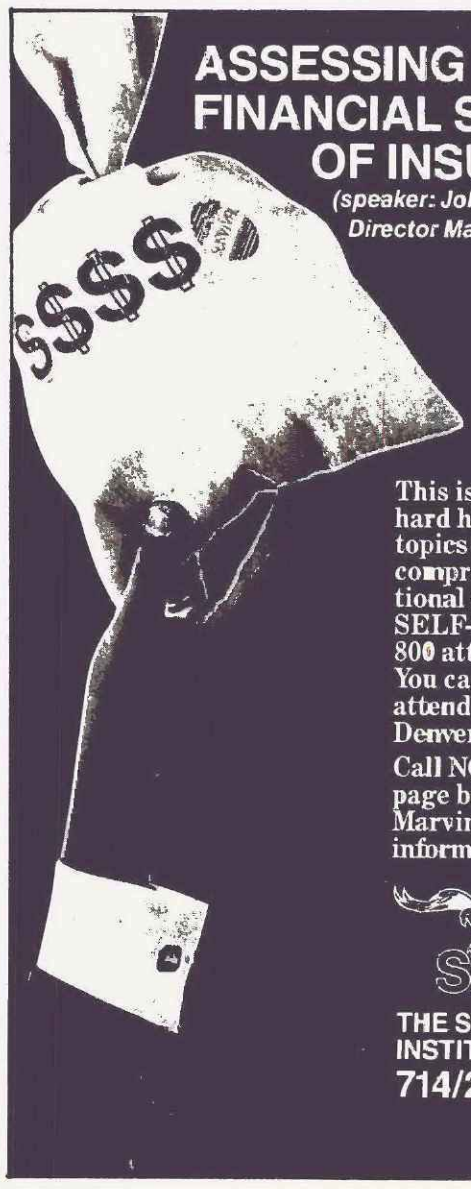
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Merrett management speaks its mind

By STACY SHAPIRO

LONDON—The top management at Merrett Holdings P.L.C. is anything but bashful.

The group's two most famous underwriters—Stephen Merrett and Robin A.G. Jackson—make their opinions known, both at Lloyd's of London and throughout the world insurance market.

"People always want to know what Lloyd's opinion is about something," said Mr. Jackson, director of Merrett Holdings. "If I feel strongly about something, then why don't I say so? Nobody need listen to me. I can say what I want because we are independent and I am financially independent, which helps."

"I suppose I am vocal because people keep asking me my views," said Mr. Merrett, who is chairman of Merrett Holdings. "The market has an obligation to put its views across and we can be criticized anyway. I would rather the criticism were informed criticism."



Mr. Merrett

Merrett Holdings is the second-largest underwriting agency group at Lloyd's. The 13 syndicates that Merrett currently manages, plus several new syndicates, will write an estimated premium volume of 723 million pounds ($1.1 billion) next year.

But Merrett Holdings and the syndicates it manages are important to U.S. insurance buyers not only because of their size, but also because Merrett syndicates serve as Lloyd's underwriting leads for North American excess liability, directors and officers liability, professional liability, bankers blanket bond, marine, medical malpractice and political risk coverage.

Merrett syndicates also are large reinsurers of North American business.

Merrett Holdings is divided into four divisions:

- Merrett Underwriting Agency Management Ltd., headed by Mr. Merrett. MUAM manages Merrett's four largest syndicates with total stamp capacity in 1986 of 374.3 million pounds ($542.7 million).

These syndicates include marine syndicates underwritten by Mr. Merrett, Martin Gray and Dennis Purkiss and a non-marine syndicate underwritten by Mr. Jackson.

MUAM will manage two other syndicates in 1987: a new syndicate to be underwritten by John Fenn, currently a deputy to Mr. Jackson, and a new motor insurance syndicate, said Merrett Holdings Managing Director Kenneth R. Randall.

The motor syndicate will write business formerly underwritten by Warwick Insurance Co. Ltd., which Merrett Holdings bought recently for about 1.9 million pounds ($2.85 million).

"We have done something quite novel," Mr. Randall said, noting that an insurance company never before has been folded into a Lloyd's syndicate.

In 1987, MUAM-managed syndicates should have a total stamp capacity of 477 million pounds ($715.5 million), including the two new syndicates.

- Creechurch Syndicates Managers Ltd., headed by W. David Robson.

Creechurch was formed as a tool to acquire the management of Lloyd's syndicates as Lloyd's brokers divested their underwriting agencies, Mr. Randall explained.

Creechurch has already purchased Pulbrook Underwriting Management Ltd. and 40% of Anton Holdings Ltd. Together, these agencies manage seven marine, non-marine and aviation syndicates with a total 1986 stamp capacity of about 70 million pounds ($101.5 million).

- Merrett Syndicates Ltd., a Lloyd's members' agency that is "fiercely independent" from the underwriting of the group, said Mr. Merrett. Its chairman is John R. Robson.
- Merrett Management Services Ltd., chaired by Mr. Randall, which manages the company's offices.

Besides heading Merrett Holdings and MUAM, Mr. Merrett, 47, is underwriter for Lloyd's marine syndicate 418/417/422, the second-largest syndicate in the Lloyd's marine market.

The syndicate has a 1986 stamp capacity of 194.7 million pounds ($282.3 million), according to Merrett officials. Capacity in 1987 may rise to 230 million pounds ($345 million), according to Merrett officials.

Although the syndicate has three numbers, it is considered only one syndicate, Mr. Merrett says.

Syndicate 422 "virtually does not exist. At one time we thought we would have an additional syndicate where the membership was precisely the same as 418," he said, but this facility is not now actively used.

Syndicate 417 is an incidental non-marine syndicate used by syndicate 418 to write non-marine risks. Syndicate 417 "runs parallel to 418 and every name participating in 418 takes a proportion of the share of 417," said Mr. Merrett, adding that normally syndicate 417 writes about 10% of 418's capacity.

There are seven "team leaders" on syndicate 418/417, besides Mr. Merrett, responsible for the day-to-day underwriting of certain classes of business. The are:

- Tim Jonas, the syndicate's deputy underwriter, who writes the cargo account.
- Norman Keene, who writes hull coverage.
- Barnabus Hurst-Bannister, who writes political risks.
- Andrew Dodd, who writes war risk coverage.
- Geoff Frampton, who writes the syndicate's aviation account.
- Steve Adams, a marine underwriter who writes London market excess-of-loss reinsurance.
- Dennis Purkiss, a non-marine underwriter who also writes London market excess-of-loss reinsurance.



The accounts with which Mr. Merrett deals most closely "are those which are on the fringes of the general account that we write." For example, Mr. Merrett currently focuses on professional liability, aviation product liability, excess liability and land construction risks.

Mr. Merrett also has been an active underwriter of satellite insurance and may be best remembered for his sponsorship role in the 1984 salvage of two probes lost on an earlier space shuttle mission.

But, "with almost a total halt at the moment of the launch programs both in the the U.S. and in Europe, there is no launch insurance to write," he said.

Besides growing in size, Mr. Merrett's syndicate also is growing in profitability.

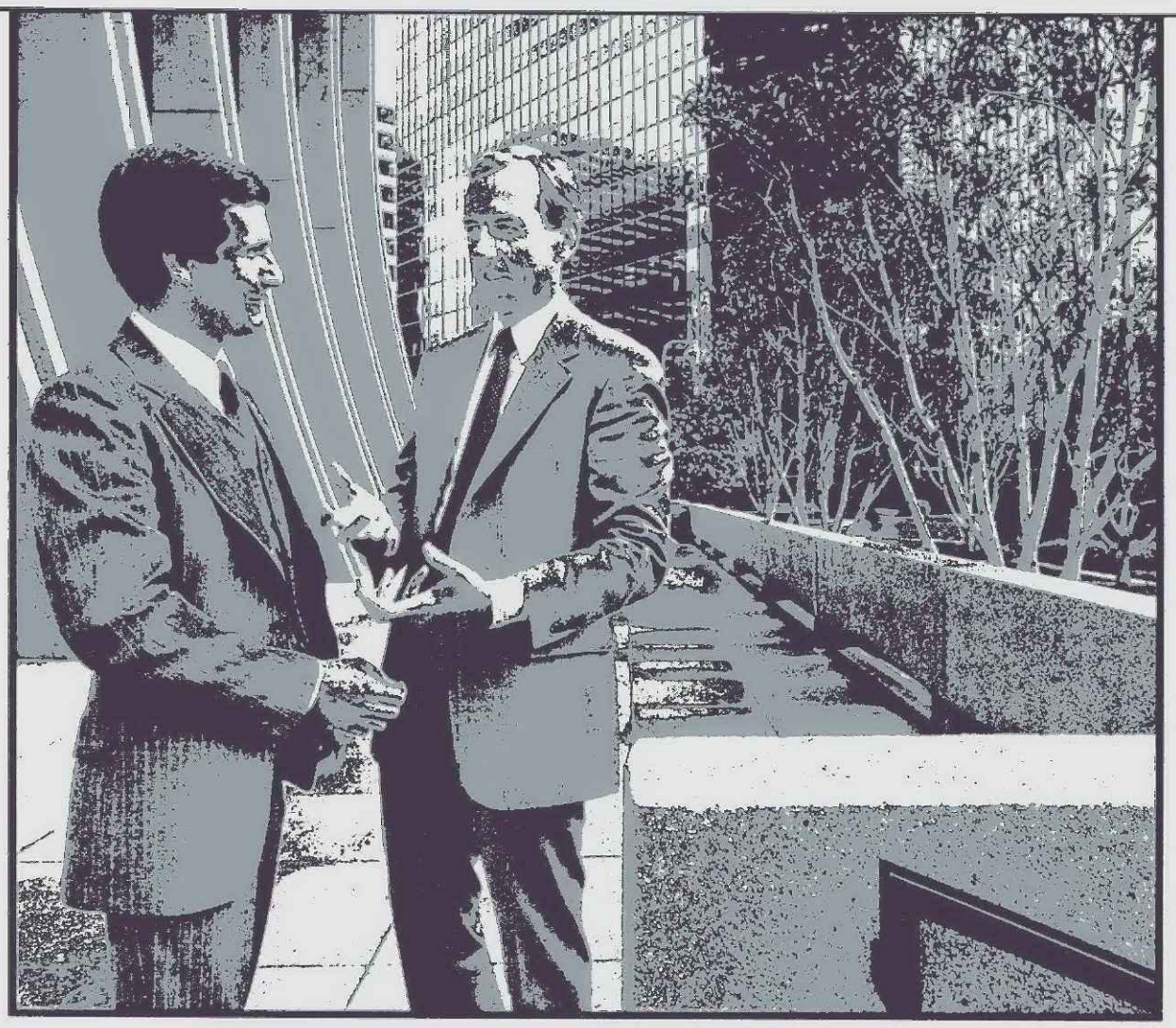
During Lloyd's 1982 underwriting year, whose results were reported last year, syndicate 418 tallied its first underwriting loss in 25 years (*BI*, April 22, 1985).

