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

SEPTEMBER 2, 1985

business insurance®

Reporting weekly for corporate risk, employee benefit and financial executives/$1.50 a copy; $52 a year

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update

Three Mission units suing Borg-Warner over reinsurance

CHICAGO—Borg-Warner Corp. is being sued by three Mission Insurance Group Inc. units demanding an estimated $50 million in reinsurance payments from Centaur Insurance Co., a Borg-Warner subsidiary.

The suit against Chicago-based Borg-Warner was filed Aug. 9 in the U.S. District Court in Chicago by Mission Insurance Co.; Sayre & Toso Inc., Mission Insurance Group's managing

Continued on next page

Employers urge changes in tax rules for foreign benefits

By MEG FLETCHER

Employers have until Friday to comment on proposed regulations governing U.S. tax deductions for deferred compensation plans for non-U.S. citizens working in foreign countries.

Corporate executives that want to speak at a Sept. 20 hearing at the Internal Revenue Service's national headquarters in Washington, D.C., must have an outline of their oral comments postmarked by Sept. 6.

The hearing is expected to be the last chance employers will have to urge changes in proposed regulations for Section 404A of the tax code, which allows employers to deduct from income taxes costs for foreign deferred compensation plans.

Judging from the criticisms to date, IRS officials will get an earful.

To be eligible for Section 404A treatment, a deferred compensation program must have a written plan, be maintained for the exclusive benefit of employees and have at least 90% of money involved relate to deferred compensation for non-resident aliens whose compensation is not subject to U.S. federal income tax.

The proposed regulations will have a major impact on 250 to 300 of the Fortune 1,000 companies, according to Mr. Heitzman of Kwasha Lipton.

Section 404A became law in 1980 after an "intense" lobbying effort by multinational companies that wanted to broaden the rules for deducting their expenses for foreign plans and resolve confusion about IRS officials' interpretation of the legitimacy of these deductions, according to Barry Levine, an attorney and principal with benefit consultant Kwasha Lipton in Fort Lee, N.J.

However, because the IRS has not issued final regulations to implement Section 404A, corporations are still without the guidance they have sought before taking deductions.

Because pension plans are often the most costly component of overseas benefit packages, the tax deductions at stake under Section 404A are very important to multinational employers, said Jerry E. Long, manager and vp with broker Alexander & Alexander Inc. in Alexandria, Va.

The proposed regulations will have a major impact on 250 to 300 of the Fortune 1,000 companies and at least a minor impact on many hundreds of others, said Robert E. Heitzman Jr., an actuary and partner with Kwasha Lipton.

A single employer could have millions of dollars in potential tax savings at stake over the past 14 tax years covered by the law, depending upon the company's number of open tax years, consultants say.

Hundreds of millions of dollars in potential tax savings are at stake for just the nine large U.S.-based multinationals that are members of the International Employment Policy Assn., said organization chairman Karl Heckman.

IEPA members employ foreign nationals overseas in the banking,

Continued on page 67

Court allows Manville to press claim against federal government Page 2

Government paying half of claims in 1982 air crash

By STACY SHAPIRO and STEPHEN TARNOFF

WASHINGTON—The federal government is expected to pay more than $27 million for liability and property damage claims stemming from the July 1982 crash of a Pan American World Airways jet near New Orleans that killed 154 people.

Under an agreement between the government and Pan Am's insurers reached in 1983, the federal government is reimbursing the insurers for 50% of the $6 million hull loss and 50% of the $48 million in liability payments made to date.

The government also agreed to pay 100% of the cost of settling all crew claims while Pan Am's workers compensation insurer paid the statutory benefits due to crew members' survivors.

So far, the U.S. government has paid about half of its obligation, insurance sources close to the settlement told *Business Insurance*.

"The government has already paid out a significant amount of money pursuant to the agreement," said James S. Dillman, chief of litigation for the Federal Aviation Administration. He refused, however, to comment on the amount paid.

The 2-year-old agreement was disclosed last week when questions were raised about the government's liability for the crash last month of a Delta Air Lines jet outside of Dallas (*BI*, Aug. 12).

The government agreed to contribute to the Pan Am settlements rather than risk litigation for its liability for the crash. Litigation against the government was expected because almost half of the passengers on the Pan Am jet were flying on international tickets, which limited Pan Am's liability for deaths to $75,000 per international ticketed passenger.

Pan American World Airways Flight 759 crashed on July 9, 1982, after taking off from New Orleans on a flight to Las Vegas, Nev., and San Diego. The flight had originated in Miami (*BI*, July 19, 1982).

The Boeing 727 crashed and burned in a suburb a mile from the runway, killing all 146 people on board and eight on the ground. The crash also destroyed several homes.

The National Transportation Safety Board determined that the probable cause of the crash was an encounter during liftoff and the initial climb phase with a microburst-induced wind shear, which caused a downdraft and decreasing headwind. The pilot would have had difficulty recognizing the effects of the phenomenon to react in time to alter the plane's descent before it struck trees, the board said.

Contributing to the accident was the limited capability of ground-based, low-level wind shear-detection technology to provide definitive guidance for controllers and pilots for use in avoiding low-level wind shear encounters, the board also said.

Wind shear also was the probable cause of last month's Delta crash.

At the time of the crash, Pan Am had $500 million in hull and liability insurance, with 45% written by Lloyd's of London underwriters; 15% by La Reunion

Continued on page 64

Judge rules property policy will not cover Tylenol losses

By DOUGLAS McLEOD

NEWARK, N.J.—McNeilab Inc., a unit of Johnson & Johnson, plans to appeal a federal judge's ruling denying it coverage under a $50 million all-risk property policy for losses related to the 1982 recall of Extra-Strength Tylenol capsules.

U.S. District Judge Frederick B. Lacey ruled last month that McNeilab, Tylenol's manufacturer, cannot recover lost profits under the business interruption clause of the property policy written for J&J by Affiliated FM Insurance Co.



Judge Lacey found that J&J's loss of profits following the Tylenol recall doesn't fit the definition of loss set forth in the business interruption clause.

He also concluded that since J&J extensively negotiated the terms of the policy with Affiliated, ambiguities need not be construed strictly against the insurer and that the intent of the parties can be considered.

J&J and its insurance director, Frederick B. Molineux, never intended the Affiliated policy to cover the losses J&J is claiming, Judge Lacey concluded.

McNeilab will request the court's permission to appeal the ruling to the 3rd U.S. Circuit Court of Appeals, according to Gregory L. Diskant, a lawyer with the New York firm of Patterson, Belknap, Webb & Tyler, representing J&J.

The court's permission to appeal must be sought because the dispute with Affiliated FM is part of litigation that is still pending against eight J&J excess liability insurers, Mr. Diskant said. McNeilab is seeking coverage of Tylenol product recall expenses from its excess liability insurers.

Discovery proceedings in the case against the excess insurers were stayed pending a resolution of the dispute with Affiliated FM, and will now resume following Judge Lacey's decision, Mr. Diskant said.

The excess insurers include North River Insurance Co., Transit Casualty Co., Employers Insurance of Wausau, Aetna Casualty & Surety Co., American Centennial Insurance Co., Granite State Insurance Co., First State Insurance Co. and Northbrook Excess & Surplus Insurance Co.

McNeilab sued Affiliated FM and the excess insurers in U.S. District Court in Newark in November 1982,

Continued on page 66

update

Mission sues Borg-Warner

Continued from previous page
general agency unit; and Pacific Reinsurance Management Corp., a reinsurance pool manager and MIG affiliate that is now running off its business.

Claiming Centaur has been controlled and dominated by Borg-Warner and that it is Borg-Warner's "alter-ego," the Mission companies seek to hold Borg-Warner financially liable for the debts they say Centaur owes them.

The Mission companies say Centaur is not paying reinsurance owed them partly "on the grounds that its recent losses have rendered it financially unable to pay its debts." A.M. Best Co. dropped Centaur's A rating to an omitted rating, Best's lowest, earlier this year.

Centaur's obligations to the Mission companies stem from seven reinsurance, reinsurance management and MGA agreements it entered into between 1974 and 1984.

All seven agreements expired July 1984. Mission says Centaur began to fall behind in payments in 1983 and now owes at least $10 million.

In addition, Mission says Centaur will soon owe an additional $25 million for losses incurred but not reported and more than $14 million for case loss reserves.

Centaur acknowledges it owes the Mission companies certain funds, but is disputing the amount. In a suit filed July 26, it asks a Cook County Circuit Court to determine its obligations. It also seeks an accounting from the Mission companies.

Centaur's suit names Mission Insurance Group, Mission Insurance Co., Pacific, Sayre & Toso, and Mission Reinsurance Management Corp., a reinsurance pool manager that is now running off its business.

Borg-Warner officials declined to comment. Centaur officials could not be reached.



Photo: AP/Wide World

Samantha Smith (right) with "Lime Street" co-stars Robert Wagner and Maria Brewton. Miss Smith died in a plane crash.

Cast insurance on Samantha

LOS ANGELES—A cast insurance policy written by Fireman's Fund Insurance Cos. for Columbia Pictures will respond to the death of Samantha Smith, the 13-year-old who gained worldwide attention when she was invited to the Soviet Union by Soviet President Yuri V. Andropov in 1983.

The Soviet leader extended the invitation to the then 10-year-old Samantha after she wrote him a letter about her fears of nuclear war.

Since her visit to the Soviet Union, Miss Smith had begun an acting career and was filming an ABC television series at the time of her death in an Aug. 25 plane crash in Maine.

Miss Smith, who was cast as the eldest daughter of actor Robert Wagner in a new series called "Lime Street," had completed four episodes of the show.

In "Lime Street," scheduled to premiere Sept. 21, Mr. Wagner plays an insurance investigator. Lime Street is the address of Lloyd's of London.

Columbia Pictures in Burbank, Calif., purchased standard production coverages for the series from Fireman's Fund through entertainment broker Albert G. Ruben & Co. Inc. in Beverly Hills, according to Shirley Griffith, assistant vp and account manager at Ruben, a unit of Alexander & Alexander Inc.

Ms. Griffith says Columbia's losses due to Miss Smith's death are covered by the cast insurance, but declined to reveal policy limits.

Continued on page 64

index

Classifieds	60
Insurance services guide	62
Opinions	8
Spotlight report	3
Ticker	67

Vol. 19, No. 35—*Business Insurance* (ISSN 0007-6864) is published weekly at 740 Rush St., Chicago, Ill. 60611. Second-class postage is paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes to *Business Insurance*, circulation department, 740 Rush St., Chicago, Ill., 60611; 312-649-5221. Copyright 1985 by Crain Communications Inc.

Manville can recover damages from government, court rules

By STEPHEN TARNOFF

SAN FRANCISCO—A federal court decision makes it easier for asbestos producers to sue the federal government to recover judgments and settlements made in asbestos injury cases.

Robert Peckham, chief U.S. District Court judge for the Northern District of California, ruled last month that Manville Corp. could continue to press a lawsuit against the government to recover money paid to settle an asbestos disease claim.

"We think it is significant," said Robert Batson, a Manville attorney. "It gives us an opportunity to proceed to litigation against the government."

However, before Manville can recover from the government, it still must overcome significant hurdles to prove the government is liable for asbestos injuries.

Denver-based Manville and other asbestos producers have long contended the government bears a significant share of the liability from asbestos litigation.

Manville has filed several lawsuits in U.S. Claims Court in Washington and other federal courts in California and Colorado to recover from the government under tort and contract theories.

Manville, which filed for reorganization in 1982 because of the overwhelming number of asbestos injury claims it faces, estimates that as many as one-half of the suits involve injuries to former federal shipyard workers for which the government should share liability.

Last month's decision by Judge Peckham involved a suit by Johns-Manville Sales Corp., a Manville Corp. subsidiary that sought to recover from the government $45,000, the amount paid to settle a claim brought by plaintiff John Robinson.

Mr. Robinson was a federal employee allegedly injured by exposure to asbestos-containing products manufactured by J-M while he worked at naval shipyards in California from 1965 to 1980.

In its suit brought under the Federal Tort Claims Act, J-M contended the government should be held liable because it:

- Breached its duty to investigate and disclose the potential risks associated with the installation or re-

Continued on page 64

House panel to consider premium tax

By JERRY GEISEL

WASHINGTON—The House Ways and Means Committee this week is expected to consider a 1% federal premium tax on property/casualty insurance as an interim step toward overhauling tax rules covering the industry, insurance trade group officials say.

The premium tax, first suggested by Rep. Fortney (Pete) Stark, D-Calif., would be a temporary measure taken as an alternative to a Treasury Department proposal that would require insurers to discount loss reserves through Qualified Reserve Accounts (*BI*, June 3).

According to industry sources, Capitol Hill staffers are recognizing that the QRA approach may be unworkable and that there isn't enough time to draft a new comprehensive proposal as part of a tax reform bill. The Ways and Means Committee would like to report out a tax reform package by mid-October, but drafting sessions have not yet begun.

A premium tax would provide new revenues for the federal government while other long-term revenue alternatives are explored.

Some industry trade groups oppose a premium tax, including the Alliance of American Insurers, which maintains the tax would be regressive since all companies

Continued on page 66

Fremont units to stop writing some property/casualty lines

By STEVE TARAVELLA

LOS ANGELES—Fremont General Corp. subsidiaries will no longer underwrite commercial property and casualty risks, which accounted for 15% of its business.

Fremont, however, will continue to write reinsurance, workers compensation, medical malpractice and professional liability coverage.

The discontinued business reflects a variety of general property and casualty coverages, mostly in California. The move principally affects Comstock Insurance Co., the Fremont subsidiary that wrote most of the risks, according to James McNiel, executive vp and treasurer.

Comstock will write no new business, he said.

The general property/casualty lines to be discontinued represent a disproportionate share of Fremont's losses, says Mr. McNiel. In the first half of this year, these risks generated 15% of the company's premium volume, but accounted for 30% of its underwriting losses.

None of the business, which represented about $37 million of the $295 million in premium volume that Fremont reported in 1984, will be canceled, Mr. McNiel says. Instead, the company will let the policies expire.

In related news, Los Angeles-based H.F. Ahmanson & Co. says its property/casualty units have ceased writing all property and liability coverages outside of Nebraska, where it believes profit potential still exists.

The four members of National American Insurance Cos. will no longer write new or renewal business in Texas, California, Oregon, Arizona and Florida, according to an Ahmanson spokesman.

The decision reflects "an orderly, phased withdrawal from the property and liability markets," he explains. The subsidiaries, which pooled their business except for Nebraska risks, lost $17.5 million over the past 2½ years, he says. An estimated 40% of the companies' policies were commercial risks.

The insurers, which posted total revenues in 1984 of $99 million, are: National American Insurance Co. in Omaha, Neb.; National American Insurance Co. of California; National American Insurance Co. of New York; and Lloyds of National American Insurance Co. in Dallas.

Suit alleges consultant's errors damaged pension plans, PBGC

By JERRY GEISEL

PITTSBURGH—The Pension Benefit Guaranty Corp. says that a benefit consultant's negligence damaged an employer's pension plans and the PBGC's pension insurance program.

The PBGC alleges that George B. Buck Consulting Actuaries, a subsidiary of Buck Consultants Inc. of New York, used unreasonable actuarial assumptions when it estimated the probability that Mesta Machine Co.'s pension plans would have to pay special early retirement benefits to workers because of plant shutdowns.

In preparing annual actuarial valuations for Mesta's two defined benefit plans between 1979 and 1983, Buck assumed the probability that the plans would have to pay the so-called shutdown benefits was between less than 1% to 6%, the PBGC says.

However, the agency adds in a suit filed in U.S. District Court in Pittsburgh, these estimates came at a time when Mesta had closed one plant and shut down a substantial part of the operations at another.

Since Mesta at the time was shutting down operations, Buck should have given a higher probability that the shutdown benefits would be paid, said PBGC General Counsel Edward Mackiewicz.

"The probable chances that shutdown benefits would be paid may not have been 100%. . .but they were close to that," he said. "Certainly, 1% to 6% was not reasonable."

By using the unreasonable actuarial assumptions, Buck understated Mesta's pension funding obligations, the PBGC charges in the suit. As plan actuary, Buck was responsible for computing the amount that Mesta was supposed to contribute to the plans.

The PBGC also alleges that Buck's failure to properly determine the plans' funding requirements damaged the plans and ultimately the PBGC.

The agency had to take over the two Mesta plans, which the PBGC says has $56 million in underfunded liabilities, when the plans were terminated in 1983, the PBGC says. Mesta filed for reorganization under Chapter 11 of the Federal Bankruptcy Act that same year.

"As a result of defendants' reckless certification that the results on the actuarial statements regarding the plans were reasonable and represented defendants' best estimate of anticipated experience under the plans, the pension plan termination insurance program and the

Continued on page 63

The exchanges

Miami, Illinois exchanges foresee growth as New York stalls

By JAMES M. BURCKE

Two of the three U.S. insurance exchanges are growing, but the third is suffering from growing pains.

The Insurance Exchange of the Americas in Miami and the Chicago-based Illinois Insurance Exchange are both on their way to record premium volume in 1985. Brokers searching for untapped capacity in the tightening market have discovered the exchanges.

However, the oldest and largest of the three U.S. exchanges, the New York Insurance Exchange, has shown no premium growth in 1985 due to a significant decline in the market's gross capacity. Nonetheless, the two younger U.S.-based exchanges have a lot of catching up to do.

The New York exchange reported gross written premiums of $345.6 million, 10 times more than the $34.4 million in gross premiums written by the Insurance Exchange of the Americas and almost 23 times more than the $15.2 million in gross premiums written by syndicates on the Illinois Insurance Exchange.

The New York exchange's capital and surplus also dwarfs that of the other two U.S. exchanges. At year-end 1984, the NYIE reported capital and surplus of $182.6 million, compared with $31.9 million at the Florida exchange and $17.4 million at the Illinois exchange.

So far in 1985, however, the NYIE's capital and surplus has shrunk slightly, while the capitalization of the two smaller exchanges has increased with the formation of new syndicates.

In addition, syndicates on the Florida and Illinois exchanges are shifting their attention to writing surplus lines risks rather than reinsurance. While New York exchange officials say the exchange will probably write more surplus lines risks in the future, the exchange is likely to remain primarily a reinsurance market.

NYINSURANCEXCHANGE

New York Insurance Exchange

Opened: 1980
Current syndicates: 49
Broker members: 103
1984 capital and surplus: $182.6 million
1984 gross premiums: $345.6 million
1984 net premiums: $218.0 million
1984 net loss: $35.2 million
Guaranty fund: $30.3 million

The main concerns at the New York exchange center upon the market's loss of capacity (see stories beginning on page 6).

Since the beginnning of the year, six syndicates have announced plans to withdraw from the exchange. Several other syndicates, including some of the largest on the exchange, have temporarily stopped underwriting this year after hitting the exchange's net premium-to-surplus limits.

Other syndicates that are still writing business have experienced drops in gross capacity because of problems finding reinsurance.

And, many syndicates are reserving use of the capacity they have left.

They are licking their wounds from operating losses. Syndicate managers say now they are generally more cautious in their underwriting, and several syndicates have stopped insuring certain loss-prone classes of business, including casualty facultative reinsurance and specialty risk coverages like satellite or animal mortality insurance.

NYIE observers, including exchange President Donald E. Reutershan, note that capacity shrinkage has affected the entire commercial insurance industry. They add that New York exchange syndicates still have enough capacity to write a significant amount of business.

"There is a false perception in the market that the exchange is going into a coma," said David P. Delaney, president of Delaney Management Co. Inc., an exchange underwriting manager. "Everybody is having capacity problems."

Still, the capacity crunch is very apparent at the NYIE.

Exchange underwriters last year reported about $55 million in total capacity for casualty risks and $60 million to $65 million for property risks. But one broker estimates that capacity for property and casualty facultative risks is now down to about $15 million per risk.

Others note that casualty capacity is particularly hard to find at the NYIE. "There is a distinct trend toward writing property and a hostility toward casualty business," says John McGarrity, president of Amberco Brokers Corp. in New York.

Although the diminished capacity on the NYIE is worrying exchange brokers, some say the need for capacity will attract new capital to the New York exchange and eventually strengthen the market.

Four syndicates have joined the exchange this year, including Fairway Syndicate Inc., whose $10 million in capitalization is the largest on the exchange.

Although the NYIE has reported premium growth each year since its opening in 1980, the rate of growth slowed in 1984.

Even though the $345.6 million in gross written premiums recorded last year represented a 22.5% increase from the previous year, it did not match the 80% growth recorded in 1983 and the 116% growth in 1982.

Some 99% of last year's gross premium volume came from reinsurance business, while only 1% came from primary and excess direct business.

Mr. Reutershan said he expects the exchange's direct insurance volume to increase as the market hardens, though brokers complain that the placement of New York-based direct insurance risks on the exchange is hampered by a requirement that such risks first be turned down by as many as five

Continued on next page

Illinois Insurance Exchange

IIE

Opened: 1981
Current syndicates: 13
Broker members: 65
1984 capital and surplus: $17.4 million
1984 gross premiums: $15.2 million
1984 net premiums: $10.6 million
1984 net loss: $1.4 million
Guaranty fund: $7 million

Insurance Exchange of the Americas

INSURANCE EXCHANGE OF THE AMERICAS INC.

Opened: 1983
Current syndicates: 23
Broker members: 68
1984 capital and surplus: $31.9 million
1984 gross premiums: $34.4 million
1984 net premiums: $32.6 million
1984 net loss: $4.8 million
Guaranty fund: $12 million

U.S. business returning to Lloyd's of London

Lloyd's of London is making a comeback—at least as far as U.S. business is concerned.

Risks from U.S. corporations are flowing to Lloyd's as insurers in North America limit the amount of coverage they will write in an attempt to reverse record underwriting losses. That's a change from recent years, when many risks that had been written at Lloyd's were instead placed with U.S. insurers offering cut rates.

Buyers returning to Lloyd's for the first time in years will see many changes. The market has entered the high-tech age, as underwriters now input policy information into computer terminals and a futuristic Lloyd's building rises near the current Lime Street structure.

But, many of Lloyd's traditions still remain. For instance, underwriters, like those in the photo on the right, still scan reports of catastrophes to see if they will be affected by the losses.

This week, *Business Insurance* profiles the world's oldest insurance market, focusing on how Lloyd's serves the U.S. buyer. The report includes profiles of the three commercial markets at Lloyd's—marine, non-marine and aviation—and also spotlights some of the most interesting personalities in the London insurance arena.

In addition, the report also sheds light on the strengths of the largest Lloyd's brokers.

For an overview of the Lloyd's market, turn to page 51.



U.S. exchanges

Continued from previous page
insurers operating through the New York Free Trade Zone.

While growth at the NYIE is stagnant this year, the tightening market could cause premium volume at the Insurance Exchange of the Americas to double this year, exchange observers say (see stories beginning on page 26).

The 18 active syndicates on the Florida exchange could write more than $125 million in annualized premiums this year, more than double the $62.2 million in annualized premiums written in 1984, the exchange's first full year of operation.

Through July, IEA syndicates had accounted for about $100 million in estimated annualized premiums and $25.5 million in gross premiums. The exchange wrote $34.4 million in gross premiums in 1984.

Members of the Miami-based exchange prefer to talk in terms of estimated annualized premiums—the premium volume that will be generated over the lifetime of all contracts—because of the large amount of reinsurance written.

Of the 3,354 contracts in force at the end of 1984, 2,158 or 64% were for treaty or facultative reinsurance business.

This year, reinsurance may account for only half the annualized premiums written on the exchange, because so much new business pouring into the exchange is direct primary or excess business.

The IEA syndicates—which write reinsurance in all states and are approved surplus lines insurers in 10 states—are shifting their attention to these surplus lines risks to respond to the demand.

"We're seeing all the business we can handle, along with the shift in emphasis," says James Cordle, president of Citadel Management Corp. and First Citadel Insurance Ltd., two underwriting management agencies at the exchange.

"Last year the standard market was writing more aggressively and we weren't seeing much surplus lines business," says Mr. Cordle. "But late last year and early this year, things started turning around."

All types of surplus lines business are coming to the exchange, Mr. Cordle says, including "different liability risks, a lot of products exposures and a fair amount of fire business."

The exchange is seeing more requests for product liability and comprehensive general liability insurance, adds Felipe M. Palacio, a partner in broker Palacio & Weinraub Inc. in Miami, one of the larger IEA brokers.

A constant criticism of the three U.S. exchanges has been the absence of a "lead" system, like that at Lloyd's of London, where lead underwriters establish the terms and conditions of a policy, and other syndicates sign on for a share of the risk.

Now, the IEA is beginning to develop such a system.

Several line slips now travel among the IEA syndicates, led by specialists in general property/casualty risks, marine coverages, liquor liability and contingency risks like prize indemnification, kidnap and ransom and non-appearance of celebrities.

While observers are generally pleased with the IEA's development, many are concerned that the exchange's current $37.8 million in capital and surplus, which is supplied mostly by individual investors, could fall short of demand.

While the eight new syndicates that have joined the Florida exchange in the past year have added $12 million in capital to the IEA, exchange officials say this is not enough to write all the business that will flow to the exchange as the market continues to harden.

"We need more capacity," said IEA President Arturo Toro. "I'll always feel much safer with a great deal of excess capacity that we can use if neccessary."

Mr. Toro said he would like to see 40 syndicates on the exchange in two years. "That would poise us very nicely; 40 would give us a minimum of $60 million in capital."

Finding adequate capital—and therefore capacity—has also been a problem at the Chicago-based Illinois Insurance Exchange. However, the addition of six new IIE syndicates so far this year has delighted exchange officials and brokers alike (see stories beginning on page 37).

Three of the syndicates, with total capital of $15 million, have already begun writing business. Other syndicate applications have been filed with the exchange's board of trustees, says IIE Executive Director James M. Skelton.

And, some of the groups that have already formed new IIE syndicates say they plan to establish more syndicates on the exchange.

Counting the three new syndicates that have already opened their doors, the IIE's capital and surplus stood at $31 million on July 31, up from $17.4 million at year-end 1984.

However, the IIE, like the New York exchange, is having its own attrition problems. Four of the seven syndicates on the exchange at the beginning of 1985—with a combined capital and surplus of $8.6 million—have stopped underwriting and have applied to withdraw from the IIE. But, observers point out, the four syndicates only wrote about 7% of the exchange's total volume in 1984.

The addition of new syndicates and new capital, combined with the effect of the tightening market, is showing up in the Illinois exchange's premium volume.

As of July 31, gross premiums written totaled $19.5 million, compared with $15.2 million in all of 1984.

Exchange officials expect that growth to continue as the IIE evolves into an excess/surplus lines marketplace from primarily a reinsurance market. Last year, about 90% of the business written by the exchange was reinsurance.

IIE syndicates are now aggressively courting direct primary and excess risks.

For example, almost all business written by the new NUA Syndicate Inc., which with $10 million in capital is the IIE's largest, will be direct excess business, says syndicate President Richard Foss.

The other two new IIE syndicates that started writing earlier this year also say they will specialize in primary and excess direct business.

The addition of new capital and syndicates—particularly NUA Syndicate—and the change in focus to surplus lines, is building brokers' confidence in the Illinois exchange.

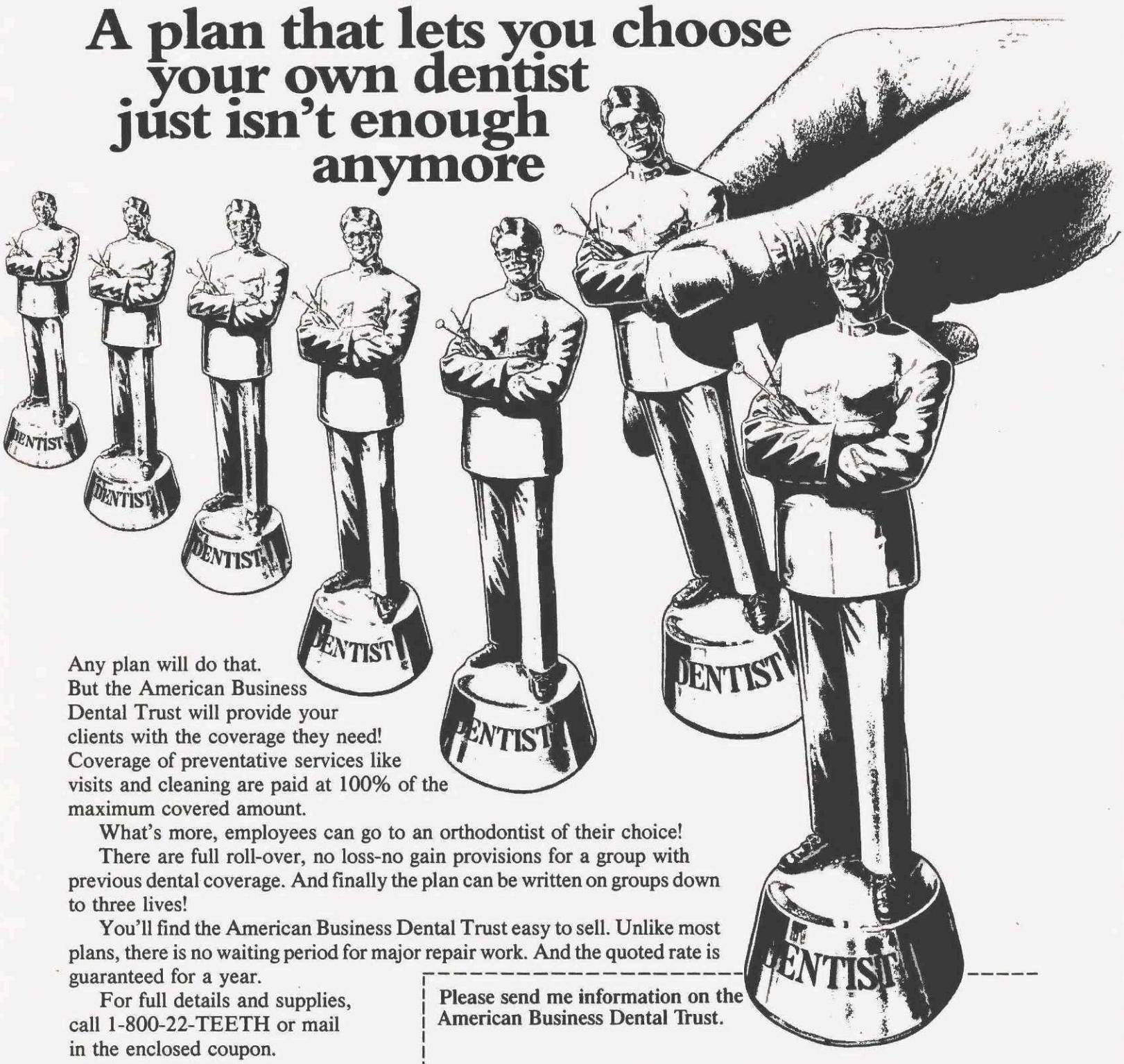
"I think it is going to be a very important market, particularly under the current hard market conditions," says Alison Renner, president of surplus lines broker A.J. Renner & Associates Inc. in Chicago, which became an IIE member broker last month.

Although brokers would like to see the exchange offer more than its current aggregate capacity of $8 million for casualty risks and $2 million for property risks, they say the addition of the new syndicates makes the exchange a viable and valuable market.

"I think brokers will definitely be beating a path to the exchange's door as more syndicates join," Ms. Renner says.

Already, one syndicate, reinsurance specialist LWB Syndicate Inc., has stopped writing new business this year because it has exceeded the budget set by parent Crum & Forster. ■

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Loss of capacity may stunt growth at N.Y. exchange

By DOUGLAS McLEOD

NEW YORK—Growth on the five-year-old New York Insurance Exchange is slowing as the market tries to recover from the worst collective underwriting results in its short history.

NYINSURANCEXCHANGE

Premium volume so far this year is virtually unchanged from volume during the same period in 1984, according to exchange President and Chief Executive Officer Donald E. Reutershan.

"I thought our growth would continue on a little longer, but I'm not unhappy that it didn't," Mr. Reutershan said.

"There is a fair amount of uncertainty" about the exchange's full-year 1985 gross volume, he added, explaining that binding authorizations issued by many exchange syndicates are still outstanding with brokers working on July 1 renewals.

"Some have projected that volume will go down, but I don't believe that," Mr. Reutershan said.

For the first quarter of 1985, the NYIE's gross volume was $80.6 million, down a marginal 0.6% from the $81.1 million in gross premiums reported in the first quarter of 1984.

Based on year-end 1984 net written premiums of $218 million, the New York exchange was the eighth-largest U.S. reinsurer, according to Reinsurance Assn. of America rankings, and is by far the largest of the U.S. exchanges modeled on Lloyd's of London.

The exchange's growth this year is likely to be affected by what Mr. Reutershan called a "significant" loss of gross capacity.

Since the beginnning of the year, six syndicates have announced plans to withdraw from the exchange, though the exchange's board of governors has not yet approved any withdrawal petitions (see story, page 22).

Several other syndicates, including some of the largest on the exchange, have temporarily stopped underwriting this year after hitting the exchange's net premium-to-surplus limits. Other syndicates that are still writing have experienced drops in gross capacity because of problems buying their own reinsurance, and they are more sparing in the use of the capacity they have left (see story, page 14.)

However, syndicate underwriting managers and Mr. Reutershan observe that the loss of capacity is an industrywide phenomenon, and that New York exchange syndicates still have room to write a significant amount of business.

The exchange's overall net written premium-to-surplus ratio was a relatively low 1.2-to-1 in 1984.

"There is a false perception in the market that the exchange is going into a coma," said David P. Delaney, president of Delaney Management Co. Inc., an exchange underwriting manager.

"A number of the syndicates could double their premium volume if they chose to do so," Mr. Reutershan said.

Meanwhile, four new syndicates have been formed since the beginning of the year, including the exchange's largest to date, Fairway Syndicate Inc., with $10 million in capital contributed by a Princeton University endowment fund.

Other developments on the exchange in the last year include:

- The addition of an "early warning" feature to the NYIE's underwriting guidelines to alert the exchange to syndicates approaching their premium-to-surplus limits.
- The adoption by the exchange board of governors of a contingency plan to deal with syndicates that could become insolvent.
- An increase in minimum capital requirements for new syndicates.

Continued on page 10

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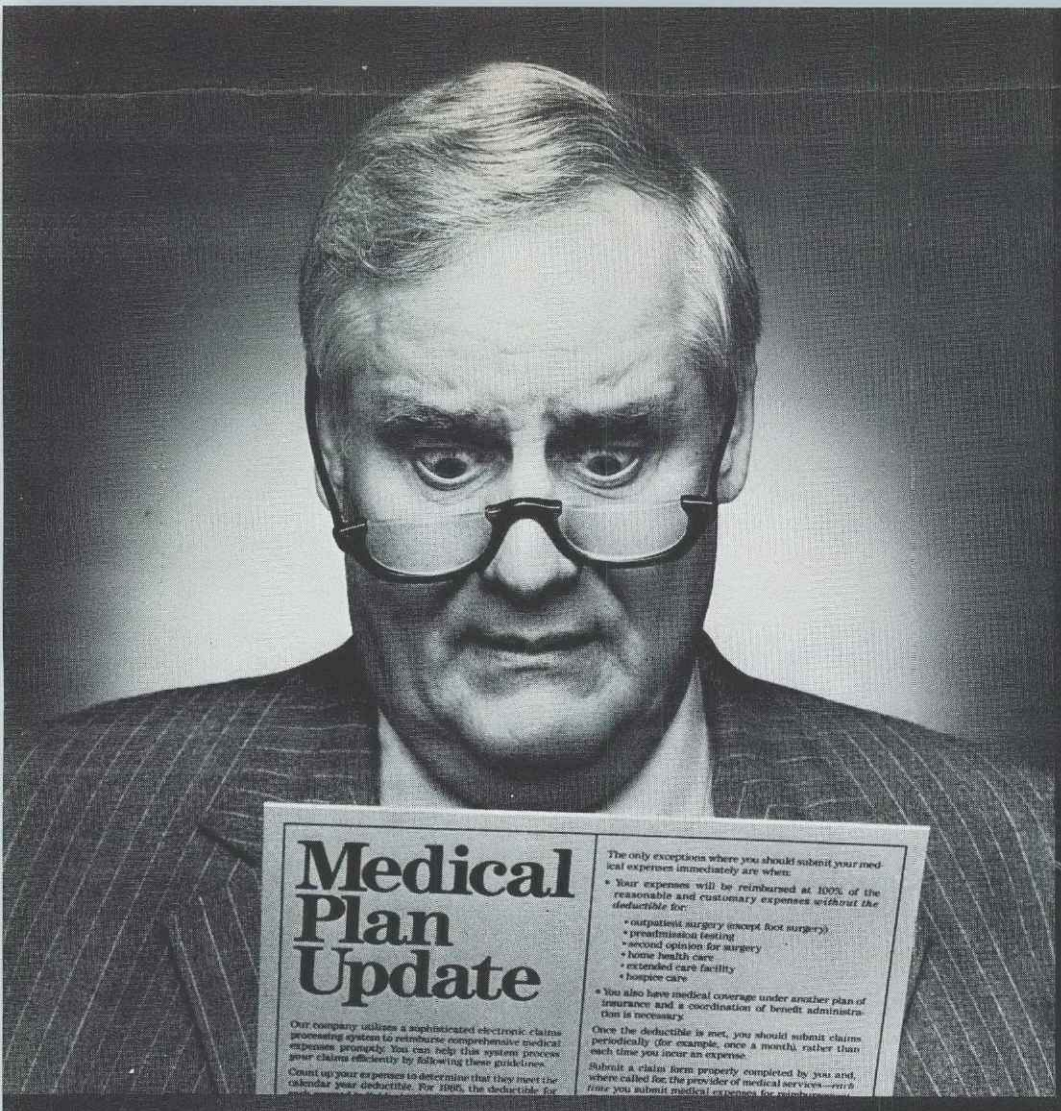
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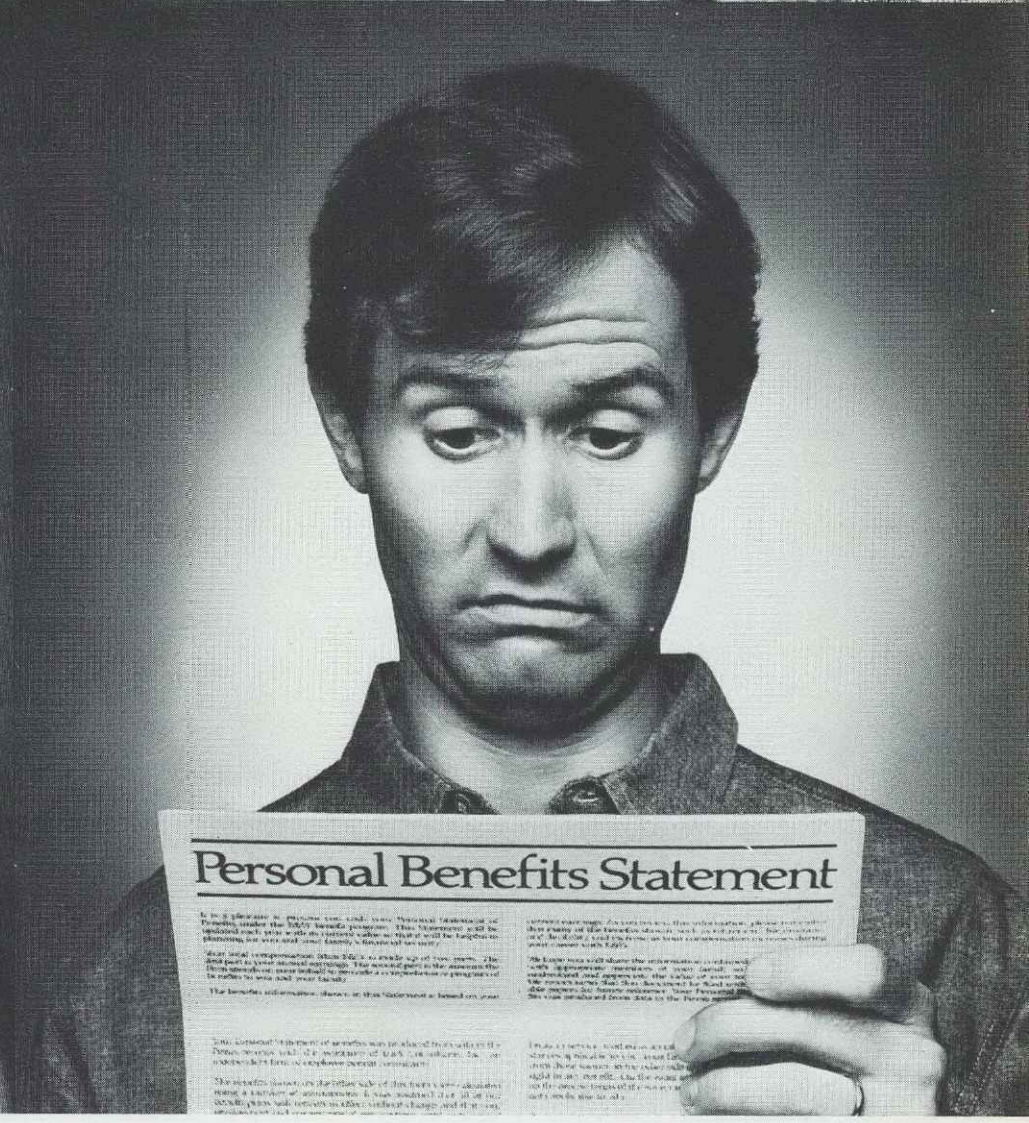
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opinions

No apologies necessary

SOME capacity-hungry brokers are carping about the premium limitations imposed by the New York Insurance Exchange.

They are barking up the wrong tree.

The New York exchange limits each of its syndicate's net written premiums by line of business. Under the exchange's rules, syndicates cannot write net premiums that exceed a premium-to-surplus ratio of 3-to-1 on property business, 1.5-to-1 on casualty business and 1-to-1 on property catastrophe risks.

Some brokers contend that insurers, the major investors in New York exchange syndicates, will not invest more money in their syndicates because insurers can earn a higher rate of return on their capital in their insurance companies, which are permitted to more highly leverage their capital.

Insurers that are not investing more capital in their syndicates on the exchange probably have other reasons for their decision (see comments below).

Instead of criticizing the exchange's rules, brokers and others should be promoting those rules.

The U.S. insurance industry and many state regulators wrongly continue to use the old 3-to-1 rule of thumb for determining if an insurance company is exceeding a prudent premium-to-surplus ratio.

Much more surplus is needed to safely support high-risk commercial liability insurance policies—like the ones written by syndicates on the New York exchange—than homeowners' insurance, to cite two extremes.

Some insurance companies and some state regulators already recognize that the 3-to-1 ratio is foolhardy. Well-managed insurance companies analyze their business to determine how much premium in various lines can safely be written.

And, at least one insurance commissioner, Bruce Bunner of California, has publicly encouraged his colleagues to reconsider the propriety of relying on the benchmark 3-to-1 ratio.

Mr. Bunner goes even further than the New York exchange rules and advocates not only adopting various premium-to-surplus ratios by line of business depending upon the volatility of risk, but also analyzing the quality of the loss reserve investments. He is concerned that the reserves be of appropriate quality, liquidity and maturity to be properly matched to the outstanding liabilities.

Assessing insurers' risk in a more detailed fashion, Mr. Bunner says, would permit the establishment of more realistic levels of required surplus. That means higher permissible ratios for private passenger auto business and lower ratios for most commercial lines coverages, he says.

We agree with the New York Insurance Exchange rules and Mr. Bunner's recommendations.

The same brokers carping about the New York exchange rules, however, probably will contend that it's ridiculous to suggest tightening premium-to-surplus requirements at a time when U.S. insurance companies say they cannot sell the limits of insurance requested and required by corporations.

But, what good is an insurance policy purchased today from an insurer that will be insolvent tomorrow?

Commissioner Bunner, who will be up for reappointment in 1987, says his proposal is only in the embryonic stage, but he wants to see some progress before he leaves office.

We do, too.

In the meantime, the New York Insurance Exchange has no apologies to make for its rules. They are quite appropriate.

How about *fair* trade?

If the New York Insurance Exchange's governors are looking for reasons why insurance companies aren't putting more capital in their syndicates, they should focus first on the state's regulation that impedes the placement of New York surplus lines business with the exchange.

Before a New York-based risk can be offered to syndicates on the New York Insurance Exchange, it must be rejected by as many as five insurance companies licensed by the New York Free Trade Zone.

We're all for the Free Trade Zone, which permits licensed insurers to write special risks free of rate and form regulation, but the rule giving the Free Trade Zone insurers preferential treatment compared with the exchange should be scrapped.

Syndicates on the New York Insurance Exchange are entitled to an opportunity to quote on attractive New York special risks, not just the rejects.

letters

Insurers should avoid repeating past rating 'sins'

To the editor: The Surplus and Specialty Lines Market Report (*BI*, Aug. 12) was very interesting. It was also odd to read statements made by the presidents of many of the excess and surplus lines markets.

The comments that their various companies were tightening underwriting standards and increasing premiums were statements that were made by some of their predecessors during the 1954 and 1974 insurance crises.

It seems that since the rates surplus and specialty line companies can charge, in many instances, are uncontrolled, we always find that they take the lead when it comes to low-ball pricing and cash-flow underwriting. Of course, the controlled companies with filing requirements are soon to follow the lead of the specialty companies, and we soon find that they are all deep in red ink.

It doesn't take much knowledge of the insurance business to realize that if you do not get the proper premium at the beginning, eventually you will have to play catch-up pool and the 200% to 300% premium increase is necessary—which further results in an unstable property/casualty market.

It appears that we in the property/casualty insurance industry never seem to learn a lesson from the past, and the majority of us still accept the theory that we are in a cyclical business whereby we expect the unprofitable market to come around every five or six years.

Maybe we may learn by our mistakes, which are very evident in this current confused market, but I doubt it. It is my opinion that the current market will probably last into the middle of 1986, and with the current increased premiums and more intelligent underwriting, we will probably see some underwriting profits by that time.

Once a profit is produced, the move to obtain additional volume will take place and, once again, we will get back into the situation of committing the same underwriting sins. I certainly hope that this does not happen.

Joseph F. Finnis
Vp-Marketing
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'Live-in lawyer' concept gets reader's goat

To the editor: I take serious offense at the comments about attorneys made by Joseph Benero in his letter to the editor (*BI*, Aug. 19).

While I realize that having attorneys come directly from law school into private homes for safe keeping would keep down the cost of most everything we buy, and that this would allow us to pay the cost of attorneys over a longer period of time, there are other problems.

What, for example, if the attorney influenced my son into dropping his plan to become an engineer and became an attorney instead? After all these years of raising my kids right, teaching them values that my parents taught me, only to have them become attorneys. . .

Or, take the potatoes, for example. Or the butter. Would the live-in attorney be willing to share the potatoes? Or the toilet for that matter? Would we have to obtain an injunction simply to go to the john?

I don't know, Mr. Benero, it seems to me your plan should be studied in more detail. I believe it has enough merit to give it a try, but you aren't going to experiment on my family.

Bob Wilson
Cocoa, Fla.

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Growth slows at New York exchange

Continued from page 6

- Expanded efforts to streamline the exchange's underwriting, premium collection and claims payment processes, including the creation of expedited small claims payment procedures.
- The creation of new exchange operating staff positions, including the appointment of a vp for claims and the possible appointment of a chief operating officer.
- Several changes on the exchange's board of governors, including the appointment of David J. Sherwood, former president of Prudential Insurance Co. of America, as chairman of the board, replacing the board's first chairman, T. Vincent Learson.

Last year, the exchange recorded gross written premiums of $345.6 million, up 22.5% from $282.2 million in 1983.

While significant, the growth rate last year was smaller than in previous years. Volume in 1983 had increased 80% over the $156.4 million in gross premiums booked in 1982, and 1982 volume had been up 116% over the $72.5 million reported in 1981.

Net premiums grew in line with gross premiums last year, hitting $218 million, up from $178.5 million in 1983. In both years, net premiums represented 63% of gross writings.

Of 1984's gross premiums, about 68%—$233.6 million—came from treaty reinsurance business. Facultative reinsurance—where volume was $107.5 million—accounted for another 31%, while direct insurance business produced only $4.5 million, or 1%, of the total.

Mr. Reutershan said he expects the exchange's direct insurance volume to increase as the market hardens.

Some brokers complain that the placement of New York-based direct insurance risks on the exchange is hampered by a requirement that such risks first be turned down by as many as five insurers operating through the New York Free Trade Zone.

However, no such limitation exists for direct excess and surplus lines risks located outside New York state. The exchange was an approved surplus lines market in 34 states at the end of 1984.

The exchange's annual report notes that the volume of property facultative business is rising faster than casualty facultative volume, indicating a move away from loss-prone casualty risks. The trend continues this year, exchange brokers and underwriters confirm.

NYINSURANCEXCHANGE

Property risks accounted for 45% of facultative reinsurance volume last year, compared to 38% in 1983, while casualty's share of the total dropped to 55% in 1984 from 62% in 1983.

A sign of a maturing marketplace, earned premium volume rose last year to $217.7 million, up 46% from $149.2 million in 1983.

However, the exchange's loss experience—like that of the reinsurance industry generally—continued to deteriorate in 1984.

Incurred losses and loss adjustment expenses jumped 77% to $217.4 million last year from $122.9 million in 1983. Other underwriting expenses climbed 22.6% to $81.4 million from $66.4 million in 1983.

Overall, the aggregate combined ratio of exchange syndicates hit 137.3% last year compared to 119.6% for 1983.

The syndicates finished the year with an aggregate underwriting loss of $81.1 million, about double 1983's underwriting loss of $40 million.

The losses were partially offset by investment income, which increased 28% to $36.8 million from $28.7 million in 1983. The exchange's bottom line was also helped by a $6.3 million credit taken for loss portfolio reinsurance ceded by several syndicates.

However, the exchange still suffered a net operating loss of $35.2 million last year, more than triple 1983's net loss of $10.2 million.

After surplus contributions of $28.5 million by new and existing syndicates, and other charges and credits, the exchange's aggregate surplus dropped marginally to $182.6 million from $189.5 million at the end of 1983.

The decline in bottom-line profitability continued in the first quarter of this year.

The exchange recorded aggregate losses and expenses of $75.6 million on earned premiums of $51.9 million, producing an underwriting loss of $23.7 million for the quarter.

The aggregate combined ratio hit 144.3% compared to 126.2% for the first quarter of 1984.

The losses were partially offset by investment income of $10 million, but after other charges and credits, the exchange booked a net loss of $11.3 million for the quarter.

By March 30, surplus had declined to $172.3 million from $182.6 million at year-end 1984.

With the addition of four syndicates since the beginning of the year, the number of exchange underwriting members now stands at 49, up from 45 at the end of 1984 and 43 at the end of 1983.

However, seven of these syndicates have announced plans to withdraw, six of them since the beginning of this year. In the lengthy withdrawal process, syndicate managers must submit a petition to the exchange board of governors with a plan providing for an orderly runoff of the syndicates' business.

None of the withdrawal petitions submitted so far have yet been approved by the exchange board, according to Peter H. Bickford, vp, general counsel and secretary.

The growth in the number of syndicates and in gross premium volume has also brought growth for the exchange's security fund, which is designed to cover claims in the event a syndicate becomes insolvent.

The security fund consists of:

- A deposit fund, to which each new syndicate must contribute $500,000.
- A surcharge fund, to which each syndicate contributes 0.75% of gross written premiums.

As of March 30, the security fund totalled $30.3 million, up 2% from $29.7 million at the end of 1984. The deposit fund—not yet reflecting deposits made by new syndicates formed in 1985—stood at $22.5 million, unchanged from year-end 1984. The surcharge fund amounted to $7.8 million, up from $7.2 million at the end of last year.

To further ensure the security of exchange syndicates, the board of governors last year added an "early warning" feature to the underwriting limits imposed by the exchange.

