

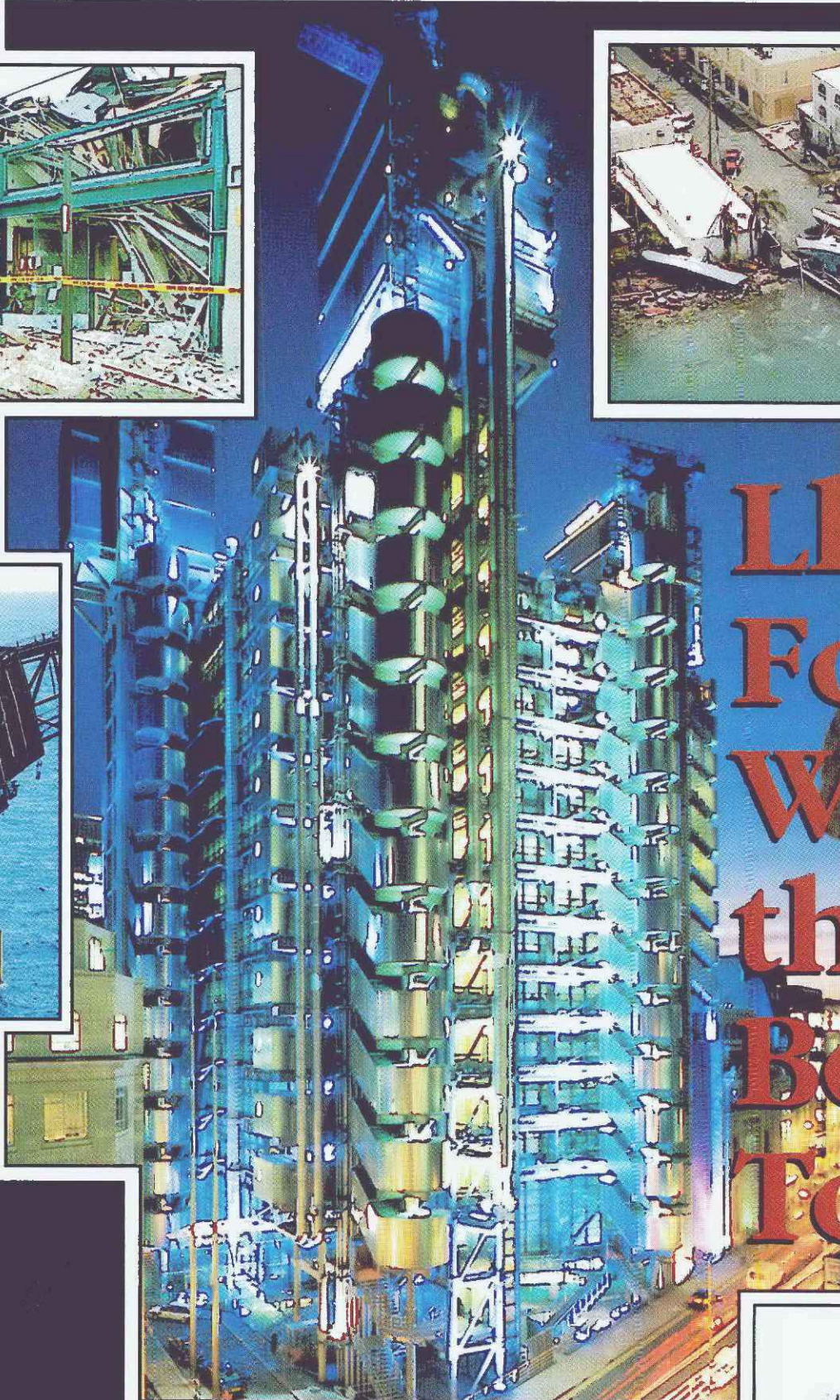
SEPTEMBER 2, 1991

Business Insurance

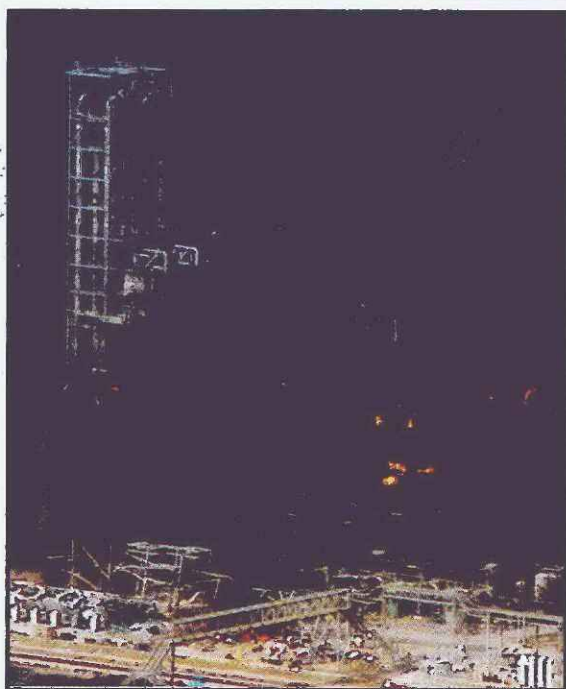
World's
20 largest
reinsurers

Reporting weekly for corporate risk, employee benefit and financial executives / \$2.00 a copy; \$80 a year

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Lloyd's: For Whom the Bell Tolls?



NEWSPAPER

Probe Beyond the Obvious

As the saying goes, things aren't always what they seem. Take reinsurance, for instance.

It's tempting to think that there's little difference between one reinsurer and another. After all, who among us doesn't talk in superlatives about first-rate service, security and technical expertise?

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Exec Life guaranty fund plan offers no relief to GIC holders

LOS ANGELES—A deal between the National Organization of Life & Health Insurance Guaranty Assns. and the California Insurance Department that would make whole most individual policyholders of Executive Life Insurance Co. will offer no relief to holders of the insurer's guaranteed investment contracts.

Instead, GIC holders would receive only the estimated 81 cents on the dollar that regulators project all Executive Life policyholders will receive under a

Continued on next page

Health insurers may face penalty for claims errors

By JERRY GEISEL

WASHINGTON—Legislation now on the fast track in Congress that would expose group health insurers to punitive damage awards for mishandling claims could drive up already soaring health insurance costs, benefits experts say.

A vote is expected this month by the House Labor-Management Relations Subcommittee on the bill, H.R. 1602, introduced in the House by Rep. Howard Berman, D-Calif.

The bill would overturn a 1987 Supreme Court decision that exempts insurers' group claims handling practices from state penalties, including those in unfair claims practices laws.

The high court ruled that the pre-emption provisions in the Employee Retirement Income Security Act protect insurers from any state sanctions—including punitive damage awards—for improperly handling a group health, life or disability claim.

That ruling restricted recoveries for mishandled claims to the remedies laid out in ERISA, which allows health care plan participants to sue insurers only to recover the claims costs. Courts also have discretion under ERISA to award attorneys' fees.

However, this limit on litigation against group health insurers is "shortchanging" workers, Rep. Berman charges.

"American workers and their families are being shortchanged by the Supreme Court's interpretation of ERISA. They must have legal recourse against insurance companies beyond the simple remedy of payments due," Rep. Berman said.

Continued on page 94

Financial data required for punitive damages

California court orders proof of defendants' wealth

By STACY ADLER

SAN FRANCISCO—Plaintiffs must introduce evidence of a defendant's wealth before punitive damages can be awarded, the California Supreme Court has ruled.

The Aug. 19 decision is the first in the nation to require plaintiffs to gather and introduce into evidence information about a defendant's finances, attorneys say, although plaintiffs already commonly introduce such data when seeking punitive damages.

Intended to make punitive awards less arbitrary, the ruling could both help and hurt defendants looking for relief from unreasonable punitive awards.

The ruling could benefit defendants by making it impossible for plaintiffs to receive punitive damage awards if they are unable to track down financial data about the defendant.

However, the decision could hurt defendants if juries base large punitive awards on the wealth of the defendant rather than on the wrongfulness of the defendant's conduct, attorneys say.

The California Supreme Court ruling comes in the wake of the U.S. Supreme Court's ruling in March that signaled a need to reform the methods used to assess punitive damages to provide defendants with due process (*BI*, March 11).

In its decision, the nation's high court emphasized

that punitive damage awards must be subject to meaningful post-verdict review by trial and appellate judges.

Taking this mandate seriously, the California Supreme Court ruled 5-2 that evidence of a defendant's wealth is necessary for meaningful appellate review.

"A reviewing court cannot make a fully informed determination of whether an award of punitive damages is excessive unless the record contains evidence of a defendant's financial condition," the court said.

The California decision stemmed from a jury award of \$1,024,266, including \$750,000 in punitive damages, against a doctor in a medical malpractice case in which a severely retarded woman had sexual relations with another patient in a mental facility. She later gave birth to a mentally retarded child.

"The most important question is whether the amount of the punitive damage award will have deterrent effect—without being excessive," said California Supreme Court Judge Marvin Baxter, writing for the five-member majority.

"Even if an award is entirely reasonable in light of the nature of the misconduct and the amount of compensatory damages, the award can be so disproportionate to the defendant's ability to pay that the award is excessive for that reason alone," wrote

Continued on page 89

States seek to regulate health care plans

By LORI BLOCK

SEATTLE—The National Governors' Assn. can expect most employers to fight its plan to improve access to health care, which is based on states obtaining congressional authority to regulate employee health care benefits.

The governors want the federal government to assess the states' experience in regulating benefits, then develop a national health care system that "makes health care affordable and available for

all Americans."

To make this plan work, though, Congress would have to amend the Employee Retirement Income Security Act of 1974, the NGA says in a policy statement unanimously adopted at its semi-annual meeting last month in Seattle.

The governors say that if Congress amends ERISA, which now pre-empts state laws that "relate" to employee benefit plans, the states could then try a host of methods to improve Americans' access to health care, including re-

quiring all employers to offer health care coverage to their workers.

The governors' Task Force on Health Care outlines these methods, which include measures some states already have adopted, in a companion report titled "A Healthy America: The Challenge for States."

The report also outlines some tort reforms the governors say could help stabilize health care costs.

But, the governors face a tough

challenge in persuading Congress to grant states the right to regulate benefit plans, said Frank McArdle, a consultant in the Washington, D.C., office of Hewitt Associates.

"There's no doubt ERISA restricts what states can do, but that's what ERISA was intended to do," he said.

"The concern is that you'll end up with 50 different state systems. That makes it extremely difficult to operate" for large employers with workers in many states, he said.

Because the business community will likely oppose giving states the power to regulate benefit plans, "federal pre-emption won't be easily dropped," Mr. McArdle said.

Amending ERISA "is a very important pre-condition for states attempting to address access-to-care issues," said William Custer, director of research for the Employee Benefit Research Institute, a Washington, D.C.-based benefits think tank. "But, politically, I think they'll face a difficult battle."

Continued on page 93

CEOs feel the crunch

Top insurer execs see smallest pay increase since 1986

By CARY ROBERTS

The recession and the soft property/casualty insurance market is hitting major insurer and reinsurer chief executives below the belt—right in their pockets.

The average cash compensation—salaries and cash bonuses—of 30 commercial insurer and reinsurer CEOs rose to \$1,074,957 in 1990 from \$1,013,073 in 1989, according to a *Business Insurance* study of insurance company proxy statements.

However, this 6.1% jump in aver-

age cash compensation is the smallest since *BI* began surveying insurer CEO compensation in 1986. And, it is a big drop from the 15.6% increase in insurer CEOs' compensation in 1989 (*BI*, Sept. 3, 1990).

Also, the number of insurer and reinsurer CEOs who received more than \$1 million in cash compensation did not rise for the first year in the survey's history. A dozen CEOs topped the \$1 million mark in 1990, the same as in 1989.

Salary increases, though smaller in 1990, still greatly outpaced the slide in the surveyed companies'

aggregate net income, which fell 12.3% last year.

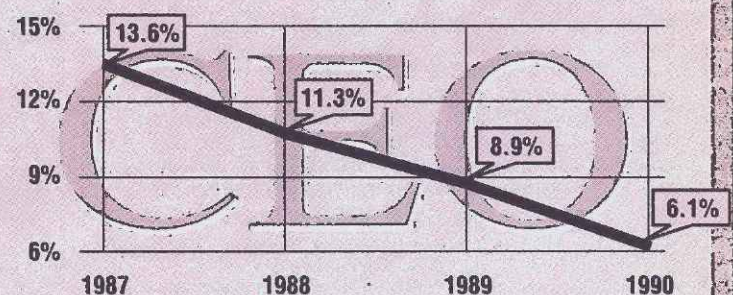
But, factors like "decreased growth and lower performance levels" caused by the soft market and the recession helped limit increases in insurer CEO compensation last year, said Richard Furniss, vp specializing in insurance and financial services at consultant TPF&C, a unit of Towers, Perrin, Forster & Crosby Inc. of New York.

In addition, CEO compensation was limited because of "appear-

Continued on page 91

Insurer CEO compensation stagnates

Insurer and reinsurer chief executive officers' compensation rose an average of only 6.1% in 1990, the smallest increase in four years.



Source: Company proxy statements

GRAPHIC BY JOHN SMITHER

Update

Executive Life funding deal

Continued from previous page

proposed rehabilitation plan (BI, Aug. 12).

But, the agreement would cover group pension plan participants whose employers converted their pension benefits into individual annuities. That would relieve employers like Maxxam Inc. that have been making supplemental payments to such retirees (BI, July 15).

The California Life Insurance Guaranty Assn. already has committed to the new plan, Commissioner John Garamendi said. The agreement is not binding on NOLHIGA's 46 other members, but Mr. Garamendi expects that the other state guaranty associations will ratify the plan.

The deal will cost life/health insurers an estimated \$1 billion in guaranty fund assessments. An NOLHIGA spokeswoman said it is not clear how long it will take to make all the covered policyholders whole.

Under the agreement, individual annuity contract holders and whole life policyholders would have account values up to \$100,000 guaranteed by the state funds. Those with larger contracts could get more money from the proposed sale of Executive Life real estate holdings and assets.

The agreement would supplement the rehabilitation plan for Executive Life proposed by California regulators, which would give most policyholders 81 cents on the dollar. The plan involves selling some Executive Life assets to Altus Finance, a division of state-controlled bank Credit Lyonnais in Paris, and selling others to Paris-based life insurer Mutuelle Assurance Artisanale de France. The sale is subject to the Los Angeles Superior Court overseeing Executive Life's conservatorship.

Individual annuity contract holders had been receiving 70% payments under a conservation order issued after regulators seized the Los Angeles-based firm in April (BI, April 15).

Meanwhile, at least four other parties have expressed interest in buying the failed insurer, a department spokesman said.

Lloyd's tries to block U.S. suits

LONDON—In a pre-emptive strike against disgruntled U.S. members who contend that Lloyd's of London has violated U.S. securities laws, the Corporation of Lloyd's is seeking injunctions against two members to prevent them from suing Lloyd's in U.S. courts.

The action by Lloyd's in English Commercial Court in London is in response to the threat of a lawsuit by nearly 100 U.S. members who want to recover losses on their investment in Lloyd's. The members argue that Lloyd's is liable because it failed to register with the Securities and Exchange Commission, which would have provided them with more information about their investments. The two U.S. members named by Lloyd's in the injunctions are Ronald Riley and Dale Jenkins.

Mr. Riley on Friday individually applied to the U.S. District Court in Denver seeking a declaration that a lawsuit against Lloyd's can be heard in U.S. courts. Mr. Riley could not be reached for comment.

Mr. Jenkins is one of nearly 100 members who seek to sue Lloyd's in the U.S. District Court for the Southern District of New York.

Mr. Jenkins says much of his 200,000 pounds (\$338,000) in underwriting losses since 1982, when he became a Lloyd's member, stem from his participation on syndicates managed by C.J.W. (Underwriting Agencies) Ltd., Feltrim Underwriting Agencies Ltd., and Gooda Walker Ltd. "When I joined, I was not aware of some of the insider dealing that goes on in Lloyd's where non-working members, especially U.S. members, are put on the bad syndicates while the working members get put on the profitable syndicates," Mr. Jenkins charged in an interview.

If Lloyd's had registered under the U.S. Securities Exchange Act it would have been more closely regulated in the United States and more information would have been available to members, he said.

Mr. Jenkins said the law firm acting for the members, Proskauer, Rose, Goetz & Mendelsohn in New York, is representing them on a partial contingency basis but is demanding an up-front payment of \$500,000 before filing suit. So far \$250,000 has been raised, he said.

Lloyd's Chief Executive Alan Lord said he is "astounded" by the U.S. members' actions because all new and existing members since 1987 have signed agreements that any disputes with Lloyd's would be subject to the jurisdiction of English courts.

Meanwhile, in response to complaints by U.S. Lloyd's members, the SEC says it has issued questionnaires to U.S. members asking for information on their communications with members agents.

Pollution rulings favor insurers

LANSING, Mich.—Three recent Michigan Supreme Court rulings favor insurers in interpreting the pollution exclusion in the comprehensive general liability policy, which bars coverage for all pollution that is not "sudden and accidental."

Reversing an appellate court ruling (BI, Sept. 11, 1989), the Michigan Supreme Court ruled 4-3 on Aug. 26 that "sudden" includes a "temporal element as well as a sense of unexpected" and that "accidental" means "unexpected and unintended."

Based on this interpretation, the court denied coverage to The Upjohn

Continued on page 92

Errors and omissions

• The nation's surplus lines premium volume rose 4.4% in 1990 to \$6.73 billion from \$6.44 billion in 1989, not 6.4% as reported in the Aug. 12 issue. New York state incorrectly reported its 1989 surplus lines premiums and taxes, which created the error. Surplus lines premium volume in New York totaled \$527.2 million in 1989, not \$406.8 million as previously reported. New York's 1989 surplus lines premium tax revenue was nearly \$19 million, not \$14.6 million.

• Allianz A.G. Holding does not expect its profits to decline this year, as suggested in an Aug. 26 article. 1990 profits were 1.01 billion deutsche marks, not 187 million deutsche marks as reported. And, while its Fireman's Fund Insurance Co. unit may post an underwriting loss this year, Allianz expects overall results from that operation to also be profitable.

• The Risk & Insurance Management Society Inc. remains committed to tort reform even though it is critical of some provisions in a proposal by the President's Council on Competitiveness (BI, Aug. 19).

Bob not as bad as feared but tab is still \$780 million

By MICHAEL SCHACHNER and MICHAEL BRADFORD

While Hurricane Bob could cost property/casualty insurers almost \$800 million, brokers and insurers still are relieved that the damage was not worse.

The Property Claim Services division of the American Insurance Services Group in Rahway, N.J., estimates that Hurricane Bob, which ripped through six states along the Eastern seaboard last month, caused \$780 million of insured property damage.

As of last week, most of the claims received were personal lines

claims, though insurers said that business interruption claims—when they finally are filed—could add up.

Bob hit Massachusetts the hardest, causing an estimated \$525 million of insured damage in that state. Most of the damage was sustained by homes south of Boston and on Cape Cod and by pleasure boats docked on the southern shore of the cape, according to several Boston-area brokers.

In addition, the storm caused insured damaged totaling an estimated \$115 million in Rhode Island; \$75 million in New York; \$40 million in Connecticut; \$21 million

in Maine; and \$4 million in North Carolina.

Damage could have been far worse had Hurricane Bob drifted farther inland, said Gary Kerney, a claims consultant with the AISG. Much of southern New England, including Boston, was spared massive damage because most of the storm's force was centered off in the Atlantic Ocean.

"If the hurricane had tracked any further west, the damage would have been much worse," Mr. Kerney said. "But things are bad enough as is."

Based on the damage estimate of

Continued on page 92

Few workers say plans balance work, family concerns

Benefit satisfaction mixed

By JERRY GEISEL

Only about four of 10 workers firmly believe that corporate benefit plans and policies help them balance work and family responsibilities, though more than half believe that their companies' traditional benefit plans meet their needs, a new survey reports.

The Wyatt Co. survey found that 41% of respondents agreed with the statement: "My company's policies and programs help employees balance work and family responsibilities."

Thirty-one percent of the re-

spondents had mixed views, and 28% disagreed.

But, when asked if their company's benefit plans were adequate to meet their own or their families' needs, 58% of employees agreed, while 23% had mixed views and 19% disagreed.

Employee satisfaction varied widely depending on the specific benefit, the survey found. And two factors appeared to affect employees' attitudes toward their benefits: company size, and whether employees were salaried or paid by the hour.

These findings are based on a

Wyatt survey of 5,700 employees working at companies with at least 100 employees.

The relatively high percentage of workers with unfavorable or ambivalent views about how well their companies benefit policies balance work and family responsibilities illustrates that employers need to make more progress in helping workers manage the conflicting demands of work and family, said survey author John Parkinson, a Wyatt consultant in Wellesley Hills, Mass.

"Generally speaking, companies

Continued on page 90

Texas OKs comp fund

Replacement for residual market could lower costs

By MICHAEL BRADFORD

AUSTIN, Texas—The Texas Legislature's formation of a new competitive state workers compensation fund to replace the state's deficit-heavy assigned risk pool is being greeted with mixed reactions.

Some employer groups and insurers welcome the legislation, saying it will increase competition and lower rates. In addition, under the legislation, insurers would no longer have to make up deficits in the assigned risk pool.

Other groups, though, say the

legislation is flawed and contend that the performance of the current assigned risk pool are improving, making the new fund unnecessary.

The Texas Legislature approved creation of the Texas Compensation Insurance Fund just before its second special session of the year ended Aug. 25. The bill to create the fund, H.B. 62, had failed to pass during the Legislature's regular session and a subsequent special session.

A final draft of the measure was scheduled to be finished late last week and sent to Gov. Ann Richards, who is expected to sign it.

According to a preliminary draft of the bill released last week, the sale of \$300 million in revenue bonds will provide financing for the fund. A maintenance tax surcharge, which can be passed along to policyholders, will be assessed both on the fund and on Texas workers comp insurers to pay debt service on the bonds.

Insurers, though, will not be responsible to make up any fund deficits under the new legislation, as they are with the current assigned risk pool.

The Texas Compensation Insur-

Continued on page 94

Inside

✓ This week's editorial hails the formation of a lobbying group to give employers a voice in opposing health care mandates and national health insurance bills. PAGE 8

✓ The speed of changes within Lloyd's of London over the past 40 years shows no signs of slackening, says David Lamer, former senior press officer at Lloyd's, in Perspectives. PAGE 53

✓ In Perspectives, attorney Ronald A. Jacks of Mayer, Brown & Platt deflates claims that litigation is preferable to arbitration as a means of settling reinsurance and retrocessional disputes. PAGE 56

✓ Multinational companies operating in Colombia, home to one of the world's worst political insurgency situations, face an evaporation of terrorism coverage. PAGE 85

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Departments

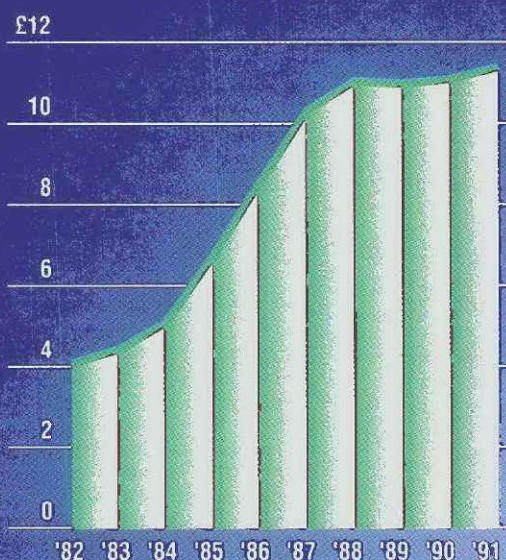
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ON THE COVER: The massive losses that have rocked Lloyd's of London have been triggered in part by an unprecedented series of disasters over the past three years, including (clockwise from top right): Hurricane Hugo in 1989; the 1990 European windstorms; the 1989 Exxon Valdez oil spill; the 1989 explosion at a Phillips Petroleum Co. plant; the 1988 explosion of the Piper Alpha North Sea oil rig; and the 1989 San Francisco earthquake (AP/Wide World Photos; Lloyd's building photo courtesy of Lloyd's of London).

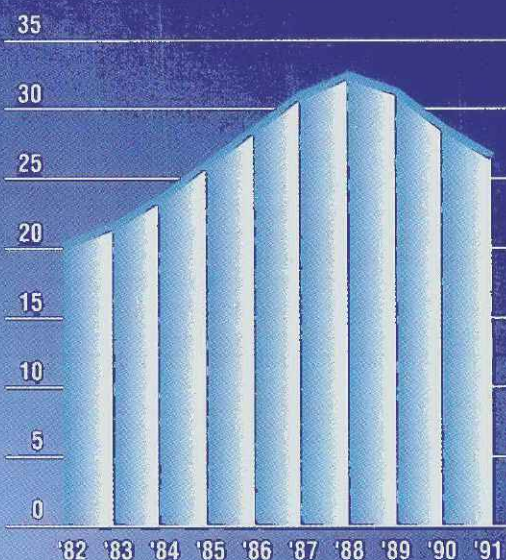
Tough times at Lloyd's

A 10-year look at Lloyd's

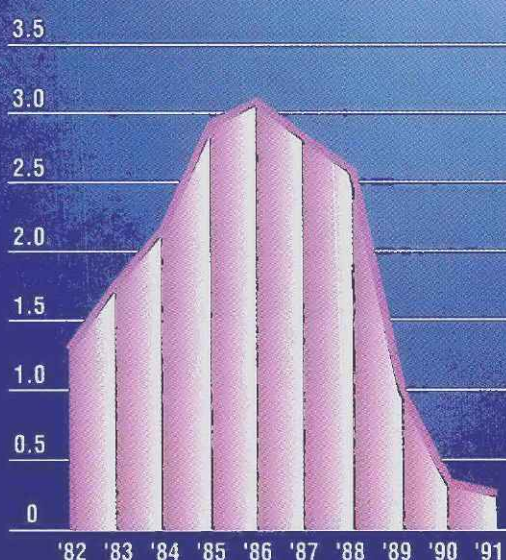
Lloyd's capacity has grown . . .
In billions of pounds



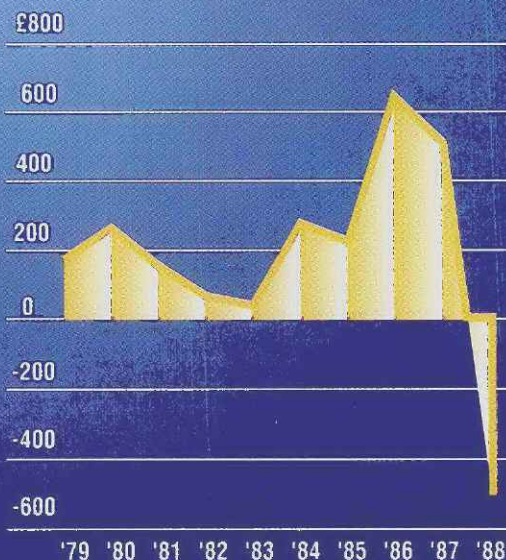
. . . but overall membership has declined . . .
In thousands



. . . and new memberships have plunged . . .
In thousands



. . . as profits disappeared in 1988.
In millions of pounds



Source: Lloyd's of London

*Most recent year closed under Lloyd's three-year accounting system.

GRAPHIC BY HOLLY SEGUINE

Changes in the wind as huge losses mount

By STACY SHAPIRO

LONDON—If there has ever been a time for Lloyd's of London to ring the Lutine Bell to mark terrible times in the market, it's now.

Wracked by unprecedented natural and man-made catastrophes, Lloyd's members already face cash calls of just more than \$1 billion for the 1988, 1989 and 1990 underwriting years.

Marred by the members' lack of confidence, syndicates are shutting down by the dozens, and underwriters are losing their jobs, leaving empty spaces in the underwriting room. Market executives expect fewer than 300 syndicates by 1992, down from 354 syndicates this year (see story, page 46).

But Lloyd's expects to pull out of its trough in the next two to three years as rates harden and syndicates return to profitability.

Because of the current spate of losses, Lloyd's will be leaner and more efficient as it takes advantage of the market hardening that Lloyd's Chairman David Coleridge says is already taking place and will continue into 1992, 1993 and 1994.

Many hopes are also pinned on reforms that will result from a task force formed in January under David Rowland, chairman of broker Sedgwick Group P.L.C. The task force is expected to produce a report at the end of the year that could include radical ways of improving the market's capital base, including possibly redefining one of Lloyd's most hallowed tenets: the unlimited liability of its members.

"I really am very bullish about Lloyd's," Mr. Coleridge said last month. "I think (the market) will do very well over the next few years. If Lloyd's doesn't fulfill its destiny and make some money, then our whole industry will grind to a halt."

However, the tough times at Lloyd's will continue before it sees any expected rewards.

Lloyd's just posted its largest defi-

cit in its 303-year history: a 509.7 million pound (\$983.7 million at applicable exchange rates) deficit for its 1988 underwriting year, which closed at the end of 1990. That was a radical deterioration from 509.2 million pounds (\$819.8 million at applicable exchange rates) in profits in 1987.

On top of that, the market expects that its 1989 loss will reach 1 billion pounds (\$1.69 billion at current exchange rates), while 1990 losses could again hit 500 million pounds (\$845 million) (BI, July 1).

In the past year, Lloyd's members have received notification from 51 syndicates of cash calls totaling a whopping 602.4 million pounds (\$1.02 billion at current exchange rates) to pay for losses from 1988 through 1990, according to the Assn. of Lloyd's Members.

Of this, only 146.6 million pounds (\$282.9 million at applicable exchange rates) was for losses in the closed 1988 underwriting year.

Syndicates already have called for 341 million pounds (\$643.5 million at applicable exchange rates) for 1989 and 113.8 million pounds (\$206 million at applicable exchange rates) for 1990, the ALM said. The majority of this cash, or about \$1 billion, should already have been paid by members, according to the ALM.

This amount does not include money owed by members on the 89 syndicate accounts from 1987 and before that have never been closed. Those syndicates reported calendar-year 1990 losses of 218 million pounds (\$420.7 million).

As a result of the losses, at least 3,400 members were expected to resign for the 1992 underwriting year by the Aug. 31 deadline, though some sources expect that as many as 5,000 to 6,000 could leave. This will reduce the market's overall membership of 26,568 by between 13% and 23%.

Lloyd's says it will not know until Oct. 31 how many members will discontinue their membership because

Continued on next page

Munich Re still No. 1

German company again world's largest reinsurer

Munich Reinsurance Co. retains the top spot in the third annual *Business Insurance* ranking of the world's largest reinsurance companies with 1990 net reinsurance premiums written of \$7.35 billion—or half again as much as the No. 2 company.

The Munich, Germany-based reinsurer's premiums increased 13.4% from \$6.48 billion in 1989.

Its closest competitor, Swiss Re Group of Zurich, Switzerland, wrote \$4.82 billion in net reinsurance premiums in 1989, the most recent year for which reinsurance-related financial statements are available. That represents a 15% increase from \$4.19 billion in 1988.

Nearly \$2.2 billion separates Swiss Re from third-ranked Employers Reinsurance Corp. of Overland Park, Kan. Employers Re reported net premiums written totaling \$2.64 billion in 1990—a 17% increase from \$2.26 billion in 1989.

Together, those three companies account for 42.2% of the \$35.13 billion in net reinsurance premiums written by the 20 largest reinsurers.

Business Insurance does not include Lloyd's of London in its ranking of the world's largest reinsurers. However, Lloyd's would rank among the top reinsurers based on \$9.03 billion in gross reinsurance premiums written in 1990, including reinsurance premiums paid by Lloyd's syndicates to other syndicates. Lloyd's could not furnish net premium figures.

Even if inter-syndicate reinsurance is excluded, Lloyd's \$6.3 billion in gross reinsurance volume would rank among the largest reinsurers.

Two companies in this year's Top 20 passed the \$2 billion mark in net reinsurance premiums written for the first time. Assicurazioni Generali S.p.A. of Trieste, Italy, ranks fourth with \$2.23 billion in 1990 reinsurance premiums written. And, No. 5 General Reinsurance Co. of Stamford, Conn., wrote \$2.18 billion in net reinsurance premiums in 1990.

Six other reinsurers in this year's Top 20 wrote more than \$1 billion in net reinsurance premiums, according to their most recent financial statements (see chart.)

U.S. and German companies dominate the rankings. Combined, the five German and five U.S. reinsurers generated \$20.18 billion in net premiums or 57% of the Top 20's total volume.

Financial reinsurer Centre Reinsurance Co. of Bermuda is not included in the ranking because it accounts for premiums paid for reinsurance to cover prior underwriting years on its balance sheet and not as premiums written.

Business Insurance ranks the 20 largest reinsurers based on the most current available reports of their consolidated worldwide net reinsurance premiums written, including both property/casualty and life/health reinsurance. The companies responded to a BI questionnaire.

More detailed financial information on these reinsurers, comments from their key executives on the state of the global market and an explanation of how companies were ranked begins on page 75.

The third annual *Business Insurance* directory of leading reinsurers worldwide begins on page 78.

World's largest reinsurers

All amounts in thousand of dollars

Reinsurers	Net reinsurance premiums written 1990
Munich Reinsurance Co.	\$7,345,883
Swiss Re Group	4,823,543
Employers Reinsurance Corp.	2,638,823
Assicurazioni Generali S.p.A.	2,226,873
General Reinsurance Co.	2,174,800
Cologne Reinsurance Co.	1,856,572
Hannover/Eisen & Stahl Reinsurance Co.	1,683,308
Societe Commerciale de Reassurance	1,642,209
Mercantile & General Reinsurance Co. P.L.C.	1,373,074
Skandia Group Ltd.	1,347,695
Gerling-Konzern Globale Reinsurance Group	1,177,834
Tokio Marine & Fire Insurance Co. Ltd.	954,258
Frankona Reinsurance Co.	953,484
American Re-Insurance Co.	921,474
Winterthur Swiss Insurance Co.	854,429
CIGNA Reinsurance Operations	840,173
The Yasuda Fire & Marine Insurance Co. Ltd.	614,066
Prudential Reinsurance Co.	600,814
Netherlands Reinsurance Group	580,272
The Toa Fire & Marine Reinsurance Co. Ltd.	515,730
Total	\$35,125,314

Source: BI survey

GRAPHIC BY KIMBERLY MART

Lloyd's future

Continued from previous page
they are insolvent.

Although some of those who retain their Lloyd's membership will increase the amount of capacity they commit to the market, Lloyd's executives expect the market's capacity to drop by some 10%—or 1 billion pounds (\$1.69 billion at current exchange rates)—to between 10 billion pounds (\$16.9 billion) and 10.5 billion pounds (\$17.75 billion) from 11.1 billion pounds (\$21.4 billion at applicable exchange rates) this year.

"It's an unhappy time," Mr. Coleridge said, adding that he knew being chairman this year "would be miserable." But, "I didn't know there would be such big losses."

Earlier this year, he chaired one of the longest, angriest annual general meetings in memory, allowing members to let off steam for four hours.

"Some AGM's have been 35 minutes, but I knew it would be a long

one," Mr. Coleridge said. "You can't have all these people losing their money, some of them with genuine hardship and genuine misery who want someone—which is the chairman—to shout at and scream at and not let them speak."

Mr. Coleridge also has received as many as 500 letters a month from members expressing their troubles, though the number of letters has dwindled in the past few weeks. All of them have been answered, though not all by Mr. Coleridge personally.

Many members have called the market's hardship committee seeking financial assistance to pay losses, and more than 300 phone calls have been made to the ALM's help line.

The troubles at Lloyd's are a direct result of three consecutive years of catastrophic losses that Zurich-based Swiss Reinsurance Co. estimates total more than \$32 billion worldwide.

These man-made and natural catastrophic losses include:

- The \$1.4 billion Piper Alpha North Sea oil platform explosion in July 1988.

- \$13.8 billion in losses in 1989, including \$4.3 billion in claims from Hurricane Hugo; the \$1.3 billion explosion of a Phillips Petroleum Co. petrochemical plant in Pasadena, Texas; and \$1 billion of claims from the San Francisco earthquake.

- \$17 billion of losses in 1990, including \$10.1 billion for the January/February windstorms in Europe, the largest single loss on record.

On top of these losses, older syndicates at Lloyd's are being slammed by U.S. long-tail liability claims from many years ago, like asbestos and pollution losses, that are coming to light only now. Although the market's pure underwriting results in 1988 produced a small profit of 68 million pounds (\$131.2 million at applicable exchange rates), the need to add a whopping 577.7 million pounds (\$1.11 billion) to reserves to pay for U.S. long-tail liability losses plunged

Lloyd's into the red for the first time in 21 years.

These losses "are shared by the U.K. insurance industry, which itself declared a loss of 5 billion pounds (\$9.65 billion at year-end 1990 exchange rates), compared with Lloyd's 500 million pound loss," noted David Harrison, chairman of Lloyd's members agency Harrison Brothers Underwriting Agency Ltd.

However, Lloyd's in particular was hit hard because of its expertise in the excess-of-loss catastrophe reinsurance market, including London market excess-of-loss, or LMX, reinsurance, market leaders agree. Of the 11.65 million claims notifications made to Lloyd's annually, the largest share—4.1 million—are for excess-of-loss reinsurance, show Lloyd's Unified Claims Project statistics published this year. Of this, 2.9 million are for LMX reinsurance claims, while 1.2 million are for general excess-of-loss reinsurance.

Of Lloyd's 5.9 billion pounds (\$11.4

billion) in gross premiums written in 1988, 43%, or 2.56 billion pounds (\$4.94 billion), was generated from reinsurance business ceded to Lloyd's, and 915.1 million pounds (\$1.77 billion) was inter-syndicate reinsurance business.

In addition, of Lloyd's 5.49 billion pounds (\$10.6 billion) of gross premiums in 1990, 59%, or 3.26 billion pounds (\$6.29 billion), was generated from reinsurance business ceded to Lloyd's, and 1.4 billion pounds (\$2.7 billion) was inter-syndicate reinsurance business.

Specialist excess-of-loss reinsurance syndicates have been hit particularly hard by these losses.

The most notable of these are syndicates formerly managed by Feltrim Underwriting Agencies Ltd. and Gooda Walker Ltd. On a worst-case basis, the Feltrim and Gooda Walker syndicate members alone could face a total of 750 million pounds (\$1.27 billion at current exchange rates) of losses from 1988 to 1990 (see story, page 44).

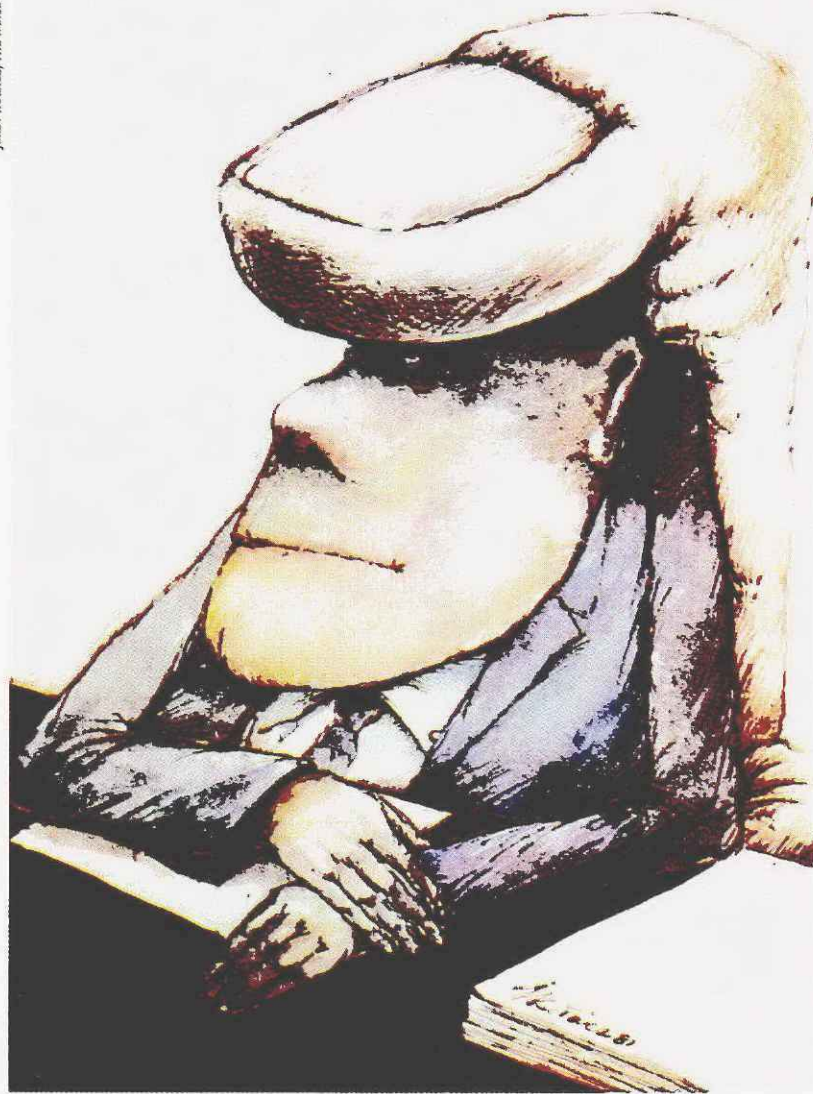
Lloyd's officials say 30% of Lloyd's members are paying for 70% of the losses, because of the heavy hits taken by the excess-of-loss reinsurance syndicates. "It's very disproportionate," Mr. Coleridge admitted.

However, Mr. Coleridge pointed out, many members specifically asked to be on these syndicates because those syndicates were among the top performers until the string of catastrophic losses. "Agents put the members on these syndicates never envisaging that the losses would be so big or that you would get 16 (catastrophic) losses in three years. That's a fair assumption, but the members don't think so now."

In addition, many of these members have been members only since the 1980s, so they have not been able

Continued on page 6

JERZY KOLACZ/THE IMAGE BANK



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Currency exchange at Lloyd's

LONDON—It is never easy converting foreign currency into U.S. dollars, but currency conversion gets even more complicated when dealing with Lloyd's of London.

Due primarily to the special nature of Lloyd's three-year accounting system, one simply cannot use the applicable year-end exchange rate to convert Lloyd's results into dollars.

To convert its results, Lloyd's uses the exchange rate at the end of the year in which the underwriting year actually closes. For example, since the 1988 underwriting year closed on Dec. 31, 1990, Lloyd's uses the year-end 1990 exchange rate of \$1.93 to convert its 1988 results from pounds to dollars.

For underwriting years that have not yet closed, Lloyd's uses the exchange rate at the end of the underwriting year itself. For example, to convert results from the not-yet-closed 1989 underwriting year, Lloyd's uses the year-end 1989 exchange rate of \$1.614.

When the 1989 underwriting year closes at the end of this year, Lloyd's will then use the year-end 1991 exchange rate to convert its 1989 results.

To determine its annual gross allocated capacity in terms of dollars, Lloyd's uses the exchange rate at the end of the preceding year, when the capacity is actually set. For example, to calculate syndicates' 1991 capacity, Lloyd's uses the year-end 1990 exchange rate of \$1.93 to convert pounds into dollars. Under this formula, 1991 gross capacity of 11.38 billion pounds is \$21.96 billion.

Throughout this special report on Lloyd's of London, *Business Insurance* follows Lloyd's currency exchange practices. ■

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Largest Lloyd's syndicates

Based on 1991 gross allocated capacity in millions of pounds

Syndicate	Managing agency	Underwriter	Capacity ¹			
			1991	1990	1991	1990
Non-marine 210	Sturge Non-marine Syndicate Management Ltd	A.G. Lee	£224.4	\$433.1	£185.8	\$315.2
Marine 418	Merrett Underwriting Agency Management Ltd.	S.R. Merrett	220.2	425.0	216.2	348.1
Non-marine 190	Three Quays Underwriting Management Ltd.	R.D. Hazell	175.0	337.8	163.6	263.4
Marine 206	Sturge Marine Syndicate Management Ltd.	M.J.H. Maughan	165.8	320.0	177.9	286.4
Non-marine 362	Murray Lawrence & Partners Ltd.	R.J.R. Keeling	149.1	287.8	146.7	236.2
Marine 488	Charman Underwriting Agencies Ltd.	J.R. Charman	144.1	278.1	113.6	182.9
Marine 406	Wellington Underwriting Agencies Ltd.	I.C. Agnew	133.4	257.5	101.6	163.6
Marine 483	Methuen (Lloyd's Underwriting Agents) Ltd.	P.R. Chandler	125.2	241.6	114.6	184.5
Non-marine 510	R.J. Kiln & Co. Ltd.	G.D. Gilchrist	115.8	223.5	115.2	185.5
Marine 448	Wellington Underwriting Agencies Ltd.	A.M. England	115.6	223.1	121.5	195.6
Marine 282	M.J. Marchant Underwriting Ltd.	M.J. Marchant	111.4	215.0	100.9	162.4
Non-marine 33	Roberts & Hiscox Ltd.	I.N. Thomson	105.0	202.3	92.7	149.2
Marine 932	Janson Green Ltd.	J.R.L. Youell	104.9	202.5	112.6	181.3
Motor 979	Cuthbert Heath Underwriting Ltd.	W.H.J. Ritchens	104.5	201.7	102.4	164.9
Non-marine 839	Castle Underwriting Agents Ltd.	A. Sharp	104.3	201.3	98.7	158.9
Marine 2	Claremount Underwriting Agency Ltd.	C.R. Hill	104.1	200.9	78.5	126.4
Non-marine 386	Janson Green Ltd.	M.W. Payne	103.8	200.3	104.4	168.1
Motor 330	Edwards & Payne (Underwriting Agencies) Ltd.	D.M.W. Farley	103.5	199.8	88.1	141.8
Marine 367	F.L.P. Secretan & Co. Ltd.	S.R. Bishop	101.2	195.3	134.0	215.7
Non-marine 1067	Merrett Underwriting Agency Management Ltd.	S.J. Burnhope	97.9	188.9	85.7	138.0

¹Converted at applicable exchange rate

Source: Lloyd's of London

Lloyd's future

Continued from page 4

to build up loss reserves, Mr. Coleridge noted.

Lloyd's has set up independent loss reviews to examine these troubled syndicates.

Meanwhile, 10 independent members association have been set up to consider litigation in U.K. courts against members and managing agents to recoup their losses.

Their success, however, rests on the outcome of a trial starting Oct. 7 in London's High Court. In that case, 950 members of the 1982 open underwriting year of syndicate 317/661, formerly managed by R.H.M. Outhwaite Underwriting Agencies Ltd., are suing 81 members agencies over enormous losses stemming from 31 runoff reinsurance contracts.

"If (the members agencies) are found negligent, then it's extremely serious (because) it will encourage the others to continue their legal actions. If it isn't successful, then all the other suits fall into the gutter," Mr. Coleridge said.

Settling the Outhwaite case would be a mistake because other members would not know where they stood under the law, he said.

U.S. members are also considering litigation against Lloyd's in U.S. courts to recoup their losses and for failing to register under the Securities Exchange Act of 1933. The Securities and Exchange Commission also has started an informal probe of Lloyd's activities in the United States (see update, page 2).

Those who have been at Lloyd's for many years say that these harrowing times are reminiscent of the three years of losses beginning in 1965 with the huge losses caused by Hurricane Betsy (see story, page 13). Lloyd's loss for 1965, which was announced in 1967, totaled 37.7 million pounds (\$105.6 million at applicable exchange rates). Lloyd's posted a loss of 18.6 million pounds (\$52.1 million) for 1966 and a 1.6 million pound (\$4.5 million) loss in 1967.

As a result of these losses, 295 members resigned from Lloyd's between 1966 and 1968, reducing Lloyd's membership 4.9% to 5,705 from 6,000 members in 1965.

Lloyd's was so worried about this reduction in membership that it set up a working party, led by Lord Cromer, to see what could be done to increase the market's capacity (see Perspective, page 53).

Mr. Coleridge has pointed out that, since then, Lloyd's has reported a profit every year until 1988.

However, Richard Youell, underwriter for amalgamated syndicate

79 managed, by Janson Green Ltd., said he does not see a parallel between the late 1960s and now.

"The numbers are different, and the issues are different," he said.

"In those days, we had a single, identifiable problem: Hurricane Betsy. Today, the problems are not one natural phenomenon, but several natural and man-made phenomena. And, secondly, we have (losses resulting from) the whole U.S. legal system and the unknowns of pollution, asbestos and so on. These are bigger issues and more complex."

Nevertheless, Lloyd's members are now being told that the worst is over and the market will move back into profitability in 1992, 1993 and 1994. In particular, specialty markets, like the aviation and marine markets, already are seeing signs of hardening, and many say it is a matter of time before rates rise for all classes.

Many members say they are remaining with Lloyd's to take advantage of the increased profits and to write their way out of their losses.

Peter Nutting, an external member of the Council of Lloyd's, sums up these members' feelings: "The 1988 year is the first year I've written a check, and I expect to pay a bigger check next year. But I will stay in Lloyd's. To get out now is to get out at the bottom."

Lloyd's true destiny is "to make money," Mr. Coleridge said. "If we were making money, a lot of our problems would" go away.

Mr. Coleridge said that marine hull, cargo, liability and energy risks, as well as airline hull and liability risks, are seeing 100% rate increases, "though this may not be enough."

Non-marine reinsurance rates are also starting to rise, he said. "It's inevitable that there would be a change (in prices)," he said.

"Capacity may go down, but Lloyd's profitability will go up," predicted Lloyd's Chief Executive Alan Lord. Hardening rates in 1992 to 1994 will make these "good" years to be members, he said.

"The message from the market is that the outlook is profitable and (members) will stay with it," said Valentine Powell, the ALM's chief executive. "But only the right people will be elected as members."

An ideal member should have liquid assets and a big income "so that if he has losses, he has the income to fund it" without losing a house or other assets, Mr. Powell said.

"Will Lloyd's continue to exist? Yes, of course it will. Of that there can be no doubt," Mr. Harrison of Harrison Brothers recently told his agency's members. "Demand for its products continues unabated, and its

underwriters include some of the best in the world, envied for their freedom and with their products copied knowingly or unknowingly by every insurance company in the world."

Many Lloyd's members also are pinning their faith on the task force headed by Mr. Rowland. It is expected to present its findings to the Council of Lloyd's soon and publish a report by year end.

The task force should have been set up two years ago, Mr. Coleridge said. "But, Lloyd's wouldn't have accepted its recommendations then when it was making money."

Now, though, "you have a climate for change. You can get anything done now."

The 14-person task force was formed in January—before the size of the 1988 loss was known—to "look beyond the immediate future and identify the framework within which the society should, ideally, be trading five to seven years hence," Lloyd's said when the group was formed.

In particular, the group's aim has been to "examine and assess the advantages and disadvantages of the present basis on which capital is provided to support underwriting at Lloyd's."

The task force—with consultant McKinsey & Co.—has examined unlimited liability, the Lloyd's accounting and agency systems and the way Lloyd's receives its business.

While the task force has not released its proposals, there is no shortage of opinions about the key issues.

For example, most observers believe Lloyd's should retain some form of unlimited liability, since that is one of underwriters' key marketing points.

However, some say that while Lloyd's overall liability should remain unlimited, members' losses could be capped at a certain level, with any losses exceeding the cap paid by levies on all members.

This "mutualization" of losses would spread losses over the entire membership, rather than on just 30% of members.

"Nothing I've read convinces me that unlimited liability should go," Mr. Coleridge said. "But a type of mutualization (of losses) with the syndicate having unlimited liability—I can understand the logic of that."

Mr. Coleridge wonders, though, whether members who have made money would want their profits whittled away by other members' losses.

Stephen Merrett, chairman of underwriting agency group Merrett Holdings P.L.C. and a member of the task force, said he opposes mutualization of losses at a low level. By re-

moving unlimited liability, the market removes the "absolute necessity" for underwriters to write with skill and conservatism, he said.

A cap on members' losses could be acceptable if the cap is set at a high level, Mr. Merrett said. However, "if people place a reliance on somebody else to bail them out if they get it wrong, then there is an encouragement to underwriters to take higher risks."

Mr. Nutting suggests the best way to limit members' losses is to "limit the risk. The risk to the member of Lloyd's at the moment is too great."

He proposes the members' be liable for risk in certain layers. For example, a member would pay 6% of his losses himself; the next 12% would be met by a pool that would be funded by a levy on those members who made profits. Personal stop-loss insurance would pay the next 12%, while the member would again pay the next 20%. The remaining 50% would be paid by an enlarged Lloyd's Central Fund.

Alternatively, Mr. Nutting proposes, Lloyd's could introduce a limited membership for, a certain number of members, 5,000 for example, that would supply 25% to 30% of the market's capacity. The liability of these members would be capped.

Lloyd's executives also are debating whether to change Lloyd's three-year accounting system to a one-year accounting system.

However, to do this, Lloyd's must be able to set up tax-free catastrophe reserves, something that other European nations—but not the United Kingdom—permit.

But not everyone favors changing the three-year accounting system.

"I don't think that (one-year accounting) will run," Mr. Coleridge said. "But, the task force may come up with that idea."

"I can't see how changing the accounting period will make the slightest assistance to the syndicates," Mr. Merrett said. "And, the changes would be a nightmare. One-year accounting, in particular for long-tail liability business, is ludicrous. I can see no reason why we should change the three-year accounting system."

The task force may come up with other suggestions.

For example, the group may suggest that members agencies—which have gained power at Lloyd's over the past few years—be required to employ research teams to analyze the syndicates they recommend to members.

The task force also may suggest that there be a regular peer review of underwriters to weed out those who are incompetent. ■

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Opinions

A new voice for business

IT'S ABOUT TIME.

This month, five Washington-based trade associations—the Food Marketing Institute, the Healthcare Leadership Council, the National Assn. of Wholesaler-Distributors, the National Federation of Independent Business and the National Restaurant Assn.—announced the formation of the Healthcare Equity Action League (*BI*, Aug. 26).

HEAL, according to the group's organizers, is being launched to give a stronger voice in Washington to businesses that oppose proposals to require employers to offer health care benefits and proposals that would set up a national health insurance program.

We strongly support the formation of HEAL. With reform of the nation's health care system almost certain (since legislators will not indefinitely accept that 34 million Americans lack health insurance), it is vital that the views of business be heard on this issue. HEAL can give business that voice.

This isn't to say that employers do not have groups representing them in Washington on health care reform issues. However, those groups for the most part also must follow many other benefit issues and cannot give health care reform the attention it deserves.

An overhaul of the nation's health care system would have such a dramatic impact on business that employers need a lobbying group whose exclusive focus will be this issue.

Indeed, one of the reasons that measures like the health care continuation provisions contained in COBRA was able to sail through Congress was the absence of vigorous lobbying by employers. Business should not make that same mistake again.

The passage of COBRA back in 1986 is small potatoes compared with current proposals on the congressional table. Some congressmen—including House Ways and Means Committee Chairman Daniel Rostenkowski and members of the Senate Dem-



ocratic leadership—want to force all employers to offer a health care plan, whether or not they can afford it, or pay big new taxes to help achieve universal health care coverage.

Other congressmen have given up on the private system entirely and favor a national health insurance system similar to the system now in place in Canada.

And, there's no doubt other proposals eventually will surface that would radically alter the current private payer system.

With business now the second-largest payer—after government—of the nation's \$700 billion annual health care bill, it is vital that employers make their voices heard in the debate.

The failure of business to speak up will make it that much more certain that health care reform proposals will be passed that will do great harm to employers, large and small.

Letters

Do your own homework on insurer ratings

To the editor: As the president of a firm that performs insurance company analysis and financial stability ratings, I suggest that consumers, agents, policyholders and others interested in insurance company ratings spend more time reading the prefaces to the raters' publications and less time relying on the rating.

Further, those interested in insurance company ratings should discern between an insurer rating and an insurer financial rating. Whenever qualitative criteria are utilized, discretion is introduced into the equation. Discretion is not a quantifiable factor, particularly when the background, training and expertise of the individual or firm utilizing discretion are not well known to the individual relying on the rating.

The problem facing insurance companies is not the promulgation of numerous, possibly diverse, insurance company ratings. Rather, the problem is that some insurance company rating firms seem to be unable to evaluate the economic conditions that currently are prevalent in the general economy as well as the insurance

sector.

Those interested in insurance company ratings should be more concerned about the ability of the rating service to be a leading indicator of solvency rather than a mirror image of the insurer's current financial situation. If it takes several years for liability insurance claims to wind their way through the judicial process, then the current year's rating, which is based on year-old data, should be stringent enough to be a leading rather than coincident indicator of financial soundness.

Regulators appear to have a legitimate

interest in the quality of insurer ratings. In the life and health sector, insurer ratings might create a run on the bank. However, the regulators, not the rating agencies, are the final authority on the financial soundness of insurers.

If a rating agency creates a run on an insurer, my hunch is consumers, agents, policyholders and others interested in insurance company ratings were already taking a break.

Joseph L. Petrelli
President
Demotech Inc.
Columbus, Ohio

More combined ratio mysteries

To the editor: Your Aug. 12 article, "Unraveling the Mystery of Combined Ratios," is intriguing but does not address the reason why expenses are calculated on written rather than on earned premiums.

Historically, regulators have used the most conservative approach based on an assumption that commissions paid to agents—or in the case of a reinsurer, commissions paid to the ceding company—are not recoverable on the unearned portion of the premium.

In reality, these commissions are often recoverable, with the result that written and earned ratios are the same. Calculating the commission as a percentage of written premiums therefore anticipates such a recovery.

However, this method of calculation is

questionable when expenses other than commissions are included, such as overhead, profit commissions or those appearing on lines 5 and 13 of the income statement.

These expenses are not recoverable on the unearned portion of the premium. It would therefore be logical to separate the expense ratio into two segments: one (the commissions) applied to written premiums, and the other (other expenses) applied to earned premiums.

What to include in "other expenses" could then be left up to the discretion of the analyst, the regulator, etc.

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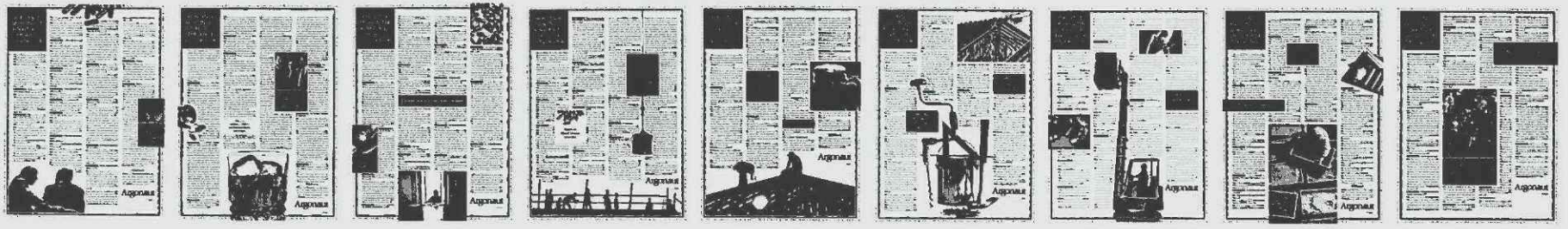
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Lloyd's says problems won't hinder payments

By STACY SHAPIRO

LONDON—Lloyd's of London policyholders should see all their valid claims paid despite the troubles in the market.

Although some Lloyd's members have called on fellow members to refuse to pay the huge losses they face, the financial resources behind the policies should mean that all valid claims will be paid, according to Lloyd's executives.

"We cannot have a Lloyd's policy fail," said Robert Hiscox, chairman of Lloyd's Underwriting Agents Assn. "The minute one policy fails, we're dead ducks."

Lloyd's reputation relies on the security underlying each of its policies, which is spelled out in Lloyd's global accounts.

"These resources and controls provide the policyholder with security of the highest quality, and in more than 300 years no valid claim against Lloyd's has ever been unpaid," according to the accounts.

The market currently relies on the wealth of its membership. Each member has unlimited liability for his or her own losses. To become a member, an applicant must prove personal worth of more than 250,000 pounds (\$422,500), but only certain assets—including homes, farms, bank accounts and other liquid assets—can be counted. Members can now each write a maximum of 3 million pounds (\$5.1 million) in premium income, if they have the appropriate amount of wealth to do so.

Members must deposit with Lloyd's 30% of their total premium income limit, which can be funded by a bank guarantee. Of this, 20% must be deposited in an account administered by the Corporation of Lloyd's. The other 10% can be held by members agencies in two funds:

- Personal reserves, which is built up out of members' profits.

- Special reserves, a specially taxed savings plan for members limited to 7,000 pounds (\$11,830) per member.

Members' deposits, personal reserves and special reserves totaled 4.4 billion pounds (\$8.53 billion) at year-end 1990. Other members' assets totaled 3.04 billion pounds (\$5.87 billion) at year-end 1990, according to the global accounts.

Members are also responsible to pay for losses out of their own resources if the money on deposit and in trust funds is exhausted.

Should those assets be exhausted, Lloyd's will pay losses from its Central Fund, which held 377 million pounds (\$727.6 million) at year-end 1990. Lloyd's hopes to boost the total to 1 billion pounds (\$1.69 billion) in five years.

That fund, however, also provides security for two bonds used to capitalize Lioncover Insurance Co. Ltd., which pays losses from syndicates formerly managed by PCW Underwriting Agencies Ltd., and runoff reinsurer CentreWrite Ltd. (see story, page 64). These bonds may be called upon if the company cannot meet future liabilities, Lloyd's says.

Lioncover's 1990 accounts showed a deficit of 31.8 million pounds (\$61.4 billion), which was fully covered by the bond, Lloyd's announced earlier this year.

But Lioncover's accountants, Ernst & Young, qualified its 1990 results due to the "uncertainty" of 63 million pounds (\$121.6 million) of reinsurance recoverables, which was deducted from outstanding claims of 287 million pounds (\$553.9 million). Further scrutiny of outstanding recoveries is needed, the accounting firm said.

Lloyd's says that the total confirmed resources of the Society of Lloyd's at year-end 1990 was 17.9

billion pounds (\$34.6 billion). This includes 9.8 billion pounds (\$18.9 billion) in the American and Canadian trust funds and an account in Illinois to cover claims for policies written from 1989 through the present, since those accounts have not closed.

Under Lloyd's three-year accounting system, the market closed its 1988 account at year-end 1990 and reported the results in June this year. Lloyd's reported an overall loss of 509.7 million pounds (\$983.7 million) for 1988, in contrast to its 1987 profits of 509.2 million pounds (\$819.8 million).

With rates falling, gross premium volume in 1988 fell 4.1% to 5.9 billion pounds (\$11.39 billion) in 1988 from 6.15 billion pounds (\$9.9 billion) in 1987. After rein-

surance premiums ceded, net premiums were 3.7 billion pounds (\$7.2 billion) in 1988, down 12% from 4.2 billion pounds (\$6.8 billion). Gross claims jumped 34% to 7.5 billion pounds (\$14.6 billion) in 1988 from 5.6 billion pounds (\$9 billion) in 1987.

Higher reinsurance recoveries, though, partially offset that increase. Recoveries rose 61% to 4.5 billion pounds (\$8.6 billion) in 1988 from 2.8 billion pounds (\$4.4 billion), holding the rise in net claims to 7%—to 3.1 billion pounds (\$5.9 billion) from 2.9 billion pounds (\$4.6 billion) in 1987.

After paying 6.1 billion pounds (\$11.7 billion) as a reinsurance premium to close the 1988 account into the 1989 underwriting year, Lloyd's finished 1988 with an un-

derwriting loss of 549.2 million pounds (\$1.1 billion). A year earlier, underwriting profit was 411.7 million pounds (\$662.8 million).