However for 1983, the year just closing under Lloyd's three-year accounting system, syndicate 418 produced for its names a profit of 2,036 pounds ($3,054) for every 10,000 pounds ($15,000) in premiums underwritten, according to the Assn. of Lloyd's Members.

In the future, syndicate 418 may be broken up into smaller syndicates with less capacity, says Mr. Randall.

"We see considerable advantages in breaking down our two

Continued on next page



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Merrett Holdings

Continued from previous page
main syndicates into more syndicates," he said. "If you look at the Stephen Merrett syndicate you will see that it is rapidly approaching 300 million pounds. We might in a three-year period be talking about three syndicates at 100 million pounds."

Mr. Merrett now says both his company and his syndicate are in such good shape that he will consider running for the Lloyd's Council at the end of the year.

"I think that our syndicate arrangements are now in such an order that I can commit myself to spend some time on market business," said Mr. Merrett, who has served on the council previously. "I am also encouraged that the reorganization at Lloyd's has lessened the load that is put on the members of the Council."

Merrett Holdings' other famous underwriter, Mr. Jackson, already holds a market position: chairman of Lloyd's Non-Marine Underwriters Assn.

Mr. Jackson, 51, was managing director of Unionamerica Insurance Co. Ltd. for five years and an underwriter for General Reinsurance Co. in the United States for 11 years before joining Merrett.

"It seemed an interesting challenge to come in and take over one of the leading non-marine syndicates in Lloyd's," explained Mr. Jackson, who is also known for an office filled with replicas of giraffes in all shapes and sizes.

The giraffes denote Mr. Jackson's market nickname, "Victor the Giraffe," given to him as a joke by a colleague after a giraffe at the London Zoo died after falling flat on all fours.

Mr. Jackson's syndicate is known as 799, although it now also includes syndicates 772, 774 and 943, syndicates previously underwritten by former Merrett Chairman Leslie Dew.

Syndicate 799's 1986 stamp capacity totaled 154.3 million pounds ($223.7 million). Next year, the syndicate's stamp capacity could increase to 180 million pounds ($270 million), according to Merrett officials.

Mr. Jackson's syndicate is one of the most influential at Lloyd's for North American property/casualty insurance and reinsurance.

Over the last few years, however, the syndicate has reduced the amount of umbrella liability insurance and reinsurance written for Fortune 500 accounts by 60% to 70%, Mr. Jackson said. But it also increased the amount of professional liability and directors and officers liability insurance it writes for U.S. companies because these lines of coverage have been written on claims-made policy forms for several years.

"Now, with the (Lloyd's) claims-made form, which we had a hand in designing, we are willing to write more heavy casualty business on the claims-made form," Mr. Jackson said.

About 84% of syndicate 799's business is derived from North America, market observers say.

Besides Mr. Jackson, other syndicate 799 underwriters include:

- Ken Barrett, who writes property treaty reinsurance and medical malpractice coverage.
- Richard Lawrence, who writes directors and officers liability insurance.
- Stephen Burnhope, who is responsible for financial institution coverages.
- Ian Smith, who writes U.S. property facultative accounts.
- Alan Haycock, who writes non-U.S. property insurance.
- David Leeney, who writes professional liability coverage.
- Keith Thoroughgood, who writes personal accident insurance.

In addition, Mr. Fenn, who is the leading Lloyd's underwriter for excess U.S. liability coverage written on the Lloyd's claims-made form, also writes for Mr. Jackson's syndicate.

Next year, Mr. Fenn will direct his own syndicate that will specialize in U.S. casualty business, though he will still write an account for syndicate 799, he said.

Mr. Fenn's new syndicate will have a stamp capacity of about 20 million pounds ($30 million), Mr. Jackson added.

Mr. Jackson oversees all the underwriting for syndicate 799, but he specializes in casualty treaty reinsurance and professional liability underwriting.

All of the syndicate's underwriters, except Mr. Fenn, have stopped writing new business for 1986 because the syndicate is reaching its premium limit, Mr. Jackson said, adding that he hopes the capacity of Lloyd's non-marine market increases next year to meet the increasing demand for coverage at Lloyd's.

Syndicate 799 will report a loss for the first time since Mr. Jackson took over the helm when Lloyd's releases its 1983 results this week. The syndicate lost 896 pounds ($1,344) for every $10,000 pounds ($15,000) of premium written, according to the ALM.

Mr. Jackson is not pleased with these results, but he notes that "many Lloyd's non-marine syndicates and world underwriters were hit with losses in 1983." He adds that his syndicate and other Lloyd's non-marine syndicates will report better results for the 1984 accounting year. ■

Merrett's roots traced to Spanish Civil War

LONDON—The roots of the company now known as Merrett Holdings P.L.C. reach back to the Spanish Civil War.

Roy J. Merrett, father of current Merrett Holdings Chairman Stephen Merrett, became a leading Lloyd's of London hull war risk underwriter during the Spanish conflict of the late 1930s.

Five years later, Leslie Dew joined the underwriting agency and started to develop its presence in the Lloyd's non-marine market.

In 1961, R.J. Merrett sold his agency to Landel Trust Co., which eventually became a subsidiary of Shipping Industrial Holdings Ltd.

Mr. Merrett retired in 1971 as marine underwriter and chairman of the company. He died in 1979.

Mr. Merrett was succeeded in the marine box by two deputy underwriters, Richard Outhwaite, who now manages his own underwriting agency, R.H.M. Outhwaite (Underwriting Agencies) Ltd., and Stephen Merrett, who worked at Lloyd's since 1963.

Mr. Dew succeeded Mr. Merrett as chairman of the agency.

In 1975, Stephen Merrett became sole marine underwriter for his father's former syndicate, and in 1976 he repurchased the company from Shipping Industrial Holdings.

Mr. Merrett then succeeded Mr. Dew as chairman of Merrett Holdings. Mr. Dew had resigned that position as well as his post as senior deputy chairman of Lloyd's to become president and chief operating officer of Insco Ltd., Gulf Oil Corp.'s Bermuda insurance subsidiary.

Robin A.G. Jackson replaced Mr. Dew as Merrett's non-marine underwriter.

In 1981, Merrett Holdings became the first Lloyd's underwriting agency group to make a public offering of shares.

Mr. Merrett says he owns a little more than half of the company's shares, while members of his family own another 10%. Mr. Jackson says he owns 4% of the shares.

Merrett Holdings may become a fully quoted public company on the London Stock Exchange "in the reasonably near future," Mr. Merrett said.

Aussies map insurance exchange

PERTH, Australia—A proposed international insurance exchange in Australia will be operating within the next year with $30 million in capital, according to its chief sponsor.

The project, which is being coordinated by the Western Australian Development Corp., already has garnered the support of Australian government officials, although legislation authorizing the exchange has not yet been approved.

The new exchange will be known as the Australian International Insurance Exchange and will be controlled by an independent board elected by exchange members, according to David MacKinlay, managing director of WADC.

The exchange is designed to capture some of the $1.2 billion in insurance and reinsurance premiums that leave Australia each year, Mr. MacKinlay said in a news release.

The Australian exchange is expected to reach about $120 million in premium income from insurance and reinsurance business within five years, according to studies done by WADC.

The exchange will be open to Australian and foreign individual and corporate investors, including insurance company syndicates.

"The early response has been very encouraging," Mr. MacKinlay said in the news release.

The exchange is modeled after Lloyd's and the U.S. exchanges and will operate in much the same way by providing a forum in which insurance brokers and underwriting syndicates can conduct business.

A WADC study team visited the United States earlier this year to study the three American insurance exchanges, according to Mr. MacKinlay. He said he hopes the "strong spirit of cooperation" he found in the United States will lead to the transaction of business between the proposed Australian exchange and the U.S. exchanges.

The WADC was established by the Western Australian government in 1984 to promote economic development in the Australian state. ■

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Dual capacity ruling

Continued from page 2

comp claims in the past and the employees wanted larger recoveries for their injuries than allowed under workers compensation benefit schedules.

Exposure to asbestos has been linked to various diseases, including asbestosis, lung cancer and mesothelioma, a cancer of the lining of the lung or abdomen.