New York exchange rules require syndicates to maintain net premium-to-surplus ratios of 3-to-1 on property business, 1½-to-1 on casualty business and 1-to-1 on property catastrophe risks.

Under the early warning provision, a syndicate coming within 30% of

Continued on next page

Continued from previous page

any of these limits must notify the exchange and submit a plan describing steps it will take to avoid overstepping the limits, including adding surplus or arranging additional reinsurance.

Last October, the board of governors also adopted a contingency plan for dealing with syndicates that are approaching insolvency. The plan allows the exchange to take over the operations of threatened syndicates, including taking over control of bank accounts, disbursement of funds and payment of claims, Mr. Bickford said.

The plan differs from the approach taken by state insurance regulators governing insurance companies, who must wait for a company to become insolvent before moving for rehabilitation or liquidation.

The exchange board can move to take over a syndicate "on the basis of a severe exceeding of the underwriting guidelines," said Mr. Bickford, describing the plan as a way of turning around the results of an ailing syndicate before it becomes insolvent.

More recently, the exchange has increased the minimum capital requirements for new syndicates to $5 million from $3.55 million for those writing property/casualty or life business and to $10 million from $6.55 million for those writing both classes.



Mr. Reutershan

The new rules, effective for syndicates approved after July 1, also raised the minimum surplus syndicates must maintain to continue operating. The minimum operating surplus was raised to $3 million from $2.2 million for those writing property/casualty or life and to $6 million from $3.3 million for those writing both classes.

While working to ensure the security provided New York exchange policyholders, the exchange has also worked to improve the efficiency of its operations.

Submissions bound by exchange syndicates jumped to 15,167 last year from 12,644 in 1983 and 7,209 in 1982, and brokers have long complained about delays in processing contracts, amendments and claims that involve several syndicates.

Administrative and processing expenditures were increased, and the resulting charges to syndicates grew to 1.4% of gross premiums in 1984 from 1.1% in 1983.

Meanwhile, the exchange staff increased to 166 employees last year from 114 in 1983, and premium per employee dropped to $2.1 million from $2.5 million in 1983. The additional employees were needed to handle an increase in transactions that is not reflected in the growth in premium.

While the exchange hasn't yet evolved a lead system for underwriting, Mr. Reutershan says that underwriters show more "willingness to accommodate" brokers and policyholders on policy wording, endorsements and claims payments.

Ruth A. Curry, vp with exchange broker Intere Intermediaries Ltd., says that the syndicates have "made a start" toward developing a lead-follow system for approval of treaty wording and claims payments that will speed both processes.

The exchange has also developed a "summary" payment system for claims under $2,500, under which syndicates pay these claims immediately before receiving claims documents through the exchange's central processing facility. If a syndicate then decides to contest a claim, it must go to the policyholder or its broker to recover the payment.

Two exchange committees—a direct business committee and a direct claims committee, both comprised of syndicate, broker and exchange representatives—are now looking into ways the exchange can streamline the processing of direct business, Mr. Bickford added.

Brokers regard as a positive step the recent creation of a vp-claims position on the exchange. Donald Osenga, who has worked for Eagle Star Insurance Co. and The Home Insurance Co., has been named vp-claims.

Mr. Bickford added that the exchange board is also thinking of creating a new executive level position—possibly a chief operating officer—to oversee day-to-day operations of the exchange.

In addition to the appointment of Mr. Sherwood as chairman, the exchange board has undergone several changes, including the retirement of Harold J. Hudson Jr., former chairman and chief executive of General Re Corp.; B.P. Russell, former chairman of Crum & Forster Inc.; Frank B. Raab, former chairman of Allianz Insurance Co.; and Carter L. Burgess, former chairman of the Foreign Policy Assn.

New board members include John H. Bretherick Jr., president of Continental Corp.; John J. Byrne, president and chief executive of GEICO Corp.; Nicholas DeB. Katzenbach, former U.S. attorney general and senior vp with International Business Machines Corp.; and Guy K. Patterson, senior vp of CIGNA Corp. ■



Photo: New York Insurance Exchange

Growth at the New York Insurance Exchange has slowed this year.

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NYIE syndicates trying to reverse losses

By DOUGLAS McLEOD

NEW YORK—Most New York Insurance Exchange syndicates suffered the worst losses in their histories last year, and many are taking steps to improve their results as property/casualty markets tighten.

Exchange capacity has dropped dramatically with the withdrawal of six syndicates since January and the temporary suspension of underwriting by other syndicates that hit net premium-to-surplus limits imposed by the exchange (see story, page 22).

Several syndicates that are still actively underwriting report cuts of up to 50% in their gross capacity per risk, and some say that they are less willing to commit their full limits to individual risks.

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Exchange syndicate managers say they are generally more cautious in their underwriting, and several syndicates have stopped insuring certain loss-prone classes of business, including casualty facultative reinsurance and specialty risk coverages such as satellite or animal mortality insurance.

Other syndicates, however, have been attracted to some of these high-risk lines by the large premiums they now command.

Syndicate managers hope that rate hikes and changes in underwriting will turn around the experience of 1984.

Last year, none of the exchange's 45 active syndicates posted an underwriting profit. Only six syndicates reported net operating profits; of these, two were formed in 1984 and one—CU Syndicate Inc.—had stopped underwriting and was running off its book.

And none of the 10 largest syndicates on the exchange were among the profitable ones (see chart, page 18). One of the leading syndicate's losses would have been even worse without a loss portfolio transfer. The seventh-largest syndicate, Pruco Syndicate Inc., transferred loss reserves to its parent, Prudential Reinsurance Co. (see story, page 23).

The aggregate combined ratio for exchange syndicates hit 137.3% in 1984, up from 119.6% in 1983, and ranged among established syndicates from a low of 111.2% for Home Re Syndicate Inc. to a high of 232.6% for Galleon Syndicate Corp., which assumed loss portfolio reinsurance that boosted its expense ratio.

Policyholders surplus at most syndicates dropped last year, and though several syndicate owners added to surplus, the contributions in nearly all cases were intended to cover losses on existing business.

The 1792 Co., the exchange's largest syndicate by premium volume, reported $30.5 million in gross premiums in 1984, all of which was reinsurance. The syndicate, managed by CIGNA Syndicate Managers Inc., came close to the exchange-imposed guideline limiting reinsurance cessions to 50% of gross premiums. The 1792 Co. retained net premiums of $15.4 million.

'The problem the syndicates have is that their surplus is evaporating,' Mr. Burt said.

The syndicate recorded a $4.5 million underwriting loss on earned premiums of $15.2 million, and a combined ratio of 129.3%. Investment income of $2.2 million made up some of the loss, but after small foreign exchange losses and capital losses on some investments, 1792 finished the year with a net loss of $2.2 million.

The largest shareholder in 1792 is UNINA Insurance Co. Ltd. of Bermuda, a CIGNA Corp. unit, with an 85% stake. Yasuda Fire & Marine Insurance Co. of America holds 10% and Sumitomo Marine & Fire Insurance Co. owns 5%.

The shareholders added $2 million to 1792's surplus last year, and the syndicate finished 1984 with surplus of $9.97 million, down only slightly from $10.09 million at the end of 1983.

Two syndicates managed by W.J. Burt Management Inc.—First New York Syndicate Corp. and Burt Syndicate Inc., the second and fourth largest on the exchange—temporarily stopped underwriting last year and won't resume before Jan. 1, 1986, according to Locke Burt, president of Burt Management.

Both syndicates grew quickly and hit the exchange-imposed premium-to-surplus limits. Under the exchange's rules, syndicates must maintain net premium-to-surplus ratios of 3-to-1 on property business, 1½-to-1 on casualty business and 1-to-1 on property catastrophe risks.

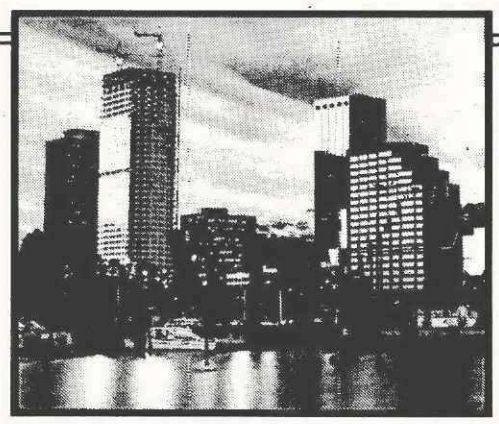
Poor loss experience has continued to erode the syndicates' surplus, Mr. Burt noted.

"The problem the syndicates are having is that their surplus is evaporating," he explained. "We grew very fast, our results followed the market and now we are in a sorting out process."

Burt Syndicate has added $2 million to surplus since last year to cover losses on business it had already written, while First New

Continued on page 16

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NYIE syndicates

Continued from page 14

York bought additional excess-of-loss reinsurance to cover its losses, Mr. Burt said.

He observed that the exchange is "really uptight" about reserves for incurred-but-not-reported losses, though he added that "the exchange is probably more adequately reserved than any comparable market of its age."

First New York, owned by eight U.S. and foreign insurance companies, reported $24.8 million in gross premiums in 1984—virtually all on reinsurance business—and net premiums of about $11 million.

Losses and expenses of nearly $14 million wiped out earned premiums of $10.6 million and produced an underwriting loss of $3.4 million. After investment income of $1.6 million, the syndicate finished the year with a net loss of $1.7 million. Surplus declined to $2.38 million from $4.11 million at the end of 1983.

Burt Syndicate, owned by Mr. Burt's Ormond Re Group Inc., recorded $20.2 million in gross premiums last year—again, almost exclusively reinsurance—and net premiums of $8.4 million.

Earned premiums amounted to $8.9 million, but losses and expenses hit $12 million, and the syndicate reported an underwriting loss of $3.1 million. Investment income of $961,000 partially offset the loss, but Burt Syndicate finished the year with a net operating loss of $1.8 million. Surplus—after a $1.25 million contribution made before the end of 1984—declined to $2.63 million from $3.18 million at the end of 1983.

Both First New York and Burt Syndicate exceeded the exchange's 50% limit on reinsurance cessions. However, the exchange's board of governors can approve reinsurance exceeding the limit and Mr. Burt said that the board was aware of the extent of reinsurance.

In addition, the 50% rule excludes reinstatement premiums on catastrophe reinsurance of exchange syndicates, Mr. Burt said. Both syndicates paid reinstatement premiums to their property catastrophe reinsurers following losses from Hurricane Alicia in 1983 and the winter storms of 1983-84.

While it has suspended underwriting for First New York and Burt Syndicate, Burt Management is actively underwriting for Dorinco Syndicate Corp., formed by Dow Chemical Co. in 1984. Dorinco wrote only $456,000 in gross premiums last year, but will write $4 million to $5 million this year, according to Mr. Burt.

Dorinco now writes mostly property and casualty treaty reinsurance, but will write more property facultative reinsurance over the next six months because rates are higher. Dorinco will not write casualty facultative business.

Realex Group N.V., managed by Chartrex Re Inc., also stopped underwriting last year after hitting exchange guideline ratios, and will not resume underwriting before next Jan. 1, according to Robert Hughes, senior vp of Chartrex Re.

When Realex resumes underwriting, it will accept property and casualty treaty reinsurance business only, Mr. Hughes said. The syndicate had written facultative reinsurance business.

Realex will have a capacity of $200,000 on treaty risks and will write gross premiums of $6 million to $8 million in 1986, Mr. Hughes predicted.

Realex, the third-largest syndicate, reported $21.4 million in gross premiums last year, nearly all from reinsurance business, and net premiums of about $12 million.

Losses and expenses of $16.1 million on earned premiums of $11.5 million produced an underwriting loss of $4.6 million. After investment income of $1.7 million, Realex had a net loss of $2.9 million.

Despite a $1.8 million contribution to surplus, Realex finished 1984 with surplus of $3.54 million, down from $5.04 million at year-end 1983.

Pan Atlantic Management Corp., another exchange underwriting manager, temporarily stopped writing business for Galleon Syndicate Corp. several weeks ago after portfolio reinsurance assumed by Galleon put the syndicate close to exchange underwriting limits, according to Vincent Villani, a vp at Pan Atlantic Management.

Galleon's owner, Norman E. Alexander, is expected to contribute $2.5 million to surplus to allow the syndicate to resume writing, Mr. Villani said.

Pan Atlantic also manages Pan Atlantic Investors Ltd., the exchange's sixth largest syndicate, writing property and casualty

Continued on page 18

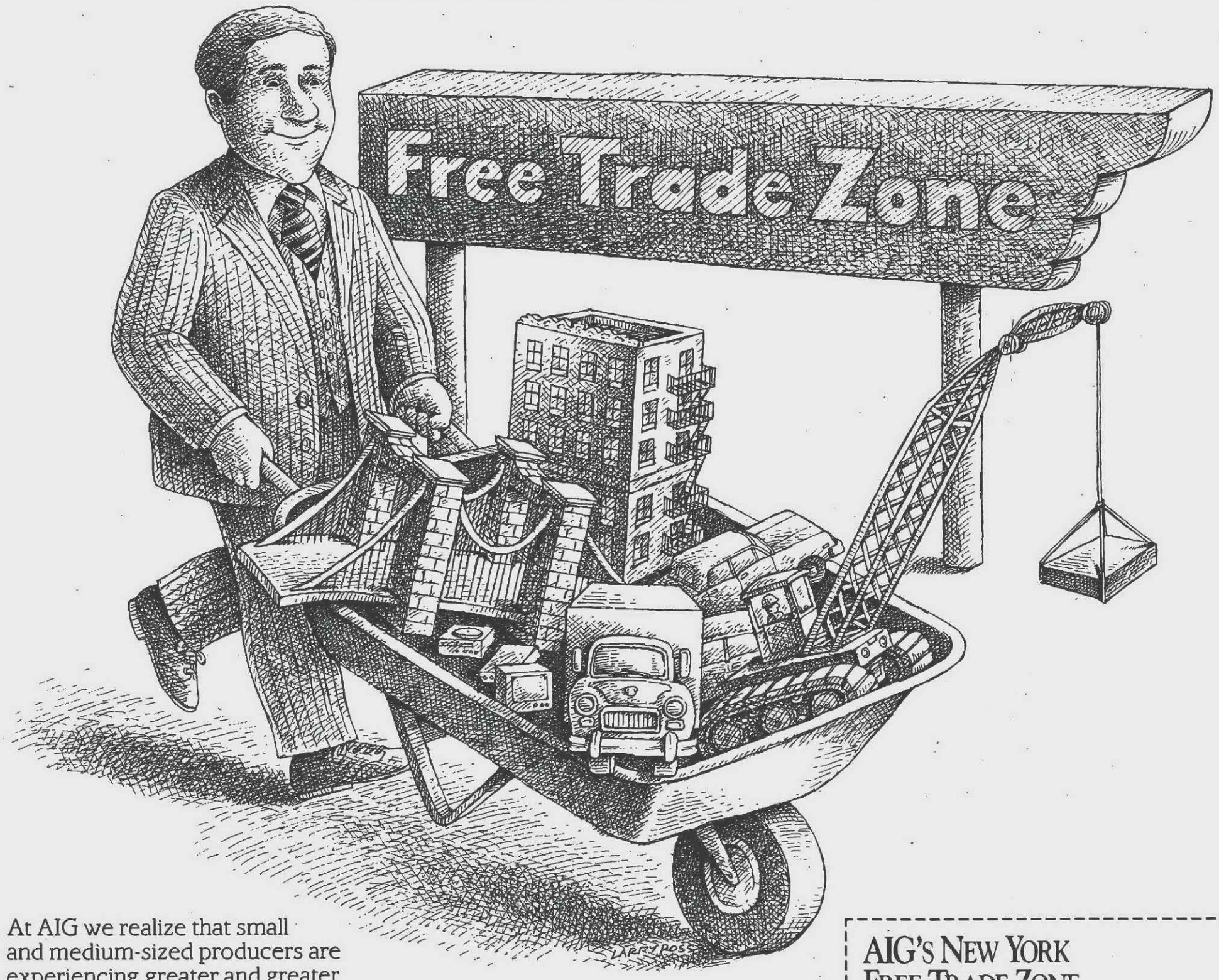
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NYIE syndicates

Continued from page 16
treaty and facultative reinsurance.

Galleon's capacity for property facultative risks dropped to $800,000 this year from $1 million per risk a year ago.

Galleon reported gross premiums of $3.6 million last year and net premiums of $2.9 million. While the syndicate suffered an underwriting loss of only $866,000 and earned investment income of $597,000, it reported a net loss of $3.3 million for the year.

The operating loss resulted from $10 million in portfolio reinsurance assumed for a premium of $7 million, which created a $3 million drain on surplus. A $2.5 million contribution was made to surplus last year to cover the reinsurance transaction, and Galleon finished 1984 with surplus of $2.55 million, down from $3.46 million at year-end 1983.

Pan Atlantic Investors, meanwhile, reported $15.8 million in gross premiums and $9.4 million in net premiums last year.

The syndicate, owned by Pan Atlantic Group and Republic Allied Building Corp., suffered an underwriting loss of $2.6 million on earned premiums of $9.4 million, and finished the year with a net loss of $909,000 after investment income of $1.7 million. Surplus dropped to $4.39 million from $5.41 million at the end of 1983.

Pan Atlantic Investors' property facultative capacity has been cut to $1 million per risk from $2 million. The syndicate chose to take the cut rather than pay for the additional retrocessional coverage it needed to maintain its former gross line, Mr. Villani said.

Maiden Lane Syndicate Inc. and South Place Syndicate Inc.—the eighth- and ninth-largest exchange syndicates, both managed by Continental Reed Stenhouse Management Co. Ltd.—have stopped writing certain types of business and have cut back the limits they will write, according to Peter Larsen, a vp with the underwriting manager.

Business written by Continental Reed Stenhouse is evenly split between the two syndicates and last year consisted of about 65% casualty and 35% property reinsurance, Mr. Larsen said. This year, that will probably change to 60% casualty and 40% property, though overall premium volume will probably remain the same.

Rate increases "on the property side have been rather slow in gaining speed," though "now it's rolling," Mr. Larsen said.

The two syndicates last year stopped writing satellite risks, animal mortality insurance and professional liability coverages, and "are concentrating on more standard types of business" where loss experience is better, he added.

The syndicates' capacity on property risks is the same as it was last year—$1 million—but use of the full limit "has diminished drastically" and the syndicates now commit only about $250,000 per risk on the average, he explained.

Maiden Lane, owned by Continental Insurance Co. and about 10 other U.S. and foreign insurers, reported $12.6 million in gross premiums last year and $8.9 million in net premiums.

The syndicate produced an underwriting loss of $4.4 million on earned premiums of $9.7 million, and after investment income of $2.1 million reported a net operating loss of $2.3 million.

Surplus dropped to $5.37 million from $7.72 million at year-end 1983.

South Place, owned by Continental and 13 U.S. and foreign insurers, reported $12.3 million in 1984 gross premiums and $8.5 million in net premiums.

Earned premiums totaled $9.2 million, on which South Place suffered a $3.7 million underwriting loss. After investment income of $1.9 million, the syndicate recorded a net operating loss of $1.8 million.

Surplus dropped to $6.2 million from $8.02 million at the end of 1983.

The Heartland Group Inc., the 10th-largest exchange syndicate, managed by Syndicate and Corporate Management Services Inc., produced $12.2 million in gross premiums last year, all on reinsurance business. Net premiums amounted to $7.3 million.

Earned premiums of $8.1 million were wiped out by losses and expenses of $9.2 million, and the syndicate reported an underwriting loss of $1.1 million. This was partially offset by investment income of $862,000, which produced a net loss of $228,000 for 1984. Surplus declined to $3.01 million from $3.3 million at the end of 1983.

New underwriting philosophies are also being followed at smaller syndicates.

The three syndicates managed by Johnson & Higgins Willis Faber (U.S.A.) Inc.—J&H, WF Syndicate A; J&H, WF Syndicate B; and MML Syndicate Inc.—stopped writing casualty facultative reinsurance recently because of poor results and uncertainty about the adequacy of even today's higher rates, said Vp Craig C. Perry.

"If you get 300%, maybe it should be 1,000%," he said of rate increases.

The syndicates' casualty facultative capacity had been $1 million.

The syndicates still write property facultative business, and since January, have writen more property and casualty treaties.

About half of the syndicates' 1985 premium volume will be from treaty business, up from about 5% in 1984, Mr. Perry said. Overall, premium volume this year will be higher than last year.

The syndicates have per risk capacity of $1.5 million for property facultative reinsurance and various per risk limits on treaty business.

Property facultative risks are evenly split among the three syndicates, while Syndicate A gets 50% of treaty risks, Syndicate B 25% and MML 25%, he said.

Syndicate A, with four investors, reported gross premiums of $4.9 million and net premiums of $3.8 million last year. Earned premiums amounted to $4.1 million, on which the syndicate suffered an underwriting loss of $3.7 million. Syndicate A's combined ratio of 195.5% was among the worst on the exchange, and significantly higher than those of the other two J&H syndicates.

Syndicate A recorded investment income of $1.1 million and a

Continued on page 20

Largest New York Insurance Exchange Syndicates

(Ranked by 1984 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
The 1792 Co.	$30,451	$15,354	$9,968	1.54:1	129.3	$2,244	($2,188)
The First New York Syndicate Corp.	24,842	10,981	2,385	4.6:1	130.5	1,633	(1,734)
The Realex Group N.V.	21,369	11,972	3,536	3.39:1	139.1	1,722	(2,948)
The Burt Syndicate Inc.	20,227	8,396	2,627	3.20:1	136.8	961	(1,780)
The William Street Syndicate Inc.	16,968	8,261	3,074	2.69:1	138.5	1,577	(1,601)
Pan Atlantic Investors Ltd.	15,767	9,431	4,392	2.15:1	127.9	1,722	(908)
Pruco Syndicate Inc.	13,165	12,932	5,240	2.47:1	113.1	1,303	(322)
The Maiden Lane Syndicate Inc.	12,578	8,932	5,371	1.66:1	148.4	2,126	(2,251)
South Place Syndicate Inc.	12,311	8,492	6,203	1.37:1	144.0	1,897	(1,852)
The Heartland Group Inc.	12,151	7,334	3,012	2.43:1	116.7	862	(228)

Source: 1984 annual statements

Chart: Amy Palmer

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NYIE syndicates

Continued from page 18

net operating loss of $2.7 million. Surplus fell to $5.26 million from $8.05 million in 1983.

One of the few syndicates on the New York exchange switching from reinsurance to direct insurance is Lancer Syndicate—the new name for Transit Casualty Syndicate Inc.

While the vast majority of the syndicate's business last year was reinsurance, Lancer now writes "little if any" facultative or treaty business, said David P. Delaney, president of Delaney Management Co. Inc.

"We wanted to get as close to the original risk as possible," he explained, noting difficulties with getting timely information from ceding companies.

Writing direct insurance over self-insured retentions, Lancer will concentrate on commercial auto and bus programs, Mr. Delaney said. The syndicate will not write such "traditionally volatile" risks as pollution, professional and umbrella liability, ocean marine or aviation, he added.

Lancer's gross capacity remains $500,000 per risk on property and casualty, though the syndicate probably will not write more than $250,000 for most risks.

For 1985, Mr. Delaney said that about 70% of Lancer's volume will come from direct insurance business, 20% from facultative and 10% from treaty reinsurance.

Last year, Lancer—operating as Transit Casualty—wrote $7.3 million in gross premiums and $3.9 million in net premiums. Underwriting losses amounted to $1.6 million on earned premiums of $4.1 million, and the syndicate produced a net loss of $1.1 million after investment gains of $507,000. Surplus fell to $2.26 million from $3.29 million at the end of 1983.

Lancer Syndicate is owned by Lancer Financial Group, which in turn is owned by a number of investors including Transit Casualty Co. Transit has "expressed an interest" in selling its 23.9% stake in Lancer Group, but has not yet done so, Mr. Delaney said.

Home Re Syndicate Inc., a unit of Home Reinsurance Co., appears to be bucking the trend toward writing only low-risk business.

Because of rising rates, the syndicate is actively seeking animal mortality business and high-risk property business covering such industries as non-hazardous chemicals and plastics, furniture manufacturers and restaurants, according to Mark Zucco, vp with City Syndicate Managers Inc., Home Re Syndicate's underwriting manager.

"We are looking more at high-hazard occupancy risks because the rates have gone up so much in the last few months," he said. "It's hard to turn down risks because of the high rates they bring these days."

The syndicate, which doesn't write casualty facultative risks, is writing other types of reinsurance and is hoping to expand its direct insurance business, which accounted for about 2% of gross premiums last year, Mr. Zucco added.

The syndicate's largest book of business now is aviation treaty reinsurance.

Mr. Zucco noted that the quality of direct business coming to the exchange has improved as markets generally have tightened. "Because of the lack of capacity, we are participating on working excess layers with other admitted markets. It's not the substandard business associated with the excess and surplus lines marketplace," he said.

Home Re's capacity has dropped since 1984 to $2 million on property facultative and direct insurance risks from $3 million per risk, though the syndicate only uses on average about $500,000 per risk.

The decline was due partly to erosion of the syndicate's retrocessional covers, but Mr. Zucco indicated that the loss of capacity won't hurt it much.

"We didn't use that additional million we had too often," he said.

Home Re reported gross premiums of $3.2 million in 1984, nearly all of which was reinsurance business. Net premiums amounted to $2.6 million.

The syndicate reported an underwriting loss of $339,000 on earned premiums of $2.5 million. After investment income of $845,000 and other charges, Home Re finished the year with net income of $251,000, the second-largest operating gain on the exchange.

Surplus stood at $5.5 million at the end of 1984, up from $5.3 million at the end of 1983.

CU Syndicate, which wrote $755,000 in gross premiums and kept none net, posted the largest operating gain: $331,000, mainly from investment income. ■



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Syndicate withdrawals outnumber formations

By DOUGLAS McLEOD

NEW YORK—Syndicate withdrawals from the New York Insurance Exchange this year are outpacing new syndicate formations.

First State Syndicate Inc. and William Street Syndicate Inc., two of the exchange's largest syndicates, have announced plans to withdraw, bringing to six the number of syndicates withdrawing since the beginning of the year.

Meanwhile, the exchange's largest syndicate to date with $10 million, Fairway Syndicate Inc., is being formed by a Princeton University endowment fund, bringing to four the number of new syndicates formed this year.

First State Syndicate actually stopped underwriting earlier this year and has since decided to file a withdrawal petition with the exchange board of governors, says Chester A. Abbey, vice chairman of Cameron & Colby Co. Inc., the syndicate's underwriting manager.

"We have just decided to devote our capital resources to the development of treaty business and special-purpose insurance" through New England Reinsurance Corp., New England Insurance Co. and First State Insurance Co., which Cameron & Colby also manages, Mr. Abbey said.

"The kinds of things we were seeing on the exchange were the kinds of things we see ordinarily outside the exchange. So we didn't really need it," Mr. Abbey said of the syndicate.

First State Syndicate wrote $11.7 million in gross premiums in 1984, including $10.1 million in reinsurance business and $1.6 million in direct insurance business. Net premiums totaled about $7 million.

First State Syndicate suffered losses and expenses of $6.3 million against earned premium of $6.1 million, producing an underwriting loss of $211,000, one of the smallest on the exchange.

After investment income of $479,000 and other charges, the syndicate ended the year with net income of $140,000, making it one of only six exchange syndicates to report an operating gain.

Before it stopped underwriting, the syndicate wrote about $250,000 in gross premiums in 1985, Mr. Abbey said.

First State Syndicate ended 1984 with surplus of $3.52 million, up from $3.38 million a year earlier.

William Street Syndicate also stopped underwriting during the first quarter of 1985 and has filed a withdrawal petition, says Roger Consolla, president of Crum & Forster Managers Corp., the syndicate's underwriting manager.

William Street's shareholders included International Surplus Lines Insurance Co.; National Employers Mutual General Insurance Assn.; Universal Reinsurance Co., an Armco Inc. unit; Pennsylvania National Mutual Casualty Co.; and Utica Mutual Insurance Co.

Exchange sources say that C&F unsuccessfully sought investors to replace William Street shareholders that wanted to drop out, and that C&F was prevented from buying out the shareholders itself by an exchange rule that limits syndicate ownership by companies that control exchange brokers.

C&F also owns Richard Whiley Inc., an exchange broker.

Mr. Consolla would not comment on this, but said, "What we are trying to do is reallocate our resources to other things within the C&F group."

William Street, the fifth-largest exchange syndicate last year, recorded nearly $17 million in gross premiums, practically all of which were on reinsurance business. Net premiums totaled $8.3 million.

Earned premiums of $8.3 million were wiped out by losses and expenses of $11.5 million, and the syndicate finished the year with a $3.2 million underwriting loss.

The underwriting loss was partially offset by investment income of $1.6 million, and William Street reported a net loss of $1.6 million.

The syndicate's surplus amounted to $3.07 million at the end of the year, down from $4.07 million at the end of 1983.

William Street wrote a small amount of treaty reinsurance business in 1985, Mr. Consolla said.

The withdrawals of First State Syndicate and William Street follow announcements earlier this year by several other syndicates that they would withdraw. These included Chubb Syndicate Inc., North Star Syndicate Inc., Polaris Syndicate Corp. and Anex Syndicate Inc. (*BI*, March 4).

Meanwhile, Fairway Syndicate, operating with capital and surplus of $10 million, will be the exchange's 50th underwriting member. Fairway Syndicate will be managed by AIG Syndicate Managers Inc., a unit of American International Group Inc.

An official with AIG Syndicate Managers declined to comment on the syndicate for publication.

However, sources say that Fairway's capital and surplus will be contributed by a Princeton University endowment fund.

Fairway is expected to write a mix of business similar to that of other AIG-managed syndicates, including AIG Multiline Syndicate Inc. and International American Syndicate Inc.

These syndicates write domestic and worldwide treaty and facultative reinsurance, with an emphasis in the treaty area on excess-of-loss vs. pro-rata business. They do not write credit, fidelity financial guarantee or life coverages.

Fairway is the first syndicate to be incorporated since the exchange amended its constitution to raise the capital and surplus required of new underwriting members.

Syndicates approved after July 1 must be capitalized with at least $5 million to write either property/casualty or life business and at least $10 million to write both classes. The previous minimum capital requirement was $3.55 million to write property/casualty or life and $6.55 million to write both.

Other new syndicates approved this year before July 1 include:

- Senate Syndicate Inc., capitalized with $3.55 million to write reinsurance of medical stop-loss and association insurance risks handled by an agency affiliated with its parent, Lawrence Corp.
- First Riverside Syndicate Inc., capitalized with $3.55 million by Nashville, Tenn.-based Hospital Underwriting Group Inc., a property/casualty insurer.
- Meadows Syndicate Inc., capitalized with $3.55 million by Meadows Indemnity Co., an insurance subsidiary of Gould Inc. Meadows Syndicate was formed primarily to write property treaty reinsurance. ■



3 NYIE syndicates bolster surplus, merge

By DOUGLAS McLEOD

NEW YORK—Three New York Insurance Exchange syndicates managed by Pruco Managers Inc. are merging their operations, after ceding loss portfolio reinsurance last year to Pruco's parent company, Prudential Reinsurance Co.

Essex Syndicate Inc., John Street Syndicate Inc. and Pruco Syndicate Inc. are being combined to form a new exchange underwriting member, Golden Hill Syndicate, which will operate with the combined capital and surplus of the three old syndicates, according to Charles A. Hachemeister, president of Pruco Managers.

Bolstered by the loss reserve transfers, the combined surplus of the syndicates amounted to $10.86 million at the end of 1984, which would have made Golden Hill the largest syndicate on the exchange last year.

The ownership of the new syndicate will be changed slightly, Mr. Hachemeister added.

Prudential Re—which owned 100% of Pruco and more than 50% of Essex and John Street—has bought out four of the old syndicates' shareholders and will own a total of 82% of Golden Hill, he said.

Where the old syndicates had a total of 12 domestic and foreign insurance company investors—including Prudential Re—the new syndicate will have eight, he said.

One of the shareholders that sold out was a foreign insurance company "that no longer has an appetite" for U.S. business, Mr. Hachemeister noted, adding sarcastically, "I can't understand why."

Eliminating paperwork was the main reason for the merger, Mr. Hachemeister said, explaining that each of the old syndicates received an equal share of each risk underwritten by Pruco Managers.

"There was a redundancy of administrative work," he observed. "It got to the point where we said, 'This is nuts.'"

NYINSURANCEXCHANGE

Last year, the three syndicates also ceded loss reserves totaling $36.6 million to Prudential Re for total payments of $25.8 million, producing a combined surplus gain of $10.76 million.

The portfolio transfers haven't produced any changes in the underwriting posture of the syndicates, but prevented an erosion of the surplus position of Golden Hill, Mr. Hachemeister noted.

"We wanted to make sure we had healthy, ongoing operations," he said.

The reserve transfers were made before the effective date of the New York Insurance Department's regulation 109, which now bars insurance companies and exchange syndicates from taking credits to surplus for portfolio reinsurance ceded to affiliated companies.

Each of the three syndicate's results were improved by the reserve transfers.

Essex last year produced gross written premiums of $6.5 million, all but $59,000 of which was reinsurance. The syndicate retained most of the business, reporting net premiums of $6.4 million.

Earned premiums last year totalled $6.76 million, but losses, loss adjustment expenses and other underwriting expenses of $9.2 million resulted in an underwriting loss of $2.46 million.

Investment gains of $485,000 and other income—including income from the portfolio transfer—cut the syndicate's net loss for the year to $456,000.

Essex's loss ratio was 113.9% and its expense ratio—largely because of the portfolio reinsurance—was 9.9%, making for a combined ratio of 123.8%.

Essex ceded loss reserves totalling $9.1 million for a payment of $6.4 million, producing a $2.7 million credit to surplus. Despite this credit, though, the syndicate finished the year with surplus of $2.7 million, down from $3.25 million in 1983.

John Street reported $6.6 million in gross premiums and $6.5 million in net premiums.

Losses, adjustment expenses and other underwriting expenses of $9.3 million wiped out earned premiums of $6.8 million and produced an underwriting loss of $2.5 million.

Investment income of $517,000, gains from the portfolio transfer and other income reduced John Street's net loss in 1984 to $436,000.

The syndicate's 1984 loss ratio was 104.8% and its expense ratio 9.6%, making for a combined ratio of 114.4%.

John Street ceded loss reserves of $9.1 million for a payment of $6.4 million, producing a gain to surplus of $2.7 million. Like Essex, though, the syndicate's surplus dropped despite the portfolio transfer to $2.91 million from $3.44 million in 1983.

Pruco, the seventh-largest syndicate on the exchange in 1984, reported gross premiums of $13.2 million and net premiums of $12.9 million.

Earned premiums of $13.6 million were eaten up by losses, loss adjustment expenses and other underwriting expenses of $18.5 million, resulting in a $4.9 million underwriting loss for the year.

However, investment income of $1.3 million, gains from the portfolio transfer and other income reduced the syndicate's net loss to $322,000.

Pruco's loss ratio last year was 104.8% and its expense ratio 8.3%, adding up to a combined ratio of 113.1%, one of the lowest on the exchange.

Pruco ceded loss reserves of $18.4 million to its parent company for a payment of $12.9 million, producing an increase of $5.4 million in policyholders surplus. The syndicate finished the year with surplus of only $5.24 million, though, down from $5.75 million in 1983.

Pruco Managers also manages Republic Western Syndicate Inc., which will now take 20% of each risk the manager writes while Golden Hill will take 80%, Mr. Hachemeister says.

CU Syndicate Inc., a Commercial Union Insurance Cos. subsidiary that was managed by Pruco, has shut down and is running off its business.

Golden Hill and Republic Western, which primarily write property and casualty facultative reinsurance, have stopped writing international risks and medical malpractice coverage, Mr. Hachemeister said.

The combined capacity per risk of the Pruco-managed syndicates is $750,000 on property and casualty business. ■

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NYIE brokers see silver lining in cloud of shrinking capacity

By DOUGLAS McLEOD

NEW YORK—The seller's market for property/casualty insurance is provoking ambivalent feelings among New York Insurance Exchange brokers.

They are almost frantic about the drop in capacity at their marketplace in the last year, especially for casualty risks, but hope the need for capacity will attract investors and ultimately strengthen the exchange.

Capacity at the exchange has dropped dramatically for many reinsurance and direct insurance risks, perhaps by as much as $50 million for some risks.

Some brokers say casualty reinsurance capacity is so scarce that the majority of the brokers' premium volume now comes from property placements.

The reasons cited for the drop in capacity on the exchange are many, including:

- The withdrawal of some syndicates.
- Temporary underwriting moratoriums among remaining syndicates that have reached exchange-imposed underwriting guidelines.
- The reluctance of insurance company investors to add capital to exchange syndicates and the absence of non-insurance investors from the exchange.
- The loss or reduction of many syndicates' retrocessional protection.
- Syndicate underwriters who are less willing to offer put out limits they once did, despite the ability to do so.

But, while the capacity crunch is hurting, brokers point out the problem is not exclusive to the exchange.

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"It's tight everywhere, and the New York Insurance Exchange is no exception," observes John McGarrity, president of Amberco Brokers Corp. in New York.

Amberco ranks among those brokers that place $750,000 to $1.05 million in premiums per year, according to exchange statistics.

And, since capacity is tight everywhere, the exchange "is becoming a much more important marketplace for brokers," said Ruth A. Curry, vp with Intere Intermediaries Ltd. in New York, which is the among the exchange's largest brokers, placing more than $3.175 million in annual premium volume.

"Conditions this year have been extremely difficult and capacity has shrunk," said Irving Bloom, president of Greig Fester (North America) Inc. in New York, which places about $1 million in premiums with the exchange.

But, he added, "I feel they have an opportunity now to become an important and formidable market. That's the positive side. The downside is that they need to strengthen their underwriting commitment" with the addition of new capital and new underwriting talent.

While capacity is the major headache, brokers are still concerned about other previously reported difficulties on the exchange, including:

- Administrative problems in handling syndicate policies, premiums and claims. The exchange has taken steps to clear bottlenecks in the system, but several brokers have yet to see results. However, most are optimistic that conditions will improve. (See story, page 6).
- The lack of a lead underwriting system similar to that used at Lloyd's of London. Some brokers say the hard market has actually reversed the development of a lead system in New York, as more syndicates insist on maintaining underwriting control over each risk.
- A shortage of experienced underwriters.

In discussing the capacity problem, brokers noted the withdrawal of several syndicates from the exchange, including First State Syndicate Inc.; William Street Syndicate Inc., the exchange's fifth largest last year; Chubb Syndicate Inc.; Anex Syndicate Inc.; North Star Syndicate Inc.; and Polaris Syndicate Corp.

Several other syndicates have hit the exchange's guideline premium-to-surplus ratios and have temporarily stopped underwriting. These include several of the exchange's largest syndicates: First New York Syndicate Corp., Burt Syndicate Inc., Realex Group N.V., and KCC New York Syndicate Corp.

Overall gross capacity on the exchange is down by "a significant amount," also because many syndicates could not renew retrocessional coverages, conceded Donald E. Reutershan, president and chief executive officer of the exchange.

One or two syndicates are practically net line underwriters now because of this problem, he said.

Exchange underwriters reported about $55 million in total capacity available for casualty risks and $60 million to $65 million for property risks in 1984. But, capacity for property and casualty facultative reinsurance is now about $15 million per risk, according to James Cullinan, president of Transworld Insurance Intermediaries Ltd., which places between $1.05 million and $3.175 million in annual premiums with the exchange, and Risk Transfer Inc., which places less than $175,000 in premium volume.

On one property facultative reinsurance account, Mr. Cullinan said, he was able to find $19 million in limits on the exchange last year, excess of a $1 million primary layer. This year, he can find only $3 million in limits for the same risk, he said.

David C. White Agency Inc. of Rockville Centre, N.Y.—the largest direct insurance broker on the exchange—gave up attempts to place direct primary casualty business on the exchange about a month ago, said Walter S. Groden, president. "Direct casualty capacity has basically gone away," he added.

Casualty business, including reinsurance, generally is not popular, brokers report.

"There is a distinct trend toward writing property and a hostility toward casualty business," said Amberco's Mr. McGarrity.

"In all honesty, the market for casualty treaty business is practically not there," said Intere's Ms. Curry. "There are very few syndicates that can or will write casualty treaty business."

The result: some brokers—including Intere—have seen the bulk of their business go from casualty placements to property placements.

Capacity for certain specialty classes—such as satellites, professional liability, livestock and deductible buy-back coverages—has also dropped, brokers say.

"The market has dramatically dried up for specialty risks," said Peter Rhulen, president of Rhulen Intermediaries Inc., a broker that specializes in animal mortality insurance.

Where a dozen syndicates had written animal mortality insurance last year, only a few still do, Mr. Rhulen said. Capacity for these risks "used to be in the multimillions, and now I doubt if it's in the multi-hundred thousands" of dollars, he added.

The syndicates "have no reason to take on high-risk insurance when they can get high rates for standard coverages," observed Mr. Groden of David C. White.

However, Mr. Groden added that within the last few months he was able to find exchange participants for lawyers professional liability reinsurance treaties covering two state bar associations.

While some brokers say new syndicates joining the exchange won't lessen the capacity crunch, others say the new underwriting members could alleviate some of the problems.

Three new syndicates have formed since last Jan. 1, including Senate Syndicate, Meadows Syndicate Inc. and First Riverside Syndicate Inc.

New syndicates will probably "pick up some of the slack" of retreating syndicates on treaty business, Ms. Curry observed.

Brokers also hope some lost capacity will return over the next year as syndicates increase their writings to take advantage of the hard market.

Mr. Cullinan and Mr. Groden agreed that current capacity for direct insurance business will probably increase, and Ms. Curry said some syndicates have indicated that they will resume writing casualty treaty business after Jan. 1, 1986.

"That's yet to be seen, of course," Ms. Curry said. "I think they are going to be very cautious. But the rates are going to be so good that they might not be able to resist writing casualty business."

One factor holding back capacity, brokers note, is the failure of the syndicates' insurance company investors to commit more capital to the operations. While several syndicates have added money to surplus in the last year, nearly all have done so to cover losses on previously written business and not to allow new writing.

And, one factor holding back additions to surplus is the exchange's premium-to-surplus limitations, Amberco's Mr. McGarrity says. The exchange limits syndicates to the following net premium-to-surplus ratios:

- 3-to-1 on property risks.
- 1½-to-1 on casualty business.
- 1-to-1 on property catastrophe risks.

"The whole problem there is return on equity," Mr. McGarrity said, explaining that insurance companies can get a better return on their money outside the exchange, where they can write more business on the same amount of surplus.

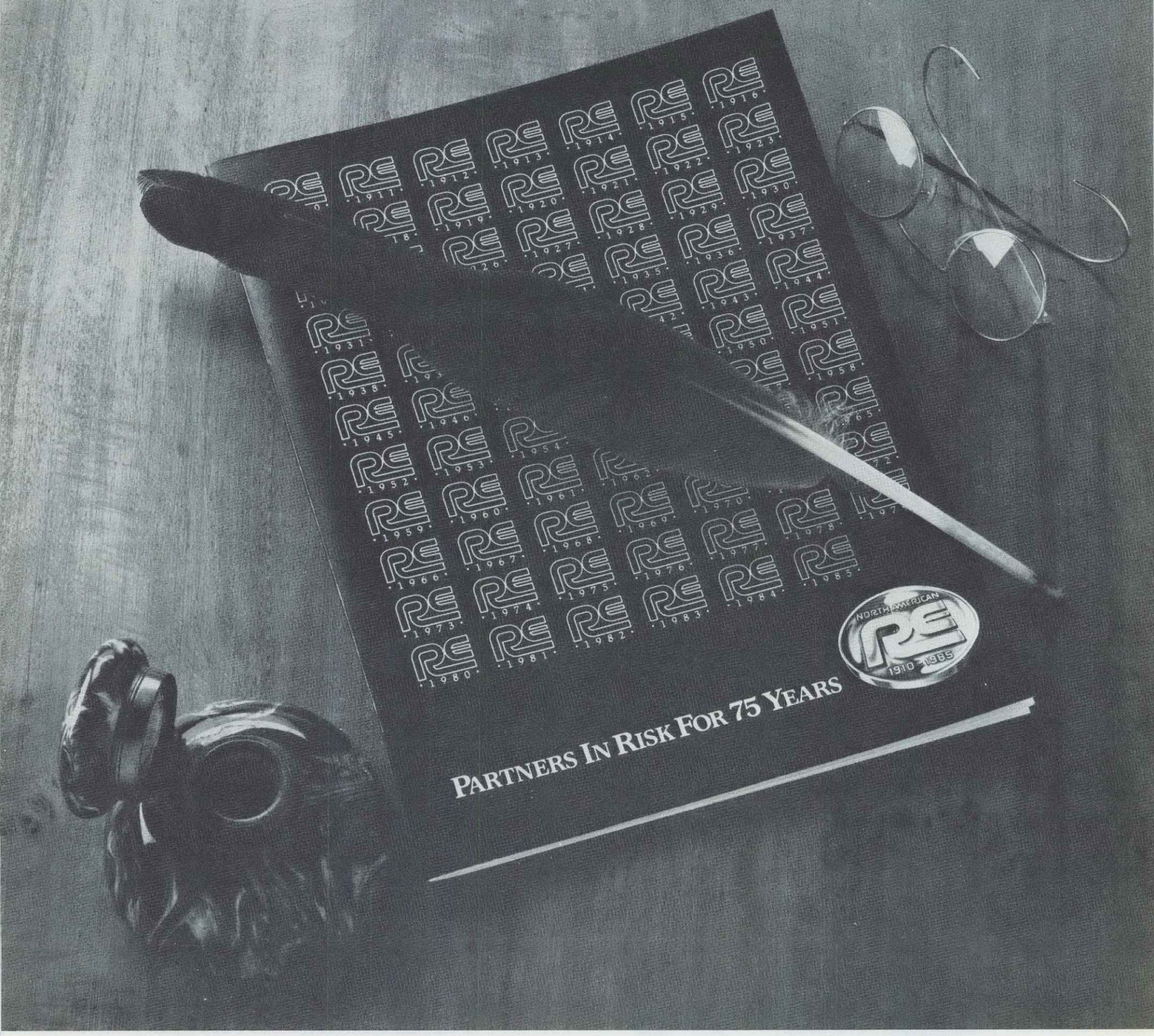
Other brokers, while conceding that the guidelines have hurt capacity, support the limitations, arguing they help ensure solvency, which in turn helps establish the exchange as a reliable market.

"The constraints Reutershan is putting on the exchange in the short term will help us in the long term," said Joseph Zaffarese, president of Frank B. Hall Re International Inc., one of the larger brokers.

Also holding back capacity growth is the absence of the kind of "passive" non-insurance company investors that support Lloyd's, said Mr. Cullinan. Lloyd's underwriters have wide latitude in making their underwriting decisions, but New York exchange underwriters are "making underwriting decisions based on what their parent company decides to do," he said.

"There's no creativity there because the people who put up the money say, 'This is what you can do and this is what you can't do,'" he complained. "The two most famous underwriters in this country are Robin Jackson and Stephen Merrett, and they're in London." ■

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Florida exchange expects volume to double

By MICHAEL BRADFORD

MIAMI—The Insurance Exchange of the Americas—in the right place at the right time—is set to more than double its premium volume this year on the coattails of the hardening insurance marketplace.

The 18 active syndicates on the exchange could write more than $125 million in annualized premiums this year, more than double the $62.2 million in annualized premium written in 1984, its first full year of operation.

And, IEA syndicates—which write reinsurance in all states and are approved surplus lines insurers in 10 states—are shifting their attention to surplus lines risks, responding to marketplace demand.

"The syndicates here are committed to becoming a major factor in the direct excess and surplus lines business," declares George Bahm, an underwriter for Citadel Management Corp., which manages two IEA syndicates.

The only concern is that the 23 syndicates' $37.8 million in capital and surplus, which is supplied mostly by individual investors, could fall short of demand.


Mr. Toro

The hard market—characterized by high rates and capacity demands—could have whooshed past before the exchange was ready for it, but officials at the Miami headquarters agree that the IEA matured from its 1983 start-up just in time to latch onto the new market cycle.

"The timing was no brilliance on anybody's part," said Gene C. Witherspoon, executive vp of the exchange. "It just happened to come together at the right time."

The exchange was created by a special act of the state Legislature in 1979 and began operating on April 4, 1983, with four syndicates. In its first eight months of operation in 1983, annualized premiums written by eight syndicates totaled just $10 million.

Although the number of syndicates reached 44 in 1984, nearly half of those were terminated for not paying the required dues.

The Florida-based exchange, the youngest of the American insurance exchanges, boasts 68 member brokers, 12 of which are reinsurance brokers (see story, page 32).

Not everyone, however, expected the IEA would be ready to capitalize on a shift in the insurance market to higher rates.

George Love, administrator of the surplus lines section of the Florida Department of Insurance, whose liaison function with the exchange dates back to its development, recalls some skepticism among non-insurance observers that the exchange would not be ready in time for the market turnaround. "Others were telling them, 'You can't just throw this thing together,' although they agreed it needed to be done near the turnaround."

Persistence paid off, said Mr. Love, and "almost by coincidence, they got it up and running just at the market turnaround."

Exchange officials are quick to point out that as a new underwriting entity, the IEA is in the enviable position of not having to pay hordes of claims from prior years when insurance rates were too cheap.

"We were fortunate because we started just as the market turned," said IEA President Arturo Toro.

However, its first full year of operations is nothing to crow about: Only three of the 10 largest syndicates produced a profit in 1984 (see story, page 28).

But now, as Mr. Love says, the changing market is "putting the exchange in the driver's seat. There's a lot more business coming to them, a lot more good business. Soon they'll be able to pick and choose what they want to write."

"Underwriters are in a tremendous position to use their capacity to write business at rates that have doubled and tripled," said Mr. Witherspoon.

Through July, IEA syndicates had accounted for around $100 million in estimated annualized premiums and $25.5 million in gross premiums. The exchange wrote $34.4 million in gross premiums in 1984.

Exchange members prefer to talk in terms of estimated annualized premiums—the premium volume that will be generated over the lifetime of all contracts—because of the large amount of reinsurance written. Of the 3,354 contracts in force at the end of 1981, 2,158 or 64% were on treaty or facultative reinsurance business.

Often reinsurance contracts are written during one quarter but are not effective until the next. And, sometimes, a reinsurance contract will not produce premiums until the next calendar year.

Until this year, IEA concentrated primarily on reinsurance because with limited capacity, syndicates were in a better position to take large portions of treaty contracts that were generally requesting limits of around $1 million.

Most syndicate underwriters say they write a maximum per risk of $50,000.

In 1984, 64% of all 3,354 contracts written were for reinsurance (1,207 treaties and 951 facultative). Other lines written by the exchange: accident and health (11%), automobile liability and physical damage (8%), inland marine (6%), fire (3%), surety (3%) and various lines (5%).

This year reinsurance may account for only half the annualized premiums written on the exchange, because so much of new business pouring into the exchange involves requests for coverage for commercial insurance buyers. These policies are being written on a surplus lines basis because the IEA is not an admitted or authorized insurer.

The new glut at the exchange reflects the recent change in risk attitude by admitted insurers. Admitted insurers are abandoning the substandard or high-risk business they were writing during the competitive years. Now, these risks are looking for capacity at the Miami exchange.

IEA syndicates are authorized to write surplus lines in Florida, nine other states, the District of Columbia and the Virgin Islands. Most of the surplus lines business is written in Florida. Many of the approvals outside the state are fairly recent and the exchange is still in the process of becoming a recognized marketplace.

But exchange officials say there's plenty of business coming.

"We're seeing all the business we can handle, along with the shift in emphasis," says James Cordle, president of Citadel Management Corp. and First Citadel Insurance Ltd., two underwriting management agencies at the exchange. Mr. Cordle is also an underwriter for the three syndicates managed by those companies.

"Last year the standard market was writing more aggressively and we weren't seeing much surplus lines business," says Mr. Cordle. "But late last year and early this year, things started turning around. The standard companies are much more restrictive in their underwriting now."