Lloyd's gross investment income fell slightly to 788.7 million pounds (\$1.52 billion) in 1988 from 795.6 million pounds (\$1.28 billion) in 1987. This caused profits before syndicate expenses to plummet almost 80% to 245.1 million pounds (\$473 million) from 1.22 billion pounds (\$1.97 billion) in 1987.

Still, 260 of the 369 syndicates made profits in 1988. In 1988 there were 131 marine syndicates; 148 non-marine syndicates; 36 motor syndicates; 42 aviation syndicates; and 12 miscellaneous syndicates.

A total of 354 syndicates this year have a gross capacity of 11.06 billion pounds (\$17.38 billion).

Last year, 401 syndicates had total capacity of 10.96 billion pounds (\$21.15 billion).

The breakdown in syndicates in 1991 and their capacity include:

- 106 marine syndicates, 4.1 billion pounds (\$6.93 billion).

- 154 non-marine syndicates, 4.87 billion pounds (\$8.23 billion).

- 41 aviation syndicates, 994.92 million pounds (\$1.68 billion).

- 31 motor syndicates, 949 million pounds (\$1.6 billion).

- 9 life syndicates, 37 million pounds (\$62.5 million).

- Other syndicates that write livestock and credit reinsurance, 26 million pounds (\$43.9 million).

Another 86 million pounds (\$145.3 million) of capacity this year is unallocated to any particular syndicate. ■

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S&P unit to analyze Lloyd's syndicates

By STACY SHAPIRO

LONDON—Two independent analysts agree with market insiders that Lloyd's of London has a secure future.

However, policyholders should investigate the financial strength of each Lloyd's syndicate that is writing their coverage, says a London subsidiary of New York-based security analyst Standard & Poor's Corp.

Each syndicate will have a different financial position, the analysts contend, noting that some syndicates face financial uncertainties resulting from losses on recent catastrophes and liabilities from previous years.

That is why Insurance Solvency International, S&P's London subsidiary, is launching its "Lloyd's Syndicate Reports" this week at the Ren-

dez-vous de Septembre in Monte Carlo.

The report will analyze the last five years of accounts for each of the market's syndicates. There are 354 syndicates underwriting in 1991, but that number is expected to drop to fewer than 300 in 1992 (see story, page 46).

The contraction at Lloyd's is not new or unique, Chris Hitchings, an insurance stock analyst with London-based Hoare Govett Investment Research Ltd., told the Lloyd's Professional Advisors seminar in June.

"Lloyd's is one player in a large international industry," Mr. Hitchings said. Ranked by 1988 net premiums, Lloyd's would fall somewhere in size between Royal Insurance P.L.C. of London and Aetna Life & Casualty Co. of Hartford, Conn., he said.

"Lloyd's has a role within the

world insurance industry—and a particular and important one. But its fortunes are bound up within that industry."

Like other insurers, Lloyd's is affected by the insurance cycle, he pointed out.

"Insurance cycles have existed since insurance was invented, and the belief that the cycle has changed has been around for as long," Mr. Hitchings said.

"The belief that the cycle has changed is actually fundamental to the operation of the cycle," he explained. "The rule is: All cycles are recognizable except the current one. There are always plausible reasons why this one will surely be different. It never is."

By charting the profit margins of major U.K. insurers, U.S. insurers and Lloyd's from 1950 to 1990, the

cycles become obvious. The last serious downturn in profit margins was after Hurricane Betsy in 1965.

Lloyd's historians say that Betsy hardened the market, but Mr. Hitchings suggests that it was "actually the failure of Betsy to turn rates, which generated the exodus of capacity and the turn in the market. Current sentiments look similar, except that for Betsy we substitute Piper Alpha or (Hurricane) Hugo."

Aside from syndicates closing down or merging at Lloyd's, the London market also has seen contraction of capacity from the demise of H.S. Weavers (Underwriting) Agencies Ltd., cutbacks by U.K. insurers and withdrawals by international companies, Mr. Hitchings said.

But in the U.S. market, there also has been a net reduction in the number of U.S. insurers between 1989

and 1990, "the first for nearly 20 years," he said.

"If the pattern of the 1960s is followed, that paves the way for a substantial upturn in profitability in the 1990s," Mr. Hitchings said. "Lloyd's will gain even more than the insurance companies from this."

This has happened in the past, he noted. Over the past 40 years, Lloyd's syndicates on average have achieved profit margins of 8.4% of net written premiums compared with 3.5% for the average U.K. insurance company, Mr. Hitchings said.

Lloyd's will now be shown more of the business that was shown to its competitors first in the soft market, Mr. Hitchings said.

"Lloyd's expands when everyone else is contracting and contracts when everyone else is expanding, which is, of course, exactly what it should do to maximize its margins," he said.

S&P also believes Lloyd's is a secure market, though it raises some questions about the financial strength of some of its syndicates.

When Lloyd's announced its 1988 global results in June (*BI*, July 1), S&P said that Lloyd's losses in 1988, 1989 and 1990 could erode the long-term security of Lloyd's as members flee from the market.

"If the exodus (from Lloyd's) turns into a run, the remaining capacity could be too limited to support continuance of the market in its present form," S&P said. "Indeed, it is now clear that many Lloyd's syndicates are experiencing severe cash-flow problems that may adversely affect the speed of settlements."

The future financial strain on syndicates will lead to growing uncertainty over the security of those syndicates, S&P said.

Consequently, the analyst has advised policyholders to review the extent to which Lloyd's syndicates participated on their insurance and reinsurance programs.

"We are anxious not to put Lloyd's in a bad light," said ISI Managing Director John Gardner, whose wife is a member of Lloyd's.

But by the sheer nature of Lloyd's accounting system, syndicates must pay past losses with the current income of Lloyd's members, he said. "What will happen when there are fewer names?" he asked. "It doesn't matter now, because there is not as much capacity being used as is available. But what of the future?"

"We cast no doubt on Lloyd's ability to pay at the moment," Mr. Garner said. "But Lloyd's has its problems."

And, a risk manager buying a long-tail policy from Lloyd's needs to know whether the syndicate will be around in 20 years to pay the claim, commented Stuart Shipperlee, director of business development at ISI.

To help policyholders gauge the financial strength of syndicates, ISI is launching Lloyd's Syndicate Reports.

With data collected over the past two years, ISI in October will offer clients financial information on each syndicate gleaned from its results from 1986 to 1990.

The analysis also will provide some "performance tests" or ratios between net premiums and capacity; net premiums and gross premiums; reinsurance recoveries and gross claims; underwriting profit or loss and gross investment return; net claims incurred and net premiums; pretax results and net premiums plus reinsurance-to-close premiums; and prior year's underwriting results and the most recently closed year's underwriting result.

ISI also will show the ratio between the open accounting year balances and the calendar year net premiums.

However, this S&P service will not rate Lloyd's syndicates similar to the way S&P rates insurance companies, Mr. Garner said. ■



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Brokers see profitable years ahead

Removal of market barriers hailed

By GAVIN SOUTER

LONDON—With a possible end to the soft London insurance market not far off and structural changes taking place at Lloyd's of London, profitable years for brokers lie ahead, a Lloyd's broker says.

A stronger market should result from this year's removal of market barriers, agreement between non-marine underwriters and brokers over terms of credit, and modernization of war risk coverages, said Alan Colls, chairman of the Lloyd's Insurance Brokers' Committee.

Also, reduced capacity and the weeding out of incompetent underwriters will help form a tighter and more professional market, Mr. Colls said.

The increased use of computers in the market also should lead to greater efficiency, although this move may be paid for by a reduction in the number of broker jobs, he said.

And, increasing rates and tighter capacity that were evident in the London market at midyear renewals (*BI*, July 22) could boost brokers' revenues.

The main structural change in Lloyd's this year was the removal of market barriers, which was welcomed by brokers, Mr. Colls said.

"We are delighted about the barriers coming down because it provides extra capacity from underwriters who are fit and proper to write the business concerned," he said.

Although the market has not

changed radically since the barriers were removed on Jan. 1 a consolidation process has already begun with some of the major underwriting agencies merging smaller syndicates into larger ones and writing a broader spectrum of business, Mr. Colls said.

For example, in July, Janson Green Ltd. merged six of its marine and non-marine syndicates into syndicate 79 (see related story, page 46).

Brokers will also be able to more easily design package policies now that the market barriers have been removed, Mr. Colls said.

"Although we have been able to do this to a degree before, especially with energy risks, it will now be much easier for us to design a marine, non-marine and aviation package policy," he said.

Previously, large companies with a variety of risks underwritten in marine, non-marine and aviation markets often had to buy a series of policies from the different markets. Now it is easier to cover all those exposures on one policy.

"What we have always looked for in Lloyd's is expertise in leading business and the flexibility which the Lloyd's system provides, and the removal of the barriers is bound to help this," he said.

Another factor encouraging innovation is the current tightening of capacity. "Lloyd's was probably more influential when it had 8,000 names than when it had 28,000," Mr. Colls contended.

Capacity that rose along with membership forced underwriters

to seek extra business in order to "feed the extra names," according to Mr. Colls.

And that reduced the level of expertise "because underwriters had to write for income, especially in the marine market," he said.

This produced "a disaster waiting to happen" with underwriters writing new business backed by reinsurance capacity that disappeared when a chain of catastrophe losses—like Piper Alpha and Hurricane Hugo—hit the market in the late 1980s, Mr. Colls said.

However, a similar shake-out occurred in the non-marine market in the late 1960s after Hurricane Betsy losses hit Lloyd's, which led the market to become more efficient and professional, he said.

"Now it is the turn of the marine market and it will come out of it leaner and better," he added.

Competent underwriters will remain; the incompetent ones who are forced out did not deserve to be there in the first place, Mr. Colls contended.

"Names and agents are going to be more selective and they won't just say that big is beautiful. They will withdraw their support from inefficient and unprofessional syndicates," he said.

Brokers, too, will be more selective about the syndicates they place business with, Mr. Colls said.

"Although it is the job of members agents to decide which syndicates should be supported by names, brokers will differentiate more between syndicates from the point of view of prompt payment of claims and expertise in classes of business," he said.

Lloyd's near \$1 billion overall

loss in the 1988 underwriting year, which closed at the end of 1990 (*BI*, July 1), has prompted client inquiries about the security of Lloyd's, Mr. Colls said.

"Frankly, given the adverse press coverage that Lloyd's has received this year, I would have been worried if our clients hadn't asked about the security of Lloyd's," he said.

The unique structure of Lloyd's means that it will always attract attention when losses are announced, he said.

"When you have a market made up of individuals who suffer individual losses, and some of those individuals are tennis players or pop stars, you are bound to get publicity when they have to make payments. But, in fact, only 40 names lost more than 100,000 pounds (\$193,000 at applicable exchange rates) on their 1988 account," Mr. Colls said.

One main area of discussion between brokers and underwriters over the past year has been terms of trade, he said.

"It has been recognized by brokers and underwriters that premiums must be paid quickly," Mr. Colls said.

This year, brokers and underwriters in the non-marine market agreed to credit terms for all areas of the world and all types of non-marine business. If brokers fail to pay premiums in time they can be fined up to 10,000 pounds (\$16,900 at current exchange rates) and their names are publicly displayed in the Lloyd's building, he said.

However, the terms are flexible

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Lloyd's brokers

Continued from page 16
 straightforward renewals, could be conducted via a computer rather than by a broker in person.

"We have to take the best of both worlds and if you have technology that can deal with simple aspects of the business, there is no point in employing expensive people to do it in person," Mr. Colls said.

More extensive use of computers could eventually mean up to 25% cuts in the number of brokerage employees, "but this will be a gradual process and will not happen overnight," he added.

Other changes in the London market benefitting brokers include improved war risk coverage, Mr. Colls said.

When the Persian Gulf War focused attention on old established war risk clauses, their inadequacies became apparent, he said.

For example, the automatic termination of coverage after a nuclear explosion meant that brokers would have had to place coverage again for all war risks if a tactical nuclear weapon had been used in the Persian Gulf War.

At the time, brokers were critical of underwriters' inflexibility over the policy wording and the automatic termination of coverage.

Since the end of the war, however, discussions have started in all markets on how to reword the policy language, Mr. Colls said.

Aviation liability policies have already been changed to extend war risk coverage after the detonation of a nuclear weapon (BI, Aug. 5). Under the new wording, aircraft in the air when a nuclear weapon is detonated will retain their war risk coverage until they land. Previously, the coverage was automatically terminated at the time of the detonation, regardless of whether aircraft were in the air or on the ground.

There are currently 260 registered Lloyd's brokers, unchanged from last year. The 10 largest brokerages own 53 of the Lloyd's brokers compared with 60 last year.

Lloyd's ranks the 10 largest brokerage groups based on the total amount of revenues produced by registered Lloyd's brokers within the group. However, some of these revenues come from business that is not placed with Lloyd's syndicates.

The merger of Willis Faber P.L.C. and Corroon & Black Corp. last year has pushed Sedgwick Group P.L.C. from the top of list into second place.

The merged company, Willis Corroon P.L.C., reported Lloyd's revenues of 175.5 million pounds (\$338.7 million at appropriate exchange rates) in 1990 compared with Willis Faber's 160 million pounds (\$258.2 million at appropriate exchange rates) in 1989.

Sedgwick increased its Lloyd's revenues to 172.7 million pounds (\$333.3 million at appropriate exchange rates) in 1990 from 169.4 million pounds (\$272.7 million at appropriate exchange rates) in 1989.

The biggest increase in Lloyd's revenues among the top 10 brokers was posted by Alexander & Alexander Services Inc. where revenues jumped to 127.7 million pounds (\$246.4 million at appropriate exchange rates) in 1990 from 93.8 million pounds (\$151 million at appropriate exchange rates) in 1989.

Falling from the Top 10 was excess-of-loss specialists Walsham Brothers & Co. Ltd., which was replaced by The St. Paul Cos. Inc., parent of Minet Holdings P.L.C.

St. Paul increased its 1990 Lloyd's revenues to 44.6 million pounds (\$86.1 million at appropriate exchange rates) from 26.8 million pounds (\$43.1 million at appropriate exchange rates) in 1989 and moved to eighth place from the 11th spot.

Fraser's five-year plan pays off

By STACY SHAPIRO

LONDON—From its humble origins five years ago, Lloyd's of London brokerage group Fraser Insurance (Holdings) Ltd. has grown by leaps and bounds.

The brokerage had only seven employees then. And, Chairman Garth Bearman recalls: "My office was as big as my desk is today."

Now, Fraser employs 225, and the chairman's desk sits in a plush recently decorated office suite in a Fraser-owned building that is being renovated.

Fraser's profits rose to 3.6 million pounds (£6.3 million at appropriate exchange rates) for the year ended March 31 from 1.8 million pounds (£3 million at appropriate exchange rates) a year earlier, the fifth time annual profits had doubled or nearly

done so.

Fraser also started a partnership on Feb. 1 with The Swire Group, a diversified transportation concern with annual revenues of about \$3.6 billion. Though incorporated in London, Swire is headquartered in Hong Kong and is one of the region's most powerful trading houses. It owns, among other things, Cathay Pacific Airways Ltd.

Swire now owns 40% of Fraser and has the option to acquire a controlling share after three years. Mr. Bearman owns the remaining 60%.

"To us, this is an incredible coup," Mr. Bearman said. After the deal was done, "the Lloyd's chairman rang up and said that no company of (Swire's) caliber had been interested in a Lloyd's operation for some years."

The last Lloyd's brokerage purchased by a Hong Kong trading

house was Jardine Insurance Broking Group Ltd., which is owned by Jardine Matheson & Co. Jardine Insurance Brokers is the world's eighth-largest broker based on 1990 gross revenues (BI, July 1).

For the moment, however, Fraser has no intention of becoming one of the world's largest brokers.

"Our intention is to expand and further enhance our strengths," Mr. Bearman said. "At the moment, we have no intention of being all things to all people. Our dream is not to be one of the top 10 multinational brokers. I'd prefer us to have a good, small profitable company that have a large gangling company which has no direction or profit."

Although Swire intends to bring other small worldwide brokerage interests under the name of Fraser, "there is no ambition to be the sec-

ond-largest broker in the world," said Fraser board member George Miller, who recently moved from Swire's Hong Kong operations to London as managing director of Swire Insurance Brokers.

Swire will keep its other insurance company operations independent, Mr. Miller said.

It was 1985 when Mr. Bearman, as director of investment bank Robert Fraser & Partners Ltd., saw an opportunity for the bank to grow in financial services by getting into insurance brokerage.

Mr. Bearman was no stranger to the business. Until the mid-1970s, he had spent eight years at Willis Faber P.L.C. as an assistant to Roger Elliott, who then was chairman of the marine division at Willis and is now chairman of Willis Corroon P.L.C.

Continued on next page

Our Clients Come To Fort Wayne Underwriting To Marketing. G



Continued from previous page

Mr. Bearman said he left the brokerage in 1975 to set up his own development company and join Fraser's bank.

After suggesting that the bank buy a Lloyd's broker, Mr. Bearman looked into the alternatives.

Buying an old, established name at Lloyd's could have created "problems with past liabilities," he said.

Another option for the bank was setting up its own broker from scratch. But it would have taken three years under the umbrella of another Lloyd's broker before the new company could be a Lloyd's broker in its own right, he said.

So the bank chose a third course. It bought a "small shell Lloyd's broker" named Richardson Searls from Ennia General Insurance Co., which is now called AEGON Insurance Co. (U.K.) Ltd. The small broker employed seven people "and was losing money," he said.

Shortly after the deal was closed

in late 1985, Lloyd's brokerage subsidiary Robert Fraser Insurance Brokers Ltd. began doing business.

Perched on a "soapbox" of a chair his first day in the office, Mr. Bearman began opening the mail. The first letter was from an elderly woman who wanted to renew her insurance for her false teeth. "I thought, 'Oh no, what have I let myself in for?'" Mr. Bearman recalled.

He immediately set about turning Fraser into a professional commercial brokerage by attracting teams of producers by offering them ownership interests, rather than by acquiring other brokers.

Fraser, in fact, is one of the first Lloyd's brokers to attract teams of people by offering equity ownership in the divisions that the teams set up, Mr. Bearman said. This allows recruits to share in the profits of their divisions and decide on their own destinies, he said. "Now everyone's doing it."

Growing in specialist areas rather

than standard property/casualty business "has been one of our great successes," Mr. Bearman said.

The first team joined in 1986. Three people from Sten Re (U.K.) Ltd. set up Robert Fraser Reinsurance Brokers Ltd., which specializes in North American, international and London market property reinsurance and places non-marine casualty and marine reinsurance coverages.

"Our origins go back to my decision to start a new independent reinsurance broking company," said John Jenks, managing director of Robert Fraser Reinsurance Brokers. "I had two colleagues who wanted to join me—Stephen Gray (who has since left Fraser) and Charles Mathews."

Today, Nick Porritt, Graham Reid, Jack Woodward, Julian Slade and Mark Bedford-Russell also are directors at the reinsurance broker.

The division's business is 40% non-London business, 40% London market non-marine reinsurance and 20%

marine reinsurance.

One division specialty is surety bond reinsurance. Fraser pioneered placement on a "per bond" basis rather than on a "per principal" or contractor basis, according to Mr. Jenks.

The division "has been profitable every year," he said.

Mr. Jenks, though, still would like to: see his North American business grow by hiring new people; expand the division's Australian business; and develop the group's marine reinsurance division while the London market is in chaos.

"Where there's chaos, there's opportunity," Mr. Jenks observed.

Other teams from London brokerages soon joined the group. Today there are 10 divisions, each with its own directors who own a percentage of their respective divisions. These include:

- Robert Fraser Associated Risks Ltd., which specializes in "crime and contingencies" coverages, according

to Managing Director Clive Swabey.

Heading the crime business—bankers blanket bond, computer crime, fidelity and directors and officers coverage—is director Grant Mitchenall.

In this field, the division is one of the biggest brokers in Australia, France and Hong Kong, where it recently placed the bankers blanket bond coverage for the liquidators of the Hong Kong division of scandal-plagued Bank of Credit & Commerce International S.A.

Associated Risks's contingency business, which Mr. Swabey calls the "weird and wonderful" risks, is headed by Director Michael Pake-man, who joined the division from contingency specialist broker Adam Bros. Contingency Ltd. a few months ago.

Another director of the division is Tim Snowball.

- Robert Fraser Arts & Specie Ltd., which places coverage for diamond dealers, art dealers, furriers, museums and stamp dealers worldwide, as well as for armored car and courier industries.

The division is known for, among other things, its placement of large amounts of U.S. jewelers block and armored car coverage.

Heading the division is Managing Director Michael Scarsbrook.

Mr. Scarsbrook started in the market in 1957, working as a broker for J.H. Minet & Co. Ltd. Mr. Scarsbrook left Minet in 1975 for a job to work for broker Wright, Dean, which was later absorbed into Alexander Howden Group Ltd.

In 1986, he left a job with Leslie & Godwin Ltd. with three other people to start the arts and specie division.

Among the other directors are Allan Whipple and Paul Parkinson.

- Robert Fraser Special Risks (Holdings) Ltd., which is known for its Lloyd's members stop-loss insurance program and financial reinsurance.

Managing Director David Seel and Director Peter Roxborough set up the division in 1987 and were joined in July 1988 by Directors Mark Burbidge and Giles Schofield, who came from Fenchurch Insurance Brokers Ltd.

The division now places the stop-loss insurance for about 2,000 Lloyd's members, members' estate protection reinsurance and financial reinsurance, among other things, according to Mr. Burbidge.

The Fraser group also is one of the largest brokers in bloodstock insurance through Robert Fraser Bloodstock Ltd. Mr. Bearman heads the Lloyd's Polo Club and is a member of the same polo team as Prince Charles.

The group also has a financial management division and an agricultural division.

However, it does not have a large property/casualty division.

"We made a conscious decision that while the market was flat we wouldn't be pushed into property/casualty, though we have a small team doing that," he said. "When the time is right, we'll punt... maybe in the next year or two."

Toward the end of last year, Mr. Bearman bought out the Robert Fraser bank's ownership of the brokerage and began looking for a partner with the capital to fuel growth.

But, "we didn't want to get tied to a big American broker" and alienate other U.S. brokers, Mr. Bearman said.

"We were finally introduced to the Swire group—owners of Cathay Pacific with their head office in Hong Kong—who were interested in developing their insurance broking side," he said.

Such expansion may include expanding the brokerage's reinsurance side "significantly" and possibly acquiring companies for the first time, he said.

"We are a young company, and we are keen to go the whole way," he said. ■

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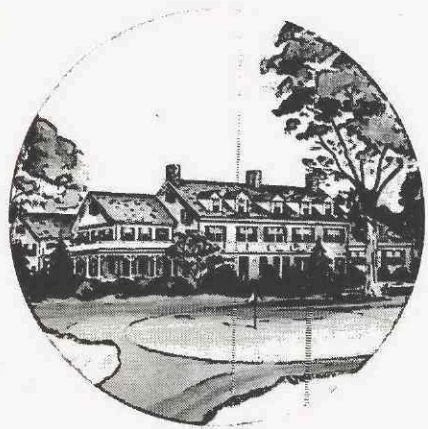
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Lloyd's prodigy helped shape niche broker's current success

By GAVIN SOUTER

LONDON—Nursing niche markets has been the key to success for Lloyd's broker Holman Wade Group.

The group, which started with stop-loss insurance for Lloyd's of London members 11 years ago, now places coverage in five niche areas with the objective of avoid-

ing mainstream business, said Chairman Michael Wade.

"We are the classic niche broker, and we have no intention of getting involved in mainstream business," Mr. Wade said.

And the structure of the group, which gives individual managers considerable autonomy, should help the broker grow in the future, he said.

Mr. Wade expects 1991 profits to match 1990 levels: 2.4 million pounds (\$4.6 million at appropriate exchange rates) on total revenues of 13 million pounds (\$25.1 million).

In 1989, the group reported a profit of 2 million pounds (\$3.2 million) on revenues of 9 million pounds (\$14.5 million).

Mr. Wade's rise through the London market ranks since 1976 has been rapid.

In 1987, Mr. Wade became the youngest person ever to serve on the Council of Lloyd's, and he is now the youngest member of the task force that is conducting a fundamental review of Lloyd's capital base.

However, Mr. Wade's career in the market began on a wing and a prayer.

In 1976, the 21-year-old Mr. Wade—lacking any insurance industry experience and a career goal—his first job on a Cuthbert Heath Underwriting Ltd. aviation box.

"When I arrived in London from Staffordshire, I didn't really know what I wanted to do. But, I had learned how to fly an airplane when I was 19, so when I saw an advertisement in the Sunday Times for an aviation underwriter, it sparked my interest," Mr. Wade said.

Although woefully underqualified for the advertised job, he was given a junior position and stayed on the Heath box at Lloyd's for nine months.

Mr. Wade then moved on to become a reinsurance broker with Hartley Cooper Ltd., where he stayed for nine months before joining another Lloyd's broker, Carritt & Partners.

"At that time, personal stop-loss insurance for Lloyd's members was just beginning to emerge and I was brought in to develop it," Mr. Wade said.

Then in 1980, at age 25, he left to form his own brokerage, specializing in placing personal stop-loss insurance for Lloyd's members. Mr. Wade and David Holman, then chairman of insurance broker and ship broker John Holman & Sons Ltd., set up Holman Wade Ltd.

Then, in 1982, Mr. Wade bought out Mr. Holman's interest as well as the other insurance brokerage interests of John Holman & Sons.

Holman Wade merged with shipping broker H. Clarkson & Co. in 1986. That same year, a new holding company for the companies, Horace Clarkson P.L.C., was listed on the London Stock Exchange.

Subsequently, the holding company created Holman Wade Group Ltd., which has five specialty units.

"One-third of the Horace Clarkson profits now come from Holman Wade" Group, according to Mr. Wade.

The Holman Wade Group is best
Continued on next page

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Continued from previous page known for its personal stop-loss account, which is handled by Holman Wade Ltd., which is headed by Managing Director Paul Fletcher.

"We now handle 70% of the personal stop-loss market," Mr. Wade said.

And the potential for growth is still strong, since only 40% of Lloyd's members buy stop-loss insurance, he said.

Mr. Wade blames members agents in part for so few names buying the coverage.

"Members agents do not present stop-loss to their members very well. They don't see it as their responsibility. But, I believe that if they are looking after their members' interests, they should advise them about stop-loss," he said.

If all members had taken out stop-loss coverage for 1988, no member would have lost more than 100,000 pounds (\$193,000 at appropriate exchange rates), Mr. Wade said.

"If you buy just the basic coverage of 250,000 pounds (\$422,500 at current exchange rates) excess of the first 50,000 (\$84,500), you would pay around 3,500 pounds (\$5,900). And when you consider how that caps your liabilities, it isn't much to pay," he explained.

Holman Wade Ltd. clients will file stop-loss claims totaling about 60 million pounds (\$101.4 million at current exchange rates) for the 1988 underwriting year, he estimates.

"In any other year we wouldn't have claims of more than a few million pounds and certainly not more than 10 million," Mr. Wade said.

As a consequence, Holman Wade Ltd.'s claims department is exceptionally busy, and its expenses are increasing. "But we are not complaining about this, as it is just part of the service," Mr. Wade said.

Holman Wade Ltd. also places reinsurance that caps the liability of Lloyd's members' estates upon their death.

"When a member dies, he or she leaves an unlimited liability for their estate. But, if they take out estate protection coverage, the liability is taken over by the underwriters," Mr. Wade explained.

The Estate Protection Plan, developed by Mr. Wade, is purchased by 98% of the membership for about 300 pounds (\$507) annually, he said.

Holman Wade Ltd. currently is running off the Lloyd's liability of 1,300 deceased members, he said.

The marine and international non-marine accounts taken on by the group from John Holman & Sons are handled by Holman Wade International Ltd., which is headed by Chairman Nigel Rice.

The marine account covers cargo, hull, liability and reinsurance risks, and the international non-marine account concentrates on short-tail U.S. property business.

However, the marine account will soon be more narrowly focused, according to Mr. Wade. "It's too early to say what we will concentrate on, but we are trying to get away from handling all marine classes," he said.

Holman Wade Group purchased a reinsurance broker in 1987 and then set up Holman Wade Reinsurance Brokers Ltd. Don Shearman, the owner of the purchased company, was named managing director of the new unit.

Holman Wade Reinsurance places all types of coverage, though it concentrates on primary reinsurance.

Holman Wade Group in 1987 also purchased travel insurance broker, Hamilton Barr Insurance Brokers Ltd., whose name has not been changed. This unit, headed by Chairman Pat Barr, concentrates

on supplying insurance programs to tour operators and travel agents, Mr. Wade said.

Holman Wade Group's most recent acquisition is Adam Bros. Contingency Ltd., a specialist Lloyd's broker that dates back to the 1880s.

Adam Bros., headed by Chairman Lilliana Archibald, places coverage for risks for which there are no standard policy wording, like the cancellation risks for the Olympic games or space launches.

"All five companies are specialist companies. And this often means that we have a good relationship with major brokers because they want to use our expertise but they are not afraid of us pinching any of their major clients," Mr. Wade said.

This relationship between Adam Bros. and major brokers is particularly strong, he said.

As an example, Mr. Wade cites a pharmaceutical concern that

'All five companies are specialist companies. And this often means that we have a good relationship with major brokers because they want to use our expertise but they are not afraid of us pinching any of their major clients,' Mr. Wade says.

would need coverage for equipment aboard a U.S. satellite. That company's U.S. broker "probably wouldn't know where to look, so he approaches his London broker, who would not have the expertise to place that part of the risk" Mr. Wade explained.

"The London broker then comes to us, safe in the knowledge that we can place the risk but that we are not interested in taking the whole account."

Major brokers, in effect, use Adams Bros. as their own specialist department, he said.

With five different areas of expertise, Holman Wade falls into the category of a multi-niche broker, Mr. Wade said. "In a nutshell, we are a wholesale broker, a specialist in the protection of the capital base of Lloyd's, a specialist reinsurer, a contingency risks broker, a travel insurance broker and a marine broker."

Organizing Holman Wade into five separate companies helps ensure efficiency and loyalty from their senior managers, Mr. Wade said.

"Each company has a managing

director or chairman, and they all report to me as chairman of the group. But, they have a lot of autonomy, and they largely run their own businesses. And this is very important to them," he said.

Profit-sharing and stock option plans help reinforce managers' sense of ownership, Mr. Wade said. And all 230 employees, "from the typists to the chairmen, are part of the share option scheme."

In the future, the company will concentrate on building up its existing business, he said.

"We are not looking to buy any more companies at the moment, but that is not to say that we would not make a purchase if the right opportunity came along," Mr. Wade said.

Outside of Holman Wade, Mr. Wade is chairman of the Lloyd's Community Initiative Programme. The project raises money from underwriters and brokers to help poor people in East London. ■

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Lloyd's 'renegade' calls for cap on liability

By STACY SHAPIRO

LONDON—Peter Nutting plays two roles at Lloyd's of London.

On one hand, he is considered a renegade as chairman of the Outhwaite 1982 Names Assn. The group of 985 members is suing 81 members agencies for negligence over massive losses stemming from the open 1982 account of syndicate 317/661 managed by R.H.M. Outhwaite (Underwriting Agencies) Ltd.

Other members' associations and their lawyers say that if the Outhwaite members' litigation succeeds when it goes to trial next month, the decision will set a precedent that will allow other members to collect losses from their agents.

On the other hand, Mr. Nutting has become part of the "establishment" since taking an external member seat on the Council of Lloyd's in January.

Some might expect Mr. Nutting would have to toe the line rather than be outspoken, but he looks at his position another way.

"If you have strong views about an institution or organization, you can do much more good by actually getting involved," he said. "I have very strong views. . . I felt that Lloyd's was going in the wrong direction (with) a whole lot of complacent people sitting around while the whole place burned. . . I thought it was a fuddy-duddy organization and I wanted fresh air blown into it."

As one of the outsiders on the council, Mr. Nutting expresses fresh ideas that have not been discussed by Lloyd's leaders.

For example, Mr. Nutting believes—like many in the market—that members' liability should be capped. "The risk to be a member of Lloyd's is too great," he said.

"Lloyd's started in an era (the 1600s) when all businesses had unlimited liability because stock companies weren't invented," he said. To say that unlimited liability is the cornerstone of Lloyd's and cannot be altered is ridiculous, he said (see story, page 3).

Many more investors would join Lloyd's if they knew that their liability would be limited, he said.

He also awaits the publication of the findings of the task force headed by David Rowland, chairman of Sedgwick Group P.L.C., that is likely to call for changes in the market. A task force taking a fresh look at Lloyd's is "just what we need," Mr. Nutting said.

Mr. Nutting admits he is one of the establishment. Others in the market agree that his biography is typical of the "high net-worth individual" who joins Lloyd's.

Born in 1935, Mr. Nutting attended Eton, Britain's most elite boarding school, and afterward served a short term in the Irish Guards, a prestigious division of the British Army.

Though he started his career with a brief stint as a stockbroker, he soon held executive positions at different companies, including executive chairman of E&J Burke Ltd., a soft drink manufacturer.

From 1968 to 1973 he was director of London-based investment bank William Brandts. Since then, he has been involved in a number of firms. Today, he is chairman of Travel & General Insurance Co. P.L.C. of London and chairman of battery and light equipment manufacturer Mitech Ltd.

He became a Lloyd's member in 1972 after William Brandts took a controlling interest in R.W. Sturge & Co., predecessor to Sturge Holdings P.L.C. "When we bought into Sturge, we didn't actually know what they did," he said, and the best way to learn about Sturge and Lloyd's was to become a member.

"I knew absolutely nothing" about being a member, which is typical of most people who join Lloyd's, he said.

Over the years, Mr. Nutting has done extremely well as a Lloyd's member. Up until this year, except for a small loss on a motor syndicate in 1973-74, "I've had a check every year," he said.

The biggest check was for 65,000 pounds (\$109,850 at current exchange rates), but all of them were at least more than 20,000 pounds (\$33,800), he said. Even in 1982 when the Outhwaite syndicate kept its account open, Mr. Nutting earned about 50,000 pounds (\$84,500). "But for Outhwaite I



Mr. Nutting

would have received 100,000 pounds," (\$169,000) he said. This year, however, is the first year that Mr. Nutting has had to pay Lloyd's for losses. Those losses stem from the 1988 year, which closed at the end of last year under Lloyd's three-year accounting system. And, "I expect to pay a bigger check next year," he said of the 1989 underwriting year.

Mr. Nutting's strategy is to have

his affairs managed by an independent members agency—currently, he is with Willis Faber & Dumas (Agencies) Ltd.—and never put more than 5% of his total allocated premium income capacity on any one syndicate. Though he started with six or seven syndicates in 1972, Mr. Nutting is now on 40 to 50 syndicates.

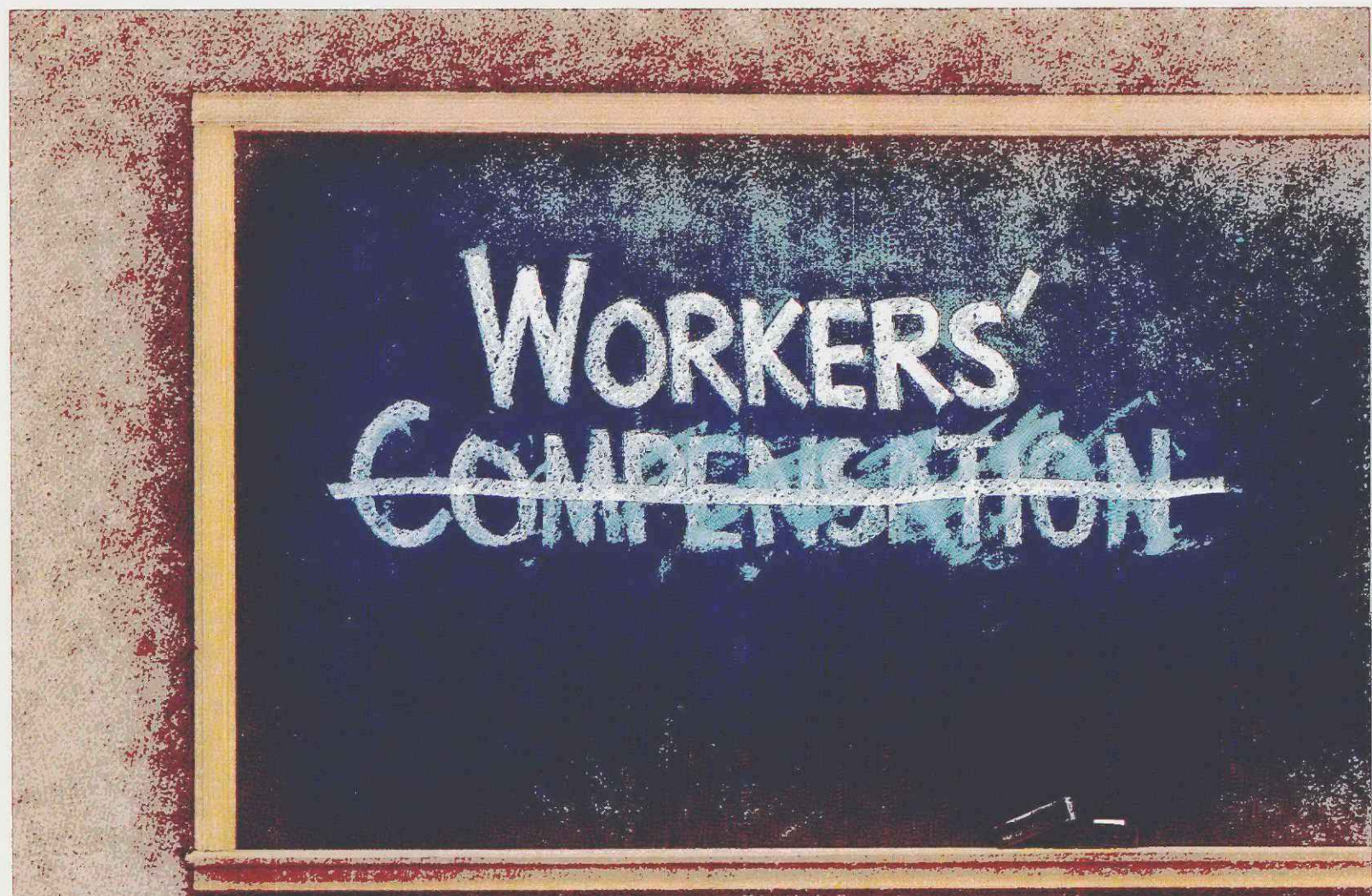
One of the first syndicates Mr. Nutting joined was syndicate 317/661, managed by the Outhwaite agency and underwritten by Richard Outhwaite. The total loss on the open 1982 underwriting year of the Outhwaite syndicate now totals 200.7 million pounds (\$339.2 million at current exchange rates) or

486% of its original capacity. The losses stem from 31 runoff reinsurance contracts written by Mr. Outhwaite during or prior to 1982, many of which were placed by other syndicates (BI, June 10).

When Mr. Outhwaite first kept his syndicate account open, he said that there would be a profit when it finally closed, Mr. Nutting recalled. "How could he have said that?" he now asked.

Mr. Nutting became involved with other members considering litigation in the late 1980s when he discovered that his family law firm, Richards Butler, was acting on behalf of other Outhwaite mem-

Continued on page 27



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Renegade

Continued from page 24
 bers. At a meeting of these members—which Mr. Nutting was unable to attend—he was elected to the Outhwaite 1982 Names Assn. committee.

Mr. Nutting said he was asked to chair the first meeting of the committee and “that’s how it started.”

He accepted the chairmanship of the Outhwaite 1982 Names Assn. committee because he felt strongly that what Mr. Outhwaite had done “was simply outrageous.” And he didn’t see why Lloyd’s couldn’t settle the Outhwaite members’ losses the way Lloyd’s had settled the losses from syndicates formerly managed by PCW Underwriting Agencies Ltd. In 1987, Lloyd’s coordinated a package with more than 37 other Lloyd’s organizations to offer the PCW mem-

bers 103 million pounds (\$174.1 million at current exchange rates) and a cap on future liabilities in return for a relinquishing their rights to sue Lloyd’s and any other parties in the settlement (BI, April 13, 1987).

Lloyd’s officials have said that this settlement was made because it was unclear which losses on PCW were legitimate and which were as a result of fraud committed by PCW executives Peter Cameron-Webb and Peter Dixon, who were both expelled from Lloyd’s and have fled the United Kingdom to avoid criminal prosecution (BI, Sept. 10, 1990).

But to Mr. Nutting, it shouldn’t have mattered whether losses were caused by “incompetence or fraud.” The problems at Outhwaite are just as much a market matter, he contends, since it was the long-tail liability losses of past years of 31 other

Lloyd’s syndicates that are causing the Outhwaite losses.

Mr. Nutting took up the chairmanship with “no malicious intent” against Mr. Outhwaite, but to recover the losses that the members have incurred. “It seemed a good cause, a commercial cause,” he said.

However, he is amazed that Mr. Outhwaite still underwrites in the market, and members agencies still support his syndicate. “He’s one of the most unsuccessful underwriters at Lloyd’s. True, he’s only had one bad year, but it’s a pretty bad one,” Mr. Nutting said.

In 1989, it became clear to the members that they had a very good case, and so the committee gathered steam by collecting money—now totaling 4.5 million pounds (\$7.6 million)—and seeking publicity to obtain credibility and pressure Lloyd’s into

a settlement.

But there are no signs of a settlement before the 985 Outhwaite members go to trial Oct. 7 against 81 members agencies, including the Outhwaite agency, Mr. Nutting said. The members are suing their members agencies because under the old Lloyd’s members agency agreement—which was abolished last year—members only had recourse against their members agent and not against an underwriter or managing agent.

Suing the members agencies also gives access to a deeper pocket, namely the agencies’ errors and omissions insurance. That insurance could total 10 million pounds (\$16.9 million) per agent, or a total of 810 million pounds (\$1.37 billion), compared to the estimated 30 million pounds (\$50.7 million) value of the Outhwaite agency and its E&O cover,

Mr. Nutting admitted.

Lloyd’s this year said that members agents no longer are required to buy E&O insurance. The market also states in the new members agency agreement that the member does have recourse against the managing agent of their syndicate.

“Everything will depend on this case,” said Mr. Nutting. The eight other members’ associations that have sprung up to seek compensation for other syndicate losses see the Outhwaite litigation as a test case. It is unlikely that these associations will continue their legal actions if the Outhwaite members lose their case.

While Mr. Nutting has become known as a rebel in the market, he nevertheless was asked by one of the regional organizers of the Assn. of Lloyd’s Members to speak at a luncheon last year on the problems at Lloyd’s. When the central ALM committee learned about this, however, it decided that it was “inappropriate” for Mr. Nutting to speak and withdrew the invitation, he said.

But Mr. Nutting and the regional organizer held their own private luncheon, at which Mr. Nutting addressed about 200 members.

Following this incident, Mr. Nutting said he felt that “the ALM wasn’t doing much” so he ran for a position on the ALM committee. Five candidates ran for four places, but Lady Middleton—one of the founders of the ALM—withdrawed so that Mr. Nutting could take her place, he said.

Later last year, Mr. Nutting ran for—and won—an external member’s seat on the Council of Lloyd’s.

Mr. Nutting says he joined the council at an “interesting time” when the massive losses in the market are making Lloyd’s take a long hard look at itself. The caliber of people on Lloyd’s Council is also impressive, said Mr. Nutting. “The standard of debate is very high. The independent (non-Lloyd’s) council members are extremely intelligent; the working members are interesting. They’ve all got something to contribute.”

He is also impressed by Lloyd’s Chairman David Coleridge. “In David Coleridge we have a chairman who is a dyed-in-the-wool Lloyd’s man but who’s also willing to grasp the nettle,” said Mr. Nutting.

Mr. Nutting approves of Mr. Coleridge’ actions to review loss-riddled syndicates.

Mr. Nutting said earlier this year that either members agents or Lloyd’s should review the massive losses by syndicates like those formerly managed by Feltrim Underwriting Agencies Ltd. At first this idea was rejected with the excuse that it was against Lloyd’s policy to get involved in syndicate matters.

But when it became apparent that other syndicates would report massive losses this year, “Mr. Coleridge decided that there should be loss reviews,” said Mr. Nutting. The reviews may show that the only fault was “bad underwriting,” he admitted. “But names need to be told the facts.”

Many of the changes Mr. Nutting has advocated are now being carried out, he said. Lloyd’s is looking at a compulsory arbitration system to settle disputes between members and their agents. And, the market has ordered that underwriters’ remuneration be made public.

Mr. Nutting says he is very well received on the council “on a personal basis.” Perhaps the Lloyd’s chairman “would say that he disagrees with what I am doing” in regard to suing over the Outhwaite losses, Mr. Nutting said. “But he’d say that he can see why I’m doing it.”

Mr. Nutting also is optimistic about Lloyd’s future. “I don’t believe there won’t be a Lloyd’s in the future,” he said. “There is more underwriting talent here than anywhere in the world. And the world insurance market needs a Lloyd’s and London needs a Lloyd’s.”



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Most U.S. names see long-term rewards

By ELIZABETH WILCOX

LONDON—Despite suffering record losses last year, many North American members of Lloyd's of London plan to stay put.

Over the long term, they say, profits have outstripped losses on their investment in the market.

And, some members are stuck in Lloyd's because they are on open syndicates and, thus, cannot easily resign from the market.

Others, however, say the risk of unlimited liability far outweighs the rewards and are leaving Lloyd's or are considering litigation against members agencies that placed them on loss-riddled syndicates (see story, page 44).

Although the membership of Lloyd's traditionally has been associated with the strong-hearted and wealthy of British gentry, American and Canadian members comprise an important minority in the market.

Of the more than 26,000 active members of Lloyd's, North American names account for about 10%. According to an analysis of the market's membership conducted this year by Lloyd's membership department, 2,137 Lloyd's members live in the United States, while about 500 live in Canada. More importantly, North Americans supply about 20% of Lloyd's capital.

North Americans historically have been less visible in the market than their British counterparts, who comprise an estimated 85% of the membership. To date, an American has never held office on the Council of Lloyd's, the market's executive decision-making body.

Last year, two Americans ran for the two slots on the eight-member council that are open to external, non-working members. Both contenders—Phil Gallagher, president of Gallagher-Cole Associates, a Miami insurance agency, and Richard S. West of Parker & West Management, a Boston-based financial adviser to U.S. names—lost their bids.

For Mr. Gallagher, it was his 10th time running.

"It is very unlikely that an American name will ever be elected," he said. "Eighty-five percent of the membership makeup is British and only approximately one-third of that membership votes. Names will usually vote with their heritage."

North American members typically are recruited for membership in the market by Lloyd's members agencies. Based in the United Kingdom, officials of these agencies travel to the United States periodically to drum up new members. Bankside Members Agency Ltd. and Merrett Underwriting Agency Management Ltd. each have a North American office, but they operate on a very limited scale.

It has been said that North American Lloyd's members lack a full understanding of the market and, at least initially, may fare more poorly than they had anticipated.

One group of North American members in particular, a group of medical practitioners in the Hamilton, Ontario, area, stands to lose colossal sums of money.

These Canadian members were introduced to the market by a colleague who was paid commissions by a Lloyd's members agency to recruit the others in the group. Each of them has lost about 250,000 pounds (\$422,500), estimated Ken Lavery, a retired accountant in Oakville, Ontario, who is a Lloyd's member and chairman of LIMIT (Lloyd's International Members in Trouble), which he described as "a sort of self-help group of names."

"Some names don't know who they are giving their pen to. Whole families have gone in unaware," said one Canadian member.

This sentiment has also been expressed in the United States.

"We Americans are at the short end of the stick," said George Nordhaus, president of Insurance Marketing Services, an insurance agency consultant in Santa Monica, Calif., and a regional organizer for the Assn. of Lloyd's Members.

"We are victims of our own lack of understanding of the Lloyd's process. A lot of us did not really understand unlimited liability; now we

have to face up to reality. People put up their homes, they got carried away with the glory," he said. "We have got what we deserve. We wanted to get rich quick."

"A lot of names who are leaving probably should not have been there in the first place," said Walter G. Franz Jr., a Lloyd's member and an insurance agent in Arcadia, Calif.

Some North Americans feel es-

tranged from the marketplace.

"Lloyd's tends to be rather private or secretive," said Canadian name John St. Thomas Ker, a retired businessman and a member of the Canadian Assn. of Lloyd's Members. "Probably North American names in the present mood are a little more critical of the clandestine nature of Lloyd's," he said.

Some losses faced by North Ameri-

can members are substantial. One Californian member, his wife and four children together owe an estimated 240,000 pounds (\$405,600) on just two of the 11 syndicates on which they were members, London sources say. Those syndicates are the loss-riddled syndicate 847, managed by the now-defunct Feltrim Underwriting Agencies Ltd., and syndicate

Continued on next page

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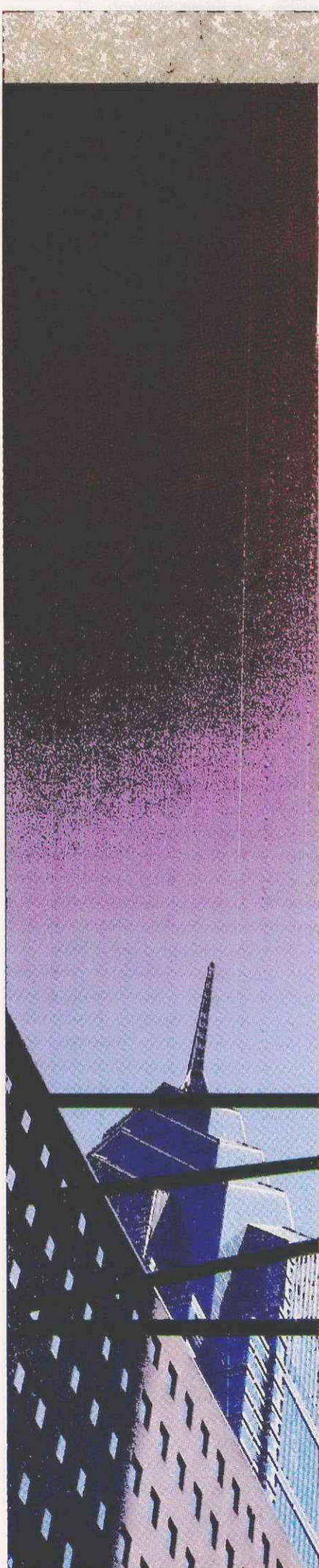
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Continued from previous page
290, managed by Gooda Walker Ltd.

The three syndicates managed by Feltrim now face a worst-case estimate of 350 million pounds (\$591.5 million) in losses. Lloyd's established an independent review panel headed by Sir Patrick Neill to examine the losses at syndicates managed by Feltrim (BI, July 15).

Another panel is investigating losses at syndicates managed by Gooda Walker (BI, Aug. 5). Syndicate 290 expects to make a cash call of 75% of premium income for the

still-open 1989 underwriting year.

Mr. Gallagher, a Lloyd's member since 1971, said he has had to pay out 4,900 pounds (\$8,281) this year.

Mr. Nordhaus also has incurred a loss this year.

"I would say of roughly 500 Canadian names, probably one-third are caught up in the web of losses," said Mr. St. Thomas Ker.

Despite the size of recent losses, many Lloyd's members have made profits in previous years and most expect to do so again in the future.

Even after this year's results, Mr.

Lavery acknowledged that he will have made more as a Lloyd's member than he has lost.

Mr. Gallagher, too, has made more than he has lost on his investment and called Lloyd's "a highly worthwhile endeavor" for the long term. "If a name is involved for 20 years or longer, it is highly likely to be very profitable," he said.

"I have certainly made more than I have lost over the last 20 years," said Mr. Nordhaus.

Those who joined Lloyd's more recently, however, have not been as

fortunate.

One North American member pointed out that the Hamilton, Ontario, members' losses have been particularly devastating because they joined only in 1988 or 1989, which was an insufficient amount of time for them to build up any reserves.

Results were not entirely bad for all Lloyd's members for the 1988 underwriting year, the most recent closed.

Richard Williamson, chairman of reinsurer Sterling Universal Ltd. in Toronto and chairman of the Cana-

dian Assn. of Lloyd's Members, made a profit in 1988, as did his wife, also a Lloyd's member. However, Mr. Williamson's daughter, another Lloyd's member, suffered a loss. In regard to names that have incurred losses, he said, "they were told what unlimited liability was. That's the way the insurance business goes."

"I will remain underwriting," he added.

Others also plan to continue participating in the market. Should the market harden, as some believe it will, many names believe their losses can be recovered after 1990 has passed.

With reinsurance rates going up, many maintain that the market is beginning to harden.

"Every indication is that rates are turning," said John D. de Pencier, an attorney in Toronto who is a Lloyd's name. "The excess-of-loss rates are already going up. It will be interesting to see what sort of rates there will be when they are renewed at the end of the year," said Mr. de Pencier, who is a North American director of Bankside Members Agency Ltd.

"The market will harden," predicted Mr. Williamson.

Some names, though, have no choice but to remain members of Lloyd's.

Caught in "open" years in which cash is still being demanded by syndicates to cover past losses, Mr. Lavery said he will probably not be able to resign for another five years. Until then, he said he is continuing to participate in low-risk categories, like motor syndicates, in the hope of offsetting some of his losses.

"It is very difficult for people to get out," Mr. Lavery said. "The rewards aren't worth the risks."

"If one has open years, one is better off to stay on in order to trade off some of the losses," said Ralph Bunje, a name and a partner at management consultant Parker, Bunje, Buss & Lloyd in San Francisco.

The view for the future of Lloyd's varies among North American names.

Litigation is being considered by a number of members against the agencies that placed them on syndicates hit by large losses.

For example, Mr. Franz is considering litigation against Lambert Brothers (Underwriting Agencies) Ltd. And Mr. Gallagher said that if a lawsuit materializes against Feltrim, "I would definitely join."

Mr. Lavery believes the outlook for Lloyd's is bleak. "Lloyd's is going to implode upon itself," he said. "They have their heads in the sand."

Mr. Williamson, though, disagrees. "In 95% of the cases, names don't have a leg to stand on," he said of the lawsuits under consideration.

Mr. West, the adviser to U.S. members, said, "I've been a member of Lloyd's since 1969. I've seen its ups and downs. I think that it has had a very bad patch in the 1980s, but I think that there is great promise, particularly with the initiatives that are already in the pipeline."

One of those initiatives is a Lloyd's task force that is now studying possible changes to the market. Among other things, the task force is examining whether unlimited liability is still a desirable condition of membership.

Mr. Bunje believes that the task force, due to announce its recommendations at the end of the year, could play a significant role in determining the market's future. Other names expressed similar hopes.

"To me, Lloyd's is like a passenger ship," said Mr. Bunje. "There has been a major fire on board and no one has been to damage control school. The task force is damage control school. The questions is: Will they put the fire out?"

The 1991 meeting of the North American Assn. of Lloyd's Members will be held Oct. 24-26 in San Francisco. For more information, contact the ALM, P.O. Box 2440, Santa Monica, Calif., 90407-2440; 800-753-4467; 213-458-3222. ■



Non-marine syndicates fear the worst

By CAROLYN ALDRED

Most saw some profit in '88, but face big losses in '89, '90

LONDON—The non-marine market at Lloyd's of London is reeling from a spate of natural and man-made disasters that made 1989 and 1990 two of the worst years in the history of insurance.

While most non-marine syndicates turned a profit for 1988—the underwriting year most recently closed under Lloyd's three-year accounting system—that's not as likely for 1989 and 1990. A survey of Lloyd's non-marine syndicates shows that syndicate members face substantial losses for those two years.

"We are likely to have poor results in 1989 and 1990, but I don't believe that this means that Lloyd's is on the ropes. The market is responding to the losses with increased rates and a fundamental review of Lloyd's itself," said John Wetherell, chairman of Lloyd's Underwriters' Non-Marine Assn.

Meanwhile, catastrophe reinsurance capacity for Lloyd's non-marine syndicates has shrunk dramatically, non-marine underwriters report. The implosion of the London excess-of-loss—or LMX—reinsurance market, coupled with the catastrophic losses, are causing some non-marine syndicates to close and others to merge (see story, page 46).

Past liabilities, particularly asbestos and pollution claims, remain a source of concern for non-marine underwriters. And other black clouds on the horizon include the possibility of a barrage of claims from the collapse of U.S. savings and loan institutions and

errors and omissions claims from suits by Lloyd's members against underwriting agents whose syndicates have posted huge losses.

Of all of the problems facing Lloyd's non-marine syndicates, two years of unprecedented catastrophes are perhaps the most disastrous.

1989 "will be known as the year of catastrophes, both natural and man-made," said underwriter Tim Holloway in his report on syndicate 604/605, managed by Cuthbert Heath Underwriting Ltd. "Hurricane Hugo was the largest natural catastrophe loss ever to the insurance industry and the explosion at the Phillips Petroleum plant in Pasadena, Texas, (was) the largest fire loss. Earthquakes in San Francisco, and more significantly Newcastle, Australia, exacerbated the problems faced by this account."

Syndicate 604/605 expects to report a loss for 1989 of 15% to 20% of allocated capacity of 22.1 million pounds (\$40 million at year-end 1988 exchange rates).

Meanwhile, the windstorms in the United Kingdom and Europe at the beginning of 1990 "sadly blew away any chance of profit" for syndicate 604/605 in 1990, Mr. Holloway said.

"1989 was the worst year for non-marine business in the last quarter of a century and probably the worst year for Lloyd's in its history," according to underwriter A. Taylor's report for syndicate 51, managed by Taylor Clayton (Un-

derwriting Agencies) Ltd. The syndicate could report a loss of up to 5% of its 11.7 million pound (\$21.2 million) 1989 capacity, he predicted.

"The year is without doubt the worst in living memory for property related insured losses," said R. Barry, underwriter for syndicate 342, managed by Bankside Syndicates Ltd.

"After five sizable catastrophes in the last four months of 1989, our market was in some disarray," said N. Burton, underwriter for syndicate 1114, managed by Cassidy, Davis Ltd. Mr. Burton was referring to Hurricane Hugo, estimated to have cost insurers worldwide as much as \$10 billion alone; the San Francisco earthquake; the Phillips Petroleum plant explosion; a severe winter freeze in the United States; and the Australian earthquake.

But the bad times were not limited to 1989.

"1990 was the second-worst year for catastrophes in the U.S.A., albeit a considerable improvement on 1989. What made 1990 such a particularly bad year, however, were losses outside the U.S.A. in its first two months," said underwriter B. Cauldwell of syndicate 464, managed by Langton Syndicate Management Ltd.

"Insured losses from European windstorms alone rank at approximately \$8.2 billion in 1990... (with) the first European windstorm in January 1990... currently estimated as costing the

equivalent of \$5.3 billion," said Mr. Cauldwell.

"Further compounding the situation is the fact that as the major losses occurred so early in the year, the benefit of investment income will be severely curtailed," he noted.

Indeed many syndicates, particularly new ones, were forced to borrow funds to pay the losses, thereby incurring interest charges.

"There will be serious solvency problems following the series of catastrophe losses sustained by the market," said D. Neil, underwriter of syndicate 939, managed by Octavian Syndicate Management Ltd.

The effect is already being felt painfully by many syndicates, forcing some to merge and others to close, as members lose faith and abandon certain syndicates.

"During 1990 quite a few syndicates merged—the reason often given being economies of scale although I doubt whether that was always the case. At the time of writing this report, we are hearing harrowing stories about certain syndicates suffering serious losses. I am afraid that we will lose many more syndicates than last year—a figure of 50 is being mentioned," said Mike Harris, underwriter for syndicate 947, managed by A.J. Archer & Co. Ltd.

The spate of catastrophes "coupled with the ongoing problems that many older operations are still encountering with prior years' underwriting, has led to a number of syndicates and companies either

withdrawing from the market completely or alternatively from specific classes leaving in certain areas—property retrocession being a prime example—a lack of capacity," said J. Weedon, underwriter for syndicate 1143, managed by Weedon Underwriting Agencies Ltd.

Many syndicates that managed to survive the catastrophic losses have undertaken radical changes in underwriting partly as a result of a massive contraction in the reinsurance market.

"In Britain and the rest of Europe, rates were greatly increased to pay for the (European) windstorms and Hurricane Hugo," Mr. Wetherell said.

"Good reinsurance is expensive and hopefully this will force direct premiums up. I would be very surprised if we don't see a hardening of direct property rates in 1992, but it's too early to say by how much," he said.

In the meantime, though, the reinsurance crunch is putting further pressure on non-marine syndicates.

Syndicates 164 and 290, both managed by Gooda, Walker Ltd., have instigated "significant changes" in their underwriting—in syndicate 164's case to "drastically reduce its involvement in excess-of-loss business and to almost withdraw from retrocessional accounts."

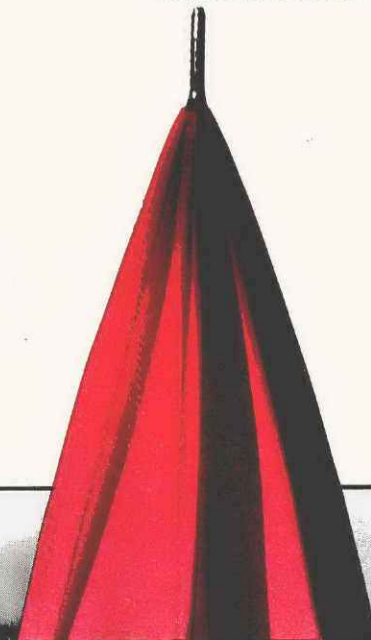
Both syndicates sustained large losses in 1989. Indeed, syndicate 290 predicts a loss of up to 130% of its 70.3 million pound (\$127.2 million) capacity in 1989 and "another

Continued on page 33



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Non-marine risks

Continued from page 30

large loss" on its 1990 capacity of 57.7 million pound (\$93.1 million).

"For 1991 we have completely rethought our approach to reinsurance. It became almost impossible to buy any meaningful non-marine whole-account reinsurance protection due to the lack of capacity in the market," said underwriter Derek Walker in syndicate 290's report.

Severe capacity shortages also have forced many other syndicates to rethink their reinsurance arrangements. "General protections have now virtually priced themselves out of being a viable form of reinsurance cover. With the curtailment of our LMX and retrocessional writings, we have dispensed with the general catastrophe program, with its accompanying cost, and have purchased various more specific protections," said Richard Jessel, underwriter of syndicate 1163, managed by London Wall Managing Agencies Ltd.

"The terms quoted by London leaders for the 1991 renewal of (part of syndicate 51's reinsurance) program were so punitive that we have decided to discontinue the majority of the layers of this protection, thus running an enhanced net retained position," said Mr. Taylor.

Indeed, many syndicates have increased their net retentions as a result of the reinsurance squeeze.

"Having caught a cold two years running, our reinsurers are understandably unwilling to provide us with the same cover at the same prices for 1991. The result is that we are now having to pay more for our reinsurances and have been unable to purchase as much cover or been unwilling to do so because

of the increased cost," said David Spyer, underwriter for syndicate 1139, managed by Roberts & Hiscox Ltd.

"Consequently, we now carry an increased exposure net of reinsurance cover. We have practically reduced the effect of this by decreasing the volume of business exposed to catastrophes," added Mr. Spyer.

"The price of our catastrophe covers has gone up enormously (and) we are retaining more risk and some of our layers of protection are not fully placed," said A. Beazley, underwriter for syndicate 623, managed by Beazley Furlong & Hiscox Ltd.

"Names are more exposed to a catastrophe loss than in previous years" due to reduced reinsurance protection available, said G. Lloyd-Roberts, underwriter of syndicate 55, managed by Lloyd-Roberts & Gilkes Ltd.