In addition to exposure at the workplace, the plaintiffs—who lived near Raymark's plant in Manheim, Pa.—alleged they were exposed to asbestos in and around their homes and on their way to and from work.

The U.S. District Court in Philadelphia, without addressing the dual capacity issue, dismissed the employees' suits because they did not come within another exception to the exclusive remedy doctrine that permits suits against employers if they commit an intentional tort against the plaintiff.

The appellate court affirmed that decision, but also ruled that the suits should be allowed to proceed against Raymark because of the employees' capacity as members of the public.

The court first judged that the Pennsylvania Supreme Court would find the dual capacity doctrine a viable doctrine in the state.

Noting that the state Supreme Court had not specifically ruled on the issue, the federal court said that in a prior case a majority of the justices joined in a concurring opinion endorsing the doctrine of dual capacity.

"Even if the Pennsylvania Supreme Court cannot be said to have adopted the dual capacity doctrine. . .it surely gave us grounds for predicting that it will do so—four out of seven justices explicitly endorsed the doctrine and none opposed it," the appellate court said.

"Under the circumstances, we predict that the Pennsylvania Supreme Court, if called upon to decide the status of the dual capacity doctrine, would find the doctrine viable," the court said.

The appellate court then ruled that, in this case, the plaintiffs claiming asbestos-related disease could potentially recover from Raymark as members of the general public rather than in their capacities as employees.

"In our view, plaintiffs' claims fall squarely within the dual capacity exception," the court said.

"If plaintiffs were injured by exposure away from the workplace, it is unreasonable to deprive them of a cause of action that is available to the general public," the court ruled.

"Plaintiffs' allegations with respect to defendant's polluting the environment. . .stand entirely apart from plaintiffs' employment; under the pleadings, the environmental exposure would have occurred exactly as it did even if plaintiffs had never worked for defendant," the decision said.

"These allegations concern defendant's violations of its duty to the general public, not its specific duty to its employees," the appeals court said.

However, the court added that since it is likely that most of the plaintiffs' exposure to asbestos occurred at the workplace, it may be difficult to establish a relationship between their alleged injuries and their exposure away from the workplace sufficient to justify recovery.

In fact, the court in a footnote said that when the case goes back to the trial court, extremely complex legal and factual questions will have to be answered, including:

- If the combination of the plaintiffs' exposure to asbestos at the workplace and away from the workplace caused the injury.
- If the plaintiffs' exposure away from the workplace and at the workplace each would have caused the disease alone.
- If the plaintiffs would have contracted the disease from exposure at the workplace alone, but that the disease is worse due to exposure away from the workplace.

"It is unclear in which of these situations recovery is warranted," the appellate court said. "The extent of damages is also unclear."

The appeals court also said the lower court would have to determine whether Raymark should be held liable for the entire amount of any damages for injuries found to have been caused both at work and at home.

In addition, the court raised the question of whether any workers compensation benefits received by the plaintiffs should be deducted from any damage award.

An attorney for Raymark last week declined to comment on the decision except to say his firm and Raymark have not yet decided whether to seek review by the U.S. Supreme Court.

However, the attorney for the plaintiffs said the decision was significant and would lead to more suits by employees when an employer uses or handles a toxic or potentially toxic material and does not have a closed-exhaust-type system preventing the material from escaping into the environment.

Moreover, the case has implications beyond the toxic tort area, according to David Weinfeld of the Philadelphia firm of the same name.

The case seems to allow employees to circumvent the exclusive remedy rule of state workers compensation laws and sue their employers in capacities other than as employees, although the extent to which this will be available is not yet clear, Mr. Weinfeld said.

He added that he was confident Raymark could be proved liable for injuries the plaintiffs suffered as members of the public.

"We've got enough in documents and witnesses that will meet the concerns the court raises," Mr. Weinfeld said.

Duke University Professor Arthur Larson, an expert on workers compensation, said the decision was in sharp contrast to a movement away from the dual capacity doctrine.

"This is one that's unique," he said. "It strikes me as a really desperate attempt to get something to the jury.

"I'm astonished the 3rd Circuit would let itself in for something like this," Professor Larson said.

Except for California and Ohio, the dual capacity doctrine has been rejected in other states and is "practically extinct," Professor Larson said.

Moreover, recent changes in workers compensation law severely restrict the impact of the doctrine in those two states, he added.

Manville irons out trust fund

By STEPHEN TARNOFF

Manville Corp. shareholders and public debtholders as of Sept. 5 will be eligible to vote on the Denver-based company's proposed reorganization plan, now that the company has ironed out the details of its asbestos property damage claims fund.

The votes will be tabulated in November, and a court hearing has been set for Dec. 15.

The property damage trust fund will be used to settle out of court thousands of asbestos-related property damage claims brought against the company.

It is part of Manville's proposed reorganization plan agreed to earlier this year that also provides $2.5 billion to $3 billion in funds for victims of asbestos-related disease.

A minimum of $125 million will be set aside for property damage claims, although claims total about $90 billion.

Under the procedures for settling claims through the trust fund, Manville will pay 12% of costs of removal, enclosure, encapsulation or repair of asbestos-containing materials or products used on building surfaces, and 32% of costs when the work involves asbestos-containing insulation or miscellaneous asbestos-containing materials.

Manville also will pay 20% of costs for inspection and testing of buildings for asbestos-containing material and 20% of costs for monitoring the condition of asbestos-containing material, for cleanup of asbestos fibers previously released and for prevention of future releases of fibers.

In other recent asbestos-related actions, former asbestos producer Standard Insulations Inc. of Kansas City, Mo., filed for reorganization in U.S. Bankruptcy Court in Kansas City Aug. 4, citing overwhelming asbestos personal injury and property damage claims.

The company faces 7,600 to 8,000 asbestos cases and has approximately $13 million in excess coverage remaining for bodily injury claims for 1966-1976 policy years and $6 million for property damage claims for 1955-1975 policy years, said the company's attorney, David A. Welte with Polsinelli White & Vardeman of Kansas City.

The company, which manufactured, distributed, sold and installed asbestos-containing products until 1970, has paid out about $10 million to asbestos plaintiffs in the last decade, Mr. Welte said.

It currently has assets of about $400,000, excluding insurance coverage.

Also recently, a California state court judge dismissed all counts of a class action lawsuit brought against more than 40 asbestos producers by California homeowners seeking to recover for property damage allegedly caused by asbestos in the homes.

The suit was filed in February 1985 on behalf of a class that included all people owning homes in California that were built between 1912 and 1978 containing friable or flaking asbestos sold or distributed by the defendants.

Contra Costa County Superior Court Judge Richard Patsey ruled Aug. 15 that the plaintiffs' allegations of asbestos contamination fell short of that required for strict liability and negligence under California law.

He also ruled that the plaintiffs could not rely on the landmark case of *Sindell vs. Abbott Laboratories*, which said companies could be liable based on their market share if plaintiffs could not identify the particular company responsible for the asbestos contamination.

Mark Anderson, an attorney for the plaintiffs, said the rulings would be appealed. ■

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Ambassador liquidation

Continued from page 1
ment should liquidate Ambassador.

Vermont regulators had formally requested Ambassador's liquidation on March 30, 1984.

Ambassador was insolvent by at least $43 million in 1984 and could not be rehabilitated, the courts found.

"Ambassador had over 18,000 unbooked premium transactions and policy cancellations; its liability reserve was grossly underfunded; and its principal reinsurer had canceled reinsurance coverage," the high court pointed out in its decision.

Ambassador's insolvency was contested by the insurer's parent company, Ambassador Group Inc., a Delaware-based holding company owned principally by Arnold and Doris Chait.

The same general management operated both Ambassador and Horizon Insurance Co. New York, a wholly-owned affiliate, from offices in North Bergen, N.J. A New York State Supreme Court ordered Horizon liquidated in 1984 (*BI*, Dec. 17, 1984).

Ambassador President Arnold Chait said late last week that he is still deciding whether he will ask his attorney to seek the Vermont high court's permission to reargue the case.

However, Vermont insurance officials and attorneys doubt that the high court would agree to a rehearing following its unanimous decision.

Vermont officials plan to meet this week to work on a liquidation plan, which they hope to present for court approval in one to three months, Mr. Menson said.

Ambassador's financial condition has worsened during the legal wrangling. It is now insolvent by about $60 million to $110 million, according to estimates.

Mr. Menson said last week that Ambassador has about $90 million in assets and $150 million to $175 million in liabilities.

George Bernstein, a Washington, D.C., attorney hired by Vermont regulators in late 1983 to oversee Ambassador's receivership, pegged the insurer's assets at about $90 million to $100 million and liabilities at about $200 million.

Ambassador's assets have been depleted during the legal wrangle because:

- Most defense costs owed policyholders since late 1983 were fully paid by Ambassador's estate, totaling more than $20 million.

Judge Meaker refused to suspend the payments during the appeal of the liquidation order, said Richard B. Whitney, Mr. Menson's special counsel. He is a partner with the firm of Jones, Day, Reavis & Pogue in Cleveland, Ohio.

After the liquidation plan is approved, policyholders will have to pay their own defense costs and seek reimbursement from Ambassador's estate, Mr. Bernstein said.

- Attorneys' and consultants' fees were incurred to force the liquidation, totaling "well over $1 million," Mr. Bernstein said.

In addition, the estate is being asked to pay nearly $1 million more to compensate Ambassador's own attorneys and accountants, he said. However, Vermont officials are contesting this.

- Judge Meaker did not allow the estate to restructure Ambassador's investments to favor higher-yielding taxable securities.

In the meantime, most policyholders have received little or no compensation for most unpaid claims.