All sorts of surplus lines business is coming the way of the exchange, he says, including "different liability risks, a lot of products exposures and a fair amount of fire business."

The exchange is seeing more requests for product liability and comprehensive general liability insurance for commercial risks, notes Felipe M. Palacio, a partner in broker Palacio & Weinraub Inc. in Miami and one of the larger IEA brokers.

IEA syndicates write primary liability coverages "from the ground up to $1 million," Mr. Palacio says, and excess coverages are commonly written over primary insurance of $100,000 for liability risks.

"There's also been a lot of activity here on liquor liability," Mr. Palacio added. Changes in Florida law last year have made tavern owners and liquor distributors more responsible "in the event an inebriated patron causes damages," he said.

"A lot of liquor distributors and tavern owners are in bad need of coverage and the exchange is another market for that."

There are some risks IEA underwriters aren't especially welcoming, Mr. Palacio pointed out. Many underwriters on the exchange are avoiding directors and officers liability risks and medical malpractice. "It doesn't mean they don't do it, but they prefer to do it on an umbrella basis," he says.

Liability risks are more acceptable on the exchange than property risks, Mr. Palacio said, because underwriters are staying away from such risks in Florida as beachfront property coverage and other areas that might be susceptible to wind damage.

It is somewhat easier to fill out a full line on the exchange this year than it was in 1984, says Mr. Palacio. "If it is something in the range of $1 million, then you can do it on the exchange, it depends on the quality and type of business," he explains.

Overall, over half of the exchange's business is coming from the United States, although "our original ideas were to focus southward," noted exchange president Mr. Toro.

The exchange's developers, notably former President Alan Teale, had touted the IEA as a forthcoming center for Latin American business.

However, as Mr. Toro pointed out, "Latin American currencies fell apart and they put in currency exchange controls and other restrictions." The exchange's business in the Caribbean Basin and Latin America is now only a small part of its total writings.

IEA underwriters gather in a 12,000-square-foot area of the total 30,000 square feet occupied by officals, underwriters and some member brokers at the Insurance Exchange Building in downtown Miami.

Syndicates are required to have a representative on the floor between 10 a.m. and 3 p.m. each day, but a visitor to the underwriting room is likely to see the same 12 to 15 underwriters and brokers on the floor each day, seated at tables that create individual work areas.

Other underwriters, including the controversial Peter Cameron-Webb (see story, page 36), split their time between the room and office space elsewhere in the building.

Underwriters at the exchange talk of camaraderie and working closely together. And, several lead underwriters have emerged (see story, page 29).

The bustle in the underwriting chamber seems to ebb and flow. At times, phones ring and business appears to be transacted at a lively pace. At other times, a cannonball-fired from one end of the room to the other would endanger very few lives.

The lulls in activity are indicative of the one major concern of all IEA officials: too few syndicates offering too little capacity.

While eight new syndicates in just more than a year added $12 million in capital to the exchange, the current $37.8 million in capital is not enough, exchange officials admit.

"We need more capacity," said

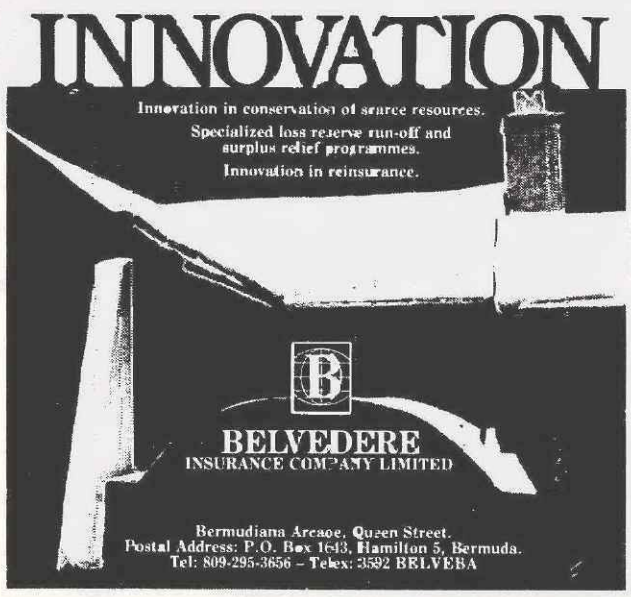
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Continued from previous page

Mr. Toro. "I'll always feel much safer with a great deal of excess capacity that we can use if neccessary."

Mr. Toro said he would like to see 40 syndicates on the exchange in two years. "That would poise us very nicely; 40 would give us a minimum of $60 million in capital."

But, he added, he only wants to see "as many syndicates as we can handle efficiently. I would hate to see it grow too much and get out of control."

Mr. Witherspoon, who joined the exchange as executive vp in February from the Florida Insurance Department where he was assistant director in the division of insurance company regulation, agrees.

"We don't have as many syndicates as we would like. We would like to see the number grow steadily."

Broker Mr. Palacio echoes the concern for needed capacity on the exchange. "My guess is, they are going to have to find more capacity or begin to restrict writing."

There are hopes for more capacity, such as the new pooling companies authorized by legislation passed in May (see story, page 30).

Pooling companies will band together and essentially operate like a syndicate capitalized at $2 million, except they are permitted to write only reinsurance.

The first pooling companies could be operating by December.

And there are possibilities of new syndicates forming. Mr. Palacio said he has talked with investors interested in forming three syndicates. One should be operational in about a year and the other two should be underwriting within three years, he said.

Richard Byron, president of exchange broker Sagittarius Intermediaries Inc. in Miami, is even more optimistic about new syndicates. He predicted the exchange would boast "30 solid syndicates" by the end of 1986, with another seven or eight new ones in 1987.

The Insurance Department has ultimate authority over the exchange, but Mr. Toro notes that the IEA is for the most part "self-regulating." While the department has the right to bring disciplinary measures against syndicates and the exchange, none have been taken.

There have only been some minor rule infractions among syndicate members, Mr. Toro added. "We've fined various syndicates for being late with convention statements," he said.

The legislation that allowed the exchange to begin underwriting also required a guaranty fund to cover liabilities in the event a syndicate became bankrupt.

Each syndicate funded to write business is required to deposit $500,000 of its minimum capital into the fund. The fund, which has never been tapped, is also bolstered by a 1% premium charge assessed to the syndicates.

And, the exchange holds the right to require syndicates to contribute another $500,000 if it is deemed the funds may be needed.

The guaranty fund now stands at about $12 million, according to Phil C. Gallagher, president of the Exchange Guaranty Fund.

As the security fund grows, it will help attract business, said Mr. Gallagher. The security fund is an important asset in negotiations with other states that are considering authorizing the exchange as a surplus lines insurer, he says.

The exchange's central processing facility has improved tremendously in the past few months, syndicate managers and underwriters say. But, some complain that the exchange's central processing facility is still responsible for delays in paying claims or producing needed documents.

The central office is responsible for payment of claims after the amount of the claim has been determined by the syndicate members and brokers involved with the loss. Richard Adeline, vp and chief financial officer, pointed out that the exchange hasn't paid more than 50 claims since it began operating. Last year, $3.6 million in claims were paid.



Mr. Adeline

"We're just now looking for a claims administrator," Mr. Adeline said. That person will be responsible for claims payment, freeing the rest of the central office staff to process other documentation required by the syndicates.

A new computer system installed about a year ago is helping the central office move information more quickly, Mr. Adeline points out. ■

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IEA syndicates see growth on the horizon

By MICHAEL BRADFORD

MIAMI—Growth and surplus lines are the buzzwords of many syndicates on the Insurance Exchange of the Americas.

And, while some exchange officials fear that the exchange's $37.8 million in capital and surplus supplied by 23 syndicates will fall short of demand this year, seven of the 10 largest syndicates on the exchange have plenty of room to grow (see chart).

Only one of the syndicates, Lahus IV, exceeded the exchange's limit of a 3-to-1 net premium-to-surplus ratio—with special permission of the exchange.

The other nine syndicates wrote at ratios under 2.6-to-1, and four of the largest wrote at ratios of less than 1-to-1.

Only two of the nine, Administrative Management and Hispano American Insurance Syndicate Ltd., exceeded a ratio of 2-to-1.

However, Hispano American, the third-largest on the exchange in 1984, temporarily suspended underwriting after an audit showed its surplus was below the $1 million required by the exchange.

Although the syndicate tells exchange officials its surplus is above $1 million, Hispano American was struck by tragedy this summer when underwriter Manuel Pavia was killed in a car accident while in Morrocco. He had not been replaced as of last month.

Hispano American wrote $3.7 million in gross premiums last year and lost $50,000. It doesn't expect to underwrite again until January.

Seven of the 10 largest syndicates wrote net premiums of less than twice their surplus and four of them at less than their surplus.

But, that's changing this year.


Mr. Cordle

W.F. Poe Syndicate Inc., the sixth-largest syndicate on the exchange with gross written premiums last year of $1.6 million, expects to write $3.5 million in premiums this year—for a 3-to-1 ratio against its surplus of $1.23 million.

Poe is "trying to move away from reinsurance and concentrate on surplus lines," says James Cordle, president and underwriter for Citadel Management Corp., which manages the Poe syndicate.

Like many other syndicates, however, it is staying away from medical malpractice and some errors and omissions business.

The Poe syndicate, owned by William F. Poe and members of his family, was one of the three of the top 10 syndicates to post a profit last year, ending 1984 with net income of $28,000.

The other syndicates were B.G.H. Syndicate Inc., with an $88,000 profit, and Syndicate One Inc., with a $23,000 profit.

A significant shift toward surplus lines business also is occurring at AIB Syndicate Inc., managed by Associated Insurance Brokers Inc., the seventh-largest syndicate in 1984.

While AIB will renew some "good treaties" at increased prices, the syndicate intends to set its sights on the surplus lines market, where rates are 200% to 500% higher than last year, says AIB underwriter Leonard Traurig. Costs of liability coverages have about doubled, he says, and non-standard fire insurance is priced as much as five times higher than in early 1984.

Last year, less than 5% of AIB's $2.5 million in annualized premium was surplus lines, Mr. Traurig says. This year, he expects 60% of the estimated $4 million in annualized premiums written by the syndicate to be surplus lines business.

While the lead for liquor liability, about 60% of AIB's surplus lines business is property insurance. Another 20% is liability and 20% is excess automobile liability.

"Generally, it's an all-around book, excluding aviation and ocean marine," says Mr. Traurig.

AIB finished 1984 with a net loss of $34,000.

The largest syndicate on the exchange, Administrative Management Services Ltd. Inc., expects to end the year with $8 million in gross premiums, compared with the $5.2 million generated in 1984, says underwriter Alan Pither.

Net premiums in 1985 are estimated at $6 million, almost double last year's $3.2 million, notes Mr. Pither.

Administrative Management, which is managed by C. Management Services Inc., leads a lot of surplus lines business on the exchange, Mr. Pither says. It writes all types of surplus lines coverage, including excess automobile liability, general liability and liquor liability.

The syndicate will write an increased amount of surplus lines business, but Mr. Pither says it will still handle about 80% reinsurance, mainly excess-of-loss treaty risks and facultative business worldwide.

In 1984, the syndicate suffered a $189,000 loss for the year.

In addition to Administrative Management, Mr. Pither underwrites for the RAM Syndicate Inc., which is also managed by C Management.

RAM is the fourth-largest exchange syndicate, writing $3 3 million in gross premiums on a net line basis last year.

"RAM will write considerably less business this year because it has changed its underwriting rules," said Mr. Pither. The syndicate will no longer write foreign reinsurance, he says, concentrating more on surplus lines and domestic reinsurance.

In 1984, RAM posted a 117.8% combined ratio, somewhat high because "it carried everything" on a net basis, says Mr. Pither. It generated $193,000 in net investment income but ended the year with a $216,000 loss.

Of the exchange's 23 syndicates, three are officially inactive and two do little business.

In addition to Hispano American, inactive syndicates include Interamerican Syndicate Inc., which its owner, Interamerican Underwriting, is negotiating to sell, and a new syndicate, American Royal Syndicate Inc.

American Royal is fully capitalized at $1.5 million but exchange officials said it had not begun writing business as of mid-August.

Continued on next page

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Largest syndicates on the Insurance Exchange of the Americas
(Ranked by 1984 gross premium volume in thousands of dollars)

Syndicates	Gross premiums written	Net premiums written	Policy-holder surplus	Net premium to surplus	1984 loss ratio	1984 expense ratio	1984 combined ratio	1984 net investment income	1984 net income
Administrative Management Services Syndicate Ltd. Inc.	$5,246	$3,212	$1,215	2.60:1	59.6%	46.4%	106.0%	$184	($189)
Lahus IV Inc.	4,606	4,606	1,002	4.60:1	147.9	2.9	150.8	151	(2,236)
Hispano American Insurance Syndicate Ltd. Inc.	3,724	2,982	1,239	2.41:1	67.0	37.8	104.8	195	(50)
RAM Syndicate Inc.	3,303	3,303	1,935	1.70:1	80.9	36.9	117.8	193	(216)
Lahus V Inc.	2,412	2,412	2,123	1.14:1	129.3	8.1	137.4	462	(439)
W.F. Poe Syndicate Inc.	1,562	1,138	1,232	.92:1	65.5	33.2	98.7	63	28
AIB Syndicate Inc.	1,427	1,423	1,262	1.10:1	70.0	40.0	110.0	163	(34)
B.G.H. Syndicate Inc.	1,371	1,360	1,550	.87:1	62.4	38.2	100.6	174	88
Syndicate One Inc.	1,289	1,280	1,400	.92:1	61.2	38.0	99.2	162	23
Synvex Corp.	1,039	1,036	1,149	.90:1	90.3	58.7	150.0	114	(414)

Source: IEA
Chart: Amy Palmer

Continued from previous page

To join the exchange, syndicates need initial capital of at least $1.5 million. The syndicates are required to maintain policyholder surplus of $1 million in order to write all lines except life insurance or life insurance only; or have minimum capital of $3 million and maintain policyholder surplus of $2 million to write all lines and life insurance. ■

Florida exchange develops lead underwriting system

By MICHAEL BRADFORD

MIAMI—A lead underwriting system is emerging on the 2½-year-old Insurance Exchange of the Americas.

Several line slips now travel among the syndicates, led by specialists in property/casualty risks, marine coverages, liquor liability and contingency risks like prize indemnification, kidnap and ransom and non-appearance of celebrities.

These lead underwriters establish the terms and conditions of the policy, and other syndicates can sign on for a share of the policy.

A new facility to write aviation risks also began last year.

George Bahm, an underwriter with Citadel Management Corp., which manages W.F. Poe Syndicate Inc., leads a property/casualty line slip that writes excess and surplus lines coverage on behalf of 13 syndicates up to limits of $1 million.

The slip, first used June 19, covers "every kind of property and casualty surplus line with a few exclusions. We write no professional liability, no malpractice," Mr. Bahm said. He doesn't write financial guarantee business on the line slip and avoids "hurricane-prone risks," like oceanfront buildings.

In the first seven weeks the slip was used, Mr. Bahm says he quoted on some 200 risks and has bound 33. The resulting $900,000 in premium volume was generated 70% from casualty lines and 30% from property. The business comes from Florida, Illinois, Texas and Hawaii, where demand for coverage is high, he notes.

Mr. Bahm said he writes the $1 million limit "quite freely on casualty risks," but on property, "I'm more conservative and the maximum I'll give out is half a million."


Mr. Bahm

For some classes, like certain oil field-related risks in Texas and high-risk product liability, Mr. Bahm will not bind primary coverage but will write excess insurance in high layers.

The master marine line slip is led by the Usher Syndicate Ltd., whose underwriter is Peter Cameron-Webb, the controversial former Lloyd's of London underwriter (see story, page 36).

Mr. Cameron-Webb would not be interviewed, but other underwriters say the slip gives him authority to write all types of ocean marine coverage up to $1 million. The limit written is shared by the 10 to 12 syndicates on the line slip.

Three underwriters lead the contingency line slip, with concurrence by two underwriters needed to bind coverage. Mr. Cameron-Webb is also an underwriter on that line, along with James Cordle, president and underwriter of Citadel Management Corp., and Robert W. Daum, president and an underwriter with the Robert W. Daum Management Co., which manages four syndicates.

The contingency line is for a maximum limit of $1 million.

A liquor liability line slip is led by AIB Syndicate Inc., with authority to write coverage of $500,000.

Exchange Aviation Underwriting Group Inc., a management company formed last August to marshall enough capacity among the IEA syndicates to attract aviation brokers, writes on behalf of a dozen syndicates.

The facility can write liability risks to limits of $5.5 million and hull insurance to $500,000, says Trevor Jarvis, an aviation underwriter in the London market for 20 years before joining Exchange Aviation in August 1984.

The facility is writing an across-the-board aviation portfolio with clients ranging from large airlines to single-aircraft owners.

In its first year, Exchange Aviation wrote an estimated $1.5 million to $2 million in annualized premiums. Mr. Jarvis expects to double the volume over the next year.

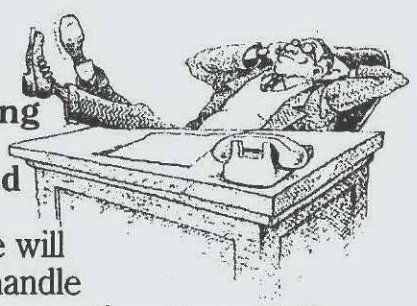
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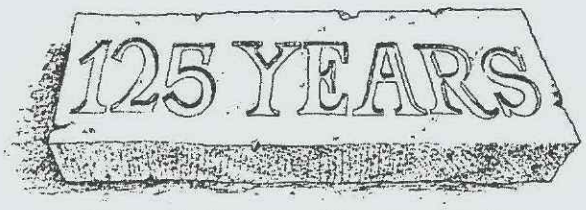
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Alvarez's insurance roots reach back to childhood

By MICHAEL BRADFORD

MIAMI—When he was a young boy growing up in Cuba during the 1950s, J.M. (Pepe) Alvarez's parents were careful to keep him off the streets and away from the political tension.

As it turned out, they couldn't have found a better babysitter for their son, now the sole owner and president of AIB Syndicate Inc., the seventh-largest syndicate on the Insurance Exchange of the Americas.


Mr. Alvarez

When he wasn't in school, young Pepe was under the watchful eye of an uncle who worked at an insurance company on the island.

It was in this office that the young boy used to "hang out," he says, while other kids played in the streets. "It was just to keep me off the streets," he concedes.

Mr. Alvarez, 42, says the knowledge he acquired while working at the Cuban insurance company served as a springboard to his current, more-lucrative role as owner of three Miami-area companies—AIB Syndicate Inc., a syndicate on the IEA; Associated Insurance Brokers Inc., a managing general agency; and Union American Insurance Co.

Though there were a few respites from insurance from the time he left Cuba until today, Pepe Alvarez never lost sight of his ambition to make it in the insurance world. When he was 17, he says, "I went straight to Chicago, and went to school while I was working as a busboy" at a hotel that paid him 75 cents an hour. After attending junior college and Northwestern University, Mr. Alvarez cut his education short to pursue his career.

After a short tenure as an assistant controller for the city of Chicago, he became a sales manager with an insurance agency and later a life insurance salesman for another company, a job he held while still in his early 20s.

"I had a terrible time selling life insurance," he recalls from his spacious office at the IEA's headquarters in Miami. His youngish looks made him look like "a grammar school dropout," he said. "I just couldn't convince a 40-year-old man how he had to look after his affairs."

In 1970, he moved from Chicago to West Palm Beach, Fla., where he worked as a field representative for a St. Petersburg, Fla.-based insurer. He formed Associated Insurance Brokers in 1973, while still working for the Florida insurer. His fledgling company did little business until 1976, at which time he also managed the Florida insurer's branch office.

By this time he had begun making contacts that eventually led to Associated Insurance Brokers' becoming the MGA for 30 lending institutions.

Associated Insurance Brokers later became the MGA for several insurance companies, and its continued growth allowed Mr. Alvarez to resign his branch manager position. With the success of Associated Insurance Brokers behind him, Mr. Alvarez formed Union American and AIB Syndicate Inc.

The IEA was allowed by Florida law to begin operating in April 1983, and "the timing could not have been better" to form AIB, he says, also pointing out that the exchange was up and running just as a soft-market cycle was beginning to wane.

Mr. Alvarez formed AIB with $1.5 million, the minimum initial capital required of a syndicate.

Mr. Alvarez is the sole investor in AIB, one of the original four syndicates formed when the exchange opened its doors for business. Only one other IEA syndicate is financed by a single investor (see related story).

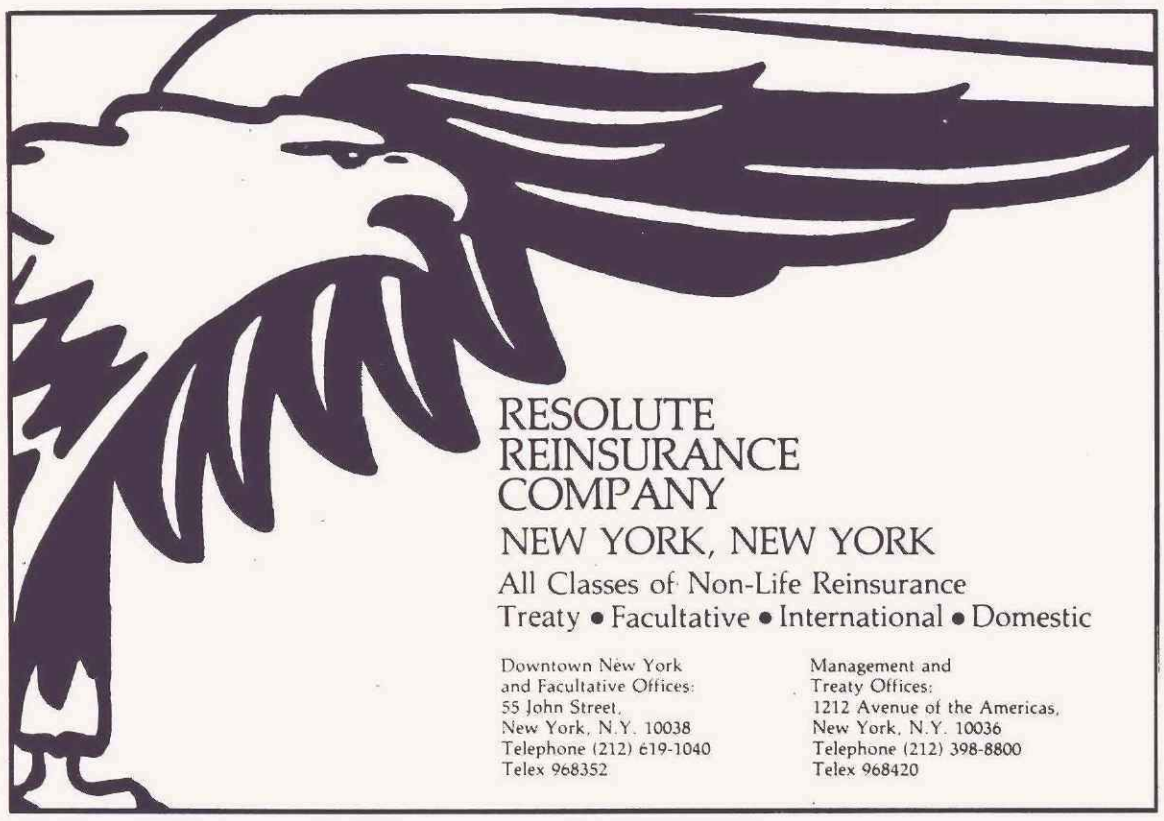
At the end of 1984, AIB showed a loss of $34,000. However, after just more than two years of writing a broad book of surplus lines, treaty and facultative reinsurance, AIB is beginning to show a profit, Mr. Alvarez says.

"Overall, we are in the black for the first half of this year," he says, adding that the profit is small, but nonetheless, a profit.

Bracing for increased business in the hardening market means adding capital and surplus to AIB, says Mr. Alvarez. He plans to take his companies public sometime next year, to raise additional funds for the syndicate.

"Things are looking extremely good," he says. "I have a healthy little company that will grow slowly but will be strong. . . .I feel the big writers would love to be in my position, starting fresh.

"We're in a better position than most major insurance companies," adds Mr. Alvarez, noting that the syndicate is not shackled with any losses from liability policies written many years ago.



Law opens doors for small investors wishing to join IEA

By MICHAEL BRADFORD

MIAMI—The Insurance Exchange of the Americas, which views itself as a place where investors don't necessarily need insurance industry experience to participate, is opening a new avenue for investors.

Under a Florida law signed by Gov. Bob Graham in May, individuals or corporations may form an insurance company with minimum capital of $100,000.

These insurance companies must be part of a pool of others formed by investors to invest in the exchange and the total capital of the pool must be at least $2 million.

The resulting pool will be permitted to underwrite on the exchange, functioning essentially like any other syndicate on the exchange. Risks written by the pools will be apportioned among the member companies.

But, these pools will be permitted to underwrite only reinsurance. And, of the total capital of $2 million, $500,000 would be deposited in the exchange's security fund.

Richard Lehman, deputy chairman of the IEA's board of governors who helped draft the legislation, hopes the law will attract even more capital to the exchange.

"The exchange has thrived more on the little guy, the passive investor, than anything else," said Mr. Lehman. "Now there is a vehicle for the small corporate investor to come in."

Mr. Lehman expects small corporations to take advantage of this investment opportunity. These pool companies are expected to be attractive to investors because they are not regarded as a syndicate for tax purposes, Mr. Lehman says. Pool company investors can enjoy tax advantages on their individual company results, he said.

A prospectus on the pooling arrangement should be completed in late September, Mr. Lehman said, and the first pool could be operating in December.

Already, many of the syndicates on the Insurance Exchange of the Americas are owned by individual investors who are both industry professionals and non-insurance businessmen.

About two-thirds of the syndicates are owned by 20 or more investors.

These investors include a wide cross of professionals, including former insurance agents and other industry veterans, as well as many who were far-removed from the world of insurance before investing in a syndicate, said Richard Adeline, vp and chief executive officer of the exchange.

The exchange is a "sexy" investment that attracts investors with an entrepreneurial flair, exchange officials agree.

Only two syndicates are owned entirely by one investor. The Usher Syndicate Ltd., which specializes in marine underwriting, is owned entirely by Thomas Usher. Mr. Usher is the owner of a Canadian chemical company.

AIB Syndicate Inc. is solely owned by J.M. (Pepe) Alvarez, who also owns an insurance company in the Miami area and a managing general agency there (see related story).

Another syndicate, W.F. Poe Syndicate Inc., is owned by the family of William Poe, the chairman of Poe & Associates, the 15th-largest U.S. broker.

None of the syndicates have owners who are large, "big name" insurers.

Syndicate One Inc. is owned primarily by RLI Corp., which began as an insurer of contact lenses. Hispano American Insurance Syndicate Ltd.'s primary owner is OCASO S.A., an insurance company in Madrid, Spain.

Because no large insurance companies have a presence on the exchange, the enormous amounts of capital they could provide are not available.

IEA President Arturo Toro concedes that "the lack of access to those enormous amounts of money has probably slowed the exchange's growth somewhat."



But, while he admits he would like to see the capital large insurers could bring to the exchange, Mr. Toro points out that the syndicates created by large companies could overshadow the smaller underwriters.

The large insurers would become automatic "leads," says Mr. Toro, and that might mean brokers would ignore the smaller syndicates somewhat.

Mr. Adeline says, "I'm open to anyone becoming an investor, but why does a large insurance company need this exchange?"

The only reason for a large insurer to consider forming a syndicate in Miami, Mr. Adeline adds, would be to attract business that it doesn't already write. "I don't think it's probable."

With the new capital that officials expect to come from pooling arrangements, capital is likely to be supplied by several new syndicates that brokers say are forming.

Richard Byron, president of Sagittarius Intermediaries Inc. in Miami, said he knows of "three or four syndicates I am certain will be on by Jan. 1."

Philip C. Gallagher, president of broker Gallagher-Cole Associates, is bullish on the exchange's future. Within six months, he hopes to have his own syndicate on the exchange. He is already an investor in Syndicate Four Inc. and First Insurance Investors Group Inc.

Because the exchange is less than 3 years old, it is still early to determine if current investors are wise.

Only three of the 10 largest syndicates posted a profit in 1984, with high expense ratios pushing many combined ratios above 100%.

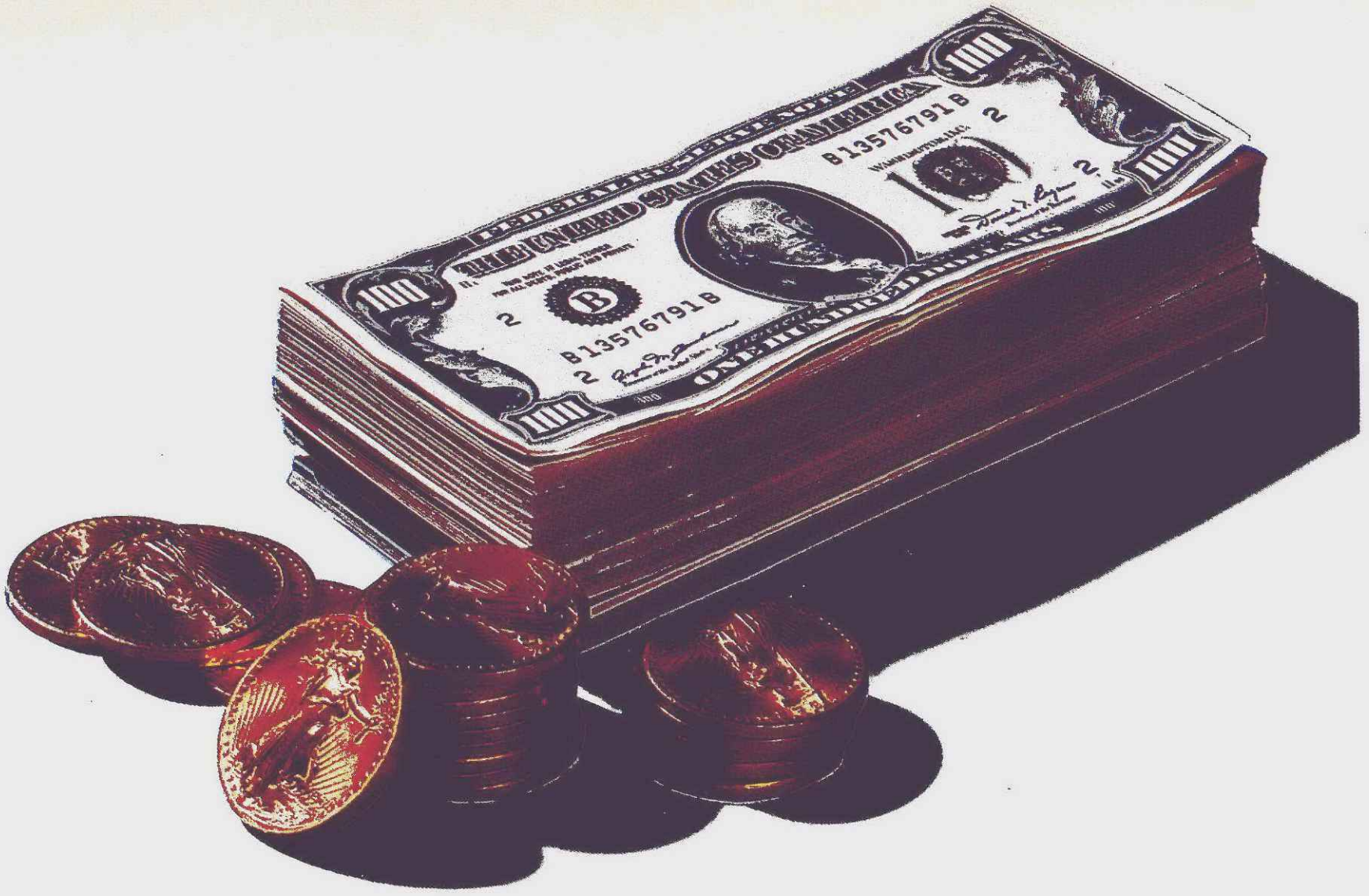
Mr. Adeline says the syndicates are "long-time propositions" that will take from three to five years to begin producing profits.

While some syndicates may show a profit this year, the exchange is not mature enough for trends to develop, says Mr. Adeline.

Still, "There is the potential to make a lot of money," he notes. "For selected lines, it would be hard not to make a lot of money. People are so panicked over insurance, they'll pay anything."

And, Mr. Alvarez contends it is wise for a non-insurance person to invest in an exchange syndicate.

"We have the same principle here as at Lloyd's. The difference is, at Lloyd's you pledge your entire wealth. Here, you are limited to what you can lose. The return here can be a lot greater than at Lloyd's with less risk." ■



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IEA brokers receive binding contracts

By MICHAEL BRADFORD

MIAMI—Syndicates on The Insurance Exchange of the Americas are beginning to award binding contracts to brokers, with four in place today.

Brokers say these binding contracts characterize the flexibility of their marketplace.

Binding contacts, which give brokers authority to underwrite certain risks on behalf of participating syndicates, make it easier for the broker to do business, explains George Bahm, who last year developed the first binding contract for IEA syndicates.

Binding contracts also reduce expenses for the syndicates because they don't need as large a staff to "see a procession of brokers going from table to table presenting the same risk," Mr. Bahm explains.


Mr. Palacio

But, "the other side of the coin is that participants in the facility are bound by whatever the broker does," he pointed out. "If he makes a mistake, they are all stuck with it."

Mr. Bahm developed the first binding contract for IEA syndicates when he was president of broker Florida Risk Managers Inc. in Miami Lakes. He recently resigned from Florida Risk Managers to become an exchange underwriter with Citadel Management Corp.

Mr. Bahm said the underwriters were receptive when he offered them a contract that gave the brokerage authority to write general liability insurance. "I was able to put together quite easily a contract for a $500,000 maximum limit."


Mr. Byron

The contract, effective Nov. 1, 1984, has been "extremely successful," said Mr. Bahm. The contract produces around $15,000 per month in gross premiums for the exchange, or $180,000 annually.

About 10 syndicates accept various percentages of risk on the Florida Risk Managers contract, Mr. Bahm noted.

IEA broker member National Assurance Corp. structured two binding contracts in June for Associated Brokers Inc., a managing general agency in Miami. The MGA holds authority to write property coverages on behalf of syndicates through one contract and excess automobile liability through the other.

By year-end, the excess auto contract is expected to generate about $500,000 in premiums, and the property contract is expected to generate about $100,000 to $150,000.

Assurance Pierre Brodeur, an excess/surplus lines agency in Quebec, holds binding authority for various syndicates for property, general liability and special multiperil coverages through a sponsorship provided by IEA broker Palacio & Weinraub Inc.

Pierre Brodeur has authority to write to limits of $500,000 on property/casualty risks, says Felipe M. Palacio, a partner in broker Palacio & Weinraub Inc. A typical property risk is written to limits of $150,000, and casualty coverage is usually written to limits of about $200,000.

The agency should contribute around $1.3 million in gross premiums to the exchange this year, noted Mr. Palacio, all from standard risks like property/casualty exposures for restaurants, night clubs and motels.

But, these binding contracts will generate only a small portion of the estimated $125 million in annualized premiums that will be placed with the exchange this year by its 68 member brokers.

And, IEA member brokers, like brokers who are members of any of the U.S. exchanges, boast that their marketplace is flexible in considering the risks they bring.

Richard Byron, president of recently formed IEA broker Sagittarius Intermediaries Inc. in Miami, says a residual value contract he placed with the exchange shows the underwriters' flexibility.

The coverage, placed mostly with the syndicates managed by Global Underwriting Management Inc., covers the difference in resale value of repossessed cars and the balance of outstanding loans on the cars. It was written for "a large acceptance corporation in the United States," Mr. Byron said.

The contract could generate $10 million in gross premiums annually, he says. But, the syndicates will reinsure the coverage heavily, ceding about 85% of the risk.

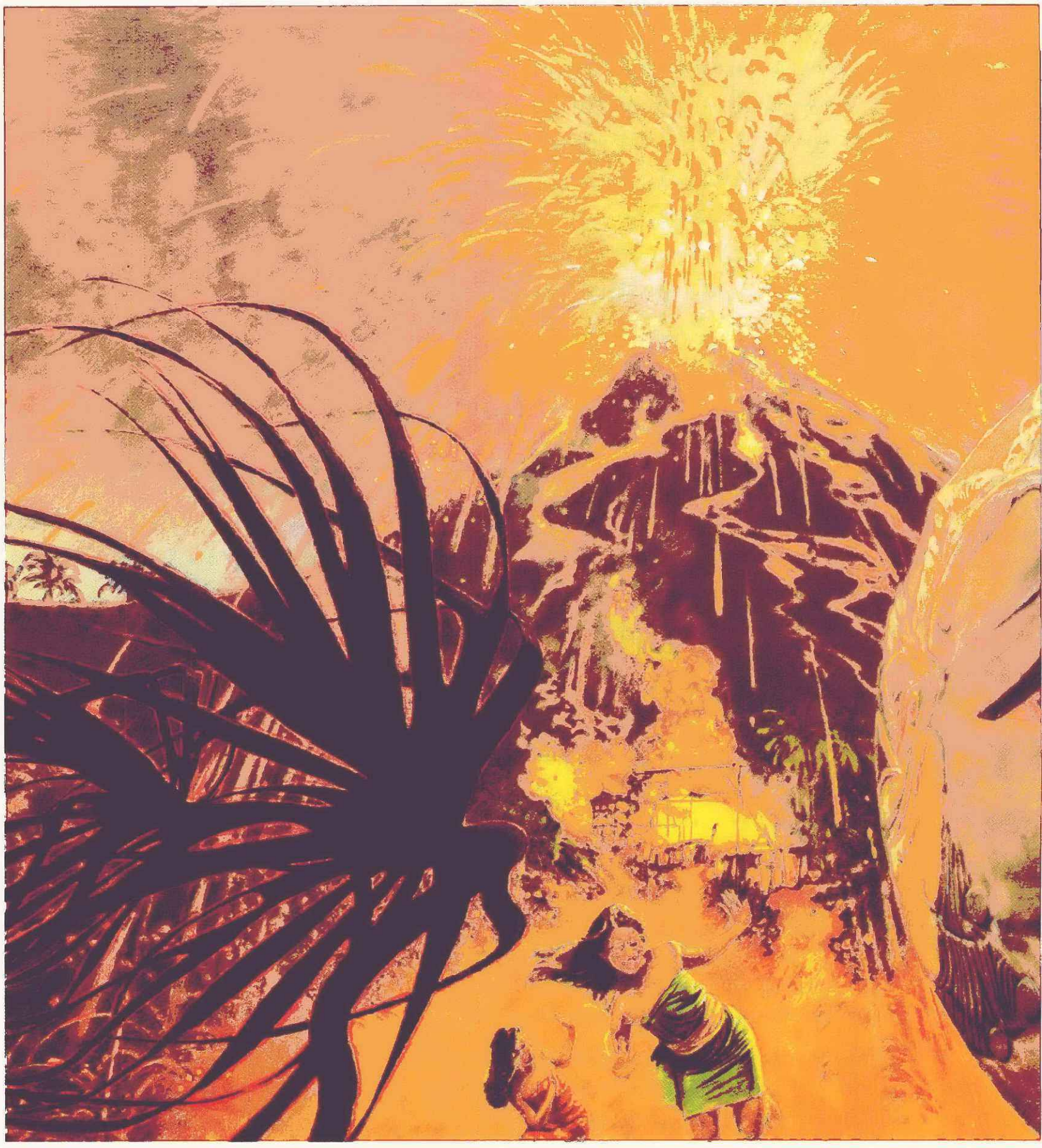
In addition to the residual value contract, Sagittarius has placed "a mixed bag of business" with the IEA, including property/casualty treaty reinsurance, facultative reinsurance and some surplus lines. Nearly all of the business is generated in the United States, with a small portion from Bermuda.

Business placed by Mr. Byron with exchange syndicates this year could generate around $16 million in annualized gross premiums, he says, noting that "it's coming so fast we can't keep track of it."

Indeed, he is concerned that the exchange will run out of capacity this year.

But, as long as they have capacity, Mr. Byron says, "The underwriters are very open. They lis-

Continued on next page



In 1883, when a volcanic blast leveled Krakatoa,

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Continued from previous page
ten to you."

Martin J. Lann, president of IEA broker Equine Re Inc. in Miami, says his brokerage places with the exchange exotic livestock coverages that are rarely accepted elsewhere.

These coverages include insurance for unborn foals and certain livestock infertility packages that have been written primarily by syndicates at Lloyd's of London.

Last year, Equine Re placed $4 million to $5 million in facultative reinsurance premiums with IEA syndicates, but this year the brokerage expects to place around $8 million in gross premiums in quota-share treaty reinsurance with eight syndicates.

Mr. Palacio says 'the fact that syndicates are privately owned gives them more flexibility.'

Equine Re also expects to place around $4 million in gross premiums outside the exchange, according to Mr. Lann.

Mr. Lann noted, "The exchange underwriters are not locked into a preconceived underwriting manual. It's exactly what it's supposed to be, a free exchange."

Philip C. Gallagher, president of broker Gallagher-Cole Associates, points to a policy that protects a Florida plant grower's inventory as proof of IEA underwriters' flexibility.

The coverage would be tough to place outside the exchange, Mr. Gallager says.

For a premium of $37,500, the grower purchased $1.5 million in coverage to protect his inventory of plants that are eventually sold in supermarkets and to interior decorators. Fifteen exchange syndicates have a portion of the risk.

"I think it would be difficult to place in the other marketplaces because of a lack of understanding of the risk," said Mr. Gallagher. The policy covers damage to the plants as a result of fire or certain weather conditions. The London market, he says, probably would not be familiar with such a risk.

Gallagher-Cole, a member broker that placed around $25,000 in premiums on the exchange last year, expects to generate about $250,000 in premium volume for IEA syndicates.

The business includes a variety of surplus lines and reinsurance risks, said Mr. Gallagher. He is also placing reinsurance for certain marine risks that have come through Lloyd's of London brokers and reinsurance on personal property in Germany, he added.

"The fact that the syndicates are privately owned gives them more flexibility," says Mr. Palacio of Palacio & Weinraub. "The underwriters are more creative."

The flexibility of underwriters at the Miami-based exchange is in contrast to the New York Insurance Exchange, where many syndicates are owned by large insurers, Mr. Palacio says. "You immediately know if you can't place a piece of business with the big company, you can't place it with the syndicate" at the New York exchange, he says.

However, Mr. Palacio admits that one of the weaknesses of the Miami-based exchange is that there are only 18 active syndicates and they are controlled by too few managing companies.

"If the underwriter of a managing company that manages three or four syndicates disagrees with your business or your presentation, you immediately lose three or four syndicates," he explains.

Mr. Palacio said the exchange is his major market for mostly reinsurance coverages, although the amount of surplus lines and excess insurance submissions he brings to the exchange is growing.

Last year, Palacio & Weinraub placed $3 million in gross written premiums with exchange syndicates; Mr. Palacio expects that figure to double this year.

Mr. Palacio also places a lot of liability coverages for other producers in the state. The source of his reinsurance business is split between domestic and foreign clients, he said.

In addition, Palacio & Weinraub places a small amount of "outgoing reinsurance" for exchange syndicates that need coverage for their programs.

Other brokers that underwriters say place significant amounts of business with the exchange include Amberco Brokers Corp. in Bermuda, MacDuff America Inc. and American & British Inc. in Miami, and Hull & Co. Inc. in Fort Lauderdale, Fla.

Syndicate underwriters are restricted to handling only business produced by member brokers.

Member brokers placing surplus lines business and reinsurance with the exchange are required to hold a Florida license. These member brokers can place business with the IEA on behalf of non-member brokers.

Associate brokers are restricted to only placing business they produce.

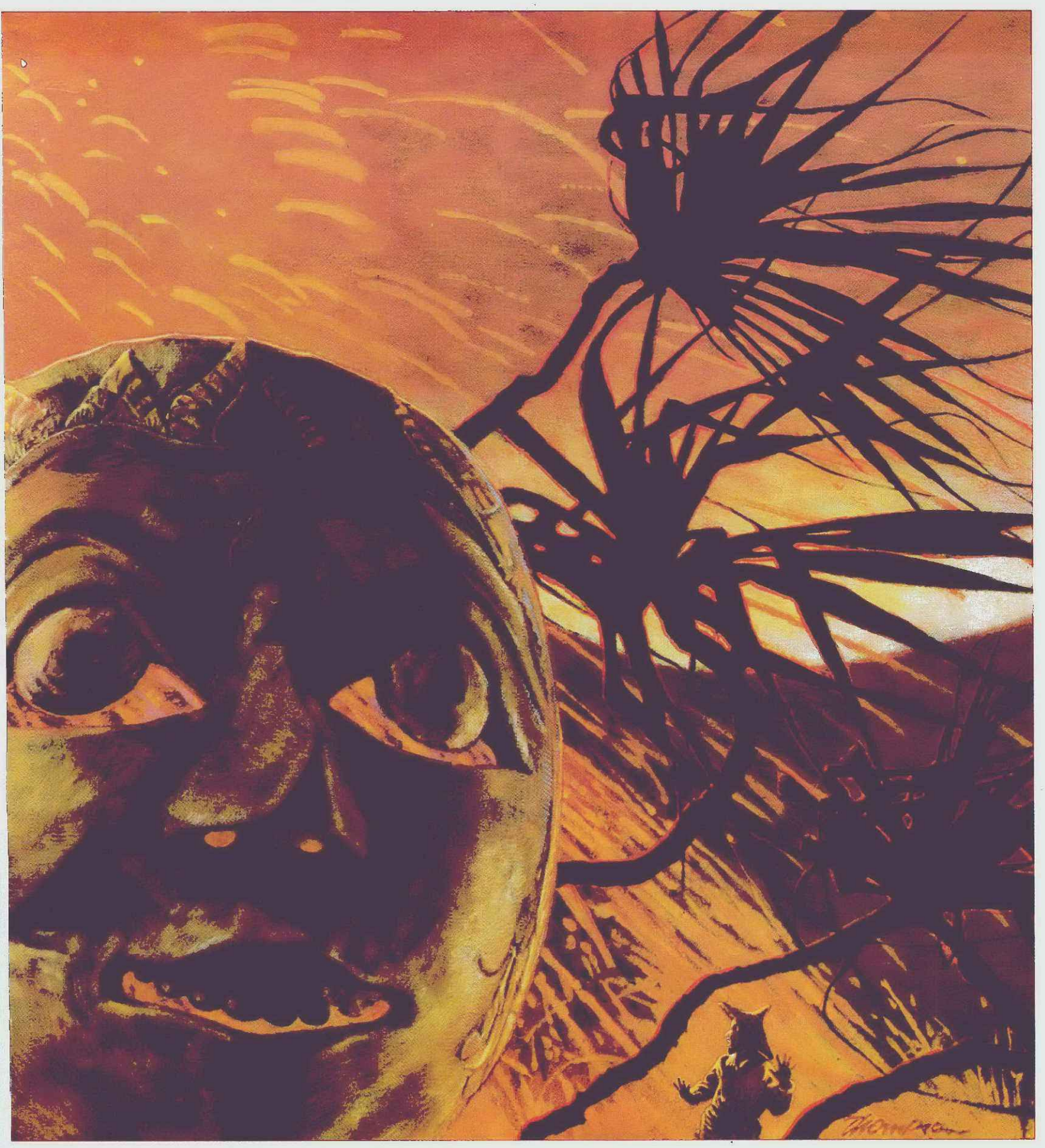
Reinsurance brokers are allowed to join the exchange under an amendment to the original 1979 law that gave the IEA the authority to begin operating. Reinsurance brokers are restricted to placing only reinsurance. However, they are not required to be licensed in Florida.

To become a member, a broker is required to first pay a $6,000 application fee. Once approved, they are charged varying annual dues.

A licensed Florida agent pays $1,000 in annual dues, a licensed Florida surplus lines broker pays $1,500 and a reinsurance broker earning less than $250,000 in commissions worldwide, $1,750.

A reinsurance or other member broker earning more than $250,000 in commissions must pay $2,500. An associate broker pays $500.

Of the 68 member brokers today, 12 are reinsurance brokers and one is an associate broker; however, the associate member will soon become a member broker. ■



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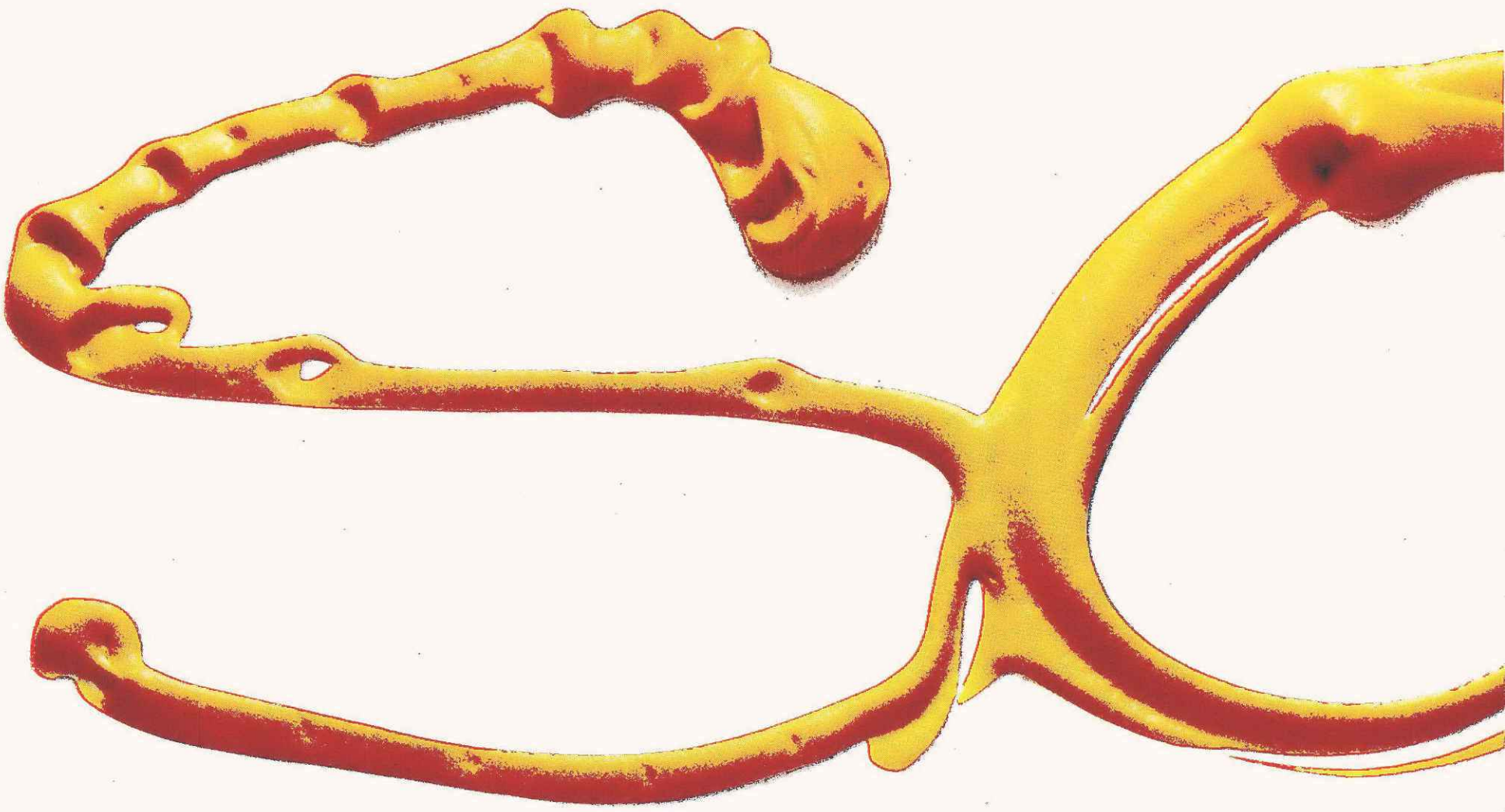
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ARKWRIGHT BOSTON INSURANCE

Cameron-Webb keeps low profile at IEA

By MICHAEL BRADFORD

MIAMI—Marine insurance underwriter Peter Cameron-Webb conducts his business at the Insurance Exchange of the Americas in a fishbowl.