"The recent catastrophe losses have at last blown the retrocessional market away. Underwriters who write a catastrophe-exposed account now have to take stock of their aggregates more accurately and can no longer simply reinsure them," said J.H. Venton, underwriter of syndicate 376, managed by Venton Underwriting Agencies Ltd. However, Mr. Venton, like several other underwriters, has bought an unconventional reinsurance policy to help mitigate potential catastrophe losses, which "would, in the event of a substantial property loss, permit us to activate a time-and-distance-type cover involving our casualty reserves."

R.F. Bailey, underwriter of syndicate 138, managed by R.F. Bailey (Underwriting Agencies) Ltd., also is supplementing his syndicate's reinsurance protection in a "non-traditional manner."

Largest Lloyd's non-marine syndicates

Based on 1991 gross allocated capacity in millions of pounds

Syndicate	Managing agency	Underwriter	Capacity ¹	
			1991	1990
210	Sturge Non-Marine Syndicate Management Ltd.	A.G. Lee	£224.4	\$433.1
190	Three Quays Underwriting Management Ltd.	R.D. Hazell	175.0	337.8
362	Murray Lawrence & Partners Ltd.	H.J.R. Keeling	149.1	287.8
510	R.J. Kiln & Co. Ltd.	G.D. Gilchrist	115.8	223.5
33	Roberts & Hiscox Ltd.	I.N. Thomson	105.0	202.7
839	Castle Underwriting Agents Ltd.	A. Sharp	104.3	201.3
986	Janson Green Ltd.	M.W. Payne	103.8	200.3
1067	Merrett Underwriting Agency Management Ltd.	S.J. Burnhope	97.9	188.9
561	Bankside Syndicates Ltd.	P.E. Grove	97.6	188.4
1066	Merrett Underwriting Agency Management Ltd.	K.R. Barrett	86.4	166.8

¹Converted at applicable exchange rate

Source: Lloyd's of London

"This will be achieved by the purchase of a cover that, in addition to affording conventional protection, also provides time-and-distance-type coverage against the reserves established to cover the expected maturity of our casualty account." Mr. Bailey explained.

Adding to underwriters' reinsurance woes is a growing concern over uncollectible reinsurance.

E.A. Moore, underwriter for syndicate 90, managed by Pulbrook Underwriting Management Ltd. warns that 1989 results may depend partly on "provisions for insolvent reinsurers."

A \$500,000 provision for uncollectible reinsurance has hurt 1989 profits of syndicate 1117, managed by Stewart & Hughman Ltd.

Uncertainties over past liabilities, like asbestos and pollution claims, also are causing headaches in the non-marine market and are forcing some syndicates to leave open accounts that should have been closed several years ago.

"Although new bodily injury ad-

vices in the past year have thankfully been few, the rate of settlement of claims during 1990 increased materially. Furthermore, we face the prospect of a surge of asbestos property damage claims," said C.W. Hankin, underwriter for syndicate 584, managed by Bankside Syndicates Ltd.

Mr. Hankin, who has been unable to close the 1983 account of his syndicate because of such losses, also noted that pollution "remains a very difficult and problematic area" for his syndicate.

Syndicate 90, managed by Pulbrook Underwriting Management Ltd., is still unable to close its 1982 accounts and forecasts an ultimate loss of up to \$285 million, due principally to asbestos and pollution losses.

Meanwhile, many syndicates that have closed past underwriting years saw deteriorating asbestos and pollution claims from those years wipe profits from their 1988 account.

"The prospects of a good profit

faded as reserves had to be increased on the old years," noted Roger Lissenden, underwriter for syndicate 404, managed by Cuthbert Heath Underwriting Ltd. The deterioration stemmed principally from pollution and industrial deafness claims, he said.

Reverting to the back years, "I have to report a significant deterioration in both the asbestosis and pollution areas. These are major market problems and the expected slowing down of new asbestosis bodily injury claims has not occurred," said Michael Williams, underwriter for syndicate 235/237, managed by Edwards Williams Coultts & Partners Ltd.

"I am disappointed that the increased reserves have effectively eradicated the pure year's profit (for 1988)," said Jonathan Barnes, underwriter for syndicate 636, managed by Barder & Marsh.

"Regretfully, (1988) has closed with a loss. Whilst the pure year ended with a satisfactory under-

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Spotlight report

Non-marine risks

Continued from previous page writing profit, it has been necessary to increase reserves following further advices on asbestosis and potential pollution claims," said J.D. Plant, underwriter for syndicate 506, managed by Claremount Underwriting Agency Ltd.

Reserves for past pollution and asbestos claims "have now been made, which is one of the reasons why the 1988 results were so bad," said Mr. Wetherell, though he added that some of the reserves may not be necessary because "it is not clear whether coverage was actually available for all of the claims that are being made."

Some of the dumping that led to pollution claims was done deliberately, he said. In addition, many of the policies under which claims have been filed specifically exclude pollution coverage, Mr. Wetherell said. "In five years time,

when many of the cases would have been heard in court, we will be in a much clearer position, but in the meantime a prudent underwriter must make reserves for the claims," he said.

The need to reserve against pollution claims was the main reason Mr. Wetherell said his own syndicate 1145, managed by Janson Green Ltd., produced a loss equal to 12% of capacity in 1988, compared with a 9% profit in 1987.

Many syndicates also increased reserves for potential losses stemming from the U.S. savings and loan debacle.

"The crisis in the U.S. savings and loan industry remains a large black cloud on the horizon... the reserve has been increased," said Michael Meacock, underwriter for syndicate 727 managed by S.A. Meacock & Co.

"It is far too early to predict the outcome of the S&L-related claims) but recent court decisions

against insurers have caused me to thoroughly review reserves and establish increased amounts to reflect the potential claims," said T.W. Brien, underwriter for syndicate 15, managed by Stewart & Hughman Ltd.

The S&L debacle "has led to a mass of litigation by the regulators now responsible for insolvent institutions against the institutions themselves, their directors and officers, auditors and lawyers, which will undoubtedly have an impact on the insurance industry," said C.C. Jago, underwriter for syndicate 205, managed by H.G. Jago Ltd.

However, Ken Barrett, underwriter for syndicate 1066, managed by Merrett Underwriting Agency Management Ltd., believes that "there are grounds for vigorous defense of many claims" likely to spring from the affair.

Meanwhile, "a group of Lloyd's and London market underwriters

have formed a small working committee to help the market understand and respond to the situation as it unfolds," he noted.

Claims stemming from problems with the U.S. financial services industry—not just S&Ls—are causing concern in the Lloyd's market.

"Many of these claims are from the large international accounting firms, which are being held liable for bad business decisions or malpractice of their clients involved in the U.S. financial market. Others are from finance houses themselves, which have made imprudent or, in some cases, fraudulent investments and have claimed under the broad heading of negligence," said F.J. Austin, underwriter for syndicate 471, managed by Austin Caudle (Underwriting Agency) Ltd.

"It is most likely that we shall continue to see claims made against professional advisers, such as accountants and lawyers, for

some time to come," he said.

Meanwhile, some syndicates were forced to increase reserves to meet potential claims stemming from E&O policies written for Lloyd's underwriting agents.

Huge losses could arise if Lloyd's names win big awards against agents who managed syndicates that produced huge underwriting losses.

Syndicate 396, managed by M.F.K. Underwriting Agencies Ltd., was forced to further increase reserves due to cover possible claims from an E&O line slip for Lloyd's agents.

"Our concern emanates specifically from claims made against two agents, Outhwaite and Warrilow," said underwriter T.J. Newson, referring to loss-riddled Lloyd's syndicates underwritten by Richard Outhwaite and Cyril Warrilow.

Associate Editor Gavin Souter in London contributed to this story.

Wetherell in spotlight after claim is disputed

By GAVIN SOUTER

LONDON—Lloyd's of London underwriter John Wetherell's higher profile in the market was not entirely expected.

He predictably has attracted attention as chairman of the Lloyd's Underwriters' Non-Marine Assn., but less predictably, attention has been focussed on Mr. Wetherell as the lead underwriter on an Alaskan property risk covering a restaurant in Ketchikan that led to a celebrated \$86 million judgment.

And in his regular duties as a North American non-marine underwriter, Mr. Wetherell—like the rest of the underwriters in that market—has had to focus attention on making his way through a difficult period.

But better days may be in store for Mr. Wetherell's syndicate, as rates are expected to harden and the syndicate increases its efficiency by handling more business by computer, he said.

And future changes at Lloyd's should help ensure that the market itself has a secure future, he added.

Mr. Wetherell entered the Lloyd's market in 1960 when he joined broker F. Bolton & Co. to place mainly British casualty risks.

After spending five years as a broker, he crossed over to the underwriting ranks when he joined the Charles Close-Smith box at Lloyd's in 1965.

After climbing through the ranks at the box, he was made underwriter of syndicate 1145, which is managed by Janson Green Ltd., in 1983.

The syndicate, with a 1991 capacity of 50 million pounds (\$96.5 million), writes mainly U.S. property, directors and officers liability and errors and omissions risks.

In 1988, the syndicate posted a 12% loss, compared with a 9% profit in 1987. The 1988 loss was largely due to reserves for pollution losses and incurred-but-not-reported claims, Mr. Wetherell said.

"I hope to make a small profit in 1989 and 1990, and 1991 looks satisfactory because the account has grown considerably. But, of course rates are still very low," he said.

Apart from low rates, a major headache for Mr. Wetherell this year has been the \$86 million claim

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Marine underwriters push for rate hikes

By STACY SHAPIRO

LONDON—Not since its response to losses from Hurricane Betsy in 1965 has Lloyd's of London's marine market been so determined to increase rates across the board for hull, cargo and energy risks.

The marine market's 551.3 million pound (\$1.06 billion at applicable exchange rate) deficit in 1988 was the major contributor to Lloyd's overall pretax loss of 509.7 million pounds (\$983.7 million at applicable exchange rates) (BI, July 1).

Wracked by this unprecedented loss and the expectation of further losses when the 1989 year closes in December, many marine syndicates are shutting down or merging with others. Some speculate that the number of marine syndicates will drop sharply in 1992, though those that remain may be larger in size (see story, page 46).

Huge losses have also meant that marine underwriters are determined to push up marine hull and energy premiums and deductibles to compensate for the losses and pay for the increases in their own reinsurance premiums.

It's been 10 years since traditional marine risks, like hull and cargo, have seen any kind of significant rate increases, said Stephen Merrett, chairman of Lloyd's Underwriters Assn. and underwriter of Lloyd's largest marine syndicate 418, managed by Merrett Underwriting Agency Management Ltd.

But it has been closer to 25 years since Lloyd's marine market was determined to increase rates across the "whole spectrum" of risks that it underwrites, said Mr. Merrett.

"The marine market hasn't faced such a challenge since the period after Betsy," he said.

Mr. Merrett said marine underwriters now realize that the competitive rates that they have offered for traditional hull and cargo business, even after a slew of marine losses hit the market in 1988, has not brought in enough premium to pay for the unprecedented catastrophes of the past three years, Mr. Merrett said. Marine syndicates are also paying substantially more for their catastrophe reinsurance protection, which adds to their own pricing, he added.

"There are two distinct strands to the difficulties the marine market faces," he said. "One is the problem of the accumulation of catastrophe exposure largely through the reinsurance side of the market. The other is the traditional marine book of business—hull and cargo—where the rating levels are quite inadequate to sustain the expected claims cost."

Marine hull and cargo underwriters' "experience for the past three or four years has been unnaturally good, (meaning) that there was a great pressure to reduce rates" below inflation levels, Mr. Merrett said. "At the end of the period of very light claims activity, we are seeing the consequences in that loss ratios are very high indeed, requiring very substantial rate increases and enormous increases in deductibles."

Underwriters already are charging two to three times more for marine machinery coverage than they have over the last 10 years, he said. Hull underwriters also are charging "small increases in premium" from last year, although hull underwriters need an average increase of 50% over last year's price just to balance the syndicate's book, Mr. Merrett said.

Prices also are moving up for energy-related risks, he said, though he couldn't cite specific examples.

Nevertheless, brokers could only place 40% of London's master energy line slip, which is supposed to provide \$650 million in cover, when it renewed June 25 (BI, July 22).

In addition, far smaller amounts of business are being accepted by marine underwriters who write London market excess-of-loss reinsurance, Mr. Merrett said. And those who are writing LMX business are being "more cautious" about the aggregate commitments they have on any one risk, he said. "To a greater extent, the risk is being spread more by larger retentions."

Mr. Merrett says it is impossible to predict whether the marine market's capacity for 1992 will contract enough to affect the placement of risks. There is a likelihood that capacity will contract to some extent,

he said, because members are going to resign from Lloyd's, taking capacity with them. But, others will increase their participation in syndicates, he said. "It depends on whether members have the confidence that the pricing is being changed."

In addition, marine underwriters have not been hitting their capacity limits this year, so the syndicates could have enough capacity to take on increased premiums in 1992, Mr. Merrett speculated.

However, David Harrison, chairman of members agency Harrison Brothers Underwriting Agencies Ltd., told members in a recent market report that some 20 marine syndicates last year announced they were withdrawing from the market "and many more will have followed by the end of this year removing

their cumulative capacity from the market."

Lloyd's had a total of 105 marine syndicates during 1991, but that will drop to only 85 next year, Mr. Harrison predicted.

The total capacity for the marine market in 1991 is 4.1 billion pounds (\$7.91 billion at appropriate exchange rates), compared with 4.26 billion pounds (\$6.88 billion at appropriate exchange rates) in 1990.

The 20 largest marine syndicates this year accounted for 50% of the market's capacity, or 2.05 billion pounds (\$3.96 billion), according to Lloyd's of London.

The 1988 global results for the marine market, which were announced in June this year (BI, July 1), sank to a loss of 551.3 million pounds (\$1.06 billion), compared with a 291.9 mil-

lion pound (\$470 million) profit in 1987.

The 1988 loss was caused by a chain of catastrophes and the need to increase reserves for prior liability losses sustained on incidental non-marine accounts, Mr. Merrett said.

The catastrophic claims that hit the market in 1988 are headed by the \$1.4 billion loss of the Piper Alpha North Sea oil platform. Although the original claim on Piper Alpha was paid two years ago, retrocessional claims continue to spiral around the LMX market, creating more than 20,000 claims notices totaling \$11 billion, Lloyd's insiders say.

The Piper Alpha loss was five times more expensive than the loss of the Enchova platform off Brazil earlier

Continued on next page



Mr. Merrett

Alternative vs. Traditional

Specialists in Alternative Risk Financing

Largest Lloyd's marine syndicates

Based on 1991 gross allocated capacity in millions of pounds

Syndicate	Managing agency	Underwriter	Capacity ¹	
			1991	1990
418	Merrett Underwriting Agency Management Ltd.	S.R. Merrett	£220.2	\$425.0
206	Sturge Marine Syndicate Management Ltd.	M.J.H. Maughan	165.8	320.0
488	Charman Underwriting Agencies Ltd.	J.R. Charman	144.1	278.1
406	Wellington Underwriting Agencies Ltd.	I.C. Agnew	133.4	257.5
483	Methuen (Lloyd's Underwriting Agents) Ltd.	P. R. Chandler	125.3	241.8
448	Wellington Underwriting Agencies Ltd.	A.M. England	115.6	223.1
282	M.J. Marchant Underwriting Ltd.	M.J. Marchant	111.4	215.0
932	Janson Green Ltd.	J.R.L. Youell	104.9	202.5
2	Claremount Underwriting Agency Ltd.	C.R. Hill	104.1	200.9
367	F.L.P. Secretan & Co. Ltd.	S. R. Bishop	101.2	195.3

¹ Converted at applicable exchange rate

Source: Lloyd's of London

Continued from previous page in the same year, Mr. Harrison noted. Other serious marine market losses that affect the 1988 underwriting year include:

- Oil pollution claims from the \$1 billion cleanup of the Exxon Valdez spill in Alaska.
- The \$1.3 billion loss from the Phillips Petroleum Corp. chemical

plant explosion in Pasadena, Texas. The marine market was also plagued in 1988 with additional reserving for outstanding and incurred-but-not-reported pollution and as-

bestos losses, which are now hitting the excess layers of U.S. liability policies written by the market's incidental non-marine syndicates.

"The deterioration is significant, though not every syndicate has seen substantial deterioration," said Mr. Merrett. New claims advices from policyholders and claims notices that have just started hitting excess layers increased markedly last year, he said.

Marine underwriters believe that the 1989 underwriting year, which closes at the end of 1991, will actually be worse than 1988 because of catastrophes like Hurricane Hugo and the California earthquake.

"The general experience of the marine market is of settlements being rather larger than predicted. The essence of this lies in the inadequacy of rating levels and means that the notions of likely loss ratios are proving materially optimistic," said Mr. Merrett.

Some marine syndicates already are predicting that they will not be

able to close their 1989 accounts due to the lack of support by members.

Lloyd's 10th-largest marine syndicate, syndicate 367 managed by F.L.P. Secretan & Co. Ltd., last month told members that due to lack of support by members, the 1989 account would not be closed at the end of the year.

"It may appear premature to make this announcement but in view of the (member) notifications already received, it was decided that we had an obligation to advise you as soon as practicable," said Peter Edwards of Secretan.

Poor rating levels will also dash the hopes of an upturn in the 1990 account, which is also expected to produce an overall loss in the marine market, Mr. Merrett said.

Lloyd's marine syndicate 418, underwritten by Mr. Merrett, was one of the few marine syndicates to report a profit in 1988. It reported a profit of 23.9 million pounds (\$46.1 million at appropriate exchange rate), compared with a profit in 1987 of 29.3 million pounds (\$47.2 million at appropriate exchange rate).

Syndicate 418 is the market's largest syndicate with 1991 allocated capacity of 220.2 million pounds (\$425 million).

However, syndicate 418's still-open 1985 underwriting year saw overall losses total 65.3 million pounds (\$110.4 million at current exchange rates) as of year-end 1990, according to its annual report. Mr. Merrett said he hopes to be able to close the 1985 year by the end of this year.

Meanwhile, many of the top 10 marine syndicates reported losses for 1988. In particular:

- Syndicate 206, managed by Sturge Marine Syndicates Management Ltd., reported an overall loss of 32.9 million pounds (\$63.5 million at appropriate exchange rates), or 14% of the syndicate's 235 million pound (\$443.5 million at appropriate exchange rates) capacity for 1988.

Syndicate 206 is the market's second-largest this year, with allocated 1991 capacity of 165.8 million pounds (\$320 million at appropriate exchange rates).

Bruce Adams, underwriter of marine syndicate 209, will become underwriter of syndicate 206 upon the retirement later this year of underwriter Michael Maughan.

Including syndicate 206, five out of six of Sturge marine syndicates lost money in 1988 (*BI*, May 6). This includes syndicate 209, which produced a loss of 4 million pounds (\$7.7 million) or 4% of its 1988 capacity of 103 million pounds (\$194.4 million). Two other syndicates, syndicates 207 with a loss of 1.6 million pounds (\$3.1 million) and syndicate 288 with a loss of 14.8 million pounds (\$28.6 million), are closing down and their reinsurance to close premiums will be written by ongoing Sturge syndicates.

Sturge syndicate 207's reinsurance to close will be underwritten by syndicate 206, said Terry Hayday, chief executive of R.W. Sturge P.L.C.

Syndicate 288, with a 1991 capacity of 29.9 million pounds (\$57.7 million), will be reinsured into Sturge-managed syndicate 209, he added.

Syndicate 288 underwriter Kevin Long, will become the hull underwriter for syndicate 206, though the principal reason for the closure of 288 is its poor underwriting results, said Mr. Hayday.

Sturge is still conducting a review of its operations and further syndicate mergers or closures could not be ruled out, he added.

"We are responding to the clarification call of David Coleridge, who is our own chairman as well as the chairman of Lloyd's, to become more efficient," Mr. Hayday said (see story, page 3).

- Syndicate 406, managed by Wellington Underwriting Agencies Ltd., had an overall 1988 loss of 69.3 million pounds (\$133.7 million), the largest among the top 10.

Syndicate 406, underwritten by Ian Agnew, became the fourth-largest

Continued on next page

GRAPHIC BY HOLLY SEGUINE

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Marine market

Continued from previous page
marine syndicate this year with a capacity of 133.4 million pounds, up from No. 8 in 1990.

• Syndicate 448, managed by Wellington, produced an overall 1988 loss of 34.8 million pounds (\$67.2 million).

Syndicate 448 dropped to sixth place in 1991 capacity based on 115.6 million pounds (\$223.1 million) in capacity, down from fifth place in 1990.

• Syndicate 932, managed by Janson Green Ltd., posted an overall 1988 loss of 40.3 million pounds (\$77.8 million), according to its annual report.

nual report.

The syndicate, which fell to eighth place from third place based on 1991 capacity of 104.9 million pounds (\$202.5 million), is being merged into syndicate 79—also managed by Janson Green—due to lack of support by members.

• Syndicate 367, managed by F.L.P. Secretan & Co. Ltd., posted an overall 1988 loss of 44.7 million pounds (\$86.3 million).

The syndicate, which expects to keep its 1989 year open due to lack of support by members, dropped to 10th place from fourth place among marine syndicates based on 1991 capacity of 101.2 million pounds (\$195.3 million pounds). ■

Brockbank seeks growth in syndicate's capacity

By STACY SHAPIRO

LONDON—Lloyd's of London marine underwriter Mark Brockbank is a very busy man.

He has been scurrying around the market the past several weeks visiting Lloyd's members agents to attract additional capacity for his syndicate 861.

Those efforts are likely to boost

the syndicate's capacity to about 100 million pounds for the 1992 underwriting year (\$169 million at current exchange rates) from 65.8 million pounds in 1991 (\$127 million at appropriate exchange rates), members agents say.

Expectations of increased business over the next two years in many classes is the primary reason that Mr. Brockbank is now seeking to increase

his syndicate's capacity.

"In order to take advantage of the opportunities we foresee, we will be seeking to increase (the capacity) of the syndicate to 100 million pounds," explains a brochure from syndicate 861.

Mr. Brockbank was so busy calling on members agents that it was impossible for him to see *Business Insurance* before he went on vacation at the end of last month.

However, members agents sing the praises of Mr. Brockbank as one of the most successful marine underwriters in the market.

Marine syndicate 861, managed by Alston Brockbank Agencies Ltd., has steadily made profits over the years, including the 1988 year, in which many other syndicates reported an overall loss. The syndicate also might turn a slight profit in the 1989 account, another bad year for most syndicates.

Syndicate 861 also has no serious problem with the long-tail asbestosis and pollution losses of the last 40 years, since it started writing in 1982.

Nevertheless, Mr. Brockbank's syndicate "prudently" reserves for outstanding losses, members agents say.

Mr. Brockbank also is considered a conservative underwriter in the marine hull and war risk business, in which his syndicate is a leader. With the hull market in particular hardening, "there will be no difficulties in developing business next year for the syndicate," one members agent said.

The agent added that members agents support Mr. Brockbank basically because "he's one of the main leaders in the market, and his syndicate hasn't got a tail. His results are very good."

Mr. Brockbank entered the Lloyd's market in 1974, working as a broker for Willis Faber & Dumas Ltd. In 1980, he became assistant underwriter at syndicate 89, jointly managed by the former Brooks & Dooley (Underwriting) Ltd. and Dugdale Underwriting Ltd.

Mr. Brockbank became the underwriter for syndicate 89 at the beginning of 1984 after its previous underwriter, T. Raymond Brooks, was accused of profiting from reinsurance placed on behalf of the syndicate. Mr. Brooks at the end of 1984 became the second person ever to be expelled as a member of Lloyd's (*BI*, Dec. 17, 1984).

Syndicate 89, now managed by Octavian Syndicate Management Ltd., ceased trading at the end of 1984 and, as a result, has left its 1982 underwriting year open. Mr. Brockbank remains the underwriter for the runoff of syndicate 89.

In 1984, Mr. Brockbank also became the underwriter for marine syndicates 861 and 588, now managed by Alston Brockbank, which was founded in 1980.

By 1990, Mr. Brockbank was underwriting for several syndicates, including syndicate 861 and its incidental non-marine syndicate 907, syndicate 588 and its incidental non-marine syndicate 929, and marine syndicate 927 and its incidental non-marine syndicate 935, which came to Alston Brockbank in November 1989 after underwriter C.N. Mackinnon left the syndicate.

Syndicate 927 was merged with syndicate 861 at the beginning of 1991, while incidental non-marine syndicate 935's 1984 underwriting year remains open, according to syndicate 861's recent annual report.

The underwriting of syndicate 588 was transferred in January 1991 to Mr. Brockbank's deputy underwriter, Simon Spinney.

Syndicate 861 merged with its in-

Continued on next page

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Continued from previous page
cidental non-marine syndicate 907 and syndicate 927/935 at the beginning of this year.

Incorporating syndicate 927/935, syndicate 861's capacity this year grew to 65.8 million pounds (\$127 million at appropriate exchange rates) from 25 million pounds in 1990 (\$40.4 million at appropriate exchange rates).

The move to merge the syndicates "coincided with the decision by the Council of Lloyd's to remove market barriers," Mr. Brockbank explained in the annual reports for syndicates 861 and 907.

"This means that any one syndicate is allowed to underwrite a multiple class account without individual premium income limitation within the stamp. . . There is therefore no need to continue with syndicate 907, and this business is now being written into syndicate 861."

Syndicate 861 is a marine market leader in many classes of business, according to the report, but particularly in marine hull and machinery, which comprises 17% of the total premiums written by the syndicate this year; marine and aviation war risks, which account for 18% of premiums; and political risks, for which the syndicate would not specify a percentage of premiums.

In addition, 20% of the syndicates premiums is energy business. And, it writes a small cargo account consisting mainly of "specie" business, or insurance for precious items like gold bullion, bank notes in transit, fine art, jewels and furs.

The syndicate stopped writing property excess-of-loss reinsurance this year.

The non-marine side of 861 writes professional liability risks, like errors and omissions and directors and officers liability coverages, which comprise 10% of its premiums this year; financial institution risks, which account for 3% of premiums; liability coverages like marine-related pollution, which account for 10%; and various short-tail non-marine coverages, which account for 10%.

This year, the syndicate also increased its participation in satellite and space-related risks, which account for 2% of premiums written.

The remainder of premiums written by syndicate 861 this year consist of what it calls marine "voyage" and "building" risks.

On the syndicate with Mr. Brockbank is Senior Deputy Underwriter Nicholas Metcalf, who specializes in energy risks; Deputy Underwriter Martin Reith, who specializes in political risk coverage; and Cargo Underwriter Rodney Clifford, who joined this year from a marine syndicate managed by Langton Syndicate Management Ltd.

Anthony Pilcher, who for nearly 38 years was the deputy underwriter for syndicate 367 managed by FLP Secretan & Co. Ltd., also is working with syndicate 861 underwriters to write the "bread and butter" business on which the syndicate participates but does not lead.

About 20% of syndicate 861's capacity last year was generated by members agency Hayter Brockbank (Agencies) Ltd., which recently took over another members agency, J.K. Shipton & Co., in a move that reportedly will increase its members agency size in excess of 250 million pounds (\$422.5 million).

Fenchurch Underwriting Agencies Ltd. contributed 24% of the capacity of the syndicate in 1988 and 22% in 1989.

Despite horrendous conditions elsewhere in the market, syndicate 861/907 reported a profit for the 1988 underwriting year of about 3.6 million pounds (\$6.9 million at appropriate exchange rates), up 16.1% from 3.1 million pounds (\$5 million at appropriate exchange rates) of profit in 1987.

Mr. Brockbank attributed the syndicate's success to "substantial reinsurance protection," which significantly reduced the loss that the

syndicate incurred from the Piper Alpha North Sea oil platform explosion in July 1988 (BI, July 11, 1988).

However, there is some uncertainty about the profitability of the syndicate in 1989, which is due to close at the end of this year under Lloyd's three-year accounting system, Mr. Brockbank noted.

He said the cessation of hostility between Iraq and Iran in August 1988 resulted "in a large reduction in our marine war premium income, and rates in the aviation war market also suffered from severe competition," despite the loss of Pan American Airways Flight 103, which exploded over Lockerbie, Scotland, killing more than 280 people (BI, Dec. 26, 1988).

The reduction in premiums, coupled with the severe losses in 1989 and poor investment performance, among other things, had led Mr. Brockbank to question "whether the account will make a profit or not."

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Members react to Lloyd's losses

By STACY SHAPIRO

Some sue their agents; others work for reform

LONDON—While thousands of angry Lloyd's of London members stunned by the market's huge losses of the past three years are looking for blood, others are working within the Lloyd's system to strengthen the market.

So far, at least 10 independent members associations have sprung up to seek legal action against members agents, which manage the affairs of Lloyd's members, for placing them on syndicates that produced huge losses.

They are suing their members agents rather than the managing agents of the syndicates that produced the losses because the members signed contracts with the members agents and because the members agents have the deepest pockets—through their errors and omissions insurance.

In the meantime, some members—through the Assn. of Lloyd's Members—are working behind the scenes to make Lloyd's a safer place to invest their money.

Many members have lost confidence in Lloyd's following the market's record loss in 1988 of 509.7 million pounds (\$983.7 million at applicable exchange rates) and the big losses forecast for 1989 and 1990 (BI, July 1).

In 1990 and so far in 1991, mem-

bers have been notified by 51 syndicates of cash calls totaling a whopping 602.4 million pounds (\$1.02 billion at current exchange rates) to pay for losses in 1988 through 1990, according to the ALM.

Of this, 147.6 million pounds (\$247.8 million) was for losses in the already-closed 1988 underwriting year. Some 341 million pounds (\$576.3 million) already has been called for 1989, and 113.8 million pounds (\$192.3 million) has been called for 1990, the ALM said.

The majority of this money—596.5 million pounds (\$1 billion)—is already due from members, the ALM said.

These cash calls exclude the 89 syndicate accounts from 1987 and previous years that remain open. These syndicates reported calendar-year 1990 losses of 213 million pounds (\$420.7 million at year-end 1990 exchange rates), according to the ALM.

Sources in the Lloyd's market, including Lloyd's Chairman David Coleridge, say that that 30% of Lloyd's 26,560 members will be paying 70% of the 1988-1990 losses. This discrepancy seems to be largely as a result of the col-

lapse of the London market excess-of-loss reinsurance market under the weight of the scores of man-made and natural catastrophes that produced more than \$18 billion in claims over the three-year period.

Some of the syndicates reporting the largest losses are leading excess-of-loss reinsurance syndicates, some of which were specialists in London market excess-of-loss—or LMX—coverage.

These include the syndicates with the largest losses: three syndicates formerly managed by Feltrim Underwriting Agencies Ltd. and now managed by Additional Underwriting Agencies (No. 7) Ltd. (BI, June 10). The syndicates—540, 542 and 847—face a worst-case estimate of 350 million pounds (\$591.5 million) of losses, the Feltrim Names Assn. has said. Members already have been asked to pay between 80 million and 100 million pounds (\$135.2 million and \$169 million).

A Lloyd's review committee is examining the losses at Feltrim (see story, page 24).

Quite a few members of the Feltrim syndicates also are members of other specialist excess-of-loss

reinsurance syndicates managed by Gooda Walker Ltd. that have produced huge losses for 1989 and 1990 (BI, Aug. 5). These members' affairs were handled by the former Lime Street Underwriting Agencies Ltd., whose business now is being administered by Bankside Members Agency Ltd.

Lime Street members comprise about 30% of the membership of both Feltrim and Gooda Walker syndicates (BI, July 29).

Other syndicates that wrote excess-of-loss reinsurance and are posting losses exceeding 100% of capacity include marine syndicate 255, managed by Rose Thompson Young (Underwriting) Ltd., which has announced a 229% loss—or 63.7 million pound (\$122.9 million at applicable exchange rates)—on its open 1988 underwriting year; and non-marine syndicate 1084, managed by Cuthbert Heath Underwriting Ltd., which reported a 145% loss—or 4.5 million pound (\$8.7 million—for its 1988 underwriting year, the first year it wrote business.

The ALM has set up members associations for Feltrim, Gooda Walker, Rose Thompson and Cuthbert Heath to help guide members through loss reviews of these syn-

dicates and to determine whether members have any recourse against their members and/or managing agents, said Roger Pascall, the ALM's administrator.

The association also has established a members association for members who belong to syndicate 421, managed by Merrett Underwriting Agency Management Ltd. Although syndicate 421 made a profit in 1988, its open 1983 underwriting year has so far produced a loss of 19.6 million pounds (\$37.8 million).

Another group called the Society of Names was launched earlier this year by Tom Benyon, a former member of Parliament and a former ALM chairman. The society is helping members involved in litigation and who want additional information about Lloyd's.

Early last month, the Gooda Walker Members Action Group, which is being organized by both the Society of Names and the ALM, met to hear about the chances of suing members agents over their horrific losses.

The mood—as it was at similar members' meetings this year—was tense as hundreds of people listened to Mr. Benyon; Raymond Nottage of the ALM; Alfred Doll-Steinberg, chairman of the Gooda Walker action group; and Michael

Continued on next page

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Continued from previous page
Freeman, senior partner for law firm Michael Freeman & Co.

Mr. Doll-Steinberg started the meeting by criticizing Lloyd's for "swiftly" setting up a committee to review the Gooda Walker syndicate losses without consulting members about who would serve on the committee.

Mr. Benyon explained that he had the "bleak task" of informing members of the updated losses produced by the "poxed" Gooda Walker syndicates. The losses produced by "these syndicates look to be as bad as those suffered by Feltrim syndicates," he said.

Although Gooda Walker non-marine syndicates 164 and 290 made profits in 1988—and earned profit commissions as a result—both syndicates have announced cash calls for 1989, and syndicate 290 already has announced a cash call for 1990.

In addition, Gooda Walker marine syndicate 298 had cash calls for both 1988 and 1989 and ceased underwriting in 1990. Marine syndicate 299 made a cash call in 1988 and says it will have "a significant loss" in 1989, though it will report a profit in 1990.

Altogether, the four Gooda Walker syndicates so far have produced 221 million pounds (\$373.5 million at current exchange rates) in losses for members from 1988 to 1990, Mr. Benyon said, noting that loss estimates may already have risen another 50 million pounds (\$84.5 million). All told, the losses

may amount to 300 million to 400 million pounds (\$507 million to \$676 million), he said.

Mr. Benyon said that syndicate 298 so far has produced a total of 115 million pounds (\$194.3 million) of losses to members from 1988 to 1990; syndicate 290 has produced 70 million pounds (\$118.3 million) in losses; syndicate 299 has produced 24 million pounds (\$40.6 million) in losses; and syndicate 164 has produced 12 million pounds (\$20.3 million) in losses.

"We are facing a massive breach of trust by members agents," Mr. Benyon said. The trust that names had in their members agents "was fueled by the faith they had in Lloyd's and its regulations on due diligence," he observed.

"I doubt what happened (at Gooda Walker) is unlawful," he told Gooda Walker members. However, Gooda Walker should never have given members "false profits" for 1988 when they planned to slam members with losses for 1989 and 1990, he said.

"We are going to fight every yard of the way" to get members' money back, Mr. Benyon said. To pursue this litigation, though, the Gooda Walker action group first must raise money—which will eventually total as much as 4 million pounds (\$6.8 million).

As a last word of advice, Mr. Benyon told members that "the losses you face are tremendous. When you get home tonight, lie on the floor for a minute and a half and allow yourself the worst sob-

Largest Lloyd's members agencies

Based on 1991 capacity in millions of pounds

Members agency	1991 capacity ¹		Members
Sedgwick Lloyd's Underwriting Agents Ltd.	£727.9	\$1,404.8	1,769
R.W. Sturge Ltd.	723.9	1,397.2	1,412
London Wall Members Agency Ltd.	486.4	938.8	1,195
Fenchurch Underwriting Agencies Ltd.	483.7	933.5	848
Willis Faber & Dumas (Agencies) Ltd.	457.6	883.2	1,184
Jardine (Lloyd's Underwriting Agents) Ltd.	370.1	714.3	738
Oxford Members Agency Ltd.	296.7	572.6	689
Bankside Members Agency Ltd.	286.5	552.9	689
Merrett Syndicates Ltd.	262.3	506.2	731
Murray Lawrence Members Agency Ltd.	261.6	504.9	696

¹Converted at applicable exchange rates

Source: Lloyd's of London

GRAPHIC BY JOHN SMITHER

bing. Then forget your self-pity and get up and decide how we'll get our money back."

Mr. Freeman told members that they have legal recourse against their members agents.

"In my opinion the members agents are negligent and did owe a duty of care," he said.

There is little evidence to show that brokers that placed coverage with the syndicates owed a duty of care to Lloyd's members belonging to the syndicates, according to Mr. Freeman. But members may have recourse against the syndicates' auditors because the auditors report directly to members, he explained.

Mr. Freeman also called for Gooda Walker to return to the syndicate members the 4 million pounds (\$7.7 million) that the

agency made in profit commission in 1988.

Several angry and saddened members asked questions throughout the 3½-hour meeting.

One woman who was a member of both the Feltrim and Gooda Walker syndicates—and is contributing to funds set up by members of both sets of syndicates—asked whether all of the members' action groups could be combined.

"That would be difficult," Mr. Benyon replied, since the circumstances surrounding the losses at different underwriting agencies are different.

Another member who said he was a lawyer told the crowd that he was skeptical of Lloyd's reviews of the losses. "It's like the police investigating the police."

Mr. Freeman disagreed, saying

that Lloyd's is considering as chairmen of the committees only those individuals who are completely independent of the Lloyd's market.

Another member noted that "there is more mileage to be made if we do not pay our (cash) calls than if we pursue litigation. We should fight with some teeth. If we don't pay, Lloyd's will have to do something."

The advisers, though, warned that if members plan to continue underwriting at Lloyd's, they must pay their cash calls. Otherwise, Lloyd's will strike them from the membership. Lloyd's also can call in bank guarantees posted by the members.

"I'm sorry, but you can refuse to pay a call," the angered member

Continued on next page

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Spotlight report

Lloyd's members

Continued from previous page said.

Mr. Benyon responded: "There is a great responsibility on (adviser) groups not to suggest to names things they might do which will lead to their destruction." However, he conceded that "you can do individually what you like."

Mr. Dolling-Steinberg pointed out that under Lloyd's rules members can delay paying cash calls by demanding further information before they pay. He said he has told his members agent: "I won't pay my cash calls until I get the information (to which) I am rightfully entitled."

Another member expressed even harsher feelings about the losses: "I'd like to see people in jail for what has happened."

Meanwhile, the ALM has set up a "help line" for members reeling from the losses to examine whether members should be referred to the Lloyd's hardship committee, which decides whether members facing worst-case losses are eligible for financial assistance. Hundreds of calls have been received already, sources in the market say.

The ALM also is working within the Lloyd's community to make Lloyd's a viable marketplace for future members.

"It is sad that losses have been incurred," said Chief Executive Valentine Powell, who has been a Lloyd's member since 1987. "Members have been very badly hurt by losses, which shows a lack of competence by some member and managing agents. But Lloyd's has to go on and be profitable, and the ALM wants to be part of that."

The task force that is now studying possible changes at Lloyd's is "crucial" to Lloyd's future, Mr. Powell said (see story, page 3). The ALM was an integral force in the establishment of the task force and a former chairman of the group, Antony Haynes, is a member of the task force, Mr. Powell said.

The ALM also is the driving force in getting Lloyd's to disclose more information to members. For example, the ALM fought for the disclosure of underwriters' remuneration, so that members know how much of their syndicates' expenses goes toward underwriters' salaries and benefits.

According to figures just released by the ALM, underwriter Alec Sharp for syndicate 839 managed by Castle Underwriting Agency Ltd. earned more than any other Lloyd's underwriter in 1990: 480,940 pounds (\$928,214 at year-end 1990 exchange rates).

Next highest-paid was C.R. Hill, underwriter for syndicate 2 managed by Claremount Underwriting Agency Ltd., who earned 452,165 pounds (\$872,678).

The list also shows that one of the highest-paid underwriters in 1990 was Derek Walker, underwriter for Gooda Walker non-marine syndicate 290, with remuneration of 299,730 pounds (\$578,479).

The ALM would like even more information released about underwriters' remuneration, like a breakdown of what portion of salaries, profit commissions, pensions and other perks they receive from their syndicate and from their managing agency, Mr. Powell said.

The ALM also passes on other information that has been made available to members in the past few years, like members' remuneration and syndicate performance.

"We want to improve the sources of information available to names because if the error at Lloyd's in the late 1970s was fraud, then the error at Lloyd's in the 1980s was mismanagement," Mr. Powell said. The more information that members have, the more they will understand the risks of membership and the more likely they will be

willing to pay losses, he said.

The ALM, which today has 9,000 members, traces its origins to 1979, when Lady Middleton said at the Lloyd's annual general meeting that names should band together to find out more about Lloyd's, according to Mr. Pascall, the ALM's administrator. Those who took up the cause included Mr. Benyon, Oliver Carruthers, John Rew and Charles Sturge.

Two groups eventually emerged: the Assn. of Members of Lloyd's, led by Messrs. Rew, Carruthers and Sturge; and the Assn. of External Members of Lloyd's, headed by Lady Middleton.

The Assn. of Members of Lloyd's,

which has evolved into syndicate analyst Chatset Ltd., was the first group to issue a table of syndicate results. Though it originally outraged the powers at Lloyd's, the table is now copied by other groups, including the ALM.

Mr. Pascall said he admires the analytical information that is published by Chatset, while noting that the ALM offers factual information to members. Both are important and serve a purpose, he said. "We tell members not to rely on any single publication."

The Assn. of External Members of Lloyd's, which later became the ALM, started out as a "very spiky" organization that resented

both members and managing agents, Mr. Powell said. "The object at the initial stage was to be very confrontational."

One of the ALM's first chairmen was Mr. Benyon, who has now set up his own controversial organization, the Society of Names.

The ALM began to gain credibility with the market when Mr. Haynes became chairman of the organization in 1985 and "set about changing the image of the ALM," Mr. Powell said. After five years of Mr. Haynes' chairmanship, which ended earlier this year, the ALM is no longer confrontational but "represents the interests of Lloyd's names and has a say in how things

are arranged," he said.

Some members believe that the ALM has sold out to the establishment at Lloyd's. However, ALM executives see their role more as a lobbying force, working from within the market to accomplish things that benefit the members.

Today, the ALM is represented on the ruling Council of Lloyd's by two directors, Peter Nutting and current ALM Chairman Mark Farrer. Mr. Haynes is on the task force studying Lloyd's future; Mr. Powell is on the Lloyd's members committee; and Valerie Robinson, who is taking calls to the ALM help line, is a member of the Lloyd's hardship committee. ■

T H E H O M



O L D P R O S O N

Losses trigger syndicate shake-out

By STACY SHAPIRO and CAROLYN ALDRED

LONDON—Lloyd's of London is undergoing its most severe contraction in more than two decades—some say ever—with syndicates closing down or merging by the dozen.

Not since 1968, when syndicates began closing after Hurricane Betsy losses in the 1965 underwriting year were posted, has there been such a shake-out, market leaders agree. Others, though, say the recent clo-

sure mark Lloyd's worst shake-out ever (see story, page 3).

Many syndicates are being forced to close as members withdraw their capacity to flee heavy losses from recent catastrophes or increased reserving for U.S.-related pollution and asbestosis claims.

Other syndicates are finding that the costs of staying in business—including higher reinsurance costs—have become prohibitive, forcing them to close or to seek a merger partner.

By the end of the year, when syndicates set capacity for the 1992 underwriting year, Lloyd's could have fewer than 300 syndicates, down 15.3% from the 354 writing this year, and off 25.2% from 401 in 1990, said Lloyd's Chairman David Coleridge.

As a result, Lloyd's leaders expect 1992 capacity to be 10 billion to 10.5 billion pounds (\$16.9 billion to \$17.75 billion at current exchange rates), lower than this year's 11.1 billion pounds (\$21.4 billion at year-end 1990 exchange rates).

David Harrison, chairman of Lloyd's members agency Harrison Bros. Underwriting Agencies Ltd., makes a more precise prediction, anticipating only 283 Lloyd's syndicates at year-end.

Mr. Harrison estimates in a recent market report to members that there will be 85 marine syndicates next year, compared with 106 this year; 140 non-marine syndicates, compared with 161 this year; 35 aviation syndicates, compared with 41 this year; and 23 motor syndicates, com-

pared with 31 this year.

"What we are witnessing is the burning off of innocent capacity, but this time it is happening within Lloyd's," Mr. Harrison contends.

Historically, the evaporation of "innocent capacity" in other markets has triggered a hardening of rates.

"Next year there will be 100 fewer underwriters competing for existing business and 1 billion pounds (\$1.69 billion at current exchange rate) less capacity in their hands to do so," said Mr. Harrison. However, he maintained, "the reins are being returned into the hands of experienced underwriters in time for the 1992 renewal season."

"There has been some amalgamation of syndicates and it's possible that there will be more" as a result of members leaving syndicates, added Stephen Merrett, chairman of the Lloyd's Underwriters' Assn. and chairman of one of Lloyd's largest agency groups, Merrett Holdings P.L.C. "If managing agents believe that because of (member) resignations from a particular syndicate that unit is now unviable, there may well be further amalgamations."

Underwriters may also shut down a syndicate because a class of business it underwrote is now unlikely to produce profits, he added.

The fall of market barriers at the beginning of the year between marine, non-marine and aviation markets has helped consolidate syndicates so that one "composite" syndicate can write all three classes of business.

But the breakdown of those barriers was not the catalyst behind most of the recent mergers in the market, all Lloyd's leaders agree.

"I don't think the changes with regard to market barriers has much to do (with the mergers)," said Mr. Merrett.

The reduction in the number of syndicates is already evident in the Lloyd's underwriting room, where there are vast empty spaces on the first and second galleries where underwriting boxes used to be.

Underwriting boxes that spilled over into the fourth floor in recent years while the market expanded are returning to the lower floors to fill the empty space, allowing the Corporation of Lloyd's to convert the fourth floor into offices.

The contraction is also producing a somber mood in the market, as underwriting staff wonder if they will have jobs next year—or even next month. The tension is so bad that as people went on vacation in August, rumors started to spread that they had been fired.

"A lot of people are going to lose their jobs" at Lloyd's, summed up Reg Brown, underwriter for non-marine syndicate 702 managed by Octavian Syndicate Management Ltd. "Some people are worried, some should be worried and some are dead but don't even know it."

"There will be a big shake-out" in the market in the next few months as Lloyd's members decide whether to resign—a decision they must have made by Aug. 31, he said. "The number of syndicates will reduce and Lloyd's will be a fitter place for it."

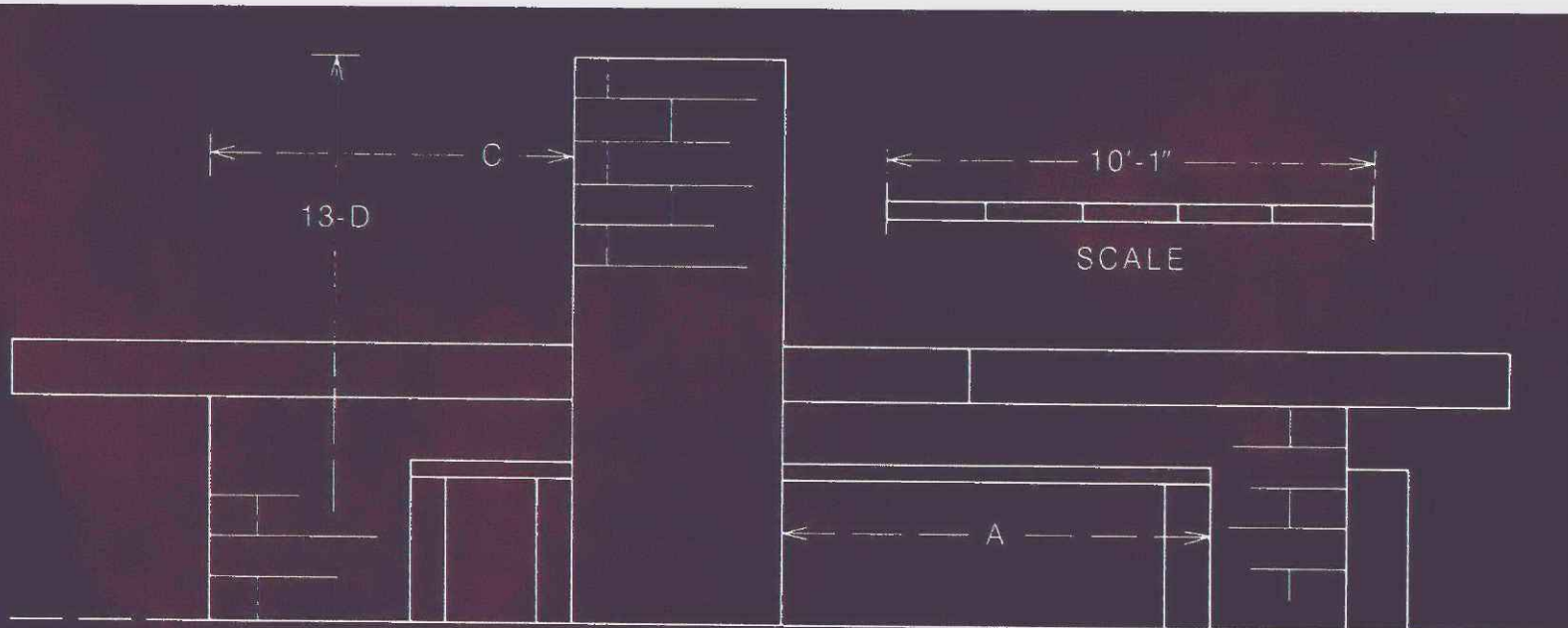
One of the biggest syndicate groups to announce a restructuring is Janson Green Ltd., Lloyd's fifth-largest managing agency.

The agency announced in July that all underwriting in 1992 would be done by one "composite" syndicate, syndicate 79, rather than by three marine syndicates and their three incidental non-marine syndicates (BI, July 22).

Richard Youell, underwriter for syndicate 79, said recently that he hopes that the capacity of the composite syndicate will be the same as the combined capacity of the six syndicates this year: 180 million pounds

Continued on next page

E T O D A Y



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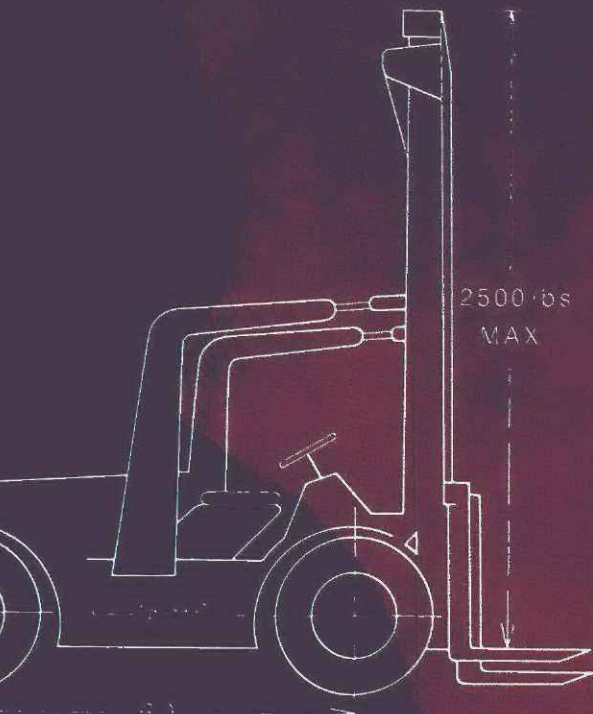
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issue: September 16 — Reader Service
 closing: September 3
 editorial feature: Workers Compensation — Directory: Safety Consultants & Rehabilitation Services
 demographic section: Insurer Topics: Compensation & Benefits

issue: September 23
 closing: September 10
 editorial feature: Reinsurance: Monte Carlo Rendez-Vous Report

issue: September 30 Bonus Distribution: IAA
 closing: September 18

issue: October 7 Bonus Distribution: AEAI/RIMS & NACSA-NACSE
 closing: September 24
 editorial feature: International: Benefits & Risk Mgmt. — Directory: Intl. Insurers & Benefit Networks
 demographic section: Agent/Broker Topics: Contracting For Services

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Syndicates

Continued from previous page (\$347.4 million at appropriate exchange rates). The amalgamation is expected to save about 1 million pounds (\$1.7 million at current exchange rates) in administrative costs.

Janson Green has been managing three marine syndicates and their respective incidental non-marine syndicates for some time on a "parallel" basis, whereby each wrote identical business, but had different memberships. Syndicate 932/989 wrote 77.5% of each risk; syndicate 936/279 wrote 17.5% and syndicate 79/650 wrote 15%, according to syndicate 932's 1990 report and accounts.

The results of the syndicates have differed, however, because of their respective ages, said Mr. Youell. The older the syndicate, the more it has suffered from additional reserving for U.S. long-tail liability claims and pollution losses, he noted.

For example, syndicate 79, which

began underwriting in 1982, broke even in 1988 on its stamp capacity of 35 million pounds (\$66.1 million at appropriate exchange rates).

Yet 60-year-old syndicate 932/989, the largest of the group, had an overall loss of 40.3 million pounds (\$77.8 million at appropriate exchange rates) in 1988 on allocated capacity of 163.2 million pounds (\$308 million at appropriate exchange rates). The loss "is the most serious loss to our members that we have ever experienced," says syndicate 932/989's accounts.

Though syndicate 932/989 was hammered by the string of catastrophes that hit in the 1988 year—like the Piper Alpha oil rig disaster—its results were devastated by additional reserving mainly for notice of new pollution claims, the report says.

The losses to syndicate 932/989 in 1988 and those expected in 1989 when that underwriting year closes, have forced members to question whether they want to continue supporting the syndicate, Mr. Youell admitted. "Syndicate 932's loss of capacity would have been so significant that it would have been difficult to close the syndicate," he said.

A cut in capacity also means that syndicate 932 would write less than the other two marine syndicates, which is not allowed under Lloyd's multiple syndicate bylaw. Under the bylaw, "the syndicates must grow or contract at the same speed" for their share of business to be the same, he said.

Therefore, the agency decided that all underwriting beginning in 1992 will be done by a single composite syndicate, syndicate 79.

Members of syndicate 79 have been concerned that they might become responsible for the losses of the older syndicates if all of the syndicates' accounts are merged when their accounts are closed next year. However, Mr. Youell stressed the old syndicates will not be merged into syndicate 79 unless there is "complete certainty" that proper reserves have been set aside for prior year claims.

"The establishment of a single entity will enable the managing agency to effect considerable economies in the administration and management of the syndicates' affairs," Janson Green said.

Meanwhile, Merrett's managing agency, Merrett Underwriting Agency Management Ltd., shut down non-marine syndicate 421 at the end of 1990, partly because it was increasingly difficult for a small syndicate to buy reinsurance, according to its annual report.

Syndicate 421 at the beginning of 1990 had withdrawn from writing London market excess-of-loss and retrocessional reinsurance business, according to the syndicate's report. The syndicate's 1983 account remains open, with a further cash call of 5.6 million pounds (\$9.5 million), or 163% of 1983 capacity, expected.

A slew of other syndicates are either closing down or consolidating. These include:

- Marine syndicates 207 and 288, managed by Sturge Marine Syndicate Management Ltd., which have ceased underwriting. Syndicate 207 wrote mainly hull and liability business, while syndicate 288 wrote excess-of-loss, hull, liability and energy business. Poor underwriting results were blamed for the closures. Syndicate 288 suffered a loss of 13.4 million pounds (\$25.9 million) in 1988 on capacity of 43.5 million pounds (\$82.1 million).

- Non-marine syndicates 530 and 1163, managed by London Wall Holdings P.L.C., which will both merge into syndicate 512 on Jan. 1, 1992. The merger—which enlarges syndicate 512's capacity to 100 million pounds (\$169 million at current exchange rates)—is to "achieve economies of scale," said London Wall Chairman Robin Warrender.

- Non-marine syndicate 104, managed by John Poland (Managing Agency) Ltd. The syndicate, which will close at the end of this year, ex-

Continued on page 58



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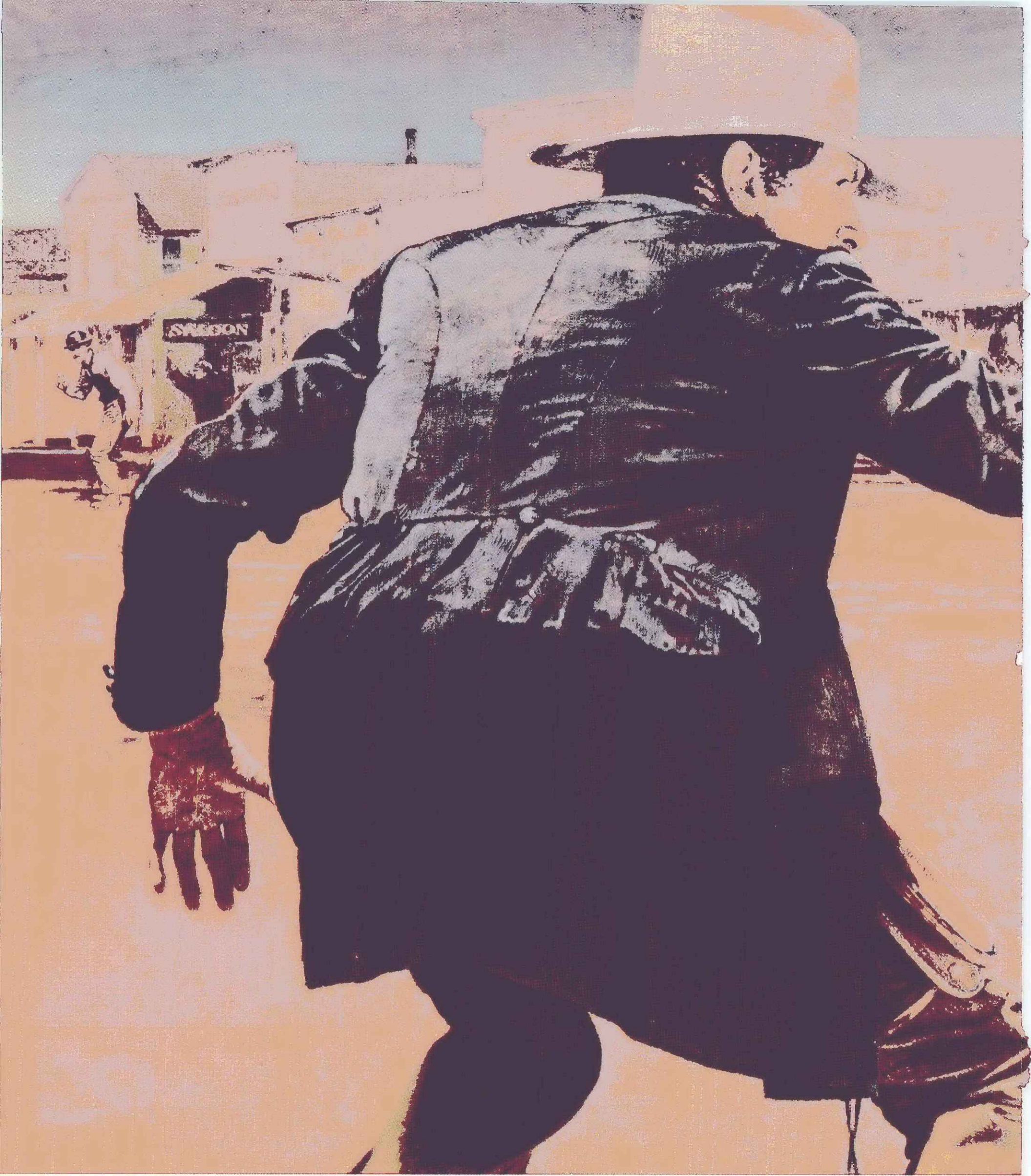
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Opening the cloister doors

By David Larner

A YOUNG MAN JOINING Lloyd's of London in 1951 might well have thought that he was entering the monastic life.

While not required, formally, to take the vows of poverty, chastity and obedience, the size of his salary, the absence of women and the imperiousness of his masters would have had much the same effect.

His surroundings, too, would have heightened the impression. Marble halls bedecked with frescoes and stained glass, a rostrum with an acolyte imitating plainsong, a lectern bearing a leather covered tome and above it all a bell that tolled from time to time to call "The Room" to silence if not actually to prayer.

The community, however, was distinctly secular. There were fewer than 3,000 members, each of whom acknowledged George VI as head of state and Sir Matthew Drysdale as chairman of Lloyd's.

There were no publicly quoted companies among the brokerage firms and underwriting agencies, many of which were jointly owned, and the civil service—otherwise known as the Corporation of Lloyd's—was presided over by the principal clerk, whose duties included the overall supervision of both tonsure and attire.

Things, however, were about to change. That year saw the Festival of Britain and, to mark the occasion, Lloyd's opened its doors to the public for the first time. It was a small enough gesture but one which, in retrospect, was to symbolize the next 40 years.

From now on the market, little by little and sometimes reluctantly, would transform itself from an exclusive society to perhaps the most accessible of the City of London's financial institutions.

The next event to raise Lloyd's profile was a new headquarters erected on a site immediately opposite to the existing premises. The foundation stone of what is now the 1958 building was laid in 1952 by Queen Elizabeth II, who was fulfilling her first official engagement following her accession. Queen Elizabeth, the Queen Mother, who was destined to become Lloyd's first female honorary member, performed the opening ceremony five years later.

But it was the bad news, engendered by the underwriting losses of 1965, '66 and '67, which was to excite the public prints. Hitherto, they had tended to concentrate on the more bizarre insurances transacted in the market, but the spectacle of the rich and famous digging deep into their back pockets produced articles that are reminiscent of those we read today. The prophets of doom, however, were soon to be confounded. By 1968, the market was back in the black, where it was to remain for the next 20 years. This, however, was to be the only constant in a period of unprecedented change.

In 1968, the Committee of Lloyd's decided, rather ungalantly as it transpired, that overseas men could apply for underwriting membership. This was fine as far as it went but clearly it did not go far enough. By failing to grasp the nettle, the committee was stung into action by the feminist lobby who, feeling scorned, accused it of preferring foreign men to British women. It was an untenable position from which the committee withdrew the following year, though it was to take a further 12 months before overseas women were similarly emancipated.

Incidentally, it was assumed while all this was going on that Lloyd's bylaws expressly excluded foreigners and women but, in fact, they did not and so both categories had been eligible all the time.

Unfortunately, such enlightenment did not extend to The Room. Ever mindful of the susceptibility of underwriters and the subtlety of brokers who, they feared, might employ pulchritude to place business that would otherwise be declined, the Committee of Lloyd's had enforced a "men only" rule.

In 1974, however, this was finally rescinded,

Dizzying change is nothing new as Lloyd's looks to the next century

leaving the London Stock Exchange—though not for long—as the City's last bastion of male supremacy.

With membership and the market now free of national and sexual barriers, attention turned in 1970 to the first of a series of reports with which life at Lloyd's was to be punctuated for more than 20 years. This was the product of a working party, chaired by Lord Cromer, who had been looking at ways to increase capacity that, it suggested, would need to rise by 10% per annum if Lloyd's was to maintain its position in the international market.

This goal was easily surpassed, but what made this report such a bone of contention was the fact that it remained confidential. Only an edited version of the report was released to the press, a decision that was to haunt the Committee of Lloyd's for many years to come.