About 70-75% of claims dollars owed are due policyholders in 42 states where Ambassador wrote coverages on a surplus lines basis, Mr. Bernstein said.

About 25% of the claim dollars owed are due policyholders in New Jersey, where Ambassador wrote medical malpractice municipal liability and high risk general liability coverages on a surplus lines basis, Mr. Bernstein said.

New Jersey's surplus lines guaranty fund, established July 1984, has paid out more than $6 million in approved claims at the rate of 40 cents on the dollar (*BI*, Aug. 11). There is a $300,000 cap on any total individual claim payment.

Less than 5% of the claim dollars are owed policyholders in five states where it wrote primarily personal lines policies on an admitted basis—Vermont, Maine, New Hampshire, Nevada and Arizona. Guaranty funds covering admitted insurers have been activated in those states.

The total amount of money claimants will receive is hard to determine, pending the outcome of related lawsuits which could increase the estate's assets, officials say.

Ambassador Group had proposed a complex plan to avoid liquidation, involving the transfer of liabilities to a reinsurer (*BI*, May 6, 1985). The high court upheld the lower court's rejection of the plan "as unreliable, unpersuasive and contrary to statutory accounting principles."

Ambassador also challenged the use of statutory accounting principles to determine the insurer's insolvency, but those standards were upheld by the high court.

It will be some time before other lawsuits related to Ambassador's insolvency are resolved (*BI*, May 27, 1985). Those pending cases include:

- Mr. Menson is suing Ambassador's former management for mismanagement and Coopers & Lybrand, its outside auditor, for negligent auditing practices. The suit seeks $50 million in compensatory damages and $3.5 million in allegedly illegal dividend payments (*BI*, May 27, 1985).

Mr. Chait and a spokesman for Coopers & Lybrand both deny the respective charges.

New York Insurance Commissioner James P. Corcoran, the receiver of Horizon Insurance Co., filed a substantially similar lawsuit, Mr. Whitney said.

- National Union Fire Insurance Co. of Pittsburgh, Pa., Ambassador's directors and officers liability insurer, is asking the court to rescind a $3 million policy because it alleges corporate officers obtained the coverage through fraud.
- Mr. Menson, as receiver, is suing Boston Old Colony Insurance Co., which issued Ambassador's $1 million fidelity bond.
- David Michaels, a minority stockholder of the Ambassador Group, filed a securities fraud action against the group's former management and outside auditor.
- Mr. Chait is suing Mr. Bernstein for placing $500,000 in Ambassador's excess pension plan assets into the estate. ■

New York wins battle to liquidate Dominion

By DOUGLAS McLEOD

NEW YORK—The New York Insurance Department is liquidating Dominion Insurance Co. of America, a property/casualty reinsurer it found insolvent by $35.8 million at year-end 1984.

The liquidation order, signed Aug. 18 by a New York State Supreme Court justice, concludes a struggle between Dominion and the New York department that began more than a year ago and culminated this summer in a two-week trial.

The Insurance Department's examination of Dominion for the year ending Dec. 31, 1984, found—among other things—that the company reserves for long-tail casualty losses was understated.

Dominion officials, while admitting a possible statutory insolvency at year-end 1984, contended that the New York department had drastically overestimated its liabilities for incurred-but-not-reported losses.

The insurer—which stopped writing new and renewal business in mid-1985—also proposed a bail-out plan last year.

However, several elements of this plan fell apart when the New York department in March filed for an order to show cause why Dominion should not be liquidated, according to Henry A. Boczek, Dominion's president and chief executive officer.

Mr. Boczek also said Dominion's ultimate parent company—London-based Navcot Shipping (Holdings) Ltd.—has been hurt by the shipping industry recession and could not come to the insurer's aid.

Dominion will not appeal the liquidation order, Mr. Boczek said.

Dominion, formed in 1972 and licensed in 16 states, reported gross written premiums of $22.8 million last year and net premiums of $19.2 million, mostly on casualty reinsurance business.

The insurer suffered an underwriting loss of $7.2 million, and after investment income of $3.5 million and other gains and losses, finished the year with a net operating loss of $4.7 million.

In 1984, gross premiums totaled $26.4 million, while net premiums totaled $21.1 million. Dominion suffered an underwriting loss of $7.7 million and—after investment income of $3.1 million and federal taxes—finished 1984 with a net loss of $4.6 million.

In its statutory statements filed with the New York Insurance Department, Dominion reported policyholder surplus of $1.2 million at year-end 1985, down from $8.1 million at year-end 1984 and $13.8 million at year-end 1983.

However, the Insurance Department's examination, completed in July 1985, concluded that Dominion's reported surplus had been overstated for year-end 1984.

The examination accepted Dominion's valuation of its assets as $52.4 million at Dec. 31, 1984 and the insurer's total of $10 million in reserves for property, aviation, marine and miscellaneous property and casualty losses.

However, department examiners concluded that Dominion's $24.7 million reserve for long-tail casualty losses should have amounted to $59.7 million.

In addition, the examiners increased Dominion's liabilities for reinsurance recoverable from unauthorized reinsurers to $9.3 million from $308,536.

The net effect of the adjustments: an increase in Dominion's total liabilities by $43.9 million, wiping out the $8.1 million in reported surplus and creating an insolvency of $35.8 million.

The Insurance Department gave Dominion until Oct. 28, 1985, to correct the capital impairment, later extending the deadline to Dec. 18, court records show.

During that period, Dominion's management argued with Insurance Department officials over the accuracy of the examiner's report.

In a Sept. 18, 1985, letter to the New York department, Mr. Boczek protested the examiner's use of loss development statistics compiled by the Reinsurance Assn. of America as a basis for assessing the adequacy of Dominion's reserves. He also pointed to an actuarial review of year-end 1984 claim reserves performed for Dominion by accountant Deloitte, Haskins & Sells. This review found a reserve deficiency of between $8.9 million and $12 million at year-end 1984.

Mr. Boczek said in the letter that Dominion was taking several steps to correct the apparent insolvency, including:

- An underwriting moratorium. Dominion stopped writing new and renewal facultative reinsurance as of June 1, 1985, and stopped writing treaty business July 1, 1985.
- Negotiation of a reinsurance package that combined a loss portfolio transfer with aggregate stop-loss coverage. The reinsurance package, which was being negotiated with Forum Reinsurance Co. Ltd. of Bermuda, would have produced a gain of $917,000 in policyholder surplus.
- Negotiation of loss commutation agreements with several insurers that ceded long-tail casualty business to Dominion. Under such "buy-out" agreements, Dominion was to pay the ceding insurers an agreed-upon amount in return for a release from further obligations.

The buy-out agreements would have saved Dominion $6.8 million, according to Mr. Boczek's letter.

But in a Nov. 26, 1985 letter, Richard S. Karpin, assistant chief of the Insurance Department's property companies bureau, said that department found no reason to reduce its estimate of Dominion's insolvency.

Arguing that the insurer had failed to solve its problems, the Insurance Department on March 19 asked the state Supreme Court to order Dominion to show cause why it should not be liquidated.

In court filings opposing the liquidation petition and in a trial held from June 24 to July 9, Dominion maintained its position on its loss reserve inadequacy and argued that it would be solvent if it were allowed to continue with some of the steps outlined in Mr. Boczek's Sept. 18 letter.

Dominion also pointed out that it had been negotiating a possible capital infusion from several investors, including principals of New York-based Fleetwood Agency Inc.

Mr. Boczek said in an interview that the department's liquidation petition killed these negotiations and also aborted negotiations on loss commutation agreements.

Five such agreements were completed between December 1985 and March 1986 with American International Group Inc., The Home Insurance Co., Allianz Insurance Group, Gerling Global Reinsurance Corp. and Northbrook Excess & Surplus Insurance Co., according to Mr. Boczek.

Nine other agreements under negotiation at the time of the petition also fell apart, he said.

The portfolio transfer and aggregate stop-loss reinsurance deal with Forum also fell apart, Mr. Boczek said, because of a "misunderstanding" between Dominion and Forum over the timing of the loss payouts under the contract. ■

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AMICARE

Continued from page 2

PERA first began offering health plans to its members July 1, and included the AMICARE group health product as an option to HMOs. About 16,500 retirees enrolled in one of six HMOs or did not elect coverage.

PERA has not yet selected a new insurer to replace AMICARE.

Retirees in the AMICARE plan under the age of 65 pay a $175 per person annual deductible, plus 20% of the first $5,000 for a maximum out-of-pocket expense of $1,175 per person. If retirees use a preferred hospital, expenses are covered at 100%.

Retirees over age 65 were offered AMICARE's Medicare Supplemental program. Under the plan, if retirees use preferred physicians, the 20% copayment required by Medicare is paid by AMICARE. And, if retirees use a preferred hospital, AMICARE pays the Medicare deductible of $492, the PERA spokesman said.

Retirees contribute to the monthly premium under both plans. Contributions vary depending on years of service, the number of persons covered and whether retirees are covered under Medicare, he said.

PERA also offers retirees an AMICARE prescription drug plan, under which they pay a $5 copayment for prescriptions if they use a preferred pharmacist. If retirees do not use a preferred pharmacist, they pay $5 plus 20% of the total cost of the prescription, he noted.

However, another employer says it will retain its AMICARE health plan until its contract expires next year.

Mark Industries, a Carson, Calif.-based designer and manufacturer of construction equipment, has 300 of its 400 employees enrolled in an AMICARE PPO, said Floyd Wilson, manager of employee relations. The other 100 employees are awaiting eligibility for coverage.