While he dodges publicity, Mr. Cameron-Webb's presence on the exchange as an underwriter for Usher Syndicate Ltd. nonetheless is scrutinized, particularly by potential investors.

They ask why Mr. Cameron-Webb, who has been sued in connection with his underwriting as chairman of PCW Underwriting Agencies Ltd. at Lloyd's of London, is working at the Miami-based exchange.

In response to this question, they are told that no formal charges have been filed against the former Lloyd's underwriter.

"Depriving somebody of making a living because of what he is accused of doing but has not been charged with is not the way it's done in this country," says exchange President Arturo Toro.

PCW Underwriting managed six syndicates controlled by Minet Holdings P.L.C. During the years 1979-81, the 1,500 members of the syndicates incurred losses totaling as much as 130 million pounds ($180.7 million at today's exchange rates).

Minet, which contends that those losses were the result of misappropriation of reinsurance premiums and underreserving for claims, has sued Mr. Cameron-Webb, who resigned in 1982, and seven others.

Whether potential investors in the exchange are satisfied with that answer is unclear.

"We're getting mixed reviews," reports George Love, administrator of the surplus lines section at the Florida Department of Insurance. "Some people are telling us it's not having a real impact. Others tell us it has had a negative impact from the standpoint of attracting potential investors. It's not been an easy thing to read."

While the reports are inconclusive, Mr. Love says, "We are concerned and we have expressed our concern. We told the (exchange board of governors) we are concerned," Mr. Love noted.

The Florida Department of Insurance regulates the exchange, but Mr. Love pointed out that there is little else the department can do aside from making its opinions known. It has the authority only to decide if a syndicate can be admitted to the exchange, but has no say about which management agency the syndicate hires to handle its underwriting duties. "Peter Cameron-Webb does not work for the exchange," he said. "He is not an underwriting member."

The underwriting member is the Usher Syndicate and the company that Mr. Cameron-Webb works for is its management agency, Lincoln Underwriting Management Inc.

"We don't pass on the underwriters themselves, but on who has the financial interest in them," said Mr. Love. "He was not passed on because he has no financial interest."

Officials at the Miami-based insurance exchange admit there may have been some investors deterred from the exchange because of the publicity surrounding Mr. Cameron-Webb. But, they all stress the contribution Mr. Cameron-Webb makes as an experienced marine underwriter who leads a marine slip.

Gene C. Witherspoon, executive vp of the exchange, said the negative publicity about Mr. Cameron-Webb could have frightened away potential exchange investors who were "not knowledgeable about the problems at Lloyd's."

Mr. Witherspoon suggested that Lloyd's was making Mr. Cameron-Webb "a scapegoat for other problems they have had."

But, knowledgeable investors are aware that whatever transpired at Lloyd's does not affect the IEA, Mr. Witherspoon said. "Certainly rumors aren't healthy for any organization, but the talk and rumors are just that." And, Mr. Cameron-Webb "lends a lot to this exchange with his marine underwriting abilities," he added.

Mr. Toro allows that the negative publicity "may have" hurt the exchange. "There certainly has been a tremendous amount of newsprint devoted to it," he says.

Mr. Toro emphasized that "nothing has surfaced" from the investigation into Mr. Cameron-Webb's involvement with the PCW losses. "Nothing official has been done by the jurisdiction where he is alleged to have committed the acts he is being blamed for," says Mr. Toro.

"There's been all kinds of press. Some things being said are possible, some were written from a malicious point of view. There is still a lot of yellow journalism in England," he adds.

James Cordle, past chairman of the exchange's board of governors and an underwriter on the IEA, said the controversy surrounding Mr. Cameron-Webb has had little effect on the exchange as a whole.

Richard S. Adeline, vp and chief financial officer of the exchange, said, "The insurance industry as a whole is a very gossipy industry. I believe many are concerned that it has hurt us, but the volume of business we were supposed to do, we've done."

Mr. Cameron-Webb would not be interviewed for this report. ■



New syndicates, capital buoy Illinois exchange

By CAROL CAIN

CHICAGO—With six new syndicates, 19 new brokers and $14.5 million in new capitalization, the Illinois Insurance Exchange is poised for growth.

Underwriters, brokers and other exchange observers are betting that 1985 will be the turning point for the 4-year-old exchange, whose growth has not met expectations. They expect the new syndicates, plus the need for additional capacity in the U.S. market, to add up to a banner year for the IIE.

"The Illinois Insurance Exchange is healthier than it's ever beer.," sums up Louis W. Biegler, chairman of the exchange's board of trustees.

The "health" of the exchange is reflected in its performance through the first seven months of 1985:

- Gross premiums written totaled $19.5 million, compared with $15.2 million in all of 1984 and $7 million in 1983. In 1982, its first full year of operation, gross premiums written totaled $2.4 million.
- Net premiums written as of July 31 totaled about $9.8 million, compared with $10.6 million in all of 1984 and $2.5 million in 1983.
- The exchange's capitalization at July 31 stood at $31 million, up from $17.4 million at year-end 1984 and $22.7 million in 1983.

The exchange is "on solid ground and it's still the best possible investment for new money in the insurance industry," said Mr. Biegler, who, until his retirement in March of this year, was president of LWB Syndicate Inc., the exchange's largest syndicate in terms of premium volume.

"I'm kind of glad it didn't expand dramatically in the last tough years," Mr. Biegler said. "It's coming in at the right time, as rates are going up."

Most of the optimism for the IIE's future hinges on the six new syndicates that have formed on the exchange this year, of which three are already writing business. The new syndicates bring to 13 the number of syndicates on the exchange.



Mr. Biegler

James M. Skelton, the IIE's executive director, says a few more syndicate applications have been filed with the board and that several other syndicates are in the formative stages.

In fact, some of the management companies that organized the six newest IIE syndicates plan to organize subsequent syndicates.



Mr. Skelton

But, as new syndicates join the exchange, older syndicates are leaving. Four of the seven syndicates on the exchange at the beginning of 1985 have petitioned to withdraw. They are Northbrook Underwriters Syndicate, owned by Allstate Insurance Group; Midwest General Syndicate Inc., owned by Reliance Insurance Group; Sentry Syndicate/Illinois Inc., owned by Sentry Insurance Group; and RCA Syndicate #1 Ltd., owned by Reinsurance Co. of America (see story, page 39).

The four syndicates wrote about $1.1 million in gross premiums in 1984, only about 7% of the exchange's total volume. Their combined capital and surplus at year-end 1984 was $8.6 million.

Despite these withdrawals, observers believe the IIE will continue to grow.

"By the end of this year and next year, we'll see a tremendous increase in the number of syndicates and the number of brokers," predicts Bernard E. Epton, a member of the IIE's board of trustees and an attorney with the Chicago firm of Epton, Mullin & Druth.

Mr. Epton, a former Illinois state representative, first introduced the exchange's enabling legislation in 1974.

"I think the Illinois exchange will be one of the most viable and profitable exchanges in existence," notes Stephen Weicholz, president of one of the new syndicates, Britamco Underwriters Inc. He says the other U.S. exchanges tried to grow "at the wrong time, when prices were low."

"The exchange is in the process of becoming a truly viable market," says Ronald A. Jacks, an attorney with the Chicago law firm of Isham, Lincoln & Beale and an alternate on the IIE board for former Illinois Gov. Richard B. Ogilvie, who is with the same law firm.

"For certain types of risk, it may be a market of *first*, rather than last resort," Mr. Jacks said.

He added, however, the Illinois exchange must win acceptance from two important sectors to succeed.

"The reality is that a great deal of its success in the next 12 months will depend upon the way it is received by brokers and buyers," he said, noting that success also will require a continued infusion of capital and sound underwriting results.

"The more it is perceived to be a viable market. . .it will grow," Mr. Jacks said, explaining that in the past, the perception of the exchange as an unproven market

Continued on next page

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IIE sees growth

Continued from previous page
hindered its growth.

Perception, timing and good prices are "everything," note several of the 65 brokers that have been approved by the exchange.

"I think the market conditions are promoting the exchange. . .It's a reasonable vehicle to establish a position quickly, so it's beginning to attract new capital," said Larry Sorensen, senior vp with broker Rollins Burdick Hunter Co. in Chicago. Mr. Sorensen was the first broker to place business with the IIE.

The exchange is still building, according to Thomas O'Brien, president of Stewart Smith Mid America Inc. in Chicago.

"It's still relatively young, and we certainly would like to see more capital, but we're happy with what's been built," Mr. O'Brien said. "Our impression of the IIE is that it's a good thing coming into its own."

Joseph J. Montgomery, an underwriting manager with MGA Insurers Inc. in Chicago, says he likes the IIE for its "reasonable prices."

However, Mr. Montgomery's clients want more capacity than the syndicates at the exchange can offer. "The customers are asking for more, and we have to ask the customer if they can live with the limits offered on the exchange," Mr. Montgomery said. "That hurts us a little. We would like to put the business there. . .especially since the rates are reasonable and the market is tough," he said.

The exchange's capacity is $8 million of casualty risks and $2 million for property risks, Mr. Skelton said.

According to the IIE's rules, a syndicate may write a gross limit up to its capital and surplus, but may only retain an amount equal to 5% of its capital and surplus for both property and casualty risks.

"The board has not set premium-to-surplus limits," Mr. Skelton says. However, the board is notified when a syndicate's net premium-to-surplus ratio hits 2.5-to-1.

Last year, the exchange's aggregate premium-to-surplus ratio was only 0.6-to-1, despite the huge increase in net premium written.

Capacity is important to brokers, but so is the type of business written on the exchange.

The IIE originally was perceived to be primarily a surplus lines marketplace, rather than a reinsurance facility. However, about 90% of the business written on the exchange last year was reinsurance, Mr. Skelton said, noting that about two-thirds of that was treaty reinsurance and the other third was facultative.

Liability risks accounted for about three-quarters of the reinsurance written by IIE syndicates.

However, all of the syndicates joining the exchange this year say they primarily will write direct business—both primary and excess property/casualty lines—rather than reinsurance.

"Because of the change in the market, we expect more excess business," Mr. Skelton said.

"We're sort of in a flux now. Everyone is getting their act together for a new push," he noted, referring to new syndicates.

"We're happy about the change" to primary and excess business from reinsurance, said Daniel Real, vp with exchange broker New Amsterdam Excess of Illinois, a subsidiary of Fred S. James & Co. Inc. in New York. The wholesaler has been a broker on the exchange since June 1983, when New Amsterdam was formed.

"We were doing very little reinsurance brokering, so I think the change is positive," Mr. Real said.

"If there was a bit more capacity available, that would be good, too," he said, noting that capacity will grow with more new syndicates like NUA Syndicate Inc., which was capitalized at $10 million in July, $8 million more than the exchange's minimum capital requirement of $2 million.

About 75% of New Amsterdam's business will be placed with NUA, he said. "That's because it has the most capacity and because it is more aggressive," Mr. Real said.

Other new syndicates, such as Transco Syndicate #1 Ltd., appear to be just as agressive. Its president, Peter O'Shaughnessy, says he is encouraging the brokers that deal with the syndicate's parent, underwriting manager Transco Insurance Services, to join the exchange.

The other new syndicates say they expect to attract new brokers.

And, with more brokers and more syndicates, the result has to be more business, Mr. Skelton said.

More business may change the atmosphere of the exchange's "trading floor," which has been a quiet room on the 12th floor of the historic Insurance Exchange Building (see story, page 44).

The exchange's trading hours are 9:30-11:30 a.m. and 2-4 p.m., but by 10:30 on any given morning the room is still empty.

Syndicate officers and Mr. Skelton noted that a lot of the exchange's business comes via mail and telexes rather than from brokers on the trading floor. The morning mail usually brings in several submissions, Mr. Skelton said.

Syndicate owners hope that as business on the exchange builds, so will profits.

IIE syndicates posted a aggregate net loss of about $1.4 million in 1984, compared with a net gain of $106,884 in 1983. However, the addition of new, "aggressive" syndicates this year should improve net income, IIE officials say.

Although syndicates' aggregate profitability declined in 1984, their underwriting results improved. The exchange posted an aggregate combined ratio of 125.7% in 1984, an improvement over 1983's combined ratio of 161.2%.

"Our combined ratio is very high, but we have a high expense load because we've internalized a lot of debt from previous years," Mr. Skelton explains.

The loss ratio declined to 97.4% in 1984 from 100.5% in 1983, while the expense ratio fell considerably to 38.3% from 60.7%.

One of the exchange's strengths, touted by Mr. Skelton and the IIE's members, is its flexibility.

"A buyer can place a risk more cost-effectively because of the variety of underwriters all in one room," Mr. Skelton said. He adds, however, "that's also been a weak-

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PIA

Continued from previous page
ness in the past because we haven't had enough players to carry out the goal of that concept."

"The flexiblity and the fact that we are a *personal* market are our strengths," according to Lawrence T.P. Molloy, underwriter and vp for the Comprehensive Ensurers Market Syndicate Inc.

CEM is a syndicate backed by 10 private investors.

"I know all of the brokers. It's not just pieces of paper," Mr. Molloy said.

"The syndicates can probably respond faster, better and without home office interference," said Donald L. Cole, president of Travelers Illinois Syndicate Inc., illustrating the advantages of using the exchange over a conventional insurer.

The exchange's relative freedom from regulation is another advantage, Mr. Cole said.

The IIE is not regulated under any section of the state's insurance code unless the section specifically mentions the exchange.

"Because of the enabling legislation, we are not encumbered by many of the regulations that insurers are. We don't have to file rates; we can act quicker.

"And, when a new insurance needs to be created, we can sit down with a crayon and design it. . .and boom, it's out on the street," Mr. Molloy explained.

The exchange's guaranty fund, which guarantees claims payments should a syndicate become insolvent, is another strong point of the IIE, Mr. Skelton said.

The exchange's rules require syndicates to deposit $500,000 of their capital into the guaranty fund trust, as well as an amount equal to 1% of their net written premiums, according to IIE Comptroller James J. Ryan.

Each syndicate is liable for an additional $500,000 call if the fund is depleted, he added.

The fund contained about $7 million as of last month, Mr. Ryan said.


Mr. Ryan

But, despite all the positive aspects of the exchange, IIE observers note there are weaknesses other than the exchange's modest capacity.

For instance, Richard Foss, president of NUA Syndicate, criticized the exchange for not being admitted in all states.

The IIE is approved as a surplus lines market in 24 states and is an eligible surplus lines market in eight others.

It also is approved or accredited as a reinsurer in 28 states, Mr. Skelton said.

"The states missing are important to the business that I write. And that makes for a lot of extra work," said Mr. Foss.

However, Mr. Skelton contends that the exchange has done all it can do to obtain approval in the states.

Many of the states have capital requirements that the exchange has not been able to meet, Mr. Skelton said.

Mr. Skelton added that it will be admitted in more states as its capitalization builds.

Other states allow exchanges to operate only if there is a need for a specific type of insurance, while other states prohibit exchanges from operating because there is no mention of them in their statutes, Mr. Skelton said. ■

New Illinois syndicates writing direct business

By CAROL CAIN

CHICAGO—The Illinois Insurance Exchange is getting new blood and a new direction.

Six syndicates have been approved by the IIE board of trustees this year, three of which are already writing business.

And, all six of the new syndicates say they will concentrate on primary and excess direct business, rather than primarily write reinsurance like the vast majority of the existing syndicates.

"It's a real change from the doldrums we've been in," said Chicago attorney Bernard E. Epton, a member of the board of trustees and a former state legislator who sponsored the exchange's enabling legislation in 1974.

Mr. Epton, a partner with the law firm of Epton, Mullin & Druth, predicts the number of IIE syndicates could grow to 20 by the end of the year from the current 13.

However, four of the 13 syndicates—Midwest General Syndicate Inc., Sentry Syndicate/Illinois, RCA Syndicate #1 Ltd. and Northbrook Underwriters Syndicate—have petitioned to withdraw from the exchange. The four syndicates, all of which primarily wrote reinsurance, have written no business this year and accounted for only 7% of the IIE's gross written premium volume of $15.2 million in 1984.

Despite the withdrawals, attention at the IIE has been focused on the new syndicates, particularly NUA Syndicate Inc., a subsidiary of Chicago-based NUA Holdings Inc. and ultimately owned by London United Investments Ltd., a London-based holding company.

NUA Syndicate, whose $10 million in capital gives it the highest capitalization on the exchange, opened for business July 22 (*BI*, July 8).

In its first three weeks of operation, the syndicate wrote two accounts generating gross written premiums of more than $500,000, said Richard Foss, president of both the syndicate and its managment agency, NUA Management Inc.

Despite the strong beginning, Mr. Foss says he's unable to predict how much premium the syndicate will write during 1985.

"It depends. On casualty, we're 100% claims-made. . . . If it hadn't been for that, we would have already written $5 million to $6 million," Mr. Foss said. "As the market changes, we'll write more claims-made policies."

The syndicate plans to write various lines of excess liability insurance—excluding professional liability insurance and trucking risks—plus some property risks, Mr. Foss said. About 90% to 95% of the business will be written on an excess basis, with the remainder reinsurance.

"We will be leads in the medium to large commercial accounts of all types," Mr. Foss said.

NUA's gross capacity for casualty risks is $5 million, while its net line is $500,000 or 5% of its capital and surplus, the maximum allowed by the exchange.

NUA's property treaties are not complete, so Mr. Foss declined to estimate expected volume or capacity.

NUA Syndicate is the only IIE syndicate to have two boxes, one for its casualty underwriter and the other for its property underwriter, an illustration of the volume of business it expects to write.

"We feel we'll be a major factor in the Illinois exchange. We'll bring in more people," Mr. Foss said.

That already is happening. In fact, because of presence of NUA syndicate and its hefty capital, some of the other new syndicates on the exchange say they have increased or plan to increase their own capitalization.

"The exchange seems to be becoming a very viable place. . .and because of NUA, we're willing to put forth more capital," said Stephen Weicholz, president of the Britamco Underwriters Inc. syndicate, as well as its management company, Weicholz Management Corp. in Coral Springs, Fla.

Britamco started doing business on the IIE in July

Continued on next page



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Syndicates on the Illinois Insurance Exchange in 1984
(Ranked by 1984 gross premium volume)

Name (Parent company)	Gross premium written		Net premium written		Policyholder surplus		Net premium to surplus ratio		Combined ratio		Net investment income		Net income (loss)	
	1984	1983	1984	1983	1984	1983	1984	1983	1984	1983	1984	1983	1984	1983
LWB Syndicate Inc. (L.W. Biegler Inc./Crum & Forster Corp.)	$12,366,658	$4,303,961	$8,891,488	$1,108,889	$3,378,306	$5,055,892	2.63:1	0.22:1	118.8%	149.0%	$732,769	$626,010	($1,289,403)	$79,058
Travelers Illinois Syndicate Inc. (Travelers Indemnity Co.)	1,295,890	918,012	783,957	252,111	2,948,628	3,056,892	0.27:1	0.08:1	165.5	124.9	341,660	170,057	(108,263)	56,892
RCA Syndicate #1 Ltd.[1] (Reinsurance Co. of America)	549,371	254,676	288,441	133,721	2,347,979	2,273,830	0.12:1	0.06:1	172.0	183.1	261,905	91,486	61,812	(13,922)
Sentry Syndicate/Illinois Inc.[1] (Sentry Insurance Group)	547,882	492,224	280,733	364,215	1,962,154	2,236,848	0.14:1	0.16:1	257.9	141.5	151,131	68,848	(306,519)	(49,659)
Comprehensive Ensurers Market (10 private investors)	430,052	406,000	345,052	406,000	2,518,780	2,489,153	0.14:1	0.16:1	114.4	140.0	80,250	44,775	29,627	(147,117)
Midwest General Syndicate Inc.[1] (Reliance Insurance Group)	22,135	402,684	(31,191)	71,298	2,000,000	2,570,518	0.02:1	0.03:1	228.8	271.2	273,326	289,548	190,890	105,198
Northbrook Underwriters Syndicate[1] (Allstate Insurance Group)	(4,566)	240,603	1,451	110,728	2,321,555	2,328,568	0.00:1	0.05:1	4,506.8	277.7	232,660	211,011	(16,502)	31,667

Source: Illinois Insurance Exchange 1984 Annual Statement

[1] Inactive for part or all of 1984 and no longer doing business.

Chart: Amy Palmer

IIE syndicates

Continued from previous page
with capital of $2.1 million. "But we anticipate increasing our capitalization to $4 million in the next six to 12 months," Mr. Weicholz said.

"I'm enthusiastic about the exchange and the new type of syndicates coming on board and the type of people, like that group from London," Mr. Weicholz said, referring to the NUA Syndicate.

As of late last month, Britamco was writing an average of $500,000 to $600,000 per month in gross premiums and expects to keep that pace up to the end of the year, Mr. Weicholz said.

He estimates a gross premium volume of $10 million within the next 12 months.

Britamco is currently writing special multiperil policies on mercantile risks on a primary, first-dollar basis, Mr. Wiecholz said. He expects his syndicate to be the lead SMP underwriter on the Illinois exchange.

Britamco offers $200,000 in gross capacity for property risks and $500,000 combined single limit for liability risks.

The syndicate late last month was negotiating a reinsurance treaty to write umbrella liability coverage. Mr. Weicholz hopes the treaty will be completed this month so Britamco can begin writing umbrellas by October or November.

Rather than price its coverages according to what the market dictates, Mr. Weicholz says his syndicate bases rates on a percentage multiple—usually 115% to 125%—of Insurance Services Office manual rates.

Another new syndicate, Transco Syndicate #1 Ltd., also is planning to increase its capitalization. The syndicate opened for business July 22, the same day as NUA Syndicate.

Transco, which was capitialized at $2.4 million when it opened, plans to increase its capital to $3.3 million this month and to $4 million in December, said Peter O'Shaughnessy, chairman and president of the syndicate and its underwriting management firm, Transco Insurance Services of Solvang, Calif.

In addition, Transco has put together a prospectus for both another IIE syndicate and a separate management firm, Mr. O'Shaughnessy said.

During its first two weeks of business on the IIE, Transco wrote "not quite $100,000" in gross premium said John McComb, Transco's underwriting manager. Mr. O'Shaughnessy expects the syndicates' gross premium volume to grow to $12 million within the next 12 months.

The business already written by Transco was excess product liability coverage, which is expected to

Continued on next page

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Continued from previous page
be the syndicate's specialty.

Transco intends to write primary and excess lines and facultative reinsurance, Mr. O'Shaughnessy said.

The syndicate will offer a per-risk limit of $2 million for property coverages and $2.5 million for casualty lines. Transco currently will not write medical malpractice or primary professional liability coverages, Mr. O'Shaughnessy said.

Three other new syndicates—First Mercury Syndicate Inc., Classic Syndicate Inc. and Inspro Insurance Syndicate Inc.—have not yet opened their doors.

First Mercury Syndicate, approved by the IIE board of trustees on Aug. 14, is the exchange's newest syndicate. It hopes to begin writing by Oct. 1.

First Mercury Syndicate will be managed by Mercury Management Inc., an affiliate of CoverX Corp., a 12-year-old underwriting manager based in Southfield, Mich.

Mercury Management was organized this summer "to manage this syndicate, subsequent syndicates and perhaps an insurer or two," said Jerome M. Shaw, chairman and president of all three entities.

While First Mercury Syndicate's initial capitalization will be a minimum of $5 million, Mr. Shaw said subsequent IIE syndicates that Mercury Management plans to organize will be capitalized at a minimum of $10 million. He said at least one additional syndicate managed by Mercury Management is expected to join the exchange by the first quarter of 1986.

The investors behind First Mercury Syndicate are predominantly non-insurance individuals and companies, Mr. Shaw said.

First Mercury is planning to write primary general and speciality liability coverages, Mr. Shaw said. He expects gross premium volume for this year alone to be between $10 million to $15 million.

Mr. Shaw declined to discuss the type of clients for which his syndicate will write, but noted that he won't have to look for clients. "They're in abundance," he said.

Another new syndicate, Inspro Insurance Syndicate Inc., is being organized by Inspro Insurance Services Inc., an underwriting manager based in Walnut Creek, Calif.

"We're still looking for who the subscribers for the syndicate will be," said Grant H. Weaver Jr., president of Inspro Insurance Services, describing "subscribers" as both investors and policyholders.

Mr. Weaver says he hopes the syndicate will be capitalized at $2.5 million when it opens its doors.

"There's a survey out now to determine the needs," he said, adding that the survey should be completed and assessed by mid-September.

The survey also will help Inspro decide whether it will write primary, excess or reinsurance business, or a combination of the three. "We're still trying to determine that," Mr. Weaver said adding that among the lines Inspro expects to write is architects and engineers professional liability coverage.

Classic Syndicate Inc., the other new syndicate that has not yet begun writing, is owned by Concord General Inc. and two subsidiaries: J.W. Beresford-Wood & Co., a 5-year-old reinsurance intermediary in Concord, Calif., and Classic Insurance Co., a 2½-year-old Bemuda-based insurer that until March was known as Excalibur Insurance Co. Ltd.

Jeffery Beresford-Wood, president of the syndicate and its three owners, says Classic Syndicate will write only excess/surplus lines business, but he declined to elaborate on the types of risks to be written.

The organization hopes the syndicate will begin writing by mid-September with capital of $2.2 million, he said.

In addition to the six new syndicates, three existing syndicates continue to write business: LWB Syndicate Inc. and Travelers Illinois Syndicate Inc., which are primarily reinsurance markets, and Comprehensive Ensurers Market Syndicate, which writes direct coverage.

LWB Syndicate, owned by L.W. Biegler Inc. in Chicago, continued in 1984 to write the majority of the IIE's premium volume but discontinued writing new business earlier this year.

"We're beyond our budget, the budget set by Crum & Forster, because of increases in premiums on old treaties," said Norman Reid, underwriting manager and vp of LWB Syndicate. "But we're still looking at renewals."

Although LWB has stopped writing new business, Mr. Reid denies rumors that LWB Syndicate ultimately will pull out of the exchange. "If we were going to pull off, we sure wouldn't be writing renewals."

LWB generated gross written premiums of $12.4 million in 1984, up 187% from $4.3 million in 1983. The syndicate wrote about 80% of the exchange's gross premium volume last year.

Gross premium volume for the first six months of this year totaled about $15 million, and volume will grow to somewhere less than $20 million by the end of the year, Mr. Reid estimates.

Net premiums written in 1984 by LWB totaled $8.9 million, up about 700% from $1.1 million in 1983.

The syndicate's combined ratio improved to 118.8% last year, compared with 149% in 1983, while net income totaled almost $1.3 million in 1984, up from $79,058 the previous year.

Besides not writing new business, LWB also is changing its underwriting direction, Mr. Reid said. In the past, the bulk of LWB's business has been treaty reinsurance. But next year, when Mr. Reid hopes the syndicate will have more capacity, it will write more primary and excess business, plus some facultative reinsurance.

"We feel we have better control of our desitiny, our underwriting, when we write direct. This control is not there when we follow another on reinsurance," Mr. Reid said. "It has always been the Biegler philosophy: to do our own underwriting."

Casualty risks made up more than 50% of the business written by LWB Syndicate in 1984.

The syndicate is known as the lead at the exchange on railroad coverages, professional liability and auto physical damage for high-priced and classic autos, Mr. Reid said, adding this posture should continue into next year.

LWB offers gross capacity of $1.5 million for property and casualty risks.

Travelers Illinois Syndicate, in its second year of operation, was the second-largest syndicate on the IIE in 1984 with gross written premiums of $1.3 million, up 41% from $918,012 in 1983.

Net premiums written in 1984 totaled $783,957, up 211% from $252,111, while its 1984 combined ratio rose to 165.5% from 124.9% in 1983.

The syndicate posted a net loss in 1984 of $108,263, which compares to a net income of $56,892 in 1983.

"We think 1985 will run better than 1984," said Donald L. Cole, president of the syndicate and its management company, Constitution State Management Co. in Hartford, Conn., which is owned by Travelers Indemnity Co.

The syndicate's gross premium volume totaled $867,561 as of June 30 and $951,815 as of July 31.

"A lot of our premium income is

Continued on next page



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Photo: Carol Cain

Illinois Insurance Exchange syndicates are appropriately located in the Insurance Exchange Building in Chicago's Loop.

IIE syndicates

Continued from previous page

on the treaty side. Our syndicate is not geared up to do direct business," Mr. Cole said. "Right now we are keeping almost all of what we write, a net book, especially on the casualty side," he said, adding that its net retention is $125,000.

Travelers Illinois Syndicate writes a general book of reinsurance business, with a substantial portion of it being property, Mr. Cole said. An across-the-board expertise and Travelers' underwriting knowledge are strengths of the syndicate, he says.

Comprehensive Ensurers Market Syndicate Inc., which is owned by 10 individual investors, is the only one of the three veteran syndicates that has been writing primary and excess business rather than reinsurance.

CEM generated gross written premiums of $430,000 in 1984, up slightly from $406,000 in 1983. Net premiums written in 1984 totaled $345,052, down from $406,000 the previous year.

CEM posted the best 1984 combined ratio on the IIE: 114.6%, compared with 140% in 1983.

For the first six months of 1985, the syndicate posted gross written premiums of less than $100,000, but Lawrence T.P. Molloy, the syndicate's vp and underwriter, says he's not concerned. The bulk of CEM's 1984 business was written in December and he expects the same pattern to occur this year.

"We're looking to do just short of $1 million at the end of this year, and then double that in 1986," Mr. Molloy said.

The increase in premium volume for the CEM Syndicate will be primarily due to new business rather than rate increases, he said.

Now that the market has changed, CEM Syndicate will seriously look at errors and omissions coverages written as a part of association-sponsored programs.

Although few underwriters are eager to write medical malpractice coverage, Mr. Molloy says he is considering writing the risk as long as he can find a type of doctor with good loss experience.

"We're trying to take a class that scares the insurance industry and find a niche in it that can be written affordably and profitably," Mr. Molloy said.

CEM is the lead syndicate on the exchange for association business Mr. Molloy says. "So when we get interested in a new class of business, we do a sickening amount of research.

"We have fewer preconceived notions than your standard-line underwriters," Mr. Molloy said of his syndicate's strengths. "I am not a gambler, I am not reckless, but I have a great deal of faith in our ability to research."

CEM retains $100,000 per risk on both property and casualty business. The syndicate's gross capacity varies with the risk to be underwritten, he said.

In addition to the six syndicates currently operating and the three others waiting in the wings are the four syndicates that have petitioned the exchange's board of trustees to withdraw.

RCA Syndicate #1 Ltd., which began doing business on the exchange in 1982, ceased operations last year.

Roger DiRocco, who was an underwriting deputy with the syndicate and is vp of the syndicate's parent, Reinsurance Co. of America in Chicago, would not comment.

RCA generated gross premiums of $549,371 in 1984, up 116% from $254,676 in 1983. It posted net premiums of $288,441, net income of $61,812 and a combined ratio of 172% in 1984.

Sentry Syndicate/Illinois Inc., owned by Sentry Insurance Group in Stevens Point, Wis., also ceased underwriting last year.

Harvey Hoth, vp-reinsurance for Sentry Reinsurance Management Co., would not give specific reasons on why the syndicate closed.

"There are many reasons. Probably the timing was not right for the exchange concept in Illinois," said Mr. Hoth, who had been a member of the exchange's board of trustees.

He also noted that Sentry will concentrate its exchange activity on its New York Insurance Exchange syndicate.

Sentry generated a gross premium volume of $547,882 in 1984, up 11% from $492,224 in 1983. It reported net premiums of $280,733, a net loss of $306,519 and a combined ratio of 257.9% in 1984.

Midwest General Syndicate Inc., owned by Reliance Insurance Group, was one of the first to join the IIE in 1981, but it ceased operations at the end of 1983.

"We put the syndicate in a run-off posture a little more than 1½ years ago," said Richard Thomas, senior vp of Reliance Insurance Co. and executive vp of Reliance Risk Management, both in Philadelphia.

"We have determined that reinsurance is a neat place to be these days. We will be doing more treaty insurance underwriting out of Philadelphia. We see that as more appropriate than reinsurance at the Illinois exchange," Mr. Thomas said (*BI*, Aug. 26).

"We all have to choose the vehicle that meets our purpose," he explained.

He said the $22,135 in gross premium volume reported by the syndicate in 1984 represents additional premiums paid on policies written in 1983.

Midwest General also showed a negative $31,191 in net premiums for 1984, a net income of $190,890 and a combined ratio of 228.8%, which Mr. Thomas said reflects the run-off business.

Finally, Northbrook Underwriters Syndicate, which was owned by Northbrook Excess & Surplus Insurance Co., an Allstate Insurance Group unit, also ceased underwriting at the end of 1983.

The Northbrook syndicate reported a negative premium volume for 1984 of $4,566, which could have been generated by the return of premiums from policies canceled in 1984, said James J. Ryan, comptroller of the exchange.

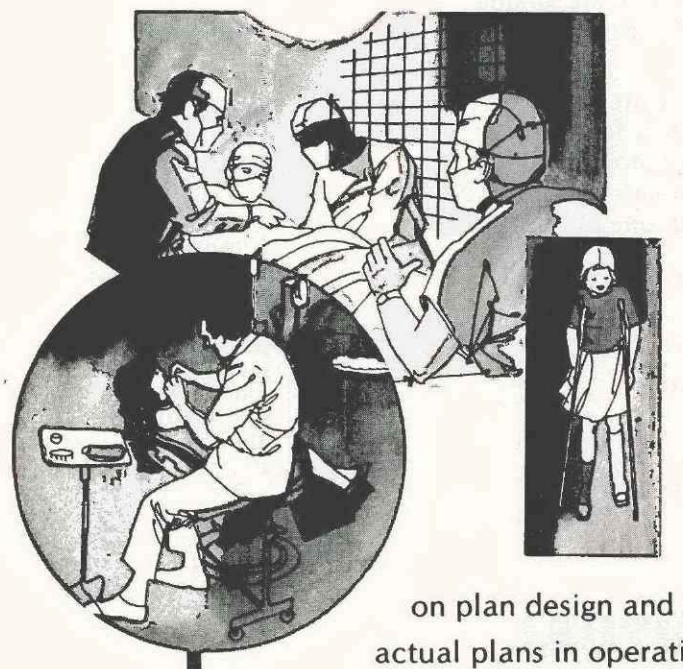
The syndicate reported net premiums for 1984 of $1,451, a net loss of $16,502 and a combined ratio of 4,506.8%.

Spokespersons from Allstate would not comment on the dissolution of the syndicate. ■

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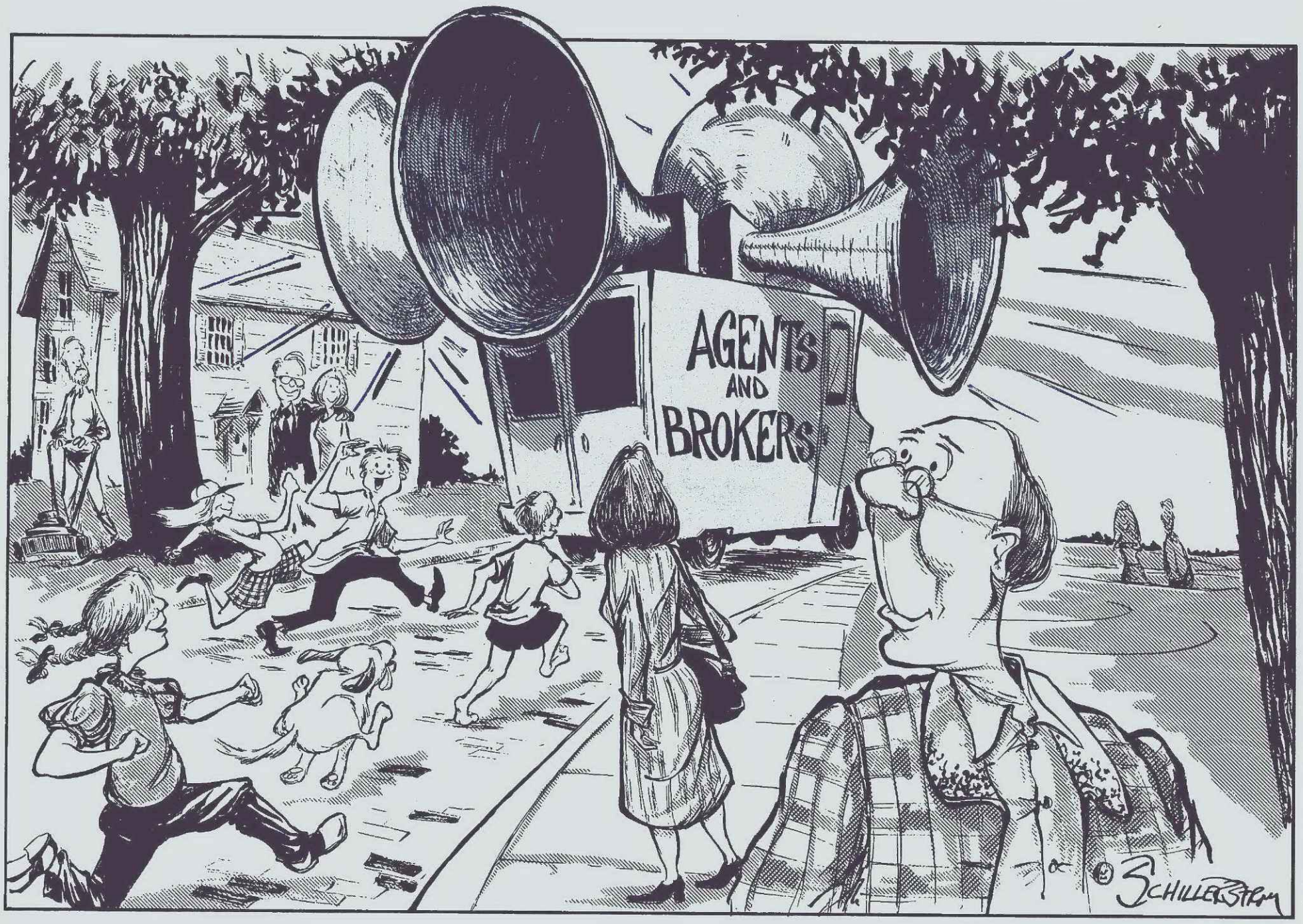
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Spreading the word

Producers take steps to keep clients informed of market changes, problems

By LINDA J. COLLINS

INSURANCE AGENTS and brokers are out on the streets spreading the word.

The commercial insurance marketplace is rapidly changing, and agents and brokers want the public to know why.

In the past, most producers were reluctant to let clients know about anticipated rate and capacity problems because they feared clients would shop around for coverage.

However, most agents and brokers say current market problems are so severe that, unless they warn their clients, policyholders will lose faith in their producer's ability to protect their interests. They add the problems are so pervasive that clients may not find relief by shopping around.

"Brokers, being salesmen, are reluctant at times to bring our clients bad news. But, we made the decision to tell our clients that there were difficult days ahead, both in cost and availability of coverage," said Robert H. Moore, senior vp of Alexander & Alexander Services Inc. in Washington.

Keith Johnston, senior vp-retail division for Poe & Associates in Tampa, Fla. agrees. Poe began warning its clients about changing market conditions a year ago. "Even if we lose business, we feel we've done the right thing," he said.

Producers are trying to explain to clients and the public both the cyclical nature of the insurance industry and problems particular to the current hard market, such as excessive court settlements and current capacity shortfalls. In this way, producers hope to assure clients that rate increases are not an arbitrary decision on the part of insurers, agents and brokers agree.

Agents and brokers are using a variety of methods to inform their clients and the general public about changes in the market. Many are delivering the word in person, while some are keeping clients updated with periodic letters or newsletters (see story, page 40B).

Others are reaching a broader audience through speeches and seminars (see story, page 40B).

Still others are actively seeking media coverage, holding press conferences and writing articles to explain market problems (see story, page 40E).

No matter what the medium, the important message for agents and brokers to transmit to clients is: "You're not delivering the identical product they had last year," said Peter T. Pruitt, president and chief operating officer for Frank B. Hall & Co. Inc. in Briarcliff Manor, N.Y.

He added that, because of tight capacity and rising rates, either a client's coverage will cost more "or you're selling them reduced limits or their coverage has holes in it."

And, some agents say communications efforts also should be aimed at agency employees, so that employees can explain the situation to clients.

Jeff Craig Jr., a partner in Monterey Insurance Agencies in Monterey, Calif., said that his agencies' principals discussed market conditions with their clerical staff "so they would understand why there is such an increase in paper work and workload."

One specific issue about which agencies are trying to educate both the public and their employees is the coverage changes included in the Insurance Services Office's new commercial general liability forms scheduled for implementation Jan. 1 (see story, page 40G).

To help his agency's marketing and salespeople understand the new claims-made CGL form, Richard Womack, president of McGriff, Seibels & Williams in Birmingham, Ala., purchased videotapes of the Society of Chartered Property & Casualty Underwriters' CGL teleconference, held May 15 at sites around the country. All the agency's marketing and salespeople are required to review the tapes and accompanying course materials.

Agents and brokers must realize that "we're all in the midst of an educational process, and unfortunately there's no one answer," said Quill Healey, senior vp of Fred S. James & Co. Inc. in Atlanta. "The insurance professional's job will be much more difficult, and clients will have to listen more closely." ■

Agents give clients information to ease sting of hard market

By LINDA J. COLLINS

No news is *not* good news, many producers say.

Telling clients they will continue to see rate increases and coverage restrictions through their next renewal is a relatively thankless task, agents and brokers explain.

But, they add, the alternative is worse, because clients who are surprised by the effects of the hardening market may find themselves without sufficient coverage—and they may subsequently blame the broker for price and coverage problems.

Agents and brokers agree that they have a duty, as risk and financial counselors, to keep clients informed about market changes and their impact on the clients' businesses. Then, the client and the agent can work together to find solutions or alternatives to help the client find the broadest coverage at the best price.

"We have been trying to educate clients for the last five years," said Jeff Craig Jr., a partner with Monterey Insurance Agencies in Monterey, Calif.

'We've told our people that even if the news hurts, clients should be informed,' says C&B's Mr. Maxwell.

"We've taken every opportunity, in person and over the phone, to relay changes to our clients personally," Mr. Craig said. "We have tried to prepare them mentally for these changes."

Most clients have already felt the first wave of price increases and coverage restrictions, but there is little indication that the market tightening will end soon. And, agents say, clients and important prospects need to understand that.

"We've told our people that even if the news hurts, clients should be informed of the changes in the marketplace on a one-on-one basis," said Richard A. Maxwell, executive vp-brokerage services group and chief operating officer for Corroon & Black Corp. in New York.

The news media also has begun to take an interest in developments within the insurance industry, which helps agents' communications tasks.

For example, Robert H. Moore, senior vp of Alexander & Alexander Services Inc. in Washington, said remarks made by A&A's chief executive during the brokerage company's annual meeting this year received coverage in the general press.

John A. Bogardus, chairman and chief executive officer of A&A, predicted at the meeting that the lack of capacity for commercial clients' liability risks will get worse before it gets better. Mr. Bogardus strongly urged tort reform and stated that A&A was prepared to join efforts to achieve the reform.

The A&A executive's statements were covered in several publications, including Newsweek, The New York Times and Forbes, Mr. Moore said.

Some agents are using media coverage—both in the general press and in insurance trade publications—to help convince clients the market crisis is real.

For example, Keith Johnston, senior vp-retail division at Poe & Associates Inc. in Tampa, Fla., says that more than a year ago he started sending clients and prospects copies of articles about what is happening in the insurance marketplace.

"I photocopy the articles, with credits, and leave them with clients. I have even made a collage of the headlines of various publications" that address the tightening market and its concomitant capacity problems, Mr. Johnston said.

He added that Poe will compare its clients' premium costs for every year since 1978, if Poe has been the client's broker since then. And, Mr. Johnston said, the comparison usually reveals that what the client currently is paying for coverage is comparable to what the client paid in 1978 and 1979, before insurers began cutting rates.

David E. Tavernetti, president of Tavernetti Insurance Agency in King City, Calif., said that more than a year ago his agency began including a cover letter with commercial clients' policies or renewals, warning that rates would be going up in the near future.

"We carried this warning through the summer and the fall, so that when the market did get tight, most of our major clients had been told through our letters and through a personal visit that there were going to be pricing problems," he explained.

Mr. Tavernetti and many other agents and brokers also are using newsletters to inform clients about market changes.

The Tavernetti agency's newsletter, which Mr. Tavernetti writes on a word processor, is limited to two pages and is designed to highlight issues for commercial clients.

He keeps the newsletters short so clients will read it, he explains. "If clients want more-detailed information, they can call me.

"I have used the newsletter to explain pollution exclusions, lack of markets for earthquake coverage, etc.," he said. "With the newsletters I attach news clippings from non-trade publications discussing market conditions. . . .These things not only help us avoid errors and omissions problems, they also break the ice for any problems that may arise."

Mesirow/Chas. U. Victor Insurance Services in Chicago publishes a quarterly newsletter mailed to all of its commercial and personal lines clients and prospects. The Mesirow Financial Newsletter covers topics in all areas of the broker's business, including news about property/casualty insurance and employee benefits.

Richard S. Price, president of Mesirow/Chas. U. Victor, said that the newsletter is written in-house by people in different areas of the company.

The brokerage has received a lot of positive feedback from clients and prospects about the newsletter, including an article on how businesses can cut their health care costs, Mr. Price said.

Client newsletters are also used by the biggest brokers, like New York-based Johnson & Higgins.

"It brings subjects of the moment to our commercial public," said George S. Shattuck Jr., director of national sales and marketing for the brokerage.

Continued on next page



Agencies' seminars, speeches educate clients and the public

By LINDA J. COLLINS

The current insurance marketplace is so complex and changing so rapidly that some agents and brokers feel the need to do more than inform individual clients about changes and problems.

These agents and brokers are taking the message to larger groups, volunteering to speak at trade group meetings or before consumer groups and hosting seminars for large groups of clients or prospects.

For example, Jim Davies, president of Davies & Associates in Murray Hill, N.J., and president-elect of the National Assn. of Professional Insurance Agents in Alexandria, Va., said representatives from his agency recently spoke at meetings of a sanitation trade group and a lumbermen's trade group.

"They asked us to speak on market problems. We explained the loss picture" and other problems affecting the industry, Mr. Davies said.

Mr. Davies added that the agency speakers used graphs to show the industry's profit and loss history over the last 30 years because people outside the industry understand the market situation better when it is "presented in picture form."

'We think it's very important to educate our clients and prospects on insurance, tax and benefit issues,' says Mesirow's Mr. Price.

Another agent, Jeff Craig Jr., a partner of Monterey Insurance Agencies in Monterey, Calif., said the principals of his agencies have also been asked to speak before different associations.

"One of my partners went to speak before a contractors trade association and another partner spoke before a condominium association to discuss market changes," Mr. Craig said.

"Our agency has also participated in panel discussions held by the local Chamber of Commerce for new business owners" to discuss insurance-related problems that might be encountered when starting up businesses.

Owen Pipal, president of Pipal-Anderson Inc. in Boise, Idaho, said he was asked to participate in a panel discussion on liquor liability coverage problems. The panel discussion was broadcast statewide June 7 on Idaho's three public television stations as part of the program, "Idaho Reports," Mr. Pipal said.

He said that first half of the program consisted of a discussion of the public's changing attitude toward drinking and current liquor liability coverage problems and showed interviews with tavern and cocktail lounge owners.

"The second half of the program featured a live panel of four people—a restaurant/lounge owner, a lobbyist of the liquor industry, a state senator and myself as a representative of the insurance industry," he explained.

"We discussed what has happened with liquor liability and what can be done about it."

"I explained to the public that the insurance industry is reacting to what is happening in society" through dramatic rate hikes and decreasing availability of coverage for liquor liability, "rather than acting on its own," he added.

In addition to speaking before trade and business groups, many brokerage firms also are holding seminars to educate existing and prospective clients about general market conditions and specific industry concerns.

Richard S. Price, president of Mesirow/Chas. U. Victor Insurance Services in Chicago, said his brokerage frequently holds free seminars for professionals, such as lawyers and accountants.

"We think it's very important to educate our clients and prospects on insurance, tax and benefit issues. In turn, we constantly attend seminars to keep abreast of what is happening in the industry," Mr. Price pointed out.

Seminars usually run for two to three hours in the morning and are conducted by Mesirow executives.

The brokerage invites clients and prospects it believes would be interested in the seminar topic and holds the seminars in its Chicago office, he said.

Mr. Price said Mesirow tries to limit attendance at its seminars to between 15 and 20 people because "a small group permits a freer exchange of ideas and questions."

Corroon & Black Corp. and its subsidiaries also are sponsoring seminars to educate clients, according to Richard A. Maxwell, executive vp and chief operating officer of Corroon & Black's brokerage services group.

For example, James Davis, the head of Corroon & Black's Risk Management Group in Nashville, Tenn., and members of Mr. Davis' staff will hold a series of seminars throughout the country beginning this fall.

These seminars are designed to tell clients and prospects what to expect when the Insurance Services Office's new commercial general liability claims-made policy form is implemented in January.

"They will explain the impact of the new liability form on businesses. The seminars will be held at no charge, and will be sponsored by the different offshoots of our organization," Mr. Maxwell said.

Previous seminars held by the various offices generally have drawn between 75 and 100 clients and prospects, he noted.

James R. Bennette, manager of health care concepts for Powers, Carpenter & Hall Inc., a Corroon & Black subsidiary in St. Louis, said that in addition to sending out a monthly "Benefit Alert" newsletter to inform clients about market issues, his office recently held a sem-

Continued on page 40D

Informing clients

Continued from previous page

Mr. Shattuck said that the quarterly newsletter has "no old news. It covers items we believe are of interest to decision makers and their corporate money.

"It is not written with all of the industry jargon. It basically cuts through to the bottom line of what is going on in the industry," he explained.

The newsletter articles are written in-house, and the newsletter is distributed to clients and prospects on a mailing list generated by various J&H offices, according to Mr. Shattuck.

"Copies are also delivered to each branch for brokers to hand out to prospects," he added.

Richard Wayne, vp of Marsh & McLennan Inc. in Chicago, says M&M's headquarters in New York mails a quarterly magazine to clients and prospects whose names are submitted by M&M's regional offices.

The M&M magazine, Viewpoint, features articles on various market issues. For example, the latest issue speculated about the future of the commercial insurance industry and discussed trends in medical malpractice and public utility insurance, among other subjects.

"A lot of my clients have commented very favorably about the magazine," Mr. Wayne said.

In addition, M&M publishes Commentary, a four-page newsletter that is sent to M&M's regional offices for distribution to clients.

"I read each newsletter very carefully to decide whether it deals with a subject of merit to my clients and prospects, and then choose which ones to mail it to," Mr. Wayne said.

Each issue focuses on a specific topic, said V.P. Chernik, editor of Commentary. So far this year, the topics have included market security, the hardening of the marketplace, pollution liability, punitive damages and the Insurance Services Office's proposed changes in the commercial general liability forms.

The home office of Fred S. James & Co. in New York publishes a newsletter every other month that regional offices can send to clients and prospects, according to Quill Healey, senior vp in James' Atlanta office.

The newsletters contain articles on national industry issues and also include pages that regional offices can fill with items of interest in their specific area, Mr. Healey explained.

For agencies that do not have the staff or expertise to write their own newsletters, there are other options.

For example, Insurance Marketing Services, an agency marketing consultant based in Santa Monica, Calif., offers newsletters that can be purchased in quantity and customized with an agency's name and logo.

IMS publishes four commercial lines and two personal lines newsletters, as well as one on financial services.

Prices for the IMS newsletters vary by quantity, but 1,000 personalized newsletters cost $265, including personalized envelopes and reply card stuffers. Mailing and stuffing services are available for an extra fee.