Lloyd's next report, published in 1978, was no better received. It concerned the handling of a claim on a shipment of cars that had sustained fire damage while on board the motor vessel *Savonita*. The details of the case are well-documented and need not detain us beyond the fact that the report exonerated underwriters who, ironically, had been criticized not for rejecting the claim but actually paying it. What made it a cause celebre was that the press was required to sign an indemnity before being given the report, which incensed the Fourth Estate and at a time when financial journalism was very much a growth industry. The resulting publicity, however, provided a valuable lesson which has long since been learned: that in dealing with the press, it pays to have the courage of one's convictions.

Changes, meanwhile, were taking place among the brokerage fraternity, which exercised the Committee of Lloyd's. The committee members were concerned that if a Lloyd's broker were to be acquired by insurance interests outside the Lloyd's community, any influence which the committee, as the regulatory authority, might be able to exert could be seriously weakened. In an effort to maintain the status quo, the committee devised what became known as the 20% rule whereby no non-Lloyd's insurance interest could normally own more than 20% of a Lloyd's broker. If this limit was exceeded, the firm in question could be refused entry to The Room.

Since the only suitors were from the other side of the Atlantic in 1978, when the rule was introduced, the measure was seen, albeit unfairly, as anti-American and few—if any—mourned its passing when it was effectively abandoned two years later to the benefit of all concerned.

A further development was to occur among Lloyd's firms in 1982 when J.H. Minet & Co. Ltd., now owned by The St. Paul Cos. Inc., became the first Lloyd's broker to go public. Others were to follow and in 1985, R.W. Sturge & Co. Ltd. became the first underwriting agency at Lloyd's to apply for a full quotation on the stock exchange.

By 1978, the Committee of Lloyd's was becoming increasingly aware that its powers under the Lloyd's Act of 1871 were inadequate to superintend a market which, in a hundred years, had evolved from little more than a cottage industry into one of the largest insurance organizations in the world.

The Committee of Lloyd's reaction was to invite Sir Henry Fisher to lead a working party whose agenda was to consider the whole question of

self-regulation at Lloyd's.

The Fisher Report, which took two years to prepare, was published in 1980 and was so far-reaching that in order to implement its recommendations a new private bill had to be promoted in Parliament, the first reading of which took place in January 1981. It took 18 months, however, before the bill has been enacted, by which time Queen Elizabeth, the Queen Mother, had inaugurated the construction of a new Lloyd's building which would later become one of London's most controversial landmarks.

Between the time the bill received the Royal Assent and the first meeting of the Council of Lloyd's, a new governing body whose establishment had been one of only two statutory provisions of the act, a number of serious irregularities came to light that were to keep Lloyd's in the public eye for nearly a decade.

But because these scandals did not affect the policyholders and the market remained profitable, capacity and premium income continued to rise. The main casualty, aside from the members who had suffered, being Lloyd's own self-esteem. The great majority of underwriting agents who had worked long and hard in the interests of their names were appalled at the behavior of a small minority of their peers who, it emerged, had been no less diligent in pursuing their own interests at the expense of those they had been paid handsomely to serve.

Fortunately, justice was not long in coming and the council, armed with new self-regulatory powers, was able to discipline the guilty and, by introducing strict new measures of control, to discourage those who might be tempted to transgress in the future. The watchword was disclosure and this was to be further underlined by the Neill Committee, which was set up by the government in 1986 to ensure that the members of Lloyd's would receive the same degree of protection as conventional investors were to enjoy under the Financial Services Act.

The Neill Committee reported in 1987, the same year that Lloyd's brokers completed the divestment of their underwriting agents, which had been the second of the statutory provisions contained in the Lloyd's Act. The Neill report made 70 recommendations that have now been implemented, bringing to an end Lloyd's long preoccupation with regulatory matters.

The following year was one of great celebration as Lloyd's marked its tercentenary, which was no mean achievement reflecting, as it did, the market's inherent ability to move with the times. But sadly there were to be tears before bedtime since, as we now know, 1988 was to produce the largest marketwide loss in Lloyd's history.

With yet another report due by the end of the year—this time dealing with such fundamental issues as Lloyd's capital base—the speed of change seems unlikely to slacken. But already Lloyd's is a very different society than the closed and often silent order of 40 years ago.

Lloyd's is open to the media as never before, and also is open to a growing network of brokers and producers and, of course, to all those whose integrity and financial standing qualify them for membership.

The transition has been so dramatic that if the young man who came to Lloyd's in 1951 had taken as his motto that famous Chinese curse, "may you live in interesting times," he would certainly have lived up to it. ■

David Larner, who began working at Lloyd's of London when he was 17, retired as Lloyd's senior press officer earlier this year after 40 years at Lloyd's. Mr. Larner is now a consultant for various Lloyd's underwriting agencies, including R.J. Kiln & Co. and Murray Lawrence & Partners.

Time for change at Lloyd's

Market must protect against possible drain on its capital

By David R. Baker

THE FINANCIAL DIFFICULTIES at Lloyd's of London have been widely reported. The losses reported this year for the 1988 underwriting year and those anticipated to be reported in 1992 and 1993 are severe. More dangerous is the possibility that these repeated losses will cause the underwriting members of Lloyd's to precipitously withdraw capital so that the Lloyd's market ceases to be viable. While shareholders of a temporarily unsuccessful insurer can sell their stock without affecting the company's available capital, the discontinuity of the Lloyd's market allows its members to remove the capital that supports insurance underwriting at the end of any year.

This discontinuity effectively inhibits the building of reserves and the accumulation of working capital by Lloyd's syndicates. The members' interests in the market resulting from their capital do not develop into continuing assets even if they remain in the market for decades, but rather terminate upon death or resignation. Lloyd's therefore forgoes the general double-value benefit of long-term investments: current income plus ongoing asset value.

By making a member's interests transferable, the effects of discontinuity might be avoided. The members would have long-term assets of substantial value, which would induce them to continue as members or transfer their interests to other members for value. In either case, the capital represented by the interests would stay in the market. The reduction of current income resulting from the accumulation of additional syndicate reserves and working capital would be offset by the increased value of a member's interest in a syndicate. The second tier of wealth resulting from transferable interests would benefit the members, their members' agents and all associated with Lloyd's through the creation of several billion dollars of new value and the need for services for the created assets.

Lloyd's of London's perseverance for more than 300 years gives it claim as one of the world's great commercial institutions. The 1988 underwriting year, however, produced the largest annual loss ever for Lloyd's: 510 million pounds (\$984.3 million at appropriate exchange rates). With Lloyd's three-year underwriting cycle, we already know that the 1989 underwriting year will be substantially worse than 1988. The 1990 underwriting year, whose results will not be available until mid-1993, already can be foretold as a loss.

Lloyd's Chairman David Coleridge probably is correct when he stated at Lloyd's annual general meeting on June 26: "Our adaptability is one of our greatest assets. It is the quality that will ensure we surmount this difficult period, as we have surmounted many before, and that together we prosper in the decades to come" (*BI*, July 1).

These are brave words for a marketplace in which 26,500 Lloyd's members are providing premium capacity averaging 429,000 pounds (\$828,000) each to several—usually quite a few—of the 354 operating syndicates. Members commit themselves on an annual basis and can terminate their commitment at the end of any year. Although members now furnish premium capacity exceeding \$18 billion, the number of participating members has declined by almost 6,000 from a record of 32,433 in 1988.

Members who were being told a year ago that the 1988 year would show a small profit or at worst break even, but who now face average losses of more than \$25,000 each, may well cease underwriting at year-end. With the 1989 losses already estimated at twice those of 1988, will more members flee at the

end of 1992? An insurer caught in a bad patch hoards its capital. A member terminating his or her premium commitment removes that amount from the market's capital.

A few years ago the costs of the Lloyd's market were relatively less than those of the London insurers. Today, they are similar. Lloyd's has demonstrated less ability or willingness than insurers to reduce costs, though this may be changing. Many costs are fixed. A material reduction in premium capacity, therefore, has the potential for making Lloyd's sufficiently unlikely to produce profit that members, particularly those who do not work at Lloyd's, must seriously consider resigning. If substantial departures result, the market would be even worse off, so the spiral would accelerate. The Coffee House would close.

Michael Wade, chairman of Holman Wade Insurance Brokers Ltd., argued in the February Lloyd's newsletter that syndicates need additional reserves for the uncertainties of long-tail liabilities and for catastrophe risks that increasingly gravitate toward the London market. Reserving for such risks is just what any prudent insurer does, and Mr. Wade quotes extensively from the annual reports of Munich Reinsurance Co. and Hannover/Eisen &

An insurer caught in a bad patch hoards its capital. A Lloyd's member terminating his or her premium commitment removes that amount from the market's capital.

Stahl Reinsurance Co.

Those unfamiliar with Lloyd's would assume that the strength behind a Lloyd's policy is full and conservative reserving—but it is not. It is, rather, the unlimited, several liability of its individual members and a shore-up system for the few members who cannot meet their liabilities.

The difficulty in providing continuing reserves results from the discontinuity of Lloyd's. Each underwriting year is discrete. A member's profits and losses are based on his participation in syndicates in a single year. At the end of three years, each syndicate must value its outstanding claims, estimate incurred-but-not-reported claims and fix the amount of reinsurance to close—or RITC—to cover its unsettled liabilities, known and unknown. However, the members of the syndicate—and their respective participations—will be different the next year.

For fairness among different years, the RITC premium must neither be too large (which would penalize the members on the reinsured year and benefit the members on the reinsurer year) nor too small (which would benefit the members on the reinsured year and penalize the members on the reinsurer year). This need to be fair, however, prevents the development of general reserves of the nature that enhance the strength of a Munich Re or the provision of working capital.

Prudent members wishing to accumulate additional reserves are in no position to gauge appropriate amounts. Individual reserving is tax-inefficient and extraordinary in nature. The lack of institutional reserves leads to cash calls on members to fund unprofitable results and working capital shortages arising from accelerated claims payments for catastrophes like the European storms in early 1990. No sensibly run business should plan to demand additional capital from its investors when the normal vagaries of the business cycle temporarily result in losses to the business, but that is exactly the situation of most cash calls.

Mr. Wade's article suggests that the general

continuity of syndicate membership and the widespread historical underreserving reflected in recent syndicate results are sufficient causes to inequitably exact "extra" reserves from closing syndicates under the current system. A member departing any or all of his or her syndicates, however, should not need to protect his or her successors by gratuitously giving up a portion of his or her profits. In addition, the pressure upon syndicates and their managing agents to show current profits and the Inland Revenue Service's vigorous disallowance of deductions for "overreserving" inhibit the accumulation of additional reserves.

The continuity of operation of a Munich Re, for example, eliminates the inequity engendered by a syndicate's annual reconstitution. Stock in an insurer has value. A member's syndicate interest, however, has zero value for each new underwriting year. An owner selling stock in an insurer will be compensated for its value. As long as one's capital is employed effectively, there is every incentive to maximize the capital left in the business and celebrate the increase in value of the investment. A Lloyd's member has no such benefit.

However, what if a member's interest in syndicates could be transferred? Each year's interest in each of a member's syndicates—or each "participation"—plus the right to participate on the same basis in the syndicate the following year, as discussed below, together form the interest whose transfer is discussed in this article. A participation without the right to participate in a subsequent year, particularly relevant to "open" years, should also be transferable. No inherent reason prevents a member from paying for an interest upon acquisition (or being paid, if it has negative value) or being paid for an interest upon disposition (or paying, if the value is negative). Transfer would be limited to approved members, who would lodge the required assets (currently 30% of premium capacity) at Lloyd's. Interests would not be considered acceptable assets.

Participations on some syndicates are regarded as of far greater value than participations on other syndicates, even though the RITC for each year—with distribution or cash calls for that year—is designed to eliminate any carry-forward value. The value of the ability to participate is essential to the maintenance of Lloyd's present capital base. The right of access to syndicates is now carefully guarded by the members' agents, even though in the 300-year scope of the institution, members' agents are relatively new. This restrictive practice of access only through members' agents may be desirable for the effective running of the Lloyd's market, but that does not affect the preeminence of members as participants.

The market for interests would be imperfect, generally sporadic and often illiquid. Valuation determination mechanisms for syndicate acquisitions, dissolutions and offerings of new participations could be difficult. As long as interests have value, however, willing buyers will appear for desiring sellers, creating a market for the interests (and participations, where appropriate). If any group should be willing and able to utilize market forces to improve the financial base of the Society of Lloyd's, it should be those at Lloyd's. Underwriting, particularly at Lloyd's, involves price determinations in an imperfect market, often without fully comparable transactions.

The issuance or transfer of interests would be limited to other members, but a market of more than 26,000 potential acquirers seems adequate. The market for an interest on a particular syndicate might be restricted to those members whose members' agents find that syndicate acceptable, but

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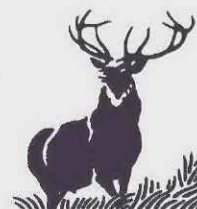
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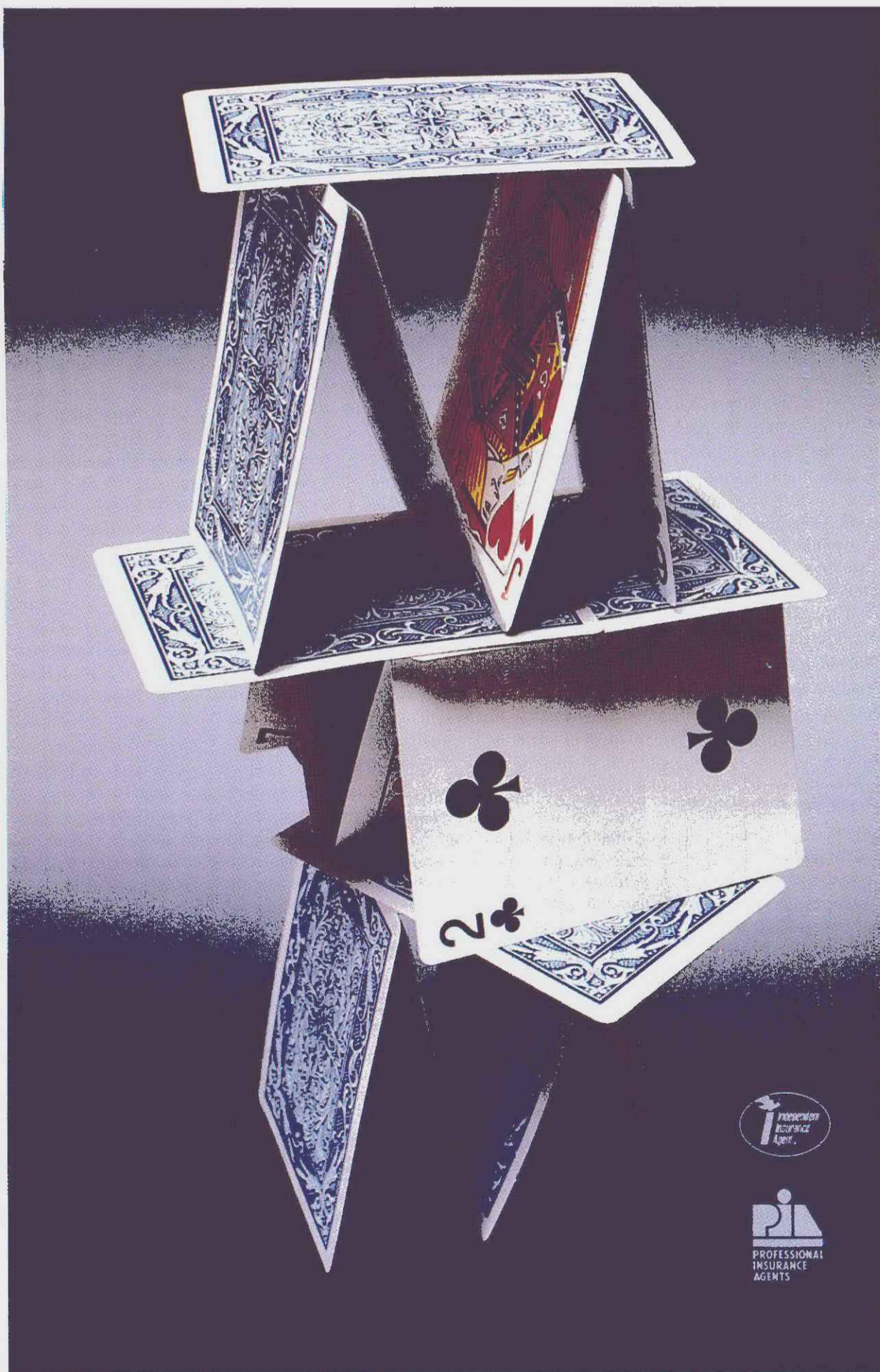
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Changes at Lloyd's

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this is not a new restriction.

Each member would have a right, but not an obligation, to continue on his or her current syndicates, subject only to proportional reduction or elimination upon reduction of syndicate capacity or true termination, respectively. If syndicates "merge," the rights to continue would flow forward. Although each year is a separate participation, the right of continuation included in each interest is what gives it entrepreneurial ongoing value. Capacity increases would be handled by rights offerings or the sale of new interests whose price might be preliminary and could be subject to adjustment on the basis of subsequently available market and valuation information.

Transferability of interests should resolve the "fairness" objection to excess retentions at the syndicate level, since the value of the interests should be increased by the amount retained. Mr. Wade's desired additional reserves should result.

Transferability of interests would not only create wealth for the members, but every member of the Lloyd's community would benefit. Transactions in interests undoubtedly would be advised upon and brokered by members' agents, providing a material source of revenue. Increased asset retention should result in greater syndicate stability to the advantage of the syndicates, managing agents and, ultimately, the policyholders. Increased assets would require additional services from the managing agents.

The Corporation of Lloyd's would be benefited by reduced calls on its central fund, greater stability, greater wealth of members—both in the syndicates and through the value of the participations—and thus greater available resources.

Assuming, conservatively, that an average Lloyd's year for the decade commencing with the 1992 underwriting year will result in aggregate annual distributions of \$900 million and estimating tax and other costs to the members of their Lloyd's participations to be \$400 million, the average annual net return to the members as a whole would be \$500 million.

Using "price/earnings" multiples of five to 10, a value for transferable participations of \$2.5 billion to \$5 billion is suggested. The average value of participations, therefore, would be 14% to 28% of this year's \$18 billion of premium capacity, suggesting that the value of a standard 10,000 pound (\$16,900 at current exchange rates) syndicate share would, on average, be \$2,300 to \$4,600. This wealth creation would benefit both current members and the entire Lloyd's market.

Even if discounted by 50% to 75% from the suggested lower limit to \$575 to \$1,150 per standard share, the values should promote transfers of interests by resigning members instead of abandonment, with preservation of Lloyd's premium capacity. Although a program of transferability of interest cannot be instituted for 1992, its announcement for 1993 would have the desired effect. New external members with sufficient wealth to make participation at Lloyd's appropriate and present members seeking a premium limit increase should not be inhibited by

these relatively modest costs in acquiring interests. Appropriate arrangements can be devised to assist working members.

Syndicates that cannot close because of inability to determine acceptable RITC represent a major problem at Lloyd's. A member is unable to abandon his participation in any such "open year." His relationship with Lloyd's involuntarily continues until the syndicate involved finally closes—and some have been open for years—or his demise, if he has, as most members do, estate protection plan insurance. If an open-year participation were transferable, however, a member could pay to have it taken over and get out. True, the buyout costs would be high in the "vulture" market that would develop, but it would be better than the present no-solution reality.

Transferability of interests and participations resolves difficulties presented by the discontinuity of Lloyd's without changing its essential structure or sacrificing the genius of the marketplace. In addition, transferability creates substantial wealth. Transferability should preserve and strengthen Lloyd's to the benefit of all of its participants. ■



David R. Baker is a partner with the law firm Jones, Day Reavis & Pogue in New York.

Arbitrating reinsurance disputes

By Ronald A. Jacks

THERE IS A GREAT deal of errant nonsense being perpetrated these days by certain parties to the effect that litigation is preferable to binding arbitration as a means of settling disputes between ceding companies and their reinsurers or retrocessionaires.

Putting aside the fact that these complaints seem to emanate from those who have been unsuccessful in obtaining relief or rescission through arbitration, the question remains as to whether these complaints have merit and, if so, to what extent litigation may be preferable.

At the outset, there is no doubt that arbitration can be as expensive as litigation. Unfortunately, all too many arbitrations drag on for some time, thus eliminating one of their potential advantages. There also is the question as to whether the caliber and competency of an arbitration panel is equal to that of the judiciary. And finally, there has been some suggestion that U.S. arbitrators and umpires are intrinsically biased against foreign insurers and reinsurers.

Each of these issues deserves separate consideration.

As to the first, that of cost, there is no reason for arbitrations to be as expensive as litigation if the parties are truly dedicated to the process. The problem is that many lawyers have come to view arbitration as merely litigation by another name and, thus, seek to convert the controversy into a war of attrition. To be fair, the fault does not entirely lie with the lawyers. If the parties and the panel are truly committed to finding a business solution to a business problem, they can usually construct a framework in

which some of the more common abuses, like extended and costly discovery, can be channeled into more productive efforts, like simplifying the issues to be resolved by the arbitration panel.

Similarly, the argument that arbitrations have become too lengthy is closely linked to the extent to which counsel and the parties are allowed to manipulate what was designed to be

Arbitration is uniquely suited to identifying and resolving complex disputes without . . . extended law and motion practice.

an informal process.

Arbitration simply does not need to be as attenuated and complex as some contend. In its ideal form, arbitration is uniquely suited to identifying and resolving complex disputes without the extended law and motion practice favored by today's breed of commercial litigators. Unlike most lawsuits, parties to a reinsurance arbitration and their counsel can be encouraged, if not directed, to refrain from open-ended discovery by the simple expedient of setting a relatively short discovery period, coupled with a fixed hearing date within a reasonable time frame thereafter.

The key to making this approach work is the active involvement of the arbitration panel in the identification and delineation of the pivotal issues at the outset of the case. If, for example, it is clear after the initial organizational meeting that there are only two or three (as opposed to four, five or 10) issues that are truly

determinative, then the panel can and should direct the parties to confine their efforts to those issues, subject to reopening the matter if it appears at some later date that the controversy cannot be resolved without further inquiry.

Such an approach might strike some lawyers as arbitrary (no pun intended) given their natural desire to leave no stone unturned in the pursuit of justice. But the parties presumably bargained for a more informal and efficient means of resolving their differences and, thus, ought to be held to their bargain.

As such, it is up to the panel, and not the lawyers, to set some reasonable parameters on the way in which the controversy should be resolved. Of course, all of this puts a tremendous burden on the panel members, most of whom are not lawyers by training or inclination. Yet, this is hardly a disadvantage when weighed against the fact that most arbitrators—unlike many judges and lawyers—have a great deal of experience in the business of insurance and reinsurance and, thus, can rapidly grasp the true issues and underlying causes of most disputes.

In that regard, one of the main arguments of many lawyers in support of the proposition that litigation is preferable to arbitration is that it is difficult, if not impossible, to obtain rescission of a contract through arbitration. What this really means is that businessmen are reluctant to completely set aside contractual commitments in the absence of clear and convincing evidence of deliberate misconduct, like falsification of documents. Put in other terms, businessmen are generally more familiar with the overly optimistic

representations of agents and brokers, especially when dealing with a book of business generated by less-than-reputable managing general agents.

Perhaps it is this feature that is the most annoying to foreign litigants and lawyers trained in the more formal process of European and English arbitrations. Unlike arbitrators in the United Kingdom, for example, U.S. arbitrators are more inclined to construct a business solution to a business problem in reaching their result. Thus, they often engage in a comparative fault analysis that yields a blended result. This is not necessarily due to an inability or unwillingness to decide a case on the merits or some inherent bias against non-U.S. parties. Rather, it is an attempt to put the parties back to where they would have been if they would have carried out what the panel believes to have been their original intent.

If this is deemed to be a fault of the current system of U.S. reinsurance arbitrations, so be it. At worst, it is certainly a more informed means of resolving controversies between the parties to a reinsurance contract. At best, it is all that and more. It can be a far more expeditious, less expensive and ultimately more rational means of settling an ever-increasing number of largely unnecessary disputes. ■



Ronald A. Jacks is a partner in the Chicago-based law firm of Mayer, Brown & Platt and is a frequent participant in reinsurance arbitrations.

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Syndicates

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pects to post a loss totaling 75% of 1989 capacity of 19.2 million pounds (\$34.8 million at appropriate exchange rates), principally due to Hurricane Hugo losses, which exceeded its reinsurance protection. A further underwriting loss is expected in 1990 due to losses from the European windstorms.

- Non-marine syndicate 1129, managed by Patrick Underwriting Agencies Ltd. A loss totaling 50% of its 1989 capacity of 2.4 million pounds (\$4.3 million at appropriate exchange rates) is predicted, and a cash call of 20% of each member's

1989 capacity was made in June 1990 due to a "severe strain" in cash flow.

In addition, an anticipated loss of 50% of 1990 capacity of 2.4 million pounds (\$3.9 million at appropriate exchange rates) could increase if losses from the 1990 European storms exceed the syndicate's reinsurance coverage. A cash call of 35% of 1990 capacity was made this July to partially repay bank borrowings.

- Non-marine syndicate 197/726, managed by Patrick Underwriting Agencies Ltd. Both syndicates stopped trading at the end of last year with non-marine syndicate 197 merging into syndicate 561 and marine syndicate 726 merging into 566, both managed by Bankside Syndi-

cates Ltd. Losses in the 1989 underwriting year will reach 30% of allocated capacity of 47.6 million pounds (\$89.8 million at appropriate exchange rates) and an early cash call of 15% of each member's 1989 capacity has already been made. A similar loss is predicted for the 1990 underwriting year, and a cash call of 15% of 51.7 million pounds (\$83.4 million at appropriate exchange rates) in capacity already has been made.

- Non-marine syndicate 905, managed by P.B. Coffey (Underwriting Agency) Ltd. The syndicate closed in 1990 and a loss is expected for the 1989 account of up to 100% of allocated capacity of 1 million pounds (\$1.8 million at appropriate exchange rates) because Hurricane Hugo losses exhausted its reinsurance protection. A 50% cash call was made last year and a further 10% call was made this year.

- Non-marine syndicate 660, managed by Cater Allen Syndicate Management Ltd. The syndicate was forced to close after several members agents canceled their participation last year, said underwriter J. Dodson. A loss totaling 25% of 1989 allocated capacity of 16.1 million pounds (\$29.1 million at appropriate exchange rates) is expected, while 1990 losses are expected to reach 20% to 30% of 19.8 million pounds (\$32 million at appropriate exchange rates) in capacity. Additional expenses of closing the syndicate plus interest charges and a lack of premium income resulted in an early cash call of 20% of each member's 1989 capacity.

- Non-marine syndicate 307, managed by Holman Macleod Ltd. which was merged with syndicate 962 beginning with the 1991 underwriting year. A loss of 40% to 50% of 1989 capacity of 2.6 million pounds (\$4.7 million at appropriate exchange rates) is expected "due to the unprecedented scale of disasters" and partly due to heavy additional reinsurance payments after the San Francisco earthquake.

- Non-marine syndicates 268 and 666, managed by Hayter Brockbank International Ltd., which will both be merged with syndicate 929. Syndicate 268 predicts a 1989 loss totaling 66% of its 4.3 million pound (\$7.8 million at appropriate exchange rates) capacity, while syndicate 666 expects a loss of 78% of its 8.4 million pound (\$15.2 million at appropriate exchange rates) capacity.

- Non-marine syndicate 397, managed by Gravett & Tilling (Underwriting Agencies) Ltd., closed at the end of last year after its agency felt it "could no longer operate in the current business climate within Lloyd's." A 1989 loss of 35% of allocated capacity of 2.7 million pounds (\$4.9 million at appropriate exchange rates) is expected.

- Aviation syndicates 580 and 942, managed by Cuthbert Heath Underwriting Ltd., which will merge on Jan. 1. Syndicate 580 was formerly managed by Lambert Bros. (Underwriting Agencies) Ltd., which was acquired by Heath earlier this year. Syndicate 942 had 1991 capacity of 20 million pounds (\$38.6 million at appropriate exchange rates), while syndicate 580 had 1991 capacity of 5 million pounds (\$9.7 million at appropriate exchange rates). Tony Avery, underwriter for syndicate 942, will be the underwriter of the combined syndicate (BI, Aug. 5).

- Non-marine syndicate 598, managed by Devonshire Underwriting Agencies Ltd., closed at the end of last year. The syndicate reports it will post losses for 1989 and 1990, though it was not more specific.

- Aviation syndicate 1054, managed by Janson Green Ltd., which will cease underwriting at the end of this year. 1990 capacity was 10.8 million pounds (\$17.4 million at appropriate exchange rates), up from 3.9 million pounds (\$5.8 million at appropriate exchange rates) when the syndicate was formed in 1987. Janson Green gave no explanation why the syndicate will stop writing. ■

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Octavian profits from soft market

By STACY SHAPIRO

Underwriting agency grows despite tough times

LONDON—Octavian Group Ltd., Lloyd's of London's 13th-largest underwriting agency group, is taking advantage of hard times to expand.

Since the autumn of 1988, the group has bought six Lloyd's agencies and has amalgamated them into Octavian, according to Managing Director Nigel Rogers.

Come the 1992 underwriting year, he said, Octavian will have 11 syndicates under its management with a total capacity of 275 million to 300 million pounds (\$464.8 million to \$507 million at current exchange rates). That compares with 10 syndicates with a 1991 capacity of 222.9 million pounds (\$430.2 million at appropriate exchange rates).

By next year, subsidiary Octavian Syndicate Management Ltd. will manage four marine syndicates, four non-marine syndicates, two aviation syndicates and one motor syndicate.

The group also has a members

agency, Octavian Underwriting Ltd., whose 1,132 members write 450.3 million pounds (\$869.1 million) in capacity, Mr. Rogers said, though he expects the agency will represent fewer members in 1992.

"We've made quite a number of acquisitions in recent years and it's all part of our plan to grow into the Lloyd's downturn," he said.

"We took the view four or five years ago that Lloyd's would have a difficult time—though we grossly underestimated how difficult that time would turn out to be—and we thought there were two ways (to survive)," he said. "One was to batten down the hatches and see what happens at the end of it if you are around; or the other was to say, 'Well, Lloyd's is going to survive the problems and there are opportunities to come when the froth is taken off the market that would give opportunities for a group like Octavian to develop and expand.'"

"And that's what we've done."

Octavian realized four or five years ago that Lloyd's would hit a skid because the market had such a long run of unbroken profitability and also suffered from overcapacity, said Mr. Rogers. "Inevitably, there are excesses which build up" in such a good market that were bound to contract, he said.

Octavian—whose founding dates back to the 1930s—was bought out by its management in 1985 following the retirement of founder Eric Dugdale. The management changed its name from Dugdale Underwriting Ltd. to Octavian after a character in the opera "Der Rosenkavalier" that was a favorite of Mr. Dugdale, an opera lover.

Octavian is now 80% owned by its executives: Mr. Rogers, Paul Sandilands, Alan Horton, Reg Brown, David Neal and Ray Eastbridge; and 20% owned by Skandia Insurance (U.K.) Holdings Ltd. and two other unidentified Swedish investors.

"I think Lloyd's could be strengthened by more corporate involvement," Mr. Rogers said.

For many years, the agency managed one syndicate on a joint basis with what is now Alston Brockbank Agencies Ltd. That syndicate, marine syndicate 89, eventually stopped underwriting in 1982 because of losses. Part of the syndicate's book of business was split off into a new syndicate 1009 in 1985 and is underwritten by Octavian's Alan Hawtin.

But from 1962 to 1988, Octavian set up several syndicates:

- Hermes motor syndicate 508 in 1962, now underwritten by Malcolm Waterlow.

- Non-marine syndicate 702 in 1972, now underwritten by Reg Brown.

- Non-marine syndicate 939 in 1980, underwritten by David Neil.

- Aviation syndicate 959 in 1980, underwritten by Ray Eastbridge.

- Non-marine syndicate 1049 in 1987, underwritten by Barry Thompson.

- Aviation syndicate 1085 in 1988, underwritten by Tony Crow.

The seven syndicates that were managed by Octavian in 1988—the latest underwriting year closed at Lloyd's—all made underwriting profits, said Mr. Rogers.

Besides setting up these syndicates, Octavian has acquired others.

Octavian realized when it decided to expand by acquisition that, because it was a smaller

agency, it couldn't pay huge sums for other agencies, he said. So, Octavian decided to grow by buying agencies that had some sort of problem that could be solved by Octavian's management skill.

"Some people would think that we were crazy. But that's what we decided to do," he said.

In the autumn of 1988, Octavian bought K.J. Monksfield (Underwriting Agencies) Ltd. and its marine syndicate 329. Underwriter Roger Kettle was replaced by Jonathon Jones, who had been deputy underwriter for Octavian's syndicate 1009.

When Octavian bought the agency, it knew that syndicate 329 would post a loss in 1988, mainly due to the \$1.4 billion Piper Alpha North Sea oil rig disaster, "though we didn't know how bad it would be," said Mr. Rogers. The syndicate reported a 329,448 pound (\$633,905 at applicable exchange rates) loss on net premiums of 1.1 million pounds (\$2.1 million) in 1988.

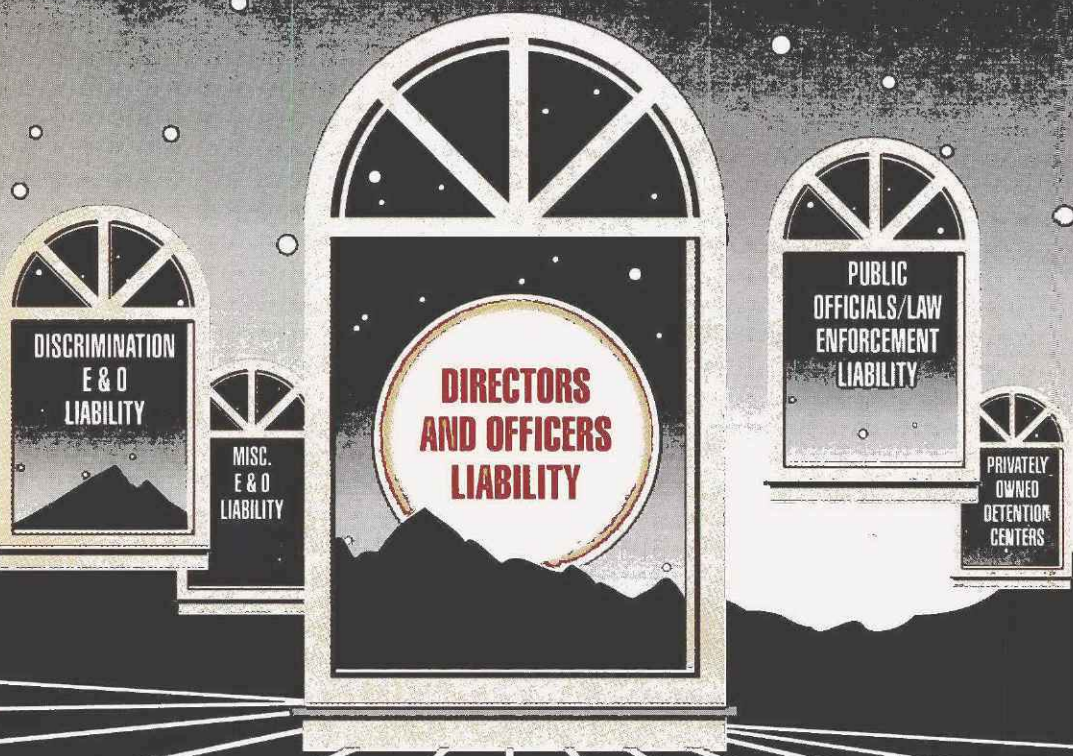
"But it had a superb site in (Lloyd's underwriting) room and we wanted to form a new syndicate for one of our senior deputy underwriters," said Mr. Rogers.

Syndicate 329, like most Lloyd's syndicates, is disappointed by its 1989 results, but it still expects to make a profit when that year closes at the end of 1991, according to its annual report.

In January 1989, Octavian made its most important acquisition—Bolton, Ingham (Agency) Ltd.—which doubled the size of the group's members agency "straight

Continued on next page

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Continued from previous page away," Mr. Rogers said. Octavian also inherited a "very insignificant" marine syndicate 787. However, the syndicate later turned out to be fairly significant, according to Mr. Rogers, because of its 9 million pound loss (\$17.4 million) in 1988, mainly from the \$25 million net loss it took on the Piper Alpha disaster.

Octavian appointed a new underwriter, Ron Cleverley, at the beginning of 1989 to replace Robin Erswell, and Mr. Cleverley carried out an "extensive" financial review of the syndicate. Following this review, he told members of syndicate 787 in March 1989 that there would be a loss of between 70% and 100% of each member's premium income capacity in 1988. The loss turned out to be 84.3% of capacity.

The members were upset when they first heard word of the loss in 1989. But "while the loss has been substantial, we have not had one single complaint from names," Mr. Rogers said. "And the reason is that we told them two years ago. What has upset other members (on other non-Octavian syndicates) this year is that they have been advised so late of losses. If you tell a name, give them the exact position, give them advance warning, they will be incredibly loyal people. What they don't like is a nasty surprise late in the day."

Other agencies that Octavian has bought since 1989 are:

- Bennett Barnes (Underwriting Agencies) Ltd., a small members agency, in 1989.

- Underwriting agency R.A.F. Macmillan & Co. Ltd. in 1990, which managed marine syndicates 80 and 843 as well as a members agency. Syndicate 80 was merged into syndicate 843 for the 1991 account and it is proposed that syndicate 843 will merge with marine syndicate 787 for 1992.

"This reflects the rationalization taking place at Lloyd's and the need to achieve economies in operating costs wherever possible," said an Octavian brochure.

- A small members agency Ellinger Heath Western (Underwriting Agencies) Ltd. earlier this year.

- Members agency Mocatta Dashwood Members Agents Ltd. in January 1991. Octavian says this acquisition made it the fifth-largest members agency at Lloyd's.

Last month, Octavian also bought underwriting agency N.T. Evennett & Partners Ltd. Evennett's marine syndicate 1035 will merge with one of Octavian's syndicates, and its members' agency with 100 members will merge with Octavian Underwriting Ltd., said Mr. Rogers.

One of the most successful syndicates in Octavian's stable is non-marine syndicate 702, underwritten since 1984 by Mr. Brown.

Mr. Brown, a vibrant man who will allow anyone from Council of Lloyd's members downward to sit on his box, joined former underwriter Frank Barber's syndicate at Lloyd's in 1976 after 10 years at FAI Insurance Group. He left Mr. Barber's box the next year to become deputy underwriter for syndicate 702.

Syndicate 702 reported a 7.3 million pound (\$14.1 million) profit in 1988 and expects to produce a "modest" profit in 1989, according to its annual report.

The syndicate's employees include:

- Syndicate deputy underwriter Andreas Loucaides and underwriter Ian West, who specialize in writing liability insurance, particularly in the United Kingdom, Europe, Australia and New Zealand. The syndicate sticks to writing professional liability insurance outside the United States for professionals like stockbrokers, commodities dealers and "other mis-

cellaneous areas, like the obscure professions such as funeral directors," said Mr. Loucaides.

The syndicate also designs and leads other unusual liability risks like criminal legal proceedings insurance, which covers the legal expenses for corporate executives charged with a criminal offense and "intellectual property" insurance.

- Underwriters Peter Dixon, who writes the syndicate's property business, and Peter Mitchell, who writes property reinsurance.

- Underwriter Chris Carter, who specializes in kidnap and ransom, jewelers block and banking risks.

- Claims manager Penny Whi-

twell.

The syndicate tends to work the year round rather than have busy seasons at the beginning and middle of the year, Mr. Brown said. So, one morning in August, it wasn't surprising to find him busy at his box. The day started early with a weekly meeting with his underwriters, which he considers important to maintain the continuity of the syndicate. With six people writing for the syndicate, "there needs to be a central steer," Mr. Brown said.

Following the meeting, Mr. Brown dictated correspondence, including a policy wording for an Australian agent who wants to

offer professional liability and directors and officers liability insurance to trade associations.

By about 11:30, Mr. Brown was at his box on the third floor of Lloyd's underwriting room, a box that he says his syndicate is outgrowing. Mr. Brown, who specializes in professional liability business, saw an array of risks, including:

- Libel insurance for a newspaper in Africa, which Mr. Brown said he wouldn't underwrite. "I don't like a daily newspaper or a newspaper that we can't read," he said.

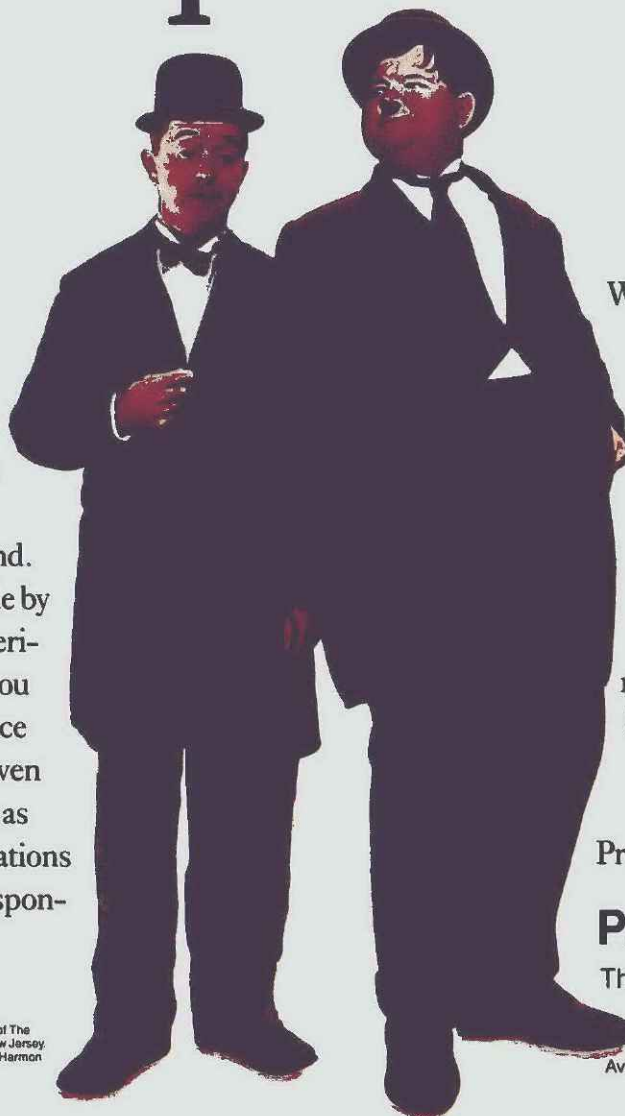
- D&O insurance for a London-based commodities broker.

- Errors and omissions reinsurance for a stockbroker on a foreign stock exchange.

- Lloyd's members agents professional liability insurance, a coverage that Mr. Brown follows but doesn't lead. He says he only writes "a bit" of members agents coverage.

"It's quiet now," Mr. Brown admitted that day, though August is usually a quiet month at Lloyd's and in all of the London business community, due to vacations. "But you can never tell when it will pick up. When it's hot outside, the brokers come in" because Lloyd's is air-conditioned—a rarity in London. ■

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Aviation writer dodges losses, expects profits

By GAVIN SOUTER

LONDON—No aviation syndicate underwritten by Barry Coleman has reported a loss since he has been an active underwriter, and he does not expect that record to be tarnished any time soon.

Aviation syndicates 824, 635 and 648 should all make a profit in 1989, 1990 and 1991, even though a spate of losses on top of insufficient rates have dogged the market, said Mr. Coleman, a partner at managing agency Murray Lawrence & Partners.

"Even if we only make a small profit for these years, that should be enough to make sure that we are in the upper quartile of aviation syndicates' results for those years," he said.

And, with aviation rates rising, profits should be easier to come by, he said.

However, Mr. Coleman does not expect any profit increases will be attributable to composite syndicates at Lloyd's writing aviation risks. Such syndicates are more likely to harm the market than help it, he said.

Mr. Coleman has 32 years of underwriting experience to help him through what are traumatic times for most of the aviation market.

He joined the Lloyd's market in 1959 as an underwriting assistant on a syndicate underwritten by Ralph Hope that specialized in airline hull insurance.

In 1964, Mr. Coleman joined

Syndicates 824, 635 and 648 should all make a profit in 1989, 1990 and 1991, says Mr. Coleman.

British Reserve Co. as an underwriter. But he left within a year to set up an aviation account for the Insurance Co. of North America Ltd.

"I set it up from scratch, which was great fun, and I was only 25 at the time so I was very lucky to get the chance," Mr. Coleman said.

In 1972, he joined Bowring Underwriting Agency as an underwriter for syndicate 824.

"Although I have worked in the company market, I always knew that I would come back to Lloyd's. It is difficult to put your finger on it, but there is something about the atmosphere of Lloyd's that, once you have worked there, always draws you back," he said.

He also became underwriter in 1980 for syndicate 635, managed by Barder & Marsh, and for syndicate 648, managed by Wellington Underwriting Agencies Ltd.

Bowring sold its underwriting agency in 1985 to then-underwriter—and later Lloyd's Chairman—Murray Lawrence, and Mr. Coleman became a partner in Murray Lawrence & Partners.

Half of Mr. Coleman's time is devoted to syndicate 824, while syndicates 635 and 648 each get 25% of his working week, he said.

Mr. Coleman is a leading underwriter for airline hull business, and his syndicates write coverage for major airlines in Africa, Asia, Australia and Europe.

The syndicates also underwrite a large product and refuelers liability account. The business is han-

dled by Senior Deputy Underwriter Ernie Crouch.

And since July 1988, the syndicates have written aviation excess-of-loss reinsurance business. Deputy Underwriter Stephen Cook handles that account.

"We have made a profit on this business since we started it, and during that period the London excess-of-loss market has had a very difficult time," Mr. Coleman said.

Part of the reason the syndicates will maintain their consistent prof-

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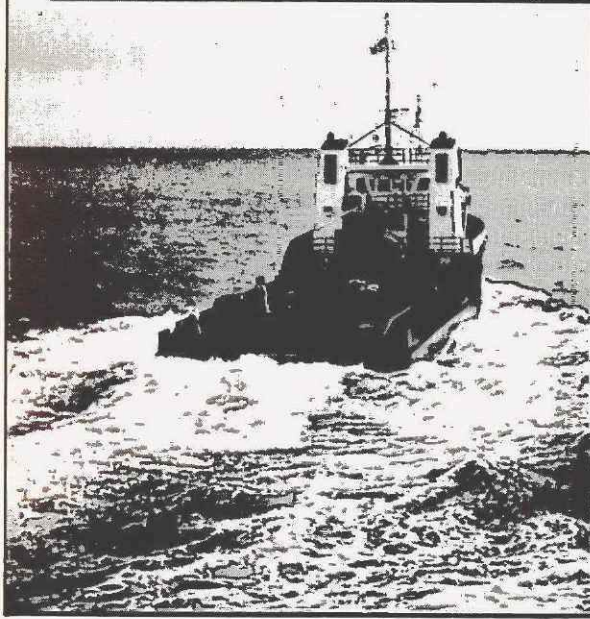
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New reinsurer cautiously eyes runoff coverage

CentreWrite to help close old accounts

By CAROLYN ALDRED

LONDON—CentreWrite Ltd. the new reinsurance company established by Lloyd's of London, hopes to issue its first quote by the end of the year.

However, the company, formed to provide runoff reinsurance for the dozens of Lloyd's syndicates unable to close past accounts, is making a slow, cautious start.

"We are not going to run before we can walk on this," stressed its chairman, Robin Jackson.

Setting up a separate reinsurance company is a bold, radical step designed to help alleviate the problem of Lloyd's syndicates' open accounting years.

Many syndicates have found themselves unable to close underwriting accounts over the past several years. They either have no successor syndicate year in which to pay a reinsurance to close pre-

mium or they are unable to estimate their liabilities, typically from asbestosis and pollution claims.

Under Lloyd's accounting system, each underwriting year is closed after three years. Funds to pay unpaid claims are transferred into the next accounting year as reinsurance to close, or RITC. For example, syndicates this year are closing their 1989 accounts by paying a RITC premium into their 1990 accounts.

Because a syndicate's membership changes each underwriting year, the RITC premium must represent a reasonable estimate of liabilities so that both sets of members are treated fairly.

"Lloyd's was looking at a number of ways to try to help names who have problems and one of the biggest perceived problems is syndicates unable to close," said Mr.

Continued on next page

Coleman

Continued from previous page itability is their refusal to accept U.S. business, Mr. Coleman said.

"I don't underwrite U.S. business simply because the rates are inadequate," he said. Rates do not reflect the risk of sizable U.S. court awards against insurers, he explained.

"Even in the hard market of 1984 to 1986, I did not write U.S. business because the rates were still far too low for the risks being written," he said.

But, Mr. Coleman's refusal to underwrite U.S. aviation business is not a reflection on the management of airlines based there, he stressed. "It's probably the safest place in the world to fly, but the rates are just not right," he said.

Mr. Coleman also avoids general aviation business. "We used to write some general aviation business, but it has become extremely competitive, so we don't write nearly as much as we used to," he said.

Profit potential rather than market share is the bottom-line criterion for any expansion into new areas, Mr. Coleman said. "We will move into any area that will give a profit to our names."

Areas of opportunity in the immediate future probably include the LMX market, according to Mr. Coleman.

The LMX market has contracted sharply and rates have increased over the past two years due to the series of large losses in the late 1980s and 1990, he said.

LMX rates probably will continue to rise in 1992, "so one can expose the names to a certain amount to this," Mr. Coleman commented.

Airline hull rates also should increase next year, he said. "At the beginning of 1991 we saw some increases of up to 40%, and later in the year we saw some 80% increases. And, now we are even seeing some rates double on airline business."

The trend should continue during the coming autumn renewal season due to the continuing drop in capacity in the market, he added.

"The rate increases at the beginning of the year were probably due to underwriters withholding their capacity because of the poor rates,

but now the increases are happening because the capacity itself is not available," he said.

However, the rates will have to increase by 300% before they reach adequate levels, he said.

Although rate changes may be necessary, recent changes in the structure of the market were not, according to Mr. Coleman.

"The removal of the market barriers has had no effect, and it was against the wishes of the majority of the market," he asserted.

The strength of Lloyd's has always been its specialist underwriting knowledge, so allowing individual "composite" syndicates to write all risks—marine, non-marine and aviation—may jeopardize Lloyd's reputation, he said.

"I have only underwritten aviation business and I would not know how to rate an oil tanker," Mr. Coleman said.

Underwriters, though, recognize the need to stick to their specialties, so the removal of market barriers has had little effect on Lloyd's, he said.

"The composite syndicates are not writing composite policies so their whole raison d'etre is false," Mr. Coleman said.

"The only exception is in the marine market, and they were already able to write other business anyway," he said, referring to the incidental non-marine accounts that marine underwriters had been allowed to underwrite.

Increases in the number of composite syndicates also would be bad news for Lloyd's members, Mr. Coleman said.

"As a name, I don't want to be on 25 composite syndicates writing the same business with the same retentions. That is not spreading risk," he asserted.

Mr. Coleman is equally wary about possible changes to the Lloyd's capital base that a market task force is now considering. "I am not in favor of limiting liability because I think unlimited liability works well," he said.

However, he allows that some form of mutualization for smaller members may make the market more attractive. This would allow them to unite their capacity and spread their exposure over a larger number of syndicates, he explained.

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These syndicates include "those unable to close because they have no successor and those that can't come up with numbers fair to both sets of names so they can't do a reinsurance to close," explained Mr. Jackson.

He estimates that there are about 50 syndicates—with about 90 syndicate years—that are unable to close.

"More than 50% of all Lloyd's members are on at least one open year," said Mr. Jackson.

To encourage agencies to close open years, Lloyd's had introduced tough new regulations regarding open years. Under these rules managing agents wishing to leave syndicate accounts open must obtain an auditor's report stating that an RITC is impossible to estimate and must also obtain an actuarial assessment of the open year.

Several open accounts have closed since the new rules were issued. But a continued flood of asbestos-related claims and the huge uncertainties over whether insurers must pay to clean up U.S. pollution sites have forced many syndicates to keep their accounts open.

Meanwhile, virtually no underwriters are willing to insure these "runoff" risks, particularly on an unlimited basis, following spectacular losses by runoff reinsurance underwriters like Richard Outhwaite.

As a result, Lloyd's created its own runoff reinsurance vehicle.

Mr. Jackson, however, sounds a cautious note. "All CentreWrite can do is to help the problem, not solve it overnight. We don't expect to be able to handle all the syndicates immediately. We will probably give priority to those who don't have a home to go to," he said, referring to syndicates that have stopped operating and do not have successor accounts into which they can pay RITC.

"We're not going to make a dramatic hole in the number of open years for the first few years," he pointed out.

So far, about 12 syndicates have approached CentreWrite for runoff reinsurance quotes. The company has chosen a short list of two to three syndicates and expects to issue its first quote by the end of the year, Mr. Jackson said.

"I wouldn't expect to write (premiums) of more than 40 million to 50 million pounds (\$67.6 million to \$84.5 million) in each of the first two years," he said.

Still, he hopes that CentreWrite will be able to tackle one of the bigger open syndicates next year.

Mr. Jackson, who retired recently as a Lloyd's underwriter, stressed that he "did not volunteer for the job" as chairman of CentreWrite. The problem of past liabilities is one of the most difficult and contentious problems at Lloyd's and estimating other underwriters' past liabilities will not be easy, he noted.

"When we first come out with a quote, half the market will criticize us for charging too little and the other half will complain it is too high," he said.

Mr. Jackson also is quick to point out that CentreWrite plans to operate on a commercial basis and has not been formed to bail out syndicates swamped with past year liabilities.

"This is a commercial enterprise. It is not a social security bail-out. We are not here to take advantage of troubled syndicates but we are not prepared to go out and make a loss," he said.

The "underwriting will be incredibly thorough and will be done with due diligence. After all, we are talking about taking on a syndicate's entire liabilities" on an unlimited basis, said Mr. Jackson.

Each runoff reinsurance quote

will be determined by a panel of three underwriters selected from the Lloyd's market. The final quote will then be presented to CentreWrite's board before being offered to the syndicate's managing agency, Mr. Jackson said.

CentreWrite's board includes Mr. Jackson as chairman and Andrew Banks, formerly chief executive of Insurance Corp. of Ireland, as general manager. Other board members include Lloyd's underwriters Charles Skey, David Mann and Robert Hiscox; Lloyd's Financial Director John Gaynor; and Sir Maurice Hodgson and Gordon Dunlop, external members of the Committee of Lloyd's.

If a runoff quote is rejected by the syndicate's managing agency, the agency is obliged to send details of the quote to the syndicate members, who are entitled to reinsure their liabilities with CentreWrite if they choose, said Mr. Jackson.

'All CentreWrite can do is to help the problem, not solve it overnight. We don't expect to be able to handle all the syndicates immediately. We will probably give priority to those who don't have a home to go to,' says Chairman Robin Jackson.

The panels of underwriters hired by CentreWrite will be able to use external advisers like actuaries, lawyers and accountants to help set premiums, said Mr. Jackson.

Lloyd's and CentreWrite have not yet decided who will bear the cost of these services should a syndicate decline to reinsure its liabilities with CentreWrite, he said.

Meanwhile, the annual costs of running CentreWrite will be borne by the Corporation of Lloyd's. Costs will be kept to a minimum with only a few staff working full-time for the company, Mr. Jackson

said.

"We won't manage the runoff of the syndicates. If the agent doesn't wish to run it off, an external runoff manager will be appointed," he explained.

Lloyd's, meanwhile, has posted a bond of an unspecified amount to capitalize the company, Mr. Jackson.

When the idea of forming CentreWrite was first discussed several years ago, many people at Lloyd's criticized the concept as a form of mutualization—spreading the losses of some members among

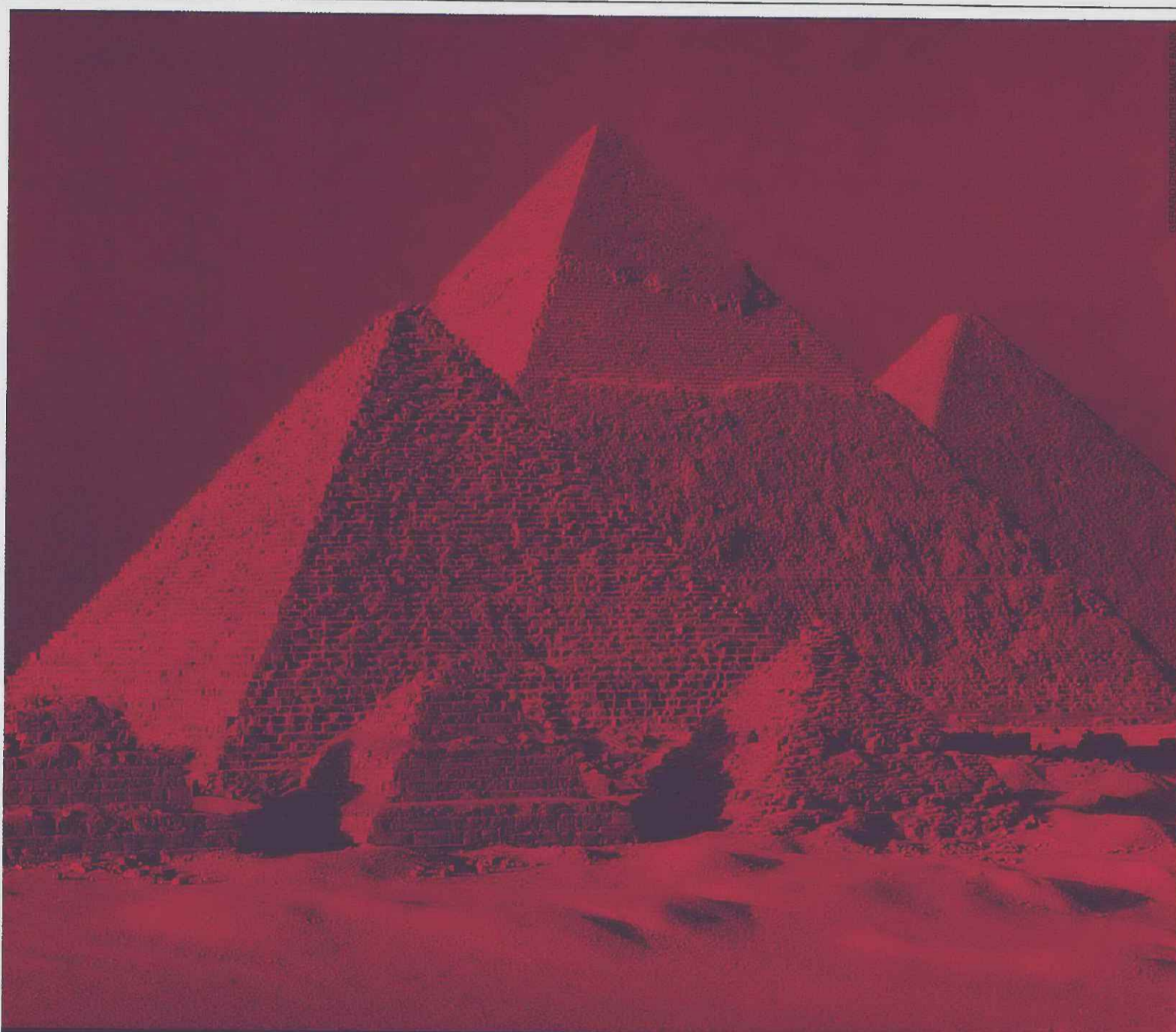
all members. However, the commercial nature of CentreWrite will prevent that, Mr. Jackson said.

"Some opposed (CentreWrite), arguing that it is mutualization by the back door. But pressure (over open years) had built up to such an extent that Lloyd's had to be seen to do something," he said.

There also are fears that writing unlimited runoff reinsurance is a hugely dangerous occupation, as the hundreds of millions of dollars in losses faced by Mr. Outhwaite's syndicate demonstrate.

However, "the advantage we have is that we are a number of years further on. We can learn by other people's mistakes," Mr. Jackson said.

For example, "we have known about asbestos for 10 years now and it is becoming more of a statistical exercise," he said, adding, however, that "there will be a continuing debate over pollution in the next 10 years." ■



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R.J. Kiln bullish on future prospects

By GAVIN SOUTER

LONDON—The huge losses facing syndicates at Lloyd's of London over the next three years will not lead to radical changes at R.J. Kiln & Co. Ltd., Chairman Colin Murray says.

The underwriting agency will take any losses on the chin and concentrate on expanding its business. In particular, the agency hopes to find new opportunities both in continental Europe and in the hardening retrocessional market, Mr. Murray said.

"We are not moaning about the losses because there was nothing we could do about them," he said.

Most of the catastrophic losses that hit the market over the past four years, like Hurricane Hugo, the San Francisco earthquake and the 1990 European windstorms, were unfortunate but unavoidable, Mr. Murray said.

"Insurers are the people that have to pay these losses, so they should just get on with it because that is what they are there for," he said.

The near \$1 billion loss suffered by Lloyd's in 1988 was largely attributable to the marine market.

R.J. Kiln's strength is in non-marine business and, thus, the agency's syndicates posted a profit equal to 6.6% of allocated premium income for 1988.

However, the agency expects that its syndicates will report a 6% loss for 1989 when those results are published next year, and it expects to only break even on the 1990 accounting year, Mr. Murray said.

"We have gone through a hard

period with losses and low rates, but the market seems to be showing signs of hardening now," he added.

R.J. Kiln was formed in 1962 with one syndicate, non-marine 510, for which underwriter Robert Kiln wrote mainly property reinsurance.

However, results were poor for the first few years and 510 posted a loss in 1963, 1964 and 1965.

As a result of the losses, the agency's management instituted changes in business practice that turned the syndicate around and are still part of current practice, Mr. Murray said.

"The main change was the implementation of a postmortem at 8:30 every morning of all of the major risks underwritten by the syndicate on the previous day. The review is conducted by at least three underwriters, so we get a good picture of what the agency is writing, and younger underwriters can learn from the senior underwriters," he explained.

As a result of the changes, R.J. Kiln broke even in 1966 and 1967 and has made a profit every year since 1968, Mr. Murray said.

Since then, it has established additional syndicates:

- The agency formed non-marine syndicate 557 in 1969 to underwrite catastrophe reinsurance.

- Syndicate 603 was formed in 1972 to underwrite motor business. During the 1970s, the management of this syndicate was transferred to affiliate Link Underwriting Agency Ltd.

- Aviation syndicate 955 was formed in 1978 to underwrite

mainly liability business.

- Non-marine syndicate 807 was formed in 1979 to underwrite property reinsurance and stop-loss insurance for U.S. health care plans.

- Non-marine syndicate 765 was formed in 1982 to underwrite mainly personal accident business.

- Non-marine syndicate 1105 was formed in 1989 to underwrite mainly property insurance and reinsurance and personal accident business.

The latest R.J. Kiln syndicate to be formed is non-marine 1179, which was formed this year to take advantage of the hardening retrocessional market, Mr. Murray said.

Also, the agency has bought Street (Underwriting Agencies) Ltd., which manages marine syndicate 123/132. The syndicate was formed at the turn of the century.

The total 1991 stamp capacity for the nine R.J. Kiln syndicates is 243.7 million pounds (\$470.3 million at applicable exchange rates), and Mr. Murray anticipates that the syndicates' 1992 capacity will reach 300 million pounds (\$507 million at current exchange rates).

In addition to the nine syndicates it manages, R.J. Kiln owns a members agency, which manages the affairs of 316 Lloyd's members, and an investment management company which specializes in investing syndicate funds.

The company employs 80 people in London and another 150 people in an office in Maidstone, Kent, that administers the Link motor syndicate.