"Since we went through an extensive educational process with our employees on the plan, our intent is to stay with AMICARE until the contract expires on Feb. 28," Mr. Wilson explained.

"I have some concern with AMICARE departing from the field since there is not a great incentive for them to be concerned about the quality of service they deliver," he said. "But, I have asked my broker to look for other insurers for our plan in the event this becomes unacceptable to us."

Mark Industries works with benefit consultant William M. Mercer-Meidinger Inc. on its benefit plans.

Mark Industries employees in the AMICARE plan pay a $100 annual deductible for individual coverage or a $200 annual deductible for family coverage. They also pay 20% of the first $1,000, up to a maximum out-of-pocket expense of $300 for individual coverage and $400 for family coverage.

Employees contribute $7.96 per week toward the premium for family coverage; there is no contribution required for individual coverage.

If there is a preferred hospital or physician in their area and they use the preferred provider, the deductible is waived. But, if they do not use an available preferred provider, they pay the deductible plus 60% of the first $1,000, Mr. Wilson said. ■

RBH not liable in J. David case

SAN DIEGO—A state court judge says Rollins Burdick Hunter of Northern California and one of its executives are not liable for $28 million in claims stemming from the collapse of the investment firm of J. David & Co.

San Diego County Superior Court Judge Wesley Buttermore granted RBH's motion for summary judgment, ruling that there was no evidence that the insurance broker thought J. David was operating in other than a legitimate business manner.

As a result, the court dismissed the $28 million in claims against RBH, said Shand S. Stephens, an attorney for the broker with the San Francisco firm of Bronson, Bronson & McKinnon.

Mr. Stephens said he anticipates that $2 million in claims remaining against RBH will be voluntarily dismissed by the plaintiffs as a result of the Judge Buttermore's July 25 ruling.

After J. David's collapse, about 360 investors alleged losses of more than $100 million and sued a number of defendants, including the law firm of Rogers & Wells. In February, Rogers & Wells settled with investors for $40 million (*BI*, March 3). ■

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As Questions Occur in Developing and Preparing a Claim, insureds should not hesitate to bring them to the attention of the adjusters. Any number of variables might be affected, including cost estimates, reporting requirements, restoration plans, record keeping, partial payments, expense handling, and the like. One of the adjusters' concerns is to avoid surprises months later. Insureds, insurers, and adjusters are seldom comforted by the unexpected discovery of unobserved damage, underestimated charges, or uninsured items long after the loss occurred. Good communications is not just a "buzz word", it is an essential ingredient for a smooth and timely conclusion of a claim.

Some claim handling tips are included in IRI's 12-page PEPlan brochure. See pages 7 and 8 for "Selecting Your Claims Coordinator," "Preparing Your Claim," and "Working with the Claims Adjuster." For a complimentary copy of the PEPlan brochure, contact Mrs. P. A. Sasso, Industrial Risk Insurers, 85 Woodland Street, Hartford, CT 06102 area code (203) 520-7412. A little planning now could help expedite a payment later.

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Commercial Consumers

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Vice-Presidents, General Managers and Other Administrative Personnel 2,758
Financial:
Chief Financial Officers and Vice-presidents of Finance 2,018
Secretaries, Treasurers, controllers and other Financial Personnel..6,484
Risk/Employee Benefits:
Vice-presidents, directors, managers, and other related department personnel of: insurance, risk, employee benefits, personnel, compensation, pension, saftey, security, industrial relations, human resources and employee/labor relations....8,111
Sub-total 22,354
Associations 483
Government, unions and educational institutions.....1,252
Commercial Consumers
Sub-total 24,089
Insurance Agents and Brokers 10,285
Insurance Companies.....6,739
Financial Institutions.....748
Actuaries, Attorneys, Adjusters, Appraisers and Consultants.....3,808
Others allied to the field.....1,308
TOTAL.....46,977

* Source Business/Occupational breakdown of qualified circulation, Nov. 25, 1985 issue, as submitted to BPA for December 1985 BPA Publisher's Statement.

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Crump acquired

Continued from page 1

"For some time, we have had a strategic objective to position ourselves geographically in the marketplace. The South was a key area where we wanted to grow," Mr. Page said.

He added that Crump's management, led by Chairman Sidney A. Stewart Jr., has effectively built Crump into a strong brokerage.

"We were interested in Crump not only for its geographic position, but also for its people and its corporate culture. They have the same type of corporate structure we do."

Crump also has posted dramatic revenue increases throughout the decade.

The brokerage's revenues have soared 312% during the 1980s from $23.8 million in 1979. Over the same period, James' revenues have increased only 136%, while the combined revenues of the 20 largest insurance brokers ranked by *Business Insurance* have risen only 125%.

Mr. Page emphasized that both Crump and James are "Main Street" brokers that have built their companies primarily by serving small to medium-sized commercial clients in cities throughout the United States.

And in addition to having similar corporate philosophies, few of Crump's offices were located in cities in which James also had a presence.

"It's difficult to put these things together when you have too many matching offices," Mr. Page added.

The foundation for the Crump acquisition was laid in February, when Reliance Insurance Cos., which holds 3.27 million Crump shares or 36% of the company's stock, announced that it would sell its interest in the brokerage (*BI*, Feb. 17).

However, Reliance "was not successful in finding a buyer for its stock alone. . .at a price acceptable to Reliance," explained Mr. Stewart.

"We then looked at alternatives that involved the sale of the entire company. We felt that the Sedgwick/James group would be the best fit for our organization," Mr. Stewart explained.

"We would have preferred to stay independent," Mr. Stewart said, adding, "Sometimes those things just aren't possible."

James actively pursued the acquisition, Mr. Page acknowledged.

"When I first realized that Reliance was interested in selling its interest in Crump, I called Sid Stewart and told him we would be interested in acquiring the company," Mr. Page said.

'We would have preferred to stay independent,' says Crump Chairman Sidney A. Stewart Jr.

At that time, Mr. Stewart made it clear at that time that Crump hoped to remain independent, Mr. Page said.

According to Mr. Stewart, serious negotiations were held between Crump and Sedgwick for about 30 days before the agreement was reached.

However, "It seems like the negotiations have been going on for 10 years," J. Niven Duncan, Sedgwick's vice chairman, said at a London press conference last week announcing the merger.

Shareholders, including Reliance, that hold 38% of Crump's stock are already committed in favor of the merger.

Crump stock closed at $31.875 a share on Aug. 27, the day the acquisition was announced, or only $1.125 cents per share less than the acquisition price of $33 a share.

However, Mr. Stewart said he does not view the purchase price as too low.

"Our stock was unrealistically priced," Mr. Stewart explained. "As it became obvious that no one was going to buy the Reliance shares alone, the investment community began to anticipate a pending sale. Stock prices began to go up reflecting that possible sale.

"Investment bankers said that our stock would have been in the $25 to $26 range if there hadn't been these rumors," Mr. Stewart added.

While management changes following the merger at Crump, James and Sedgwick have not yet been announced, Mr. Stewart will join Sedgwick's board of directors and will become vice chairman of James.

Mr. Page said that Sedgwick and James plan to retain all of Crump's employees.

"I'd be very disappointed if they didn't all stay. Crump's senior people will also be senior people in the (combined) operations," he stressed.

Mr. Page added that while some employee redundancies may exist "here and there, we think that will be manageable through attrition," especially since the two brokerages have so few duplicate offices.

James has "even talked about adding some functions in Memphis," where Crump's headquarters are now located, Mr. Page said.

Those departments could offer brokerage or risk management backup services to James employees and clients throughout the nation, explained Ronald Berardi, senior vp of special projects for James.

"Memphis is a strategic location geographically. It is a good staging point in which to locate a department of one of our specialty areas," he said.

James has not yet decided which Crump retail brokerage offices will be consolidated with James offices.

"We will study each location on a case-by-case basis," Mr. Page said. "One of the lessons that I've learned is that in some areas (of the country) you just don't combine operations successfully. We have to look at each office and decide what makes the most sense."

Mr. Page also said that James plans to solicit input from James and Crump branch offices.

"We are a benevolent democracy rather than a dictatorship," Mr. Page explained. "We also have to think about the effect on (our) people.'

While Crump's retail offices will operate under the James banner, Crump's excess/surplus lines division, Crump E&S Group, will maintain its own identity.

Crump E&S is the nation's fourth-largest wholesale broker with a 1985 premium volume of $284 million.

Crump's wholesale brokerage operation was an "attractive aspect" of the acquisition, said Mr. Stewart, noting that James is "basically a retail broker. Our E&S operations are substantial."

It is not yet certain if Sedgwick and James will retain Crump's Southern American Insurance Co., a surplus lines insurer, but "there are no immediate plans to dispose of" the insurer, Mr. Page explained.

"Every broker who is in underwriting has to periodically review whether it is strategically acceptable to remain in underwriting," Mr. Page said. But he added that Southern American "has been very successful. We don't want to fix things that are working."

However, Crump last week restated its second-quarter and first-half results to increase reserves for business written through reinsurance pools in which Southern American had participated from 1973 through 1982, Mr. Stewart said.

"It was someone else's portfolio and we couldn't track it," Mr. Stewart said. After investigating the business through the pool, "we found we had a serious problem" involving assumed reinsurance, he added.

To bolster Southern American's reserves, Crump reduced its first-half 1986 net income from $6.6 million to $4.5 million and its second-quarter net income from $3.4 million to $1.3 million.

The earnings restatement did not affect the price Sedgwick will pay for Crump, Mr. Stewart said.

To finance the Crump acquisition, Sedgwick is planning a stock rights offering. Sedgwick shareholders will be offered the right to buy one new Sedgwick share for every six shares they currently own at a price of 3.15 pounds ($4.725) per share. Sedgwick stock was trading at 3.72 pounds ($5.58) last week.