IMS has four full-time in-house writers that work on the newsletters, plus four free-lance writers who contribute articles on a regular basis.

"In every issue, both personal and commercial, we are including articles on the hard market," said Ann Phelps, editorial and production manager for IMS.

"We first explain that the industry is cyclical and how the market got to the point where it is today. Then we explain what that means to them, such as in higher rates and more difficult-to-place coverages," she said.

'It is difficult at times to go to clients and lay it all out for them,' says A&A's Mr. Moore.

Ms. Phelps added that the newsletters include charts and articles from agents, as well as IMS staff members.

But, no matter what method of informing clients is used, most agents would agree with A&A's Mr. Moore: "It is difficult at times to go to clients and lay it all out for them, telling them that in some cases they might not be able to get the coverages they want or the limits they want." ■

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Agents host seminars

Continued from page 40B

inar in St. Louis on preferred provider organizations that examined how problems in the insurance industry are affecting health care costs.

The office invited both employers and health care providers to attend the seminar on PPOs, Mr. Bennette explained, "to spark a dialogue between buyers and sellers. We also posed questions we thought should be answered."

More than 100 people attended the seminar, Mr. Bennette said.

Powers, Carpenter & Hall currently is working with the American Medical Assn. in St. Louis to design an informational program for physicians that covers a range of issues, including the state of medical malpractice insurance.

Another Corroon & Black subsidiary, broker and consultant Public Entities National Co., uses its own newsletter, the PENCOMMUNICATOR, articles submitted to publications of the National Assn. of Counties and its local chapters and speeches at NACO meetings to "tell public entities what they can do to lessen their insurance coverage problems," according to PENCo. President George R. Schmelzle.

"Since we are a specialist in this sector, we are in contact with those people on a regular basis and our people are very much involved in making speeches at state association meetings," Mr. Schmelzle said.

He added that in some states PENCo. is working directly with NACO in educating its members in how to set up workers compensation pools and design loss-control measures, among other things.

Donald J. Krutek, vp of risk management sales for Arthur J. Gallagher & Co. in Rolling Meadows, Ill., said Gallagher executives often have spoken before client groups, ranging from bankers to municipalities to church associations.

Mr. Krutek also said Gallagher officials have made presentations before meetings of local chapters of the Risk & Insurance Management Society and the Public Risk & Insurance Management Assn.

Robert Hughes, deputy managing vp at Alexander & Alexander Services Inc.'s Chicago office, said A&A executives have made themselves available to the press for "numerous interviews."

In addition, "we have put together a series of seminars for different trade groups," he noted.

"If we see a specific segment of the industry deteriorating fast, we will notify clients in that sector immediately."

For example, the office recently brought together its banking clients to discuss the difficulties that financial institutions are currently experiencing in obtaining coverage and ways to deal with those problems.

Mr. Hughes said that such seminars typically last three to four hours and draw about 20 to 30 clients.

Marsh & McLennan Inc. holds seminars on the third Thursday morning of each month in its Chicago office on a variety of insurance industry topics, according to Richard Wayne, an M&M vp.

"We send out invitations to well over 100 risk managers each month," Mr. Wayne explained.

The sessions include slide presentations, handouts and discussions by M&M experts.

Mr. Wayne said that James Cornell, another M&M vp, organizes the meetings and brings in other M&M executives to speak on specific issues.

"We'll stay as long as the risk managers have questions," Mr. Wayne said, although the sessions usually run from 7:30 a.m. until about 10 a.m.

Topics that have been covered in recent months include environmental impairment liability coverage, the state of the market for directors and officers liability coverage and the Insurance Services Office's proposed claims-made commercial general liability form.

According to George S. Shattuck Jr., director of national sales and marketing for Johnson & Higgins in New York, "Every one of our branches is responsible for holding seminars of moment and interest to their client bases. They also participate heavily in speaking engagements among different trade associations' conferences.

"Any one of the branches can call upon any level of expertise from within the company to help them conduct these seminars," Mr. Shattuck stressed. ■

Consumers get help on hot line

NEW YORK—Consumers that have questions about insurance-related matters may find that the answers are only a telephone call away.

The Insurance Information Institute operates a toll-free consumer hot line that gives the general public access to information about specific coverages as well as the general market.

The toll-free hot line received more than 20,000 calls in 1984, and the institute expects that number to increase slightly for 1985, according to Doris J. Handy, the III's assistant manager of consumer affairs.

People calling the hot-line number first reach the III's switchboard in New York, Ms. Handy explained.

Most of the callers are requesting informational brochures or material on a specific subject, and these calls usually can be handled by the switchboard operator, Ms. Handy said.

But, help is also available for callers with tougher questions, she said.

"If we do not have printed brochures on the subject, we will check for information in our library," Ms. Handy said.

In addition, 10 to 12 III staff members are available to help answer more-specific questions from callers.

"For specific problems, we have lists of people we will contact for the consumer to try to resolve the difficulty," Ms. Handy said. An III staff member will contact the source and request the necessary information.

"We make every effort we can to give callers an answer," Ms. Handy explained.

However, she stressed, that the III cannot recommend coverages or quote rates to the hot-line callers. She said consumers should contact an insurance agent to discuss their coverage needs and to receive coverage quotes.

Ms. Handy said most of the brochures and other preprinted materials that are available from the III and that is sent to hot-line callers is oriented toward personal lines coverage.

But, she said, "We have access to materials for commercial insurance."

Consumers can call the hot-line number, 800-221-4954, between 8:45 a.m. and 5:15 p.m. Eastern Standard Time.

An answering service will take messages from people who call the hot line at other times, and the call will be returned by an III staffer the following day. ■



Agents meet the press to explain market

By LINDA J. COLLINS

Two agents are using the media to make the public aware of the serious problems affecting the commercial insurance industry.

William M. Rue, president of Rue Insurance in Trenton N.J., and a national director of the National Assn. of Professional Insurance Agents, explains that issuing newsletters and personal calls did not adequately communicate how market problems would impact commercial insurance buyers.

So, Mr. Rue decided to take his story to the local media, which he said largely had been ignoring the industry's problems, by sending a press release to newspapers and radio stations in the Trenton area.

"The press release said insurance prices were going up, why and what we have been doing to help our commercial clients," he said.

"We described across-the-board market conditions and the most difficult coverages to place. We also suggested that the media make its own phone calls to verify that our information was correct."



Mr. Rue

As a result of Mr. Rue's efforts, Trenton-area media began to take a closer look at the insurance industry. For instance, the three major Trenton-area newspapers all responded by giving front-page coverage to the problems facing commercial insurers. Mr. Rue was quoted in all the articles, along with other industry representatives.

The agent is also scheduled to be a guest on a local radio call-in talk show, "Money Talks," on Sept. 9 from 7 to 8 p.m. to discuss market conditions and answer questions from listeners. The show will air on WBUD in Trenton.

Another radio show, "Sayen from Scanticon," on WHWH in Princeton, has asked Mr. Rue to be a guest on its program, though the date has not been finalized.

A Texas agency took a somewhat different tactic in educating the media about market conditions, but the results were as good as Mr. Rue's campaign.

When Wisenberg Insurance & Risk Management in Houston held a weeklong series of seminars in June for commercial lines clients that examined the chaotic state of the market, it also held a special seminar for the press, explained Executive Vp Joe L. Williams.



Mr. Williams

The 45-minute seminar-turned-press conference started with an overview of the insurance industry today and "why businesses should expect dramatic premium increases, shortfalls in coverage and modified policy conditions," Mr. Williams said.

Then, Mr. Williams discussed what businesses could do to "alleviate or mitigate the difficulties" posed by the current hard market and speculated about the future of the insurance marketplace.

Reporters from the Houston Business Journal, the Houston Post, United Press International and two radio stations attended the conference, Mr. Williams said.

The Houston Chronicle, which did not attend, was sent a videotape of the conference.

Stories about the seminar appeared in the newspapers that attended, on the radio stations and on the UPI wire, Mr. Williams said. "We could not have hoped for this good of a response."

He added, as a result of the press seminar, the Wisenberg agency has been asked to contribute articles to several publications.

The agency has also been contacted by the media to comment on other insurance-related matters.

For example, Mr. Williams said when Texas homeowners insurance rates were increased 20%, the local ABC-TV affiliate conducted an interview with Mr. Williams that aired during three broadcasts.

Mr. Williams also was contacted for quotes on the homeowners rate hike by each of the daily newspapers in the Houston area.

"We found the seminars and press conference to be an excellent method of informing our clients and creating agency/client goodwill," according to Mr. Williams.

And, it is an approach the agency intends to use again.

"We'll be having a different set of seminars for our clients on the (commercial general liability) policy changes when they are approved in Texas," Mr. Williams said.

And, he added, "We will invite the press to attend a conference then as well." ■



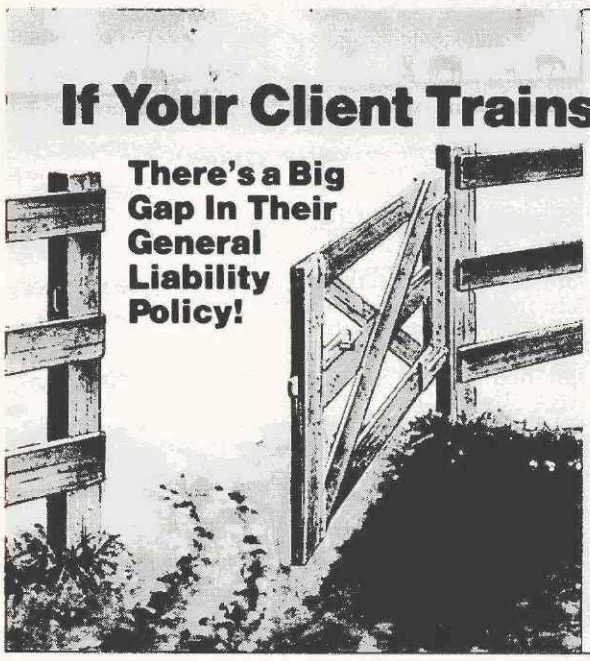
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Agent groups helping members inform clients

By LINDA J. COLLINS

Two agents' groups are offering help to members who don't know how to explain tightening market conditions to their clients.

The Independent Insurance Agents & Brokers of California in San Francisco and the Florida Assn. of Independent Agents in Tallahassee have launched separate information campaigns to help their members explain industry problems, like rising rates and coverage restrictions, to their clients and the general public.

The IIABC has sent to all its members free informational packets containing items that agents can use to get the message about the hard market across to their clients.

The kit includes:

- A sample client letter that tells clients why they should anticipate further premium increases upon renewal.
- A sample press release on insurance industry market conditions that members can send to members of the local media to generate press coverage.
- A camera-ready ad discussing insurance industry problems, which agents can run in local newspapers.
- A reprint of an article in Forbes magazine, "A World Without Insurance," that examines the crisis in the commercial insurance industry.

"We generated the campaign because of our members' need for backup sources in explaining coverage changes to their clients," explains IIABC President George Porter. Mr. Porter also heads El Camino Insurance Agency in Vista, Calif.

And, Mr. Porter says, the campaign is bearing fruit, not only with agents but also with the general media.

"Because of the IIABC media blitz, we have had several interviews with local business and general newspapers," Mr. Porter comments.

The FAIA has also designed a free information packet for members that addresses the tightening market.

The Florida association recently sent cards to its 1,550 agent members asking if they wanted to receive the information packet, and so far it has received more than 800 requests, according to Kenneth W. Walton, director of public relations for the FAIA.

The FAIA packet includes three letters to commercial lines clients describing market conditions. One of the letters is designed to be mailed to clients at renewal, while the other two letters can be sent at any time.

The packet also contains a two-page report on the current financial condition of the insurance industry, as well as five reprints of articles from newspapers and trade and business magazines that agents can hand out to their clients.

Mr. Walton said that rather than including press releases in the packet for agents to mail to local media representatives, he and several other insurance industry representatives have formed a Council for Florida Insurers.

The council has paid personal visits to some 15 newspapers and other media across the state to discuss insurance market changes and their impact on consumers, Mr. Walton said.

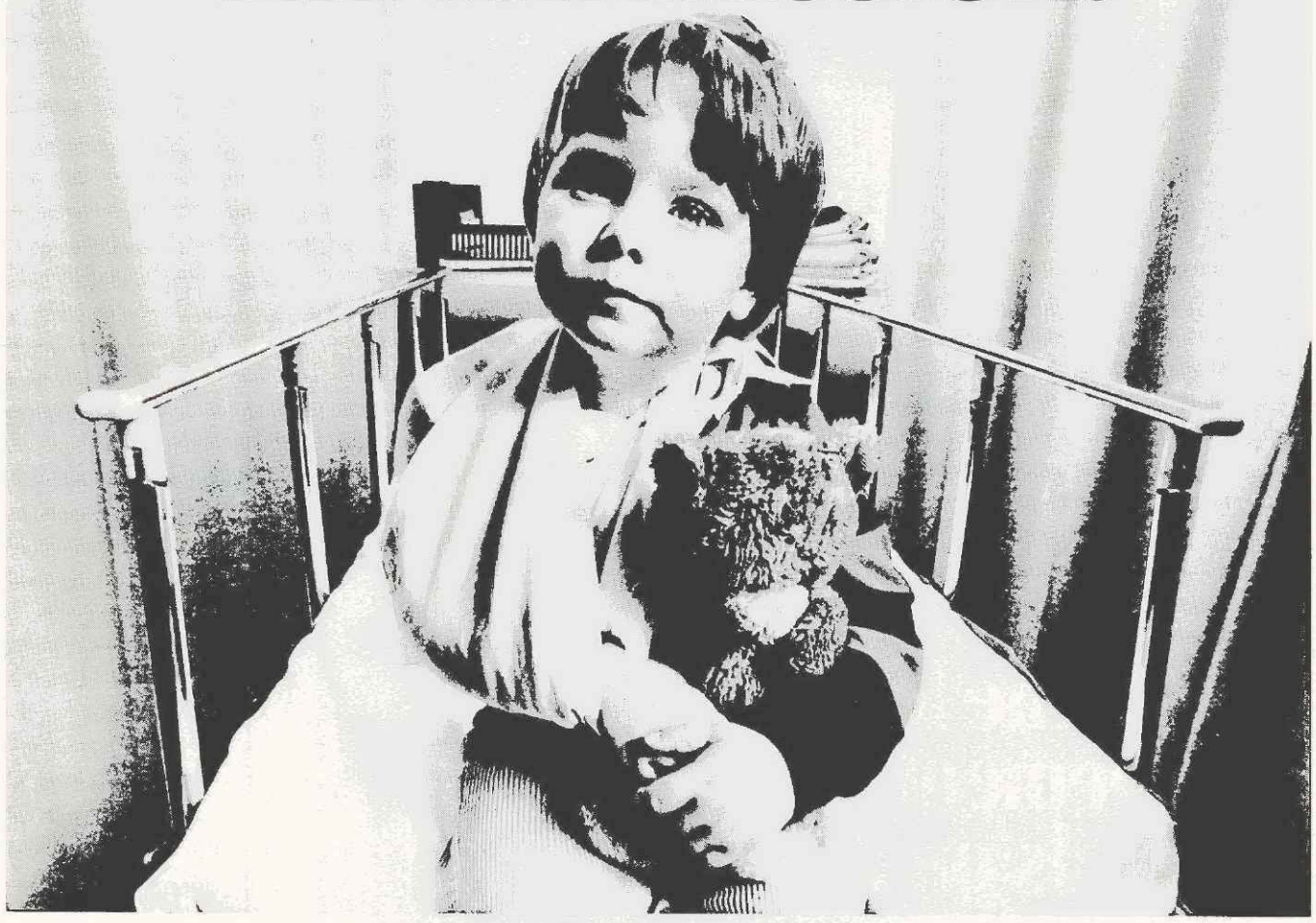
The agents' group also sent more than 200 press information kits to television stations and small daily and weekly newspapers throughout the state, he said.

The kits "tell who to contact about insurance issues, information on the financial state of the industry today and the economic impact of insurance on the state of Florida," Mr. Walton said.

He said the packet explains how insurers are regulated and what an insurer insolvency can mean to clients and the public.

Mr. Walton added that the insurance industry is important to Florida's economy, because the industry employs—either directly or indirectly—about 16% of the state's population. ■

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THE HEALTH PLAN OF AMERICA

PIA joins the battle to educate consumers

By LINDA J. COLLINS

ALEXANDRIA, Va.—The National Assn. of Professional Insurance Agents is taking a variety of approaches to get out the word about market problems on behalf of its 40,000 member agents.

The PIA is initiating press coverage throughout the country, airing informational spots on a business news network and volunteering to write articles on insurance problems for professional and trade association publications.

In addition, when PIA national officers speak at a PIA affiliate's convention held in a major media market, the association will set up one-on-one interviews with area business reporters, according to a spokesman for the PIA.

The PIA also offers reporters the names of area agents and industry officials as contacts to get local input on the stories.

In the interviews, PIA executives begin by explaining how the tightening commercial insurance market developed. They then tell reporters about the current market's effects on consumers, including rate increases, smaller coverage limits and lack of coverage in some lines.

Finally, they explain how consumers can work with independent agents to find solutions or alternatives to their coverage problems.

The PIA executive interviews have generated coverage in several large newspapers, including the Atlanta Journal and Constitution, the Indianapolis Star, the Arizona Republic in Phoenix, the Houston Post, the Houston Chronicle, the Omaha (Neb.) World-Herald and the Idaho Statesman in Boise. The interviews have also been the basis of stories filed by the two major news services, the Associated Press and United Press International.

Executives who have participated in the interviews include PIA President William G. Bailey, President-Elect James H. Davies and Vp Nicholas A. Verreos.

The PIA also began in April to air televised information spots on BizNet News, the business TV network of the U.S. Chamber of Commerce.

The televised spots deal with specific insurance industry issues, the PIA spokesman explained.

Two of the four spots aired so far have emphasized the need for reform of the U.S. civil justice system to help reduce consumer insurance costs, which have been inflated by huge court awards.

The other two spots addressed the impact on consumers of proposed national bank deregulation measures that would allow banks to sell and underwrite insurance. The PIA is adamantly opposed to bank deregulation.

The association's spots range in length from 90 seconds to two minutes.

In another effort to inform the public about market changes, PIA Executive Vp Donald K. Gardiner recently told members of the American Society of Assn. Executives that the PIA is available to write articles for ASAE trade and professional publications on insurance problems specifically relating to individual industries.

The American Society of Assn. Executives has about 2,500 members in all segments of the business community.

According to the spokesman, the PIA has a source file of agents who specialize in providing insurance coverages for different industries.

The association will contact these agents to provide them with background information on the needs of each industry. The articles will be written by members of the PIA national staff ■

E&O fears bring insurer response

By LINDA J. COLLINS

KANSAS CITY, Mo.—Professional liability coverages, including agents errors and omissions coverage, have taken a severe beating at the hands of the current chaotic insurance marketplace.

And the introduction of the Insurance Services Office's commercial general liability claims-made form will make agents E&O coverage even harder to obtain, many industry sources speculate.

If agents or brokers place business through insurers using the new claims-made form and do not thoroughly explain the coverage changes to their commercial lines clients, they could end up facing errors and omissions claims filed by their clients.

In fact, one major agents E&O insurer, Employers Reinsurance Corp. in Kansas City, is so concerned that coverage gaps stemming from the claims-made form will boost agent E&O claims that it has designed a battle plan to reduce that risk.

Employers Re requires that all agents and brokers insured under its agents E&O program attend a seminar on the CGL forms in order to retain their coverage after Jan. 1, the planned introduction date of the new form.

A spokesman for Employers Re said that approximately 16,000 agents are insured under the E&O program, including agents covered by more than 40 state affiliates of the Independent Insurance Agents of America.

The seminar must be approved by Employers Re. Although specific requirements for seminar approval have not been finalized, the insurer probably will require at least four hours of study in a classroom setting with a qualified instructor, the spokesman said. He added that firm guidelines should be in place by October.

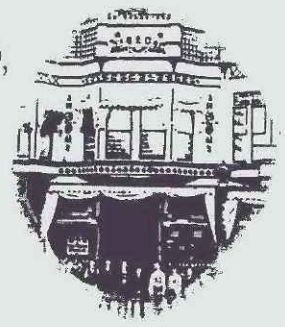
Both the Insurance Services Office and the IIAA offer one-day seminars on the new CGL claims-made form for agents and brokers nationwide. Those seminars should meet Employers Re's requirements for coverage under its E&O program, a spokesman for the IIAA said.

Richard J. Kasyjanski, vp of agency services for the IIAA in New York, said the association's errors and omissions committee discussed the seminar requirement with Employers Re "because we felt that it would be a good idea for our agents."

He said both Employers Re and agents who attend the seminars will benefit: Employers Re will

Continued on page 40K

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A/BT info

● IIR/ACORD has designed a new workbook, "Five Steps to Automation," to assist agents and brokers in **understanding, evaluating and prioritizing their automation needs.** The workbook explains how to set cost parameters and evaluate hardware, software and electronic interface requirements. It also describes how to negotiate contracts and oversee installation, implementation and staff training. Single copies are available for $15 plus local sales tax from IIR/ACORD, P.O. Box 253, Kendallville, Ind. 46755; or P.O. Box 120, Tracy, Calif. 95376.

● "Ten Reasons to Buy and Ten Reasons to Sell a Property and Casualty Insurance Agency" is a new book that outlines **why an agency should be bought or sold.** It also describes what assistance to expect from a consultant in such transactions. The book is written by insurance and risk management consultant Larry R. Farley, a managing partner in Farley-Quinn & Associates in Austin, Texas. To order, send $4.95 to Opportunities, Wisdom Press, P.O. Box 9802-678, Austin, Texas 78766.

● Courses and programs offered by the Insurance Institute of America and the American Institute for Property & Liability Underwriters are outlined in the **"1985-1986 CPCU/IIA Catalog,"** now available from the IIA. Copies are free from Field Services Department, The Institutes, 720 Providence Road, Malvern, Pa. 19355-0770; 215-644-2100.

● A revised edition of the Tennessee "Agent's Insurance Examination Preparation Manual" for life and health insurance has been published by Merritt Co. The manual is the official **study guide for Tennessee**. A new special section provides information on industrial fire insurance for debit agents who need to pass the 50-question industrial fire insurance exam. Copies of the manual are $18 from the Tennessee Department of Commerce and Insurance, 114 State Office Building, Nashville, Tenn. 37219.

● "The Coming Capacity Shortage, A Study by Insurance Services Office Inc.," examines the current and projected **capacity situation of insurers and reinsurers.** Aggregate industry data used for the study is from the A.M. Best Co.'s Aggregates and Averages. Reinsurance data is from the Reinsurance Assn. of America and from John R. Zech, who was president of American Independent Reinsurance Co. at the time of his death last year. Economic projections are from Data Resources Inc. The 36-page booklet is free from ISO's Corporate Communications Department, 175 Water St., New York, N.Y. 10038.

● The concerns of the Professional Insurance Agents of New England about **changes in the commercial general liability forms** are expressed in a "White Paper" on the Insurance Services Office's new CGL policies. Free copies are available from PIANE, 1 Ash St., Hopkinton, Mass. 01748; 617-435-6801.

● The Insurance Information Institute has released a revised and expanded edition of "Sharing the Risk." The 192-page book provides a wide range of **information about the property/casualty insurance industry.** The expanded edition includes a revised section on homeowners insurance and new sections on insurance career development, satellite insurance, financial guarantee funds, environmental pollution coverages, occupational diseases and the Insurance Services Office's new commercial general liability policy. Copies can be ordered for $4.95, or $3 for three or more, from the III, 110 William St., New York, N.Y. 10038.

● Step-by-step procedures for choosing **courses, programs, study methods and materials,** as well as registering for national examinations, are outlined in "1985-1986 Key Information," a booklet from the Insurance Institute of America. A "Self-Inventory for Prospective CPCU/IIA Students" is also included for students seeking educational counseling. Free copies are available from Field Services Department, The Institutes, 720 Providence Road, Malvern, Pa. 19355-0770; 215-644-2100. ■

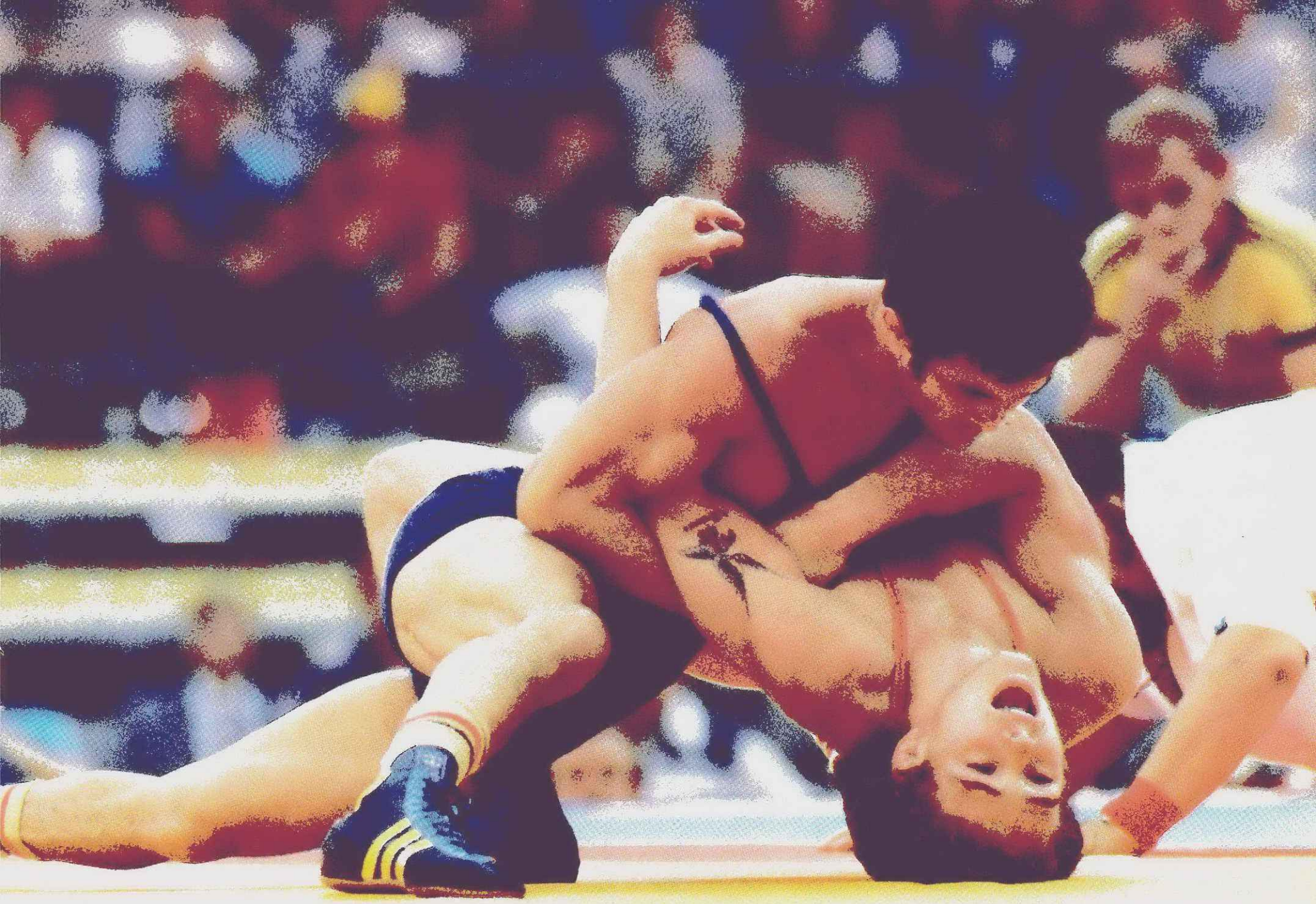


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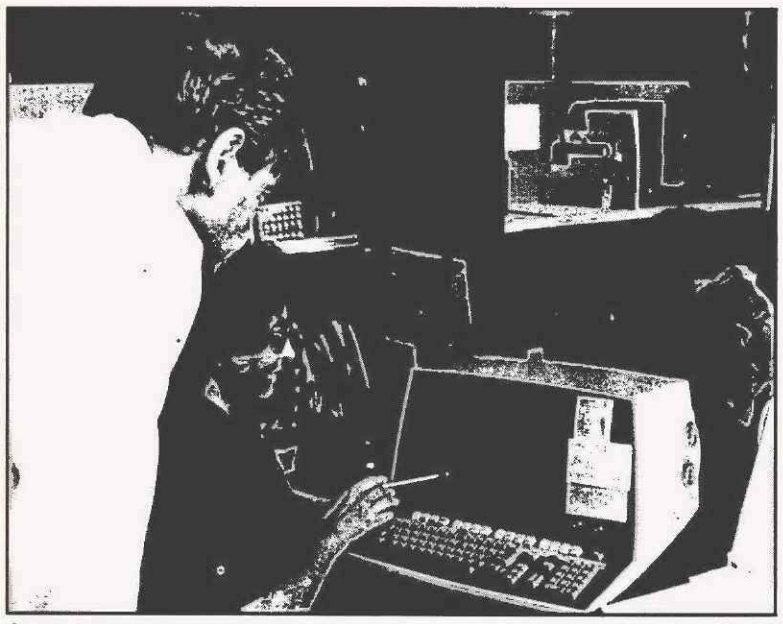
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Computerization helps Julia Birkenmaier tackle a problem with Michael Bergstein at the Popkin Lebson Bergstein agency.

Newfangled computer can aid agency's old-fashioned service

A/BT perspective

By MICHAEL BERGSTEIN

A NEW JERSEY insurance agency has discovered that automation can enhance a tradition of customer service.

Popkin Lebson Bergstein Inc., has emphasized old-fashioned customer service since it hung its shingle in 1974 in Tenafly, N.J. The agency took pride in providing the same prompt and conscientious service for comparatively small personal lines clients as for the commercial lines accounts that represent the bulk of PLB's business.

In 1979, seeking to streamline day-to-day operations in the steadily growing firm and to help agents maintain the type of service clients had come to expect, PLB ventured into the world of automation. The agency principals chose for software the Redshaw Comprehensive Insurance System and for hardware the Wang 2200MVP computer, a combination that could be readily expanded and enhanced as PLB continued to grow.

Today, PLB's premium volume has grown to almost $10 million, from $1.6 million in 1974, and serves about 5,000 clients—of which 65% are commercial lines clients—with the same personalized service that satisfied its first customers more than a decade ago. PLB attributes much of its success to the system and to the software vendor's commitment to maximizing interface capabilities.

Before acquiring the system, PLB used a glorified automated bookkeeping system. It was soon determined that a more advanced policy-based system was needed to handle every aspect of the business—policy processing, rating, marketing, accounting, word processing, etc.

Every type of automation equipment available at the time was studied, but, after a demonstration at the Redshaw offices in Pittsburgh, that system was chosen.



Mr. Bergstein

The vendor trained three employees in PLB's offices, and those employees in turn trained the others. The enthusiasm was contagious.

Initially all customer service representatives shared terminals, but before long the commercial lines department became bogged down and two terminals were added. Within the first week each customer service representative had a terminal, a dramatic boost in productivity was realized as all related documents were generated while the customer was still on the phone making his requests.

In addition, commission income, which averaged $30,000 per employee in 1978, the last full year without the system, had risen to $50,000 by 1980, the first full year on the system. And, in less than two years, the system had paid for itself.

Today with 16 workstations, each person working in the office has his or her own terminal and the sharp upturn in productivity continues.

Once automation was complete, interfacing, or direct communication with an insurer's computer, was the next logical step.

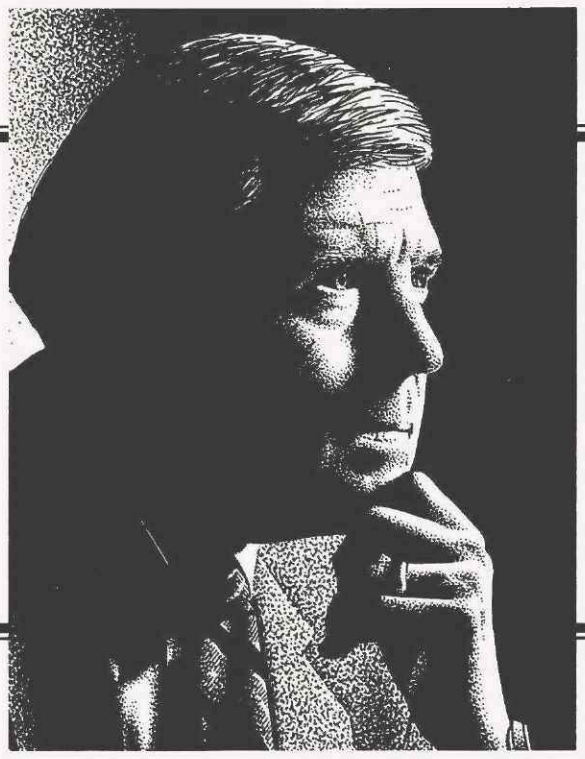
When Chubb Group asked PLB to be the pilot agency in its interfacing program, Redshaw made necessary adjustments to PLB's hardware and software and in 1984, after a year of setting up the interface, this message from Chubb appeared on a PLB terminal:

"Welcome to the world of agency/company interface...the first step in creating an exciting, new and more cooperative way of servicing our independent agency partners..."

The interface established was the batch method, in which information is stored for a specified period of time and then sent in one lump package. The agency noticed an immediate expedience in the work flow. All letters, standardized forms, policy information, claims and other correspondence between the agency and insurer—which traditionally took days or even months to relay and process—were transmitted to the proper office in a fraction of the time it would take by mail.

In addition to the increased speed, a tremendous savings in postage and supplies and greater control in underwriting soon were realized. And, once the initial equipment modifications and in-

Continued on next page



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Continued from previous page
vestments for interfacing were made to the system, it became possible to interface with many insurers because the Wang hardware is compatible with the IBM mainframes used by most insurance companies.

PLB subsequently established both a batch and an interactive interface, in which messages are constantly transmitted across telephone lines linking the computers, with The Hartford Insurance Group.

This is done without the need for any different terminals or procedures.

PLB began to interface with Chubb in 1984 and as of this year, the agency interfaces with Chubb, Hartford and St. Paul Fire & Marine Insurance Co.

In interfacing with Chubb, PLB goes through the Insurance Value Added Network Services.

IVANS has the capability to interface with 21 member insurance companies, and eventually PLB will be interfacing with many of these insurers as well (*A/BT*, Sept. 3, 1984).

The interfacing process did not go completely without a hitch, however, as PLB agents laughingly recall.

In the early days of the agency's telecommunication involvement, a repairman at Chubb put a telephone on top of the company's $6,000 translator unit, which linked it to PLB and eliminated language barriers by delivering messages in company- or agency-unique language.

Chubb's telephone rang, and the magnetic qualities of the telephone bell erased the memory of the translator.

Although PLB's system remained unaffected, virtual chaos prevailed for several weeks until the unit was replaced.

But, after the initial kinks of interfacing were worked out, PLB customers began to comment on the benefits they were seeing, including increased efficiency and promptness of service.

In addition, because of decreased document handling on the agent's part, accuracy in policy endorsements also has improved significantly.

PLB employees also noted that they were getting better service from insurers and that their own tasks had become less redundant because inputting, filing and transmittal were combined into a single step.

PLB employees also noted that they were getting better service from insurers and that their own tasks had become less redundant because inputting, filing and transmittal were combined into a single step.

This eliminated the need for frustrating double entry and "telephone chases."

Also, error correction and follow-up with the company were reduced.

And, morale improved because agents had more time to spend selling and servicing accounts.

Now when a client calls, the client can obtain quotes via the automation system with any number of variables or modifications for fire, workers compensation, commercial auto, special multiperil, comprehensive business or other lines of coverage.

Client consultation and new business proposals have also been improved.

And, because renewal and updating is more prompt and more accurate, interfacing even helps in the retention of business.

Interfacing gives PLB commercial rating capability with The Hartford and Chubb and through IVANS, and the agency sees the opportunity for a broad array of new markets to open in the future. In addition, PLB will have access to insurer's master files representing PLB clients.

And as interfacing becomes more common, it reasonably can be expected to help hold down the cost of insurance in general.

In the meantime, agents' commissions can continue to rise because the entire system will operate more efficiently on less processing time.

For the past year, PLB also has been using its computer to communicate with a London affiliate. A modem allows PLB to transmit messages with Western Union without a special (and costly) telex machine.

Today PLB is continually discovering new ways to increase efficiency through the use of its automation system.

In addition to the property/casualty business, the PLB Life Agency Inc., a division of PLB, also uses the system for all of its policy handling and marketing.

Also, through interaction with other agencies at users' group meetings, PLB is involved in sharing marketing ideas and in trying to establish a special electronic mail network through which agents can help other agents solve automation problems.

In the decade or so ahead, PLB expects to continue its rapid growth by applying the experience of its employees and the innovative strides constantly made in agency automation to give clients the individual and prompt service they expect, and to be the company partner that insurance companies value. ■

Michael Bergstein is a principal at Popkin Lebson Bergstein Inc., an agency in Tenafly, N.J.

E&O coverage

Continued from page 40G
benefit because the seminar may reduce the amount of claims filed against its policyholders, and the agents will benefit because they will gain added knowledge of the CGL forms to help their clients and themselves.

Mr. Kasyjanski explained the IIAA sponsors an agents E&O program insured through Employers Re that is available to individual state affiliates nationwide.

Some state associations that already have a good E&O program in place do not use the national program, he said.

The Employers Re requirement has sparked interest among other E&O insurers.

Utica Mutual Insurance Co. in New Hartford, N.Y., the underwriter of the agents E&O program sponsored by the National Assn. of Professional Insurance Agents, has not yet imposed a similar requirement on its agent policyholders.

But, Joe J. Thackaberry, senior vp of Shand Morahan & Co. Inc. in Evanston, Ill., the underwriting manager for the PIA-sponsored program, said "we are reviewing the possibility at this time" of implementing such requirements.

Mr. Thackaberry said 52% of the PIA's members purchase E&O coverage through the Utica Mutual program, which is offered to PIA agents nationwide. ■

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Ideas worth quoting.

MEMBER OF THE AMERICA GROUP

New England Mutual agents forming reinsurer

BOSTON—New England Mutual Life Insurance Co., in an effort to reward and retain top producers, is helping them create an agent-owned reinsurance company that will reinsure a portion of each producer's business.

Currently, 20 agents nationwide belong to National Marketing Associates, which will own the reinsurers, says Sheldon J. Caras, the insurer's senior vp-marketing. He said this number should triple soon.

The reinsurance company, still in the filing stages, is tentatively named Omega Reinsurance Co. The company will be domiciled in either New York or Massachusetts, Mr. Caras said.

New England Mutual has agreed to reinsure a portion of each of the producer's accounts with Omega. The agents will then split the profits of the reinsurer.

The advantages to New England Mutual include added business from participating agents and a quality book of business, since agents would participate in losses as well as profits.

NMA members will set their own requirements of the amount of premiums an agent must place with New England Life to be a member of the group. All members will be eligible to write business through other insurers.

Although no NMA members are predominately property/casualty producers, some have affiliations with property/casualty agencies, Mr. Caras said.

Although the agents belonging to the program will contribute capital for the reinsurer, New England Mutual is providing them with an investment loan to help them capitalize the company.

A/BT briefs

PIA report on banks

GLENMONT, N.Y.—If banks are permitted to write and sell insurance, customers seeking bank loans may be coerced into buying insurance from the bank, charges a report published by the Professional Insurance Agents of New Jersey.

"Banks, in their role as lenders, trustees and financial advisors, wield enormous power over their clients and have access to the most personal, detailed and sensitive information about their clients' financial status, business transactions and purchases," the report explains.

The 28-page report says existing provisions restricting banks' insurance activities should be strengthened and new legislation should be adopted to protect the public from unfair tactics by banks eager to enter the insurance industry.

A history of bank activity in the insurance industry is included in the report.

The report also contains statistics on the number of banks that have failed in recent years and points to bank failures as another reason that banks should not be permitted to enter the insurance arena.

Copies of the report are available for $2 each from the PIA of New Jersey, P.O. Box 98, Glenmont, N.Y. 12077; 518-434-3111.

NAIB relocates

WASHINGTON—The National Assn. of Insurance Brokers has relocated its headquarters to a new facility at 1401 New York Ave. N.W., Suite 720, Washington D.C. 20005.

The office's new phone number is 202-628-6700.

New IIA program

MALVERN, Pa.—The Insurance Institute of America has developed a new educational program, Supervisory Management, designed for managers who supervise underwriters, claims or data processing departments or agency office staffs.

The program consists of two courses, "Essentials of Supervision" and "Supervisory Skills."

After passing both exams, a student will receive the IIA's Certificate of Completion.

Life marketing report

NEW YORK—The insurance management consulting firm Russell Miller Inc. has released a report, "Life Insurance Marketing By Independent Agents," which explains life insurance marketing opportunities for property/casualty agencies.

According to the report, an independent agent "can reasonably expect to earn income from life insurance" equal to 25% of its commissions from property and casualty business.

The main factors that determine an agent's success in selling life products are the agency management's attitudes toward selling life insurance and the consistency of the agency's sales efforts, the report explains.

Statistics included in the report suggest that when agents sell life products to their property/casualty clients, they experience a better retention of business on those accounts, while increasing profitability of their agency.

The study also concludes that small agencies can be just as successful as larger agencies in the sale of life insurance products.

The marketing firm's research indicates that 91.4% of all independent agencies receive some sort of commission income from the sale of life insurance.

In addition, the report explains in detail how agents can prospect for life business, conduct a sales presentation and close a life insurance sale.

For more information on the study, contact Russell Miller Inc., 116 John St., New York, N.Y. 10038; 212-619-3670.

PIA hires senior vp

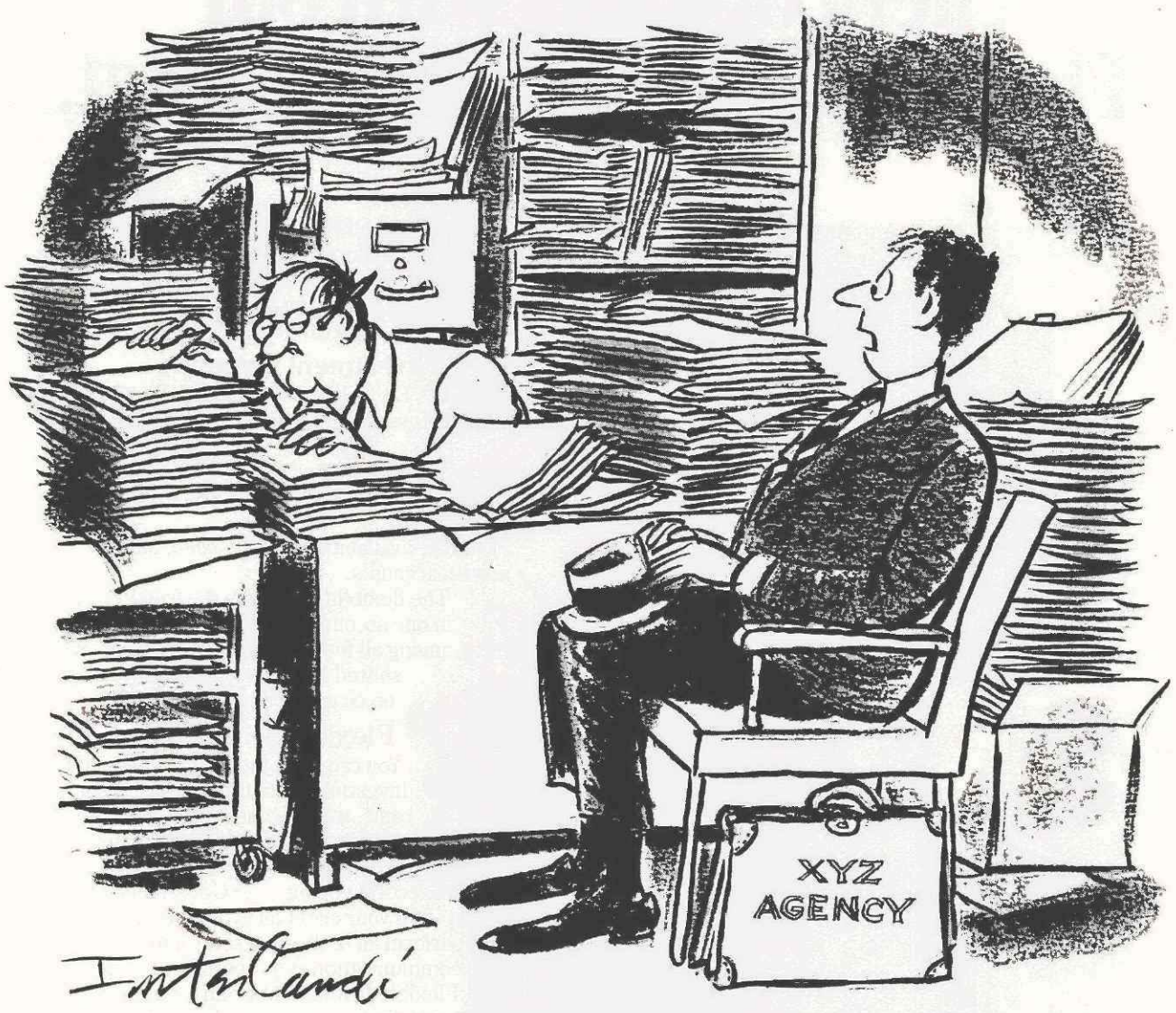
ALEXANDRIA, Va.—The National Assn. of Professional Insurance Agents has hired Mark W. Hurwitz as a new senior vp.

In the newly created executive position, Mr. Hurwitz will be responsible for the recently established Affiliations Division, which is designed to provide training and support to the PIA's 40 state and regional affiliates.

In addition, Mr. Hurwitz will oversee membership, marketing, education, conventions, personnel and data processing activities for the PIA's national office in Alexandria. ■

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NUA's Foss takes the lead with $10 million

By CAROL CAIN

CHICAGO—Most of the attention at the Illinois Insurance Exchange is focused on NUA Syndicate Inc., its $10 million capitalization and its president, Richard Foss.

NUA Syndicate, which opened for business in July, has brought new life to the seemingly stagnant exchange, brokers and other IIE underwriters say.

"We feel we'll be a major factor in the Illinois exchange. We'll bring in more people," Mr. Foss predicts.

In fact, other new IIE syndicates, eyeing NUA Syndicate's $10 million in capital, say they plan to add additional capitalization in the coming months (see story, page 39).

NUA Syndicate is a subsidiary of Chicago-based NUA Holdings Inc., which in turn is owned by London United Investments Ltd. The London company also owns H.S. Weavers (Underwriting) Agency Ltd., the well-known London-based underwriting agency.

NUA Syndicate will be managed by NUA Management Inc., the successor company to Mr. Foss' National Underwriting Agency Inc., whose activities are now limited to running off business it had written for Transit Casualty Co.

NUA Syndicate might never have come about without the faith of London United Investments in Mr. Foss, 51, a Chicago native who fell accidently into the insurance industry 26 years ago.

Mr. Foss recalled graduating from Wabash College in Crawfordsville, Ind., with degrees in English and psychology—and no job.

So, he became a rate clerk and subsequently an underwriter for Hartford Fire Insurance Co. Several years later, after a stint as an agency underwriter, Mr. Foss joined Royal Insurance Group, a subsidiary of Royal Insurance P.L.C. in London, where he began to build London contacts.

After 12 years with Royal, Mr. Foss in 1973 became head of the casualty department at Northbrook Excess & Surplus Insurance Co., a subsidiary of Allstate Insurance Group that stopped underwriting last fall (*BI*, Nov. 19, 1984).

In 1978, Mr. Foss left Northbrook to form National Underwriting Agency Inc., which wrote excess liability coverage for large accounts on behalf of Transit Casualty.

Late last year, however, Mr. Foss and National Underwriting Agency were forced to seek another insurer when Transit Casualty began to reduce the amount of business it wrote (*BI*, Nov. 26, 1984).

Then, early this year, Transit stopped accepting business from all MGAs, including Mr. Foss' agency (*BI*, Jan. 28).

"I contacted 77 different insurers to do business," Mr. Foss said. He was turned down by all of them.

"They were afraid to do casualty business or afraid of my large accounts or afraid of what I'd do... afraid that I was connected with two companies about to go out of business," he said.

Mr. Foss says, however, that problems at Northbrook and Transit Casualty are not his fault.

For instance, "At Northbrook, things were worse after I left, though they blame me for getting them into the large-account business," he said.

Unable to find a new insurer for National Underwriting Agency, he began talking to London United Investments, which had been one of Mr. Foss' principal reinsurers at Northbrook and had been one of the principal backers at National Underwriting Agency.



Photo: Carol Cain

Richard Foss wants a seat on the Illinois exchange's board.

"When I couldn't get an insurer, London said 'Why not do it ourself?' So London United Investments put up $10 million" to capitalize NUA Syndicate, according to Mr. Foss.

It takes much less time to set up a syndicate than an insurance company and National Underwriting Agency had been considering forming an exchange syndicate for some time.

NUA Syndicate was writing business about three months after the talks with London United Investments began.

"There are a lot of people out there trying to raise money to form a syndicate, and they haven't. But I know a lot of people. . .they believe in me," explains Mr. Foss, referring both to the financial support from London and his clients.

NUA Syndicate expects to become a lead at the exchange for large-account businesss. Although the syndicate will write a small amount of property insurance, it will primarily write excess liability insurance, excluding professional liability coverage.

"For the time being, I expect NUA Syndicate to be a leader in our specialty" of large accounts, Mr. Foss said.

"The reason we want a lot of capacity is to be able to set the price, become a leader.

"I will do 'my thing' to begin with, but as more capacity is added, NUA Syndicate can follow the other guys, like Biegler in railroads," he added, referring to LWB Syndicate Inc.

"We're starting off free and easy—no liabilities. We can use our capacity the way we want to use it," he said.

Mr. Foss says he plans to develop more syndicates—possibly three or four—on the IIE.

"We hope to have another by the end of the year," he said.

Potential investors for the new syndicates come from London, other European countries, California and Florida, Mr. Foss said, declining to elaborate.

Even though the minimum capitalization requirement for the IIE is $2 million, Mr. Foss has set a $10 million minimum for the new syndicates he will manage.

He predicts it will be only a matter of time before the three U.S. insurance exchanges increase the minimum capitalization required of syndicates.

Besides, he says, additional capacity at the Illinois exchange will make it easier for syndicates to purchase reinsurance.

"It's going to be a while before the exchange will be taken seriously" by reinsurers, he said.

Besides forming more syndicates and bringing more capital to the IIE, Mr. Foss says he and his backers might eventually form their own broker to place business on the exchange.

"We used to select our brokers very carefully. Now we have to deal with exchange brokers," Mr. Foss said.

"We have to sit and decide whether it's worthwhile to start our own exchange broker," he explained. An alternative would be for London United Investments' Dallas-based wholesale brokerage operation, Richard L. Jarrett Sr. Inc., to join the exchange.

Mr. Foss' ambitions at the exchange do not stop at NUA Syndicate. He also wants to be elected to the exchange's board of trustees next month, when four vacancies on the board will be filled.

"We have a capable operation here and I want to make sure the Illinois Exchange does as well as we can," he said. ■

The address came first—then the exchange

CHICAGO—A Chicago taxi driver who is asked to drive to 175 W. Jackson Blvd. is likely to answer: "Oh, the Insurance Exchange."

One might be impressed with what appears to be instant recognition of the 4-year-old Illinois Insurance Exchange. But chances are the cabbie is unaware that the 73-year-old Insurance Exchange Building houses the Illinois Insurance Exchange.

The advantage of the IIE's location in a building that has been the site of insurance-related activity since the early 1900s has not gone unnoticed by James M. Skelton, executive director of the IIE. He has lobbied to expand the exchange's offices within the building, rather than move to a new location.

Last month, all eight of the IIE's underwriting boxes were finally occupied and more room is needed for the anticipated additional syndicates.