Mr. Murray joined the company in 1963, having spent the previous

six years with broker C.T. Bowring & Co. Ltd. From 1963 to 1974, he was deputy underwriter to Mr. Kiln; from 1974 to 1984, he was an active underwriter; and he became chairman of the group in 1985.

Mr. Kiln left the board of directors this year, along with Patrick Bird, who was a founder of the agency. Mr. Kiln is now life president of R.J. Kiln and Mr. Bird is life president of Link Underwriting.

One of the strengths on which the agency was founded was innovation, Mr. Murray contended.

"For example, in 1962, Robert Kiln took an archaeology course for pleasure, and this led to him developing archaeological delay coverage," he said. This type of policy covers construction delays caused when an archaeological site is discovered on a construction site, Mr. Murray explained.

In the 1960s, abnormal normality coverage was developed by the agency, Mr. Murray said. This provides coverage for claims fluctuations in life insurance portfolios, he explained.

"Then from this we became acquainted with employee benefits and now all of the syndicates have an interest in employee benefits," Mr. Murray said.

"You often find that if you spend time developing a product it leads to other things," Mr. Murray said.

The group also has expanded internationally.

In the 1960s and 1970s, R.J. Kiln expanded its underwriting into Africa and the Far East, he said.

"We thought that this was where

the future lay, and we wanted to support the national companies in these countries with reinsurance," Mr. Murray said.

The agency also expanded into Canada, Australia and New Zealand, he said.

The next target area for expansion for the agency is continental Europe, Mr. Murray said.

"We are very interested in Europe and we have individuals in the organization who together can speak all of the major European languages," he said.

R.J. Kiln already has reinsurance portfolios containing French, German and Italian business, Mr. Murray said. But the agency is only interested in insuring business at the right rates, he stressed.

"The French, German and Italian markets have been very competitive over the past five or six years, so we have declined quite a lot of business from those countries," Mr. Murray said. However, all insurance business is cyclical, so opportunities are bound to arise in the future, he added.

One of the big changes at Lloyd's over the past year was the removal of market barriers among the marine, non-marine and aviation syndicates. This has allowed agencies to merge individual syndicates into large composite syndicates. However, this will not happen at R.J. Kiln, Mr. Murray said.

"Like many underwriters, our underwriters are fiercely independent and they like to take responsibility for the business they write," he said.

The agency's underwriters will

Continued on next page



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Continued from previous page independently run their separate boxes in Lloyd's underwriting room, he added.

Composite syndicates would provide little real savings anyway, since one underwriter could not write the plethora of different risks the R.J. Kiln syndicates accept, he said.

"When you look at all of the different risks, you see that one underwriter could never attain the expertise to underwrite them all. So, you are going to have to divide the risks up according to classes of business anyway," Mr. Murray.

However, the removal of market barriers will make some risks easier to underwrite, he said.

"For example, marine and non-marine property may be able to be underwritten by the same underwriter, but you would need a different underwriter for liability business," Mr. Murray contends.

However, the agency may change in other ways, said Managing Director Jeffrey Kilpatrick.

R.J. Kiln currently is assessing ways to ensure that all of the company's shares are owned by current employees of the group, he said.

"We take the view that as long as we pay our employees adequately, the remaining profit should go to the names. So, we are looking at ways in which employees can return their shares in the company when they leave," he said.

Currently, 15% of R.J. Kiln's shares are owned by past employees, he said.

"It is all part of keeping the staff involved and happy," he said.

R.J. Kiln underwriters have found the market as tough as other insurers in recent years, but there are some signs that rates are hardening, they say.

In the aviation product liability market, for example, rates are increasing by an average of 20%, said Peter Morris, underwriter for syndicate 955.

Rates still need to rise even more, he said. "But at least the business is expanding."

The marine market, on the other hand, remains depressed, said Robert Chase, underwriter for syndicate 123/132.

In 1988, the syndicate produced a loss of 19.4% of premium, due to the large number of catastrophe losses, including reinsurance claims from the Piper Alpha oil rig explosion, he said.

However, there are signs that marine rates will harden, he said.

"1990 was important because the rot of declining rates certainly stopped in most marine classes, and the renewal season at the end of the year for 1991 business at last saw increases in rates," he said, adding that sufficient rate increases will not be achieved in one renewal season.

Rising medical costs in the United States are the biggest headache for non-marine syndicate 807, said underwriter Stephen Mathers.

"When you have costs that are compounding at 20% year after year after year, you are bound to have difficulties. And although our rates go up every month, we are only just managing to keep our heads above water," he said.

Also, the low property rates in the United States are showing few signs of increasing, Mr. Mathers said.

Meanwhile, R.J. Kiln's members agency—Kiln Members Agency Ltd.—is headed by Chairman David Dann, a former aviation underwriter.

The members agency was founded along with the management agency in 1962. Kiln Members Agency currently represents 316 Lloyd's members, providing a total capacity of 93.9 million pounds (\$181.2 million at applicable exchange rates), Mr. Dann said.

The members agency is expecting

to add another 50 members in 1992, he added.

In addition to placing members on the R.J. Kiln syndicates, the members agency primarily places members on six other underwriting agencies, Mr. Dann said.

"We look at agencies that are similar to ourselves, where we think the managing agency and underwriters have got it right," he said.

The agency keeps in touch with members individually throughout the year and collectively at a conference in October in London. Lloyd's members represented by the members agency and other members belonging to R.J. Kiln syndicates are invited, Mr. Dann said.

About 70% of members of the Kiln members agency exposed to the 1988 year at Lloyd's made profits. "And none of our names has suffered substantial financial problems," he said.

R.J. Kiln's investment company, Burrage & Co., originally was formed to manage R.J. Kiln members' and syndicates' funds, said Director Ken Burrage.

"It has now grown from that base, and we offer services to other Lloyd's agencies. We currently manage funds for five other Lloyd's syndicates as well as a small London market insurance company," he said.

In addition, the company also manages funds for individuals, who are usually Lloyd's members, Mr. Burrage said.

"People often find that if they only have around 250,000 pounds (\$422,500) to invest, a merchant bank wouldn't be interested because it is too small a sum. But we are quite happy to take on that size of capital," he added.

The company currently has 350 million pounds (\$591.5 million) in funds under management, Mr. Burrage said.

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Syndicates broaden horizons

Many seek opportunities outside of Lloyd's underwriting room

By CAROLYN ALDRED

LONDON—Even though Lloyd's of London faces several years of major losses, syndicates are looking ahead optimistically and gearing themselves up to write new types of business in new ways.

Non-marine syndicates are exploring new avenues of operation, including an increasing tendency to conduct business away from Lloyd's traditional underwriting room.

Syndicates are opening up regional offices within the United Kingdom, trading increasingly with non-Lloyd's brokers in Britain and the rest of Europe and buying shares of regional brokers worldwide. U.S. underwriting offices also are being established.

Meanwhile, Lloyd's has opened another avenue of expansion by simplifying the way in which syndicates can write life insurance business. Lloyd's announced last month that "term" commercial life insurance—in which a person is covered for a period of one day to 10 years—may be placed with syndicates by a non-Lloyd's broker if a Lloyd's broker guarantees the placement of coverage.

Personal life insurance also may be directly accepted by service companies operated by Lloyd's syndicates outside the market without need for a Lloyd's broker to guarantee the transaction.

The U.K. market, in particular, is being targeted for expansion by syndicates, many of which have opened regional offices. Indeed, in recent years several new syndicates have been formed specifically to write regional U.K. business not previously finding its way to Lloyd's.

"The primary objective of the syndicate is to write U.K. non-marine business operating from regional offices and dealing directly with both Lloyd's and non-Lloyd's brokers," said underwriter Eddie Simner in the annual report of syndicate 1104, managed by MIS Underwriting Agency Ltd. MIS is a service company set up by Merrett Holdings P.L.C. that began trading in 1988.

"The target portfolio remains small/medium size industrial and commercial clients and a selective household account," said Mr. Simner, who is based in Birmingham, England.

MIS, in association with Lloyd's broker Professional Risks Ltd., also has launched a new professional liability policy with a limit of up to 5 million pounds (\$8.5 million) for all types of professionals.

Merrett's office in Bristol on the west coast of England will underwrite and administer the new product. Professional Risks is marketing the new product.

In addition to Merrett, other Lloyd's syndicates, AXA Insurance Co. Ltd., Iron Trades Insurance Co. Ltd., Minster Insurance Co. Ltd., and Sirius (UK) Insurance P.L.C. participate in the new coverage.

This is the second joint working arrangement between Merrett and Professional Risks, the first being a 5 million pound directors and officers liability policy launched in March.

Syndicate 1079, managed by Devonshire Underwriting Agencies Ltd., similarly "was established (for 1988) to develop a country-wide book of (U.K.) property, accident and contractor's all-risks business. The intention was that it would write the property sections of a commercial package policy, marketed through our service company to (Main) Street brokers, with the liability sections being written

by companion syndicate 657," said underwriter R.H. Lister.

During 1990, about 40% of the syndicate's revenues came from regional sources, said Mr. Lister.

Syndicate 1152, managed by F.L.P. Secretan & Co. Ltd., was formed in 1990 to write short-tail U.K. business.

"This is an area where Lloyd's syndicates have not been particularly strong historically, and so there are opportunities for its market share to be increased through a more innovative approach to business acquisition," said underwriter P.J. Gage in the syndicate's annual report.

"We have established a provincial underwriting facility in Bir-

mingham, enabling us to attract business which would not normally be offered to the Lloyd's market."

Meanwhile, other agencies also have established regional service companies to provide new business for their existing syndicates.

Currently, under Lloyd's recently relaxed regulations, agencies can establish non-profit service companies that can accept business from non-Lloyd's brokers on behalf of specified syndicates. But, all that business must be transferred from the service companies to the syndicates via a Lloyd's broker, who acts as a guarantor.

"During 1990, we opened an office in Leeds, Yorkshire, in an effort

to attract more U.K. provincial business," said underwriter Reg Brown in the annual report for syndicate 702, managed by Octavian Syndicate Management Ltd.

He said 70% of the business transacted in Leeds stems from regional offices of Lloyd's brokers, while 30% comes from non-Lloyd's brokers.

Wellington Underwriting Agencies Ltd. last year also established an underwriting unit in Oxford—Wellington Personal Insurances Ltd.—to which the Wellington group's non-marine syndicates delegated underwriting authority.

"We have designed a product which we hope will appeal to the owners of high-value properties, a market which in our view has not been well-served by insurers in this country. Underwriting com-

menced in January of this year, and the product is now being marketed extensively to brokers around the United Kingdom," said M.W. Petzold, underwriter for syndicate 1095.

Roberts & Hiscox Ltd. formed Hiscox Insurance Agencies in June 1990 to market a high-value household insurance policy to both Lloyd's and non-Lloyd's brokers "outside the Lloyd's system" on behalf of syndicate 33.

"We intend to expand the activities of HIA to the marketing of other products for syndicate 33 and the other syndicates in the group," said Robert Hiscox, agency chairman, in the annual report for syndicate 33.

However, Mr. Hiscox believes the regulations governing service companies must be broadened if this new form of marketing is to succeed for Lloyd's syndicates.

"All the business produced by
Continued on next page

DON'T CONFUSE ACTIVITY



Largest Lloyd's managing agencies

Based on 1991 premium capacity in millions of pounds

Managing agent	1991 capacity ¹	
Merrett Underwriting Agency Management Ltd.	£456.4	\$880.9
Wellington Underwriting Agencies Ltd.	412.7	796.5
Bankside Syndicates Ltd.	356.8	688.6
Murray Lawrence & Partners Ltd.	351.1	677.6
Janson Green Ltd.	335.0	646.0
A.J. Archer & Co. Ltd.	330.1	637.1
Sturge Marine Syndicates Management Ltd.	328.4	633.8
Methuen (Lloyd's Underwriting Agents) Ltd.	326.1	629.4
Wren Underwriting Agencies Ltd.	317.9	613.5
Sturge Non-Marine Syndicates Management Ltd.	312.0	602.2

¹Converted at applicable exchange rate

Source: Lloyd's of London

BI/JOHN SMITHER

Continued from previous page

HIA goes through a Lloyd's broker to the syndicate to conform with regulations so, of every pound of income to our syndicates, a Lloyd's broker gets a share regardless of whether they have added value to

the transaction," he noted.

In addition, "service companies should be allowed to be profit-making in themselves," he said.

"A non-profit service company is fine for the marketing of some products, but for others it is im-

portant to have the ability to place business for reward in other markets. Names will be better rewarded if managing agents are allowed to invest in such ventures, and be better protected from underwriting losses if those ventures do not have to place business only with their syndicates," said Mr. Hiscox.

"I do not believe that many of the 'direct dealing' marketing ventures by managing agents will succeed; most will incur extra costs in marketing and the lack of concentration on underwriting will cause the business acquired to be less profitable or even loss-making."

Other syndicates are hoping to tap further into the U.K. market without incurring the expense of forming a service company.

"We have continued to explore in the United Kingdom ways of attracting new business that Lloyd's brokers have traditionally not handled," noted T.W. Brien, un-

derwriter for syndicate 15, managed by Stewart & Hughman Ltd. To attract more regional accounts, the syndicate has hired an underwriter who specializes in U.K. liability business.

The syndicate also is looking further afield to find new business.

"I have also sent one of my underwriting staff to the United States for a three-month investigation, his terms of reference being to examine fully methods of obtaining an increase in volume of property business for the Lloyd's market. Whilst no firm conclusions have been reached, it is possible that to acquire this additional business we may position an underwriter in the United States," said Mr. Brien.

"Initial findings have proved positive, but there is much to consider and any move in this direction must in no way disrupt our traditional methods of trading in London," he added.

Other syndicates also are looking to find new business in North America by strengthening their ties there.

Just recently, Octavian Group Ltd. appointed an unnamed American underwriter to be based in New York to write reinsurance for smaller U.S. ceding companies, said Managing Director Nigel Rogers.

The underwriter will have a binding authority for a line slip of Lloyd's underwriters including Octavian, said Mr. Rogers. The U.S. underwriter is expected to write between \$3 million and \$5 million in premium in 1992.

Meanwhile, "in a joint venture with three other Lloyd's agencies we have . . . taken a small share in a 51% acquisition of John Linneman & Co., a managing general agency based in California," said D.P. Mann, a director of D.P. Mann Underwriting Agency Ltd. and underwriter for syndicate 435.

"It is our expectation that initiatives such as this will, in the longer term, strengthen the channels through which we receive business," he said.

John Linneman & Co. specializes in facultative reinsurance business, a type of business that Lloyd's has been spectacularly unsuccessful in attracting, Mr. Mann said.

"It has become apparent that there is, in certain areas, a need for us to strengthen our relationships with our distribution system, especially when by so doing it enhances our product's competitive position," agreed underwriter R.F. Bailey of syndicate 138, managed by R.F. Bailey (Underwriting Agencies) Ltd., which also has purchased a share of Linneman.

"With this in mind, the managing agency has purchased an equity interest in (Linneman). . . I am optimistic that this investment, which may be the forerunner of similar ventures, will bring the syndicate greater opportunities to obtain potentially profitable U.S. domestic business that would otherwise be lost to indigenous market competitors," said Mr. Bailey.

Cassidy, Davis Ltd., meanwhile, has bought a 40% stake in Chapman & Associates, a Canadian brokerage, to "act as our underwriting consultants on all extended warranty business written out of North America," said Anthony Cassidy, underwriter for syndicate 582.

The agency also has set up a U.K. service company to provide support services that "previously no Lloyd's broker could have obtained from a Lloyd's underwriter," like policy preparation; training of sales staff; and product design.

However, Mr. Cassidy points out in his syndicate report that the establishment of a service company and acquisition of a Canadian broker were met with hostility from many Lloyd's brokers, who feared their position was being undermined.

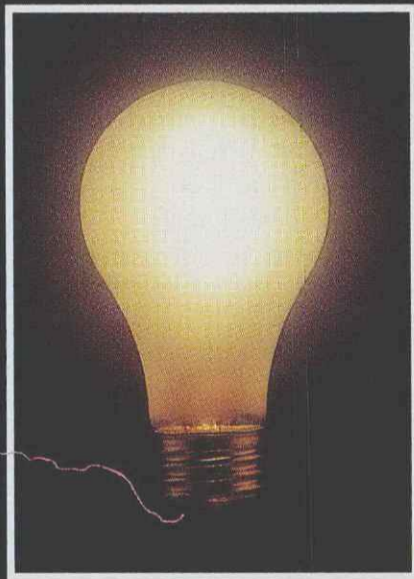
"As news of our service company and our acquisition has begun to circulate, I have sometimes been taken aback by the reaction of some Lloyd's brokers. Some seem inclined to see the launch of our service company as threatening because they see it as a first step to circumventing them and to developing our own sales force. Nothing could be more inaccurate, but the very fact that their suspicions exist, demonstrates the present fragility of confidence," he said.

Mr. Cassidy added that confidence must be restored between Lloyd's underwriters and brokers if Lloyd's is to thrive.

Meanwhile, with 1992—the year the European Community market will be united—fast approaching, many syndicates are looking to expand their presence in continental Europe.

Syndicate 250, managed by Wren
Continued on next page

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Syndicate growth

Continued from previous page
 Underwriting Agencies Ltd., is "actively seeking to enlarge (its) proportion of European business," noted underwriter D.J. Flett.

Alec Sharp, underwriter for syndicate 839, managed by Castle Underwriting Agents Ltd., noted that he had previously "mentioned the prospect of 1992 and the freedom of services within Europe. I am pleased to report that members of the syndicate have visited Sweden, The Netherlands, Spain and Italy and have forged a number of rela-

tionships which we hope will be the start of an expanding account in all our main areas of business within the European Community.

"During 1991, we are extending marginally into Europe and are participating with other Lloyd's syndicates on some business in Germany and Italy," said underwriter R.H. Lister of syndicate 657, managed by Devonshire.

Some agencies have even set up European offices to attract more business.

For example, Wellington has established a service company, Wellington Italia S.R.L. in Rome that

provides consulting services to Societa Intermediazioni Riassicurative S.p.A. in connection with a binding authority it holds for Italian business underwritten by three Wellington syndicates.

Another new initiative being undertaken by syndicates is consortium underwriting, which recently was given the go-ahead by the Council of Lloyd's.

Consortium underwriting is "where a group of syndicates join together to allow experienced underwriters to write on their behalf, thus providing brokers with a meaningful capacity and a per-

sonal service which is often not available from the major syndicates because of the sheer volume of their commitments," explained J. Prestage, underwriter for syndicate 1151.

Syndicate 1151, managed by Speckley Villers Hunt & Co. Ltd., is one of several syndicates taking the initiative.

Unlike a line slip, the lead underwriter of the consortium can bind other consortium syndicates on the risk.

International Editor Stacy Shapiro contributed to this story.

No longer are they asking, 'ILU who?'

By GAVIN SOUTER

LONDON—The Institute of London Underwriters' profile has been dramatically raised in the United States over the past five years, says Declan McMahon, chairman of the market.

Before 1990, only Maryland had accepted ILU members en masse as accredited reinsurers, but now the London marine and aviation insurance company market is an accredited reinsurer in 29 states, Mr. McMahon said.

Progress is also being made at home, where the ILU is becoming more efficient through the use of its computer network. Further efficiencies could be made next year if the ILU proceeds with a plan to unite its policy signing and accounting departments with those operated by the market for non-marine insurers, he said.

Despite the wave of accreditations in the United States and more efficient administration in London, the ILU, like the rest of the London market, has been dogged by the run of catastrophic losses over the past four years.

The market's U.S. regulatory successes, though, should help it take advantage of opportunities in the future, according to Mr. McMahon.

"The ILU members have always been accepted as individual companies in the U.S., but up until five or six years ago it was the classic question of ILU who? But now the authorities in the U.S. know that we are a group of very strong companies," he said.

The change has come about after the 114 ILU member companies collectively lobbied individual states and the National Assn. of Insurance Commissioners to be accepted as accredited reinsurers, Mr. McMahon said.

However, the ILU has not yet established the basis on which the membership will fund the \$100 million trust fund necessary to guarantee the companies' liabilities in the United States, he noted.

"We will have in it place by next year when we get agreement from all of the ILU companies. This sort of thing takes time because you have to hold discussions among 114 different companies," Mr. McMahon explained.

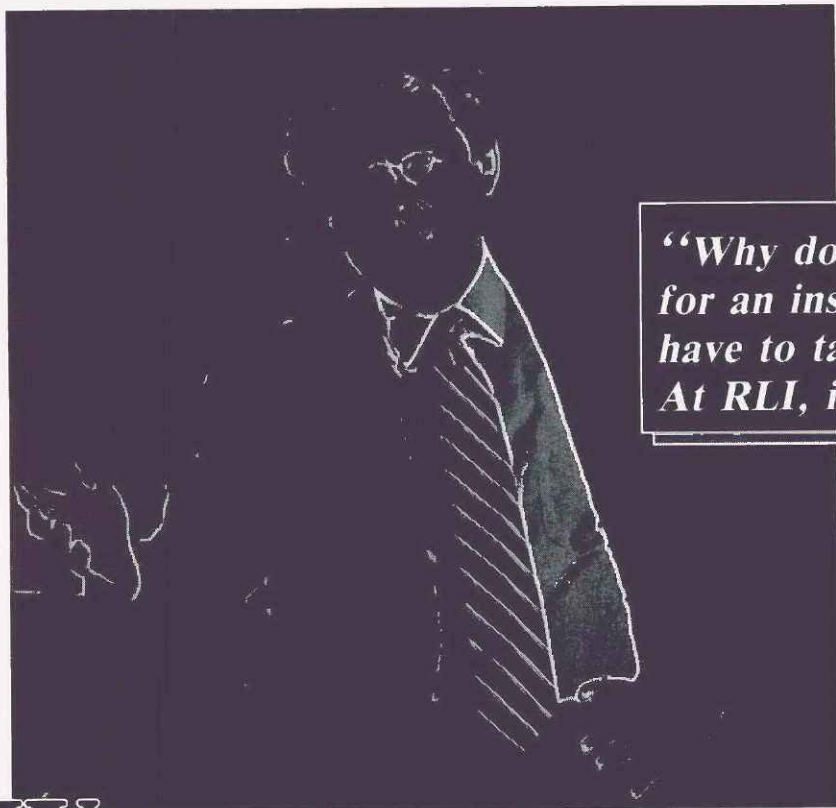
After the trust fund has been established, the ILU next will attempt to become an approved surplus lines underwriter in the United States, he said.

"Companies in the U.S. are looking for surplus lines capacity and they have indicated to us that they would like to use the ILU," Mr. McMahon said.

He is optimistic about receiving regulatory approval since several state insurance commissioners have privately indicated they would be interested if the ILU applied to become an approved surplus lines underwriter, he said.

The 29 states where the ILU already is accepted as an accredited reinsurer are: Alabama, Arizona, Arkansas, Delaware, Florida, Georgia, Idaho, Illinois, Iowa, Louisiana, Maine, Maryland, Minnesota, Mississippi, Missouri, Nebraska, New Hampshire, New Mexico, New York, North Carolina, North Dakota, Ohio, Pennsylvania, South Carolina, Texas, Vermont, Virginia, West Virginia and

Continued on next page



Gerald D. Stephens, CPCU
 President & CEO, RLI Corp.

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Where does this misperception come from? And more importantly, what can we do to change it?

I think the answer to both of these questions boils down to one word: *service*. It's service, or the lack of it, that causes consumers to be disillusioned and it's service that can change that disillusionment into satisfaction.

When I take off my hat as "insurance company president" and put on my "insurance consumer" hat, I'm appalled by what I see. I buy a commercial policy and it takes three or four months to get it. When I get it, my

college education isn't enough for me to wade through the confusing verbiage. It's about time we started doing something about consumers' problems. It's time we started to demonstrate our care and compassion through our service. At RLI, that's just what we're doing. And we begin with fast service. There's no reason policy turnaround should be as high as 90 days. Our underwriters consistently succeed

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LIMNET to streamline market duties

By GAVIN SOUTER

LONDON—The gradual computerization of the London insurance market is picking up steam this year as underwriters and brokers prepare for the full implementation of the London Insurance Market Network next July.

Once the network is fully operational, brokers and underwriters will be able to send messages by computer; risk information will be keyed into the system once by a broker, instead of numerous times by individual underwriters and the Lloyd's Policy Signing Office; and all users will have access to the Reuters news service.

Future developments at Lloyd's of London also will include automated policy production, said

Andy Coppell, head of systems and communications at Lloyd's.

For now, technological advances throughout the market should help London maintain its position in the world insurance market and provide better service, he said.

Although initially wary of the changes, most brokers and underwriters are now eager to reap the financial and communication benefits, Mr. Coppell said. "We have moved out of the situation where we were just telling people about LIMNET; now we are inviting people to come and see for themselves what it can do."

Since July, Lloyd's systems department has explained the network at open meetings with managing agents and software suppliers. And soon underwriters,

'Now we are inviting people to come and see for themselves' what LIMNET can do, says Mr. Coppell.

brokers and software suppliers will be able to visit the Lloyd's Technology Information Centre to see how the network works, he said.

Essentially, LIMNET is an electronic post office that allows brokers to communicate by computer with underwriters in the three market organizations: Lloyd's, the Institute of London Underwriters,

and the London Insurance & Reinsurance Market Assn.

All parties contribute to the joint market initiative on computerization launched last year to help implement the changes.

Already, more than 90% of Lloyd's brokers and syndicates and all ILU and LIRMA companies are connected to LIMNET.

The network aids the market in the placing of risks, Mr. Coppell said. First, it enables a broker to send an underwriter information that will allow him or her to make an underwriting decision on simple business.

Secondly, a broker will be able to send an underwriter information on more complex risks that the underwriter will be able to prior to face-to-face talks with the broker,

he explained. The more complex risks can then be sent to following underwriters through the network, thus avoiding re-entering the information.

"It will help avoid a lot of duplication, and when you consider that on average there are 17 underwriters on each risk placed at Lloyd's, this will save a lot of time and eliminate a lot of the errors that are made when the information is re-keyed by the individual underwriters," Mr. Coppell said.

That data can then be relayed through the system to the Lloyd's Policy Signing Office, again avoiding re-keying at the bureau.

"We are committed to develop this and be ready to test it by January 1992 and to implement in July 1992," he said.

The system will not be compulsory, and few subscribers are expected to make full use of it right away. "The way this market works is that most people will watch to see how the system works for the people who do use it from the beginning and then if everything goes well for the first users of the network, the rest of the market will follow," he said.

A management committee is trying to make the network software compatible with all the computer equipment now used by underwriters, he said.

Subscription fees have not yet been set, though they will vary depending on the desired facilities.

The LIMNET facilities will not bypass brokers, Mr. Coppell stressed. "The London market provides bespoke policies for complex risks so the whole point of LIMNET is to aid communication, not to develop standard coverages," he said. At least for now, LIMNET primarily aims to help place policies, not to produce new policies, he added.

But a computer system being developed by the Lloyd's Policy Signing Office could eventually hasten simple policy production, Mr. Coppell said. Under this process, the broker would submit slip details to the office and policies would then be produced by computer and issued through LIMNET.

"We are currently in the experimental stages in this area, but we should be able to produce something next year," Mr. Coppell said.

The full implementation of LIMNET in 1992 will come eight years after the technology to produce the system first became available, he said. The time lag is largely attributable to the inherent difficulties in obtaining agreement on the system from all of the parties involved, Mr. Coppell said.

"Although the technology has been there since 1983-1984, it is no good having it unless the applications are there as well. To determine these, you have to get agreement from all underwriters and brokers; you have to decide on the system and then get a commitment to build and install it. This is a major undertaking," he said.

A lingering soft market has helped the builders of LIMNET. In the late 1980s, he explained, underwriters began to accept computerization more readily when they realized that they had to become more efficient, Mr. Coppell said. "There is now an acceptance that if London is to remain a major insurance market, it will have to reduce its costs and that LIMNET will help insurers and brokers do this," he said.

The main benefit the system will bring to policyholders will be the speed of processing and the reduction in errors, Mr. Coppell said.

"You should see a general speeding up of the whole placing service," he said. ■

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Lloyd's claims system entering computer age

Totally electronic claims payments may be possible

By STACY SHAPIRO

LONDON—Some day in the not-so-distant future a broker sitting in his Kansas City office may be able to file a claim using his desk-top computer directly to a leading Lloyd's of London underwriter sitting at 1 Lime Street in London.

Currently, such a notification has to be sent to his company's London affiliate. The affiliate then must pass a claim file to a broker, who has to walk over to Lloyd's to see the leading underwriter in person. The broker also has to deliver the claims file to one or two of the three claims offices at Lloyd's.

But, in the future, Lloyd's could be notified of the claim at the push of a button in the Kansas City broker's office.

This type of communication between brokers worldwide and Lloyd's is just one of the ideas for the future that could result from the current restructuring of Lloyd's claims handling systems, according to Michael Smith, manager of the Unified Claims Office at the Corporation of Lloyd's.

For example, U.S. attorneys may be able to input information about claims directly into a Lloyd's electronic data system now being developed by International Business Machines Corp., he said.

And, U.S.-based Lloyd's underwriting agents might be able to pay claims directly to policyholders rather than waiting for their London-based offices to pay claims, Mr. Smith said.

"Anything is possible," he said. For the moment, though, Lloyd's is just moving out of the dark ages of a slow, laborious claims payment process.

About three years ago, the Council of Lloyd's turned its attention to the increasing complaints—particularly from U.S. brokers and policyholders—that the market was slow in paying claims.

Worried about Lloyd's image in North America and the growing dissent from Lloyd's brokers about the cost in time and labor for filing claims, the council set up a committee headed by Sir Peter Miller, a former Lloyd's chairman, to examine how the process could be speeded up.

Mr. Smith, a computer expert,

was brought in with others about three years ago to examine what could be done electronically to speed up the claims process.

Mr. Smith said his audit committee found that Lloyd's could benefit from installing a market-wide computer system to link it with all Lloyd's brokers.

But first, the committee found, Lloyd's would have to "streamline procedures" for filing claims.

To file a claim under the old system, each Lloyd's broker had to see all the Lloyd's underwriters on any

Continued on next page

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Claims handling

Continued from previous page
 one policy to get their approval to pay the claim. That could sometimes total more than 20 syndicates, each with its own waiting line, Mr. Smith explained.

Then the broker had to see at least one of three claims offices: the Lloyd's Underwriters Claims and Recoveries Office, the Lloyd's Underwriters' Non-Marine Claims Office and the Lloyd's Aviation Claims Center.

Sometimes the broker would have to see more than one claim office because the claim crossed the former marine, non-marine and aviation market barriers.

The broker also had to notify the London Policy Signing Office so the claim could eventually be paid by the central accounting office once the claims office administered the claim.

The Council of Lloyd's agreed in a bylaw that these claims procedures should be streamlined. As a result, as of Jan. 1 this year new rules went into effect for filing a claim.

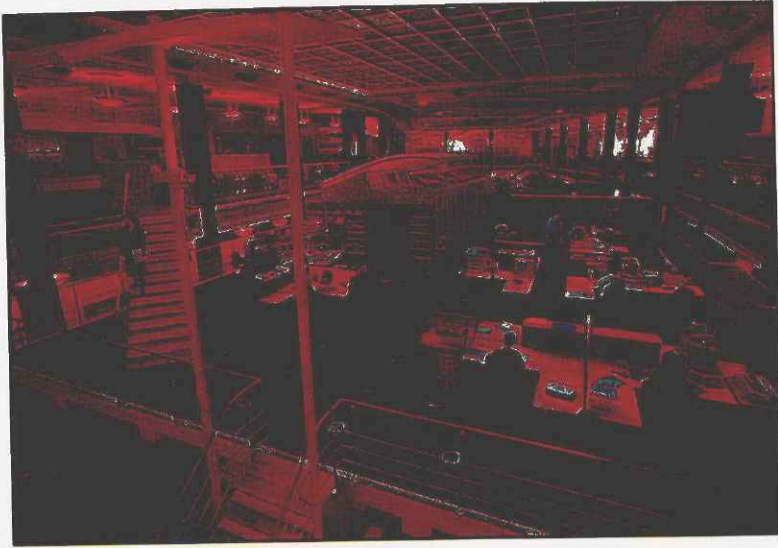
Under the new procedures, the leading underwriter on a policy must approve the payment of each property claim.

For property claims, the leading underwriter can delegate his authority to the claims office.

For liability claims, though, the first three Lloyd's underwriters must approve the claim, and they cannot delegate their authority to the claims office.

Then, the claim must be approved by one of the Lloyd's claims offices that acts on behalf of the following market.

Now, "the broker sees a maximum of four people for liability business or just one person and the



The old underwriting room in Lloyd's 1958 building is now home to its fledgling computerized claims operation.

claims office for other business," Mr. Smith said.

Lloyd's also has streamlined its marine, non-marine and aviation claims offices, which previously have been acting autonomously in different offices and with different procedures.

The three unified claims offices are now located together in a portion of the Lloyd's 1958 building that until 1986 had been the market's underwriting room.

It is expected that the three offices will become a single claims office by the end of the year, Mr. Smith said. "But, for all intents and purposes, the single office already exists."

In the spacious, high-ceiling room about 250 claims personnel work at what looks like stock trading pit-styled desks and computers.

Another 100 workers are ex-

pected to move into the 1958 building when the claims functions of the LPSO move in, Mr. Smith said.

A special "podium" floor has been built in the middle of the former two-floor underwriting room to act as an intermediary floor.

So far, these moves have saved brokers money and about four days in claims processing, according to Mr. Smith.

IBM has finished the design stage for an electronic computer system whereby all underwriters will be able to receive their claims information on their desktop computers rather than on paper. It is hoped the system will be in full operation by 1993, Mr. Smith said.

The next step will be to link Lloyd's brokers into the system via the London Market Claims Message, Mr. Smith said. A working party headed by Duncan Wilkensen, information technology director of Lloyd's underwriting agency Murray Lawrence & Partners, is investigating this move.

When brokers are able to file claims electronically, they may not have to physically walk over to the underwriting box to present some claims, Mr. Smith said.

But claims boxes in the Lloyd's underwriting room will probably still be needed, he said. "No one believes that all claims can be done electronically."

Tennessee OKs work comp hike

NASHVILLE, Tenn.—Workers compensation rates are increasing more than 13% in Tennessee.

A bill recently signed by Gov. Ned McWherter allows insurers to hike rates 13.1% on new and renewed workers comp insurance policies.

Rates on all workers comp policies also can be raised 1.4% to cover higher weekly benefits, which were increased 7.7% to \$294 from \$273.

The rate hike and benefit increase are effective retroactive to July 1.

The Boca Raton, Fla.-based National Council on Compensation Insurance had sought a 24.4% rate hike.

The new law also establishes a new surcharge plan for the state's assigned risk pool.

Employers with experience rating modification factors between 1.11 and 1.15 will incur a 10% surcharge; those with modifiers between 1.16 and 1.20 will incur a 20% surcharge; those with modifiers between 1.21 and 1.25 will incur a 25% surcharge; and those with modifiers of 1.26 or higher will incur a 30% surcharge under the new plan.

Experience modification factors, which were revised last year by the NCCI (*BI*, May 21, 1990), are used by insurers to calculate an individual employer's loss experience.

Formerly, all employers with experience rating modifiers exceeding 1 were assessed a 10% surcharge.

—By Christine Woolsey

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Agent/Broker Topics

A monthly editorial section sent exclusively to agents and brokers

THE MOST PRODUCTIVE AGENCIES

Showtime: Specialty lines are boosting revenues at top-performing agencies

By LAURA MAZZUCA

AFTER YEARS IN THE shadows, specialty lines may be ready to take center stage at top-performing agencies. Long used to smooth out performance in a soft market, specialty lines now are slowly beginning to supplant Main Street property/casualty business at many of these agencies.

Targeting and exploiting specialties is one of the few ways that these agencies have consistently been able to wrest profits out of a soft market.

As in the past two years, the most productive U.S. agents and brokers of 1990 are top-heavy with specialists.

Heading the list is Joseph Held Co. Inc. in New York, which has long specialized in placing property/casualty coverage for condominium owners.

No. 2-ranked The Sklover Organization in Westbury, N.Y., found its niche with travel and credit card insurance.

Other specialties are as varied and esoteric as professional liability insurance, a specialty of No. 4-ranked Wood Insurance Group Inc. in Phoenix, Ariz.; property/casualty coverage for funeral homes, a specialty of No. 7-ranked Cal-Central Insurance & Management Services Inc. in Fresno, Calif.; property/casualty coverage for auto leasing companies, a specialty of No. 11-ranked Paige-Ruane Inc. in Wayne,

Pa. and crop-related coverages, a specialty of No. 13-ranked The Redland Group Inc. in Council Bluffs, Iowa.

Agent/Broker Topics' third annual look at the 20 most productive agencies, as measured by revenue per employee, is based on information submitted by agents and brokers for the 20th annual *Business Insurance* Agent/Broker Profile issue (*BI*, July 1).

Wither Main Street business?

More agency principals this year are reporting that specialties are not only supplementing but often supplanting Main Street property/casualty business, long the backbone of the independent agency system.

Principals have found that specialty lines are not only a hedge against soft markets, but they also offer a competitive edge and are attractive to insurers, which target their own niches.

"I don't know how any broker who doesn't specialize manages to survive," said Richard Sklover, president of The Sklover Organization. The agency, which specializes in travel and credit card coverages, increased revenues per employee

Complete productivity rankings. . .page 74B

9.7% in 1990 to \$188,889 from \$172,222 in 1989.

Gross revenues at the agency also rose 9.7% in 1990 to \$1.7 million from less than \$1.6 million in 1989.

Mr. Sklover attributes those increases to discovering these specialties eight years ago.

And the agency is continuing to find specialties within those specialties. For example, at year-end 1989, Sklover hired a producer to sell tour insurance, marketed through airlines, cruise lines and independent tour operators. For \$50 or \$100, the policies cover the penalties on travelers who cancel planned trips.

Such success—and the continuing softness of property/casualty lines—is enough to make agencies like Sklover consider junking their Main Street property/casualty business to focus solely on specialties.

Sklover still places Main Street property/casualty business, but the portion of its business that is specialty-related is at 60% and climbing, according to Mr. Sklover.

The situation is much the same at Wood Insurance Group Inc., the No. 4-ranked agency.

In Main Street commercial lines, "it's hard to even maintain previous premium levels and keep the companies happy," said President David A. Wood.

So Mr. Wood is turning to professional liability insurance. Wood Insurance Group, established as a Main Street property/casualty agency only five years ago, is now shifting its core business to medical malpractice, lawyers professional liability, and directors and officers liability insurance (see profile, page 74D).

Success in this specialty helped Wood Insurance Group raise its per-employee revenues 22.7% in 1990 to \$164,979 from \$134,758 in 1989. Only one Top-20 agency had a sharper rise in per-employee revenues in 1990. And, Wood Insurance Group reported the greatest increase in gross revenues among the top agencies: Wood's gross revenues jumped 57.8% to \$1.5 million in 1990 from \$941,000 the year before.

Professional liability now comprises about 50% of the agency's business. And, Mr. Wood expects it to become even more important as more "traditional, old-line consumers" like medical clinics, law

firms and large group practices in the region discover its expertise.

Rather than focusing on one or two areas, some agencies develop a variety of

Continued on next page



Photo by Mark Duran

Non-conformity pays off for David A. Wood and Robert Gano at No. 4 Wood Insurance Group Inc. Page 74D



Photo by Peter Barreras

Who says big, sprawling agencies are not highly productive? Not Howard Miller of No. 3 B.R.I. Corp. Page 74E



Photo by Melinda Holden

At No. 16 San Diego Associates Inc., Bruce Kesler and Donald K. Peterson stick to their knitting. Page 74F

Agent/Broker Topics

Personal lines: Do they pay off?

Few of the most productive agencies rely heavily on personal lines for revenues.

Typical is Wood Insurance Group Inc. of Phoenix, which recently sold its personal lines book of business to another agency.

Personal lines was "a big loss leader for me," said David A. Wood, president of the No. 4-ranked agency. Wood only got into personal lines in 1986 at the request of a property/casualty insurer that then decided about a year ago to phase out personal lines altogether. "This is really reflective that some insurance companies don't understand what it means to be in business," he said.

Servicing and selling personal lines was eating into staff time, he added. His commercial clients, many of whom were cross-sold personal lines coverage, are unconcerned about their personal lines coverage being sold by Wood to a personal lines specialist, he said.

One exception to the general lack of interest in personal lines is Frank Crystal & Co. Inc., a New York agency that ranked as the eighth-most productive agency. It boasts that 10% of its gross revenues are attributable to personal lines sales. It is "a productivity profit center for us," said James W. Crystal, chairman and chief executive officer.

—By Laura Mazzuca

Wood thrives by focusing on some unusual risks

Agency attributes success to mix of creativity, business sense

By LAURA MAZZUCA

PHOENIX—Insurance people are often portrayed as buttoned-down conformists more interested in numbers than people.

Fine arts majors are stereotyped, too. Sure, they're creative, visual thinkers, but they also can be a little wacky and unreliable.

David A. Wood combines the best of both worlds. By doing so, he has helped his agency, Wood Insurance Group Inc. of Phoenix, grow

when many others are failing.

"We invent and create our products; we don't just rely on what the insurance companies want, but what the consumer needs are," said Mr. Wood, the agency president.

The creativity Mr. Wood displayed as a fine arts and art education major at the University of Oregon in Eugene is leavened with a hard-nosed approach to business developed as an underwriter at The St. Paul Cos. Inc., where "they trained me in independent think-

ing."

With the help of Executive Vp Robert Gano and a staff of nine, Mr. Wood serves regional and national accounts like medical clinics and large law firms. A small staff, he says, keeps productivity high. In fact, with one of the largest increases in per-employee revenues—22.7% to \$164,797 in 1990—the agency landed the No. 4 spot in the *Agent/Broker Topics* most productive rankings. And its growth in gross revenues—57.8% to \$1.5 million in 1990—easily outstrips the gains at any other Top 20 agency.

Its efficiency, coupled with a 70% account retention rate, means

Contracting For Services

The pressure is on for agents to target commercial accounts. Who are they turning to to handle their personal lines business? Are they using consultants to design perpetuation plans, software systems and help improve their office efficiency? BI editors will look at these issues and whether agents are better off contracting for services or handling things on their own.

Issue: October 7

Ad Closing: September 24

Tapping Surplus Lines Markets and IAA Conference Report

A soft commercial insurance market is shrinking premium volume in the surplus lines business. BI will look at what effects the current market conditions are having on the relationship between retail agents and wholesalers. Are relations still good? And who's courting whom to build volume? Plus, reporting from Honolulu, BI will recap the news from the Independent Insurance Agents of America's annual conference.

Issue: November 4

Ad Closing: October 22

PIA Conference Report

The National Association of Professional Insurance Agents conference is one of the year's most important gatherings of insurance producers. BI editors will report on this year's meeting in San Francisco, providing readers with up-to-the-minute news coming out of the sessions along with information on industry trends, developments and market forecasts.

Issue: December 2

Ad Closing: November 18

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Photo by Mark Duran

Their creativity and flexibility has served Robert Gano and David Wood well in hard times.

the agency isn't hurting for new business. "We just choose to ignore it's a soft market," Mr. Wood said.

Thriving in bad times

Although about half of his business is general commercial property/casualty, Mr. Wood attributes his success to his specialty.

Recessions, ironically, tend to generate growth in professional liability business. With doctors and lawyers more likely to be sued in hard times, they are also more likely to buy coverage, he said.

Wood Insurance doesn't stop with placing simple medical or legal malpractice coverage. Instead, it targets the growing area of independent medical contractors—the "non-physicians" who independently contract with hospitals, clinics and doctors.

These experts are grouped together in "mini-programs" of about 300 professionals, Mr. Wood explained. With the use of such independent contractors growing rapidly, these niches have high national growth potential.

One Wood plan covers auto transfusionists—the trained experts who salvage a surgical patient's blood and clean, rebag and reinfuse it during the surgery.

This procedure is becoming increasingly popular as the fear of AIDS prompts patients to request the use of their own blood over donated blood.

This little-known specialty is expected to grow substantially, said Mr. Wood, whose agency has been working with auto transfusionists for the past five years.

Marketed to trauma centers, hospitals and blood banks, the coverage now generates annual premiums of only \$60,000. If Mr. Wood has anything to say about it, that will soon change. He is promoting

Continued on next page

Agency's gross revenues increased 11.3% in 1990 to \$835,000 from \$750,000 in 1989.

All have a limited life span, which gets even shorter in a soft

market. In fact, some agencies, like No. 4, have gross revenues of \$259,805 in 1989, based on gross revenues of \$8.8 million.

doing so.

In fact, some agencies, like No.

perk. Today, it's a necessity," said President Kenneth S. Held.

Continued from previous page
the coverage and the process itself, even putting together a brochure for hospitals to distribute.

"You can make a professional liability coverage out of anything anyone does," Mr. Wood said.

But medicine may be a natural for Mr. Wood. Since childhood, illnesses like cancer and heart disease in his own family have given Mr. Wood something of an insider's perspective on medicine. "I was raised half the time in a hospital waiting room," he said.

Years later, hired by St. Paul as a raw recruit with an art degree, Mr. Wood wrote a lot of medical professional liability coverage.

After three years at St. Paul, he became a producer in Arizona with his future partner, Mr. Gano, who had more than 20 years' experience in insurance. In less than three years, Mr. Wood struck out on his own, taking Mr. Gano with him to oversee internal operations.

Starting out in 1986 was not easy, and Mr. Wood recalls being more interested in survival than finding niches. Traditional commercial property/casualty business was his staple.

A helping hand for innovators

Before long, he and his partner detected a growing interest in specialized lines of professional liability coverage. Callers would ask if such coverage existed; if it didn't, Wood would try to develop it.

Today, Mr. Gano still handles accounts after Mr. Wood makes the sale—"he's in charge of keeping the promises that I make," Mr. Wood quipped.

Both parties seem satisfied. "It's a high-energy, high-output job," concedes Mr. Wood, and 70-hour work weeks are routine.

Despite stiffer competition from hungry agencies, increased name recognition is helping Wood Insurance land more established clients, Mr. Wood said.

He is also grateful for help from insurers over the years. "Even though the property/casualty market is more stressed than ever, they have been really good to me," especially considering that he has only been in business for five years, Mr. Wood said.

And insurers specializing in professional liability have been "fabulous"—offering flexibility on pricing and coverage, and "creative solutions" to problems.

Regularly placing business with only four multiline insurers and a handful of specialists has actually increased productivity "because my staff doesn't have to figure out what a lot of different insurers are doing," he said.

His quality-rather-than-quantity pitch reportedly goes over well. Especially with solvency concerns growing, "we really sell the quality of our companies," he said. To assuage customer fears—and to protect itself—the agency places business only with top-rated insurers, and also uses outside sources to track insurer finances.

Specialty lines, with a twist

Mr. Wood has big plans.

A new Wood Insurance subsidiary to be unveiled this fall will distribute five specialized products over the next three years, he said.

Few details are available. Mr. Wood says only that the coverages—the first of which is "related to children"—are underwritten by a prominent insurer and will be advertised nationally.

And, as a twist, 50% of the profits from the sale of the coverage will be donated to charities related to the coverage, he added.

While he continues to pursue his interests as a painter, Mr. Wood also hopes to use his artistic background to market coverage for art galleries and stores. ■

B.R.I.: A big fish in a big pond

Cost-cutting, 'departmental' approach keep a large broker lean

By LAURA MAZZUCA

NEW YORK—Call it the Small Agency Rule. They simply do better on the A/BT most productive rankings. Thirteen of the Top 20 agencies have fewer than 55 employees; half have fewer than 40.

One glaring exception is B.R.I. Coverage Corp., which employs 212. Although operated from a single office in Manhattan, the privately held firm is big.

Gross revenues of \$35.2 million last year made it the 20th-largest U.S. broker (BI, July 1). And surging per-employee revenues pushed it up 11 notches to No. 3 in the

A/BT rankings of the most productive U.S. agencies. Revenues per-employee climbed 23.2% to \$166,061 in 1990 from \$134,758 the previous year, which was the largest percentage increase recorded by the survey.

Although commercial retail brokerage generates 85% of its gross revenues, B.R.I. also places wholesale business, reinsurance, group life and health, and also develops specialized risk purchasing group programs for businesses like supermarkets and smaller retail chains.

And its specialties include placing coverage for asbestos abate-

ment, demolition, sanitation removal and furriers. In addition to directly placing these policies, the brokerage acts as a program administrator for original brokers.

Recession-proof tactics

So how does such a sprawling operation remain so productive, especially in a lingering recession and an apparently never-ending soft insurance market?

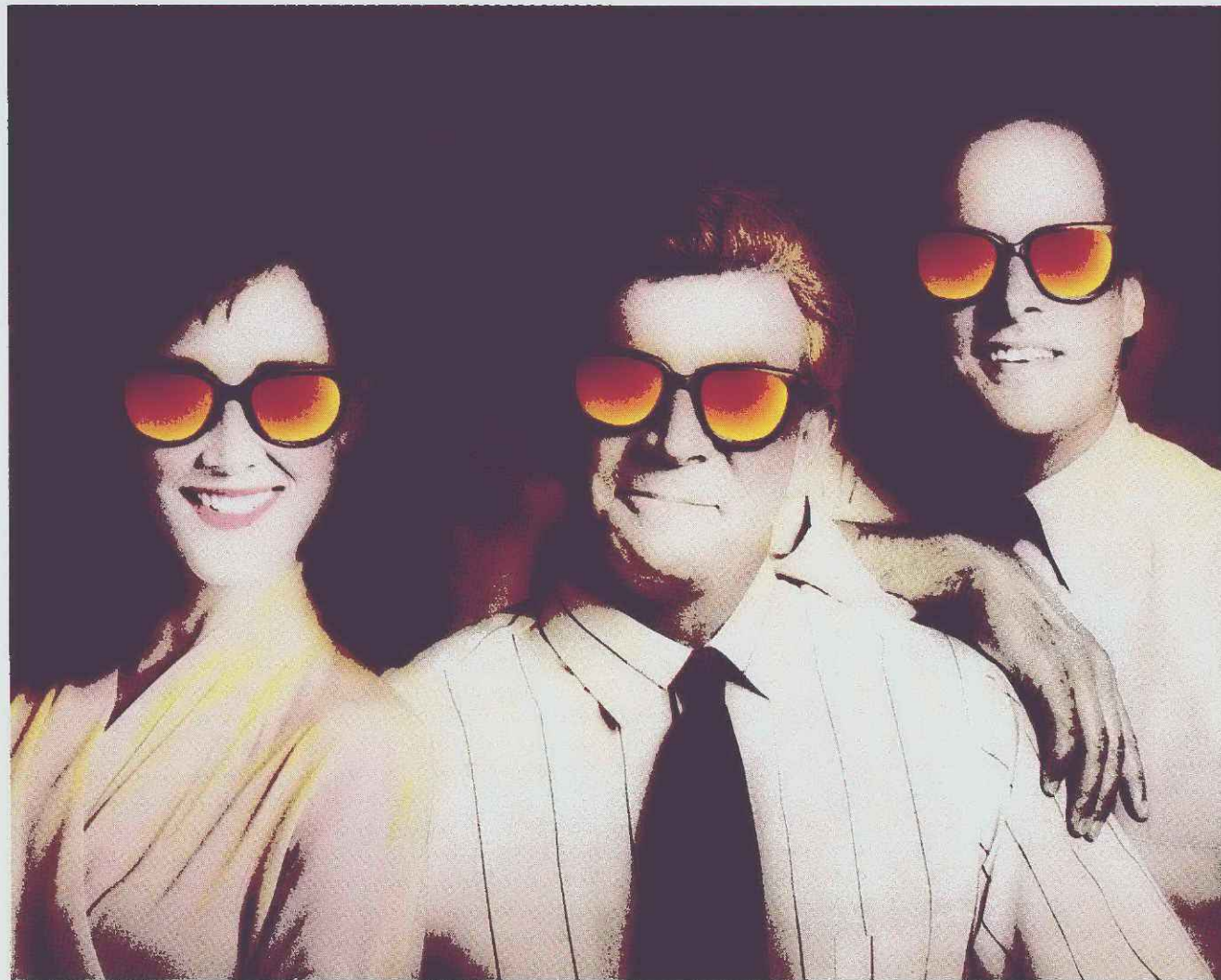
One major reason is its "departmental"
Continued on next page

'Europe is extremely hot,' says Howard Miller of B.R.I.



Photo by Peter Barreras

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B.R.I.

Continued from previous page
 mental approach," said Howard Miller, director of production for the brokerage.

Emulating its alphabet house brethren, B.R.I. divides its operations into six departments: marine; life and employee benefits; underwriting; marketing; production; and "back office" business, including loss control and risk management services.

Each separate department is overseen by a partner, or a manager who is responsible for productiv-

ity. When producers nab an account, they first go to the marketing department, which is in charge of finding the appropriate insurer, Mr. Miller explained. If the client also is a potential purchaser, for

example, of marine or life/employee benefits coverages, it is also channeled to those departments for marketing.

After an insurer is found, the account is turned over to an inside account executive who is responsible for its administration.

However, the original producer continues to maintain relationships with the client, although the account executive handles the day-to-day upkeep of the account, Mr. Miller said.

Dividing up business this way makes it easier to track productiv-

ity. Departmentalized or not, B.R.I. also is doing what everyone else does in a prolonged soft market: belt tightening.

"We are a very strongly managed company at this point," said Mr. Miller, who noted that department heads and principals hold formal monthly meetings in order to keep track of business.

For B.R.I., cost containment in the continually competitive environment started with the employee ranks.

As part of an overall strategy for budgeting, its headcount has fallen 13.1% since 1989, according to Mr. Miller. People who retired or left the company simply were not replaced.

New strategies

New business strategies have long been another key to B.R.I.'s success.

In the early 1970s, Mr. Miller and his partners worked for a private brokerage that was sold and later resold to a public corporation. In 1974, they bought the business and took it private.

Under the new regime, the brokerage began a series of specialties.

It became one of the first brokerages in the country to specialize in asbestos abatement contractors, with coverage written by American International Group Inc. Such specialization is still a major growth area for the brokerage today, Mr. Miller said.

B.R.I. uses three criteria to assess any potential area of specialty: Is there a need for the coverage? Will an insurer write it? Will it be profitable?

With the help of consultants, the

brokerage carefully researches a niche before committing itself to further development. Since B.R.I. already knew about asbestos abatement through its related construction clients, it was a natural, Mr. Miller said.

Not all areas work out so well.

For example, several years ago, B.R.I. saw a need for pollution liability and umbrella coverage for fuel oil delivery firms in the Northeast. The brokerage hired a consultant to research the need for this coverage, and trained producers on both the insurance and technical issues involved in selling it.

But by the time the fuel oil delivery program was fully operational, the insurance market had softened, and umbrella coverage was easy to get. The program flopped and was soon scrapped.

In spite of all that careful planning, "you have to be kind of a fortune teller" to determine what specialty lines will succeed, Mr. Miller noted.

The soft market has also hurt the brokerage's risk purchasing group area, Mr. Miller said. Although this specialty saw a lot of initial growth, easy availability of coverage, coupled with more stringent state requirements, have "taken the bloom off the rose," he noted.

But other areas have picked up at least some of the slack.

Revenues rose about 4% in 1990 for both group life and employee benefits.

And as its major clients—mostly manufacturers and some retailers—expand overseas, the brokerage has seen a spurt of growth in "reverse flow" business.

"Europe is extremely hot, particularly Belgium as an entree to the European Community," Mr. Miller said.

In these cases, the company tries to place most of the coverage in the United States, except for whatever coverages other nations require to be placed locally. To place this, B.R.I. has a cooperative arrangement with Bain Clarkson P.L.C. of London, he explained.

Foreign business accounted for about a quarter of B.R.I.'s gross revenues in 1990, a figure Mr. Miller expects to grow in future years.

San Diego sticks with the business it knows the best

16th-rated agency asks, 'What soft market?'

By LAURA MAZZUCA

SAN DIEGO—Bruce Kesler and David N. Peterson stick to doing what they do best.

For seven years, their regional agency, San Diego Associates Inc., has helped small and mid-sized companies set up and operate employee benefit plans.

Smaller, less experienced agencies cannot handle such customers. And the alphabet houses "take top dollar and assign a rookie" to the smaller accounts, charges Mr. Kesler, who joined the agency as director and joint owner last year.

Regardless of market conditions or the general economy, employee benefits will always be in demand, said Mr. Peterson, who is president:

"plowed back into meeting the business needs of our clients," Mr. Kesler said. "San Diego is not a New York or even Los Angeles high-wage area. People who live here tend to have a more Midwestern work ethic."

Single-minded approach

Both partners share a pragmatic, single-minded approach to their work.

With a background in computers and electronics, Mr. Peterson, a former Mutual of New York Insurance Co. representative, founded San Diego Associates in 1984. His expressed goal was to parlay his skills into an employee benefits specialty.

Six years later, Mr. Kesler signed

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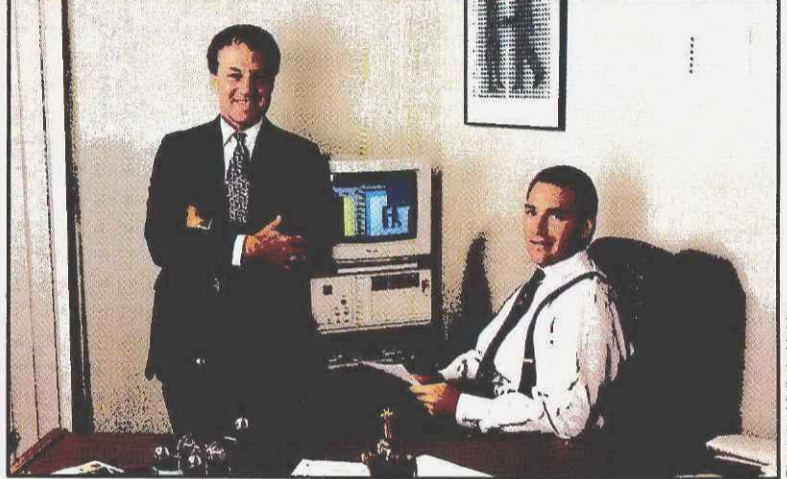
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San Diego Associates Inc.'s Bruce Kesler, director and joint owner (standing), and David N. Peterson, president, focus on one service.

of the agency he founded in 1984. Their single-minded focus on service has paid off with a spot in the 1990 *Agent/Broker Topics* ranking of the most productive agencies. Despite a 7.2% drop in productivity in 1990, San Diego Associates ranked No. 16, with revenues per employee of \$139,167. Its gross revenues were \$835,000.

What soft market?

"For us, there isn't a soft market," said Mr. Kesler. "Companies need to provide worthwhile, cost-effective benefits while containing costs, and they continue to find our type of approach of value."

San Diego Associates, the principals say, is dedicated to help its more than 100 small to mid-sized clients establish and maintain all types of employee benefit plans. Services range from simply reviewing a company's group insurance to custom designing a flexible benefits package.

Over the years "there haven't been any significant increases, and thankfully no decreases," Mr. Kesler said. "There has just been steady progress through paying attention to the details and continually evolving better ways to do things."

That growth proceeded apace, even through a recession that hit many small firms hard, said Mr. Peterson. "Our typical customer is generally in good financial shape and in a position to accept additional risk."

Another factor working in the agency's favor: its frugality.

No large salaries are paid to the six employees. Instead, funds are

After 15 years as a senior executive with several computer and industrial companies, he had founded his own consulting firm in 1987. At a professional meeting last year, he met Mr. Peterson and realized they were compatible "when we were saying the same things to each other."

Today, Mr. Peterson specializes in outside sales, and Mr. Kesler focuses on internal sales and operations. The balance, they say, works well.

In 1990, premium volume rose about 7% to \$16 million from \$15 million at San Diego Associates. Although consulting and pension administration account for about 40% of gross revenues, they "just cover their own expenses," and the lion's share of revenue comes from retail brokerage commissions, Mr. Kesler noted.

The agency boasts of its insurer relations. "Our relationships with the carriers we represent are excellent," Mr. Kesler said.

San Diego's clients, predominantly service and high-tech manufacturing companies, are concentrated in the West and Southwest.

Evolution in employee benefits

Notable changes are afoot in employee benefits at the agency.

Clients today are much more aware of changes in the insurance industry, and many larger clients are turning to self-insurance, Mr. Kesler said. This, in turn, has forced insurers to unbundle pricing for employee benefits and customers to buy with care.

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It takes different (key)strokes

Automation systems today have as little in common as the agents that run them

By LAURA MAZZUCA

Agency automation systems can be as unique as the people that run them.

Some of the most productive agencies have highly specialized, custom-designed programs; others use generic, off-the-shelf software on standard personal computers.

Some develop close ties with one or two insurers through computer linkups; others prefer as little interface as possible.

But whatever their differences, the systems share this in common: When

running right, they are a major contributor to productivity.

"Our automation system enabled us to grow more than any one thing," Richard Sklover, president of the Sklover Organization in Westbury, N.Y., said of the Novell Inc. networking software run on his mainframe system. The Sklover Organization ranked second in an *Agent/Broker Topics* rating of the 20 most productive agencies.

With its nine terminals and customized software for everything except rating (a system from Savage Computers of Avon, Conn., is used

for that), the Sklover automation system allows its employees to computerize complex workers compensation data, publish quotes and brochures, perform bookkeeping and general accounting functions, and print statements, Mr. Sklover said.

His agency specializes in credit card and travel insurance, dealing with more than 3,000 travel agencies nationwide. Having the system prepare monthly reports instead of preparing them by hand saves time and allows the agency to employ fewer staffers.

And, Sklover's system is linked with computers at two of its major insurers, he added.

MLW Services Inc., a New York agency ranked No. 20 by *Agent/Broker Topics*, uses an off-the-shelf soft-

ware system from Agency Management Services Inc. that allows the agency to perform automated rating and standard word processing functions, said Andrew H. Marks, the agency's president and chief executive officer.

Computer link-ups with four of its major insurers help boost productivity, he said.

At fifth-ranked Becher & Carlson with six locations and 102 employees, automation is essential, said Sharon P. Heard, an assistant vp.

A network system to be added this year will connect Becher & Carlson offices in Atlanta, Bermuda, London, Burlington, Vt., with its Woodland Hills, Calif., headquarters. That system will include electronic mail and

Continued on next page

Continued from previous page
creasingly turning to "quality benefits that don't break the bank," like defined contribution plans and "core" coverages that the individual employee can increase by his or her own contributions, Mr. Kesler said.

Interest is also increasing in portable versions of basic coverages like medical, life, disability and dental.

Rather than beating the bushes for new clients, San Diego Associates concentrates on retaining existing clients and generating new business through referrals both from clients and other brokers, according to Mr. Kesler. "It is less expensive to keep a client, regardless of the exertion, than to find a new one."

To retain clients, the agency offers perks like joint meetings among clients on workplace wellness issues, or providing free or relatively low-fee consulting, Mr. Kesler said.

Computer services are another of its offerings.

The agency frequently writes custom administrative software for employers. And it uses Peak I Resources Inc. of Aurora, Colo.'s software to generate for clients the Form 5500 employee benefit plan reports that are required by federal law.

Once the economy improves, the principals say, they would like to expand San Diego Associates to other regions.

But rapid expansion is out of the question. To make his point, Mr. Kesler singles out national brokerage firms that make large, aggressive acquisitions. Those brokerages, he charges, are "getting nothing for their money."

"If the object is to have an empire, then that's a nice way to go, but it's not our life," said Mr. Kesler.