Sedgwick will borrow the additional 21 million pounds ($31.5 million) needed to complete the acquisition.

Sedgwick announced last week that Transamerica Corp., from which Sedgwick acquired James last year and which owns 39% of Sedgwick's shares, already has exercised its rights to buy the new shares.

At the same time, Sedgwick announced that its revenues increased 10.1% to 330 million pounds ($495 million) in the first half of 1986 from 299.6 million pounds ($449.4 million) in the first-half of 1985. Operating earnings rose 14.1% to 93.3 million pounds ($140 million) in the first half from 81.8 million pounds ($122.7 million) in the first six months of 1985.

While Mr. Mosselmans called the profit increase "good news," he said the company's earnings were lowered by several factors, including the "adverse exchange movements" between the value of the dollar and the pound.

Sedgwick did not release James' first-half results.

●

London Editor Stacy Shapiro also contributed to this story.

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First-half results

Continued from page 1

first half of 1986 compared with the first half of 1985. That increase virtually mirrored 30.9% rise in net premium volume reported by the same group of insurers during the first quarter.

- With increased cash flow from premiums continuing to offset declining interest rates, pretax investment income increased 17.8% to $4.6 billion in the first six months of the year, slightly better than the 17.1% rise in investment income reported during the first quarter.
- Rate hikes continued to pare underwriting losses, which declined 28.5% during the first half to $3.6 billion, compared with a 25.2% decline in losses during the first quarter.
- Policyholder surplus increased 32% among the 22 insurers reporting that data to $27.2 million. Aggregate policyholder surplus rose 34% during the first quarter.
- The insurers reported an aggregate 109.7% combined ratio for the first half, a vast improvement from the 118.5% reported by the insurers in the first half of 1985.

In the first quarter of this year, the insurers reported an aggregate 110.9% combined ratio.

Two of the surveyed companies reported an underwriting profit in the first half: The Hartford Steam Boiler Inspection & Insurance Co., with a 86.2% combined ratio, and Chubb Corp., with a 99.5% combined ratio (see chart, page 1).

Reliance Insurance Co., whose 126.8% first-half combined ratio was the highest among the insurers surveyed, added $100 million to its property/casualty reserves.

Only two insurers reported first-half aftertax operating losses—Reliance and Mission Insurance Group Inc. Reliance attributed its $88.8 million operating loss to the reserve addition, while Mission is still restructuring its operations in the aftermath of the California Insurance Department's decision last year to place Mission Insurance Co. in conservation.

Because of the restructuring, Mission's 1985 data is no longer meaningful and its results are not included in the aggregate results of the *BI* survey.

Industry observers say insurers' reserve adequacy has improved in the last year, but they add some insurers should follow the example of Reliance and others and make further reserve additions.

"Overall, we would think the industry would continue to be underreserved," said Sean Mooney, vp at the Insurance Information Institute in New York.

"A lot of repair work" remains to be done, agreed Merrill Lynch's Mr. Wells.

However, James B. Stradtner, general partner at Alex. Brown & Sons, said reserve levels are "a lot closer to adequate than anytime in the past several years."

Reserve practices can have a major impact on an insurer's combined ratio, industry observers point out.

For example, CNA Financial Corp., whose 117.1% first-half combined ratio was the third-highest among the surveyed companies, has a higher-than average combined ratio because it writes a high percentage of long-tail commercial liability and professional liability business that requires strong reserving practices, pointed out CNA Vp and Controller Dennis H. Chookaszian in a statement.

"If CNA had the same mix of business as the industry average, our combined ratio would be at the industry average or even lower."

The rebound in the insurers' earnings can also be seen in the rise in their surplus. While the insurers' aggregate surplus increased at a strong 32% pace in the first half, relatively few companies went to market to raise equity capital.

That means insurers' surplus is now growing through retained earnings.

Among the companies that have gone—or are planning to go—to market are:

- Reliance, which is now closely held by the family of financier Saul P. Steinberg. The company expects to raise between $388.6 million and $461 million from an offering of about 33% of its common shares, according to a registration statement filed with the Securities and Exchange Commission (*BI*, Aug. 11).
- CNA, which raised $184 million in a preferred stock offering in June.
- USF&G Corp., which raised $194.5 million in a convertible preferred stock offering in July.

In addition, The Travelers Corp. filed a shelf registration with the SEC in July seeking to sell $400 million in debt securities and warrants, while CIGNA Corp. has issued $150 million in notes, according to spokesman.

This long-term debt will be used to partially replace the $600 million in short-term borrowings used when CIGNA boosted its reserves (*BI*, April 14). Another $349.5 million was raised in a common stock offering in May (*BI*, June 2).

The CIGNA spokesman said it would be "reasonably fair to expect" that the company will need another $100 million between now and year-end, which also would be raised through a debt, rather than an equity, offering.

Observers say other major property/casualty insurers will be avoiding the equity market.

"Once they've gone (to market), they've gone. It's not something you continue to do," said the III's Mr. Mooney.

Insurers raised a lot of money through stock offerings, but the money primarily was used to increase loss reserves, said Myron M. Picoult, vp at Oppenheimer & Co. Inc.

These insurers are going to have to show their current underwriting practices are "more intelligent" before they can return to the market to raise more, he said.

"The big companies should be at a point where they've generated all the external capital they need," said another analyst. "They should be starting to generate internal capital."

Merrill Lynch's Mr. Wells adds that the demand for insurance equities must be considered when an insurer weighs whether to return to market. Insurance stocks were in demand when investors feared interest rates would drop and they wanted to lock in higher yields. But, now that rates have dropped, this demand has decreased.

The drop in interest rates also could reduce insurers' investment income, though some observers say they expect investment income to continue to increase because of the strong cash flow generated by mounting premium volume.

"Investment income is under pressure," said Michael A. Lewis, vp and financial stock analyst with E.F. Hutton in New York.

But this pressure may actually be beneficial to the property/casualty industry because a slowdown in investment income growth will "force continued improvement in underwriting in some form," said Don Clark, executive vp at Kemper Corp. in Long Grove, Ill.

Insurers also say they are now evaluating their investment strategies in light of the tax bill approved last month by a House-Senate conference committee (*BI*, Aug. 25).

Under a provision in the bill, insurers would be required to reduce their deductions for additions to loss reserves by an amount equal to 15% of the tax-exempt income generated from investments acquired after Aug. 7.

Most insurers had been concentrating on higher-yielding taxable instruments because past underwriting and operating losses are

Continued on next page

Industry's earnings zoom

NEW YORK—The U.S. property/casualty insurance industry reported pretax operating income of $2 billion in the first half of 1986, compared with a $2.4 billion loss in 1985's first half, according to a survey by the Insurance Services Office and the National Assn. of Independent Insurers.

Net income for insurers that write 97% of the nation's property/casualty business rose to $5.7 billion in the first half of 1986 from $900,000 million in the first half of 1985.

The insurers reported a pretax underwriting loss of $8.6 billion in the first half of 1986, compared with an $11.7 billion underwriting loss in last year's first half. Pretax net investment income rose 14.3% to $10.6 billion from $9.3 billion in the first half of 1985.

Net written premiums grew 25.2% in the first half of 1986 to $84.8 billion from $75.5 billion in the first half of 1985. Policyholder surplus rose 13.7% to $85.8 billion as of June 30 from $75.5 billion at year-end 1985.

New EIL facility

Continued from page 2

Backers of the facility and potential participants are scheduled to meet in Toronto in mid-September to discuss capitalizing the insurer, according to Paul M. Donovan, a partner with LaRoe Winn.

The ability to offer high EIL liability limits would be one of NACC's biggest drawing cards, backers say.

The present commercial EIL market offers limits of no more than $10 million—through American International Group Inc. And, most environmental risk management consultants agree that this level of coverage is far from adequate to cover the environmental exposure of even a midsized industrial or manufacturing company.

Of the four EIL captives currently under development, NACC would provide the highest limits of coverage by far.

The other three captives would offer limits ranging from $3 million per occurrence, with a $6 million annual aggregate, to $10 million per occurrence, with a $10 million aggregate.

So far, attempts to capitalize those captives have yet to bear fruit, although backers of those captives say they hope to be operational by the end of the year (*BI*, July 14).

Mr. Donovan says the objective of NACC is to provide "real balance-sheet protection."

The NACC proposal tentatively would require each participant to make a capital contribution of either $10 million for $100 million in coverage or $5 million for $50 million in coverage. In both cases, the limits would be excess of a $5 million self-insured retention, according to Mr. Donovan.

Mr. Donovan, noting that many companies have been going without EIL coverage for several years, is enthusiastic about the chances for capitalizing the insurance facility.

"We're looking at a minimum capitalization of $200 million, but our real target is closer to $500 million," he said.

The J&H official, meanwhile, said he is "guardedly optimistic" about NACC's chances for success.

"I know of at least 15 companies that would participate in something like this; however, it's going to take a lot more than 15 companies to make this thing work," he said.

Like all of the proposed EIL captives, NACC will place heavy emphasis on risk assessments as the means of evaluating the participating companies, all of which would have to qualify for coverage through such an assessment.

'So there are really two risk assessors: one providing the risk assessment and the other evaluating that assessment as an underwriting tool,' Mr. Donovan explains.

The facility will feature a "coordinated defense strategy," said Mr. Donovan, explaining that the captive will take a strong defense posture in all litigation filed against its policyholders.