"We are negotiating with the building management for adjacent space," Mr. Skelton said, Such an expansion would more than double the IIE's space and add at least eight more boxes.

Currently, the IIE is housed on the 12th floor of the 22-story Insurance Exchange building. The room, in mauve tones, resembles many of the other modern, modular offices in Chicago's Loop: suspended ceilings, carpeted floors and an array of plants.

This decor is in sharp contrast to what the 12th floor looked like in 1912 when the northern part of the Insurance Exchange Building was built. According to one reference book, the floor at that time housed the building's "ample toilet rooms, equipped with the most modern sanitary appliances (and) also a first-class barbershop."

The same reference source—The Chicago Central Business and Office Building Directory—listed as tenants several well-known insurers, agents, brokers and related associations, hence its name.

The roster of occupants in 1912 included Aetna Insurance Co., Fred S. James & Co., Travelers Indemnity Co. and the Chicago Board of Underwriters.

Non-insurance operations also were early tenants of the building, including engineering contractors, real estate agents, a typewriter supplier and a cigar store.

Today, the structure in Chicago's financial district still is the home of many insurance-related businesses, but there's also financial experts, accountants, attorneys, engineers and stockbrokers, said Bernard Smolensky, the building's general manager. ■

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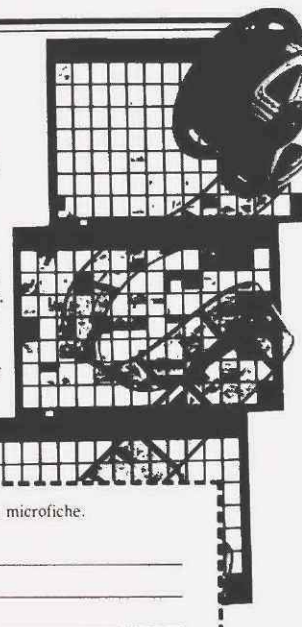
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Surplus lines brokers applaud Illinois exchange's new capital

By DIANE LYNN KASTIEL

CHICAGO—The tightening commercial insurance market is making the Illinois Insurance Exchange an increasingly viable—and valuable—market, exchange brokers say.

In addition, brokers say the 4-year-old exchange's major shortcomings—the need for additional syndicates, more capital and increased capacity—is a problem of youth that will soon be overcome.

For instance, brokers point to the three new syndicates with about $15 million in capitalization that began underwriting on the exchange this summer. In addition, three more syndicates have been approved by the exchange's board of trustees.

All six new syndicates will primarily write excess/surplus lines rather than reinsurance, which is exciting wholesale brokers.

"I think as more syndicates join, the exchange will become stronger and stronger," said Thomas O'Brien, president of Stewart Smith Mid America Inc., a Chicago wholesaler. "And, assuming the capacity problems continue, it may be one of the few viable markets left."

"I think it's going to be a very important market, particularly under the current hard market conditions," said Alison Renner, president of surplus lines broker A.J. Renner & Associates Inc. in Chicago, which joined the exchange last month.

"I think brokers will definitely be beating a path to the exchange's door as more syndicates join," Ms. Renner said. "Everybody has plenty of business—just no where to put it. That right there says exactly what's going on."

Ms. Renner and other brokers point out the Illinois exchange is a source of new capacity in the face of an increasingly barren insurance market. The IIE can currently provide aggregate capacity of $8 million per risk for liability lines, while it can write $2 million per property risk.



Mr. Ruhe

Brokers also say the formation of NUA Syndicate Inc., which is capitalized at a hefty $10 million and plans to write mostly excess/surplus lines business, is the shot in the arm needed to vitalize the exchange.

"The formation of the NUA syndicate is going to have a very significant, positive effect on the future of the exchange," said Dick Ruhe, president of broker Illinois R.B. Jones Inc. in Chicago.

"With the size of the (NUA) syndicate and its plans for future syndicates, it will be the beginning of meaningful capacity on the exchange and make it a viable exchange."

Illinois R.B. Jones has been an exchange broker for about three years, but has placed only about $300,000 in premiums with IIE syndicates so far, primarily for errors and omissions coverages, Mr. Ruhe said.

However, he said he expects to place between $750,000 and $1 million in premiums with IIE syndicates by the end of this year.

Ms. Renner also is particularly enthusiastic about the NUA syndicate.

"They're particularly creative. Their underwriter, Frank McGovern, is probably the most creative underwriter I know," said Ms. Renner, who added she brokered NUA its first piece of business—a product liability risk generating $100,000 in premiums.

"I would expect to place in excess of $10 million in premiums this year (on the exchange)," Ms. Renner said.

Dan Real, vp of broker New Amsterdam Excess of Illinois Inc. in Chicago, said he is attracted to the NUA Syndicate because it "is willing to write some of the tougher classes of business and tougher products," like liability coverage for chemical and pharmaceutical companies.

"We can go over there and on tough product risks get a $2 million line from the NUA syndicate," Mr. Real said. "And that's a good amount."

New Amsterdam had previously placed only about $50,000 in premiums with the exchange since it became a broker member in the summer of 1983.

However, it recently placed three policies totaling $500,000 in premium with the exchange, and Mr. Real said he expects to generate premium volume of $1 million to $1.5 million for the exchange this year.

"I would be disappointed if we did less than $2.5 million in '86—and 90% of that will be with the NUA syndicate," he said.

Even though the Illinois exchange is expected to evolve into an excess/surplus lines market from a reinsurance market, reinsurance intermediaries are not giving up their $1,000-a-year memberships on the exchange.

For example, reinsurance broker Triad Underwriting Management Agency Inc. in Chicago has placed little business on the exchange in the two years it has been an approved IIE broker and does not expect to place much business there in the future. Still, it plans to maintain its exchange membership, says Vp Ray Lloyd.

The capacity "has been less than we would like, but there's been times when the exchange made the difference in placing a risk," said Mr. Lloyd, who would not elaborate on how much business Triad has placed with the exchange.

Reinsurance brokers that tap the New York Insurance Exchange and The Insurance Exchange of the Americas in Miami more often than the Illinois exchange say they cannot afford to pass up the capacity that the IIE offers.

"Everybody needs additional markets, in this (hard) market in particular," said John Dore, president of CHUG Insurance Brokers Inc., a Chicago reinsurance intermediary.

CHUG joined the Illinois exchange in August even though "we don't plan to use it that often," Mr. Dore said.

Mr. Dore's company has been placing business on the New York exchange since 1980 and plans to continue to tap the NYIE more than the Illinois exchange.

"In a situation where you're trying to get as much capacity as you can, you will use them both (Illinois and New York). There are good people (at the Illinois exchange) and I wanted to have access to their reinsurance capacity."

Thomas Vinson, a broker for International Reinsurance Services, Inc. in Chicago, said that while he expects the reinsurance brokerage to place less business with the exchange as it becomes more of an excess/surplus lines market, its sister company, excess/surplus lines broker Avreco Inc., will increase its activity on the exchange this year.

"With the market changing the exchange will be much more viable than it was in the past, especially in the E/S marketplace," Mr. Vinson said. "I think we'll see Avreco placing more business there."

Both International Re and Avreco have been approved brokers on the exchange since it opened in late 1981, but they have placed no more than 25 policies totaling $500,000 in premium, Mr. Vinson said. Most of that business was brokered by International Re.

But, he said between $1 million and $1.5 million in premiums is "in the ballpark" of what he expects Avreco to place on the exchange this year.

"I think the future is a lot more promising than the past," he said.

The shift to excess/surplus lines business is affecting which brokers are the major players on the exchange.

According to James M. Skelton, the exchange's executive director, L.W. Biegler Inc., Stewart Smith Mid America Inc., Illinois R.B. Jones, Travis Pederson & Associates Inc. and A. J. Renner & Associates, all primarily excess/surplus lines brokers, are emerging as the most active brokers on the exchange.

In previous years, E.W. Blanch & Co., J.L. Kelley Inc. and Guy Carpenter & Co., all reinsurance intermediaries, were the most active, Mr. Skelton said.

"We used to have a lot more involvement over there," said Jack O'Reilly, vp of J.L. Kelley. "But, I see a reduction in capacity for reinsurance and the new syndicates that have opened up are writing direct. With the reduced capacity and a different thrust, we're doing less business there."

J.L. Kelley placed about $1.2 million in property/casualty insurance premiums with the Illinois exchange in 1984 Mr. O'Reilly said, but "as of Jan. 1, 1985, we're not doing very much."

Although he didn't have figures for all the brokers' offices, Mr. O Reilly estimated that Kelley's Chicago office has placed about $100,000 in premiums at the Illinois exchange, while it placed $500,000 in premiums at the New York exchange.

The New York exchange "is a lot more viable," Mr. O'Reilly said. "There are a lot more syndicates. I could probably get $5 million out of

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IIE brokers

Continued from previous page
there, depending on the account."

Other brokers echo Mr. O'Reilly's complaint that the Illinois exchange needs more syndicates to become a stronger market.

In fact, the only broker to withdraw from the Illinois exchange—Initial Underwriters Inc.—left because of a lack of syndicates.

"They need more syndicates to handle the types of specialty lines I'm interested in," said Thomas N. Trotter, president of the Mission, Kan.-based excess/surplus lines broker. "I could not find the coverage there I needed."

Initial Underwriters, which had attempted to place primary general liability insurance and property coverages for supermarkets, shopping centers and apartment buildings with the exchange since January 1984, never placed any business there and resigned its membership last month.

Still, Mr. Trotter said, "I think they have the making of a great market. If they can attract more syndicates, it can become a very viable and needed source for brokers nationwide. I told Jim Skelton I certainly plan to re-apply when they have facilities I can use."

In fact, Mr. Trotter, who says he is planning to form a risk-bearing company, says he may open a syndicate on the Illinois exchange.

"I would certainly go to the Illinois exchange before the New York exchange," he said, because of the Illinois exchange's shift to surplus lines insurance.

Other brokers would probably be happy to see Mr. Trotter bring another syndicate to the exchange, because it would strengthen the exchange's financial backbone.

"They have to entice more capital in there, either insurance company money or outside investors," said Mr. O'Reilly of J.L. Kelley.

Most brokers generally expect more syndicates to join the IIE, building the exchange's financial strength and capacity.

"Prices have gone up dramatically and the rates are there" to operate an IIE syndicate profitably, Mr. Real said. "Return on investment would be very high, I would think."

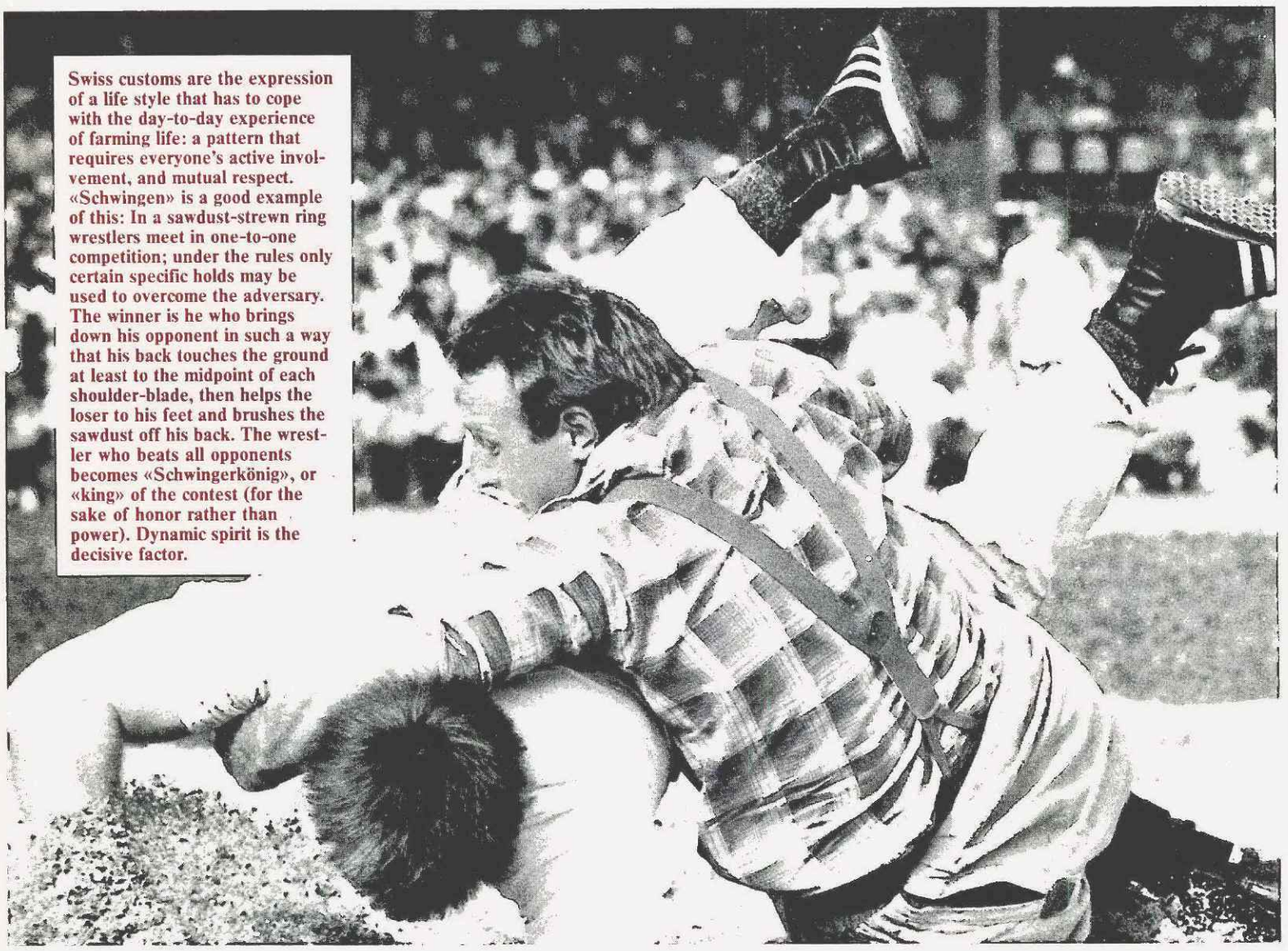
Although lack of capital—and therefore capacity—is by far the most pronounced of the brokers' concerns, they also have other suggestions for improvements at the Illinois Exchange.

"I would like to see the exchange pushing for status in the states where they currently aren't approved," said Ms. Renner. Because her brokerage serves clients around the nation, "for us, it's very important what its status is in other states."

Mr. Real of New Amsterdam Excess said he would like to see the Illinois exchange adopt more of a "lead" system, like that used at Lloyd's of London.

"I would like to see some recognition of a leader and a follower market," Mr. Real said. "When I go over there, there isn't that feeling that if one (syndicate) leads off a risk, the other ones would follow."

However, brokers are quick to add that these problems are minor—and they expect them to be resolved soon. ■



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Rising to the Challenge of Change

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Canadian exchange could open by spring

By MICHAEL BRADFORD

TORONTO—The proposed Canadian Insurance Exchange could write its first risks next spring with 20 syndicates and $100 million in capital in place, one of its supporters says.

But, there is a lot of work to be done and capital to be raised before the exchange could open.

Robert Hilborn, chairman of the Insurance Exchange Implementation Committee appointed by the Ontario provincial government earlier this year, explains the proposed exchange is intended to build insurance capacity in Canada (*BI*, May 20).

"We're in the process of determining where the investment is coming from, who the players are going to be," Mr. Hilborn says of the committee's role.

Although the exchange is intended to operate nationwide and would be empowered to write all types of risks, "The emphasis in the beginning will be on reinsurance because there is a need for it here," says Mr. Hilborn, senior vp at broker Johnson & Higgins Willis Faber Ltd. in Toronto.

In preparation for a 1986 opening, the implementation committee has hired accountant Touche Ross & Co. of Toronto to study the financing of the exchange's syndicates and tax implications, according to Mr. Hilborn. The Toronto law firm of Fraser & Beatty is handling the legal questions.

After the accountants' and attorneys' reports are completed, the implementation committee will present the findings to Ontario government officials. "The committee will go back to the government and say, 'Here is the plan,'" said Mr. Hilborn. The committee will explain how it perceives the exchange will operate, who investors will be and the financial implications of forming the facility.

If the government approves the committee's findings, legislation will be drafted to authorize the exchange's operation, and the exchange will begin to write bylaws and regulations.

Mr. Hilborn says the exchange will likely be a self-regulated market under the ultimate authority of Ontario's superintendent of insurance.

However, to write business on a nationwide basis, the proposed exchange must win authorization from all 11 Canadian provinces and territories, Mr. Hilborn said. He adds he is optimistic that the exchange will win the necessary approvals.

"I've talked to all the superintendents and taken questions. I can't see any resistance at all," Mr. Hilborn says.

Besides gathering support from local regulators, several task forces are meeting with risk managers, brokers and other members of the Canadian insurance industry to explain and promote the exchange concept.

A prospectus is also being prepared, mostly for the benefit of non-insurance investors, and should be completed this fall, Mr Hilborn says.

Potential syndicates on the Canadian exchange may be formed as corporations, partnerships or joint ventures, he explained, noting the exchange is seeking individual investors as well as corporations.

The exchange is also trying to attract foreign investors, he said.

Mr. Hilborn said he would like to see major corporate investors that could produce "new" capital for the exchange syndicates.

Unlike the New York Insurance Exchange, "we are encouraging new capital rather than recycled capital," said Mr. Hilborn, referring to the number of large insurers that have formed syndicates on the NYIE. But, he added, the large insurers that have expressed an interest in the Canadian exchange and are welcome to form syndicates.

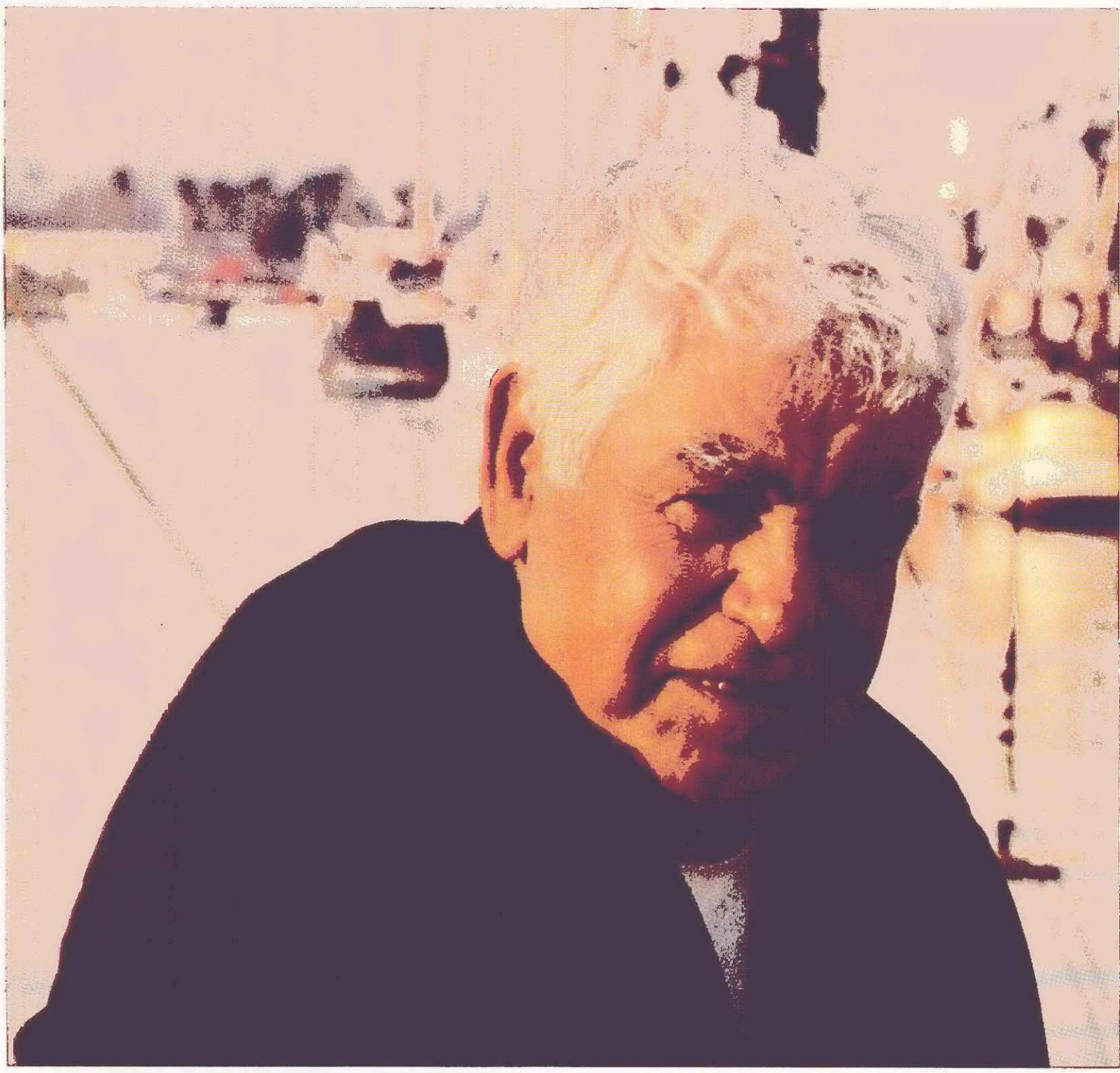
A syndicate formed by a non-insurance corporation could serve as an alternative to forming an offshore captive, he noted.

While the exchange's regulations have not been finalized, Mr. Hilborn noted that syndicates probably would be required to have $5 million in initial capital. "It would have to be enough to make it worthwhile for the large brokers to bring their risks to the marketplace."

Of the initial capital, $500,000 probably would be the required contribution to the exchange's guaranty fund, said Mr. Hilborn. The fund would also be supplemented by a yet-undetermined premium charge, he said.

The exchange will be open to any brokers licensed in Canada. However, that doesn't mean an eligible broker automatically will be accepted for membership by the exchange, he says.

"He would still have to meet the funding requirements and be approved by the exchange," Mr. Hilborn says. ■



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Former IEA chief creates Dallas 'bourse'

By MICHAEL BRADFORD

DALLAS—Alan Teale, former president of the Insurance Exchange of the Americas, is venturing into new but yet not quite unfamiliar territory.

Mr. Teale has created a marketplace or "bourse," as he calls it, in Dallas that operates similarly to the three insurance exchanges in the United States.

Like an exchange, the bourse will serve as a central marketplace where underwriters band together under one roof, sharing costs and risks. However, unlike an exchange—which cannot be formed under Texas law—the members of the bourse will not hold themselves out as one marketplace for purposes of seeking regulatory status in other states.

The bourse, according to Mr. Teale, will provide brokers with substantial capacity, lower operating costs and easier negotiations with underwriters—advantages found in traditional exchanges. "The aim is to get as many pens in one place as we can," he noted.


Mr. Teale

Companies underwriting as part of the bourse will rent space and pay fees according to an amount calculated to cover their costs, said Mr. Teale. The charges will be paid to Underwriting Management Corp., which was formed to provide services to bourse members.

Eventually, a board of governors will be elected to govern the marketplace and will have supervisory powers, like an exchange board of governors, Mr. Teale added. They will be responsible for establishing rules applying to the bourse and fees.

Mr. Teale, who has been the brains behind the bourse, also is chief executive officer of Lloyd's U.S., the first company to operate in the bourse.

Lloyd's U.S. will contain "underwriting members," which will function essentially like syndicates on an exchange, accepting and rejecting risks for their own accounts.

The first underwriting member of Lloyd's U.S. is made up of 10 investors, each of which has provided $50,000 in capital.

The investors are individuals who have used their own money to fund the first underwriting member, Mr. Teale says.

James Howard is president of the new company.

Lloyd's U.S. is in no way related to Lloyd's of London. The Texas company was formed under Chapter 18 of the Texas Insurance Code, which allows the formation of "Lloyd's plan operations" in the state.

According to an official at the state's Department of Insurance, such operations are styled after operations at Lloyd's of London in order to allow underwriters to band together and share risks.

There are currently around 75 such Lloyd's plan operations operating in Texas, according to the Insurance Department spokesman, and applications are pending for several more.

An advantage to a Lloyd's plan operation, according to Mr. Teale, is that it traditionally has been allowed to write at less than filed rates on property risks.

Underwriters' contracts are bound by an attorney-in-fact, which each Lloyd's plan is required under Texas insurance law to employ. The attorney-in-fact serves as an "underwriting manager" for the individual underwriters, much like a management agency would for a traditional exchange syndicate.

Underwriting Management Corp. will act as attorney-in-fact for Texas Lloyd's members that join the bourse.

Mr. Teale says Lloyd's U.S. differs from other Lloyd's plan operations in Texas because it has individual investors who have formed partnerships. Other Lloyd's plans in Texas have been formed by large corporate investors.

"We've taken a Texas Lloyd's company and interested individual investors," Mr. Teale says. "It's a good way for investors to get into the insurance business."

Lloyd's U.S. is an admitted carrier in Texas and apart from writing standard business there, also is approved to write reinsurance and foreign risks, marine and aviation coverages.

Lloyd's U.S. began underwriting property damage risks in August with the total $500,000 in capital, Mr. Teale said.

He said he expects the company's capital to triple "within the next few months," when additional underwriting members join his company.

"We're in the final throes of forming two more," says Mr. Teale. He adds that one will be made up of five investors and the other will likely be funded by a single investor.

Mr. Teale could not calculate gross premiums generated by the initial business written by Lloyd's U.S., but said he expects the company to write around $5 million by the end of the year.

As capital is added, "across-the-board property/casualty business" will be accepted, he says, adding that Lloyd's U.S. will also soon be issuing excess-of-loss reinsurance contracts.

Because the company is so new, he says, underwriters are still being trained. He did not release the names of underwriters at the company.

While he says business is being produced by Texas agents approved by the company, he would not release names of those who have already placed coverage. "It's just too premature," he says. "We're still busy training people."

He did say, however, that five agencies approved by Lloyd's U.S. have been offered "associate memberships" that are similar to the arrangements made by brokers to become members of traditional exchanges.

Those agencies will pay a $500 initiation fee and $1,000 in annual dues to the service company.

Eventually, member companies of the Texas bourse will only be able to write business produced by associate agencies.

"We're terribly anxious not to make any mistakes," Mr. Teale remarks, referring to premature comments regarding similar efforts to develop the bourse concept in Atlanta (*BI*, July 23, 1984). Those reports, he said, slowed the effort.

Right now, Lloyd's U.S. is the only company occupying space in

Continued on next page



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Dallas bourse

Continued from previous page
the bourse's underwriting room, which was still under construction as of mid-August.

However, "we have been talking to a number of other companies that want space there, and that is the next thing we have to concentrate on," Mr. Teale said.

Looking toward the future, Mr. Teale envisions an underwriting room filled with insurance companies—Lloyd's plan operations or otherwise—independent of each other, but working alongside one another, sharing risks.

Also, Mr. Teale said he expects Lloyd's U.S. to work closely with the IEA in Miami and is spending time on "big negotiations" with underwriters there.

"We expect to write some reinsurance for the exchange syndicates and will introduce some business to the exchange and reinsure it back to Texas," he said.

'The aim of the bourse is to get as many pens in one place as we can,' Mr. Teale says.

He said coverage written by Lloyd's U.S. will be heavily reinsured and that reinsurers "are being lined up."

Although Mr. Teale said he plans to maintain business ties between the exchange and the new marketplace, IEA officials contacted by *Business Insurance* were mostly in the dark as to what his bourse concept was all about.

IEA officials contacted said they had received a notice that his Dallas company was operating but, apart from that, didn't know how it might interact with the IEA.

IEA officials remarked only that they thought the bourse concept Mr. Teale originally had planned for Atlanta "was dead" and that he had started something similar to the marketplace proposal for that city in Dallas.

Mr. Teale, who had been director of the British Insurance Brokers Assn. before taking the reigns at the IEA in 1981 to oversee the exchange's development, stepped down as president of the IEA in May 1984 upon expiration of his three-year contract. But, he's still active on the exchange placing risks there as vp of Patrex Inc., a member reinsurance broker headquartered in New York, and as an associate broker with Davis Marine Insurance Agency, a member broker in Miami.

During Mr. Teale's tenure with the IEA, he established himself as a promotions man and was described by one broker as being "the motor that got the exchange running." However, some of his projections for the facility were somewhat lofty and the IEA fell short of some of his expectations.

For example, he predicted that by 1984 the Miami-based exchange would have 40 syndicates capitalized at $100 million. There turned out to be 15 syndicates fully capitalized at a total of $25.5 million (*BI*, July 23, 1984).

Some have said Mr. Teale's contract was allowed to expire so that an "operations man" could take the IEA helm. That man turned out to be Arturo Toro, the current president.

"I left the exchange because my contract was up on the 31st of May," Mr. Teale says in response to the speculation. "That was fixed before I ever came over. It was known beforehand."

At the time he left the IEA, he announced his plans to develop a bourse in Atlanta.

However, negotiations there went much more slowly than similar dealings going on at the same time in Dallas.

"We got a long way (in Atlanta) and suddenly found inquiries in Dallas started moving quicker. We had thought there would be less willingness to start something new in Texas," Mr. Teale said.

However, the Peach State is still ripe for a bourse of its own, he says. "We'll be back in Atlanta. Negotiations there will be reopened in Atlanta at the first possible opportunity."

He added that talks with investors in Atlanta could restart as early as this fall.

And, Mr. Teale predicted that bourses will spring up in other states as well, although it may take time before they do. It is a complex procedure to form such a marketplace, he says, "making sure you are in total compliance with insurance law. We're going to be cleaner than clean." ■

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Lloyd's of London

London underwriters get tough with U.S. companies



Photo: Neils Obee

Underwriters and brokers at Lloyd's of London each day scan summaries of catastrophes to determine what effect the losses will have on the market.

By STACY SHAPIRO

LONDON—The importance of Lloyd's of London in the world insurance market is painfully obvious to U.S. corporations.

Spurned during the last year by U.S. insurers that are refusing new or renewal business or outright canceling policies midterm in an effort to stem mounting underwriting losses, U.S. corporations are pounding on Lloyd's door.

"The increase in North American business is staggering," says Richard Bowes, deputy chairman of Lloyd's broker Willis Faber P.L.C.

"There are three to four times as many risks coming in from the U.S. as there were a year ago," says Sean McGrath, assistant director of Bowring Non-Marine Insurance Ltd.

However, it is estimated that only about half of those risks are being accepted by underwriters at Lloyd's, and rates are up as much as 600% in the London market compared with what was paid in the U.S. market last year. In addition, the London market—including Lloyd's—is setting tough restrictions on its underwriting.

Still, more than half of Lloyd's annual premium volume is generated from the direct coverage or reinsurance of North American risks. In 1982, the latest year for which accounts are closed at Lloyd's, it is estimated Lloyd's generated 2.875 billion pounds in net written premiums ($4.7 billion at year-end 1982 exchange rates). Total premium capacity for 1985 is $6.7 billion pounds ($7.8 million at Jan. 1 rates).

About 60% of Lloyd's premium volume is generated from reinsurance as opposed to direct primary and excess coverage.

Lloyd's functions as a surplus lines insurer in all states except Illinois and Kentucky, where it is licensed.

Although Lloyd's only provides 2% of the non-marine capacity worldwide and is generally tapped only by major U.S. corporations, the market often dictates the terms on policies. And, because of the expertise of its underwriters, its overall influence in the insurance market easily outweighs its capacity.

The crunch of U.S. business returning to Lloyd's "started in the third quarter of 1984," said Richard Drain, director of Lloyd's broker Alexander Howden Ltd. and chairman of Howden's casualty division.

"Jan. 1, 1985, was bedlam because U.S. insurers could not complete their reinsurance. It really triggered business coming back to London. The U.S. insurers unleashed their accounts, and we haven't seen a slack in the business coming back since," said Mr. Drain.

Lloyd's brokers say Fortune 1,000 companies are leading the stampede back to the London market after abandoning Lloyd's and other London companies in the late 1970s in favor of the cheaper rates offered by U.S. insurers.

At the front of the pack are U.S. pharmaceutical, oil and chemical companies, which frequently in the past have turned to Lloyd's with their hard-to-place risks. In addition, clients Lloyd's hasn't seen in years—like U.S. universities, railroads and food manufacturers—are looking for coverage in London.

Although London has traditionally been a market for excess coverage, it is now being tapped for primary general liability and property coverage in addition to excess layers. London underwriters are also being asked to write bankers blanket bond policies for financial institutions, directors and officers liability coverage and a wide range of professional liability coverages, including medical malpractice insurance.

"On Jan. 1, 1984, there were no queues to see the underwriters," said Mr. McGrath of Bowring. "Now at Sturge (R.W. Sturge & Co.), you can wait up to two days to see the underwriter.

"A broker I know had to go to Sovereign Insurance Co., managed by Willis Faber. He got there at 5 in the morning to see the underwriter. But there were already two people ahead of him—in sleeping bags."

Some would argue that the wait is worth it.

Lloyd's, an insurance marketplace since the late 1600s and now the center of the London insurance market, provides the best security in the world and has some of the most professional underwriters in the insurance business, Lloyd's observers stress.

"If I were a risk manager today, I would start in London and then I would look elsewhere," said Dennis Mahoney, co-chairman of Howden. "Lloyd's is a good sounding board for rating, policy wordings and terms. It has more expertise than anywhere else in the world."

Lloyd's is made up of four main markets—marine, non-marine, aviation and motor—but North American commercial clients do not tap the motor market, which primarily writes personal automobile coverage in the United Kingdom.

Of the three other markets, the non-marine market—the main source at Lloyd's of the hard-to-find liability and property coverages sought by North American

Continued on next page

'Know your Lloyd's broker,' risk managers told

By STACY SHAPIRO

LONDON—"This is the most telling time for risk managers to know their Lloyd's brokers," says Richard Drain, director of Lloyd's of London broker Alexander Howden Ltd.

Submissions from U.S. corporations looking for coverage in the constricted insurance market are pouring into Lloyd's, but the market is writing less than half the U.S. business it is shown.

While there are 258 Lloyd's brokers from which a U.S. risk manager or broker can choose, not all of them can do the job, Mr. Drain says.

"You must have excellent, sophisticated placements to succeed, and there are only six brokers in London who can do that," he explains.

Although Mr. Drain would not identify the other five, he does include Howden—the wholesale brokerage arm of Alexander Howden Group P.L.C.—among this elite category.

Like the lengendary phoenix, Howden has escaped the fire of scandal to spark new energy and create new business for its parent, Alexander & Alexander Services Inc.

Since June 1984, Howden has hired 115 new brokers to build the expertise it needs to place corporate clients' business at Lloyd's, says Dennis Mahoney, Howden's co-chairman.

"We bought what we needed," said Mr. Mahoney. "We looked for people from places like Willis Faber, Sedgwick and Bowring because they had good training."

Mr. Mahoney himself formerly was with Sedgwick Group P.L.C.

10 largest Lloyd's of London brokers

(Based on 1984 gross revenues)
(In millions of dollars)

Name	Gross revenues	Employees	American Affiliate
Sedgwick Group P.L.C.	$286.8	6,320	Fred S. James & Co. Inc.[1]
Willis Faber P.L.C.	177.8	3,300	Johnson & Higgins[3]
C.T. Bowring & Co. Ltd.	133.4	3,500	Marsh & McLennan Cos. Inc.[1]
Hogg Robinson Group P.L.C.	109.0	3,779	Republic Hogg Robinson[2]
C.E. Heath P.L.C.	104.0	1,200	None
Minet Holdings P.L.C.	102.7	2,637	Corroon & Black Corp./St. Paul Cos. Inc.[4]
Jardine Insurance Brokers	98.9	2,300	Jardine Insurance Brokers[2]
Stewart Wrightson Holdings P.L.C.	88.6	2,521	Stewart Smith Holdings Inc.[2]
Alexander Howden Group P.L.C.	60.5	2,370	Alexander & Alexander Services Inc.[1]
Bain Dawes P.L.C.	45.4	1,644	None

[1] U.S. parent company [2] U.S. subsidiary [3] No ownership interest [4] U.S. shareholders

The strategy is paying off. Howden has placed $125 million in new annual premiums this year, says Mr. Mahoney.

Howden also is growing as it absorbs employees in the London office of Reed Stenhouse Ltd., the Canadian broker that recently merged with A&A. In all, Howden now employs 505 people in London.

As a result of the Reed Stenhouse merger, Howden now has one of the finest aviation departments in London, boasts Mr. Mahoney.

"We are building a major broker in London," he says. "The effect on A&A is going to be dynamic."

This is not the same Howden A&A purchased three years ago only to have A&A allege later that several Howden directors had misappropriated $55 million of corporate funds. Nor is it the Howden whose underwriting units cost A&A hundreds of millions of dollars.

Rather, this is a new Howden, in a new building in the plush but practical Cartwright Gardens, away from its old offices on Billiter Street.

"We left a lot of ghosts at Billiter Street," said Mr. Mahoney.

"Nobody throws the name Howden at us anymore," adds Mr. Drain. "We are more successful because we are hungrier. We are building something special in the long term."

Howden receives business from the major alphabet brokers in the United States, including A&A.

"But we are no soft option for A&A. They have to convince us why we should take their business and vice versa," says Mr. Drain.

Howden generated $60.5 million of A&A's consolidated gross revenues of $576 million in 1984, which would make Howden the ninth-largest Lloyd's broker.

Howden has 2,370 employees, including its underwriting subsidiary and reinsurance division.

Another Lloyd's broker that is standing out with its American parent is Leslie & Godwin (Holdings) P.L.C., the wholly owned subsidiary of Frank B. Hall & Co. Inc.

Last year, Leslie & Godwin was the most profitable operation of the Hall group, which dropped to fourth place from third in the *Business Insurance* survey of the 20 largest U.S. brokers (*BI*, June 24).

Hall reported an operating profit of $10.6 million on $39.1 million in net commissions and fees for its British operation, or a 27% return, compared with an operating profit of $49.5 million on $282.8 million in commissions and fees in the United States, a 17.5% return.

Leslie & Godwin was a "weak company" when Frank B. Hall took it over seven years ago, but since then the group has come into its own, says Bob Topple, chairman of Leslie & Godwin, which celebrates its 100th anniversary this year.

Leslie and Godwin is anticipating 1985 gross revenues of 36 million pounds ($50.4 million) and a pretax profit of 8.2 million pounds ($11.5 million).

About 20% of Leslie & Godwin's revenues come from Frank B. Hall-brokered business.

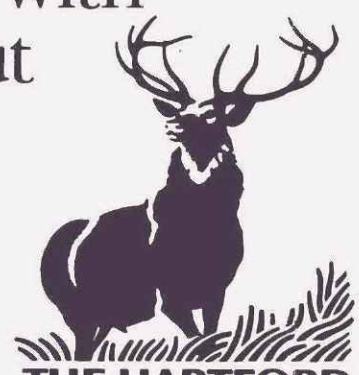
Leslie & Godwin also flies brokers to Hall's U.S. offices to work with Hall staff members to put together insurance programs, providing added expertise risk managers may need, says Mr. Topple.

"Our North American account may grow

Continued on page 60

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Lloyd's of London

Continued from previous page
corporations—derives the largest percentage of its premium volume from North American risks. The non-marine market is also the largest at Lloyd's in premium volume written.

More than 70% of the Lloyd's non-marine market is North American business, says Richard Hazell, chairman of Lloyd's Non-Marine Underwriters' Assn. (see story, page 58).

However, that percentage could shrink in the future, despite the rush of U.S. business to London. Lloyd's is declining a larger percentage of new U.S. liability risks because of the losses they are producing. And, they fear more losses in the future because the legal climate in the United States seems to churn out more and more losses.

"American casualty business is such a suspect market that few people are setting themselves up with it," said Mr. Hazell.

'We haven't had a crunch like this since 1967,' says John Pryke, director of C.E. Heath & Co.

In the aviation market, about 50% of the premium is attributed to North American risks. Overall, the market represents about 20% of the world aviation insurance capacity.

However, Lloyd's had more aviation business from North America 10 years ago than it does now due to the competitive rates in the U.S. market (see story, page 56).

While the Lloyd's marine market is the largest in the world with 40% of the world's marine insurance capacity, less than 25% of its premium volume comes from U.S. risks because most of the world's shipping industry is based outside the United States.

American oil companies are the marine market's biggest U.S. customers (see story, page 57).

Exactly how much insurance U.S. corporations will find at Lloyd's is unclear.

Capacity is shrinking in the London market, which includes Lloyd's and non-Lloyd's underwriters. Some say capacity at non-Lloyd's insurance companies is down by 50% over the last 12 months. Insurance Corp. of Ireland has cut back drastically on underwriting and British National Insurance Co. Ltd., Mead Reassurance S.A. and Ancon Insurance Co. (U.K.) Ltd. are no longer underwriting at all.

As a result, Lloyd's is under more pressure to take the North American business coming into London. But, coverage from Lloyd's is not necessarily assured.

First, the Lloyd's syndicates must secure adequate reinsurance for next year.

Normally, Lloyd's syndicates place their reinsurance in the London excess-of-loss reinsurance market—called the "LMX" market—and with North American reinsurers. But, the severe contraction of these two markets is expected to cut Lloyd's capacity next year.

Currently, Lloyd's syndicates can write up to 30% above their stamp capacity, with proper reinsurance.

Reinsurance worries are expected to force Lloyd's underwriters to postpone writing 1986 policies.

"We would normally start underwriting for 1986 beginning in September," said John Pryke, director of C.E. Heath & Co. (Underwriting) Ltd. and underwriter for Syndicate 404, the fourth-largest non-marine syndicate at Lloyd's in 1984.

"But, people are most concerned about their reinsurance, so it probably won't be until late November that anything starts to move," he said. "We haven't had a crunch like this since 1967."

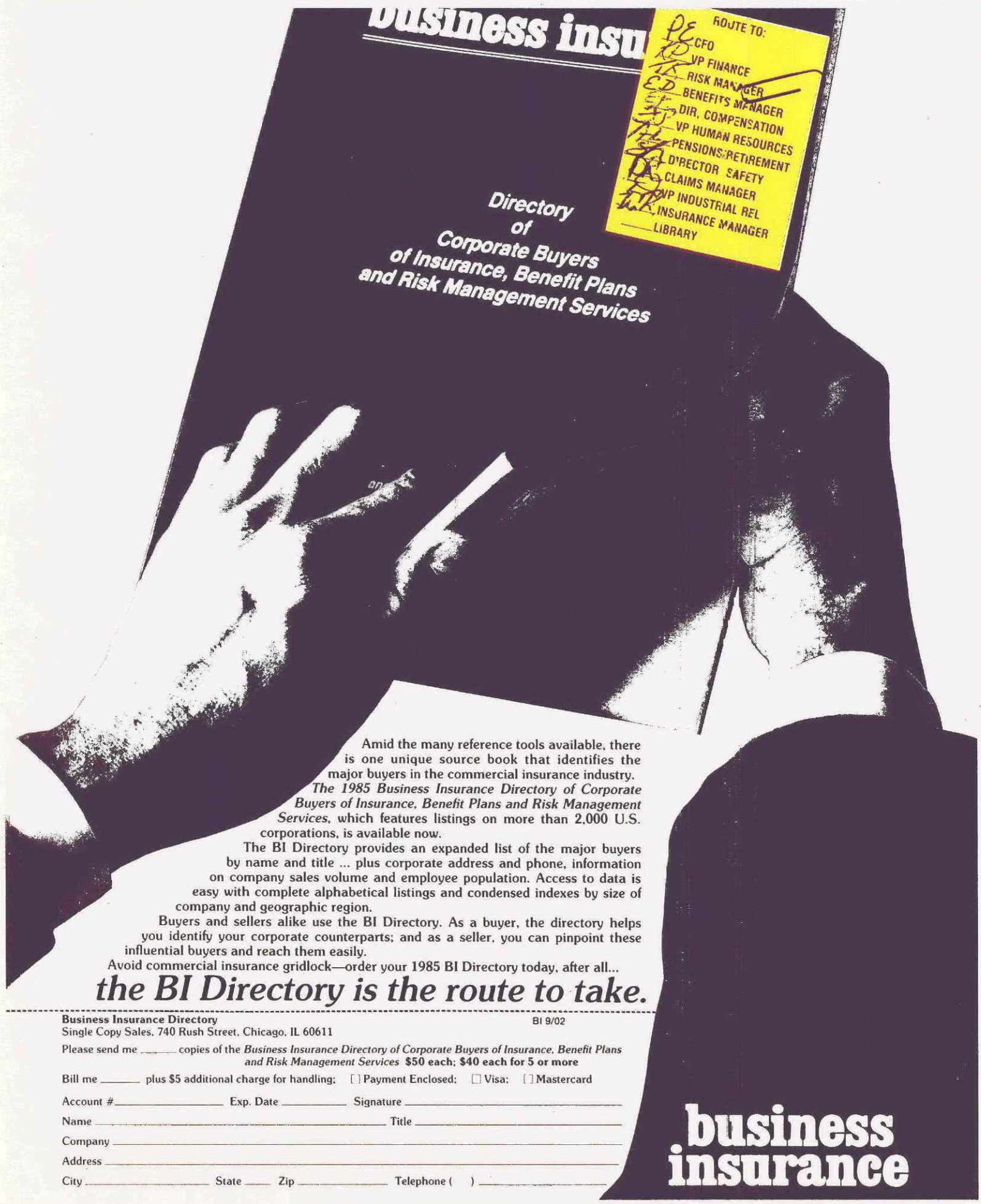
In addition, the currency rates of the U.S. dollar and the British pound on Jan. 1 will reduce the amount of dollar-based premiums a syndicate can write for the rest of the year.

Lloyd's syndicates base their exchange rate for the year on the rate as of Jan. 1. This year, the Jan. 1 rate was $1.16 to the pound, the strongest dollar on record. Therefore, writing U.S.-dollar business eats up a Lloyd's underwriter's capacity quickly.

Currently, the exchange rate is hovering near $1.40 to the pound.

As a result of the capacity problems created by Lloyd's official exchange rate, Lloyd's underwriters are being very selective.

Continued on page 54



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Lloyd's of London

Continued from page 52

For example, the third-largest non-marine syndicate at Lloyd's, Syndicate 190, underwritten by Mr. Hazell, decided in mid-March not to underwrite any new business this year, restricting itself to renewal business.

"We are seeing an awful lot more business from North America now in the market, but we (as a syndicate) are in the happy position of not seeing it because we have already filled up our premium limits," Mr. Hazell said.

The largest non-marine syndicate—Syndicate 799 underwritten by Robin Jackson, director of Merrett Syndicates Ltd.—also restricted the amount of business it would accept this year because of the exchange rate.

The syndicate, the leading market at Lloyd's for medical malpractice reinsurance, stopped underwriting excess-of-loss reinsurance for new clients, restricting itself to renewal business.

'I double the premium and they still come back,' according to one London underwriter.

"Underwriters are not going to write more than 40% to 50% of the U.S. business being shown. You must have excellent, sophisticated placements," warns Howden's Mr. Drain.

In addition, underwriters are setting restrictions on the coverage they will write.

For example, underwriters will only consider writing umbrella coverage with limits of at least $1 million per occurrence and $2 million aggregate.

Although underwriters in the London market formerly wrote 100% of a $100 million umbrella policy, underwriters now will only quote a share on certain layers of the umbrella coverage. And, the maximum London underwriters will write on any one risk is $50 million.

Rates are also up substantially for both property/casualty coverages.

Rates for casualty coverage can be 300% more than the rates charged by the London market in 1979, when many U.S. risks abandoned London for the cheaper rates in the U.S. market, or 600% more than the rates quoted by U.S. insurers last year.

Property rates can be double what they were in the U.S. market last year.

But, higher rates apparently don't daunt those hungry for coverage.

"I double the premium and they still come back," one underwriter says. "Even if I tripled the premium, they would come back."

Like other insurance markets, Lloyd's is also dealing with the problem of mounting losses.

In its global results for 1982, which will be released later this week, Lloyd's is expected to post a profit estimated at only 64 million to 80 million pounds, compared with 151.9 million pounds in 1981 and 263.8 million pounds in 1980 (see story, page 62).

Under Lloyd's three-year accounting system, the market does not release its financial results for three years after the end of an accounting year to allow time for claims to be reported.

U.S. liability claims are being blamed for most syndicates' losses in 1982. The largest losses stem from professional liability claims, false-arrest claims covered under municipal liability policies, pollution losses and asbestos injury claims.

For example, Lloyd's underwriters are reserving up to $188 million to pay for the cleanup of waste sites in Colorado and California. Shell Oil Co. is suing 270 of its liability insurers—including Lloyd's—to pay these cleanup costs (*BI*, April 22, 1983; Nov. 7, 1983; May 20; Aug. 26).

Several syndicates reported severe losses for 1982, the largest of which were reported by syndicates that in 1982 were managed by the now-defunct PCW Underwriting Agencies Ltd, a unit of Minet Holdings P.L.C.

The syndicates face up to 130 million pounds ($182 million) in losses for the years 1979-82. The losses stem primarily from long-tail U.S. liability claims.

Members of the PCW syndicates were asked to pay 62 million pounds ($86.8 million) this year to cover those losses. But, by the

Continued on next page



"CONTRARIWISE,"
SAID TWEEDLEDEE,"IF IT WAS SO,
IT MIGHT BE; AND IF IT WERE SO,
IT WOULD BE; BUT AS IT ISN'T,
IT AIN'T. THAT'S LOGIC."

Unfortunately, too much of that kind of logic has crept into today's interpretation of reinsurance agreements. Traditionally, solving reinsurance questions has involved the principle of "utmost good faith" and "what is fair" by which both parties are bound. However, in an increasingly complex reinsurance marketplace traditional "handshake" agreements have given way to government guidelines and regulation and it has become evident that reinsurers and intermediaries must face the fact that compliance with more and more regulation is the new way of doing business.

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Lloyd's solvency deadline of July 31, 325 members had not shown they could pay this money, forcing Lloyd's to set aside 58 million pounds ($81.2 million), more than one-third of its Central Fund, to pay for losses.

Syndicates 418 and 422, managed by Merrett Syndicates Ltd., posted losses of 6.4 million pounds ($8.96 million) for the 1982 accounting year, the first time in 25 years that the syndicates have posted a loss.

Together with Merrett-managed non-marine Syndicate 417 and incidental non-marine Syndicate 417, Merrett syndicates reported total losses of about 11 million pounds ($15.4 million) for the accounting year 1982 (*BI*, July 22).

Regulatory problems and scandals also have haunted the Lloyd's market the last couple years, but Lloyd's is taking steps to prevent similar problems in the future.

In the last year, Lloyd's finally put to bed disciplinary proceedings against four former directors of Alexander Howden Group P.L.C. and Ian Posgate, former underwriter for marine syndicates managed by Howden; ex-underwriter Peter Dixon and other directors of PCW Underwriting; and the underwriters of Brooks & Dooley (Underwriting) Ltd.

These cases involved the misappropriation of a total of more than $100 million of syndicate reinsurance funds into offshore companies that ultimately benefited some of the accused.

To prevent similar problems in the future, Lloyd's:

- Hired a chief executive, Ian Davison, to watch over the market.
- Requires managing agency directors to disclose their personal interest in companies with which syndicates might be associated.
- Began the process of divesting Lloyd's underwriting agencies from Lloyd's brokers, as required by Parliament, to prevent conflicts of interest. The divestment must be completed by July 1987.
- Opened syndicate accounts to the public and formalized syndicate accounting.
- Started work on new requirements for re-registering Lloyd's brokers, which should begin next year.
- Published requirements for issuing Lloyd's binding authorities and a code of conduct for how those companies with binding authorities should behave.

"We are a well-proven marketplace," says Murray Lawrence, deputy chairman of Lloyd's. "We have had our ups and down, but we are pointing in the right direction. Our tackle is in order." ■



Photo: Neils Obee

Modern technology is becoming a part of Lloyd's underwriting room as underwriters now record information on computer terminals.

It can be a l-o-n-g wait, but it may be well worth it

By STACY SHAPIRO

LONDON—If patience is a virtue, then Lloyd's of London brokers must be very virtuous.