"The most successful businesses stick to their knitting, and that's what we do. There's plenty there," he said. ■

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Mar 4	Feb 19	International Captive & Reinsurance Forum	Bermuda
Apr 29	Apr 16	Risk & Insurance Management Society	New Orleans
May 13	Apr 30	Public Risk Management Association	Atlanta
May 27	May 14	National Association of Insurance Brokers	Sea Island, GA
Jun 10	May 29	National Association of Insurance Commissioners	Indianapolis
Jun 17	Jun 5	National Association of Insurance Women	Grand Rapids, MI
Jun 24	Jun 11	Group Health Association of America/GHI	New York
Jun 24	Jun 11	Human Resource Management/SHRM Conference	Cincinnati
Jul 1	Jun 18	World Insurance Congress	London
Aug 19	Aug 7	American Risk & Insurance Association	San Diego
Sep 2	Aug 20	Monte Carlo Rendez-Vous de Septembre	Monte Carlo
Sep 30	Sep 18	Independent Insurance Agents of America	Honolulu, HI
Oct 7	Sep 24	National Assn. of Casualty & Surety Agents & Executives	Greenbrier, WV
Oct 7	Sep 24	AEA/RIMS	Monte Carlo
Oct 14	Oct 2	Self-Insurance Institute of America	Orlando, FL
Oct 21	Oct 8	Baden-Baden Conference	Baden-Baden, W. Germany
Oct 21	Oct 8	Chartered Property & Casualty Underwriters	New Orleans
Nov 4	Oct 22	National Association of Independent Insurers	New Orleans
Nov 18	Nov 5	National Association of Professional Insurance Agents	San Francisco
Dec 9	Nov 26	National Association of Insurance Commissioners	Houston

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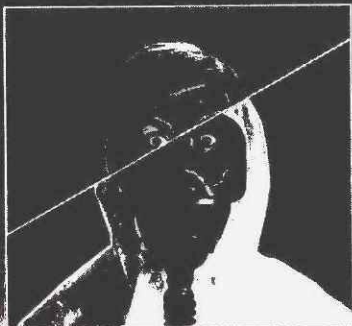
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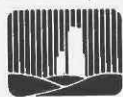
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Automation

Continued from previous page
will minimize paper flow, increase efficiency and speed up servicing, she said.

Upgrades necessary

Having outgrown their original automation systems, several Top 20 agencies are upgrading or replacing them. Upgrading a system costs about \$20,000 on average, principals say. It can be a laborious process. Just comparing various software offerings can eat up hours of valuable time.

Seaman Ross & Wiener Inc., a Syosset, N.Y., agency ranked No. 6, still runs on an original GEMINI system purchased eight years ago through Aetna Life & Casualty Co., said Douglas Schenendorf, secretary.

The system is still fine for accounting functions, he said. But the agency is now using six different computer systems to meet its needs for a single-entry system to produce standard ACORD forms and certificates of insurance. Further complicating things are the system's links to personal lines data bases at Travelers Corp. and Aetna and commercial lines data bases at CIGNA Corp.

The agency is now looking for a system that will incorporate all or most of these functions—but Mr. Schenendorf fears that it may end up with two systems, anyway.

Custom software

To streamline their systems, many agencies hire full-time data processing executives to custom design and maintain software.

One example is Healthcare Insurance Services Inc., which ranked No. 9 on the most productive list. The Houston agency specializes in malpractice coverage for doctors and hospitals.

With its heavy computer workload, Healthcare recently hired a vp of management information systems and is now centralizing its automation system, said William F. Galtney

IIAA makes list of Washington's toughest lobbies

WASHINGTON—The Independent Insurance Agents of America is one of the "10 toughest lobbies" on Capitol Hill, according to Fortune magazine.

In a brief item in the Aug. 26 issue, congressional aides named the IIAA as one of the toughest lobbies in the nation's capital.

That puts IIAA in some heady company. Other special interest groups reportedly cited by congressional aides include long-time powerhouses like the National Rifle Assn., the Tobacco Institute, the American Assn. of Retired Persons and the Assn. of Trial Lawyers of America.

The IIAA, which is based in Alexandria, Va., was the only insurance industry lobby on the list.

This marks the second time in four years that the IIAA has been cited as a powerful lobby. In 1987, the National Journal, a Washington publication specializing in public policy and Congress, also included the IIAA on its list of influential lobbying groups.

Paul A. Equale, senior vp-government affairs, heads the IIAA's government affairs division. Other members of the lobbying staff include Robert A. Rusbuldt, vp-federal affairs; Timothy P. McKone, Washington representative; and Christopher D. Larsen, legislative assistant.

"This is the ultimate complaint for the government affairs staff, because congressional aides, the people we deal with on a daily basis, are the ones who chose IIAA as one of the premier lobbying groups in Washington," Mr. Equale said.

—By Laura Mazzuca

Jr., Healthcare's chairman. The price: about \$250,000.

Because Healthcare needs automation for financial reports, production, claims and so many other functions, it's "a real high priority in our company," Mr. Galtney said. Healthcare is currently trying to integrate all these disparate functions—most on customized software—into a single system. Three previous systems "haven't fit the bill," he added.

Third-ranked B.R.I. Coverage Corp. of New York also uses in-house software designed by its full-time director of management systems. "We're constantly upgrading it," said Howard Miller, director of production.

And Paige-Ruane Inc. in Wayne, Pa., uses a separate customized automation system to produce correspondence and billing for its auto-responding company clients, said Ronald R. Ruane Sr., president of the No. 11-ranked agency.

Since the agency processes claims in-house, the system is indispensable and saves a lot of clerical time and wear and tear on its eight employees, he said. Cost: about \$12,000.

Other top performers have also turned to hybrid systems of customized and standard software.

Frank Crystal & Co. Inc., a New York agency ranked No. 8, uses an agency management system from McCracken Computer Inc. "bastardized to suit our own needs," said James W. Crystal, chairman and chief executive.

The system allows the agency to track management, claims and underwriting information. The efficiency of this "best of both worlds" system is gradually moving Crystal toward its goal of becoming a "fileless office," he added.

Reinventing the wheel

Others, however, don't feel the need to "reinvent the wheel." They prefer to use standard software, upgrading it when necessary.

R.P. O'Brien & Co. Inc. of Rye, N.Y., has been using an AMS system for the past three years and is "looking to juice it up" through upgrades, said Rory P. O'Brien, president of the No. 12-ranked agency.

Cal-Central & Management Services Inc. in Fresno, Calif., was happy with its AGENA Corp. system, but last November upgraded to the AGENA Premier Network

System, said Ronald J. Stewart, president of the No. 7-ranked agency. The cost was about \$28,000.

Coupled with a standard word-processing software package, the system "has definitely enhanced our productivity and will enable us to grow and provide an even more efficient product and service," said Mr. Stewart.

The new AGENA system allows the agency to perform a variety of tasks, like marketing by calling up customer segments by type of business, expiration date and products. Cal-Central does not place for them, he said. And supplemental management reports allow the agency to compare growth to last year's figures for budgeting purposes, he added.

Costly failures

Not all agencies, though, are happy—or even satisfied—with existing automation systems.

Tenth-ranked May-Davis Inc., for example, recently spent about \$40,000 to junk its AGENA batch system for Applied Systems software. The batch system created many entry errors that couldn't be corrected promptly since information was loaded weekly, said William H. Davis, president of the Spokane, Wash., agency. Correcting such errors at times took up to a month.

The new Applied Systems software will allow the agency to automatically compile multi-company, multi-state rating, which was previously done by hand, and create proposals and surveys for marketing purposes, Mr. Davis said. And, when the data base is fully loaded, May-Davis will be able to cross-sell life and other coverages to existing clients as well.

Ironically, Joseph Held Co. Inc. in New York, the agency ranked most productive by *Agent/Broker Topics*, is in the process of getting rid of its Insurmet Inc. system, and will not be replacing it.

The agency uses computers only for word processing and bookkeeping, said Chief Executive Office and President Kenneth S. Held. Because Held places a small number of large premium policies, "computers really don't do too much for me."

Held's large group coverage age accounts are so specialized—with customized payment plans, financing and other variables—that it's simpler to bill them the old-fashioned way, he said. That is, by hand. ■



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Business Insurance

Little light at end of tunnel

Reinsurers see only isolated signs of market turn

By CHRISTINE WOOLSEY

Leading worldwide reinsurers aren't getting much relief from the soft market conditions and abundant capacity plaguing the global insurance marketplace, despite record catastrophe losses recorded by some reinsurers.

The global reinsurance market remains highly competitive and over-capitalized, reinsurance executives say.

Some, however, note that capacity is shrinking for property catastrophe and retrocession covers, which may help push up rates in 1992.

"In many classes of business worldwide there is more capacity available than required and high competition," noted Gunter Maenner, chief accountant at Frankona Reinsurance Co. of Munich, Germany. Frankona moved up two notches to No. 13 in the third annual *Business Insurance* reinsurer ranking, reporting 1990 net premiums written of \$953.5 million.

"With the exception of catastrophic capacity showing a shortage worldwide, the reinsurance market is soft in the United States and in continental Europe," agreed Francois Negrier, president of Societe Commerciale de Reassurance in Paris, the world's eighth-largest reinsurer with \$1.64 billion in 1990 net premiums written.

John Engestrom, chief operating officer of reinsurance for Skandia International Insurance Corp., said the U.S. market had reached the "bottom of the trough, hopefully." And, he noted, the European market is "soft everywhere except ca-

tastrophe and catastrophe retrocession," with casualty coverages particularly soft.

Stockholm, Sweden-based Skandia Group Ltd., the parent of Skandia International, is the 10th-largest reinsurer, reporting 1990 net reinsurance premiums of \$1.35 billion. Skandia's reinsurance premiums were overstated last year.

Also noting a surplus of capacity, except for property catastrophe risks, Robert C. Wood, the senior vp and chief operating officer at Winterthur Reinsurance Corp. of America, observed: "With fewer reinsurance premium dollars being ceded and excess reinsurance capacity available, reinsurers are in no position to raise prices on most lines of business."

Winterthur Reinsurance Corp. of America is a unit of Winterthur Swiss Insurance Co. of Winterthur, Switzerland. Winterthur, the 15th-largest reinsurer with \$854.4 million in net reinsurance premiums written, participated in the *Business Insurance* survey for the first time this year. Last year, Winterthur would have ranked No. 17.

Losses from natural disasters have taken their toll on some leading reinsurers, the *Business Insurance* survey found. In particular, European reinsurers say they are feeling the financial pains caused by a series of eight winter storms and one flood that hit Europe between Jan. 25 and March 1, 1990 (*BI* Feb. 12, 1990; Jan. 29, 1990).

"Taken together, the winter storms in the first few months of 1990 constitute—in relation to premium income—our company's second-largest claims burden ever,

being surpassed only by the 1906 San Francisco earthquake, says Munich Reinsurance Co.'s 1989/90 annual report. However, the report notes, "the actual economic losses were much higher than the insured losses."

The Munich-based company remained the world's largest reinsurer, with \$7.35 billion in 1990 net reinsurance premiums written.

Other European reinsurers commented on natural catastrophes in reporting their 1990 results.

fect their commitment adequately."

Most global reinsurers agreed that catastrophe and property retrocessional covers are hardening a bit.

"Only the catastrophe retrocession market is tight and capacity there has shrunk dramatically," said James Dowd, chairman and chief executive officer at Skandia America Reinsurance Corp. of New York, also a unit of Skandia Group.

operations at Prudential Reinsurance Co. in Philadelphia. "The industry could've absorbed the natural catastrophes if it were in better health."

Pru Re moved up a notch to No. 18 this year based on 1990 net reinsurance premiums written of \$600.8 million.

Mr. Clark said another factor behind tightening catastrophe and property retrocessional covers is "the collapse of the LMX market in London."

"Accounting practices of so many of the players in the LMX marketplace have been a major contributor" to the lack of capacity, Mr. Clark said. "These practices allowed players not to recognize the full impact of losses when they happened—namely incurred-but-not-reported losses." As a result, "operations seemed profitable when they weren't and rates were erroneously seen as having adequate profit margins," he said.

"The pervasive influence of the London market in the reinsurance business has been so strong that other players were forced to choose between losing their clients or following these unprofitable terms while waiting for rationality to return. A lot of surplus has been lost; a lot more, I suspect, than has yet been accounted for," Mr. Clark said.

However, he noted, "the big news is that the shrinkage of capacity and the retrocessional problems still do not seem to be affecting the proportional covers of the property facultative business."

Mr. Wood of Winterthur Reinsurance Corp. said

'The big news is that the shrinkage of capacity and the retrocessional problems still do not seem to be affecting the proportional covers, or the property facultative business,' says Dewey Clark, a senior vp at Prudential Re.

"The industry has been seriously affected by windstorm losses with the consequence of premiums for catastrophe layers increasing steeply and underwriting becoming slightly more technical," said Ernesto Jutzi, deputy general manager at Swiss Reinsurance Co. of Zurich, a Swiss Re Group unit.

Swiss Re retained its No. 2 ranking, based on 1990 net reinsurance premiums written of \$4.82 billion.

Mr. Jutzi warned that "total available capacity is insufficient to satisfy needs since new estimates... seem to indicate that exposures to natural perils are higher than previously assumed. Reinsurers depending largely on retrocession will find it difficult to pro-

"There has been some hardening in the marine, aviation and property catastrophe covers and a significant hardening and capacity shrinkage for retrocessional catastrophe programs," noted Michael W. Fedyna, vp of finance and planning at CIGNA Reinsurance Corp. in Philadelphia.

CIGNA Reinsurance fell two spots to No. 16 in this year's rankings, reporting 1990 net written reinsurance premiums of \$840.2 million.

"Property catastrophe protection will continue to lack capacity," in part due to the huge losses insurers and reinsurers have experienced since 1988, said Dewey Clark, senior vp in charge of international

World's largest reinsurers

All amounts in thousands of dollars. Ranked by net reinsurance premiums written.

Rank	Company	Net reinsurance premiums written 1990	Net reinsurance premiums written 1989	Net reinsurance premiums earned 1990	Net reinsurance premiums earned 1989	Policyholders' surplus (reinsurers only) 1990	Losses & loss adjustment expenses 1990	Loss ratio 1990	Underwriting expenses 1990	Expense ratio 1990	Combined ratio 1990	Combined ratio 1989
1	Munich Reinsurance Co. ¹	\$7,345,883	\$6,475,596	\$7,282,972	\$6,485,171	\$1,647,415	\$5,669,684	77.8%	\$2,257,196	30.7%	108.5%	106.2%
2	Swiss Re Group ²	4,823,543	4,193,802	4,762,584	4,254,408	1,814,503	3,572,587	75.0	1,249,660	25.9	100.9	99.6
	North American Reinsurance Corp.	676,100	630,100	682,200	599,100	568,000	505,000	74.0	234,800	34.7	108.7	116.9
	Bavarian Reinsurance Co. ²	593,822	542,630	585,823	551,167	201,467	404,237	69.0	168,243	28.3	97.3	99.9
	European General Reinsurance Co. ²	560,858	524,386	553,097	540,017	57,376	450,145	81.4	162,002	28.9	110.3	111.4
	Union RE	370,017	351,033	376,059	313,290	106,863	316,900	84.3	127,968	34.6	118.9	109.1
3	Employers Reinsurance Corp.	2,638,823	2,254,667	2,638,999	2,257,314	1,650,376	1,709,453	80.7 ³	1,400,583	25.8 ³	106.5	106.1
4	Assicurazioni Generali S.p.A.	2,226,873	1,704,549	2,209,147	1,667,305	4,634,779	1,488,585	67.4	615,952	27.7	95.1	97.5
5	General Reinsurance Co. ⁴	2,174,800	1,905,900	2,020,700	1,803,100	2,901,500	1,378,900	68.2	635,700	29.2	97.4	98.0
6	Cologne Reinsurance Co.	1,856,572 ⁵	1,436,903	1,836,150	1,422,530	251,663	1,852,858	100.9	493,356	26.6	127.5	94.2
7	Hannover/Eisen & Stahl Reinsurance Co.	1,683,308	1,285,155	1,515,405	1,164,132	541,396	1,154,739	76.2	417,614	27.0	103.2	108.6
	Hannover Reinsurance Co.	959,347	711,426	936,892	699,892	373,764	683,407	72.9	276,338	28.8	101.7	111.0
	Eisen & Stahl Reinsurance Co.	587,205	469,323	578,514	464,240	179,504	471,332	81.5	141,635	24.1	105.6	105.0
8	Societe Commerciale De Reassurance	1,642,209	1,031,503	1,582,682	1,209,104	867,371	1,232,787	77.9	529,853	32.3	110.2	119.7
	SCOR U.S. Corp. and subsidiaries	179,409	180,116	176,640	178,542	207,598	116,551	66.0	65,549	36.5	102.5	108.1
9	Mercantile & General Reinsurance Co. P.L.C.	1,373,074	1,053,458	NA	NA	309,043	1,302,408	94.9 ⁶	424,573	30.9	125.8	127.9
10	Skandia Group Ltd.	1,347,695	921,984	1,201,916	849,116	1,182,683	975,424	81.2	448,259	33.3	114.5	113.1
	Skandia American Reinsurance Corp.	414,126	262,162	391,205	264,463	311,610	314,169	80.3	123,601	29.8	110.1	114.4
11	Gerling-Konzern Globale Reinsurance Group ⁷	1,177,834	949,538	1,152,493	925,584	316,018	772,289	67.0	366,506	31.1	98.1	96.1
12	Tokio Marine & Fire Insurance Co. Ltd. ⁸	954,258	774,457	NA	NA	16,866,855 ⁹	NA	NA	NA	NA	NA	NA
13	Frankona Reinsurance Co.	953,484	774,985	888,366	739,185	141,816	560,260	63.1	258,249	27.1	90.2	90.7
14	American Re-Insurance Co.	921,474	908,212	871,008	912,599	691,280	621,244	71.3	307,065	33.3	104.6	104.5
15	Winterthur Swiss Insurance Co.	854,429	692,598	NA	NA	NA	NA	NA	NA	NA	NA	NA
	Winterthur Reinsurance Corp. of America	172,727	100,096	139,920	100,678	156,311	98,989	70.7	59,894	34.7	105.4	115.6
16	CIGNA Reinsurance Operations	840,173	745,763	832,618	740,238	586,896	733,433	88.1	235,276	28.3	116.4	115.1
17	The Yasuda Fire & Marine Insurance Co. Ltd. ^{1,8}	614,066	575,384	NA	NA	1,470,667	NA	NA	NA	NA	NA	NA
18	Prudential Reinsurance Co.	600,814	549,296	542,292	542,438	508,956	512,022	89.5	218,497	36.4	125.9	112.0
19	Netherlands Reinsurance Group	580,272	446,011	566,463	443,809	188,980	454,299	80.2	166,742	28.7	108.9	117.8
20	The Toa Fire & Marine Reinsurance Co. Ltd. ^{1,10}	515,730	573,878	NA	NA	124,872	312,333	60.6 ⁶	188,088	36.5	97.1	90.3
	Totals	35,125,314	29,253,639	29,933,795	25,416,033	36,697,069	24,303,305	81.2	10,213,169	29.1	110.3	105.7

All figures converted to U.S. dollars at fiscal year-end exchange rates. Unless otherwise noted, fiscal years ending Dec. 31, 1990; Dec. 31, 1989.

¹ Not consolidated. ² Fiscal years ending December 31, 1989; December 31, 1988. ³ Ratios related to property/casualty business only. ⁴ Net premiums written represent worldwide reinsurance; all other figures related to domestic reinsurance. ⁵ Estimate. ⁶ Losses incurred to premiums written. ⁷ Fiscal years ending June 30, 1990; June 30, 1989. ⁸ Fiscal years ending March 31, 1991; March 31, 1990. ⁹ Parent company capital and surplus. ¹⁰ Fiscal years ending March 31, 1990; March 31, 1989.

Source: BI survey

GRAPHIC BY HOLLY SEGUINE

Reinsurers

Continued from previous page

Insurance Corp. of America noted that the "turmoil in the London market" leading to reduced catastrophe capacity has "provided one of the few opportunities in 1991 for reinsurers to raise prices."

Primary insurance rates have not increased, however, reinsurance executives note.

"Even the major losses recorded in 1990" from the European storms "and previous years do not seem to have brought about adequate counteraction as far as primary rates are concerned," said Franco Lolini, manager at Unione Italiana di Riassicurazione S.p.A. of Rome, Italy.

Unione Italiana fell short of the Top 20 ranking, reporting 1990 net reinsurance premiums written of \$462.7 million.

CIGNA's Mr. Fedyna agreed: "1991 renewals indicated that

standard lines property contracts were renewed at rates level with the prior year. There did not appear to be any significant movement on rates for the July 1 renewal period."

However, one reinsurance executive disagreed that catastrophe capacity is shrinking. "The global marketplace is difficult to categorize simply," noted Mahmoud Abdallah, senior vp at American Reinsurance Co. of Princeton, N.J.



Mr. Abdallah

"Events of the past two or so years," including "catastrophe losses, market liberalizations intensive merger and acquisition activity, 'old year' and other problems at Lloyd's contribute to a general level of uncertainty," he

explained

Mr. Abdallah said, "catastrophe market capacity has been significantly unchanged," though he did note "some price firming showing up in the marine market."

American Re dropped two notches in the *Business Insurance* ranking to No. 14, reporting \$921.5 million in 1990 net premiums written.

Reinsurance executives' assessments of the current marketplace varied in intensity, but most were negative.

"With the exception of a few isolated niches, the global reinsurance marketplace continues its prolonged decline," noted Theodor Dielmann, executive vp of Hannover Reinsurance Co.

Combined, Hannover Re and Eisen & Stahl Reinsurance Co., whose ownership is identical although they operate as separate companies, rank as the world's seventh-largest reinsurance organi-

zation. The Hannover, Germany-based concern, which is celebrating its 25th anniversary this year, reported 1990 net written premiums of \$1.68 billion.

"As was to be expected, the reinsurance market worldwide was marked by vigorous competition throughout 1991 and in particular by a merciless struggle for market share," noted Erich Herrgen, a board member of Bavarian Reinsurance Co., a Munich-based unit of Swiss Re. There is "no sign of any recovery of the apparently bottomless premium rates, with the exception of catastrophe covers and a unique phenomenon in Italy where a reinsurance company reported a bottom-line loss, quite possibly as a signal to the direct insurers and shareholders that it is time to mark up direct business," Mr. Herrgen said.

John Lock, managing director of Mercantile & General Reinsurance Co. P.L.C., described the market as

"battered, but showing signs of recuperation." The London-based reinsurer ranks No. 9 based on \$1.37 billion in 1990 net reinsurance premiums written.

Most executives predict that catastrophe and retrocessional rates will continue to harden in 1992.

Mr. Lolini of Unione Italiana predicts a "tightening of capacity in some sectors of the reinsurance market," particularly retrocessional programs, LMX and general energy risks. That tightening will "become even more dramatic at the end of 1991 and produce some effects at the primary level in the second part of the year," Mr. Lolini predicted.

Fedor Nierhaus, a board member of Munich Re, agreed there will be "a further tightening of terms and conditions" in 1992.

Mr. Engstrom of Skandia International predicted the U.S. market will turn by the end of 1992. In Europe, there will be "further hardening and capacity shrinkage for catastrophe and retrocessional risks," he said, noting that prices for property risks will increase but



Mr. Engstrom



Mr. Taylor

casualty prices will remain "flat."

"There will be a growing consolidation and rationalization of the market in 1991 and 1992 with further tightening of retrocessional capacity helping to bring about improved rates at the primary level in 1992 and 1993," offered W. Mick Taylor, senior vp at Employers Reinsurance Corp. in Overland Park, Kan.

Employers Re moved up a notch to No. 3 with combined 1990 property/casualty and life/health net reinsurance premiums of about \$2.64 billion.

While Employers Re's net premium volume exceeds that of General Reinsurance Co., General Re is the larger property/casualty reinsurer. Stamford, Conn.-based General Re reported nearly \$2.2 billion in 1990 net written premiums, most of which is property/casualty reinsurance.

Mercantile & General's Mr. Lock also predicted a "continued shortening of retrocession capacity" and "some hardening of reinsurance pricing" in 1992.

Franz Schmitz, board member of Aachen Reinsurance Co. in Aachen, Germany, which fell short of the Top 20 reinsurer rankings, said, "The fact that bad underwriting losses of recent years were not exclusively caused by 'unusual' catastrophes must lead to improved underwriting in direct markets."

However, Mr. Dielmann of Hannover Re disagreed. "We expect the soft market to continue. In our view, there is no global upturn in sight."

"Despite the poor results... capacities will not be wound down across the board," said Mr. Herrgen of Bavarian Re. "Only in windstorm has a certain reduction in capacities become noticeable, depending on the level of commitment and scale of retrocession," he said.

In general, "the higher a reinsurer's windstorm commitments in 1990 relative to its other catastrophe commitments and the higher the retroceded share, the greater, as a rule, the reduction in its capacity for 1992," Mr. Herrgen explained.

"In this context, a peculiar focusing and eclipsing effect can be

Continued on next page

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Continued from previous page observed," he said. "Just as a rabbit stares hypnotized at a snake and fails to recognize the much greater threat from the eagle, so too are insurance company (managers)—and, under their influence, often the boards—blinded by the windstorm figures and fail to realize that it was not just the windstorms that caused the disastrous results of 1990. Of course, the advantage of focusing on windstorm is that storms as an act of God can not be so easily blamed on the (manager)."

Others agree.

Richard Woltereck, chairman of Gerling Reinsurance Group in Cologne, Germany, said "contradictory elements will continue to cast their shadows over the reinsurance market."

For example, Mr. Woltereck said, "major European reinsurers will require substantial flow of premium to finance necessary reserves for the long-tail business of the past. European reinsurers will be required to participate in U.S. social costs involving asbestos, the environment, and the savings and loan industry. Premium levels will, nevertheless, be under constant pressure due to market share competition."

In addition, he said, "European reinsurers will have second thoughts about the single European market. Although industrial business has been liberalized in major European markets since July 1990, the single European market will be longer in coming for insurers than for other service sectors. The 1992 E.C. initiative will, nevertheless, accelerate the trend toward globalization." But, he noted, "home market competition is heating up among insurers more than international competition."

With 1990 net reinsurance premiums written of about \$1.8 billion, Gerling is No. 11 in the reinsurer rankings.

Reinsurers are looking for new ways to cope with the generally highly competitive environment and the decreasing amount of catastrophe protections.

Reinsurers "will increasingly emphasize advisory and consulting services," Gerling's Mr. Woltereck said. "Major reinsurers will increase international consulting functions in areas such as PML calculation and cumulative loss protections—both on a national and international basis," he said.

American Re's Mr. Abdallah said more reinsurers may seek "financial or funding alternatives to insulate themselves against the inherent uncertainty of the catastrophe capacity. There will be more emphasis to control worldwide aggregate exposures."

In addition, Mr. Abdallah predicts "firmer pricing at the primary reinsurance level for catastrophe business" and "stepped up interest by U.S. legislators in the solvency of reinsurers and the activities in the United States of alien reinsurers."

"With primary market conditions remaining soft, many insurers are looking for ways to strengthen their balance sheets. As a result, there is rising interest in surplus relief and other forms of financial and/or finite risk reinsurance designed to improve insurers' capital and surplus position," said CIGNA's Mr. Fedyna. "Those reinsurers with a substantial capital base and expertise to provide these types of programs could benefit from the increased demand."

Mr. Wood of Winterthur Reinsurance Corp. of America commented that: "There will be a continuing movement by ceding companies to reinsurers with impeccable financial credentials due to the financial problems of some major U.S. life and property/casualty companies which made headlines this year."

Ranking world's reinsurers proves difficult

Ranking the world's largest reinsurers is a balancing act.

Although *Business Insurance* requested financial information on consolidated worldwide reinsurance underwriting, not all companies report such information.

Munich Reinsurance Co., for example, does not release such information, nor does The Toa Fire & Marine Insurance Co. As a result, their net premiums are understated. For example, Munich Re's total is missing \$269 million in premiums written retained by Munich American Reinsurance Co. in New York, which is why MARC does not appear in the chart on page 75 while major reinsurance subsidiaries of other reinsurers are noted.

In addition, while *Business Insurance* sought the most recent financial information, some data is as old as the fiscal year ended Dec. 31, 1989. That was the most recent information available from Bavarian Reinsurance Co. and European General Reinsurance Co.,

both units of Swiss Re Group.

Companies also use various fiscal years: U.S. and several European reinsurers use calendar years, while some German reinsurers use June 30 as the end of their fiscal years and the Japanese use March 31.

Fluctuating exchange rates can create further confusion. *BI* used the rates prevailing as of the balance sheet dates for each of the reinsurers to convert their results to U.S. dollars. Using different exchange rates—like those from the same day for each reinsurer—would alter the rankings somewhat.

The world's largest reinsurers are ranked based on 1990 net reinsurance premiums written—both property/casualty and life/health. Only reinsurers that are primarily property/casualty and write at least \$300 million in net reinsurance are ranked.

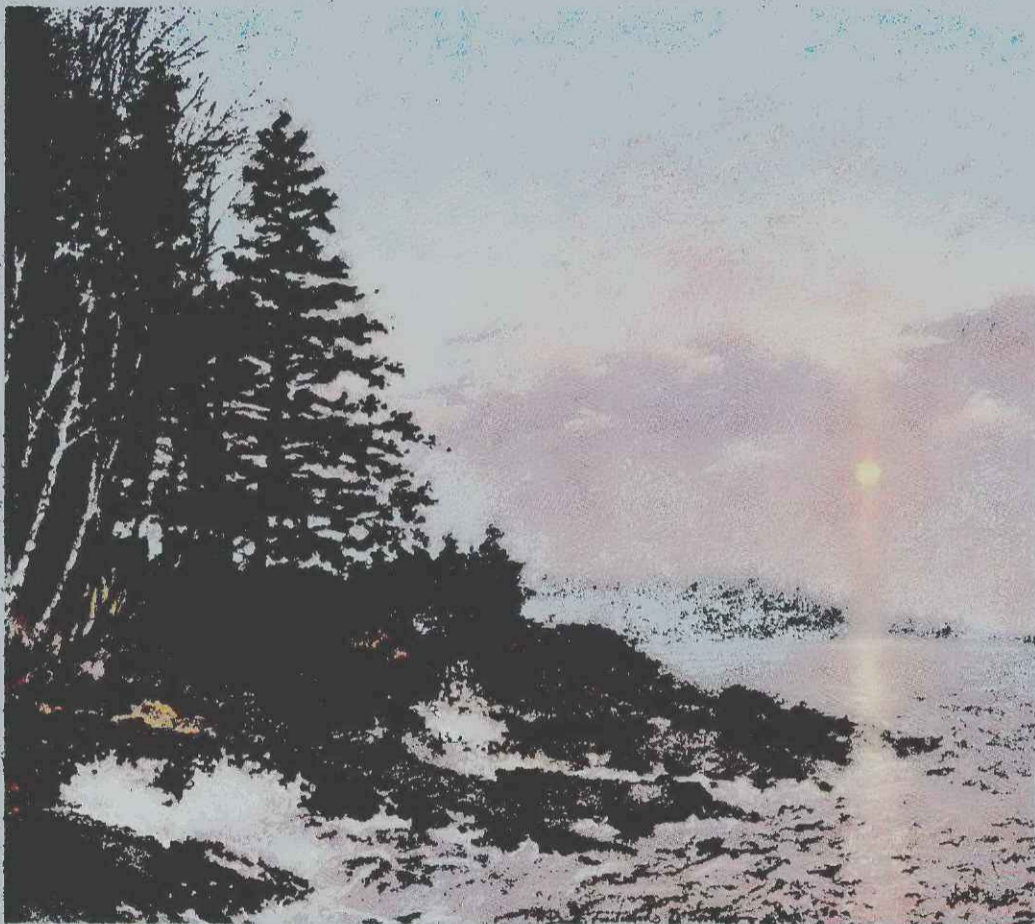
Financial reinsurer Centre Reinsurance Co. of Bermuda is not included in the ranking because it accounts for premiums paid for re-

insurance to cover prior underwriting years on its balance sheet and not as premiums written. Centre Re's total reinsurance volume of \$617 million—including \$166.2 million in premiums earned on prospective policies—would rank it as the 18th-largest reinsurer (*BI*, April 29).

Finally, reinsurers around the world value their assets differently, so a comparison of reported policyholder surplus among the reinsurers is deceiving. The Germans, for example, value their assets at the lower of cost or market value at the balance sheet date, creating hidden reserves. And, one Japanese reinsurer—Tokio Marine & Fire Insurance Co. Ltd.—reports the capital and surplus of its parent company.

Acknowledging the inherent distortions in comparing companies from around the world, *Business Insurance* presents its ranking of the world's 20 largest reinsurance companies as the most comprehensive effort to date. ■

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A

Aachen Reinsurance Co.

Schloss-Rahe-Strasse 15, D-5100, Aachen, Germany; 49-241-830; fax: 49-241-186-205

	1990*	1989*
Premiums written	\$371,567,534	\$344,084,685
Treaty	95.8%	95.3%
Facultative	4.2%	4.4%
Domestic	56.1%	59.7%
Foreign	43.9%	40.3%
Premiums earned	\$362,186,926	\$339,484,277
Capital & surplus	\$84,891,343	\$77,891,789
Losses	\$247,055,195	\$229,924,406
Loss ratio	68.2%	67.7%
Expenses	\$109,503,107	\$100,998,568
Expense ratio	29.5%	29.4%
Combined ratio	97.7%	97.1%

* Fiscal years ended Dec. 31, 1989, and Dec. 31, 1988.

Founded: 1853.
Parent company: AMB Aachener

& Münchener Beteiligungs-A.G.
Subsidiaries: LURECC S.A., Luxembourg; Irish European Reinsurance Co., Dublin.

Employees: 153.
Locations: One domestic, four foreign.

Principal officers: Dr. Arno Moranz, chairman; Dr. Harry Hauptmann; Franz Schmitz, Herman von Treskow, management board members.

Contact: Dr. Christian Netzel (life); Walter Copping, Michael Kraus (non-life).

Abeille Re

52 rue de La Victoire, 75009 Paris, France; 331-42-80-7575
fax: 331-42-65-1932

	1990	1989
Premiums written	\$363,750,985	\$366,910,052
Treaty	96.9%	96.8%
Facultative	3.1%	3.2%
Domestic	35.5%	21.3%
Foreign	64.5%	78.8%

	1990	1989
Premiums earned	\$343,503,665	\$365,432,520
Capital & surplus	\$211,676,852	\$185,239,968
Losses	\$263,515,601	\$311,740,685
Loss ratio	76.7%	85.2%
Expenses	\$123,237,037	\$102,959,038
Expense ratio	33.9%	27.8%
Combined ratio	110.6%	113.0%

Founded: 1976.

Parent company: Compagnie Financière du Groupe Victoire and Abeille Assurances.

Employees: 119.

Locations: One domestic, three foreign.

Principal officers: Michel Larparra, Gerard Oberty, Francois Vilnet, Claude Porret, Jacques Dard.

Contact: Jorgen K. Jensen, Senior Vp, 1 Exchange Plaza, New York, N.Y. 10006; 212-809-7100.

American Re-Insurance Co.

555 College Road E., Princeton, N.J. 08543; 609-243-4200; fax: 609-243-4257

	1990	1989
Premiums written	\$921,474,231	\$908,211,829
Treaty	61%	54%
Facultative	39%	43%
Domestic	85.3%	87.3%
Foreign	14.7%	12.7%
Premiums earned	\$871,008,161	\$912,599,550
Capital & surplus	\$691,280,353	\$649,493,456
Losses	\$621,244,465	\$682,144,441
Loss ratio	71.3%	74.7%
Expenses	\$307,064,920	\$270,401,831
Expense ratio	33.3%	29.5%
Combined ratio	104.6%	104.5%

Founded: 1917.

Parent company: Aetna Life & Casualty Co.

Subsidiaries: American Re-Insurance Co. (U.K.) Ltd., American Re-Insurance Co. (Chile) S.A.

Employees: 1,194.

Locations: 12 domestic, 12 foreign.

Principal officers: Edward B. Jobe, president/chief executive officer; Paul H. Inderbitzin, executive vp; James R. Fisher, senior vp/controller; Michael A. Jones and Edward

J. Noonan, senior vps.
Contact: Victor M. Giuffre, vp, 609-243-4280.

Assicurazioni Generali S.p.A.

Piazza Duca Degli Abruzzi 2-34132, Trieste, Italy; 39-40-6711; fax: 39-40-671600

	1990	1989
Premiums written	\$2.23 billion	\$1.71 billion
Treaty	98.3%	97.5%
Facultative	1.7%	2.5%
Domestic	22.1%	23.9%
Foreign	77.9%	76.1%
Premiums earned	\$2.21 billion	\$1.67 billion
Capital & surplus	\$4.64 billion	\$3.88 billion
Losses	\$1.49 billion	\$1.12 billion
Loss ratio	67.4%	67.3%
Expenses	\$615,952,412	\$514,089,962
Expense ratio	27.7%	30.2%
Combined ratio	95.1%	97.5%

Founded: 1831.

Subsidiaries: La Concorde (Paris), Business Men's Assurance Co. of America (Kansas City), Union Suisse (Geneva), Erste Allgemeine Generali (Vienna), Generali Rueckversicherung (Vienna).

Employees: 28,800 (total).

Locations: 10 domestic, 48 foreign.

Principal officers: Eugenio Coppola di Canzano, chairman; Fabio Fegitz, managing director; Umberto Della Casa, Camillo Giussani, Gianfranco Gutty and Amato Luigi Molinari, general managers.

Contact: Dr. Giorgio Balzer, 212-602-7600.

B

Bavarian Re

Sederanger 4-6, 8000 Munich 22, Germany, 49-89-3844-0; fax: 49-89-3844-279

	1990*	1989*
Premiums written	\$593,882,275	\$542,630,378
Premiums earned	\$585,822,688	\$551,167,187
Capital & surplus	\$201,467,370	\$174,936,154
Losses	\$404,237,053	\$399,538,314
Loss ratio	69.0%	72.5%
Expenses	\$168,242,734	\$148,751,135
Expense ratio	28.3%	27.4%
Combined ratio	97.3%	99.9%

* Fiscal years ended Dec. 31, 1989, and Dec. 31, 1988.

Founded: 1911.

Parent company: Swiss Reinsurance Co.

Employees: 310.

Principal officers: Dr. Peter Frey, Dr. Erich Herrgen, Dr. Stefan Lippe, Inge Mahlstedt, Stefan Schroder, Anton Wittl, management board members.

Contact: Dr. Erich Herrgen, 49-89-3844-211.

C

Caisse Centrale de Reassurance

31 rue de Courcelles, 75008 Paris, France; 44-35-3100; fax: 44-35-3131 or 44-35-3188

	1990	1989
Premiums written	\$477,766,555	\$438,270,678
Treaty	97%	97%
Facultative	3%	3%
Domestic	87%	88%
Foreign	13%	12%
Premiums earned	\$403,975,983	\$440,672,095
Capital & surplus	\$418,158,430	\$348,694,024
Losses	\$302,794,368	\$363,376,021
Loss ratio	75.0%	82.5%
Expenses	\$114,925,367	\$110,504,444
Expense ratio	24.1%	25.2%
Combined ratio	99.1%	107.7%

Founded: 1946.

Subsidiaries: CNP International. Figures for following subsidiaries are not included above: SCOR S.A., SCOR FIN Canada, SCOR Re Asia, Sorema North America.

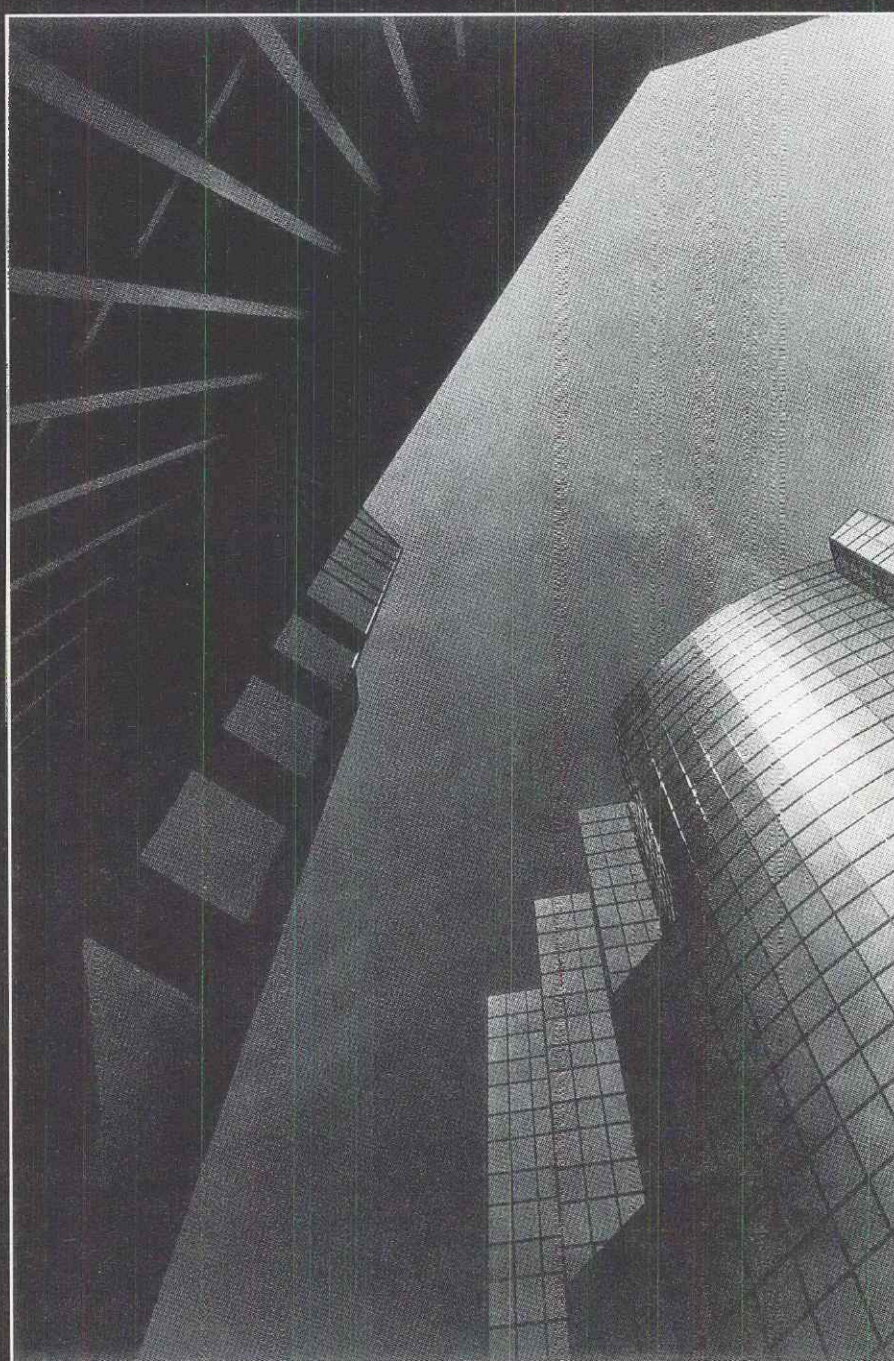
Locations: One domestic.

Principal officers: Alexis Ruset, chief executive officer; Claude Thevenot, deputy general manager; Rene Vandamme and Gerard Boulier, assistant managers; Max Dessagnat, Herve Labory and Gabriel Wache, secretaries; Jean-Marc Letailleur, assistant secretary.

Centre Reinsurance Ltd.

Cumberland House, 1 Victoria St., P.O. Box HM1788, Hamilton HM HX, Bermuda; 809-295-8501; fax: 809-295-3705

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Capital Re Corporation
787 Seventh Avenue
New York, New York 10019

CAPITAL RE

Continued from previous page

	1990	1989
Premium volume*	\$617,000,000	\$268,000,000
Treaty.....	100%	NA
Domestic.....	5%	NA
Foreign.....	95%	NA
Premiums earned	\$166,166,000	\$41,372,000
Capital & surplus	\$291,776,000	\$264,628,000
Losses.....	\$149,891,000	\$59,355,000
Loss ratio.....	90.2%	143.5%
Expenses.....	\$26,909,000	(\$8,116,000)
Expense ratio.....	16.2%	(19.6%)
Combined ratio.....	106.4%	123.9%

* Based on net written and premiums recorded on the balance sheet.

Founded: 1988.
Subsidiaries: Centre Reinsurance Ltd. (London), Centre Reinsurance of New York.

Employees: 40.
Locations: One domestic, two foreign.

Specialties: Finite risk.
Principal officers: Steven M. Gluckstern, president/chief executive officer; Michael D. Palm, executive vp; Laurence Cheng, senior vp/chief financial officer.

The Chiyoda Fire & Marine Insurance Co. Ltd.

1-9 Kyobashi 2 Chome, Chuo-ku, Toyko 104, Japan; 81-3-3281-1111; fax: 81-3-3275-0780

	1990*	1989*
Premiums written	\$435,819,483	\$339,049,082
Treaty.....	99%	99%
Facultative.....	1%	1%
Domestic.....	65%	64%
Foreign.....	35%	36%
Capital & surplus	\$872,144,560	\$741,794,630
Losses.....	\$315,090,584	\$238,900,877
Expenses.....	\$57,347,229	\$44,843,147
Expense ratio.....	13.2%	13.2%

* Fiscal years ended March 31, 1990; March 31, 1989.

Year founded: 1897.
Locations: 230 domestic, 17 foreign.

Principal officers: Hideo Kamio, chairman; Takashi Toyabe, president/executive director; Osamu Sato, Koji Fukuda, senior vps/executive directors; Yoshimi Takaoka, Jyunzo Nishimo, Yutaka Okada, senior managing director.

Contact: Takeshi Sugisawa, chief representative for U.S. operations, 212-306-8748.

CIGNA Reinsurance Operations

2 Liberty Place, TLP45, 1601 Chestnut St., P.O. Box 41567, Philadelphia, Pa. 19101; 215-761-3545; fax: 215-761-5573

	1990	1989
Premiums written	\$840,173,000	\$745,763,000
Treaty.....	85%	81%
Facultative.....	15%	19%
Domestic.....	53%	52%
Foreign.....	47%	48%
Premiums earned	\$832,618,000	\$740,238,000
Capital & surplus	\$586,896,000	\$538,428,000
Losses.....	\$733,433,000	\$605,762,000
Loss ratio.....	88.1%	81.8%
Expenses.....	\$235,276,000	\$247,942,000
Expense ratio.....	28.3%	33.2%
Combined ratio.....	116.4%	115.1%

Founded: 1947.
Parent company: CIGNA Corp.
Subsidiaries: CIGNA Reinsurance Co., CIGNA International Reinsurance Co. Ltd. (Bermuda), CIGNA Reinsurance Co. S.A./N.V., Connecticut General Life Insurance Co., CIGNA Reaseguros S.A., CIGNA Re UK Ltd., Life Insurance Co. of North America.

Employees: 638.
Locations: Three domestic, 13 foreign.

Specialties: Property, treaty casualty, marine, agriculture, engineering, accident, aviation, bonding/credit, financial reinsurance/finite risk, life/health.

Principal officers: Norman M. Wayne, president-P&C Reinsurance Division; Francine M. Newman, president-Life & Health Reinsurance Division; Harry J. Larzelere, president-North American P&C Reinsurance Operations; Thomas J. Mahoney, general manager-CIGNA Reinsurance Co. S.A./N.V. (Belgium); James Gaytan, senior vp-Latin America/Far East/US International Operations.

Contact: Norman M. Wayne, 215-761-3555.

Cologne Re

Theodor-Heuss-Ring 11, D-5000 Cologne 1, Germany; 49-221-7759-0; fax: 49-221-7759-494

	1990	1989
Premiums written	\$1.86 billion	\$1.44 billion
Treaty.....	90.6%	90.5%
Facultative.....	9.4%	9.5%
Domestic.....	44%	40%

Continued on next page

The third annual directory of the world's largest reinsurance companies lists reinsurers that responded to a *Business Insurance* questionnaire.

The listings are published free of charge as an editorial service. However, only reinsurers writing primarily property/casualty reinsurance with at least \$300 million in net reinsurance premiums are included. Major reinsurance subsidiaries of the reinsurers ranked among the 20 largest in the world also are included in the directory.

Financial information was gathered from the responses to the *BI* questionnaire, annual reports and telephone interviews. Figures are reported in U.S. dollars, using fiscal exchange rates corresponding with each company's balance sheet fiscal year, which is the same as the

Guide to directory of world's largest reinsurance companies

calendar year unless otherwise noted.

The listings begin with the home office address, telephone and facsimile numbers, followed by financial information based on the company's worldwide consolidated (unless otherwise noted) reinsurance operations.

Net premiums written, net premiums earned, total capital and surplus, loss and loss adjustment expenses and underwriting expenses are given, followed by the loss ratios, expense ratios and combined ratios. The per-

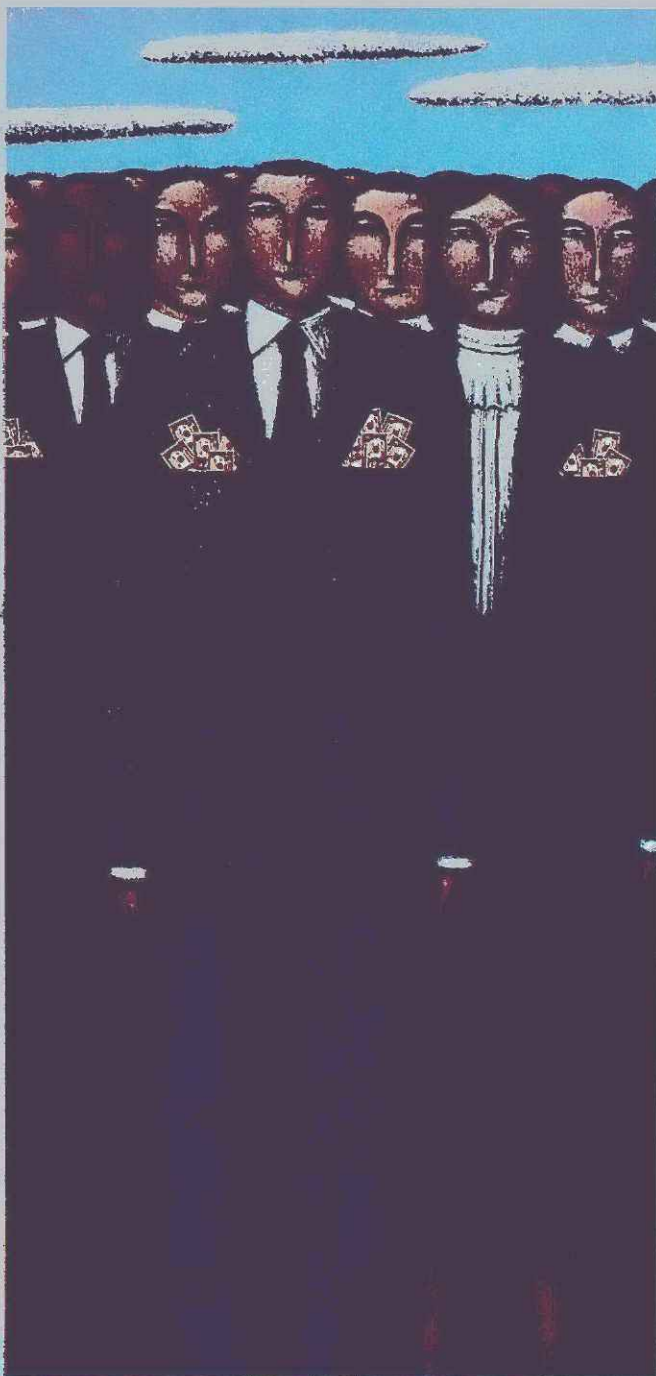
centage of business written as treaty and as facultative reinsurance are included, as well as the percentage of reinsurance written in domestic and foreign markets.

The year the company was formed follows the financial information. The parent company (if any) is listed, followed by major reinsurance subsidiaries. If the company's financial information is not consolidated or only partly consolidated, that is noted here. Employees at year-end 1990 and the number of worldwide locations are included. Names and titles of principal officers, as well as a U.S. contact complete the listings.

Although *BI* makes every effort to publish complete and accurate listings, we are not able to verify all information provided by the reinsurers.

A V I A T I O N P R O D U C T S L I A B I L I T Y

SUIT TAKES MANUFACTURER TO CLEANERS DUE MAINLY TO DEPTH OF POCKETS.



MOST OF THE EVIDENCE IN AN AIRPLANE CRASH WAS DESTROYED BY FIRE, SO NO CASE COULD BE PROVED AGAINST SEVEN DIFFERENT DEFENDANTS, MAKERS OF THE AIRCRAFT, ENGINES, AND COMPONENTS. YET IT TIED UP ONE "DEEP POCKETS" DEFENDANT, A SWITCH MANUFACTURER, IN COURT FOR ALMOST FIFTEEN YEARS, COSTING HUNDREDS OF THOUSANDS TO DEFEND. IT'S AN EXPENSIVE FALLACY TO THINK THAT BY BEING CONSCIENTIOUS, OR BY HAVING LITTLE-TO-NO INVOLVEMENT WITH AVIATION, OR BY HAVING NOTHING TO DO AT ALL WITH

MANUFACTURING AIRCRAFT YOU WILL HAVE NO EXPOSURE TO AVIATION PRODUCTS LIABILITY CLAIMS. AAU KNOWS THE RISKS YOU FACE AND HOW TO PROTECT YOU, BY EXPERT UNDERWRITING, LOSS PREVENTION PLANS, RESOURCEFUL LEGAL AND CLAIMS SUPPORT. IN SHORT, THE RIGHT INSURANCE WITH THE RIGHT PEOPLE. ASSOCIATED AVIATION UNDERWRITERS. YOU DON'T HAVE TO BUILD AIRPLANES TO NEED AVIATION PRODUCTS LIABILITY PROTECTION.

AAU Raising Your Expectations

Continued from previous page

Foreign.....	56%	60%
Premiums earned.....	\$1.84 billion	\$1.42 billion
Capital & surplus.....	\$251,662,906	\$204,630,724
Losses.....	\$1.85 billion	\$961,834,778
Loss ratio.....	100.9%	67.6%
Expenses.....	\$493,356,044	\$381,766,797
Expense ratio.....	26.6%	26.6%
Combined ratio.....	127.5%	94.2%

Founded: 1846.

Parent company: Colonia Versicherung A.G..

Subsidiaries: Cologne Life Reinsurance Co., Cologne Reinsurance of America, Cologne Reinsurance Co. (Bermuda) Ltd., Cologne Reinsurance Ltd., Cologne Reinsurance Co. (Dublin) Ltd., The Cologne Reinsurance Co. of South Africa Ltd., Cologne Life Reinsurance Co. of Australia Ltd.

Employees: 839.

Locations: Two domestic, 23 foreign.

Principal officers: Dr. Jurgen Zech, chairman; Dr. Gerd Hofmann; Georg Lorenz; Dr. Peter Lutke-Bornfeld; Dr. Lothar Meyer; Dr. Egbert William; Wilhelm Zeller.

Continental Reinsurance Group

180 Maiden Lane, New York, N.Y., 10038; 212-440-7800; fax: 212-440-3445

	1990	1989
Premiums written	\$408,864,000	\$563,952,000
Treaty.....	97.7%	95.3%
Facultative.....	2.3%	4.7%
Domestic.....	94.1%	92.9%
Foreign.....	5.9%	7.1%
Premiums earned.....	\$435,689,000	\$576,238,000
Capital & surplus.....	\$367,113,000	\$304,335,000
Losses.....	\$429,290,000	\$483,431,000
Loss ratio.....	98.5%	83.9%
Expenses.....	\$142,416,000	\$188,767,000
Expense ratio.....	34.9%	33.4%
Combined ratio.....	133.4%	117.3%

Founded: 1978.

Parent company: Continental Corp.

Subsidiaries: Continental Reinsurance Corp., Conental Reinsurance Corp. International Ltd., Continental Reinsurance Corp. (U.K.) Ltd., Union America Insurance Co. Ltd.

Principal officers: Philip Marcell, chairman (Continental Reinsurance Group); Winifred Baker, president (Continental Reinsurance Corp.); Ian Sinclair, managing director-under-

writing (Continental Re London); Gary French, executive vp (Continental Reinsurance Corp.); Constance Curnow, senior vp (Continental Reinsurance Corp.).

Contact: Winifred Baker, 212-440-7877.

E

Eisen & Stahl Re

Karl-Wiechert-Allee 50, C-3000, Hannover 61, Germany, 49-511-5604-0; 49-511-5604-188

	1990	1989
Premiums written	\$587,205,291	\$469,322,542
Treaty.....	99%	99%
Facultative.....	1%	1%
Domestic.....	79%	80%
Foreign.....	21%	20%
Premiums earned.....	\$578,513,502	\$464,239,968
Capital & surplus.....	\$179,504,469	\$157,007,110
Losses.....	\$471,331,990	\$379,769,044
Loss ratio.....	81.5%	81.8%
Expenses.....	\$141,635,429	\$108,755,318
Expense ratio.....	24.1%	23.2%
Combined ratio.....	105.6%	105.0%

Founded: 1923.

Parent company: Haftpflichtverband der Deutschen Industrie VaG.

Employees: 125.

Locations: One domestic, three foreign.

Specialties: Financial risk and alternative market concepts, professional liability, political risks, accident and health, life.

Principal officers: Claus R. Binger, chairman; Theo Dielmann and Dr. Michael Reischel, management board members; Dr. Wolf Becke, Jurgen Lang Dirk Lohmann and Hans Rohlf, underwriting officers.

Contact: Wolf Becke, Jurgen Lang, Dirk Lohmann or Hans Rohlf, 49-511-5604-450 (life and health).

Employers Reinsurance Group

P.O. Box 2991, Overland Park, Kan. 66201; 913-676-5200; fax: 913-676-5221

	1990	1989
Premiums written	\$2.64 billion	\$2.26 billion
Treaty.....	62.6%	60.6%
Facultative.....	37.4%	39.4%
Domestic.....	82.0%	84.3%
Foreign.....	18.0%	15.7%
Premiums earned.....	\$2.64 billion	\$2.26 billion

Capital & surplus.....	\$1.65 billion	\$1.65 billion
Losses.....	\$1.71 billion	\$1.5 billion
Loss ratio.....	80.7%	80.1%
Expenses.....	\$1.4 billion	\$1.08 billion
Expense ratio.....	25.8%	26.0%
Combined ratio.....	106.5%	106.1%

Founded: 1914.

Parent company: General Electric Financial Services Inc.

Subsidiaries: Employers Reinsurance Corp., Nordisk Reinsurance, Employers Reinsurance Ltd., First Excess Reinsurance, First Specialty Insurance Co., Employers Reassurance Corp.

Employees: 867.

Locations: 15 domestic, eight foreign.

Principal officers: Michael G. Fitt, chairman/president/chief executive officer; Thomas S. Case, executive vp; W. Mick Taylor, senior vp; C. Alan Mauch, vp-marketing division; Hoyt H. Wood, Jr., vp-underwriting division.

Contact: W. Mick Taylor, 913-676-5209.

European General Reinsurance Co.

Mythenquai 50/60, P.O. Box 8022, Zurich, Switzerland; 41-1-285-2121; fax: 41-1-285-2999

	1990*	1989*
Premiums written	\$560,858,468	\$524,385,756
Premiums earned.....	\$553,096,571	\$540,017,442
Capital & surplus.....	\$57,376,038	\$57,351,258
Losses.....	\$450,144,602	\$447,587,298
Loss ratio.....	81.4%	82.9%
Expenses.....	\$162,002,434	\$149,546,970
Expense ratio.....	28.9%	28.5%
Combined ratio.....	110.3%	111.4%

* Fiscal years ended Dec. 31, 1989, and Dec. 31, 1988.

Founded: 1918.

Parent company: Swiss Reinsurance Co.

Principal officers: Theo Obrist, chairman; H.R. Kaufman and A.W. Saxer, directors.

F

F&G Re Inc.

55 Madison Ave., P.O. Box 1958, Morristown, N.J. 07962-1958; 201-898-9393; fax: 201-326-9453

	1990	1989
Premiums written	\$460,229,028	\$415,738,695
Treaty.....	100%	100%
Domestic.....	69.5%	81.5%
Foreign.....	30.5%	18.5%
Premiums earned.....	\$484,847,886	\$460,661,791
Losses.....	\$300,380,635	\$292,209,825
Loss ratio.....	61.9%	63.7%
Expenses.....	\$156,066,015	\$133,201,366
Expense ratio.....	33.9%	32.0%
Combined ratio.....	95.8%	95.7%

Founded: 1983.

Parent company: United States Fidelity & Guaranty Co.

Employees: 42.

Locations: One domestic.

Principal officers: Paul B. Ingrey, president; John R. Berger, Charles A. Hachmeister and Alan M. Willemssen, senior vps; Roland W. Jackson, senior vp/comptroller.

Contact: Roland W. Jackson.

Frankona Reinsurance Co.

P.O. Box 86 03 80, Munich, Germany; 49-89-9228-0; fax: 49-89-9228-395

	1990	1989
Premiums written	\$953,484,351	\$774,985,406
Treaty.....	93.7%	93.9%
Facultative.....	6.3%	6.1%
Domestic.....	61.2%	59.1%
Foreign.....	38.8%	40.9%
Premiums earned.....	\$888,365,599	\$739,184,648
Capital & surplus.....	\$141,816,226	\$120,613,185
Losses.....	\$560,259,588	\$470,461,555
Loss ratio.....	63.1%	63.6%
Expenses.....	\$258,248,892	\$207,367,087
Expense ratio.....	27.1%	27.1%
Combined ratio.....	90.2%	90.7%

Founded: 1886.

Parent company: Gerling-Konzern Versicherungs-Beteiligungs-A.G.

Subsidiaries: Frankona America Life Reassurance Co., Frankona Reinsurance Co. Ltd.

Employees: 400.

Locations: One domestic, four foreign.

Principal officers: Dr. Achim Kann, president/chairman; Kristian Gross, Dr. Gunter Jacobs, Dr. Reinhard Hinne and Dieter W. Luer, senior vp.

Contact: Dr. Karl J. Mayr, president/U.S. manager, 816-471-2200.

Continued on next page

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Continued from previous page

G

General Reinsurance Corp.

Financial Centre, P.O. Box 10350, Stamford, Conn. 06904-2350; 203-328-5000; fax: 203-328-6423

	1990	1989
Premiums written	\$2.18 billion	\$1.91 billion
Domestic	94.9%	94.3%
Foreign	5.1%	5.7%
Premiums earned	\$2.02 billion	\$1.8 billion
Capital & surplus	\$2.9 billion	\$2.68 billion
Losses	\$1.38 billion	\$1.27 billion
Loss ratio	68.2%	70.6%
Expenses	\$635,700,000	\$521,500,000
Expense ratio	29.2%	27.4%
Combined ratio	97.4%	98.0%

Founded: 1921.
Parent company: General Re Corp.

Subsidiaries: General Star Indemnity Co., General Star Management Co., Genesis Underwriting Management Co., North Star Reinsurance Corp., General Reinsurance Ltd. (London), Reinsurance Co. of Australasia Ltd. (Sydney), General Reinsurance Corp. (Zurich), General Re Compania de Reaseguros (Argentina), General Re Correduria de Reaseguros (Spain).

Employees: 2,496.
Locations: 16 domestic, eight foreign.

Specialties: All property/casualty lines of business.