"We have in place three major national law firms prepared to work on these cases in a uniform and coordinated way," he said. "If you have this coordinated policy in place, (plaintiffs attorneys) can't file nuisance suits and expect to shake the money tree and get a big settlement."

The three law firms are: Pepper, Hamilton & Scheetz in Philadelphia; Latham & Watkins in Los Angeles; and Winston & Strawn in Chicago.

The insurer also will take an unusual approach toward underwriting. IT Corp. in San Francisco will conduct the risk assessments and ICF/Clement of Washington, D.C., also an environmental risk assessment firm, will review the assessments and underwrite risks.

"So there are really two risk assessors: one providing the risk assessment and the other evaluating that assessment as an underwriting tool," Mr. Donovan explained.

The assessment will determine each company's annual premium, Mr. Donovan said.

According to Richard L. Wade, director of risk management services for IT Corp., the risk assessments will focus on a potential policyholder's hazardous material handling procedures, industrial processes and products, engineering controls and training programs.

The assessments also will attempt to determine whether the potential policyholder is in compliance with all federal, state and local environmental regulations and what their existing liabilities are.

IT Corp. is a major "Superfund" contractor for the U.S. Environmental Protection Agency. ■

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Summary of major property/casualty insurers' first-half results

(All amounts in thousands of dollars)

(Ranked by change in aftertax operating income)

		Corporate			Property/casualty operations									
Rank 1986		Consolidated revenues 1986	Aftertax[1] operating income 1986	Percent increase (decline) 1985-1986	Combined[1] ratio 1986	Combined[1] ratio 1985	Net premiums written 1986	Percent increase (decrease) 1985-1986	Pretax underwriting income (loss) 1986	Percent increase (decline) 1985-1986	Pretax investment income 1986	Percent increase (decrease) 1985-1986	Policyholder surplus 1986	Percent increase (decrease) 1985-1986
1	CIGNA Corp.	8,085,000	182,800	950.6	113.0	124.7	2,589,100	16.4	(323,600)	39.9	349,800	12.8	1,456,000	8.5
2	Royal Group (U.S. subs.)[2]	N/A	74,300	370.2	105.7[3]	118.8[3]	1,000,000	14.1	(78,700)	46.3	116,700	15.5	N/A	N/A
3	Sentry Insurance Cos.[2]	279,557	22,056	302.7	109.8	118.0	394,357	(11.3)	(39,610)	50.7	44,234	(12.5)	274,797	80.6
4	Crum & Forster Inc.	1,472,200	31,800	249.3	113.1	123.5	1,354,600	26.1	(187,800)	31.3	213,400	17.2	1,159,700	93.3
5	Hartford Insurance Group	4,100,359	145,626	210.6	106.4	115.0	2,797,039	39.3	(188,450)	34.2	280,162	26.3	2,210,153	59.8
6	USF&G Corp.	2,077,941	103,304	199.2	110.3	119.8	1,824,354	23.7	(159,102)	39.6	272,221	67.6	1,023,900	12.5
7	Kemper Corp.	1,678,966	64,910	193.4	108.1	117.2	373,064	6.4	(33,576)	43.4	38,840	3.8	364,809	19.7
8	Fireman's Fund Ins. Cos.	1,739,800	70,100	180.1	109.8	132.5	1,654,100	7.7	(146,100)	68.0	232,900	0.6	1,240,700	36.9
9	Ohio Casualty Corp.	674,816	25,991	126.4	106.4	112.2	631,343	22.4	(43,506)	28.5	68,381	16.7	454,651	25.5
10	The St. Paul Cos. Inc.	1,534,065	50,247	125.2	115.1[2]	121.1[2]	1,164,172	17.3	(173,676)	11.1	211,990	18.8	869,123	16.5
11	General Re Corp.	1,483,105	128,982	115.2	104.9[2]	113.5[2]	1,214,538	87.5	(70,896)	16.7	181,411	38.9	1,567,558	52.4
12	Continental Corp.	2,800,000	79,600	112.3	107.0[2]	114.1[2]	1,736,800	21.9	(114,000)	39.6	168,200	(3.2)	1,196,900	12.1
13	Chubb Corp.	1,499,900	98,700	111.3	99.5[2]	109.9[2]	1,197,500	36.2	(18,300)	78.7	109,000	16.2	896,400	29.5
14	Fremont General Corp.	333,015	529	105.2	120.7	132.5	230,565	7.3	(50,472)	18.0	44,419	17.4	N/A	N/A
15	The Home Group Inc.	1,066,000	6,000	103.6	115.4	143.2	985,000	16.4	(135,000)	61.1	182,000	17.4	800,000	53.3
16	Aetna Life & Casualty Co.	9,811,600	299,400	90.6	109.9	117.4	2,975,200	31.5	(288,100)	16.0	356,000	25.8	5,660,138	26.4
17	Hartford Steam Boiler	188,372	21,306	81.9	86.2	96.9	133,378	20.1	17,721	504.0	14,391	25.3	209,732	53.6
18	American International Group	3,962,874	277,788	68.7	102.1[2]	107.4[2]	2,983,250	64.8	(77,201)	40.6	238,889	34.9	N/A	N/A
19	CNA Financial Corp.	2,955,000	121,300	62.4	117.1	123.8	2,104,400[2]	65.7	(355,900)[2]	8.6	329,200[2]	26.7	1,538,400	34.8
20	SAFECO Corp.	1,320,156	80,179	47.4	105.1	112.3	662,217	17.3	(31,355)	51.4	71,712	19.5	588,862	38.6
21	Old Republic Int'l (incl. life)[3]	574,300	33,600	30.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
22	American General Corp.	2,920,000	253,000	16.1	106.0	108.7	727,000	26.0	(36,000)	10.0	73,000	12.3	841,000	33.9
23	Travelers Corp.	8,009,200	170,900	12.7	107.3	113.1	2,515,100	22.2	(186,500)	51.2	218,600	11.6	1,704,800	42.5
24	Reliance Ins. Co. & subs.	1,253,155	(88,839)	(568.4)	126.8[2]	113.6[2]	733,188	1.8	(187,697)	(155.2)	72,221	(20.5)	541,600	26.0
—	Mission Ins. Group Inc.	53,866	(12,712)	N/A	108.6	N/A	55,208	N/A	(4,004)	N/A	2,919	N/A	28,820	N/A
—	Nationwide Mutual Ins. Co.[2]	N/A	N/A	N/A	111.3	117.8	2,845,049	46.7	(366,773)	(17.5)	267,165	14.0	2,144,416	19.5
—	Liberty Mutual Ins. Co.	N/A	N/A	N/A	114.4	117.8	2,660,707	38.2	(292,315)	3.7	332,821	14.6	N/A	N/A
—	Commercial Union Ins. (U.S.)	N/A	N/A	N/A	114.4	126.2	519,300	5.3	(82,900)	33.4	76,400	(5.7)	465,300	27.5
	Cumulative	59,819,381	2,253,579	216.2	109.7	118.5	38,005,321	30.7	(3,649,808)	28.5	4,564,057	17.8	27,208,939	32.0

[1] After dividends. [2] Statutory. [3] Before dividends. N/A—Company did not provide data

Continued from previous page

still offsetting taxable investment income.

But, some analysts had anticipated that as insurers continue to report operating profits, the companies would begin to switch back to tax-exempts.

A spokesman for Travelers said the insurer is "not going into the tax-exempts right away," but is "reconsidering its strategy."

On the other hand, SAFECO Corp. has continued to invest in tax-exempt instruments all along because its tax situation never made it advantageous to switch to taxables, said George P. Yonker, the company's assistant controller.

He adds that SAFECO's strategy also may be affected by the tax bill. "We're going to have to take a little closer look."

Regardless of the tax bill's provisions, Chubb plans to continue its practice of investing in tax-exempts as funds become available. "I don't think it'll change our attitude very much in terms of going into tax-exempts for the moment," a Chubb spokesman said.

"I don't think it's had too much impact at this point," said Bernard C. Hlavac, vp of Sentry Insurance Cos., who said his company is putting about 10% to 15% of its new funds into tax-exempt bonds.

CIGNA will have, at least for a couple of years, enough loss carry-forwards to offset any taxes it would have to pay so that it can retain higher-yielding taxable instruments, said a CIGNA spokesman.

Aetna Life & Casualty Co. still has loss carry-forwards to use up as well, said Tim Holt, the insurer's portfolio manager. "We are starting to look at the possibility of tax-exempts, but we haven't bought any yet in any significant volume," he said.