These days, a Lloyd's broker can wait up to two days to see one underwriter, just to show him a North American property or casualty risk.

Waiting is tiring and frustrating, and for a Lloyd's broker it also may be pointless, if the underwriter is not interested in the risk.

But, in today's insurance market where it's tough to place a risk, a Lloyd's broker has no choice but to take his place in the queue, as they say in London, and hope for the best.

This *Business Insurance* reporter followed Lloyd's property broker, Sean McGrath, for a day to find out what it is to be a Lloyd's broker today.

Mr. McGrath, assistant director of Bowring Non-Marine Insurance Co., said the day went well. This reporter thought it was exhausting.

The day, a Wednesday in August, begins at 10 a.m. at the Lloyd's underwriting box of one of the leading Lloyd's non-marine underwriters. Like other brokers, Mr. McGrath has a standing appointment to see this underwriter at 10 a.m. two days a week. This saves time from queuing.

Even with an appointment, Mr. McGrath waits 45 minutes for the underwriter to show up.

"Terribly sorry I'm late," the underwriter says when he finally arrives. "Nasty cold."

Mr. McGrath pulls two submissions from a pile he has: two North American property risks. One is a university; the other is corporation which has, among other buildings, grain elevators.

Both risks are looking for insurance in the London market because Mission Insurance Group canceled their policies midterm, Mr. McGrath says.

The university is looking for 100% of the first $5 million in primary property coverage. The university already has $45 million excess of $5 million.

The U.S. corporation has a captive that covers all standard perils and purchases a three-year policy to cover difference-in-conditions. Half of the DIC policy was placed in London and half with Mission. Now, London is being asked to complete 100% of the coverage. A total of $150 million in coverage is being sought.

Mr. McGrath explains the American university risk: Unfortunately, the university recently suffered a $1.5 million fire loss caused by an arsonist—and the arsonist has not been caught. The underwriter is not interested.

The underwriter is, however, very interested in the American corporation. He is a participant on the current DIC policy and the corporation has not suffered any losses. The premium rate may nonetheless go up for a new policy, the underwriter says.

The underwriter is willing to lead the American corporation's new DIC policy, taking 5% of the risk —or 10% if Mr. McGrath can find reinsurance.

Mr. McGrath leaves by about 11:30 a.m., pleased, even though he has no firm order.

By this time, Lloyd's underwriting room is waking up. Between 11 a.m. and lunch at 1 p.m. and between 3 p.m. and closing at 4:30 p.m., Lloyd's is at its busiest.

After leaving Lloyd's, Mr. McGrath visits an underwriter for a London insurance company, who is interested in the American university. But, he has to wait until his U.S. office opens to find out if the American parent company already insures the risk.

The underwriter also is interested in the corporation, but knows its parent already covers a subsidiary of the corporation. He has to check.

By 12:15 p.m., Mr. McGrath goes back into Lloyd's to see another underwriter, but the queue is so long that he doesn't see him until after lunch.

Finally, Mr. McGrath presents the risks.

This Lloyd's underwriter is interested in the American university, but wants to know about flood risk at the campus. He is also interested in the American corporation, but will wait until the leading non-marine underwriter commits himself.

By 4 p.m., Mr. McGrath stops to see another company underwriter, but the line is too long.

Mr. McGrath must be back in his office by 4:30 p.m. to talk to the American brokers before lunch in New York, which is five hours behind London.

All in all, Mr. McGrath is pleased. He has seen three underwriters who have given him some positive maybes, and that's good in this tight market.

The next day, Mr. McGrath will wait again.

Lloyd's goes modern but keeps traditions

LONDON—Lloyd's of London is scheduled to move across the street into its new ultra-modern building next year, abandoning the classic Lime Street structure where its underwriters and brokers have done business for 30 years.

However, it will retain many of the old traditions that make Lloyd's unique.

Quill pens are still used by some underwriters to sign policies, and Lloyd's brokers will still queue up to meet the underwriters in person in the underwriting room at Lloyd's.

And, Lloyd's will continue to report its annual financial results three years after the fact, reflecting the three-year accounting system it uses to allow many claims to be closed before results are reported.

And, the basic way the market operates will remain the same.

Lloyd's relies on its members or names to provide the capital needed to underwrite risks.

These names, which totaled 26,050 this year compared with 23,438 in 1984, have unlimited liability for the losses incurred by the syndicates in which they invest.

Some 21,941 of the Lloyd's names are from the United Kingdom. The United States claims the next largest number with 2,011. The remainder are literally from all over the world.

Ten years ago, Lloyd's had fewer than 8,000 names.

Members, who must show they have a net worth of at least $100,000—excluding their house—and must prove each year that they can meet their liabilities, include celebrities and sports figures, like Virginia Wade, about 40 earls, eight dukes, 50 members of Parliament, 20 viscounts and 10 marquees.

How much the members pledge to the various syndicates determines the syndicates' stamp or premium capacity. However, syndicates can write up to 130% of their stamp capacity with proper reinsurance.

Capacity in the Lloyd's market has grown to 6.7 billion pounds ($7.8 billion at the Jan. 1 exchange rate) this year.

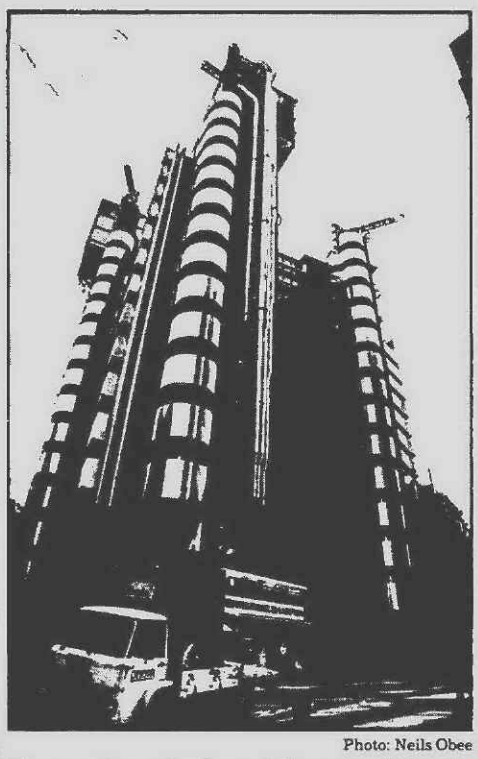


Photo: Neils Obee

The modern design of the new Lloyd's building is controversial.

And, Deputy Chairman Murray Lawrence expects it to increase 10% to 15% next year.

"Names are coming forward for next year, and there should be 15% to 20% more capacity next year than this year. More members want to increase their lines. It is still a good time for underwriting," he said.

While capacity is increasing, the number of syndicates has decreased 12% since 1982 to 384 on Jan. 1, 1985, as some syndicates are absorbed into others.

The syndicates are managed by underwriting agencies. Each syndicate is headed by a senior or group underwriter, but also has other underwriters that accept risks.

The 10 largest underwriting agencies at Lloyd's in order of their premium are: R.W. Sturge & Co.; Merrett Syndicates Ltd.; Willis, Faber & Dumas (Agencies) Ltd.; Janson Green Ltd.; Murray Lawrence & Partners; Archer & Massie (Underwriting Agencies) Ltd.; Sedgwick Forbes (Lloyd's Underwriting Agents) Ltd.; Gardner, Mountain & Capel-Cure Agency Ltd.; R.H.M. Outhwaite (Underwriting Agencies) Ltd.; and Secretan (Underwriting Agencies) Ltd.

Sturge alone commands 10% of the Lloyd's market capacity (see story, page 58).

Lloyd's underwriters follow a lead system in which all underwriters follow one or two so-called lead underwriters—those who set the rate and terms of a policy.

A line slip is circulated throughout the market, and underwriters sign it to indicate what percentage of a risk they want to write.

Only a Lloyd's broker can present a risk to a Lloyd's underwriter. This year, there are 258 Lloyd's brokers, down three from last year. There also are 144 "umbrella" brokers, companies that are set up under the wing of a Lloyd's broker to gain access to the Lloyd's market before they become accepted as a Lloyd's broker.

In addition, there also are 165 Lloyd's "associates," companies that have access to the Lloyd's underwriting room.

Associates include brokers, accountants, loss adjusters and lawyers who are not full members of Lloyd's. ■

The flight plan of Richard Maylam

By STACY SHAPIRO

LONDON—Richard Maylam didn t lose contact with the United States when he left American International Group Inc. in 1977 to become a Lloyd's of London aviation underwriter.

An underwriter for syndicates managed by Alexander Howden Underwriting Ltd., Mr. Maylam serves as a lead aviation underwriter for many U.S. airlines, including Delta Air Lines Inc., American Airlines Inc., Piedmont Airlines and Aloha Airlines Inc. And, he regularly visits the United States to inspect his clients' aircraft and their training and maintenance programs.

"I enjoy being a lead, especially with American clients," Mr. Maylam says. "Having been with an American company for 15 years, I find that I like American clients."

But, Mr. Maylam says there are differences between serving as an underwriter for a U.S. insurer and becoming a Lloyd's underwriter.

"There is a slight difference in the underwriting philosophy of Lloyd's," he says. "At Lloyd's the responsibility of underwriting individual business is on the head of the underwriter. In the U.S. there is more consultation between underwriter and members of the company before a decision is made.

"I think the underwriting decision is quicker at Lloyd's," he adds.

Mr. Maylam started his insurance career in 1958 as a broker with Bland Welch & Co. Ltd., which served as a training ground for many of today's London insurance executives.

He brokered cargo and aviation risks until 1961 when Bland Welch, now part of Sedgwick Group P.L.C., sent him to Paris to work at Comptoire Generale d'Assurance, an underwriting subsidiary. After a year, he returned to London and spent six months setting up an office in Milan, where "I began to get itchy feet for a change," he recalls.

For Mr. Maylam, then 25, the change was a move to American International Reinsurance Co. in Bermuda, an AIG subsidiary, to write aviation risks.

"It was my first taste for underwriting aviation," said Mr. Maylam.

Some six years later, AIG asked Mr. Maylam if he'd like to return to his native country to establish an aviation underwriting department at American International Underwriters. "It was the first AIU aviation office in London—a major new break."

The AIU aviation office in London "took off successfully," says Mr. Maylam. And, Mr. Maylam became AIU's aviation line manager for all of Europe, and then in 1976, he became responsible for AIG's worldwide aviation portfolio.

Happily a deputy managing director of AIU in London, Mr. Maylam wanted more.

"I'd always had a desire to completely run my own shop, and I have always had a great love for Lloyd's," he says. When Howden asked him to start a brand new aviation syndicate, "the opportunity was too good to refuse. It was to be a major syndicate and a lead syndicate for U.S. airlines," he says.

In 1978, Mr. Maylam's first year of underwriting at Lloyd's, Syndicate 270 had 399 members and a stamp capacity of 5.19 million pounds. In 1982—the last year of accounting under Lloyd's three-year accounting system—the syndicate was the third largest in the aviation market with capacity of 13.3 million pounds.

In 1985, the syndicate has 1,180 members with a capacity of 17.6 million pounds ($24.6 million).

"We've been profitable for three years, and we'll be profitable in '83 and '84," Mr. Maylam says.

The Assn. of Lloyd's Members says members of Syndicate 270 will receive a cheque of 401 pounds ($561.40) for every 10,000 pounds ($14,000) they invested for the 1982 underwriting year, the year now closing under Lloyd's three-year accounting system. The syndicate wrote gross premiums of 22.5 million pounds ($31.5 million).

Mr. Maylam specializes in underwriting airline risks, which generate 60% of the aviation syndicate's business. The syndicate also writes hull war risk, aviation manufacturer's product liability and small amounts of personal accident, airport liability, excess-of-loss liability and satellite coverages.

Soon, this man who has wanted to run his own shop will have even more control. By the end of the year, he and seven other Howden underwriters and executives will purchase the management of major syndicates from Howden.

Aviation business expected to grow

By STACY SHAPIRO

LONDON—Lloyd's of London brokers criticize the Lloyd's aviation market in a recent survey, but they also predict that they will place 18% more aviation business with Lloyd's this year.

Currently, the Lloyd's brokers say only a quarter of their aviation business is placed with Lloyd's.

Overall, Lloyd's represents about 20% of the world's aviation capacity. Premium capacity this year is about 400 million pounds ($464 million, based on a Jan. 1 exchange rate of $1.16 to the pound).

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.

According to a recent survey of Lloyd's brokers, "Lloyd's is steadily losing its influence in the aviation market.

"The capacity available does not match the good security offered while the company market capacity, particularly in the U.S., is increasing all the time."

The brokers surveyed also criticized the claims services provided by the aviation market.

"It was stated that Lloyd's should have a more professional attitude and be more service-oriented," the survey says.

While the brokers may criticize the market, they cannot deny it plays a key role in the aviation insurance industry.

The Lloyd's aviation market still leads some of the world's biggest airlines. Among its customers are U.S.-based Delta Air Lines Inc., American Airlines and United Air Lines.

It also is the lead reinsurer for Air India and Japan Air Lines.

And, the Lloyd's aviation market influences major changes in the world aviation market. Last year, for example, Lloyd's underwriters, along with London company leads, introduced partial loss deductibles for most airlines. Their move was followed by world aviation markets.

A partial loss deductible provides that the airline pay a deductible when the aircraft is not a total loss. Such deductibles did not exist before last year.

The Lloyd's aviation market, which is about 50 years old, includes more than 40 syndicates.

The largest syndicate, based on 1984 stamp capacity of 23.2 million pounds, is Syndicate 960, managed by R.W. Sturge & Co. and underwritten by Brian Beagley.

The second-largest syndicate is Syndicate 97, managed by Willis Faber & Dumas (Agencies) Ltd. and underwritten by David Willis. It had a stamp capacity of of 17.2 million pounds in 1984.

Syndicate 48/637, managed by Sedgwick Forbes (Lloyd's Underwriting Agents) Ltd. and underwritten by W.E. (Eddie) Simms, was third-largest Lloyd's aviation syndicate in 1984 with a stamp capacity of 15.8 million pounds.

The fourth-largest syndicate is Syndicate 53, managed by G.P. Eliot & Co. Ltd. and underwritten by Robin Eliot, with a stamp capacity of 14.7 million pounds in 1984.

Syndicate 270, managed by Alexander Howden Underwriting Ltd. and underwritten by Richard Maylam, is the fifth-largest aviation syndicate at Lloyd's.

It had a stamp capacity of 12.5 million pounds in 1984. This year, its stamp capacity is 17.6 million pounds, says Mr. Maylam (see story, this page).

In addition to the specialist aviation syndicates, Lloyd's also allows marine syndicates to write aviation business.

Some of the largest aviation underwriters, like David Peachey, write for marine syndicates. Mr. Peachey is the aviation underwriter for Lloyd's fifth-largest marine syndicate, managed by Janson Green Ltd.

Although rate increases earlier this year in the aviation market were minimal, due to the good aviation loss history in 1984, four major aviation accidents in the last two months have broken all prior aviation loss records.

Hull losses so far this year total $319 million, while at least 1,341 people have died in airline crashes in 1985, compared with only two fatalities in 1984.

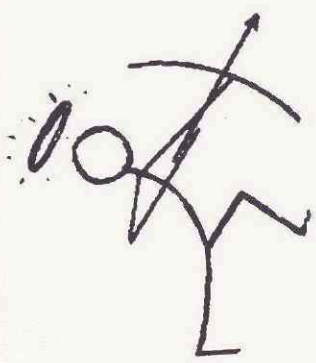
But, that doesn't mean airlines insured with Lloyd's will lose their coverage.

For example, Mr. Maylam is the lead London underwriter on the loss of Delta Flight 191, which crashed last month near Dallas, killing 131 people and injuring 31 others (*BI*, Aug. 12).

Despite the $24.7 million hull loss and the expected $125 million in liabilities stemming from the crash, Mr. Maylam says he will continue to write Delta's risks.

"I look for continuity in a relationship," says Mr. Maylam. "We have had good times with Delta and we will continue to support Delta. I still think they are a first-class airline.

"We have a responsibility to try and set fair premium rates and also terms and conditions of the policy. We have a duty to provide first-class claims service. We have a duty to keep following underwriters informed. And, we have a duty to analyze all agreements throughout the year," Mr. Maylam says. ■

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Marine market not only for items that float

By STACY SHAPIRO

LONDON—The marine market —the oldest at Lloyd's of London— does not restrict its underwriting to objects that float. In fact, it underwrites just about any property or liability coverage it chooses.

The market began in the legendary coffee house of Edward Lloyd's sometime around 1688, about 200 years before the non-marine market and 250 years before the aviation market.

It is the exclusive market at Lloyd's for marine hull risks and war risk coverages, and it writes marine cargo risks. But, it also writes umbrella liability policies, satellite coverages and aviation coverages.



Photo: Lloyd's of London

'The marine insurance market has grown substantially,' says Mr. Outhwaite.

It is a key market for the huge property and casualty risks of the U.S. offshore oil industry and, in contrast, is also a market tapped by fine art exhibitors.

To handle these non-marine risks, the marine syndicates sometimes establish incidental non-marine syndicates, although the results of these syndicates are combined with the marine syndicate's results.

Within each marine syndicate are underwriters who specialize in particular areas of coverage.

For example, Syndicate 70, underwritten by Richard Outhwaite and managed by R.H.M. Outhwaite (Underwriting Agencies) Ltd., has six underwriters. Mr. Outhwaite and the syndicate's deputy underwriter can write any type of coverage. Then, there is an underwriter who specializes in liability coverage; one in cargo; one in marine hull; and one in excess-of-loss reinsurance.

"The marine market has grown substantially," says Mr. Outhwaite, who is chairman of Lloyd's Underwriters Assn., which is the association of marine underwriters.

Financial Intelligence & Research, a London-based analyst of the Lloyd's market, estimates that 154 marine syndicates had 1.1 billion pounds in premium or stamp capacity in 1982, up 10% from 1 billion pounds in 1981. The 1982 accounting year is the last year closed under Lloyd's three-year accounting system.

The Lloyd's marine market, which is the leading marine insurance and reinsurance market worldwide, represents 40% of the world marine insurance capacity.

Brokers surveyed recently by Lloyd's said that 47% of their marine business is placed at Lloyd's. They predict that volume will increase by 11% next year, particularly for reinsurance.

Because the U.S. dollar is the universal currency of the shipping industry, the marine market writes about 65% to 70% of its business in U.S. dollars. However, less than a quarter of the U.S. dollar business is from U.S. risks.

The largest marine syndicate, based on 1984 stamp capacity of 101.2 million pounds, is Syndicate 206, managed by R.W. Sturge & Co. and underwritten by Michael Maughan. Mr. Maughan is a lead on many general marine risks and he specializes in underwriting ships under construction.

The second-largest marine syndicate is Syndicate 418, managed by Merrett Syndicates Ltd. and underwritten by Stephen Merrett. In 1984, its premium capacity was 90.9 million pounds. Mr. Merrett specializes in satellite launch, war risk and consfiscation coverages.

The third-largest syndicate is Mr. Outhwaite's Syndicate 317, which had a stamp capacity of 67.2 million pounds and primarily writes excess-of-loss reinsurance.

The fourth-largest syndicate, with 1984 stamp capacity of 64.5 million pounds, is Syndicate 741, managed by Alexander Howden Underwriting Ltd. and underwritten by A.J. (Jeffrey) Archer. Mr. Archer specializes in total loss war risk and aviation coverages.

Mr. Archer replaces the illustrious Ian Posgate as underwriter of the syndicate, which also has been renumbered since Mr. Posgate's departure from the market.

Largest marine syndicates

(Based on 1984 stamp capacity)
(In millions of pounds)

Syndicate	Managing agency	Underwriter	Stamp capacity
206	R.W. Sturge & Co.	M.J.H. Maughan	101.2
418	Merrett Syndicates Ltd.	S.R. Merrett	90.9
317	R.H.M. Outhwaite (Underwriting Agencies) Ltd.	R.H.M. Outhwaite	67.2
741	Alexander Howden Underwriting Ltd.	A.J. Archer[1]	64.5
932	Janson Green Ltd.	W.W. Maitland[2]	58.8

[1] In 1982, Syndicate 741/128 was Syndicate 127/128, underwritten by Ian Posgate.
[2] Mr. Maitland took over as underwriter for the syndicate in September 1984 replacing former Lloyd's Chairman Peter Green.

Source: Financial Intelligence & Research
Chart: Amy Palmer

In 1982, Mr. Posgate, nicknamed Goldfinger because of the amount of profitable business he wrote, dominated the marine market at Lloyd's.

His syndicate, Syndicate 127/128, managed by Howden, controlled the most premium capacity in the market at 90 million pounds.

Mr. Posgate also wrote for the fifth-largest syndicate in the marine market in 1982, Syndicate 700, which was managed by Posgate & Denby (Agencies) Ltd. and had 42.3 million pounds in capacity.

But, by 1983, Mr. Posgate had been fired by Howden and suspended from underwriting at Lloyd's for allegedly taking part in a misappropriation of Howden underwriting funds.

Mr. Archer took over underwriting for what was Syndicate 127/128 and Syndicate 700 ceased to exist. It was absorbed into Syndicate 488, which is underwritten by M.R. Baxter.

This year, Mr. Posgate was found guilty by Lloyd's of accepting gifts that he knew were given to influence his underwriting. He was suspended for an additional six months.

Mr. Posgate's suspension ends Jan. 1, 1986, and there is speculation he may return to the market to underwrite.

The fifth-largest syndicate in the marine market is Syndicate 932, managed by Janson Green Ltd. and underwritten by W.W. Maitland. Mr. Maitland took over as underwriter in September 1984, replacing former Lloyd's Chairman Sir Peter Green, who remains chairman of Janson Green. Syndicate 932, which specializes in energy-related risks, liability coverages and U.S. marine hull reinsurance, had a stamp capacity of 58.8 million pounds in 1984.

Marine hull and war risk underwriters at Lloyd's are raising their rates. Hull insurance renewal rates are expected to increase about 15% to 20% this year, which is similar to last year's rate increase.

War risk rates for oil tankers heading to the Iranian oil terminal at Kharg Island in the Persian Gulf also are up to $7 to $10 for every $100 of insured value. War risk rates for ships traveling in other areas are as low as 2.5 cents for every $100.

The high rates in the Persian Gulf reflect the $600 million in losses underwriters have had to pay in hull war risk losses since the beginning of the Iran-Iraq War in 1980. ■

Photos remind Gale Coles to be selective

By STACY SHAPIRO

LONDON—Gale Coles, a Lloyd's of London marine underwriter at Janson Green Ltd. specializing in energy-related risks, surrounds himself with photos of oil rig disasters.

Two of the photos in his office, which depict a fire on a Shell Oil Co. platform in the Gulf of Mexico, were enlarged by his wife when she became a Lloyd's member.

"That is to remind me to be careful," explained Mr. Coles, deputy chairman of Janson Green, which is owned by Lloyd's broker Hogg Robinson Group P.L.C.

The other photos of burning and sinking oil drilling platforms show losses that Janson Green did not underwrite, he said.

"They remind me that I can select the risks I want to write and refuse the ones I don't want to," he added. "But, disaster is what underwriting is all about."

Mr. Coles began his Lloyd's career in 1953 at Janson Green, which at the time was headed by Toby Green, Mr. Coles' uncle and father of former Lloyd's Chairman Peter Green.

"I was intending to farm, but sadly my mother was killed in a motor crash. I thought seriously about farming and asked my mother's brother, Toby Green, about it. He suggested that while I was thinking about it, I should come to work for him for awhile," Mr. Coles explained.

"I'm still here."

Mr. Coles, like many Lloyd's underwriters, worked his way up from serving tea—"I wasn't very good at that"—to being a messenger and subsequently an entry boy in the underwriting box next to Toby Green. An entry boy records statistics and other figures for underwriters.

In the box with Mr. Coles and Toby Green sat Mr. Green's son Peter, learning his father's business; and underwriter Peter Cameron-Webb, who later opened his own Lloyd's underwriting agency, was accused of misdeeds at Lloyd's and is now an underwriter at the Insurance Exchange of the Americas in Miami (see story, page 36).

Today, Mr. Coles is joined in the Janson Green box by nine other underwriters, all of whom write for Marine Syndicate 932 and its associated syndicates.

The syndicates together have a stamp capacity of about 100 million pounds ($140 million), says Mr. Coles, and write marine, non-marine and aviation risks.

About half of the syndicates' business comes from the United States, Mr. Coles said, and about 70% of their premium volume is written in U.S. dollars, since most energy risks around the world are stated in dollar terms.

One of the Janson Green syndicates' specialties is package policies that cover diverse risks for U.S. oil companies.

"American clients, through amalgamation and purchase, are no longer masters in one field; they are masters in four or five fields. But they still want one insurance policy for their operations," Mr. Coles explained.

An oil company's insurance package may include:

- Physical damage coverage, with limits sometimes exceeding $1 billion.

Mr. Coles says there is capacity available for oil rig and other on-shore and offshore energy risks, adding that in some cases rates are competitive.

"But, my rates aren't for drilling barges," he said. "I have certainly drawn the line. Drilling contractors are going through a depressing time, but that does not stop the losses."

- Blowout and redrilling coverage. "This is difficult to underwrite. The loss ratio is still 300%," said Mr. Coles. Although the syndicates write these risks as part of package programs, Mr. Coles says his participation is minimal.
- Liability coverage. The Janson Green syndicates generally underwrite excess liability insurance above underlying layers of $5 million to $50 million, he says.

Mr. Coles is one of the London underwriters actively trying to replace the current London umbrella liability form now written on an occurrence basis with a claims-made form.

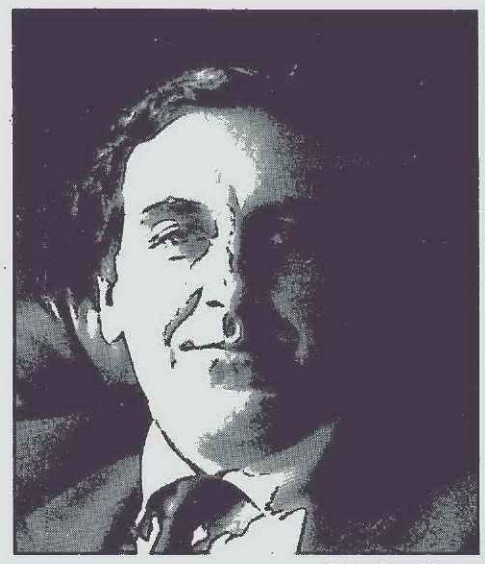


Photo: Stacy Shapiro

Gale Coles didn't intend to become a Lloyd's underwriter. He thought he was destined to become a farmer.

Mr. Coles was a member of a committee of London underwriters that last year studied the adoption of a claims-made form (*BI*, Aug. 13, 1984). Since then, London underwriting agency H.S. Weavers (Underwriting) Agencies Ltd. says it will introduce a claims-made form before the end of the year, which other members of the London market may follow (*BI*, July 15). Mr. Coles will meet with Peter Wilson, Weavers' managing director, to discuss the new proposed form.

In the meantime, Mr. Coles has been trying to restrict coverage by introducing clauses in the liability policies it writes that "attempt to protect us from some of the problems which old policies gave us," he said.

"We hope that we have developed an understanding with our clients that if a series of claims occurs from one incident, we can capture all those (claims) within one policy year."

Mr. Coles visits the United States at least once a year, and has already made the trip twice this year.

On one of those trips, Mr. Coles and his attorneys were invited by Shell to visit the Rocky Mountain Arsenal waste site in Denver.

Shell is being held liable for the cleanup of the site by the U.S. Environmental Protection Agency. As a result, Shell filed a lawsuit in October 1983 against 270 of its primary and excess liability insurers, including Janson Green (*BI*, Nov. 7, 1983; Aug. 26).

According to Mr. Coles, the EPA has given the site top priority, adding that the cost to clean up the site could reach $2 billion.

"I wanted to see why the (government) felt that $2 billion was needed to be spent on an area that they shared with Shell for the last 30 years," said Mr. Coles.

"I saw a large barren site joining the Denver airport, reminding me of a park with pheasants and deer. And, I saw a complex where the poison gases had been produced, which reminded me of a barren World War II airfield."

But, Mr. Coles says he didn't see anything that would cost $2 billion to clean up. "I really didn't."

Mr. Coles hopes the government, Shell and the insurers will soon reach agreement over who will pay for the cleanup.

"I think it will be very serious for the insurance industry if the government and a major oil company and a large section of the oil insurance industry allows this matter to drag on," he said.

"It has had a very serious effect on the confidence of the underwriting industry and has reduced the capacity in the liability business still further."

In the course of the conversation, Mr. Coles was interrupted by a telephone call informing him that Hurricane Danny was heading toward Lake Charles, near New Orleans on the Gulf Coast.

"Not good news," Mr. Coles muttered, since many offshore oil platforms and rigs in the Gulf of Mexico are insured by his syndicates.

Mr. Coles later said his losses due to the storm were minimal. His syndicates had escaped disaster. ■

U.S. buyers tap Lloyd's non-marine market

By STACY SHAPIRO

LONDON—Although the non-marine market at Lloyd's of London will write just about anything "that doesn't fly or float," non-marine underwriters are getting stingy with their capacity.

The market, with 122 syndicates, is tapped by major U.S. corporations for just about any property/casualty coverage, excluding marine hull, aviation hull and liability and war risk coverages.

Although Lloyd's traditionally has been a market for excess liability coverage, it's also becoming a source of primary coverage for U.S. corporations seeking coverage.

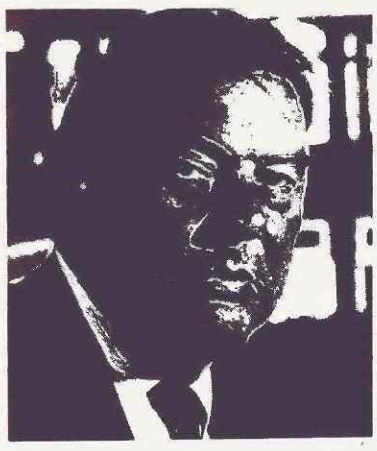


Photo: Lloyd's of London

Richard Hazell is chairman of the Lloyd's Non-Marine Underwriters' Assn.

In recent years, treaty reinsurance written by the non-marine market also has increased.

While Lloyd's non-marine market represents only 2% of worldwide non-marine capacity, the expertise and influence of its underwriters in setting terms and rates make it a vital market.

But, according to a Lloyd's survey of brokers, there's "an unwillingness to commit capacity rather than a total lack" of capacity, especially for umbrella coverages and facultative reinsurance.

Major non-marine syndicates—like those managed by Merrett Syndicates Ltd. and Three Quays Underwriting Management Ltd.—are restricting the amount of new business they will underwrite or refusing to look at any new risks so they can save capacity for current clients. Their conservativism is due to the premium capacity crunch caused by the strength of the U.S. dollar earlier this year.

Other non-marine syndicates, like those managed at R.W. Sturge & Co., prefer writing short-tail property accounts rather than long-tail liability accounts.

Long-tail U.S. liability risks are blamed for the underwriting losses the non-marine syndicates suffered in 1982, for which results are to be announced this week by Lloyd's (see story, page 62).

According to estimates by a group of Lloyd's members, the non-marine market posted an underwriting loss of 315 million pounds in 1982. It was also the only market to post an overall loss.

As a result, underwriters that are accepting risks are raising rates as much as 600% over rates available in the U.S. market last year and demanding general liability coverage be written on a claims-made basis, instead of on the standard Lloyd's occurrence form.

Lloyd's is also considering adopting a standard claims-made form similar to that being introduced by London underwriting agency H.S. Weavers (Underwriting Agencies) Ltd. (*BI*, July 15).

About 70% of the non-marine market's premium income is generated from North American business, estimates Richard Hazell, chairman of the Lloyd's Non-Marine Underwriters' Assn., making the Lloyd's non-marine market the most dependent North American clients of all the Lloyd's markets.

And, the Lloyd's brokers' survey predicts North American business coming to Lloyd's will increase, particularly property.

"The market is more property than it is casualty overall, but the split varies with each of us," Mr. Hazell notes.

The two largest non-marine syndicates in the market—headed by two of Lloyd's most dominant personalities—are Syndicate 210, underwritten by Ralph Rokeby-Johnson and managed by R.W. Sturge & Co., and Syndicate 799, underwritten by Robin Jackson and managed by Merrett Syndicates Ltd.

Largest non-marine syndicates
(Based on 1984 stamp capacity)
(In millions of pounds)

Syndicate	Managing agency	Underwriter	Stamp capacity
210	R.W. Sturge	H.R. Rokeby-Johnson	88.7
799	Merrett Syndicates Ltd.	R.A.G. Jackson	76.3
190	Three Quays Underwriting Management Ltd.	R.D. Hazell	62.9
510	R.J. Kiln & Co. Ltd.	G.D. Gilchrist	60.7
362	Murray Lawrence & Others[1]	R.J.R. Keeling[1]	42.5

[1] Formerly, the agency was Bowring & Fairway (Underwriting Agents) Ltd. and the senior underwriter was Murray Lawrence, present deputy chairman of Lloyd's.

Source: Financial Intelligence & Research
Chart: Amy Palmer

The two syndicates trade first and second place among the non-marine syndicates when ranked according to stamp capacity, which refers to the net premiums a syndicate can underwrite. With reinsurance, syndicates are allowed to write up to 130% of stamp capacity.

In 1984, Mr. Rokeby-Johnson's Syndicate 210 was on top with a stamp capacity of 88.7 million pounds while Mr. Jackson's Syndicate 799 had stamp capacity of 76.3 million pounds.

But this year, Syndicate 799 has 114 million pounds of stamp capacity, compared with Syndicate 210's capacity of 112 million pounds.

Mr. Jackson specializes in casualty coverages, particularly U.S. reinsurance treaties and directors and officers, professional liability and medical malpractice coverage.

Mr. Rokeby-Johnson specializes in property risks and property/casualty packages.

The third-largest non-marine syndicate, based on 1984 stamp capacity of 62.9 million pounds, is Mr. Hazell's Syndicate 190, managed by Three Quays Underwriting Management Ltd. The syndicate specializes in property risks and property/casualty packages.

Three Quays is being sold by broker Sedgwick Group P.L.C. to Three Quays' management.

The fourth-largest syndicate in 1984 was Syndicate 510, with stamp capacity of 60.7 million pounds. The syndicate specializes in London market excess-of-loss reinsurance (LMX) with underwriter David Gilchrist and is managed by R.J. Kiln & Co. Ltd.

The fifth-largest syndicate is Syndicate 362, with a stamp capacity of 42.5 million pounds in 1984.

The syndicate, which specializes in property coverages, formerly was managed by Bowring & Fairway (Underwriting Agents) Ltd. Since underwriter Murray Lawrence is now deputy chairman of Lloyd's, the syndicate's senior underwriter is Richard Keeling.

Bowring & Fairway was sold by parent C.T. Bowring & Co. Ltd. to the agency's management at the end of 1984. ■

Sturge's size sets it apart

LONDON—Sturge Holdings P.L.C.'s size sets it apart from other Lloyd's of London underwriting agencies.

Sturge is the largest underwriting agency at Lloyd's with 16 syndicates and 470 million pounds ($658 million) of stamp capacity in 1985, or about 10% of the market's total capacity.

Its main marine, non-marine and aviation syndicates are among Lloyd's largest.

Sturge can cite other accomplishments. For instance, on June 10, Sturge became the first Lloyd's agency to be quoted on the London Stock Exchange.

But, Sturge adamantly denies that it plans to dominate the Lloyd's market or eventually become an insurance market separate from Lloyd's.

"Sturge will not become an insurance company in its own right," says Peter Rawlins, Sturge's managing director. "We provide a service—to the Lloyd's brokers, to our members and to the Lloyd's community. None of those things can we do as a separate company."

However, Sturge may begin other ventures outside Lloyd's now that it is a publicly held company.

"Our results at the moment for our shareholders are totally influenced by the results at Lloyd's. This may mean that it will be better (for Sturge) to spread its portfolio a bit," he said.

The largest of the Sturge syndicates is marine Syndicate 206 based on 1985 stamp capacity of 134 million pounds ($187.5 million). Mr. Rawlins believes the syndicate will have 200 million pounds ($280 million) of capacity next year.

The syndicate, headed by group marine underwriter Michael Maughan, writes one of the largest cargo accounts at Lloyd's, is a lead hull insurance market and writes oil-related risks as well as excess-of-loss reinsurance for other Lloyd's syndicates.

In addition, Mr. Maughan also underwrites for marine Syndicates 203 and 207, which together have a 1985 stamp capacity of 13.4 million pounds ($18.3 million).

Other Sturge marine syndicates include Syndicates 209 and 428, led by underwriter Bruce Adams.

Syndicate 209, with a 1985 capacity of 59.4 million pounds ($83.2 million), specializes in excess-of-loss reinsurance and oil-related risks. Syndicate 428, with a capacity of 9.3 million pounds ($13 million), is a new syndicate writing marine excess-of-loss reinsurance.

In the non-marine market, Sturge controls the second-largest group of syndicates at Lloyd's. The group non-marine underwriter is Ralph Rokeby-Johnson.

The results of non-marine Syndicates 210 and 204 are aggregated as one account, and members share profits and losses on both syndicates.

Together, these syndicates have 112 million pounds ($156.8 million) of capacity.

Next year, Mr. Rawlins hopes the two non-marine syndicates have a stamp capacity of 160 million pounds ($224 million).

Roger Field is the underwriter for Syndicate 204, which specializes in financial institution risks.

Mr. Rokeby-Johnson, the underwriter for 210 and separate Syndicate 212, is a leader in many classes of business, particularly for U.S. and British property risks.

Although Syndicates 210 and 212 specialize in writing short-tail business, the syndicates are facing a large amount of claims from asbestosis losses from previous underwriting years, says Mr. Rawlins.

Sturge's principal aviation syndicate is Syndicate 960, with 34.4 million pounds ($48.2 million) of stamp capacity, and writes all types of aviation risks. The syndicate is led by group aviation underwriter Brian Beagley.

"As far as I know, he has never brought in a loss" at the end of a year, says Mr. Rawlins.

Mr. Beagley also writes for Syndicate 998, with 2.5 million pounds ($3.5 million) in capacity. Syndicate 998 is a new syndicate that primarily writes aviation liability and personal accident business.

Sturge also manages one motor syndicate with 10.3 million pounds ($14.4 million) in capacity.

In addition to the syndicates managed by underwriting agency R.W. Sturge, Sturge Holdings now has other Lloyd's syndicates under its umbrella.

Sturge last year purchased underwriting agency Edwards & Payne (Underwriting Agencies) Ltd. and its holding company, R.A. Edward & Co. (Holdings) Ltd., from Sedgwick Group P.L.C. Edwards & Payne manages a marine, non-marine and a motor syndicate, with aggregate stamp capacity of 54.8 million pounds ($76.7 million). ■

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Lloyd's brokers

Continued from page 51

this year if there is a market to take it," said Mr. Topple.

According to Mr. Topple, Leslie & Godwin has especially strong marine and aviation departments. Mr. Topple left the aviation division of Sedgwick to join Leslie & Godwin.

Despite the successes at Howden and Leslie & Godwin, Sedgwick still towers over the rest of the Lloyd's brokers in size.

In 1984, Sedgwick generated 61.2% more revenue than the second-largest Lloyd's broker, Willis Faber P.L.C., and employed about twice as many people.

Sedgwick's gross revenues totaled $286.6 million in 1984 compared with Willis Faber's $177.8 million, while Sedgwick employed 6,320 people, compared with 3,300 at Willis Faber.

And, Sedgwick will be an even larger Goliath this month when its merger with Fred S. James & Co. Inc. is finalized. Sedgwick's and James' gross revenues combined will total $578.7 million.

Sedgwick also will swallow up Lloyd's broker Wigham Poland Holdings Ltd., which is James' London subsidiary. Wigham Poland generated $30 million in premium volume in 1984.

"There is planning for integration and in some areas that has begun (between Wigham Poland and Sedgwick)," said Michael Butt, deputy chairman of Sedgwick who expected the merger to be completed by Sept. 1.

In preparation for the merger, Sedgwick has set up a company to deal with all U.S. brokers bringing business into the market, including James. The new company, Price Forbes Ltd., is headed by Chairman Ken Carter.

Sedgwick, which says it can supply expertise in all lines of insurance, is particularly known for its reinsurance brokerage unit, E.W. Payne Cos. Ltd., and its oil and energy-related expertise.

Sedgwick is also known in the market for its excellent staff training. Many of the brokerage and underwriting executives in London worked at one time at Sedgwick.

"In this market, the skill is in getting business placed," said Sedgwick Secretary George Hilton. "Marketing expertise is one of our fortes."

Willis Faber has the reputation of a blue-chip Lloyd's broker. It can handle the entire spectrum of coverages placed in the London market, but is best known as one of the largest international reinsurance brokers in London, said Richard Bowes, deputy chairman of Willis Faber.

For 87 years, Willis Faber has carried on an informal relationship with privately held American broker Johnson & Higgins, the third-largest U.S. broker.

Most of Willis Faber's North American business generated by Johnson & Higgins and other alphabet houses is placed at Lloyd's, says Mr. Bowes. "Lloyd's is the main market for North American risks," he says.

The third-largest Lloyd's broker is C.T. Bowring & Co. Ltd., the British subsidiary of Marsh & McLennan Cos. Inc., the world's largest brokerage company.

Bowring was bought by M&M in 1980 and for a time lost its identity. But now, Bowring's back with its own image and its own set of accounts.

Bowring in 1984 generated $133.4 million in gross revenues and employed 3,500 people, said Bowring chairman and Chief Executive Gilbert Cooke.

About half of those revenues may be generated from North American business, said Mr. Cooke, particularly in Bowring's wholesale and reinsurance divisions.

Bowring also has the most profitable British retail network with 45 offices throughout the United Kingdom, says Mr. Cooke.

"I think the strength of Bowring is its brokers of exceptionally high caliber," said Mr. Cooke. "Because we have access to the worldwide network and expertise, our ability to serve our clients is enhanced."

Although Bowring now has its own image, M&M still has a strong and beneficial influence over the company, says Mr. Cooke.

M&M and Bowring employees cross the ocean at least once a month to provide clients with the best possible service, says Mr. Cooke. Also, M&M has provided Bowring with more professional budgeting and accounting methods, says Mr. Cooke.

"I think the merger has been a huge success," according to Mr. Cooke.

Hogg Robinson Group P.L.C., the fourth-largest Lloyd's broker, is building to attract more North American business to London.

In June, Hogg Robinson became the third Lloyd's broker to own 100% of an American brokerage when Hogg purchased the remaining 50% of Republic Hogg Robinson Inc. from LTV Corp.

In addition, Hogg Robinson recently hired Barry Dean, former chairman and chief executive of Wigham Poland North America, to become managing director of Hogg Robinson North America Ltd.

"We are enhancing our team," said Christopher Price, Hogg Robinson's chief executive. "The majority of our business comes from other people in the U.S. now. With Republic Hogg Robinson, we do plan to develop our lines across the ocean more clearly.

"RHR is not a large remitter of premium to London at the moment, but as we expand we see more business coming to London. And I see our North American links with other brokers continue in London aside from RHR."

Hogg Robinson is noted for being the oldest and perhaps best broker of political and credit risks. "We are the largest in the market," says Mr. Price.

In addition, Hogg Robinson is a leader in cargo, trucking and fine art risks.

Hogg Robinson reported 1984 gross revenues of $108 million, though about 44% of those revenues were generated by its travel agency operations. The company employed 3,779 people.

Of the remaining top Lloyd's brokers, only two do not have links with the U.S. market: C.E. Heath P.L.C. and Bain Dawes P.L.C.

Both brokerages have said in the past their independence actually strengthens their position becuase U.S. brokers that need to place London business know Heath and Bain Dawes are not giving U.S. competitors extra business.

Heath, the fifth-largest Lloyd's broker with $104 million in revenues, is one of the oldest brokers in the market to generate business from North America and still commands much North American respect.

Heath employs about 1,200 people.

Bain Dawes, too, is developing strong links with North America, particularly with its new deputy chairman and chief executive Simon Arnold, former deputy chairman of Minet Holdings P.L.C., who knows the North American very well.

Bain Dawes is the 10th-largest Lloyd's broker with 1984 revenues of $45.4 million and 1,644 employees.

Minet Holdings P.L.C., with 1984 revenues of $102.7 million and 2,637 employees, is the only Lloyd's broker with two American shareholders. About 20% of the sixth-largest Lloyd's broker's shares are owned by U.S. broker Corroon & Black Corp. and another 25.9% is owned by St. Paul Cos. Inc.

Jardine Insurance Brokers, seventh on the list with 1984 revenues of $98.9 million and 2,300 employees, does not place much North American business with Lloyd's, says Jardine Chief Executive John Barton.

Jardine's U.S. affiliate, Jardine Insurance Brokers Inc., specializes in placing medium-size accounts and many of these haven't moved back to London.

"Most is written in the U.S. because the rates are lower," he said.

But, Lloyd's will be an interesting place to be next year, said Mr. Barton. "Next year there will be a bigger increase in capacity at Lloyd's and that may generate more North American business being underwritten."

The eighth-largest Lloyd's broker, Stewart Wrightson Holdings P.L.C., has a strong U.S. affiliate in Stewart Smith Holdings Inc, the largest U.S. surplus lines broker.

Stewart Smith and Stewart Wrightson can tap into each other's resources to find capacity for hard-to-place risks. "When there is no capacity for many things in the U.S., there is capacity here in the U.K.," said Tony Keys, Stewart Wrightson's group development director and chairman of Stewart Wrightson Insurance Agencies Ltd.

Stewart Wrightson in London is probably the world's leading aviation broker. The group's strengths also include bank and financial institution risks and directors and officers liability coverage.

Stewart Wrightson's 1984 gross revenues totaled $88.6 million, while the company employed 2,521 people. ■



Photo: Neils Obee

Standing in line is just part of the routine for brokers waiting to speak with underwriters at Lloyd's of London.

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Horns prove broker John Slade is a winner

By STACY SHAPIRO

LONDON—Two mementos adorning the walls of the board room at Lloyd's of London broker Jenner Fenton Slade Ltd. are reminders of the company's mentor and first client, Joseph H. Blades.

One memento is a pair of Texas longhorns known as the "hook 'em horns" trophy.

Mr. Blades started a contest with two friends—JFS Deputy Chairman John Slade and former Lloyd's Chairman Peter Green—to see who could shoot the most quail. The winner gets the horns. The loser gets the tail-end of a stuffed raccoon.

The other memento is a picture of Mr. Blades, chairman of Houston wholesale broker J.H. Blades & Co. Inc., who died in April 1981.

It was Mr. Blades who provided Jenner Fenton Slade with its bread and butter upon its founding.

A group of executives of C.T. Bowring & Co. Ltd. had been handling Mr. Blades' London business, a relationship Mr. Blades had enjoyed, Mr. Slade recalls. However, when Bowring was purchased by Marsh & McLennan Cos. Inc. in 1980, Mr. Blades felt he couldn't do business with his U.S. competitor and planned to move his account, Mr. Slade recalls.

So, six directors left Bowring with the Blades account that year and formed Jenner Fenton Slade with the backing of Lloyd's broker Hogg Robinson Group P.L.C.

"We started with a silver spoon in our mouths with the Blades account," recalls Michael Jenner, one of the former Bowring executives and chairman of JFS.

"But now we are competitors with Bowring, Willis Faber, Sedgwick and others for business, and we can fit in nicely with them as a totally different animal."

The brokerage has come a long way since 1980. JFS, which became a Lloyd's broker in January 1983, is now considered one of the blue-ribbon brokers for handling energy-related business.

Today, Blades' business accounts for less than 20% of JFS' gross revenues of 7 million pounds ($9.8 million), says Mr. Jenner. JFS now handles business from most of the top U.S. brokerages.

Three-fifths of JFS' business comes from North America, adds Robert Fothergill, JFS financial director.

JFS now places more than $175 million of premium with the London and other international markets.

JFS is one of four London brokers responsible for placing business with the London master drilling rig line slip, which provides up to $800 million of capacity for offshore drilling structures.

JFS has arranged programs with underwriters to provide capacity for energy-related risks, including:

- $1.3 billion in capacity for any platform or other oil drilling structure. This includes the $800 million in coverage from the master drilling rig line slip.
- $200 million in liability coverage.
- $800 million in coverage for war and terrorism risks for North Sea oil structures and $150 million in coverage for risks elsewhere in the world.
- $200 million in coverage for political and confiscation risks.

In addition to its direct marine brokerage operations, JFS has also formed a cargo division; a marine reinsurance company, Jenner Fenton Slade Reinsurance Brokers Ltd.; and a non-marine broker, Jenner Fenton Slade Non Marine Insurance Brokers Ltd.

JFS has also formed a joint venture with Lloyd's broker Fenchurch Group Brokers Ltd. called JFS Fenchurch Ltd. to bid on large multinational company projects. The company specializes in sophisticated energy-related property/casualty risks.

Mr. Jenner, Mr. Slade and JFS Chief Executive David Fenton can still be seen in the market brokering risks.

"We must be the oldest group of brokers in the market," said Mr. Jenner. But, it beats being stuck in an "ivory tower" to think solely about management problems, he added.

The company believes in continual contact with U.S. brokers, their clients, other London brokers and underwriters.

"Clients come over here at least once or twice a year, and we travel to the States. Mr. Jenner recently spent a day in Los Angeles, in fact, and returned here the next day to talk to underwriters just to meet clients' needs," Mr. Slade said.

JFS employs 85 people in its various divisions. Several have joined recently from other Lloyd's brokers.

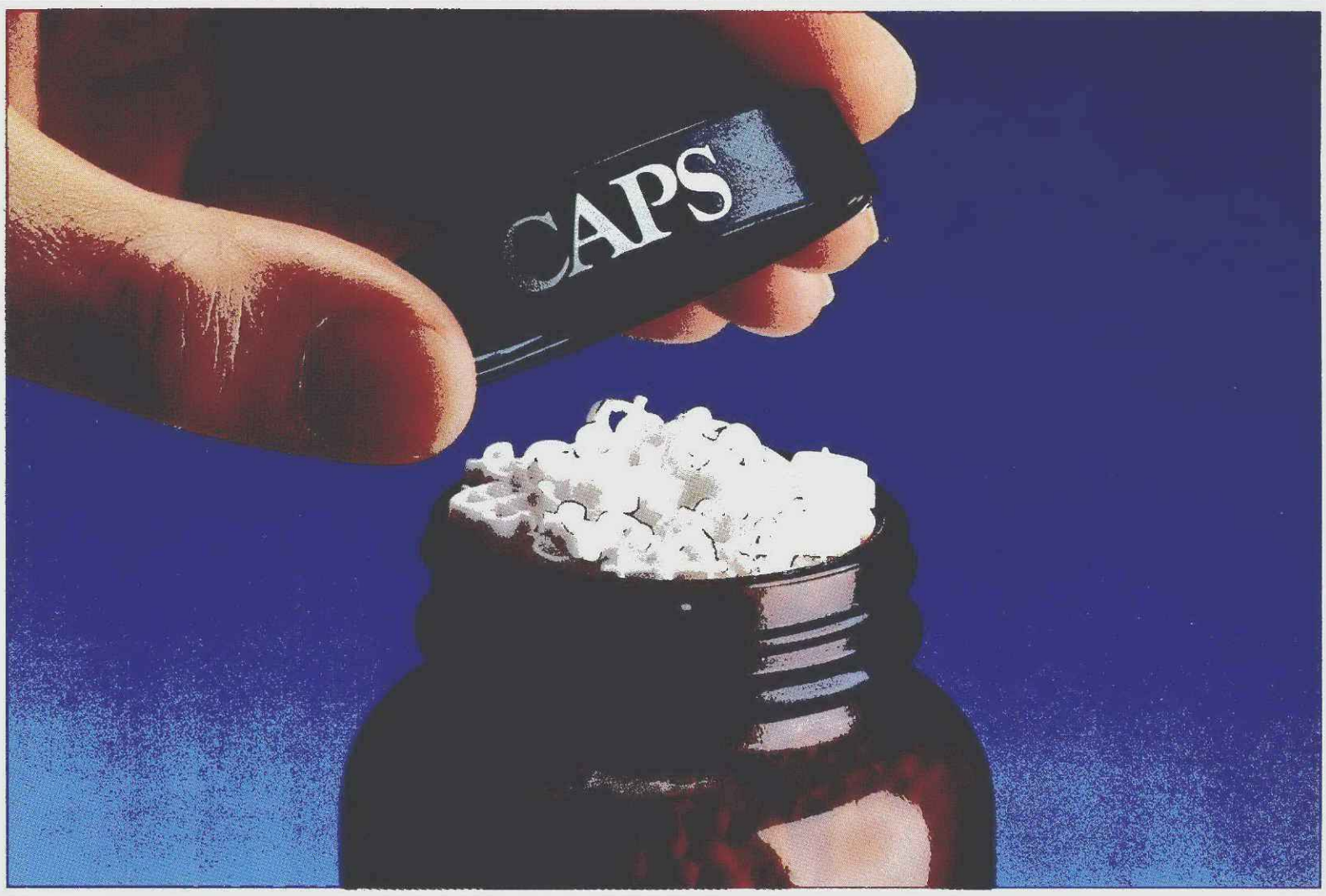
For the moment, JFS expects to remain privately owned.