Principal officers: Ronald E. Ferguson, chairman; John C. Etling, president/chief executive officer; James E. Gustafson, Tom N. Kellogg and Kenneth J. LeStrange, executive vps; Edmond F. Rondepierre, senior vp/general counsel/secretary.

Contact: John C. Etling.

Gerling Global Reinsurance Group

Gereonshof, 5000 Cologne 1, Germany; 49-221-144-1; fax: 49-221-144-3718

	1990*	1989*
Premiums written	\$1.18 billion	\$949,537,727
Domestic	65.4%	61.1%
Foreign	34.6%	38.9%
Premiums earned	\$1.15 billion	\$925,584,450
Capital & surplus	\$316,017,942	\$249,727,564
Losses	\$772,289,212	\$609,987,789
Loss ratio	67.0%	65.0%
Expenses	\$366,506,264	\$287,337,136
Expense ratio	31.1%	30.2%
Combined ratio	98.1%	96.1%

* Fiscal years ended June 30, 1990, and June 30, 1989.

Founded: 1954.

Parent company: Gerling-Konzern Versicherungs-Beteiligungs-A.G.

Subsidiaries: Gerling Global Life (Toronto), Gerling Global Reinsurance (Toronto), Gerling Global General & Reinsurance (London), Gerling Global Reinsurance (Johannesburg), Gerling Globale (Zug); other branches in the United States, Australia and New Zealand.

Employees: 385.

Locations: One domestic, 23 foreign.

Principal officers: Dr. Richard Woltereck, Uwe Eymer, Gerhard Niebuhr, Norbert Strohschen, Dr. Paul-Robert Wagner and Anton Weiler, executive board members.

Contact: Wolfgang Schlager, Gerling Global Reinsurance Corp., 212-752-8900.

H

Hannover Reinsurance Co.

Karl-Wiechert-Allee 50, D-3000 Hannover 61, Germany; 49-511-5604-0; fax: 49-511-5604-188

	1990	1989
Premiums written	\$959,347,384	\$711,425,892
Treaty	96%	96%
Facultative	4%	4%
Domestic	43%	42%
Foreign	57%	58%
Premiums earned	\$936,891,882	\$699,892,197
Capital & surplus	\$373,763,602	\$302,250,642
Losses	\$683,406,599	\$573,287,642
Loss ratio	72.9%	81.9%
Expenses	\$276,337,702	\$206,920,323
Expense ratio	28.8%	29.1%
Combined ratio	101.7%	111.0%

Founded: 1966.

Parent company: Haftpflichtverband der Deutschen Industrie VaG.

Subsidiaries: Insurance Corp. of Hannover, International Insurance Co. of Hannover Ltd. (UK), Reassurance Co. of Hannover (USA), Hollandia Reinsurance Group (South Africa); figures from these subsidiaries are not included above.

Employees: 259.

Locations: One domestic, 10 foreign.

Specialties: Financial risk and alternative market concepts, professional liability, political risks, accident and health, life.

Principal officers: Claus R. Binger, chairman; Theo Dielmann and Dr. Michael Reischel, management board members; Dr. Wolf Becke, Jurgen Lang, Dirk Lohmann and Hans Rohlf, underwriting officers.

Contact: Wolf Becke, Jurgen Lang, Dirk Lohmann or Hans Rohlf, 49-511-560-4450 (life and health).

Hannover Re/Eisen & Stahl Re

Karl-Wiechert-Allee 50, D-3000 Hannover 61, Germany; 49-511-5604-0; fax: 49-511-5604-188

	1990	1989
Premiums written	\$1.68 billion	\$1.29 billion
Treaty	97.0%	NA
Facultative	3%	NA
Domestic	55%	NA
Foreign	45%	NA
Premiums earned	\$1.52 billion	\$1.16 billion
Capital & surplus	\$541,395,980	\$459,257,753
Losses	\$1.16 billion	\$953,056,687
Loss ratio	76.2%	81.9%
Expenses	\$417,614,001	\$314,893,477
Expense ratio	27.0%	26.7%
Combined ratio	103.2%	108.6%

Subsidiaries: Insurance Corp. of Hannover (USA), International Insurance Co. of Hannover Ltd. (UK), Reassurance Co. of Hannover (USA), Hollandia Reinsurance Group (South Africa); figures from these subsidiaries are not included above.

Employees: 384.

Locations: One domestic, 13 foreign.

Specialties: Financial risk and al-

ternative market concepts, professional liability, political risks, accident and health, life.

Principal officers: Claus R. Binger, chairman; Theo Dielmann and Dr. Michael Reischel, management board members; Dr. Wolf Becke, Jurgen Lang, Dirk Lohmann and Hans Rohlf, underwriting officers.

Contact: Dr. Wolf Becke, Jurgen Lang, Dirk Lohmann or Hans Rohlf, 49-511-5604-450.

	1990	1989
Treaty	98%	98%
Facultative	2%	2%
Premiums earned	\$346,764,000	\$314,601,000
Capital & surplus	\$368,838,000	\$391,130,000
Losses	\$307,188,000	\$252,441,000
Loss ratio	88.6%	80.3%
Expenses	\$87,502,000	\$86,201,000
Expense ratio	24.6%	26.2%
Combined ratio	113.2%	106.5%

Founded: 1969.

Parent company: Kemper Corp. **Subsidiaries:** Kemper Europe Reassurances S.A., Kemper Reinsurance London Ltd., Kemper Reinsurance (Bermuda) Ltd.

Employees: 225.

Locations: One domestic, five foreign.

Principal officers: Michael R. Pinter, chairman/chief executive officer; Donald R. Smith, president/ chief operating officer; George L.

Continued on next page

K

Kemper Reinsurance Co.

Long Grove, Ill. 60049; 708-540-2600; fax: 708-540-2014

	1990	1989
Premiums written	\$355,640,000	\$328,439,000

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Thomas Alva Edison is renowned as history's greatest inventor, but most people don't realize that he hardly ever worked alone. Edison recruited scientists, technicians and machinists to create an "invention factory" that promised "a minor invention every ten days and a big thing every six months or so." In his lifetime, Edison was granted over a thousand patents, including the phonograph, motion-picture projector and, of course, the incandescent light.

At Atrium, we also recognize the advantages of specialized expertise. As a licensed reinsurer's intermediary, we've built a staff of actuarial, tax, legal and financial experts to design innovative, customized programs that present the broadest range of possible solutions. Our team of professionals uses non-traditional ways to assess risk, providing catastrophic protection, mergers and acquisitions and assisting in financial planning. We also offer a foundation of stability and strength as a member of the Swiss Re Group, a \$27 billion international reinsurance organization in business for over 125 years.

We pioneered the use of reinsurance as a surplus management technique and continue to expand our reputation for creativity and ingenuity. By solving problems through inventive applications of established reinsurance structures, Atrium can create a brighter future for your business.



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Continued from previous page
Messenger and Michael Y. Beyens,
executive vps; F. Paul D'Amore, se-
nior vp/chief financial officer.
Contact: J.R. Miller, senior vp-
treaty underwriting, 708-540-2600.

M

**The Mercantile & General
Reinsurance Co. P.L.C.**

Moorfields House, Moorfields,
London EC2Y 6AL, England;
44-71-628-7070;
fax: 44-71-583-4629

	1990	1989
Premiums written	\$1.37 billion	\$1.05 billion
Domestic.....	29.5%	29.4%

Foreign.....	70.5%	70.6%
Capital & surplus	\$309,042,750	\$424,101,900
Losses.....	\$1,302,408	\$1,001,866
Loss ratio.....	94.9%	95.2%
Expenses.....	\$424,573,000	\$344,691,000
Expense ratio.....	30.9%	32.7%
Combined ratio...	125.8%	127.9%

Founded: 1907.
Parent company: Prudential
Corp. P.L.C.

Subsidiaries: The Mercantile &
General Reinsurance Co. of America,
The Mercantile & General Life Reas-
surance Co. of America, The Mercan-
tile & General Reinsurance Co. of
Canada, The Mercantile & General
Life Reassurance Co. of Canada, The
Mercantile & General Reinsurance
Co. of South Africa Ltd., The Mer-
cantile & General Reinsurance Co. of
Australia Ltd., The Mercantile &
General Life Reassurance Co. of Aus-

tralia Ltd.
Employees: 1,487.
Locations: Four domestic, 23 for-
eign.
Principal officers: John Lock,
managing director; John Austin,
Roger Sansom, Michael Brown, Mi-
chael Harvey, directors/general man-
agers.
Contact: Paul Hawksworth, presi-
dent/chief executive officer-The
Mercantile & General Reinsurance
Co. of America, 201-898-9480.

Munich Reinsurance Co.

Koniginstrasse 107, D-8000,
Munich 40, Germany;
49-89-3891-0;
fax: 49-89-3990-56 or
49-89-3990-57

	1990*	1989*
Premiums written	\$7.35 billion	\$6.48 billion
Domestic.....	55%	55%
Foreign.....	45%	45%
Premiums earned	\$7.28 billion	\$6.49 billion
Capital & surplus	\$1.65 billion	\$1.28 billion
Losses.....	\$5.67 billion	\$4.91 billion
Loss ratio.....	77.8%	75.8%
Expenses.....	\$2.26 billion	\$1.97 billion
Expense ratio.....	30.7%	30.4%
Combined ratio...	108.5%	106.2%

* Fiscal years ended June 30, 1990,
and June 30, 1989.

Founded: 1880.
Subsidiaries: Munich Re of Can-
ada, Munich American Reinsurance
Co., MARC-Life, Munich Reinsur-
ance Co. of South Africa, Munich Re-
insurance Co. of Australia, Great
Lakes Reinsurance Holdings Ltd.,
Neue Rueckversicherungs-Ges. Figures
from these subsidiaries are not
included above.

Employees: 1,768.
Locations: One domestic, more
than 70 foreign.

Principal officers: Dr. Horst K.
Jannott, chairman; Dr. Hans-Jurgen
Schinzler, Dr. Wolf-Otto Bauer,
Klaus Conrad, Rudolf Ficker, Dieter
Goebel, Dr. Edith Lukas, Dr. Fedor
Nierhaus, Dieter Nonhoff, Hans
Raffler, Ralph Roth, Hans Dieter
Sellschopp, Dr. Hans-Wilmar von
Stockhausen, Hans Rathnow and Dr.
Detlef Schneidawind, management
board members.

Contact: John N. Lombardo, presi-
dent/chief executive officer, Munich
American Reinsurance Co., New
York, 212-310-1600.

N

**Netherlands
Reinsurance Group**

Prof. J.H. Bavincklaan 3, 1183 AT,
Amstelveen, The Netherlands;
31-20-643-4545;
fax: 31-20-643-8318

	1990*	1989*
Premiums written	\$580,272,440	\$446,011,475
Domestic.....	20%	20%
Foreign.....	80%	80%
Premiums earned	\$566,462,834	\$443,809,275
Capital & surplus	\$188,979,602	\$153,886,005
Losses.....	\$454,298,695	\$390,762,190
Loss ratio.....	80.2%	88.0%
Expenses.....	\$166,741,548	\$132,926,885
Expense ratio.....	28.7%	29.8%
Combined ratio...	108.9%	117.8%

* Fiscal years ended June 30, 1989,
and June 30, 1990.

Founded: 1968.
Parent company: Nationale-Ne-
derlanden N.V.

Subsidiaries: NRG London Reinsur-
ance Co. Ltd., Philadelphia Reinsur-
ance Corp., NGR America Life Re-
assurance Corp., NRG Antillean
Reinsurance Co. Ltd., Algemene Le-
venshervzekering Maatschappij nv.
Employees: 1,000.
Locations: One domestic, nine for-
eign.

Principal officers: W.K. Dikland,
chairman; P. Zandhuis, vice chair-
man; J.W. Beumer, J.S. Butcher and
C. Waterhout, corporate board mem-
bers.

Contact: Otto de Bont, president-
NRG America Management Corp.,
215-567-7011.

**North American
Reinsurance Corp.**

237 Park Ave., New York, N.Y.
10017; 212-907-8000;
fax: 212-907-8728

	1990	1989
Premiums written	\$676,100,000	\$630,100,000
Treaty.....	88.8%	88.6%
Facultative...	11.2%	11.4%
Domestic.....	99.3%	99.4%
Foreign.....	0.7%	0.6%
Premiums earned	\$682,200,000	\$599,100,000

Continued on next page



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the international reinsurance
market.

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NRG and Victory we are able
to provide insurers worldwide
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Algemene
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Maatschappij nv
Vereenigde
Assurantiebedrijven
'Nederland' nv

United Kingdom
NRG Victory Reinsurance
Limited
NRG Victory Management
Limited

U.S.A.
NRG America Management
Corporation
NRG America Life
Reassurance Corporation

Australia
NRG Victory Australia
Limited

Netherlands Antilles
NRG Antillean Reinsurance
Company nv

Bermuda
NRG Victory International
Limited

**Branch and Representative
offices**
Canada
Singapore
Hong Kong
New Zealand

Continued from previous page

Capital & surplus	\$568,000,000	\$588,100,000
Losses	\$505,000,000	\$482,300,000
Loss ratio	74.0%	80.5%
Expenses	\$234,800,000	\$229,500,000
Expense ratio	34.7%	36.4%
Combined ratio	108.7%	116.9%

Founded: 1910.
Parent company: Swiss Reinsurance Co.
Employees: 435.
Principal officers: N. David Thompson, president/chief executive officer; Darius G. Baker, executive vp-facultative; Charles E. Mabli, executive vp-financial; James P. Quinn, executive vp-special lines; William H. Stempson, executive vp-treaty.
Contact: N. David Thompson, president, 212-907-8040.

P

Prudential Reinsurance Co.
 3 Gateway Center, Newark, N.J.
 07102-4077; 201-802-8888;
 fax: 201-802-4793

	1990	1989
Premiums written	\$600,814,000	\$549,296,000
Treaty	86.8%	83.7%
Facultative	13.3%	16.3%
Domestic	77.8%	78.4%
Foreign	22.2%	21.6%
Premiums earned	\$572,292,000	\$542,438,000
Capital & surplus	\$508,956,000	\$504,581,000
Losses	\$512,022,000	\$405,397,000
Loss ratio	89.5%	74.7%
Expenses	\$218,497,000	\$205,029,000
Expense ratio	36.4%	37.3%
Combined ratio	125.9%	112.0%

Founded: 1973.
Parent company: The Prudential Insurance Co. of America.
Subsidiaries: Le Rocher Compagnie de Reassurance S.A., Le Rocher (U.K.) Ltd.
Employees: 626.
Locations: Eight domestic, four foreign.
Principal officers: James F. Dwane, president; Dewey P. Clark, Thomas J. Gallagher and Jean F. Webb, senior vps; Craig Eisenacher, senior vp/cmptrroller.
Contact: Robert G. Murray, vp-public relations, 201-802-2083.

S

The St. Paul Group
 385 Washington St., St. Paul, Minn.
 55102; 612-221-8022;
 fax: 612-223-2022

	1990	1989
Premiums written	\$404,900,000	\$416,900,000
Treaty	70%	NA
Facultative	30%	NA
Premiums earned	\$389,600,000	\$372,000,000
Losses	\$381,800,000	\$347,900,000
Loss ratio	98.0%	93.5%
Expenses	\$132,800,000	\$130,200,000
Expense ratio	32.8%	31.2%
Combined ratio	130.8%	124.7%

Founded: 1853.
Parent company: The St. Paul Cos. Inc.
Subsidiaries: St. Paul Reinsurance Management Corp., St. Paul (UK) Ltd.
Employees: 466.
Locations: One domestic, one foreign.
Principal officers: Vartkis T. Boghos, chief executive officer (St. Paul (UK)); James P. White, chief executive officer (St. Paul Re).
Contact: James P. White, 212-238-9205.

SCOR S.A.
 Immeuble SCOR 1, Avenue du
 President Wilson-Cedex 39, 92074
 Paris, France; 331-46-98-7000; fax:
 331-47-67-0409

	1990	1989
Premiums written	\$1.64 billion	\$1.03 billion
Domestic	27.8%	24.3%
Foreign	72.2%	75.7%
Premiums earned	\$1.58 billion	\$1.21 billion
Capital & surplus	\$867,370,900	\$764,755,800
Losses	\$1.23 billion	\$977,668,800
Loss ratio	77.9%	80.9%
Expenses	\$529,852,620	\$400,553,400
Expense ratio	32.3%	38.8%
Combined ratio	110.2%	119.7%

Founded: 1970.
Subsidiaries: SCOR U.S., Deutsche Kontinental, SCOR U.K. Re, SCOR Pacific, SCOR Re Canada, SCOR Re Australia, SCOR Reassurance, SCOR Vie.
Employees: 1,069.

Locations: Two domestic, seven foreign.
Principal officers: Patrick Peugeot, Francois Negrier, Jacques Blondeau.
Contact: Jerome Karter, executive vp (SCOR U.S.), 212-513-1777.

SCOR U.S. Corp.
 110 William St., 18th Floor, New
 York, N.Y. 10038-3995,
 212-513-1777; fax: 212-406-9296

	1990	1989
Premiums written	\$179,409,000	\$180,116,000
Treaty	75.7%	73.5%
Facultative	24.3%	26.5%
Domestic	100%	100%
Premiums earned	\$176,640,000	\$178,542,000
Capital & surplus	\$207,598,000	\$181,705,000
Losses	\$116,551,000	\$134,051,000
Loss ratio	66.0%	75.1%
Expenses	\$65,549,000	\$59,525,000
Expense ratio	36.5%	33.0%
Combined ratio	102.5%	108.1%

Founded: 1974.
Parent company: SCOR S.A.
Subsidiaries: SCOR Reinsurance Co., The Unity Fire & General Insurance Co., General Security Assurance Corp. of New York.

Employees: 277.
Locations: Five domestic, one foreign.
Principal officers: Patrick Peugeot, director/chairman/chief executive officer; Jacques P. Blondeau, director/vice chairman/president/chief operating officer; Francois Negrier, director/vice chairman; Jerome Karter, director/executive vp; William K. Lowry, senior vp/chief financial officer.
Contact: William Lowry, senior vp/chief financial officer.

Skandia America Reinsurance Corp.
 1 Liberty Plaza, New York, N.Y.
 10006; 212-978-4700;
 fax: 212-385-2124

	1990	1989
Premiums written	\$414,126,000	\$262,162,000
Treaty	79%	76%
Facultative	21%	24%
Premiums earned	\$391,205,000	\$264,463,000
Capital & surplus	\$311,610,000	\$326,526,000
Losses	\$314,169,000	\$209,650,000
Loss ratio	80.3%	79.3%
Expenses	\$123,601,000	\$92,115,000
Expense ratio	29.8%	35.7%
Combined ratio	110.1%	114.4%

Founded: 1900.
Parent company: Skandia Group Ltd.
Employees: 400.
Locations: Four domestic.
Principal officers: James F. Dowd, chairman/chief executive officer; Steven J. Bensinger, president/chief operating officer.
Contact: Steven J. Bensinger, president/chief operating officer, 212-978-2715.

Skandia Group Ltd.
 S-103 50 Stockholm, Sweden;
 46-8-788-10000;
 fax: 46-8-788-3080

	1990	1989
Premiums written	\$1.35 billion	\$921,984,371
Premiums earned	\$1.2 billion	\$849,115,771
Capital & surplus	\$1.18 billion	\$1.17 billion
Losses	\$975,423,915	\$658,326,746
Loss ratio	81.2%	77.5%
Expenses	\$448,259,033	\$328,384,294
Expense ratio	33.3%	35.6%
Combined ratio	114.5%	113.1%

Founded: 1855.
Subsidiaries: Skandia America Reinsurance Corp., Skandia Canada

Reinsurance Co., Skandia (U.K.) Insurance Ltd., Skandia Reassurance (U.K.) Ltd., Hudson Reinsurance Co. Ltd. (Bermuda).
Employees: 878.
Locations: One domestic, 47 foreign.
Principal officers: Hakan Lindqvist, James F. Dowd, John Engstrom.
Contact: J. Bensinger, president/chief operating officer Skandia America Reinsurance Corp., 212-978-4700.

Swiss Re Group
 Mythenquai 50/60, P.O. Box 8022,
 Zurich, Switzerland; 411-285-2121;
 fax: 411-285-2999

	1990*	1989*
Premiums written	\$4.82 billion	\$4.19 billion
Domestic	6.2%	6.8%
Foreign	93.8%	93.2%
Premiums earned	\$4.76 billion	\$4.25 billion
Capital & surplus	\$1.82 billion	\$1.48 billion
Losses	\$3.57 billion	\$3.17 billion
Loss ratio	75.0%	74.6%
Expenses	\$1.25 billion	\$1.05 billion
Expense ratio	25.9%	25.0%
Combined ratio	100.9%	99.6%

Continued on next page



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Continued from previous page

* Fiscal years ended Dec. 31, 1989, and Dec. 31, 1988.

Founded: 1863.

Subsidiaries: European General Reinsurance Co. of Zurich, Union Reinsurance Co., Bavarian Reinsurance Co. Ltd., Swiss Reinsurance Co. (U.K.) Ltd., North American Reinsurance Co., North American Reinsurance Corp., Canadian Reinsurance Co., Canadian Reinsurance Co., Australian Reinsurance Co. Ltd., Swiss-South African Reinsurance Co. Ltd.

Employees: 3,022.

Locations: One domestic, 13 foreign

Principal officers: Walter Diehl, chairman; Arnold W. Saxer, chief executive officer; H.R. Kaufman, general manager-reinsurance; T. Obrist, general manager-group companies reinsurance.

Contact: N. David Thompson, president/chief executive officer (North American Reinsurance Corp.), 212-907-8040.

T

The Toa Fire & Marine Reinsurance Co. Ltd.

6, Kanda-Surugadai, 3-Chome, Chiyoda-ku, Tokyo, Japan; 81-33-3253-3171; fax: 81-33-3257-1448

	1990*	1989*
Premiums written	\$515,730,000	\$573,878,000
Capital & surplus	\$124,872,000	\$140,176,000
Losses	\$312,333,000	\$317,371,000
Loss ratio	60.6%	55.3%
Expenses	\$188,088,000	\$201,073,000

Expense ratio	36.5%	35.0%
Combined ratio	97.1%	90.3%

* Fiscal years ended March 31, 1990, and March 31, 1989.

Founded: 1940.

Locations: One domestic, six foreign.

Principal officers: S. Kusakabe, president; H. Kasahara and T. Tamaoki, senior managing directors; T. Nakatsukasa, K. Mori and H. Fujita, managing directors.

The Tokio Marine & Fire Insurance Co. Ltd.

2-1 Marunouchi, 1-Chome, Chiyoda-ku, Tokyo, 100 Japan; 81-33-3212-6211; fax: 81-33-3214-3944

	1990*	1989*
Premiums written	\$954,258,000	\$774,457,000
Domestic	72.4%	75.8%
Foreign	27.6%	24.2%
Capital & surplus	\$16.9 billion	\$16.2 billion

* Fiscal years ended March 31, 1991, and March 31, 1990.

Founded: 1879.

Subsidiaries: Tokio Reinsurance Co. Ltd.

Principal officers: H. Takeda, chairman; S. Kono, president; H. Kubota, K. Matsushita and T. Kagawa, executive vps.

Contact: Noriaki Itakura, Tokio Re Corp., 212-422-8400.

Transatlantic Holdings Inc.

80 Pine St., New York, N.Y. 10005; 212-770-2000; fax: 212-785-7230

	1990	1989
Premiums written	\$483,623,378	\$472,389,941

Treaty	74.3%	71.5%
Facultative	25.7%	28.5%
Domestic	89%	88%
Foreign	11%	12%
Premiums earned	\$471,935,995	\$486,281,023
Capital & surplus	\$339,690,965	\$305,223,157
Losses	\$376,597,757	\$387,835,515
Loss ratio	79.8%	79.8%
Expenses	\$124,876,826	\$128,049,624
Expense ratio	25.8%	27.1%
Combined ratio	105.6%	106.9%

Founded: 1986.

Parent company: American International Group (41.25%).

Subsidiaries: Transatlantic Reinsurance Co., Putnam Reinsurance Co.

Employees: 230.

Locations: Six domestic, four foreign.

Specialties: Treaty and facultative, property and casualty, professional liability, environmental liability, products liability.

Principal officers: H.R. Greenberg, chairman; Joseph V. Taranto, president; Richard M. Green, senior vp/controller; Andrew A. Barnard, S. Larry Kelly, Robert F. Orlich and James D. Yulga, senior vps; Robert V. Mucci, senior vp/actuary; David W. Smith, vp/general counsel; Louis Curreri, vp.

Contact: David W. Smith, 212-770-2162.

U

Union Re

Genferstrasse 27, CH-8027, Zurich, Switzerland, 411-209-9111; fax: 411-201-1895

	1990	1989
Premiums written	\$370,017,360	\$351,033,650
Treaty	95.5%	95.3%
Facultative	4.5%	4.2%
Domestic	12.0%	10.0%
Foreign	88.0%	90.0%
Premiums earned	\$376,058,780	\$313,230,350
Capital & surplus	\$106,862,520	\$87,871,750
Losses	\$316,899,940	\$228,536,250
Loss ratio	84.3%	73.0%
Expenses	\$127,968,260	\$126,716,900
Expense ratio	34.6%	36.1%
Combined ratio	118.9%	109.1%

Founded: 1923.

Parent company: Swiss Reinsurance Co.

Employees: 148.

Locations: One domestic, one foreign.

Principal officers: Rene Theler, chairman; Walter Diehl, vice chairman; P.C. Colombo, president; Hans Hasler, Mario Kochli, Fulco Lock and Walter J. Wickli, executive vps.

Unione Italiana di Riassicurazione S.p.A.

Via dei Giuochi Istmici 40, 00154, Rome, Italy; 39-6-32393-1; fax: 39-6-327-3398, 39-6-329-4555 or 39-6-323-93384

	1990*	1989*
Premiums written	\$462,670,226	\$384,132,212
Treaty	95.4%	96.9%
Facultative	4.6%	3.1%
Domestic	73.2%	71.2%
Foreign	26.8%	28.8%
Premiums earned	\$392,368,763	\$341,725,076
Capital & surplus	\$177,517,453	\$172,109,906
Losses	\$341,394,417	\$277,435,303
Loss ratio	87.0%	81.2%
Expenses	\$124,592,548	\$113,518,882
Expense ratio	26.9%	29.6%
Combined ratio	113.9%	110.8%

* Fiscal years ended Dec. 31, 1989, and Dec. 31, 1988.

Founded: 1922.

Subsidiaries: Unione Italiana Reinsurance Co. of America, Unione Italiana (U.K.) Reinsurance Co. Ltd., La Consorziale-Societa Italiana di Riassicurazione; figures from subsidiaries are not included above.

Employees: 433.

Locations: Nine domestic.

Principal officers: Mario Luzzatto, chairman; Lorenzo Pallesi and Enrico Randone, deputy chairmen; Arrigo Bianchi di Lavagna, managing director; Luciano Cristallini, general manager; Gianfranco De Giusti, joint general manager; Ernesto Frey, deputy general manager.

Contact: Summa Re Inc., Manhattan, N.Y., 516-365-1127.

W

Winterthur Reinsurance Corp. of America

2 World Financial Center, 225 Liberty St., New York, N.Y. 10281; 212-416-5700; 212-524-6839

	1990	1989
Premiums written	\$172,727,234	\$100,093,783
Treaty	97%	97%
Facultative	3%	3%
Domestic	100%	00%
Premiums earned	\$139,919,884	\$100,677,638
Capital & surplus	\$156,310,833	\$165,981,120

Losses	\$98,988,737	\$87,013,242
Loss ratio	70.7%	86.4%
Expenses	\$59,894,131	\$29,270,030
Expense ratio	34.7%	29.2%
Combined ratio	105.4%	115.6%

Founded: 1936.

Parent company: Winterthur U.S. Holdings.

Employees: 56.

Locations: One domestic.

Specialties: Property and casualty reinsurance.

Principal officers: John C. Bidwell, president/chief executive officer; Robert C. Wood, senior vp/chief operating officer; Vincent T. Assenato, senior vp/chief financial officer; James H. Veghte, senior vp; Michael C. Skay, vp/secretary.

Contact: Denis O'Connor, assistant vp/treasurer, 212-416-5818.

Winterthur Swiss Insurance Co.

General Guisan-Strasse 40, 8401 Winterthur, Switzerland; 52-85-1111; fax: 52-85-5815

	1990	1989
Premiums written	\$854,429,400	\$682,598,000

Founded: 1875.

Subsidiaries: Winterthur Reinsurance Corp. of America.

Employees: 314.

Locations: One domestic, two foreign.

Specialties: Aviation, surety, engineering, marine reinsurance (including energy).

Principal officers: Willi E. Schuerpf, general manager-reinsurance and international division; Andreas Iselin, manager-special lines; Dr. Ulrich Thalman, manager-main lines; Brund Meyenhofer, manager-group risk management; John Bidwell, president/chief executive officer (Winterthur Re-New York).

Contact: John Bidwell, 212-416-5710.

Y

The Yasuda Fire & Marine Insurance Co. Ltd.

26-1, Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo 160, Japan; 81-33-3349-3111; fax: 81-33-3348-3041 or 81-33-3348-3047

	1990*	1989*
Premiums written	\$614,065,599	\$575,384,045
Capital & surplus	\$1.47 billion	\$1.37 billion

* Fiscal years ended March 31, 1991, and March 31, 1990.

Founded: 1887.

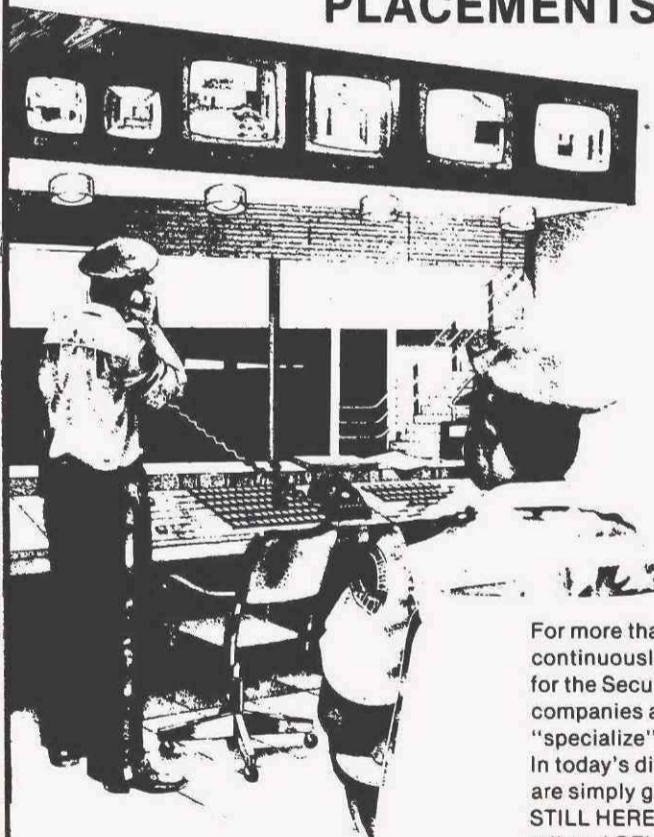
Employees: 10,585.

Locations: 542 domestic, 33 foreign.

Principal officers: Yasuo Goto, president; Masahiko Mizoguchi, Tsuneyoshi Seto, Koji Furuta, Sei-chiro Sugizaki and Kunihiro Sasamoto, executive vps.

Contact: Shinya Shimohira, general manager-North America Department, 212-466-6300.

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INTERNATIONAL

Coverage scarce in terror-ridden Colombia

By MARIA KIELMAS

BOGOTA, Colombia—Multinational companies operating in Colombia, home to one of the world's worst political insurgency situations, face an evaporation of terrorism coverage despite recent attempts to negotiate a peace agreement between government and rebel forces.

And observers fear that the risk that businesses and their executives face from the "business of terror" is likely to increase.

The prime targets for violence are the oil and mining sectors, multinational companies and the national electricity system.

"Terrorist insurance is becoming

increasingly difficult to obtain, although major multinationals are normally able to make suitable arrangements to include this coverage in their global programs," said Michael Crocker, senior partner of Bogota-based brokerage Centurion Asesores de Seguros Ltda.

In the case of oil companies operating in Colombia, Mr. Crocker said terrorism coverage is now excluded from insurance covering material damage and cost of well control. This is "probably because underwriters feel that terrorist risks for oil companies in Colombia are becoming uninsurable since they are no longer 'fortuitous' but 'predictable,'" he said.

Mr. Crocker noted, though, that claims for oil pipeline damage caused by terrorist attacks always has fallen under the large deductibles of oil firms' policies. Those deductibles tend to be about \$1 million to \$1.5 million, he said.

Three rebel groups in Colombia that are still launching attacks have formed a coalition called Coordinadora Nacional Guerrillera Simon Bolivar, which usually is referred to by its initials, CNG. The CNG is composed of:

- Fuerzas Armadas Revolucionarias de Colombia (FARC), the largest and oldest of the guerrilla organizations.

- Ejercito de Liberacion Nacional (ELN), which has focused its

attacks on oil installations.

- Esperanza, Paz y Libertad (EPL), a breakaway faction of the Ejercito Popular de Liberacion, which last March surrendered its arms and set itself up as a legitimate political party.

The Colombian government has been engaged in sporadic peace negotiations with the CNG since last year. Throughout this time, though, the CNG has continued its attacks and kidnappings.

Figures from the Ministry of the Interior show that between Aug. 7, 1990, and Aug. 7, 1991, terrorist activity in Colombia registered the following: 578 military personnel killed; 847 guerrillas killed; 26,737

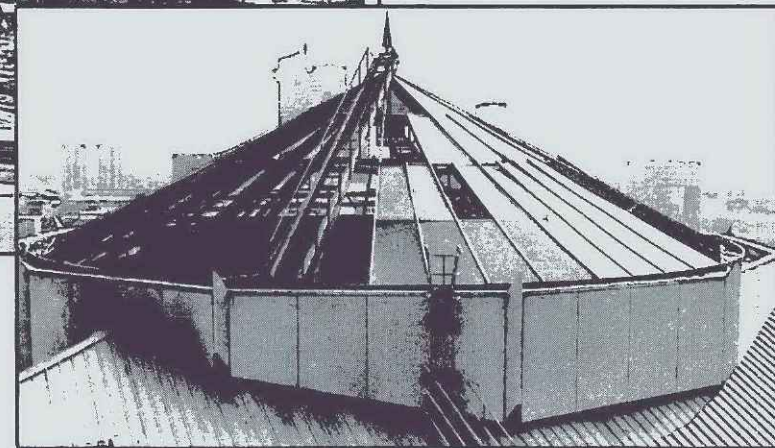
Continued on page 87



GRAPHIC BY CYNTHIA WATSON



Flames and temperatures of about 1,800 degrees Fahrenheit gutted the building, destroying escalators and burning through the top of the atrium.



Rising from the ashes

Fire will delay—not doom—opening of underwriting center

By GAVIN SOUTER

LONDON—The opening of London's new insurance and reinsur-

ance company underwriting center has been pushed back by a year after a fire last month gutted the new building.

The 72 London companies that have reserved a place in the London Underwriting Centre now will have to remain in their separate offices spread around the City of London until the spring of 1993 instead of moving in as planned in March 1992, said LUC Chairman Victor Blake.

However, the fire has not caused any companies to pull out of the project and the LUC is still set to become London's third underwriting center, along with Lloyd's of London and the Institute of London Underwriters, he said.

Mr. Blake is philosophical about the impact of the fire.

"Obviously its disappointing that the LUC won't be open in

1992, but we will just have to live with 1993," he said.

The eight-story building at 5 Minster Court, a five-minute walk from Lloyd's, caught fire early in the morning of Aug. 7 (BI, Aug. 12). The fire started on the upper ground floor in a storage area, then spread to the central atrium of the building where it climbed through the building. Hardest hit were the top four stories.

Intense heat—temperatures reached about 1,800 degrees Fahrenheit—melted several of the 16 aluminum escalators that had been installed in the building. The fire eventually burned through the top of the atrium, which acted like a chimney for the smoke.

The cause of the fire is still unknown. Damage to the LUC internal furnishings is estimated at 26

Continued on next page

CODA optimistic for 1991

By ROGER SCOTTON

HAMILTON, Bermuda—Corporate Officers & Directors Assurance Ltd., the Bermuda-based directors and officers liability insurer, believes it is on the way to healthy financial results after posting an underwriting profit of \$327,000 for the first nine months of its 1990-91 fiscal year.

By comparison, CODA reported an underwriting loss of \$16.1 million in the first nine months of fiscal 1989-90.

For the nine months ended July 31, CODA's earned premiums increased slightly to \$24.1 million from \$23.5 million from the year-earlier period.

But, losses and loss expenses dropped a whopping 43.7% to \$20.5 million from \$36.4 million during the same period of fiscal 1989-90.

Investment income grew about 14.6% to \$22.8 million from \$19.9 million. Total consolidated net income for the nine-month period topped \$24 million, up sharply from \$1.8 million in last year's first nine months.

Chairman and Chief Executive Officer Donald Snyder said he was cautiously optimistic that "if this trend continues, we'll have a good year."

"Of course, the big question is what happens between now and the end of the year in terms of claims development, but right now we know of nothing that will change the trend," he said.

Mr. Snyder said the nine-month

BERMUDA

results are particularly gratifying given that the company has been putting 85% of earned premiums into loss reserves this year.

Mr. Snyder, who will announce financial results for the full year ending Oct. 31 next January, added that CODA's new reserving policy has helped shore up market confidence in the D&O insurer (BI, April 22). CODA suffered a net loss of \$38.6 million in fiscal 1989-90, which he described as an anomaly contrasted with net profits of \$35.8 million in fiscal 1988-89.

According to the latest figures, total loss reserves carried on the company's balance sheet have doubled since July 31, 1990, and now stand at \$121.6 million. Capital and surplus dropped to \$199.1 million as of July 31, compared with just more than \$221 million a year earlier.

In addition, "we're still managing to show a profit despite a slightly slower rate of growth in new accounts," he said.

Mutual Risk income up

Mutual Risk Management Ltd., the Bermuda-based holding company for the Insurance Profit Centre rent-a-captive facility, reports a 43% increase in operating income for the first six months of the year.

Financial results for the six

months ending June 30 show income of \$6.3 million from continuing operations, compared with \$4.4 million a year earlier.

The first-half results include investment income of \$2 million and an underwriting loss of \$371,000.

In addition, MRM says it has raised \$19.8 million from an initial public offering of shares completed July 2 on the New York Stock Exchange. MRM's initial offering of 2.5 million shares of common stock was priced at \$16.50 per share. Of that, 1.25 million shares were offered by the company and 1.25 million by selling shareholders.

As of last week, MRM stock was trading at \$22.38 per share.

The company, which announced plans for the offering in May (BI, May 13), says the investment of these funds is "expected to increase Mutual Risk's investment income by an estimated \$1.7 million per annum after taxes." The company added that the results of the offering will be reflected in its third-quarter results.

Mutual Risk also said it has reached an agreement to acquire a 51% interest in newly formed London brokerage MRM Hancock Ltd., which will specialize in placing captive reinsurance in the London market, including Lloyd's of London.

Mutual Risk said its investment in MRM Hancock is "subject to a definitive agreement as well as the approval of Mutual Risk's board of directors and will not exceed 250,000 pounds (\$422,500)." ■

Product liability law in Soviet Union may resemble U.S. tort law

By MARIA KIELMAS

MOSCOW—Companies in the Soviet Union would be subject to new product liability law resembling U.S. tort law under a consumer protection act scheduled to take effect in January if recent political developments there do not scuttle this and other recently enacted measures.

Soviet authorities "are now stating categorically that consumers who are injured by a product's failure are compensated for loss of life, health or property," said Robert Starr, head of the East-West division of the London law firm Cole, Corrette & Abrutyn.

The Soviet parliament—the Council of Soviet Deputies—enacted the consumer protection law, which reforms current product liability statutes, in May.

But, it is unclear whether the new law intends to replace or supplement current product liability statutes, according to Mr. Starr, whose firm has translated the measure into English.

Soviet authorities have not issued an official English translation of the law.

Mr. Starr said the new law, for the first time in Soviet history, defines the legal rights of citizens as consumers of products and services.

The concept of liability in the Soviet Union is expressed by the Russian word *otvetytvennost*, meaning both liability and responsibility, the law firm said.

Like U.S. tort law, the new Soviet law calls for a consumer to be compensated for any harm caused by a product, Mr. Starr said.

However, it remains unclear how the law will be implemented and how Soviet commercial and judicial procedures for dealing with the law will develop, Mr. Starr said.

Soviet laws often are enacted containing broad standards that leave many questions unanswered, he said. Lower legislative bodies then refine the laws.

For example, the law does not set limits on compensation, and,

Continued on page 87

INTERNATIONAL

LUC outlook

Continued from previous page million pounds (\$43.9 million), say loss adjusters Thomas Howell Selfe Group.

There was also structural damage to the building and to its exterior cladding, which is the responsibility of the building's owner, Prudential Corp. P.L.C.

Reconstruction costs will be borne by a consortium of London underwriters led by Royal Insurance P.L.C. The insurance covered contractors, Prudential and Market Building Ltd.—a management and leasing company owned by 24 of the LUC's founding members.

The fire does not indicate that the building is unsafe, Mr. Blake said.

"It was a construction fire which could not have happened once the building had been occupied. When it happened, we were still in the process of installing the fire prevention and detection devices and, if these had been in place, the fire would have been extinguished immediately," he said.

The fire will not force the LUC to find another home, Mr. Blake stressed.

"Soon after the fire, we were receiving telephone calls from (real) estate agents saying, 'Terribly sorry to hear about the fire but can we help you find a new building?' There is no question of that happening... we have already started renovating the building," he said.

Mr. Blake said he does not expect the 72 companies that own the 90 underwriting units in the new building to have any difficulty securing accommodations for the extra year before they move.

Most of the companies will continue to operate from their existing offices and firms that are unable to remain in their current offices should have no problem finding alternative accommodations in the currently soft London property market, he said.

"It has brought out the best in the market and solidarity is the order of the day. After all, it would not be very good publicity for the insurance industry if it couldn't handle a fire in its own building," he said.

The idea of a non-marine underwriting center had been talked about in London for years but it was three years ago that serious discussions among insurers started.

It was partly the atmosphere of change that is currently surrounding the whole of the London market which acted as a catalyst for the project, Mr. Blake said.

"It is only one of the moves in the market. We now have computerized claims, which showed how well it worked during Piper Alpha and the European storms; Lloyd's is holding a fundamental review of its market; and the Reinsurance Offices Assn. and the Policy Signing and Accounting Center have merged, so there is a lot going on

already and the LUC is the icing on the cake," he said.

Mr. Blake said U.S. companies are particularly interested in the project.

"In the beginning, U.S. companies didn't understand what was happening and they were wary of it because they had seen the Miami and New York insurance exchanges fail. But as time went on and they saw the caliber of the companies that were to become part of the LUC they became very enthusiastic about it, and now when they come to visit their first question is, 'how is the LUC going?'" he said.

So far, 95% of the 295,000-square-foot building has been reserved by insurers.

Mr. Blake concedes that this does not leave much room for growth, but adds "there is a building next door which has not yet been filled." If the LUC building fills up, the neighboring building could take on the overflow, he said.

Other future changes for the LUC could include a merger with the London Insurance & Reinsurance Market Assn., Mr. Blake said. LIRMA itself was formed in January by an amalgamation of the Reinsurance Offices Assn. and the Policy Signing & Accounting Center Ltd. (BI, Dec. 31, 1990).

"The LUC will be nothing more than a management company providing a platform for its member companies but we are closely aligned to LIRMA, and if one looks into a crystal ball one might see the eventual merger of the two organizations," Mr. Blake said.

There will need to be a period of development for both organizations before this could happen, but "within five years it could be the obvious thing to do," he added. ■

Irish firms fear impact of E.C pension ruling

DUBLIN, Ireland—Irish pension funds could face a sharp increase in costs if the European Court of Justice makes a recent pension equality ruling retroactive, a government official says.

"Irish pension funds will face a bill for several million punts if the European Court rules that equality of treatment under pension laws should be retroactive," said Michael Woods, Ireland's Minister for Social Welfare.

"I have asked the National Pensions Board to urgently prepare a submission to the court about the effect of such a ruling on pension funds," he said, noting that a ruling is expected by year end.

The case stems from a European Court of Justice ruling last year that private pension plans must provide equal benefits to men and women retiring at the same age (BI, May 28, 1990). Many analysts had originally considered the ruling potentially costly for companies that had funded their pensions on the assumption that men would be entitled to benefits later than women. But observers later found the ruling not as expensive as feared (BI, Oct. 29, 1990).

Most Irish pension schemes provide for equality of retirement age and other benefits for men and women, but about 13% of the country's 27,000 private pension plans—covering some 550,000 people—do not. Those plans will be obliged to conform to the European Court ruling.

If the ruling is made retroactive,

GLOBAL BRIEFS

Mr. Woods contended, "there will be serious consequences for Irish pension funds, which have no budgeted for them. This will run into many millions of pounds."

—By Aidan O. Sullivan

Hungarian fraud squad

BUDAPEST, Hungary—Hungary's largest insurance company, Hungaria Insurance, is posting fraud investigators nationwide.

Hungaria Insurance set up its first insurance fraud investigation unit July 31 in Debreden, in eastern Hungary. The insurer, in which German insurer Allianz A.G. Holding holds a controlling interest, eventually plans to put investigators in all 22 counties.

Much of the nation's insurance fraud involves arson, staged home burglaries and staged automobile theft, according to Lorinc Laposi, a retired police official who heads up the insurer's new investigative arm.

Mr. Laposi said the company will primarily employ retired policemen to investigate claims.

—By Richard W. Bruner

Mexican insurer results

MEXICO CITY—Four out of five of Mexico's largest private non-life insurers reported healthy 1990 premium increases, reports J.D. Dawson & Asociados Inc., a brokerage and risk management consultant based in Mexico City.

The country's largest non-life insurer, Seguros La Provincial S.A., reported 658.12 billion pesos (\$223.2 million at year-end 1990 exchange rates) in non-life premiums last year, up 16.1% from 566.69 billion pesos (\$211.2 million at year-end 1989 exchange rates) in 1989.

Seguros de Mexico S.A., an affiliate of Switzerland's Zurich Insurance Co., wrote 452.17 billion pesos (\$153.4 million) in 1990, up 30.5% from 346.51 billion pesos (\$129.1 million) in 1989.

Seguros La Commercial S.A. wrote 427.22 billion pesos (\$144.9 million), up 37.8% from 309.99 billion pesos (\$115.5 million).

Seguros Monterrey S.A. wrote 392.56 billion pesos (\$133.2 million), up 60.7% from 244.31 billion pesos (\$91 million).

Among the largest private non-life insurers, only Seguros America Banamex reported a decline—of 0.9%—in non-life premiums. The affiliate of Assicurazioni Generali S.p.A. of Italy wrote 559.5 billion pesos (\$189.8 million) in 1990, compared with 564.73 billion pesos (\$210.4 million) in 1989.

Danish workers comp

COPENHAGEN, Denmark—The Danish parliament is entirely phasing out government subsidies for workers compensation premiums, leaving employers with the entire bill.

The annual compensation subsidy, 1,800 krone per employee (\$266.60), was originally set by a 1987 law, according to the Danish Insurance Assn. The amount was then reduced to 950 krone (\$140.70) as of April 1, 1991, and will be removed entirely effective Oct. 1.

The withdrawal of the subsidy is designed to reduce government expenditures, the DIA said. The move is expected to save 550 million krone (\$81.5 million) this year. ■

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INTERNATIONAL

Colombian risks

Continued from page 85

murders; 1,582 kidnappings; 139 attacks on energy pylons; and 931 terrorist attacks on other facilities.

And, according to a report issued by Colombia's Fourth Army Brigade, based in Medellin, guerrilla attacks in the first six months of 1991 have caused an estimated \$468 million in economic losses, or about 14% of Colombia's total export earnings in 1990.

During this period, 123 power pylons were either destroyed or badly damaged, leading to electricity rationing along the northern coast of Colombia, the report said. The government has said that the power supply shortfall was a major factor in a 5% drop in the country's industrial output in the first half of 1991.

Also during this period, the country's main oil pipeline, which runs from the Cano Limon oil field in the eastern plains of Colombia to Puerto Covenas on the Caribbean coast, was bombed 40 times. The report estimated that close to 96,000 barrels of oil were spilled as a result. Colombia produces about 439,000 barrels of oil per day.

The Cano Limon oil field is located in Colombia's Llanos plains, close to the Venezuelan border and almost 350 miles northeast of Bogota.

It is operated by a joint venture of Occidental Petroleum Corp. of Los Angeles; Shell Oil Co. of Houston; Repsol S.A. of Madrid; and the Colombian state oil company, Ecopetrol. The oil pipeline between Cano Limon and the Covenas on the coast, which lies just south of Cartagena, is operated solely by Ecopetrol.

None of the oil companies con-

tacted by *Business Insurance* would comment on the risk of terrorism in Colombia.

Mr. Crocker observed that "the damages caused by terrorists are always quickly repaired, but new tactics used by the subversives include the blocking off of access roads in order to slow down the renewal of oil production.

"They are well-organized, and the leaders are often university graduates," he noted.

"The guerrillas are well informed of all aspects, including future planning and alternatives, of oil companies in Colombia. International experts are known to have

'Most companies take the terrorist threat very seriously, indeed,' says Mr. Crocker.

visited Colombia on consulting contracts for the FARC group," Mr. Crocker said.

A London-based terrorism expert, who asked not be identified, confirmed that such consulting contracts exist, noting that consultants for such terrorist groups can earn as much as \$200,000 annually.

"Most companies take the terrorist threat very seriously, indeed, and very few believe themselves to be exposure-free," Mr. Crocker said.

A wide range of security levels can be found, particularly at oil company premises and operations, he said. These include:

- Presence of army personnel, which is financed by the oil com-

panies.

- Private armed guards.
- Perimeter fencing in layers.
- Checkpoints.
- Radio communications and electronic surveillance.
- Bodyguards.

"While insurers frequently request details of security measures, you can be sure that the oil companies are even more interested in keeping the oil flowing than the underwriters," Mr. Crocker said. "An insurance company does not normally offer advice" on security measures to these companies, he said, since they typically either have in-house security staff or contract with independent security companies.

Despite those security precautions, Mr. Crocker said terrorism coverage is becoming more and more difficult to place. For some companies, alternatives to insurance could include tougher loss prevention measures, like building fortress-like production facilities, burying pipelines or relocating to safer countries, he said.

In addition, over the past 20 years in Latin America, many oil companies have managed to operate in countries with insurgency problems by reaching a form of modus vivendi with the rebel forces.

A company might occasionally provide food and medical facilities to the rebels in exchange for leaving the oil facility alone, provided that there are no military forces guarding the installation.

Mr. Crocker, however, believes that this form of accommodation is no longer possible.

"Support in the way of schools, medical supplies, first aid posts and other local community projects does help. But, while this may have

been acceptable in the past, extortion for cash is becoming much more prevalent," he said.

According to the London terrorism expert, companies and individuals working in countries with such a problem face a situation without solution.

The reason, he said, is that terrorism on the level of Colombia's is a business, "the business of terror," and is quite disassociated from the original political grievances that first led to armed conflict.

"If eliminating people who affect the business will improve the business, then you eliminate people. If hostages are taken, then the bargaining position improves and furthers the business' prospects. There is a whole universe that operates according to those rules," the expert said.

He added that this "business" is led at the top by very intelligent individuals who deliberately employ less intelligent people as "cannon fodder."

People and companies that try to fight terrorism cannot really win, he said. "In the end... the terrorist wins, because the terrorist is ready to die; the security officer is not," he said.

Also fueling terrorism in Colombia "is a degree of recession in the drug industry and a redundant amount of 'musclepower' in the 47 different assassin groups in Medellin," according to the terrorism expert. "These criminals have either diversified their illegal activities or have moved to the larger cities like Bogota and continue alongside common delinquents," he said.

"Out-of-work assassins may have worked out a deal with the guerrillas whereby they take a large commission on paid ransoms

after turning in victims to the guerrillas," he said.

According to a Lloyd's of London underwriter specializing in kidnap and ransom insurance, there is a noticeable geographical shift in demand for coverage and claims from Colombia as the locus of terrorist activity moves away from Medellin. "But we are still writing kidnapping insurance for Colombians and foreigners alike," he said.

No. 007592 of 1991

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

MR REGISTRAR PIMM

IN THE MATTER OF
HALVANON INSURANCE COMPANY LIMITED
and
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that by an Order dated 8th July 1991 the Court has directed a Meeting of the creditors whose claims arise from transactions entered into with the London Office of the above-named Company (the "London Business Creditors" as defined in the Scheme of Arrangement hereinafter mentioned) to be convened for the purpose of considering and if thought fit approving (with or without modification) a Scheme of Arrangement proposed to be made between the said Company and its creditors and that such Meeting will be held at the Chartered Insurance Institute, 20 Aldermanbury, London EC2V 7HY, England on 23rd October 1991 at 10:30 o'clock in the forenoon at which place and time all the aforesaid London Business Creditors are requested to attend.

Any person entitled to attend the said Meeting can obtain copies of the said Scheme of Arrangement, Form of Proxy and copies of the Statement required to be furnished pursuant to Section 426 of the above-mentioned Act at the office of the undermentioned Solicitors at the address mentioned below, the Company's UK registered office at Shelley House, 3 Noble Street, London EC2V 7DQ and at the Company's Israeli registered office at 20 Mazah Street, Tel Aviv, 6523 during usual business hours on any day (other than a Saturday or Sunday) prior to the day appointed for the said Meeting.

The said London Business Creditors may vote in person at the said Meeting or they may appoint another person, whether a London Business Creditor or not, as their proxy to attend and vote in their stead.

It is requested that forms appointing proxies be lodged with the Company's English Joint Liquidators at their office situate at Shelley House, 3 Noble Street, London EC2V 7DQ, England not less than 48 hours before the time appointed for the said Meeting, but if forms are not so lodged they may be handed to the Chairman at the said Meeting.

By the said Order the Court has appointed Malcolm John London or failing him Gerhard Adolf Weiss or failing both of them, Philip John Singer (all of the aforesaid Shelley House) to act as Chairman of the said Meeting and has directed the Chairman to report the result thereof to the Court.

The said Scheme of Arrangement will be subject to the subsequent approval of the Court.

Dated this 30th day of August 1991

D J Freeman
43 Fetter Lane
London EC4A 1NA

Solicitors for the Liquidators

Soviet product liability

Continued from page 85

like U.S. law, the word "insurance" is not mentioned in the measure, according to Cole, Corrette & Abrutyn.

However, the law does state that sellers and manufacturers can be required to compensate pay consumers for the "full amount" of any injury or damage their products cause.

The new law defines a consumer as "any citizen who uses, acquires

or orders or has a purpose to acquire products."

The law also stipulates a guaranteed minimum standard of consumption, a quality standard and a safety standard.

And, it requires full and reliable information about products.

Current Soviet law only requires a product to meet state technical standards.

Under current law, if a product is defective, then the buyer has the

option of:

- Obtaining a replacement product.
- Receiving a proportionate reimbursement of the purchase price.
- Requiring the seller to eliminate the defects from the product.
- Rescinding the purchase agreement.

A buyer currently can present his claim only to the seller and gen-

erally not the manufacturer, unless such an action was specifically allowed by law.

Courts, though, typically denied legal actions against producers. For example, the Civil Chamber of the Russian Federation Supreme Court ruled in a 1981 case that "the producer does not bear a direct responsibility toward the buyer of the losses caused to him, as he is not a party to the contract."

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SEPTEMBER

SEPT. 10. Civil Procedures for Claims Personnel—Emphasis on Practical Aspects symposium in Seattle, co-sponsored by the Society of Chartered Property & Casualty Underwriters and the Society of CPCU Claims Section; \$40. Mari Stambaugh, Sections Coordinator, The Society of CPCU, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355; 215-251-2741.

SEPT. 11-12. Reinsurance Accounting and Auditing seminar in Chicago, sponsored by The College of Insurance; \$895 for college sponsors; \$995 for non-sponsors; less \$100 for second person from same organization registering on same date. **Also Nov. 13-15** in San Francisco. The College of Insurance, Professional Programs, 101 Murray St., New York, N.Y. 10007; 212-815-9201; 212-962-4111, ext. 201.

SEPT. 11-13. 1991 Human Resources Management Systems Conference in Orlando, Fla., sponsored by GENESYS Software Systems; \$750. Maureen Paradis, Conference Program Coordinator, 508-685-5400, ext. 3055.

SEPT. 11-13. Fundamentals of Insurance course in Dallas, sponsored by the Risk & Insurance Management Society Inc.; \$540 for RIMS members; \$640 for non-members; less \$45 if registered at least six weeks prior to course. **Also Oct. 21-23** in Kansas City, Mo.; **Dec. 2-4** in Atlanta. Education Department, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

SEPT. 12. Brief Reinsurance seminar in New York City, sponsored by The College of Insurance; \$215 for college sponsors; \$265 for non-sponsors. **Also Nov. 7-8** in New York City. The College of Insurance, Professional Programs, 101 Murray St., New York, N.Y. 10007; 212-815-9201; 212-962-4111, ext. 201.

SEPT. 12-13. Insurance Industry Environmental Claims Institute: A Conference for Insurers and Their Counsel on How to Attack This Burgeoning Area in New York

City; sponsored by Executive Enterprises Inc.; \$1,045. **Also Oct. 23-24** in San Francisco. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

SEPT. 12-13. Insurance Claims Supervision Seminar in Atlanta, sponsored by the Defense Research Institute Inc.; \$295 for DRI members; \$320 for non-members. DRI, Insurance Claims Supervision Seminar, 750 N. Lake Shore Drive, Suite 500, Chicago, Ill. 60611; 312-944-0575.

SEPT. 12-14. Illinois Assn. of Professional Insurance Agents' 40th Annual Convention in Springfield, Ill.; \$180 for members; \$335 for members and spouse; \$245 for non-members; \$425 for non-members and spouse. Illinois PIA, 955 Durkin Drive, Springfield, Ill. 62704.

SEPT. 16-17. Disaster Recovery & Restoration for Telecommunications Facilities & Networks seminar in Washington, D.C., sponsored by Data-Tech Institute; \$695. **Also Sept. 23-24** in Hartford, Conn.; **Sept. 26-27** in Chicago; **Oct. 15-16** in Morristown, N.J.; **Oct. 21-22** in St. Louis; **Oct. 24-25** in Minneapolis. Data-Tech Institute, P.O. Box 2429, Clifton, N.J. 07015; 201-478-5400.

SEPT. 16-19. Fundamentals of Employee Benefits seminar in Chicago, sponsored by the American Management Assn.; \$975 for AMA members; \$1,120 for non-members. AMA, P.O. Box 319, Saranac Lake, N.Y., 12983; 518-891-0065.

SEPT. 17. Controlling Legal Expense seminar in Des Moines, Iowa, sponsored by The Society of Chartered Property & Casualty Underwriters and the Iowa chapter; \$99 for Society of CPCU members; \$120 for non-members; add \$15 after Sept. 3. Bonnie Kinsley, Continuing Education Coordinator, The Society of CPCU, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 215-251-2735.

SEPT. 17. Back to Basics on Surety Bonds seminar in Lafayette, Calif., sponsored by the Insko/Dico Group; \$19.95. **Also Oct. 8** in Burbank, Calif.; **Oct. 15** in Fresno, Calif. Tim Mitchell, Insko/Dico Group, 800-782-1546.

SEPT. 17-18. Health Care Cost Containment workshop in San Francisco, sponsored by the Health Research Institute; \$595. **Also Oct. 15-16** in Boston; **Nov. 12-13** in New York. Workshop Coordinator, Health Research Institute, 1600 S. Main Plaza, Suite 170, Walnut Creek, Calif. 94596; 415-676-2320.

SEPT. 17-19. Fundamentals of Reinsurance Seminar in Irving, Texas, sponsored by the University of Dallas Graduate School of Management; \$555. Professor Bruce Evans, Reinsurance Management Institute, University of Dallas, Irving, Texas 75062-5299.

SEPT. 19. Advanced Cost Containment workshop in San Francisco, sponsored by the Health Research Institute; \$295. **Also Oct. 17** in Boston; **Nov. 14** in New York; **Dec. 12** in Chicago. Workshop Coordinator, Health Research Institute, 1600 S. Main Plaza, Suite 170, Walnut Creek, Calif. 94596; 415-676-2320.

SEPT. 19. Current Retirement Plan Issues—Treasury, IRS and Department of Labor Perspectives in Boston, sponsored by the New England Employee Benefits Council; \$100 for NEEBC members; \$125 for non-members. NEEBC, 45 William St., Suite 225, Wellesley, Mass. 02181; 617-239-1767.

SEPT. 19-20. Mergers & Acquisitions in the Insurance Industry forum in New York City, sponsored by the Institute for International Research; \$1,095; group discounts are available. Conference Administrator, IIR, 437 Madison Ave., New York, N.Y. 10022; 212-826-1260.

SEPT. 22-24. 1991 Annual LOMA Conference and Fellow-Life Management Institute Conferment in Washington, D.C., sponsored by LOMA, an insurance industry association; \$525 for LOMA members; \$750 for non-members. Barbara Jones Newey, Marketing Department, LOMA, 404-951-1770.

SEPT. 22-26. Advanced Reinsurance seminar in White Plains, N.Y., sponsored by The College of Insurance; \$1,355 for college sponsors; \$1,455 for non-sponsors. The College of Insurance, Professional Programs,

101 Murray St., New York, N.Y. 10007; 212-815-9201; 212-962-4111, ext. 201.

SEPT. 22-26. The 1991 NALU Convention in Nashville, Tenn., sponsored by the National Assn. of Life Underwriters; \$225; \$75 for guests. NALU Convention Registration, 1922 F St. N.W. Washington, D.C. 20006-4387; 202-331-6032.

SEPT. 23. An Overview of Workers Compensation in Traverse City, Mich., sponsored by the Personnel Management Program Service of Michigan State University; \$245. **Also Oct. 16** in Frankenmuth, Mich. Ed Anderson, 517-355-9591.

SEPT. 23-24. 401(k) conference in New York, sponsored by International Business Communications; \$895. IBC USA Conferences Inc., 8D Pleasant St., South Natick, Mass. 01760; 508-650-4700.

SEPT. 23-24. Managing the Workers Compensation Crisis seminar in New York City, sponsored by the American Management Assn.; \$850 for AMA members; \$980 for non-members. **Also Oct. 28-29** in Los Angeles; **Nov. 21-22** in Chicago. AMA, P.O. Box 319, Saranac Lake, N.Y. 12983; 518-891-0065.

SEPT. 23-24. Employee Benefit Administrators Compliance Conference in Chicago, sponsored by Charles D. Spencer & Associates Inc.; \$560; \$485 for subscribers to Spencer newsletter. Spencer & Associates Inc., 250 S. Wacker Drive, Suite 600, Chicago, Ill. 60606-5834; 312-993-7900.

SEPT. 23-25. Practical Environmental Law course in Washington, D.C., sponsored by Federal Publications Inc.; \$925; add \$25 less than two weeks before course. **Also Oct. 28-30** in Coronado, Calif. Environmental Course, FPI, 1120 20th St. N.W., Washington, D.C. 20036; 202-337-7000.

SEPT. 23-26. American Society for Industrial Security's 37th Annual Seminar & Exhibits in Orlando, Fla.; \$375 for ASIS members; \$480 for non-members; add \$50 after Sept. 11. \$150 for spouse program; \$175 after Sept. 11; \$60 for student members; \$70 after Sept. 11; single-day

registration package available. ASIS, 1655 N. Fort Meyer Drive, Suite 1200, Arlington, Va. 2209-3198; 703-522-5800.