While a tax on 15% of insurers' tax-exempt income is unattractive, the aftertax yield on non-taxables may be more attractive than the aftertax yield on taxable instruments, he said. ■

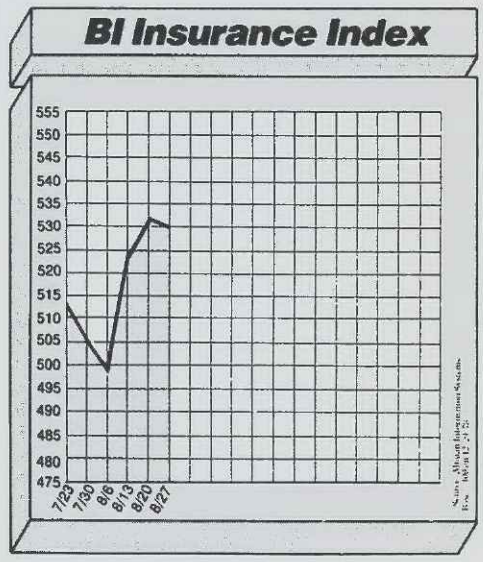
BI Industry Stock Report

August 27, 1986 8/21/86 thru 8/27/86

Brokers		Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol.(000)
Alexander & Alexander Svcs	NYSE	38.25	-1.9	255.0	1.00	2.6	38.63	37.13	708.5
Baldwin & Lyons Inc	OTC	32.00	14.3	41.0	0.16	0.5	32.00	24.00	1.1
Corroon & Black Corp	NYSE	38.50	4.8	19.3	0.65	1.7	38.50	37.75	354.5
Crump E H Cos Inc	OTC	30.50	2.5	23.6	0.25	0.8	30.50*	30.00	1,291.7
Gallagher Arthur J & Co	OTC	29.00	0.4	23.4	0.20	0.7	30.00	29.00	52.5
Hall Frank B & Co Inc	NYSE	23.25	1.1	0.0	0.00	0.0	23.75	23.25	187.4
Marsh & Mclennan Cos Inc	NYSE	72.25	3.6	25.4	1.50	2.1	72.25*	69.75	406.8
Poe & Assoc Inc	OTC	13.25	3.9	0.0	0.32	2.4	13.25	12.75	17.8
AGENTS/BROKERS	AVERAGE			-55.8		1.5			
Conglomerates & Holding Cos.									
American Express(Fireman's Fd)	NYSE	65.38	1.6	12.4	1.36	2.1	65.88	63.88	2,988.4
Anderson Clayton(Ranger/PanAm)	NYSE	55.88	0.0	31.9	0.00	0.0	0.00	0.00	0.0
Armco Inc	NYSE	6.63	-3.6	0.0	0.00	0.0	6.88	6.63	623.3
Berkley W R Corp	OTC	36.25	3.6	27.5	0.24	0.7	36.25	35.00	226.5
Berkshire Hathaway Inc Del	OTC	60.50	-98.0	10.7	0.00	0.0	3040.00	60.50*	3.4
CIGNA Corp	NYSE	59.00	-0.4	0.0	2.60	4.4	59.38	58.50	2,312.1
CNA Finl Corp (CNA)	NYSE	63.25	-0.6	17.5	0.00	0.0	64.25	62.38	249.8
General Re Corp	NYSE	67.00	3.3	29.1	0.88	1.3	67.50	64.25	1,161.9
ITT (Hartford Group)	NYSE	54.25	1.4	25.7	1.00	1.8	54.63	53.25	3,361.6
Sears Roebuck & Co. (Allstate)	NYSE	46.25	-0.5	13.2	1.76	3.8	47.75	45.88	5,509.5
Teledyne Inc (Argonaut)	NYSE	318.50	-1.0	11.6	0.00	0.0	321.50	318.50	99.0
Transamerica Corp (Occidental)	NYSE	37.63	4.9	16.5	1.68	4.5	38.25	36.50	1,324.8
CONGLOMERATES/HOLDING COS.	AVERAGE			22.4		1.1			
Insurers									
Aetna Life & Cas Co	NYSE	63.25	1.6	12.6	2.64	4.2	64.25	61.88	2,158.1
American General Corp	NYSE	41.00	-1.2	12.2	1.12	2.7	42.38	41.00	1,110.2
Amern Heritage Life Invt Co	NYSE	41.13	-1.2	14.8	1.32	3.2	41.50	41.00	3.4
American Indty Finl Corp	OTC	17.75	1.4	0.0	1.12	6.3	17.75	17.50	17.0
American Intl Group Inc	NYSE	137.50	-0.5	22.4	0.44	0.3	138.13	135.50	420.9
Aneco Reins Ltd	OTC	2.75	-13.7	0.0	0.00	0.0	3.25	2.75	16.1
Avemco Corp	NYSE	31.25	0.4	16.4	0.50	1.6	31.25	30.50	19.6
Business Mens Assurn Co Amer	OTC	28.00	0.9	23.0	1.10	3.9	28.00	27.50	12.9
Chubb Corp	NYSE	75.38	1.2	56.3	1.56	2.1	75.88	74.25	408.7
Combined Intl Corp	NYSE	59.25	0.9	11.5	2.24	3.8	60.00	59.25	288.2
Continental Corp	NYSE	49.38	-0.5	0.0	2.60	5.3	49.38	48.38	814.9
Crown Life Ins Co	OTC	350.00	-6.7	3.5	6.40	1.8	350.00	350.00	0.5
Durham Corp	OTC	44.25	0.6	12.4	1.36	3.1	44.75	44.25	3.3
Farmers Group Inc	OTC	42.75	-3.4	14.8	1.00	2.3	44.75	42.75	766.3
Fairmont Finl Inc	AMEX	18.25	-2.0	18.8	0.00	0.0	18.63	18.13	52.7
Fireman Fd Corp	NYSE	39.88	0.9	0.4	0.30	0.8	40.25	39.50	741.0
Fremont Gen Corp	OTC	26.50	1.9	0.0	0.48	1.8	26.50	26.38	150.6
Great West Life Assurn Co	OTC	795.00	0.0	8.0	18.00	2.3	795.00	795.00	0.0
Home Group Inc	AMEX	22.63	-6.7	107.7	0.00	0.0	23.88	22.63	414.7
Hanover Ins Co	OTC	68.50	3.8	19.7	0.56	0.8	68.50*	67.50	47.7
Hartford Steam Boiler Insptn	OTC	49.00	-1.0	27.5	0.84	1.7	49.50	49.00	33.2
Kans City Life Ins	OTC	33.00	-0.8	13.0	0.87	2.6	33.25	33.00	16.8
Kemper Corp	OTC	33.00	1.5	15.0	0.60	1.8	33.25	32.63	670.2
Liberty Corp S C	NYSE	40.25	-4.7	14.9	0.72	1.8	42.25	40.25	11.7
Lincoln Natl Corp Ind	NYSE	54.00	-0.5	11.7	2.00	3.7	54.75	53.63	244.3
Mission Ins Group Inc	PAC	3.88	0.0	0.0	0.00	0.0	4.38	2.88	43.0
Monumental Corp	OTC	55.63	0.5	18.8	0.00	0.0	55.63*	55.38	13.7
Nac Re Corp	OTC	33.75	-0.7	0.0	0.00	0.0	35.50	33.75	134.3
Nobel Ins Ltd	OTC	16.00	0.0	21.1	0.37	2.3	16.25	16.00	124.6
Northwestern Natl Life Ins	OTC	31.50	4.1	11.6	0.86	2.7	31.75	30.50	493.4
Ohio Cas Corp	OTC	78.50	-2.5	16.7	3.00	3.8	79.75	78.25	161.8
Old Rep Intl Corp	OTC	37.75	-0.7	12.6	0.78	2.1	37.75	36.63	209.4
Orion Cap Corp	NYSE	34.00	-4.6	0.0	0.76	2.2	35.13	34.00	34.0
Protective Corp	OTC	22.50	2.9	12.1	0.70	3.1	23.25	22.25	244.1
Provident Life & Acc Ins Co	OTC	24.38	-3.0	9.0	0.84	3.4	24.75	24.38*	667.6
St Paul Cos Inc	OTC	40.00	1.3	23.8	1.50	3.8	40.25	38.75	1,702.4
SAFECO Corp	OTC	61.63	-2.2	14.7	1.68	2.7	62.75	61.13	376.3
Seibels Bruce Group Inc	OTC	14.75	-5.6	0.0	0.80	5.4	15.25	14.75*	153.6
Selective Ins Group Inc	OTC	22.50	-4.3	0.0	0.92	4.1	23.50*	22.50	113.7
Statesman Group Inc	OTC	5.75	0.0	63.9	0.05	0.9	6.00	5.75	94.5
Tokio Marine & Fire Ins Co	OTC	539.50	-11.0	101.6	1.66	0.3	590.00	536.88	15.5
Torchmark Corp	NYSE	30.50	-2.4	12.3	0.60	2.0	31.50	30.50	550.4
Travelers Corp	NYSE	46.88	0.8	11.7	2.16	4.6	47.00	46.00	1,886.3
Trenwick Group Inc	OTC	21.25	-1.2	0.0	0.00	0.0	21.50	21.25	64.7
United Fire & Cas Co	OTC	33.00	6.5	17.3	0.80	2.4	33.00*	30.25	62.0
United States Fid & Gty Co	NYSE	41.00	0.9	0.0	2.32	5.7	41.63	40.75	1,481.2
Uslife Corp	NYSE	46.13	4.2	12.1	1.12	2.4	46.38	45.25	152.9
Washington Natl Corp	NYSE	32.63	-1.1	14.7	1.08	3.3	32.63	32.00	331.9
Zenith Natl Ins Corp	OTC	27.25	-0.9	47.0	0.80	2.9	28.25	27.25	130.0
INSURANCE COMPANIES	AVERAGE			9.4		2.0			

System design: Altman Information Systems

BI Insurance Index



Insurance industry stocks faltered last week as the *Business Insurance* stock index fell to 529.6 on Aug. 27, down 2.1 points from 531.7 on Aug. 20. Twenty-six issues reported gains, 29 declined and 5 stocks were unchanged. The largest gains were posted by United Fire & Casualty Co., up 6.5%; Corroon & Black Corp., up 4.8%; USLife Corp., up 4.2%; Northwestern National Life Insurance Co., up 4.1%; and Hanover Insurance Co., up 3.8%. The largest declines were tallied by: Aneco Reinsurance Co. Ltd., down 13.7%; Tokio Marine & Fire Insurance Co., down 11.0%; The Home Group Inc., down 6.7%; Crown Life Insurance Co., down 6.7%; and Liberty Corp., down 4.7%. The 0.4% decline in the *BI* index was smaller than the decline in the major market averages.


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