"No one's going to buy us," says Mr. Jenner. "We enjoy being a private company. We do what we want to do and with whom."

And, the company still remembers its beginnings.

The shooting contest started by Mr. Blades is still held every summer between Jenner Fenton Slade and Sir Peter Green's underwriting agency, Janson Green Ltd.

"We have had the horns for three years running," said Mr. Slade. The tail-end of the raccoon hangs on the wall of Sir Peter's office at Janson Green. ■



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Citicorp-owned Lloyd's broker hopes to grow

LONDON—Growth is on the agenda for Citicorp Insurance Group, the Lloyd's of London broker now owned by the world's largest bank, according to the broker's chairman.

The broker, previously called Grindlay Brandts Insurance Brokers Ltd., was sold to Citicorp in June 1984.

"We used to be owned by Grindlays (a British bank), which gave us a small gold mine in the sky," says Chairman Ron Gale.

"Now we are owned by the biggest gold mine in the sky."

Although the brokerage has been owned by Citicorp for more than a year, to everyone at Lloyd's, the broker is still "Brandts."

Mr. Gale expects that, with Citicorp's financial strength, the Citicorp Insurance Group will grow into one of the top 10 or 15 Lloyd's brokers in the next five or 10 years.

But, Mr. Gale is approaching the broker's growth with caution.

"We are not trying to get indigestion and take on so much business that we cannot handle the stuff. That is stupid because we know we would lose credibility." Already, the brokerage has added 40 to 50 employees in the 15 months since it was bought by Citicorp.

The broker currently has 170 employee in offices throughout the world.

Two areas in which the brokerage is strong are construction risks and financial institution coverages such as bankers blanket bonds. The brokerage also has a strong construction department and a strong international division, which is growing as reinsurance that used to be written in other world markets comes back to London, Mr. Gale says.

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Lloyd's 1982 profits to be cut: Analysts

By STACY SHAPIRO

LONDON—Two separate groups of analysts believe that heavy losses in Lloyd's of London's non-marine market will reduce Lloyd's 1982 profits to about half of what they were in 1981.

Lloyd's later this week will release its global results for 1982, the latest year to close under its three-year accounting system.

The groups, Financial Intelligence & Research and Chatset Ltd., both say long-tail liability claims and the losses at syndicates formerly managed by PCW Underwriting Agencies Ltd. will cut into Lloyd's profits.

Both groups also say that Lloyd's will show an overall underwriting loss for the second consecutive year.

And, the groups say that although three of Lloyd's markets—marine, aviation and motor—made an underwriting profit in 1982, those profits will not be enough to wipe out the deficit. Instead, Lloyd's 1982 profits will be solely attributable to investment income.

However, the two rival groups do not agree on the exact numbers Lloyd's will announce this week.

Financial Intelligence & Research believes Lloyd's profits will drop by 47% to around 80 million pounds from 151.9 million pounds, says Peter Anderson, the head of FIR. However, Chatset, a company formed by two Lloyd's members, says profits will plunge 57% to 64 million pounds.

FIR bases its analysis on results from 401 of the 431 syndicates at Lloyd's in 1982. FIR received its syndicate information from Lloyd's Central Registry office, where all syndicate accounts must be kept on public file.

According to FIR's computer analysis, Lloyd's will show this week that the market wrote 2.88 billion pounds of net premiums in 1982, up 27% from 1981 net written premiums of 2.26 billion pounds.

However, Lloyd's net incurred claims will increase 31.4% to just more than 3 billion pounds in 1982 from 2.3 billion pounds in 1981, Mr. Anderson says.

As a result, Lloyd's will nearly triple its pure underwriting loss in 1982 to 150 million pounds, compared with 44 million pounds in 1981, Mr. Anderson predicts.

Expenses, too, will shoot up 20% to 200 million pounds in 1982, compared with 166 million pounds in 1981, Mr. Anderson predicts.

But, investment income will save Lloyd's from an overall loss, according to FIR's analysis. Lloyd's will report 430 million pounds in investment income in 1982, up from 362 million pounds in 1981.

As a result, Lloyd's will show its 1982 global profit of around 80 million pounds, says Mr. Anderson. "The fall of results is clearly due to underwriting, which is down by a third," he notes.

Mr. Anderson blamed the non-marine market for the underwriting loss at Lloyd's, but couldn't supply underwriting results for the individual Lloyd's markets except to say the other three markets showed a slight profit. But, he cautioned against premature analysis of Lloyd's results.

In 1981, Lloyd's results reflected a 39 million pound loss from syndicates once managed by PCW. However, Minet Holdings P.L.C., PCW's parent, and Alexander & Alexander Services Inc. paid 38.17 million pounds of the loss after the 1981 accounts officially closed (*BI*, Sept. 10, 1984), and Mr. Anderson says he doesn't know if Lloyd's 1982 accounts will reflect that refund. Also, he notes that inconsistencies in the use of exchange rates could distort the estimates.

Chatset predicts Lloyd's will show a 57% drop in profits to 64 million pounds for 1982, compared with FIR's estimate of 80 million pounds.

Chatset is a company formed by John Rew and Charles Sturge, two members of Lloyd's. Mr. Rew and Mr. Sturge carried out the first analysis of Lloyd's syndicate results for members three years ago. Chatset bases its estimates on the syndicate results that Lloyd's members receive in the mail from their members' agencies. This year, Chatset estimates include the 1982 results of 314 syndicates, which make up about 95% of Lloyd's stamp capacity, says Mr. Sturge.

Earlier this year, as members of the Assn. of Lloyd's Members, Mr. Sturge and Mr. Rew predicted that Lloyd's would have an overall loss of between 70 million pounds and 100 million pounds (*BI*, May 20). But, since then, the two have revised their estimate.

Chatset now believes that Lloyd's will show 1982 net written premiums of 3.26 billion pounds, but the claims and expenses will jump to around 3.7 billion pounds, eroding the underwriting result substantially. They predict that Lloyd's underwriting loss will be 439 million pounds, about 10 times the 1981 underwriting loss of 44 million pounds.

The 1982 underwriting loss will come primarily from Lloyd's non-marine market, says Mr. Sturge. The market took in 1.27 billion pounds of premium income, but will post an underwriting loss of 315 million pounds in 1982, he says.

Lloyd's overall investment income of 145 million pounds plus 358 million pounds of capital appreciation will boost Lloyd's global profits for 1982 to 64 million pounds, according to Chatset.

Chatset says the marine market will show a substantial profit of 63 million pounds in 1982; the aviation market will earn a 33 million pound profit; the motor market will report a 21 million pound profit; and the non-marine market will report an overall loss of 103 million pounds.

Mr. Sturge believes the non-marine losses come from specific binding authorities that involve municipality coverage, errors and omissions coverage, trucking and a personal accident plan for college students, as well as long-tail liability claims.

Mr. Sturge and Mr. Rew also emphasize that Lloyd's does not include the commission that members pay to their agents in its global results. Not including the 50 million pounds in profit commission paid to members' agents for 1982, Lloyd's members actually only make about 14 million pounds in profit for the year, they say.

When Lloyd's announces its 1982 global results this week, it will not divide the results among the marine, non-marine, aviation and motor markets as the analysts have. Since 1983, when Lloyd's announced its 1980 results, Lloyd's has divided its global results into classes of business rather than by markets. The classes used by Lloyd's are general liability, ship damage and liability, property, motor vehicle, aircraft, goods in transit, accident and health, life and pecuniary loss. Lloyd's also does not separate premiums from other sources of income or claims from other expenditures in its global results. ■

PBGC sues Buck

Continued from page 2

PBGC have been damaged," the suit says.

The PBGC lawsuit seeks unspecified damages from Buck for losses suffered by the agency's insurance program as a result of Buck's action. In addition, the PBGC is asking the court to bar Buck from preparing and signing pension actuarial valuation statements for clients unless the statements are reviewed and approved by other professionals.

Buck Consultants, the nation's fifth-largest benefit consulting firm with $70 million in 1984 revenues, would not comment on the suit or its professional liability coverage.

Large benefit consultants typically purchase professional liability coverage with limits ranging from $15 million to $100 million, say consultants at other firms. Deductibles range from $250,000 to $500,000 they say, adding that much of the coverage is written in the London market.

In filing the lawsuit, the PBGC made it clear that it is sending a message to the pension actuarial community.

"The PBGC has brought this legal action to redress the very substantial harm that it has suffered due to inadequate contributions to the Mesta Machine Co. pension plans," said Mr. Mackiewicz.

"We hope that, in addition, this case will encourage all actuarial firms to review the assumptions that underline their plan valuations, particularly where plans contain shutdown benefits, and to rectify any inadequacies that may exist," he said.

To prevent further suits by the PBGC, actuaries could make more conservative assumptions and recommend that employers increase their pension contributions, some experts say.

"Our fear is if this is the beginning of a series of lawsuits. . .that could have a real chilling effect on actuaries to make them much more conservative in their funding assumptions," said Gary Simms, general counsel for the American Academy of Actuaries, a professional organization in Washington.

"Whenever there is an outside pressure (fear of litigation) toward changing actuarial assumptions, which is not necessarily related to the actual need of the plan, there is a possibility that the assumptions will be distorted from what they need to be in reality," he said.

If overly conservative assumptions are used and plans subsequently become overfunded, employers might face new pressures from employees to boost benefits, Mr. Simms said.

In addition, some say a company might lock horns with the Internal Revenue Service, which could contend that too much money was contributed to the plans and disallow full tax deductions.

The PBGC had filed suit against Mesta in 1983 to force the machine tool builder to terminate the two underfunded plans, which covered hourly and salaried employees (*BI*, Dec. 26, 1983).

The PBGC and Mesta in 1984 reached a settlement in which Mesta, which has been reorganized as Mestek Inc., paid the agency $1 million in cash (*BI*, July 23, 1984). Mestek also agreed to give the PBGC:

- 10% of the common stock to be issued by Mestek.
- A 10-year promissory note with a face value of $2.45 million.
- A 20-year convertible note with a face value of $1.95 million, which the PBGC can convert into common stock.
- Twenty-year warrants to purchase up to another 5% of Mestek common stock.
- The right to a share of Mestek's future profits, if any, over a 15-year period.

In return, the PBGC dropped its suit against Mesta and took over the two Mesta plans, which have 2,530 participants, including 2,024 retirees.

The PBGC contends that its liability from the Mesta plans, would be smaller than its estimate of $56 million if more money had been contributed by Mesta to the plans to fund the shutdown benefits.

Such benefits, often found in smokestack industries and offered to veteran employees, are triggered when plants are closed. They are designed to give older employees, who because of age would find it difficult to obtain a new job, immediate retirement benefits.

Under the Mesta plans, salaried employees who were at least 55 and whose age and years of service totaled 70 were eligible to receive the shutdown benefits.

In addition, employees under 55 whose combined age and years of service totaled 80 also were eligible for the benefits. ■

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HIGH-TECH LOSSES

Absolutely Brilliant and Futuristic High-Tech Thinkers often ignore (or are unaware of) the old standbys of good loss prevention practices as they apply to the protection of property and profit. During the past few years, Industrial Risk Insurers has found a great amount of intellect and energy devoted to the acceleration of technological growth, but a lack of knowledge and control over the ordinary dangers of combustible contents, combustible construction, and special hazards. Let's examine a few examples in the semiconductor industry:

Research Laboratory. April 1983. Northeastern U.S.A. Cause: immersion heater in polypropylene tank. Sprinkler protection: none. Damage: immediate booth destroyed; entire cleanroom contaminated. Estimated loss: $1.7 million. IRI Comment: this kind of loss is becoming as common as an old shoe. With immersion heaters and plastic tanks, it's not a question of whether a loss will happen, but **when.** The double trouble of this loss was the combination of the immersion heater in the plastic tank and a cleanroom which lacked sprinkler protection, yet was loaded with combustibles.

Fabrication and Testing Area. April 1981. West Coast U.S.A. Cause: silane gas released to fiberglass reinforced plastic duct; ignition followed. Sprinkler protection: complete above and below ceiling, but lacking within the duct. Damage: exhaust ductwork destroyed; damage to computer system, other equipment and stock. Estimated loss: $1.6 million. IRI Comment: after the loss, it was determined that the nitrogen purge system was inadvertently shut off, permitting undiluted silane to contact air and ignite spontaneously. A critical omission in this incident was lack of sprinklers in the plastic duct, although a case could be made for using noncombustible duct in the first place.

Wafer Fabrication Section. February 1985. Western Europe. Cause: immersion heater in a plastic wet bench (sound familiar?). Sprinkler protection: complete, except for spaces above noncombustible, suspended ceilings. Damage: wet bench and exhaust hood damaged beyond repair; corrosive fumes caused serious damage to highly sensitive electronic and optical equipment. Estimated loss: $5.4 million. IRI Comment: another classic case of **when,** which completely interrupted production for two weeks and partially interrupted it for 14 weeks more.

There Have Been Many Losses in the Semiconductor Industry, and there are still many more potential situations which are of great concern. Because of this, IRI studied the subject and established protection guidelines in an attempt to control losses in this industry. The results of this work are available in two forms: the 2nd Quarter 1982 issue of **The Sentinel,** our external house organ, which features a "Focus on Semiconductor Manufacturing"; and procedure manual section, P.11.1., titled "Guiding Principles for the Protection of Semiconductor Facilities". A complimentary copy of each is available from Mrs. P.A. Sasso, IRI, 85 Woodland Street, Hartford, Connecticut 06102 or call (203) 525-2601.

Industrial Risk Insurers

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update

Cast insurance on Samantha

Continued from page 2

Columbia Pictures says it has not yet decided how Miss Smith's character will be treated in subsequent episodes of the television series.

AMI shuts down 2 captives

COSTA MESA, Calif.—American Medical International Inc., a major hospital chain, will self-insure a portion of its medical malpractice risks following its decision to wind down its two Colorado captives.

Denver Insurance Co. and Greenway Insurance Co., which have written primary medical malpractice coverage for AMI, will continue to operate until current claims are run off, said Janet Kiser, an assistant vp and risk manager at AMI in Costa Mesa.

Ms. Kiser cited several reasons for the hospital company's decision, including high administrative costs; the spate of court decisions denying employers the right to take tax deductions for premiums paid to captives; and Colorado's restrictions on captives' investments.

Denver Insurance Co. wrote about $8 million in net premiums in 1984, and Greenway Insurance's net premiums totaled about $3 million last year. Both captives are managed by Frank B. Hall Management Co., Ms. Kiser said.

Ms. Kiser would not comment on the self-insured retention except to say it is the same amount as the limits previously written by the captives. National Union Insurance Co. of Pittsburgh, Pa., is the major excess insurer.

Meanwhile, AMI will not activate its Vermont-domiciled captive, Park Center Insurance Co., which was chartered last year, Ms. Kiser said.

AMI had considered using Park Center to reinsure group health plans marketed by AMI to other employers, but it decided instead to purchase a licensed insurer, Fidelity Interstate Life Insurance Co. of Los Angeles, to reinsure the coverage (*BI*, July 22).

Michigan commissioner resigns

LANSING, Mich.—Nancy A. Baerwaldt, who has served as Michigan's insurance commissioner since 1980, is stepping down.

Ms. Baerwaldt will leave her post at the Michigan Insurance Bureau on Sept. 13 to become associate vp for public policy with Mercy Health Services in Farmington Hills, Mich.

Early last year, Ms. Baerwaldt was named as a defendent in lawsuits filed in federal and state courts challenging her role as administrator of the Michigan Accident Fund, the state workers compensation fund and the fourth-largest writer of work comp coverage in Michigan (*BI*, Oct. 17, 1983; Feb. 6, 1984; May 25). The federal court suit is still pending.

Ms. Baerwaldt was named insurance commissioner in August 1980 by Gov. William G. Milliken, a Republican. A new insurance commissioner has not yet been named by Gov. James J. Blanchard, a Democrat.

Lloyd's members file suit

LONDON—Three Lloyd's members belonging to syndicates managed by Oakley Vaughan (Underwriting) Ltd. are suing Lloyd's of London for failing to disclose the results of a Lloyd's inquiry into the agency.

The probe was conducted in 1981, before the enactment of the Lloyd's Act of 1982, which grants Lloyd's immunity from suits filed by its members.

Following the inquiry, three employees at Lloyd's broker Oakley Vaughan & Co. Ltd., the underwriting agency's parent, were suspended from Lloyd's for two years. Lloyd's has never said why the employees were suspended.

The suit, filed in High Court in London last week by Lloyd's members John Leon Golbart, Sydney Freed and Richard Douglas Overall, names Lloyd's, the underwriting agency and James St. George, a senior executive at the brokerage and one of the men suspended.

The suit does not specify damages.

Sources at Lloyd's said the suit was filed by the three syndicate members because they face heavy losses from the 1982 accounting year, which was just closed under Lloyd's three-year accounting system.

The suit accuses Lloyd's of breach of contract, duty and good faith for not releasing the results of the probe.

The suit alleges negligence and breach of duty against the underwriting agency and Mr. St. George for failing to properly manage the members' business and for failing to disclose the results of the probe.

A Lloyd's spokesman said the suit "would be vigorously defended."

Mr. St. George and Oakley Vaughan would not return phone calls.

Old Republic faces losses

CHICAGO—Old Republic International Corp. says claims filed against a mortgage guarantee insurance subsidiary stemming from financial difficulties at a Maryland thrift institution could lower Old Republic's consolidated earnings by $50 million to $55 million.

Old Republic said the subsidiary, Republic Mortgage Guaranty Insurance Co., faces the losses from Community State Savings & Loan Assn. of Bethesda, Md., whose real estate investment subsidiary, Equity Programs Investment Corp., missed payments last month on $1.4 billion of mortgage-backed securities.

Old Republic said it is reviewing the situation, adding that the losses could be reduced if the savings and loan and its subsidiaries are successfully restructured.

Manville lawsuit

Continued from page 2

moval of materials containing asbestos in naval shipyards, thereby causing Mr. Robinson's injuries.

- Had exclusive control over the specification of these asbestos products and had knowledge superior to J-M's about the risks of working with asbestos. The government therefore had an implied duty to indemnify J-M for any damages resulting from the company's compliance with government specifications.
- Breached an implied warranty to use asbestos-containing material in a safe manner designed to prevent exposure to an excessive concentration of asbestos and to use the material in a manner to conform with recognized and government-adopted standards.

The government sought to dismiss J-M's suit, however, contending the complaint failed to state a claim upon which the court could grant relief. The government also alleged the court did not have jurisdiction over the subject matter of the suit.

Applying California law, Judge Peckham said the suit is permissible but pointed out that the company would have to prove a number of things before it could successfully press its suit.

"The court analyzes J-M's claims under California tort law and finds that J-M's allegations do support a cause of action that sounds in tort," he said.

"J-M must prove that the government forced J-M, under the threat of civil and criminal sanctions, to supply asbestos that conformed to government specifications, and that the government had knowledge superior to that of J-M's that asbestos was harmful to the safety of its workers. Furthermore, J-M must show that the government failed to implement safety procedures to protect its workers."

In his decision, Judge Peckham said the California law of "special relationships" lent legal support to J-M's claims. To establish a "special relationship," J-M has to establish that the government could have foreseen the harm of asbestos exposure. And, J-M must establish that the government placed J-M in danger or acted in such a way that J-M was dependent on the government, the court said.

In this case, the court said J-M's allegations show the foreseeability of the dangers of asbestos on the part of the government and that J-M was clearly dependent upon the government because it was compelled to supply asbestos for ships on which Mr. Robinson worked.

"The court concludes that the defendant created a special relationship with J-M when it allegedly required J-M, under penalty of law, to supply products the defendant knew to be dangerous to its workers," the court said.

While California has recognized that there may be a tort duty arising from a contractual relationship, the courts have never recognized the duty in a buyer-seller relationship, the court noted.

However, J-M did not have a typical buyer-seller relationship with the government, it added.

"The tort duty on the part of the government is limited to injury J-M suffered by way of lawsuits caused by asbestos that J-M was forced by law to supply to the government, not from asbestos J-M voluntarily contracted to supply," the court said.

In a separate part of the opinion, the court also said Manville could recover from the government in the government's capacity as a vessel owner.

"We're very happy and very pleased," Manville attorney Mr. Batson said. "We feel we have an opportunity to recover in tort as well as in contract."

A Justice Department attorney, however, said while the government was disappointed with the decision, its impact would not be great because Manville must still prove numerous allegations that the government believes cannot be proven.

"I don't view it as particularly significant," said Peter Nowinski, director of the torts branch of the Justice Department's civil division. Mr. Nowinski added that while the government has not decided whether it will ask the 9th U.S. Circuit Court of Appeals to review the decision, it probably would not do so.

An attorney for other asbestos producers said last week the decision would be helpful in their claims against the government.

Joe Hollingsworth, an attorney for Eagle-Picher Industries Inc. and UNR Industries Inc. in their litigation against the government, said he considered the court's ruling on the "special relationship" between Manville and the government "to be new law."

Mr. Hollingsworth, a member of the Washington law firm of Spriggs, Bode & Hollingsworth, said he plans to seek similar rulings in other jurisdictions as an additional basis for tort claims against the government. ■

Air crash claims

Continued from page 1

Aerienne, a French insurer; and 25% by United States Aircraft Insurance Group. The other 15% was divided among Aviation Office of America Inc. in Dallas, a subsidiary of Crum & Forster; American International Aviation Agency Inc., a subsidiary of American International Group Inc.; and Insurance Co. of North America in Philadelphia, a CIGNA Corp. subsidiary.

The coverage was brokered in the United States by Frank B. Hall & Co. Inc. and in London by Hall unit Leslie & Godwin P.L.C.

The federal government's agreement to contribute to the cost of property and liability claims was spelled out by Robert L. Alpert, senior vp of United States Aviation Underwriters, in a May 1983 letter to Pan Am's insurers. United States Aviation Underwriters is USAIG's manager.

A copy of Mr. Alpert's May 1983 letter and others related to the settlement of claims were given to *Business Insurance* on the condition that the source of the letters not be disclosed.

Mr. Alpert also said in his letter that insurers had settled for $600,000 all claims with the widow and estate of the flight captain and for $275,000 all claims filed by the widow and estate of the engineer.

It was anticipated that a similar lump-sum payment of approximately $450,000 would soon settle the compensation claims of the widow and the estate of the first officer, Mr. Alpert reported.

"These lump-sum settlements are substantially below the actuarial payments for which Pan American's liability insurers might have become obligated to pay under the applicable compensation program for which the liability policy provides coverage above appropriate state compensation benefits," the letter adds.

It notes the workers compensation policy provided for benefits in the amount of $100,000 for each cockpit crew member plus one lump-sum payment for all crew members of $300,000.

Mr. Alpert wrote that the unnamed workers compensation insurer had paid the present value of each $100,000 payment and the single $300,000 payment.

"Accordingly, liability insurer's payment for McCullers (the captain) is $517,393.12 and for Noone (flight engineer) is $193,913.50," the letter says.

A June 14, 1984, letter from Dominick A. Alfieri, assistant vp of United States Aviation Underwriters, also lists the outcome of more than 30 crash-related settlements and jury verdicts from March to the date of the letter.

The settlement amounts, which included settlements with those on the ground who filed property claims and with the relatives of passengers, ranged from $1,000 to $1 million.

Jury verdicts in 14 cases, which included property damage and/or mental anguish and passenger claims, ranged from $1,000 to $5.2 million, although the court reduced the latter verdict to $2.4 million.

Of these 14 verdicts, the insurers appealed seven.

Mr. Alpert was unavailable for comment last week. Other Pan Am insurers also declined to comment.

In the meantime, spokesmen for the government said they do not believe the Pan Am settlement sets a precedent for a similar settlement in the Aug. 2 Delta crash in Dallas, which killed 135 people. Wind shear also has been blamed for the Delta disaster.

"The settlement doesn't set a precedent," said a spokesman for the FAA. "It would not apply in the Dallas accident.

"The whole thing is an aberration. It is typical of nothing."

"It's not precedent-setting in any way," said Mr. Dillman. "We will participate in the settlement of the Dallas cases or decline to participate totally on what the facts turn out to be.

"It will have no effect whatever in my thinking in settling the Delta cases."

Mr. Dillman said the government has participated in settlements of other cases similar to the Pan Am crash, but that it has not met with Delta's insurers.

In the Pan Am crash, the government feared litigation brought by passengers entitled under an international treaty to only $75,000 in compensation from Pan Am.

Because of this limitation and under rules of joint and several liability in Louisiana, the government potentially would have had to pay any award over $75,000 if it had been found even minutely negligent.

"That was obviously a big factor," Mr. Dillman said, who estimated that close to one-half the passengers were traveling on international tickets.

"It was cheaper to pay a percentage of the claim and admit liability and agree with Pan Am's insurance carrier to pay a share of the claim than to go to court and risk big damage awards," the spokesman said.

"The government was faced with the prospect of picking up damages exceeding $75,000 in 60 or so cases," Mr. Dillman said.

An attorney representing plaintiffs in the Pan Am and Delta litigation said the government should not have agreed to pay anything and that it would be a precedent for government contribution in future cases.

"In my opinion, Pan Am is simply working voodoo on Uncle Sam," said John Cummings, an attorney with the New Orleans firm of Cummings & Cummings.

He said there should be an investigation into why the government participated in the settlement.

"It's not proper," Mr. Cummings added. "It's a subsidy for the insurer. The government never should have paid a penny."

There are approximately 50 cases pending from the Pan Am crash, most of which are for property damage, a spokesman for U.S. District Court in New Orleans said last week.

Property damage claims, as Mr. Alpert's letter shows, have settled at very low amounts. As of September 1984, for example, 33 property damage claims had been settled for an average of $2,753. ■

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* Source: Business/Occupational breakdown of qualified circulation, May 6, 1985 issue, as submitted to BPA for June 1985. BPA Publisher's Statement.

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Coverage denied

Continued from page 1

seeking coverage for more than $110 million in product recall, business interruption and extra-expense losses incurred in the removal of Tylenol from store shelves (*BI*, Jan. 10, 1983).

Cyanide-contaminated Tylenol capsules caused seven Chicago-area deaths in September 1982.

After withdrawing Tylenol capsules from stores, J&J remarketed the product in tamper-resistant packaging.

Affiliated FM and J&J both filed motions last year asking the court to decide whether Tylenol-related losses are covered by the policy's business interruption clause. Johnson & Johnson had dropped its claim for extra-expense coverage in early 1984, noting that business interruption losses would exhaust the $50 million limit of the Affiliated FM policy.

Instead of granting summary judgment, Judge Lacey held a mini-trial earlier this year on the business interruption coverage question.

The business interruption clause in question covered losses sustained "as a result of physical damage caused directly by the perils insured against hereunder to that property specified elsewhere in this policy which is utilized by the insured and situated at location(s) therein described."

Affiliated FM argued that the "property" referred to in the clause includes only equipment, buildings and other material used in the manufacturing process, and does not apply to finished products like Tylenol.

The insurer also contended that Mr. Molineux understood that the coverage applied only to such "production property."

J&J, on the other hand, argued that property "utilized by the insured" includes Tylenol capsules even after they had been sold to third parties, asserting that Tylenol in the marketplace was used by J&J to generate further demand for the product.

Even though it negotiated the policy's terms with Affiliated FM, J&J claimed that most of the policy language was standard and that J&J's participation in drafting the form consisted mainly of rearranging the standard policy terms and in some cases suggesting changes.

Affiliated FM—which repeatedly told J&J during the negotiations that the policy would "provide the broadest coverage possible"—had the opportunity to replace the "ambiguous" language of the clause with language that limited coverage to production property, J&J argued, noting that Affiliated did not do so.

However, Judge Lacey concluded that the language of the policy does not provide the coverage J&J claimed.

"Tylenol capsules, after having been unconditionally sold to third parties in the marketplace, were not property insured for physical damage under the policy," Judge Lacey's opinion reads.

Therefore, the policy's business interruption clause isn't triggered by Tylenol-related losses.

Although J&J argued that the business interruption language should be interpreted broadly, Judge Lacey noted several indications that J&J itself never intended the policy to cover situations like the Tylenol recall.

In 1979—two years before the Affiliated FM policy was bound—Mr. Molineux advised J&J's executive committee that insurance was available for product recall risks, but that it was too expensive, according to the opinion.

The Affiliated FM policy also included contingent business interruption coverage for losses resulting from damage to the facilities of customers or suppliers.

The contingent coverage—for which J&J paid an additional premium of $49,000—shows that J&J and Mr. Molineux recognized that the basic business interruption language had to be extended to cover losses caused by damage to property not insured under the Affiliated FM policy, Judge Lacey concludes.

J&J argued that Mr. Molineux added the contingent coverage to avoid the risk that Affiliated FM would point to the basic business interruption clause to deny such claims.

But if this was the case, "Molineux would have turned to Affiliated's representatives across the table and asked them their position as to whether the basic business interruption provision covered loss resulting from damage to property not insured for physical damage," Judge Lacey wrote. "Instead, he drafted separate coverage provisions precisely for that situation and paid Affiliated $49,000 for the privilege of doing so."

Mr. Molineux also "seriously entertained" proposals for retroactive insurance covering the Tylenol losses, "which he would have disregarded if he had believed there was the coverage here claimed," Judge Lacey wrote.

The opinion stressed that Mr. Molineux and other J&J employees extensively negotiated the policy terms with Affiliated FM underwriters—including line-by-line discussions of the language—and were aware of the coverage provided.

"If Mr. Molineux found something ambiguous and wanted it clarified so that he would be sure to get the coverage he wanted, he could have and would have moved to change the language. It follows that what he did not change he did not find ambiguous," Judge Lacey wrote.

Rather than following a rule of insurance law that ambiguities in a policy be interpreted against the insurer, Judge Lacey interpreted the coverage using principles of contract law, under which he tried to determine the intent of J&J and Affiliated FM as expressed in the policy wording and supported by evidence of intent outside the policy.

Franklin M. Sachs, a lawyer with the Newark firm of Podvey, Sachs & Catenacci, representing Affiliated FM, said that Judge Lacey's opinion is the first in which contract-law principles have been used in interpreting an insurance policy under New Jersey law.

Similar decisions have been made in insurance cases in other states, he said.

Mr. Diskant said that J&J will argue on appeal that evidence of each party's "unstated understanding" about the scope of coverage is irrelevant, and will cite a case in which the 3rd U.S. Circuit Court of Appeals court found a negotiated policy ambiguous and construed it against the insurer. ■

Hockey players' union demanding retirement program improvements

By DIANE LYNN KASTIEL

TORONTO—The National Hockey League Players' Assn. is demanding improved pension benefits in the 1986-87 season for the 500 players on 21 National Hockey League teams.

The Toronto-based players' association wants to trade the NHL's existing defined benefit pension plan for a new defined contribution plan, according to Sam Simpson, director of operations for the NHLPA.

Under the current NHL plan, retired players receive an annual benefit of $1,000 for each season they played in the league. Players may begin collecting benefits at age 45.

Players are 100% vested after they have played in 210 games or about 2½ seasons, Mr. Simpson explained.

In the future, the NHLPA wants NHL teams to contribute a set amount to a pension fund every year, which the NHLPA will administer, although the union has not determined how much it will ask the teams to contribute, Mr. Simpson said.

The association also is anticipating renegotiating the disability insurance coverage for players provided by the NHL when its current contract expires in September 1986.

Currently, players who are injured under any circumstances receive a lump-sum benefit of $100,000 from the NHL if the injury ends their professional hockey career.

In addition, injured players receive a separate $75,000 benefit from the NHLPA.

The NHL has said that it wants to renegotiate the amount of disability coverage it provides players during the next contract period because the current coverage is expensive and too many players are collecting disability benefits, Mr. Simpson said.

The disability coverages provided by both the National Hockey League and by the players association are written by underwriters at Lloyd's of London, Mr. Simpson said. ■

Premium tax

Continued from page 2

would be taxed at the same rate, regardless of the companies' profitability.

Industry groups now favor a proposal under which a portion of unearned premium income—up to 20%—gradually would be taxed over the next five years. Premium income currently is not taxed until it is earned.

The Ways and Means Committee will consider the premium tax issue and other tax matters when it meets Sept. 7-8 at a private retreat in Warrenton, Va., to discuss its strategies for considering and passing a tax reform package. ■

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Section 404A rules

Continued from page 1

oil, auto and communications industries, he said. He declined to identify the companies.

The effect of 404A treatment on a specific corporation depends largely on whether its overseas operation is a branch or a subsidiary and whether the deferred compensation plan is a book reserve plan, in which pension costs are carried on the foreign operation's books as a liability although no money is set aside, or a funded plan. For example, experts say subsidiaries with funded plans would not reap many advantages under 404A.

Many corporations object to provisions in the proposed regulations, which were released in April.

The proposed regulations take an "unnecessarily" hard line in a number of areas, would place an "unreasonably" heavy reporting burden on companies and would necessitate the additional use of third-party advisers, says a report issued by benefit consultant William M. Mercer-Meidinger Inc.

"They would impose a truly staggering burden of information gathering, analysis, computation and reporting," agrees IEPA's Mr. Heckman. "The data must be culled out of (at present) 14 years, worth of records maintained on-site in foreign languages."

One of the key objections is that corporations would only be allowed 90 days to decide if they will opt for 404A treatment of all their foreign plans.

That would be "an absolute impossibility" for any U.S. taxpayer, said Frank H. Kettle, vp and controller of TRW Inc., in written comments filed with the IRS.

TRW, a Cleveland-based electronics manufacturer, reported 1984 sales of $6.1 billion, of which $1.1 billion was generated by facilities of non-U.S. subsidiaries.

It would have only 90 days to decide to elect 404A treatment for all its 111 foreign deferred compensation plans, which involve 61 companies in 17 foreign countries.

3M Corp. would have to conduct more than 600 actuarial valuations involving 100 plans over six years, said L.J. Schoenwetter, executive director of tax operations for 3M.

Pending the issuance of final regulations, the IRS allowed companies to preserve their option of electing tax treatment under 404A for tax years generally after 1979. To do that, companies had to make protective elections that they can decide to rescind, but that decision must be made in the 90-day period after regulations are finalized.

The new laws conceivably could apply to as many as 14 tax years if the records on them were still open and the tax due had not yet been determined, said James Holland, IRS project leader.

Ninety days to gather the necessary data and make a decision "is too short a time and there is no good reason for so short a time," said Robert Feldgarden, a partner in the Washington law firm of Lee, Toomey & Kent, which specializes in tax work.

Several consultants and employers urged the IRS to allow companies a minimum of four months to a year to decide whether to elect 404A treatment.

Opting for 404A treatment "involves big bucks and it is a one-time decision that has to be right," stressed Ray Sharp, director of international services for Buck Consultants Inc. in New York.

In addition, companies that did deduct the costs of their foreign deferred compensation plans in the past and do not now file for 404A treatment could incur a tax penalty of up to 25% of the tax deficiency created by the previous deductions, Mercer-Meidinger says.

Another objection employers have to the proposed regulations is that if a corporation elects 404A treatment, it must be applied to all its foreign plans.

It is "extremely impractical" to require 404A treatment in all countries, including those where a company has relatively small numbers of people, TRW's Mr. Kettle said.

The pension expenses involved for employees in these nations are so small that the cost of accumulating supporting documents would far exceed any benefit, he said.

TRW could be required to supply supporting documentation for each year for which it sought deductions, as far back as 1970. Actuaries have estimated that it would cost TRW $20,000 to $25,000 for each of its 111 plans to provide the necessary information, according to Mr. Kettle.

That "rather prohibitive" cash outlay is too great to warrant valuations before regulations are finalized, he added.

Corporate executives also are concerned that the proposed regulations do not allow salary increases to be anticipated under book reserve plans, and once salary increases occur, they must be amortized over 10 years.

This means that company's reserves are limited to current earnings, and thus the reserves would be less than they would be if a company could anticipate salary increases.

"It was a surprise. I don't think anyone expected that," said attorney Mr. Feldgarden.

In addition, annual actuarial valuations of book reserve plans are required, which will increase the cost of maintaining the plan.

The proposed regulations also require that a valuation be performed for the first plan year or accounting period for which a funded plan election is in operation, said Kwasha Lipton's Mr. Heitzman. If a valuation has not been done previously, it may be "difficult or even impossible" to collect the data now, added Mr. Heitzman.

Giles Archibald, an international consultant with Mercer-Meidinger in New York, said employers could need three different valuations for operations in some countries: one for 404A, one for book reserve allocations and one for the Financial Accounting Standards Board. "Substantially increased fees to third-party advisers will result."

The cost of actuarial valuations could range from about $5,000 for a plan covering a few hundred employees to about $20,000 for a plan covering as many as 4,000 employees, estimated IEPA's Mr. Heckman.

Many critics of the proposed rules suggested requiring valuations for reserve plans every three years rather than every year.

Employers also criticize the fact that companies that did not make protective 404A elections in prior years cannot now take advantage of 404A for those years, according to the proposed regulations.

Despite the widespread criticism of the proposed regulations, most large companies are expected to adopt tax treatment under 404A because of the significant tax advantages it offers.

And, the proposed regulations are not all bad news, consultants say.

They provide many of the answers employers sought and they do offer employers some advantages.

For example, the regulations allow the use of the U.S. long-term, corporate bond rate to determine the interest rate used in actuarial assumptions in countries with no long-term corporate bonds. In South America, where there is a high rate of inflation, that provision makes up for a lot of disadvantages in the regulations, said Mr. Feldgarden.

However, until the final regulations are issued, employers can do little to move toward election of 404A treatment. It is really premature to go to one of the big actuarial consulting firms and have them crank out some numbers because they could all change after final rules are issued, said Mr. Feldgarden.

In addition, no one knows when the IRS will release the final versions of the regulations, said the IRS' Mr. Holland. "All we are doing is sitting and listening to comments." In the meantime, benefit managers are asking consultants to at least analyze their position and devise a strategy.

There has been almost an "avalanche" of interest, said Buck's Mr. Sharp.

Consultants generally suggest that employers at least begin gathering the appropriate data now.

Sam Bernstein, an international consultant with Hewitt Associates in Lincolnshire, Ill., said employers that have made a protective election for 404A treatment should take the following steps now so they can make an informed decision about whether to use the election or rescind it:

- Obtain a list of countries for which an election was made.
- Identify the type of plan (funded or reserve), the type of operation (subsidiary or branch) and whether dividends have been paid in recent years.
- Determine the first open tax year to which a retroactive election could apply.
- Determine whether employee and plan accounting data is available as of the valuation date in the first open tax year for all plans; if it is not, determine for what plans it is not available. ■

Industry's profit up 99% in first half

The U.S. property/casualty insurance industry's consolidated net aftertax income increased 99% to $1.12 billion in the first half, compared with $562 million in the first half of 1984, according to the Insurance Services Office and the National Assn. of Independent Insurers.

Business Insurance reported last month that the aftertax operating income of 25 major property/casualty companies decreased 2.4% in the first half. The ISO/NAII survey includes insurers that account for 97% of the nation's property/casualty business.

The industry's net written premiums increased 17.7% in the first half to $66 million, almost identical to the 17.6% increase in net written premiums reported by the insurers surveyed by *BI*.

The industry's aggregate combined ratio, as reported by ISO and the NAII, stood at 116.0% for the first half, an improvement over 117.1% in the first six months of 1984. The major insurers surveyed by *BI* posted a first-half combined ratio of 119.0%, compared with 120.3% in the first half of 1984.

In addition, the U.S. reinsurance industry reported a sizable gain in net premium volume and posted an improved underwriting performance in the first half of 1985, according to an informal survey of 67 reinsurers by the Reinsurance Assn. of America.

The surveyed reinsurers reported net written premiums of $3.69 billion during the first half of this year, up 30.7% from the $2.82 billion in net written premiums reported in a similar survey of 79 reinsurers for the first half of 1984 (*BI*, Aug. 27, 1984).

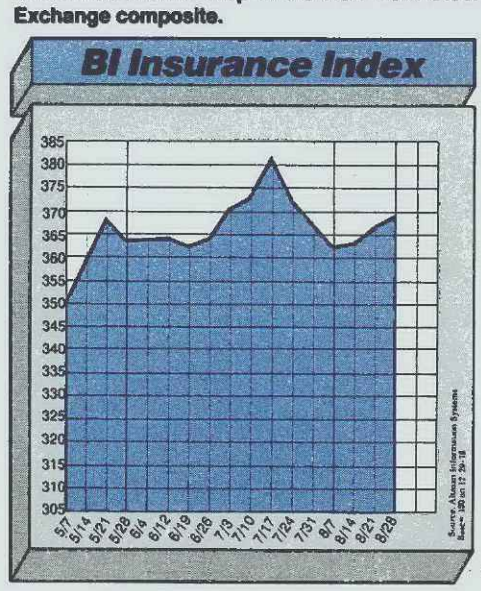
The reinsurers' first-half 1985 combined ratio stood at 120.3%, compared with a 126.2% combined ratio in the first six months of 1984. ■

British Issues

27 Aug Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence pence
Commi Union	225	N/M	16.9	7.5	229—226
Gen! Accident	618	34.3	30.0	4.9	630—618
Gdn Royal Exch	743	21.9	40.0	5.4	767—743
Royal	653	81.6	35.0	5.4	675—653
Sun Alliance	498	27.7	24.3	4.9	520—498
Brokers					
CE Heath	637	8.5	37.5	5.9	637—627
Hogg Robinson	297	12.0	14.3	5.0	287—282
JH Minet	202	11.2	11.0	5.4	202—192
Sedg Grp	395	15.0	17.8	4.5	395—390
Stew Wrightson	650	13.3	31.4	4.8	650—620
Willis Faber	680	17.4	22.8	3.4	680—675

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

The *Business Insurance* stock index continued its upward surge for the third consecutive week. The index closed at 368.6 points for the trading period ending Aug. 28, up 1.7 points from 366.9 points on Aug. 21. A total of 27 stocks posted gains, 24 stocks declined and six stocks were unchanged. The biggest gains were by Crown Life Insurance Co., up 19%; Statesman Group Inc., up 5.9%; Durham Corp., up 4.7%; Nobel Insurance Ltd., up 4.1%; and Old Republic International Corp., up 4.1%. The biggest losses were by Mission Insurance Group Inc., down 6%; SRI Corp., down 4.1%; CNA Financial Corp., down 4.0%; Northwestern National Life Insurance Co., down 3.8%; and Protective Life Corp., down 3.8%. The *BI* index rose 0.5% for the period. There was a 0.1% drop in the New York Stock Exchange composite.



BI Industry Stock Report

August 28, 1985 8/22/85 thru 8/28/85

Brokers		Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol.(000)
Alexander & Alexander Svcs	NYSE	28.13	3.7	3.0	1.00	3.6	28.38	27.50	311.5
Baldwin & Lyons Inc	OTC	60.00	-1.6	9.9	0.80	1.3	63.00	60.00	0.2
Corroon & Black Corp	NYSE	48.50	-2.0	0.0	1.00	2.1	49.13	48.50	21.4
Crump E H Cos Inc	OTC	31.25	-2.3	20.2	0.50	1.6	31.88	31.25	25.4
Emett & Chandler Cos Inc	OTC	16.25	3.2	41.7	0.00	0.0	16.25*	16.00	46.1
Gallagher Arthur J & Co	OTC	38.25	-2.5	21.4	0.28	0.7	39.25	38.25	17.5
Hall Frank B & Co Inc	NYSE	30.13	-0.8	0.0	1.00	3.3	30.50	30.00	179.0
Marsh & Mclennan Cos Inc	NYSE	70.63	0.0	18.1	2.40	3.4	71.50	70.50	72.4
Poe & Assoc Inc	OTC	8.00	0.0	0.0	0.80	10.0	8.00	8.00	3.3
Reed Stenhouse Cos Ltd	OTC	22.00	3.5	28.6	0.00	0.0	22.25	21.25	233.0
AGENTS/BROKERS	AVERAGE			38.2		2.2			
Conglomerates & Holding Cos.									
American Express(Fireman's Fd)	NYSE	42.25	-1.2	14.6	1.28	3.0	42.25	41.63	2,519.7
Anderson Clayton(Ranger/PanAm)	NYSE	40.75	1.6	30.0	1.32	3.2	41.13	40.75	33.3
Armco Inc	NYSE	9.88	-6.0	0.0	0.00	0.0	10.25	9.88	503.6
Berkley W R Corp	OTC	20.50	3.8	60.3	0.32	1.6	20.50*	19.75	276.3
CIGNA Corp	NYSE	55.13	-0.2	77.6	2.60	4.7	55.13	53.75	462.5
City Investing Co. (Home Ins.)	NYSE	27.00	-2.3	4.2	0.00	0.0	27.88	27.00	697.5
CNA Finl Corp (CNA)	NYSE	53.38	-4.0	18.5	0.00	0.0	55.25	53.38	58.9
General Re Corp	NYSE	86.75	2.4	137.7	1.56	1.8	86.75	84.75	195.5
ITT (Hartford Group)	NYSE	33.88	4.2	9.8	1.00	3.0	33.88	32.25	3,362.3
Sears Roebuck & Co. (Allstate)	NYSE	34.88	-2.1	9.3	1.76	5.0	35.25	34.88	3,547.8
Teledyne Inc (Argonaut)	NYSE	248.00	-0.6	5.3	0.00	0.0	248.00	246.25	56.5
Transamerica Corp (Occidental & Fred S. James)	NYSE	28.75	-1.3	14.8	1.64	5.7	28.75	28.00	583.7
CONGLOMERATES/HOLDING COS.	AVERAGE			10.4		1.7			
Insurers									
Aetna Life & Cas Co	NYSE	45.00	-2.2	18.5	2.64	5.9	45.13	44.88	1,178.8
American General Corp	NYSE	30.88	-2.8	9.6	1.00	3.2	31.63	30.63	1,244.5
Amern Heritage Life Invt Co	NYSE	33.25	2.3	9.7	1.20	3.6	33.25	32.50	4.6
American Indty Finl Corp	OTC	20.00	0.0	0.0	1.12	5.6	20.00	19.50	5.3
American Intl Group Inc	NYSE	86.38	1.8	23.1	0.44	0.5	86.38	84.13	250.9
Aneco Reins Ltd	OTC	1.25	0.0	0.0	0.00	0.0	1.25	1.25	8.9
Avemco Corp	NYSE	30.88	2.9	13.5	0.60	1.9	31.13	30.25	9.6
Business Mens Assurn Co Amer	OTC	26.25	-1.9	7.6	1.04	4.0	26.50	25.75	46.5
Chubb Corp	NYSE	71.75	1.8	17.5	2.20	3.1	71.75	69.88	53.5
Combined Intl Corp	NYSE	44.25	-0.3	8.3	2.16	4.9	44.25	43.63	143.8
Continental Corp	NYSE	42.50	2.4	20.8	2.60	6.1	42.50	41.25	490.5
Crown Life Ins Co	OTC	238.00	19.0	14.4	0.00	0.0	238.00*	200.00	0.5
Durham Corp	OTC	41.75	4.7	7.7	1.28	3.1	41.75*	41.25	37.2
Farmers Group Inc	OTC	60.38	-0.6	10.3	1.76	2.9	60.50	59.50	831.7
Fremont Gen Corp	OTC	24.50	-1.0	0.0	0.48	2.0	24.63	24.38	216.3
Great West Life Assurn Co	OTC	425.00	1.2	10.9	1.60	0.4	425.00	420.00	0.1
Hanover Ins Co	OTC	46.25	-1.1	63.4	0.56	1.2	46.50	46.25	19.6
Hartford Steam Boiler Insptn	OTC	53.00	-2.8	16.7	1.60	3.0	54.00	53.00	2.9
Kans City Life Ins	OTC	25.50	0.0	10.0	0.87	3.4	25.75	25.50	4.9
Kemper Corp	OTC	57.75	0.9	16.6	1.80	3.1	57.75	57.38	451.1
Liberty Corp S C	NYSE	30.38	1.2	13.4	0.72	2.4	30.38	29.75	4.1
Lincoln Natl Corp Ind	NYSE	42.38	-1.2	10.2	1.84	4.3	42.50	41.63	95.1
Mission Ins Group Inc	NYSE	5.88	-6.0	0.0	0.00	0.0	6.13	5.88	22.1
Monumental Corp	OTC	33.88	1.9	12.4	1.40	4.1	33.88*	33.63	39.2
Nobel Ins Ltd	OTC	12.75	4.1	16.8	0.25	2.0	12.75*	12.25	46.3
Northwestern Natl Life Ins	OTC	22.13	-3.8	5.7	0.80	3.6	22.50	22.13*	471.8
Ohio Cas Corp	OTC	61.13	0.0	22.9	2.80	4.6	61.13	60.88	28.1
Old Rep Intl Corp	OTC	32.00	4.1	8.6	0.74	2.3	32.00	30.13	583.4
Orion Cap Corp	NYSE	24.50	1.0	0.0	0.76	3.1	25.00	24.50	45.1
Protective Corp	OTC	19.00	-3.8	7.0	0.66	3.5	20.00	19.00	23.0
Provident Life & Acc Ins Co	OTC	23.75	1.1	6.4	0.76	3.2	24.00	23.75	412.2
St Paul Cos Inc	OTC	71.38	2.1	0.0	3.00	4.2	71.38	70.00	253.1
SAFECO Corp	OTC	40.50	0.6	13.1	1.60	4.0	40.50	40.25	576.3
Sri Corp	OTC	20.63	-4.1	60.7	0.80	3.9	21.00	20.63	269.6
Seibels Bruce Group Inc	OTC	17.00	3.0	0.0	0.80	4.7	17.00	16.25	125.9
Statesman Group Inc	OTC	4.50	5.9	0.0	0.15	3.3	4.63	4.38	55.5
Tokio Marine & Fire Ins Co	OTC	195.00	3.6	33.7	1.05	0.5	195.00	183.75	10.9
Torchmark Corp	NYSE	44.63	2.0	9.3	1.20	2.7	44.75	44.25	205.7
Travelers Corp	NYSE	42.13	-2.6	10.2	2.04	4.8	42.25	41.75	721.0
United Fire & Cas Co	OTC	24.00	-2.0	20.9	1.20	5.0	24.50	24.00	0.7
United States Fid & Gty Co	NYSE	33.25	-3.6	138.5	2.20	6.6	33.88	33.25	3,771.4
Uslife Corp	NYSE	37.13	0.3	8.4	1.04	2.8	37.13	37.00	146.2
Washington Natl Corp	NYSE	23.75	-2.6	6.9	1.08	4.5	24.50	23.75	22.4
Zenith Natl Ins Corp	OTC	20.50	1.2	0.0	0.68	3.3	20.50	20.00	75.6
INSURANCE COMPANIES	AVERAGE			17.7		2.3			

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