SEPT. 23-27. Level 1-Infrared Thermography course in Atlanta, sponsored by American Risk Management Corp.; \$1,295. American Risk Management Corp., 1 Independence Place, Suite 500, 4807 Rockside Road, Cleveland, Ohio 44131; 216-447-1600.

SEPT. 23-27. Fundamentals of Employee Benefits Management training course in Brookfield, Wis., sponsored by the International Foundation of Employee Benefit Plans; \$1,050 for IFEBP members; \$1,175 for non-members. Registrations Department, IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

SEPT. 25-27. Claims Management course in Boston, sponsored by the Risk & Insurance Management Society Inc.; \$595 for RIMS members; \$695 for non-members. **Also Nov. 20-22** in New Orleans. RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

SEPT. 25-28. Southern Employee Benefits Conference meeting in Naples, Fla.; \$500 for SEBC members; \$550 for member applicants; \$650 for non-members. SEBC, P.O. Drawer 47309, Atlanta, Ga. 30362; 404-458-6233.

SEPT. 26. Introduction to Risk Management seminar in New York City, sponsored by The College of Insurance; \$225 for college sponsors; \$275 for non-sponsors. **Also Nov. 13.** The College of Insurance, Professional Programs, 101 Murray St., New York, N.Y. 10007; 212-815-9201; 212-962-4111, ext. 201.

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Punitive damages

Continued from page 1
Judge Baxter.

He went on to explain that "the determination of whether an award is excessive is admittedly more art than science."

"However, when provided with evidence of a defendant's financial condition, the reviewing court can at least reach a reasonably informed decision," Judge Baxter said.

"Without such evidence, a reviewing court can only speculate as to whether the award is appropriate or excessive," he said.

Similarly, Judge Baxter said, without this information "a jury will be encouraged—indeed required—to speculate as to a defendant's net worth in seeking to return a verdict that will appropriately punish the defendant."

"Sound public policy should preclude awards based on mere speculation," the decision said.

"The purpose of punitive damages is not served by financially destroying a defendant," said Judge Baxter, referring to an earlier decision from the California Supreme Court. "The purpose is to deter, not to destroy."

Judge Baxter also said that the burden of producing evidence about the defendant's wealth is on the plaintiff. It is appropriate to place this burden on the plaintiff because it is plaintiff that is seeking punitive damages in the first place, he said.

Requiring defendants to disclose financial data would be prejudicial, the opinion pointed out. "Doing so places the defendant in

the position of bidding against himself," Judge Baxter explained.

A defendant forced to disclose his finances to the jury sends the message: "My conduct does not warrant punitive damages. But, by the way, if you disagree, please be gentle. I'm worth only the following amount," the opinion stated. This could lead the jury to think the defendant is admitting punitive damages are appropriate, Judge Baxter said.

The court struck down the punitive damage award against the doctor. It sent the case back to the trial court for a hearing to try to determine the doctors' wealth and whether punitive damages are appropriate.

In a dissenting opinion, Judge Stanley Mosk said that California's statutory system for awarding punitive damages, case law and the U.S. Supreme Court's recent ruling on punitive damages do not require evidence of a defendant's financial condition as a prerequisite to an award of punitive damages.

"Clearly our system permits but does not compel the plaintiff to introduce evidence of the defendant's financial condition to sustain a punitive damages award," said Judge Mosk. "This was the Legislature's choice."

His dissent was joined by Judge Steven J. Stone, a state appeals court judge who was sitting with the Supreme Court by designation.

Some attorneys say the California Supreme Court's decision could benefit defendants by making it more difficult for plaintiffs to win punitive damage awards.

"This can be an impediment to

plaintiffs in getting punitive damages," said Philip Kaufler, an attorney with Kaufler, Bailey & Scott in Beverly Hills, who represented the plaintiff, Myretta Adams, in this case.

For example, if the defendant ignores a lawsuit filed against him and a default judgment is awarded to the plaintiff, this plaintiff will not be able to recover any punitive damages without proof of the defendant's wealth, Mr. Kaufler explained.

"A rule that requires plaintiffs to meet a certain burden of proof will make it harder to get punitive damages," agreed Archie S. Robinson, a defense attorney with Robinson & Wood in San Jose, Calif.

"To the extent a plaintiff fails to (meet this burden), a punitive damage award will not be sustained," said Mr. Robinson, who is chairman of the board of the Defense Research Institute, a defense lawyers group.

"This is a step in the right direction," he said.

Other defense attorneys were not so enthusiastic.

"Large corporate defendants feel that if a jury looks at their wealth, they will determine liability based on their wealth and not on the wrongdoing," said Victor Schwartz of Crowell & Moring in Washington, D.C.

While California holds bifurcated trials in cases involving punitive damages, in which one trial is held to determine the defendant's liability and another is held to determine whether a punitive award is warranted and its amount, the state Supreme Court

ruling could still hurt defendants, said Mr. Schwartz.

"There is less prejudice in a bifurcated trial," he said. "However, evidence of a defendant's wealth still could effect the amount of punitive damages the jury awards."

"If you wave in front of a jury that a company is worth \$3 billion, then the punitive damage award can be out of proportion to the wrongdoing," said Mr. Schwartz.

Martin Connor, president of the American Tort Reform Assn. in Washington, D.C., agreed that a defendant's wealth is "irrelevant" in assessing whether a punitive damage award is excessive.

"The relevant thing is the profitability of the wrongful conduct, not the defendant's wealth," he said.

"You are not trying to punish the shareholders or the senior management," Mr. Connor noted, adding that the goal of punitive damages is to punish those responsible for the harmful conduct.

"The question should be what benefit was conferred on the defendant as a result of the wrongdoing," he said.

All of the attorneys agree that the decision signals that the California Supreme Court is taking a long hard look at the state's punitive damage system.

The decision demonstrates that "courts will scrutinize very closely punitive damage awards," said defense attorney Curtis A. Cole, who represented the defendant, Dr. Clifford Murakami, in the case.

Mr. Cole predicted that the Aug. 19 ruling would be one of several decisions that reshape California's

system for awarding punitive damages.

"This is the first step in a multi-case process that will have to unravel in future years," said Mr. Cole of Thelen, Marrin, Johnson & Bridges in Los Angeles.

The decision "is a tremendous signal from the California Supreme Court that there are problems with the current system of awarding punitive damages and, perhaps, a need to rope them in," he said.

"The court indicated that the California system is short in several respects," agreed Fred J. Hiestand, an attorney with his own firm in Sacramento who filed a brief on behalf of the Assn. for California Tort Reform.

For example, in a footnote, the court questioned the constitutionality of the California standard for judging the reasonableness of punitive damage awards. State courts are to strike down awards determined to be the result of "passion or prejudice" by the jury. However, the court left resolution of this critical issue to another day.

Mr. Cole said the state Supreme Court decision "could possibly" prompt changes in state laws regarding punitive damages, though he added that "the California Legislature is not of a mood to do anything about it now."

However, the ruling by the state's high court could "persuade the Legislature that the courts are adequately taking care of this issue," Mr. Robinson noted.

Myretta Adams vs. Clifford Murakami, California Supreme Court; No. S003530.

Measure of wealth is debated

SAN FRANCISCO—The California Supreme Court's recent ruling requiring that evidence of a defendant's wealth be introduced before punitive damages can be awarded leaves open the question of how wealth should be measured.

The court did not specify what measure should be used: net worth, revenues, gross assets, net income, the profit the defendant received as a result of his wrongful conduct or another measure.

Attorneys are divided on which of these methods is the most appropriate.

Most plaintiffs' attorneys advocate looking at net worth since this most often is the most impressive number.

And defense attorney Philip Kaufler of Beverly Hills, Calif., who represented the defendant in the case before the California Supreme Court, argued that net worth is the appropriate measure of the defendant's wealth.

However, most defense attorneys advocate that courts should consider the profits the defendant gained from the wrongful conduct, rather than basing a punitive award on the defendant's net worth, said defense attorney Victor Schwartz of Crowell & Moring in Washington, D.C.

"Forcing a defendant to disgorge the profits" made from his wrongful conduct is a "much fairer standard than net worth," agreed Fred J. Hiestand, a sole practitioner in Sacramento who represents the Assn. for California Tort Reform.

But, defense attorney Archie Robinson of Robinson & Wood in San Jose, Calif., said the method should be selected on a case-by-case basis. "For a company that is illiquid—holds most of its assets in property—revenues, sales or income may not be fair to the plaintiff," he explained.

—By Stacy Adler

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Benefit study

Continued from page 2
have not been aggressive in developing policies that address the conflict between work and family demands," he said.

Mr. Parkington said he is not surprised that many employees do not believe their companies' benefit programs help them balance their work and family responsibilities.

"We have a growing number of dual-income families and a greater emphasis on higher productivity on the job. As a result, there is a growing conflict between the demands of work and of home. It's important to manage that con-

flict," he said.

Many companies have examined programs designed to help workers meet family needs—like caring for a sick parent or child—by providing time off or allowing employees to work at home. But relatively few employers have actually started such programs, Mr. Parkington said.

Meanwhile, the survey found that employees were much more satisfied with certain company-provided benefits than with others.

For example, among the seven benefits on which employees were surveyed, life insurance ranked the highest, with 72% of the employees saying they were satisfied with their companies' life insurance

'There is a growing conflict between the demands of work and of home,' says John Parkington.

benefits program. Seventeen percent had mixed views and 11% were dissatisfied.

Next came vacation benefits, with 70% of employees reporting they were satisfied, while 18% had mixed views and 12% were dissatisfied.

Dental benefits were ranked last,

with 56% of employees saying there were satisfied. Nineteen percent were ambivalent, and 25% were dissatisfied.

Pension programs were only slightly more popular than dental programs, with 58% of employees reporting they were satisfied, 22% saying they had mixed views about them and 21% saying they were dissatisfied.

The popularity of life insurance benefits may reflect both their lack of cost-sharing features and their simplicity, Mr. Parkington said.

"With life insurance, there are no deductibles or coinsurance. And the benefits usually are a multiple of salary, like one or two times salary," he said.

By contrast, the relatively low employee satisfaction with dental benefits may be the result of "inflated employee expectations," Mr. Parkington said.

For example, when employees use services under the company dental plan, they may be disappointed to find out that the plan places an annual limit on benefits or caps orthodontia benefits, he said.

Pension benefits may have ranked relatively low because the benefit would be paid in the distant future, so employees do not pay a lot of attention to it, Mr. Parkington said.

In addition, it is a complicated benefit, and companies do not always explain pension benefits very well, he said.

Medical benefits ranked near the bottom of the list of surveyed benefit, though a majority of employees did rank those benefits favorably. Sixty percent of employees said they were satisfied with their medical benefits, while 22% were ambivalent, and 18% were dissatisfied.

Other specific benefits and employees' satisfaction with those benefits include:

- Sick leave benefits. Sixty-four percent of employees said they were satisfied with their companies' sick leave benefits, while 16% had mixed views and 20% said they were dissatisfied.

- Savings plans, including thrift and 401(k) plans. Sixty-two percent of employees said they were satisfied with their companies' savings plans, while 18% were ambivalent and 19% said they were dissatisfied.

The survey also found that employees at large companies viewed their benefit programs much more favorably than workers at smaller companies.

For example, 66% of employees working at companies with more than 10,000 employees agreed with the statement: "My company's employee benefits are adequate for my needs and/or those of my family." Nineteen percent had mixed views, and 15% disagreed.

By contrast, only 47% of workers at companies with fewer than 500 employees viewed their companies' benefit programs favorably, while 25% had mixed views and 28% held unfavorable views.

This disparity may simply reflect that larger companies tend to offer richer benefit programs than smaller firms, said Mr. Parkington.

The survey also found that salaried employees view their benefit programs more favorably than hourly employees.

For example, 65% of salaried employees believe their companies' benefit programs are adequate to meet their needs. Twenty-one percent held mixed views, and 14% had unfavorable views.

By contrast, 51% of hourly employees agreed that their companies' benefit programs meet their needs, while 26% were ambivalent and 23% had unfavorable views.

In some cases, hourly employees may not be as satisfied with company benefits as salaried employees because their relatively low wages make certain benefits less attractive, Mr. Parkington explained.

For example, lower-paid hourly employees generally will not be able to afford to contribute as much to their 401(k) plans as higher-paid employees do, so the dollar amount of the matching company contribution will be smaller for hourly employees than for salaried employees.

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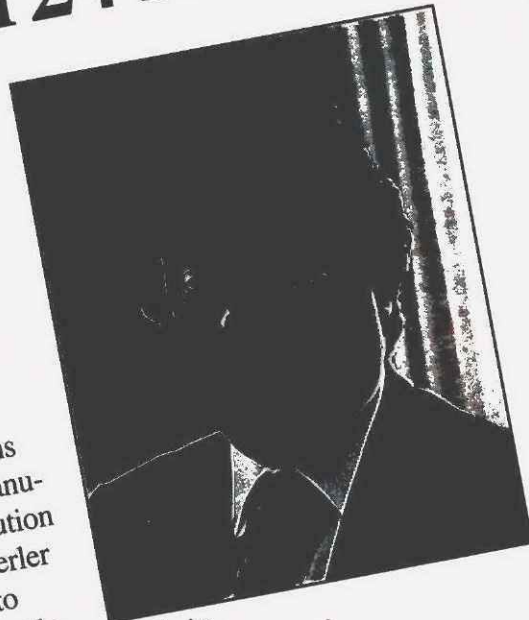
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2	5	Edward J. Noha, 63	CNA Financial Corp.	2,109,285	1,488,484	41.7	35,325	9,944.4	9.5	366.5	(40.3)
3	3	Maurice R. Greenberg, 65	American International Group Inc.	1,750,000	1,570,000	11.5	378,206,752	15,702.0	11.0	1,442.0	5.5
4	7	James R. Harvey, 56	Transamerica Corp.	1,410,856	1,385,650	1.8	127,050	6,703.1	(1.9)	266.3	(19.8)
5	6	Ian M. Rolland, 57	Lincoln National Corp.	1,391,388	1,113,263	25	1,112,530	8,489.5	5.1	191.4	(28.8)
6	10	Harold S. Hook, 59	American General Corp.	1,335,840	1,234,060	8.2	6,420,813	4,481.0	7.4	562.0	21.2
7	2	Wilson H. Taylor, 47	CIGNA Corp.	1,283,000	1,103,000	16.3	591,422	18,164.0	16.0	330.0	(41.3)
8	15	Ronald E. Ferguson, 49	General Re Corp.	1,253,100	1,201,197	4.3	1,606,000	2,993.2	7.9	613.6	2.5
9	11	Dean R. O'Hare, 48	The Chubb Corp.	1,252,525	1,072,724	16.8	2,364,007	4,247.5	6.1	522.1	24.1
10	12	Douglas W. Leatherdale, 54	The St. Paul Cos. Inc.	1,110,998	New CEO	NA	1,284,446	4,005.2	5.7	391.3	(1.7)
11	1	James T. Lynn, 64	Aetna Life & Casualty Co.	1,066,539	1,051,538	1.4	1,070,272	19,020.0	(3.7)	614.0	(9.2)
12	18	James F. Orr III, 48	UNUM Corp.	1,026,231	965,404	6.3	2,563,190	2,170.3	12.2	185.2	19.2
13	9	Norman P. Blake Jr, 49	USF & G Corp.	957,708	New CEO	NA	101,250	4,535.0	(3.5)	(569.0)	NM
14	24	Wilson Wilde, 63	The Hartford Steam Boiler Inspection and Insurance Co.	942,632	805,179	17.1	5,481,319	562.4	12.3	78.7	1.4
15	27	Ronald L. Bornhuetter, 58	NAC Re Corp.	925,459	852,684	8.5	2,089,430	265.9	11.1	25.0	(2.3)
16	17	Patrick G. Ryan, 53	Aon Corp.	911,539	789,292	15.5	332,871,025	2,626.4	13.0	239.0	2.8
17	8	John P. Mascotte, 51	Continental Corp.	910,792	844,231	7.9	577,389	5,705.2	(6.6)	137.3	(7.2)
18	25	William R. Berkley, 45	W. R. Berkley Corp.	863,091	842,173	2.5	46,457,219	538.1	(2.3)	36.1	(35.3)
19	4	Edward H. Budd, 57	Travelers Corp.	700,000	950,000	(26.3)	826,755	11,314.0	(9.7)	(178.0)	NM
20	21	Alan R. Gruber, 63	Orion Capital Corp.	646,003	600,135	7.6	1,841,194	783.9	(4.6)	25.5	(15.8)
21	29	James F. Billett Jr., 46	Trenwick Group Inc.	582,817	543,243	7.3	2,375,649	122.2	0.2	17.2	8.9
22	14	Bruce Maines, 64	SAFECO Corp.	572,551	529,664	8.1	1,430,099	3,178.5	8.3	278.4	(7.3)
23	20	A.C. Zucaro, 51	Old Republic International Corp.	537,436	New CEO	NA	80,988,957	1,242.7	5.1	104.6	5.8
24	22	Charles E. Rinsch, 58	Argonaut Group, Inc.	480,914	455,857	5.5	374,634	611.0	8.3	89.7	9.9
25	19	Joseph L. Marcum, 67	Ohio Casualty Corp.	447,946	443,412	1.0	10,886,879	1,637.5	3.8	84.1	(17.1)
26	23	James A. McIntyre, 58	Fremont General Corp.	416,502	396,100	5.2	8,133,568	573.4	33.2	26.8	52.3
27	26	Bradford W. Mitchell, 63	Harleysville Group Inc.	416,115	377,387	10.3	200,441	344.2	7.9	25.9	14.1
28	28	Patrick Peugeot, 53	Scor U. S. Corp.	267,055	165,989	60.9	219,582	222.9	2.2	24.9	84.4
29	30	Walter A. Rhulen, 59	Frontier Insurance Group, Inc.	266,400	207,300	28.5	2,748,096	86.0	35.2	10.8	14.9
30	16	Warren E. Buffett, 60	Berkshire Hathaway Inc.	100,000	100,000	0.0	4,191,857,350	2,659.5	7.1	394.1	(11.9)

¹Stock values as of Aug. 16. ^{NM}Not meaningful.

Source: Company proxy statements and annual reports. Research by Cary Roberts.

GRAPHIC BY KIMBERLY MART

CEO pay

Continued from page 1

ance reasons," Mr. Furniss explained: It does not look good for CEOs to receive big raises during times of staff cutbacks.

"The insurance industry did not have a great year, so bonus payments were down," pointed out Michael Halloran, head of the executive compensation practice and a principal at The Wyatt Co. in New York.

It was a "flat year because the recession had a direct effect" on companies' performances, he said.

Property/casualty insurers had a tough year in 1990 with "prices cut to the bone and investments down," which held down raises for insurer CEOs, said Jane Romweber, an executive compensation consultant with Hewitt Associates in Atlanta.

The highest-paid insurer CEO remains, by a wide margin, Saul P. Steinberg, chief executive officer of Reliance Group Holdings Inc. in New York, even though his cash compensation of \$6.3 million in 1990 was only a 0.8% increase from his previous year's compensation (see chart).

"Mr. Steinberg's compensation reflects our outstanding year," a Reliance spokesman said.

"Net income and shareholders' equity were up sharply and return on equity was approximately 34%," according to a company statement about Reliance's 1990 performance.

Reliance's net income catapulted 514.7% last year, in sharp contrast to an 8.1% drop in net income in 1989. But, much of its 1990 gain is attributable to a \$245.5 million after-tax gain on the sale of its General Casualty Insurance Co. subsidiary to Winterthur Swiss Reinsurance Co. (BI, April 1; March 19, 1990).

Mr. Steinberg ranked 26th in a Forbes' magazine survey of the 1990 compensation of CEOs of 800 publicly held companies, dropping from fourth place in the 1989 survey.

Four other top Reliance executives were paid more than \$1 million in cash compensation in 1990, according to the company's proxy statement, including Mr. Steinberg's brother, President and Chief Operating Officer Robert M. Steinberg, who received \$3.1 million for the year.

CNA Financial Corp.'s Edward J. Noha, 63, moved up two notches to second place with a 1990 cash compensation of \$2.1 million, up 41.7%

from \$1.5 million in 1989.

Mr. Noha's compensation soared even though Chicago-based CNA's net income fell 40.3% last year.

"Mr. Noha exercised a bonus plan option," explained a CNA spokesman, refusing to comment on the specifics of the plan or the amount of the bonus. The size of the bonus could not be determined from CNA's proxy statement.

Maurice R. Greenberg of American International Group Inc. of New York was the third-highest paid insurer CEO for the second consecutive year. Mr. Greenberg's 1990 cash compensation totaled \$1.8 million, an 11.5% gain from 1989. The company's net income rose 5.5% in 1990.

Transamerica Corp.'s James R. Harvey, 56, moved up one spot to fourth place with \$1.4 million in 1990 cash compensation, a 1.8% increase from 1989. San Francisco-based Transamerica's net income fell 19.8% in 1990.

In addition, Frank C. Herringer, 48, president of Transamerica, received cash compensation of \$1.1 million last year.

Ranking fifth was Lincoln National Corp.'s Ian M. Rolland, who was paid \$1.39 million last year, a 25% jump from \$1.1 million the previous year, even though the Fort Wayne, Ind.-based company's net income fell 28.8%.

In his first year as CEO at The St. Paul Cos. Inc., Douglas W. Leatherdale, 54, joined the ranks of insurance industry CEOs who earn more than \$1 million in cash compensation. He was 10th on the list of CEOs, with \$1.1 million in cash compensation. The St. Paul, Minn.-based insurer's net income slipped 1.7% last year.

Mr. Leatherdale succeeded Robert J. Haugh, who retired on May 31, 1990. Mr. Haugh received cash compensation of \$709,762 in 1990.

Another new member of the million-dollar club was UNUM Corp.'s James F. Orr III, whose \$1.02 million paycheck in 1990 was a 6.3% increase from \$965,404 in 1989. Portland, Maine-based UNUM's net income increased 19.2% in 1990.

Various criteria are used to determine how CEOs are compensated, compensation consultants say.

A company's "profitability, premium growth and stability of assets and capital" are three measures used to determine CEOs' compensation,

according to Wyatt's Mr. Halloran.

And, "efficiency measures such as return on equity" are used, Hewitt's Ms. Romweber pointed out.

Ms. Romweber noted that while insurance companies sometimes use net income to determine CEO compensation, "insurance is such a long-term business that it is difficult to find an adequate short-term measure" upon which to base executive compensation.

In some cases, insurer and reinsurer CEOs' cash compensation and their companies' net incomes moved in the opposite directions last year.

For example, Philadelphia-based CIGNA Corp.'s net income plunged 41.3% in 1990 but CEO Wilson H. Taylor's cash compensation increased 16.3% to \$1.3 million from \$1.1 million the previous year.

Alan R. Gruber of Orion Capital Corp. in New York received \$646,003 in cash compensation in 1990, a 7.6% increase from \$600,135 the previous year, even though Orion's net income dropped 15.8%.

The only CEO surveyed whose cash compensation declined in 1990 was Travelers Corp.'s Edward H. Budd. Mr. Budd, 57, took a 26.3% cut in pay and bonus to \$700,000 last year from \$950,000 in 1989.

"Executive compensation reflects two major components: competitive levels of compensation in the marketplace and individual and company performance," said a spokesman for Travelers in Hartford, Conn. Mr. Budd's "reduction in cash compensation obviously reflects our results reported in 1990."

Travelers reported a net loss of \$178 million in 1990, compared with net income of \$455 million in 1989.

Insurer CEOs in general fared much better than CEOs in other industries: While Mr. Budd was the only CEO who reported lower cash compensation in 1990 compared with 1989, a Business Week survey of CEO compensation in various industries found that one out of three executives were hit with pay cuts last year.

Part of the reason insurer and reinsurer cash compensation is increasing—albeit at a slower pace than in previous years—is that many CEOs have greater responsibilities.

"The insurance industry is moving into traditionally high-paid industries such as asset management and investment banking," explained TPF&C's Mr. Furniss. As insurance

companies diversify, they must pay their executives compensation that is in line with the other segments of the financial world, he pointed out.

Also, since insurance is a long-term industry, insurer CEOs must be able to balance prudence with calculated risk. The recent "Mutual Benefit debacle proves how difficult this can be," Ms. Romweber said, referring to the problems at Mutual Benefit Life Insurance Co. (BI, July 22).

However, large paychecks in the insurance industry are not out of line with other industries, compensation consultants agree.

For example, the median cash compensation of the 350 chief executives from industrial companies was \$981,200, according to a TPF&C study. The median cash compensation for the 30 insurer and reinsurer CEOs surveyed by *Business Insurance* was \$918,499.

"The insurance industry has been behind" other industries in compensation, and for the past few years it has been trying to "play catch-up," Mr. Furniss said.

Occasionally, chief executives are not always the highest-paid employees at their companies.

For example, four executives at SCOR U.S. Corp. of New York received higher compensation than CEO Patrick Peugeot, who earned \$267,055 in 1990, a 60.9% jump from his \$165,989 the previous year. The executive vp and three senior vps at SCOR U.S. received cash compensation ranging from \$288,691 to \$384,613.

However, Mr. Peugeot also is the chairman of Paris-based Societe Commerciale de Reassurance S.A., which owned 79.19% of Scor U.S.'s outstanding shares as of May 1, 1991. The compensation Mr. Peugeot received from SCOR S.A. is not available.

William L. Woodall, president and chief operating officer of Ohio Casualty Corp. in Hamilton, Ohio, received \$533,155 in cash compensation last year, or 23.5% more than CEO Joseph L. Marcum, who earned \$447,946.

And Warren Buffett of Berkshire Hathaway Inc. of Omaha, Neb., received only \$100,000 in cash compensation for the second straight year, while two vps made more. Michael A. Goldberg received \$1.9 million in cash compensation, and J. Verne McKenzie received \$252,500.

According to Berkshire's proxy, Mr. Goldberg's bonus totaled \$1.8 million last year. It was based on his management of certain Berkshire insurance subsidiaries and their underwriting profits and the level of "investible funds generated."

Despite his last-place finish in BI's compensation survey for the fourth consecutive year, Mr. Buffett certainly is not hurting. On March 4, 1991, he owned 41.5% of Berkshire's outstanding stock. Those 475,998 shares were worth \$4.2 billion on Aug. 16, 1991.

In addition to Mr. Buffett, four other CEOs held more than 5% of their companies' stock:

- Patrick G. Ryan, CEO of Chicago-based Aon Corp., owned 8.6 million shares as of Feb. 26, 1991, or approximately 14% of Aon's stock. Those shares were worth \$332.9 million on Aug. 16.

- Mr. Ryan received \$911,539 in cash compensation last year, up 15.5% from \$789,292 in 1989.

- Reliance's Mr. Steinberg, who owned 32.1 million shares, or 60.6%, of Reliance stock as of Feb. 22, 1991, which had a market value of \$160.6 million as of Aug. 16.

- Also, the Steinberg Group—made up of Mr. Steinberg, his family and an affiliated trust—held 59 million shares, or 78.7% of Reliance stock, which was worth \$295 million as of Aug. 16.

- A.C. Zucaro of Old Republic International Corp. in Chicago owned 2.6 million shares as of March 1, 1991, or 10.5% of the company's stock. Those shares were worth \$81 million on Aug. 16.

- Mr. Zucaro, who received \$537,436 in cash compensation in 1990, was appointed CEO of Old Reliance last year.

- William R. Berkley of W.R. Berkley Corp. in Greenwich, Conn., held 1.7 million shares as of March 29, 1991, or 14.1% of the company's stock. Those shares were worth \$46.5 million on Aug. 16.

- Mr. Berkley's cash compensation rose 2.5% in 1990 to \$863,091 from \$842,173 the previous year.

- While Mr. Greenberg held only 2.2% of AIG stock as of Jan. 31, 1991, that amounted to 4.5 million shares, which were worth \$378 million on Aug. 16, 1991.

- Only Mr. Buffett held stock in his own company that had a higher dollar value.

Hurricane Bob

Continued from page 2

\$780 million, Hurricane Bob ranks as the second most costly storm in U.S. history, following Hurricane Hugo, which caused \$4.2 billion of insured damage in the United States alone in 1982. However, Mr. Kerney warned against reading too much into the ranking.

While "on a dollar-for-dollar basis, Bob ranks only behind Hugo, inflation and varying circumstances like the population at risk and the track of a storm make it very hard to measure one storm against others," according to Mr. Kerney.

For instance, it is difficult to estimate what the cost would be if a storm like Hurricane Frederick, which caused \$750 million of insured damage to the Alabama coastline in the late 1970s, were to occur today, he said.

M. Renwick Severance, vp-specialty lines with Republic Hogg Robinson Inc. in Boston, said that while damage throughout New England's coastal towns is severe, "from our vantage point in Boston, things were better than expected."

He explained that as the storm moved north, local meteorologists predicted that Boston would bear the full brunt of Bob's force. But those dire forecasts never materialized.

"The eye of the hurricane passed southeast of Boston. We only caught the western edge and it was the eastern edge that did the damage," Mr. Severance said.

While the AISG has published its damage estimate, many insurers still were having a hard time last week tabulating their claims, though they were able to get a bet-

ter idea of their potential losses as electricity and telephone service were restored to the area last week.

The flow of claims is particularly heavy from areas of southeast Massachusetts, Cape Cod and across Rhode Island, which was declared a federal disaster area, insurers report.

Amica Mutual Insurance Co. in Providence, R.I., had logged around 4,000 claims last week, according to Frank Honey, home office property examiner. Rhode Island and Cape Cod accounted for about half the claims, Mr. Honey said, noting that total claims would exceed \$3 million.

Boston-based Liberty Mutual Insurance Co. estimates that claims could reach \$15 million.

As of midweek, only a few of the 8,059 claims received by Liberty Mutual were from commercial lines policyholders, a spokesman said, adding that the claims received so far had averaged about \$2,000 each.

"The vast majority are small losses," said Robert L. Barber, assistant vp and property loss manager.

Early estimates at Travelers Corp. in Hartford, Conn., suggest the insurer will receive about 9,000 claims from the hurricane totaling about \$15 million on a gross basis and about \$10 million after reinsurance and taxes, a spokesman said.

Travelers expects around 1,400 of the 7,700 property damage claims will come from commercial policyholders.

Members of the Factory Mutual System—including Allendale Mutual Insurance Co., Arkwright Mutual Insurance Co. and Protection

Mutual Insurance Co.—last week had received only 116 claims, with a total payout of less than \$10 million.

"A lot of the claims are service interruption claims," said Tom Hollowell, vp and manager of the adjustment division of Factory Mutual Engineering & Research Corp. in Norwood, Mass. Those claims, he explained, resulted from power outages and can include property damage and business interruption losses.

Commercial Union Insurance Co. in Boston is projecting 8,025 claims will result in \$10.7 million in payments, a spokeswoman reported. Commercial lines policyholders' claims were averaging \$2,500 each and personal lines claims were amounting to around \$1,000 apiece, she said.

Chubb Corp. had received fewer than 1,500 hurricane claims at the end of last week, according to Don Ferguson, manager for non-marine property claims.

A "very rough guess" is that Chubb will pay about \$8 million in claims from the storm, Mr. Ferguson said. Claims were still arriving at the Warren, N.J., insurer's office, "but very slowly," he said.

Chubb has received very few commercial claims and "I've not seen a commercial claim yet that exceeded the deductible," Mr. Ferguson said.

State Farm Mutual Automobile Insurance Co. expects claims from its policyholders to reach only about \$6 million, according to a spokesman.

Very little commercial damage was reported among the 7,000 claims that Bloomington, Ill.-based State Farm had received late last week, the spokesman said. ■

Update

Pollution rulings favor insurers

Continued from page 2

Co. of Kalamazoo, Mich., for \$7 million it spent cleaning up toxic chemicals spilled at a Puerto Rico plant. The court found that Upjohn knew through its employees that a tank was leaking and therefore the pollution was not unexpected.

Upjohn purchased liability coverage from Allstate Insurance Co.; First State Insurance Co., a Hartford Group Inc. unit; and three American International Group Inc. units.

The court also applied the interpretation of the pollution exclusion it reached in the Upjohn case to two other cases.

The court held that pesticide spraying in the City of Woodhaven, Mich., was a type of intentional pollution barred by the pollution exclusion. The city purchased liability coverage from Protective National Insurance Co. of Omaha, Neb., a Baldwin & Lyons Corp. unit.

The court also remanded a coverage dispute between Polkow Oiling Service of Hillsdale, Mich., and Citizens Insurance Co. of America in Howell, Mich., a unit of the Hanover Insurance Cos., to a lower court to determine how pollution occurred at a Polkow oil-reclamation plant.

"These cases soundly reject across-the-board attempts by insureds to read the pollution exclusion in a contorted and artificial manner," said insurer attorney Thomas W. Brunner of Wiley, Rein & Fielding in Washington, D.C. Because Michigan is a "major industrial state," the rulings have added importance, he said.

"This decision will be troublesome for insureds in Michigan," said policyholder attorney Philip A. Grashoff Jr. of Honigman, Miller, Schwartz & Cohen in Detroit.

He pointed out, though, that whether coverage ultimately will be barred will depend on the facts of each individual case. And many other states interpret the exclusion in favor of policyholders to bar coverage only for intentional pollution, Mr. Grashoff said.

N.Y. transit agency self-insured

NEW YORK—The New York City Metropolitan Transportation Authority says it is self-insured for property and liability losses from last week's fatal subway crash, the city's worst in 63 years.

A 10-car train derailed as it sped through a switch approaching Manhattan's Union Square station just after midnight Wednesday, killing five passengers and injuring more than 200 others.

The train's motorman, Robert Ray, told police he had been drinking before he reported to work and was falling asleep at the controls. He said the train was traveling at 35 to 45 mph—four times the speed limit for the station approach—when it flew off the tracks, according to court papers filed by Manhattan prosecutors. Mr. Ray pleaded innocent last week to five counts of manslaughter, and his lawyer denied that he was drunk at the time of the crash. Police found a vial of crack cocaine in the cab from which Mr. Ray was operating the train, but a drug test proved negative.

Officials of the MTA and the National Transportation Safety Board are investigating the cause of the wreck and the adequacy of the subway system's safety features.

At least two notices of lawsuits had been filed last week, one by an injured passenger and one by a police officer injured in the rescue operation.

The MTA had not estimated property damage last week.

Citgo to pay record safety fine

WASHINGTON—Citgo Petroleum Corp. last week agreed to pay a record \$6 million fine to settle Occupational Safety and Health Administration charges from a March 3 fire and explosion that killed six workers and injured six others at its Lake Charles, La., refinery.

OSHA says the accident occurred while a catalytic cracker used to make gasoline was being brought back into operation after a seven-week shutdown for maintenance (BI, March 11).

As part of the settlement, Tulsa, Okla.-based Citgo agreed to implement a company-wide safety management program.

Most of the fine goes to the U.S. Treasury, but \$200,000 will go to the National Institute for Occupational Safety and Health, which will work with OSHA to develop safety training for petrochemical workers.

The \$6 million fine tops the previous record settlement of \$4 million, which Phillips 66 Co. agreed to pay late last month to settle charges involving an October 1989 explosion at its Pasadena, Texas, plant (BI, Aug. 26).

Briefly noted

AMEV Holdings Inc., the U.S. holding company of N.V. AMEV of the Netherlands and Group AG of Belgium, signed a formal agreement last week to purchase the profitable group health, life and disability business of **Mutual Benefit Life Insurance Co.**, which is in rehabilitation. The agreement, which is subject to court approval, calls for a \$300 million cash payment and payment of \$200 million in notes, contingent on premium volume over the next three years (BI, Aug. 5). Once the sale is completed, Mutual Benefit group business will be transferred to Western Life Insurance Co. of Minnesota, an AMEV unit. . . . **Mutual Life Insurance Co. of New York** denied a report that it is considering a shift from mutual to stock ownership. "MONEY has no plans to demutualize. Any suggestion to the contrary is simply speculation," a spokesman said. . . . A Tennessee judge has ordered **Universal Security Insurance Co.** into rehabilitation. Universal Security, domiciled in Tennessee but based in Boca Raton, Fla., may be insolvent by more than \$10 million, an Insurance Department spokeswoman said. . . . The Chicago Board of Trade is delaying the launch of its health and personal automobile physical damage **insurance futures and options contracts** to mid-1992 from Oct. 1. The delay is necessary because the CBOT is still waiting for approval from the Commodity Futures Trading Commission and state insurance regulators to list the contract, which is designed to give insurers a way to hedge their underwriting performance (BI, Feb. 11). . . . A California appeals court has upheld the provision in Proposition 103 allowing state-chartered **banks to sell insurance** (BI, Nov. 5, 1990). But the court ruled that bank subsidiaries are still banned by state law from selling insurance.

More benefit experts forced to tackle troublesome DROs

By AMY KATZ

NEW YORK—The number of benefit administrators handling domestic relations orders is on the rise, according to a recent survey by Buck Consultants Inc. in New York.

Domestic relations orders—or DROs—are legal documents that designate some portion of an employee's post-retirement benefits to another member of the family, like a former spouse or dependent. DROs are usually drawn up during a divorce or legal separation.

Out of the 113 Fortune 1,000 companies surveyed in February, 94% had received DROs within the last year. And, nearly three-quarters of the respondents—74%—reported an increase in the number of DROs affecting pension and savings plans from year to year.

This increase was reported despite a stable U.S. divorce rate over the last 10 years, according to the survey. Only two percent of the surveyed companies reported a decrease in the number of DROs received in 1990, and 24% said the number of DROs remained the same as in 1989.

Handling DROs is a difficult and time-consuming matter, 74% of the surveyed firms said, because most DROs are incorrectly or unclearly worded and need special attention from the benefits administrator.

Eighty percent of companies reported receiving DROs that affect their defined benefit pension plans, while 81% received DROs that affect defined contribution plans.

Use of DROs is relatively new, the survey authors note.

Under the Employee Retirement Income Security Act of 1974, an employee's pension generally is only distributed to the employee. However, since the mid-1970s, courts have decided that ex-spouses and dependents should also be entitled to pension benefits, explained Henry

Von Wodtke, a benefits consultant for Buck. Distributing pension benefits to ex-spouses and dependents through DROs became allowable by law in August 1984 with the passage of the Retirement Equity Act, he added.

"There will be a higher number of DROs as the (American Bar Assn.) becomes more familiar that these rules exist," said Frederick Rumack, director of tax and legal services at Buck.

However, "a learning curve is going on among the lawyers, and it is at the expense of plan administrators," he said.

Respondents to the survey said that much of the confusion surrounding DROs is caused by ambiguity in regard to the amount to be paid to a spouse and whether the benefits are to be paid in a periodic manner—like an annuity—or in a lump sum.

"Each of the 50 states has a different way you can divorce a loved one," Mr. Von Wodtke said. "And each pension plan has its own particulars concerning the rights of individuals under pension plans," he added.

"The divorce attorney may not be familiar with the requirements necessary to draw up a DRO, so the information the attorney gives may not be quite accurate," added Mr. Rumack.

The DRO must be completely accurate and clear about how much of the benefits the former spouse is to receive and how the payments will be made, Mr. Rumack said. All information about the plan, the plan participant and the ex-spouse must also be 100% accurate before the DRO can be qualified.

For each piece of incorrect information in the DRO, the benefits administrator must notify all parties involved.

Seventy-nine percent of the companies responding to the survey said they send letters explaining why the

DRO is not qualified and cannot be implemented; the remainder use miscellaneous other methods for handling DROs that do not readily meet qualification standards, the survey found.

Handling all the problems associated with qualifying a DRO requires both the benefit administrator's and company attorney's time, and this loss of time costs companies money, the survey authors note.

Qualifying the DRO involves the in-house benefits department at 63% of the companies. Corporate in-house counsel is involved at 46% of the companies. And, outside counsel is consulted at 25% of the companies.

Beyond consuming the time of benefits administrators and lawyers, the actual handling of DROs is expensive. A vast majority of the respondents, 81%, said that handling the DROs is a corporate expense. The survey did not disclose how much it costs to qualify a DRO.

Qualifying DROs also presents problems for benefit administrators in trying to satisfy all parties involved without acting to the disadvantage of any one of them.

Benefit administrators "are being stuck between two sets of lawyers," Mr. Von Wodtke said.

Benefit administrators are concerned that they shouldn't describe all of the employee's benefit options to the lawyer drawing up the order, because they are afraid of cheating the employee, agreed Mr. Rumack.

In addition, the benefits administrator may feel caught in the middle of a dispute between the employee and the ex-spouse, he added.

Copies of "Qualified Domestic Relations Orders: A Survey of Employer Practices" can be purchased by sending \$25 to Carolee Martin, Manager of Marketing, Buck Consultants Inc., 500 Plaza Drive, Secaucus, N.J. 07096.

Governors plan

Continued from page 1

I think employers will fight very hard" against that, he said.

"Just as a matter of principle, we've got some concerns with that notion" of state regulation of benefit plans, said Lisa Sprague, manager of employee benefits policy at the U.S. Chamber of Commerce in Washington, D.C.

"In some instances, we've been looking for tighter ERISA control," she said.

For example, states have the regulatory authority to require commercial insurers to cover certain medical procedures. But they cannot extend these mandates to self-insured plans, which are solely regulated by ERISA.

"Many of our members who do self-insure and who do provide adequate benefits to their employees probably would like to keep that option," Ms. Sprague said.

The National Assn. of Manufacturers in Washington, D.C., has not yet fully reviewed the governors' policy statement and report. But, "we would encourage pre-emption of all state laws mandating benefits to enable the efficient development of health-care plans by all firms," said Chris Bowlin, associate director of employee benefits and compensation.

Therefore, "we are not encouraging waivers or exemptions from ERISA pre-emptions," he said.

The Washington Business Group on Health also has not taken a formal policy position on the NGA proposal.

But, if ERISA is amended, "you're not going to see one or two different models, but 40 or so different models. The value of that is questionable. It would be very difficult for business operating in several states," said Richard Smith, director of public policy for the WBGH.

The Health Insurance Assn. of America, though, "commends the governors for attempting to tackle and identify the various reforms available to solving the health care crisis," said Henry Menn, an assistant counsel.

"They really have taken a step forward to shape the debate," he said.

"We support the waivers to override ERISA pre-emptions," Mr. Menn said. "The federal government would be giving the states the authority to impose the reforms on all the players participating in the market. They would be creating a level playing field between the self-insured and those who obtain commercial insurance. Those who self-insure are operating under a different set of rules. Those waivers would enable the legislatures to level that out.

"It's kind of a double-edged sword. You would be able to take the HIAA's small employer market reforms and apply it to everyone. At the same time, you're opening up the door to

imposing mandates on small employers," he said.

The HIAA earlier this year announced a fine tuning of the four-point plan it developed last year in response to the Pepper Commission plan to ensure access to health insurance (BI, March 12, 1990; March 5, 1990).

The HIAA proposal, among other things, would allow health insurers to write coverage for small employers free from state coverage mandates, limit the size of premium increases on renewals and create a private reinsurance pool in each state for health insurers writing coverage for high-risk individuals.

In their proposal, the governors ask the federal government to work with the states to "accelerate statewide comprehensive solutions" to the problem of unavailable and unaffordable health care. An estimated 34 million Americans now lack health insurance.

The governors highlighted the need to correct health care "market failures" and to make reforms in the health insurance market.

In a companion report, the governors lay the blame for health care access problems on insurers. For instance, the report cites "the role of insurance in generating unnecessary demand for health care and decreasing price consciousness."

At the same time, the report illustrates how the rise in employment within the small-business community is leaving an increasing number of working Americans without insurance, since small business are far less likely than larger firms to offer coverage to their workers (BI, Aug. 12).

The governors outline many steps in their companion report that they say states—if given authority to regulate benefits—should consider taking to make care more affordable. These include:

- Requiring employers to offer health care coverage.
- Ensuring "that the insurance market functions effectively."

The task force explained that making the insurance market more "equitable and in the best interests of both insurers and consumers" would mean: requiring insurers to renew coverage; restricting premium increases; limiting the ability of insurers to deny coverage to individual applicants or entire groups; and limiting insurers' ability to restrict coverage for pre-existing conditions.

- Implementing mechanisms that reduce health insurance costs, like reducing the level of benefits that insured plans now must offer and directly or indirectly subsidizing employers' premium costs.

- Having states finance basic health care, while relying on the commercial insurance market for catastrophic health care coverage.

The governors, though, "seem to embrace proposals that are in complete conflict with each other," EBRI's Mr. Custer observed.

For example, while the report says states might consider mandating that insurers offer certain benefits, it also says states should consider allowing insurers to freely choose which benefits they will cover.

It further recommends that states consider a single-payer approach to health care, though it also suggests that regulation of health care be kept to a minimum.

In addition, the report suggests that utilization review be tightly regulated, which can make such review unusable, Mr. Custer explained. But, elsewhere in the report, the governors recommend that states encourage UR.

"Essentially, they're embracing every approach," Mr. Custer said.

Richard H. Neil, senior vp-group for The Principal Financial Group of Des Moines, Iowa, called the report a "grocery list of things to consider."

Indeed, the report's forward states: "The nation's governors are charting a course toward a comprehensive national health care system. A consensus on the shape of such a system does not yet exist. We are beginning by focusing on what states can do now."

"This is a critical step, because while there are many theories about health care reform, most of them are untested. Trying and evaluating these programs will help give us the concrete data we need to undertake widescale reform."

The HIAA's Mr. Menn said that while these proposals partially address how to give employees of small businesses greater access to care, the HIAA was disappointed that the governors were not "more specific in making recommendations here."

Similarly, Mr. Neil expressed concern that the governors did not focus enough attention on the affordability of health care coverage.

The governors' report also recommends three medical malpractice tort reforms.

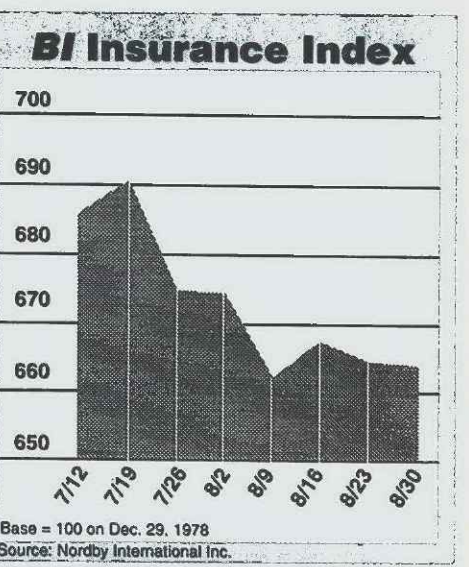
First, it suggests that subjectivity in determining liability could be reduced by setting minimum criteria for expert witnesses.

"That's a very good proposal," said Martin Connor, president of the American Tort Reform Assn. in Washington, D.C.

Mr. Connor also agreed with the report's conclusion that litigation costs could be reduced and the claims process accelerated if alternative dispute resolution were more widely used.

However, he took exception to a recommendation that punitive damages in medical malpractice cases be turned over to the state, rather than to the plaintiff.

Doing this could create differences between plaintiffs and their attorneys, he said.



Insurance industry stocks were mired in the summer doldrums last week, as the *Business Insurance* index fell just 0.5 points to 663.6 on Aug. 30, from 664.1 on Aug. 23. Advancing issues were led by Mutual Risk Management Ltd., up 17.9%; Frank B. Hall & Co. Inc., up 17.2%; and Pacificare Health System, up 10.4%. Declining issues were led by USLICO Corp., down 7.5%; U.S. Healthcare Corp., down 7.3%; and American Indemnity Financial Corp., down 6.7%. The most active issue during the week was U.S. Healthcare, with 2.7 million shares traded. The BI index fell 0.1% for the week. The Standard & Poor's 500 rose 0.3%; the Dow Jones 30 Industrials rose 0.1%; and the New York Stock Exchange composite rose 0.4%.

Aug. 29 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High-Low pence pence
Comm Union	524	N/M	30.7	5.8	524-517
Genl Accident	551	N/M	35.7	6.5	551-533
Gdn Royal Exch	195	N/M	15.9	8.1	195-181
Royal	404	N/M	34.7	8.6	404-398
Sun Alliance	369	N/M	18.7	5.1	369-358
Brokers					
Bradstock	170	19.3	6.0	3.5	170-170
CE Heath	473	16.5	34.5	7.3	473-464
Hogg Group	213	12.7	10.7	5.0	213-213
Lloyd Thompson	395	26.2	10.0	2.5	395-395
PWS Holdings	76	9.3	4.7	6.2	76-76
Sedgwick Grp	273	26.0	16.0	5.9	278-273
Steel Bri Jones	311	16.4	16.3	5.2	311-309
Willis Corroon	310	16.4	17.6	5.7	310-305

Source: Philip Olsen, Insurance Industry Analyst
London

BI Industry Stock Report

AUGUST 26, 1991 THROUGH AUGUST 30, 1991

	Price	Weekly		Year to Date		Annual		Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value	Price	Weekly		Year to Date		Annual		Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value	
		% change	% change	% change	% change	High	Low								High	Low	High	Low									
BROKERS																											
Alexander & Alexander	NYS	20.75	-2.35	-10.27	27.63	16.13	498	1.00	4.82	17	9.77	2.12	NAC Re Corp.	OTC	25.13	-3.37	-23.86	28.34	17.00	119	0.12	0.48	14	18.90	1.33		
Gallagher Arthur J. & Co.	NYS	20.00	-1.23	-13.98	28.38	19.50	32	0.64	3.20	16	5.88	3.40	Navigators Group	OTC	33.50	3.08	53.44	34.50	16.50	2	0.00	0.00	20	13.52	2.48		
Frank B. Hall	NYS	4.25	17.24	17.24	4.25	2.00	114	0.00	0.00	-9	-5.24	-0.81	Nobel Insurance LTD.	OTC	3.56	-4.99	18.77	4.39	2.50	7	0.00	0.00	5	7.76	0.46		
Hill, Rogal & Hamilton	OTC	14.75	8.26	0.00	17.50	11.25	74	0.36	2.44	23	3.56	4.14	NWNL Companies	NYS	22.38	-5.79	32.59	32.88	11.75	545	1.40	6.26	6	42.73	0.52		
Marsh & McLennan	NYS	76.50	-2.24	-1.92	87.25	59.75	455	2.60	3.40	18	14.77	5.18	Ohio Casualty Corp.	OTC	45.88	0.55	11.89	50.25	26.75	148	2.48	5.41	9	36.38	1.26		
Poe & Associates	OTC	11.50	-4.17	79.69	12.50	6.25	4	0.32	2.78	14	2.09	5.50	Old Republic Int'l	NYS	30.50	-0.81	33.33	31.88	17.38	117	0.72	2.36	7	33.09	0.92		
BROKERS AVERAGE			2.2	10.1					2.4	11			Orion Capital Corp.	NYS	28.38	0.89	62.14	29.75	13.00	25	0.92	3.24	9	20.42	1.39		
CONGLOMERATES & HOLDING COMPANIES																											
Berkley W.R. Corp.	OTC	26.50	-0.47	-29.33	32.25	19.00	94	0.32	1.21	15	23.89	1.11	Phoenix RE Corp.	OTC	9.50	-2.56	22.58	10.25	5.00	271	0.20	2.11	11	13.30	0.71		
Berkshire Hathaway Inc.	NYS	8775.00	-0.29	31.46	8775.00	171.88	113	0.00	0.00	27	4612.00	1.90	Protective Life Corp.	OTC	22.25	2.30	49.58	22.50	11.50	156	0.84	3.78	9	16.29	1.37		
ITT (Hartford Group)	NYS	60.00	-0.62	25.00	63.00	40.25	487	1.72	2.87	9	64.01	0.94	Provident Life	OTC	19.25	2.67	10.00	24.50	12.00	204	1.00	5.19	5	25.88	0.74		
Sears (Allstate)	NYS	41.50	-2.64	63.55	43.50	22.00	1687	2.00	4.82	14	37.38	1.11	Re Capital Corp.	ASE	16.25	-5.11	26.21	18.63	11.75	13	2.00	1.23	11	15.05	1.08		
CONGLOMERATES AVERAGE			-1.0	22.7					2.2	16			Reliance Group Holdings	NYS	4.75	0.00	2.70	7.50	4.25	180	0.32	6.74	-8	1.32	3.60		
INSURERS/REINSURERS																											
Aetna Life & Casualty	NYS	35.75	-2.39	-8.33	49.13	29.00	2231	2.76	7.72	7	64.23	0.56	RLI Insurance Corp.	NYS	14.50	0.00	0.00	16.38	9.63	14	0.48	3.31	7	14.41	1.01		
American General	NYS	39.50	0.96	28.46	43.13	23.50	589	2.00	5.06	9	37.14	1.06	St. Paul Companies	OTC	64.25	-4.10	2.39	74.25	47.00	721	2.60	4.05	7	52.00	1.24		
American Heritage	NYS	30.00	3.45	42.86	32.25	19.63	3	1.08	3.60	13	19.25	1.56	SAFECO Corp.	OTC	38.00	-5.59	15.59	44.75	25.13	627	1.48	3.89	9	31.50	1.21		
American Indemnity/Fin'l	OTC	7.00	-6.67	115.38	7.75	2.75	3	0.08	1.14	4	12.93	0.54	SCOR U.S. Corp.	NYS	13.63	0.93	10.10	15.25	8.38	16	0.24	1.76	8	11.19	1.22		
American International	NYS	84.25	0.75	9.59	102.00	57.00	1329	0.48	0.57	12	45.34	1.86	Seibels Bruce Group	OTC	7.50	-1.64	76.47	8.88	4.25	47	0.36	4.80	150	7.35	1.02		
Aon Corp.	NYS	37.88	-0.96	8.99	41.75	26.75	777	1.60	4.22	11	18.50	2.05	Selective Ins. Group	OTC	15.75	0.80	18.87	18.00	12.50	26	1.04	6.50	9	18.91	0.83		
Argonaut Group	OTC	25.00	-1.96	17.19	33.38	17.75	198	0.68	2.72	8	48.26	0.52	Statesman Group Inc.	OTC	5.31	-5.55	239.92	5.88	1.25	365	0.00	0.00	-266	2.48	2.14		
AVEMCO Corp.	NYS	22.88	5.17	35.89	22.88	14.13	45	0.40	1.75	17	9.55	2.40	Tokio Marine & Fire	OTC	46.50	-4.12	-1.59	56.50	34.50	6	0.00	0.00		70.93	0.66		
Baldwin & Lyons Inc.	OTC	23.00	1.10	22.67	25.25	17.00	1	0.28	1.22	7	24.29	0.95	Torchmark Corp.	NYS	50.25	0.50	2.81	58.50	38.00	221	1.60	3.18	12	16.70	3.01		
Belvedere Corp.	ASE	3.38	0.00	35.00	3.38	1.75	0	0.04	1.19	23	7.65	0.44	Transamerica	NYS	35.88	-0.35	9.96	38.38	23.25	807	1.96	5.46	13	36.56	0.98		
Chandler Insurance	OTC	3.50	9.79	-49.09	7.25	2.75	92	0.00	0.00	-2	5.95	0.59	Transatlantic Holdings	NYS	34.50	1.47	26.03	39.38	18.88	49	0.20	0.58	12	18.38	1.88		
Chubb Corp.	NYS	65.25	3.16	20.28	75.25	34.63	1945	1.48	2.27	10	35.19	1.89	Traveler's Corp.	NYS	18.75	-3.23	12.78	26.38	11.50	661	1.60	8.53	-10	41.44	0.45		
CIGNA Corp.	NYS	42.50	-1.45	3.98	56.75	33.25	928	3.04	7.15	11	73.15	0.58	Trenwick Group Inc.	OTC	26.63	0.47	15.14	30.00	16.25	59	0.60	2.25	10	21.71	1.23		
CNA Financial Corp.	NYS	82.75	-3.22	20.58	92.50	49.50	60	0.00	0.00	11	70.23	1.18	United Fire & Casualty	OTC	42.50	-3.95	21.00	58.00	28.75	0	1.32	3.11	11	35.39	1.20		
Continental Corp.	NYS	25.75	-5.50	3.52	30.63	15.75	880	2.60	10.10	9	37.83	0.68	USF&G Corp.	NYS	6.75	-1.82	-10.00	23.50	6.13	1468	0.20	2.96	-1	11.96	0.56		
Durham Corp.	OTC	33.00	-0.75	17.86	34.25	23.00																					

Texas comp fund

Continued from page 2

ance Fund will accept risks that are rejected by the voluntary market and also will compete with insurers for voluntary market business. The Texas Workers Compensation Insurance Facility, the current assigned risk pool, only writes coverage for employers that are rejected by the voluntary market.

Creation of the new fund should spur competition and eventually help lower workers comp rates, said Brad Gahm, vp of governmental affairs at the Texas Assn. of Business in Austin.

By removing insurers' responsibility for deficits in assigned risk pool, insurance companies will face lower costs and can better predict their liabilities, Mr. Gahm remarked. "It will cause insurers to return to the market and more competition keeps rates low," he said.

It's impossible to predict how soon rates will begin falling and how low they may go, said Mr. Gahm, but there is no doubt that increased competition will come about as a result of the fund.

Steve Millikan, vp-workers compensation for the Alliance of American Insurers in Schaumburg, Ill., said although the insurer trade association normally opposes the creation of state funds, the workers comp system

in Texas is in such bad shape that the new fund can only help.

Relief from the assessments insurers are paying to reduce the current assigned risk pool deficit meant that creation of the new fund "became a viable alternative, even to us," said Mr. Millikan.

However, not everyone supports creation of the new fund.

Synott L. McNeel, chairman of the governing committee of the Texas Workers Compensation Insurance Facility, said there are problems with the current wording of the draft legislation.

"If the state fund has a deficit, the bill clearly says the state of Texas is not liable, so the taxpayers aren't liable. It also says insurers are not liable, so I'm not sure who is."

Mr. McNeel said he suspects subsequent legislation will be drafted that would require insurers to fund any deficits.

In addition, improving results in the current pool have made the passage of the new law less significant than if it had passed a few years earlier, said Mr. McNeel.

"We have gone through three tough years in the pool," said Mr. McNeel, who contends that workers comp reform legislation enacted in 1989 has produced significant improvements in the facility.

In fact, the pool's 1990 deficit of \$531.8 million is expected to be whit-

ened to less than \$200 million this year, he said. The deficit is being erased so quickly that the new fund may not be necessary, he said.

"The necessity of the fund was perceived because of the terrible results of 1988, '89 and '90," Mr. McNeel said. "I'm not sure now that we need it."

Winston Krause, an attorney with the Austin firm of Buford & Krause and general counsel to the Texas Assn. of Responsible Non-subscribers, a group of employers that have elected to leave the state's workers comp system, said the new fund probably won't solve problems with the state's workers comp system.

"It's supposed to provide a way to compete with insurance companies," Mr. Krause remarked, but he added that the ability of employers to opt out of the state's workers comp system already provides a form of competition.

"Employers can opt out because they believe they can do it on a more competitive basis than an insurance company," he said, referring to businesses that can find a more efficient and cost-effective way of providing benefits to injured workers, like through accident and health coverage.

Howard Nations, president of the Texas Trial Lawyers Assn., agreed, noting that if the fund succeeds only in providing "relief for insurance

companies; it won't do anything to solve the real problems in the system—a lack of compensation for injured workers and rates that are too high for employers. Those two problems are not being addressed."

The new fund can begin writing coverage as soon as the mechanism is in place and operational, though it is not required by law to begin writing until Jan. 1, 1994.

Coverage will no longer be written by the current assigned risk pool after that date and any remaining liability from the pool will be transferred to the new facility by Jan. 1, 1999.

The legislation establishing the state fund also contains some provisions aimed at controlling workers comp claims.

Under the bill, the fund may conduct a "safety consultation" at a work site if an employer has been in business less than three years or is identified by other criteria established by the fund's board, like type of industry, number of employees or previous workers comp claims experience.

As a condition of coverage, the policyholder may be asked to develop an accident prevention plan or have an existing plan approved. If it is determined that the accident prevention plan is not being followed, coverage can be canceled or administrative fines levied. ■

Insurers to pay most of claim from sinking of gas platform

STAVANGER, Norway—European insurers face a 1.27 billion Norwegian krona (\$186.3 million) energy construction loss after the support structure for a North Sea gas platform sank in more than 600 feet of water late last month.

However, insurers will not have to pay the full 1.8 billion Norwegian krona (\$264 million) value of the concrete gravity base structure because nearly 30% of the structure was owned by the Norwegian government, which self-insured its portion of the platform.

The platform support structure, which was designed and built over a three-year period, sank during ballast tests on Aug. 23. An investigation into the cause of the sinking was under way last week, said a spokeswoman for state-owned energy company Statoil, which administers the largest stake in the project and was the project operator.

Insurance for 70.6% of the insured risk was placed by Marsh & McLennan Cos. Inc. and was led by Vesta General Insurance Co. in Bergen, Norway.

The remainder of the platform's coverage was placed in the Norwegian market and then reinsured in other European markets, including London, according to a Vesta spokesman.

The Norwegian government owns 29.6% of the platform, though its stake is administered by Statoil; Statoil owns 20%; Esso Exploration (Norway) owns 30.4%; Norsk Hydro A/S owns 10%; Elf Aquitaine Norge A/S owns 9%; and Total Marine Norsk A/S owns 1%.

—By Gavin Souter

New insurance regulators named in five states

CHICAGO—New insurance regulators have been appointed in Illinois, the District of Columbia and Idaho, while regulators in Maine and Louisiana have resigned.

Stephen F. Selcke succeeded Zack Stamp as director of Illinois' Department of Insurance on Sept. 1. Mr. Selcke most recently was director of the state's Office of Legislative Affairs.

James W. Schacht, who has been acting director since Mr. Stamp resigned earlier this year, resumes his duties as chief deputy director.

Attorney Robert M. Willis last month was named superintendent of insurance for the District of Columbia, following the retirement of Margurite C. Stokes. Mr. Willis formerly designed insurance products, sold individual financial services and had managed some tax and claim operations for CIGNA Corp.

And, Harry C. Walrath was appointed director of the Idaho Department of Insurance in July. Mr. Walrath, who previously headed the Walrath Insurance Agency Inc. in Orofino, Idaho, replaces George J.

Neumeyer. Mr. Neumeyer was named acting director in March after Anthony J. Fagiano resigned due to health reasons.

In Maine, Superintendent of Insurance Joseph A. Edwards resigned Aug. 31 to start a consulting firm in Readfield. Deputy Superintendent Jeri E. Brown is serving as acting superintendent.

And, newly confirmed Louisiana Insurance Commissioner Hunter Wagner resigned late last month—several months earlier than expected—to become general man-

ager of the Greater New Orleans Causeway Commission. Deputy Commissioner Darrell Cobb is acting commissioner.

Mr. Wagner, who was named acting commissioner in April to replace Douglas Green, who was convicted of fraud and bribery related to his oversight of Champion Insurance Co. (BI, July 1; March 18). Mr. Wagner was confirmed by the Louisiana State Senate in July but said he would not seek election as insurance commissioner this fall.

—By Meg Fletcher

Health insurers

Continued from page 1

"Individuals have no meaningful remedy in the health insurance area," said Sen. Howard Metzenbaum, D-Ohio, who has introduced similar legislation, S. 794, in the Senate. "If an individual's health insurance claim is denied, negligently or in bad faith, the only redress is payment of the claim. Individuals cannot even recover the consequential damages that follow from an erroneous denial."

Insurers, though, contend that the existing ERISA remedies adequately ensure proper claims handling. They add that opening them to additional penalties including punitive damages, for mishandling claims will make coverage even more costly.

With the potential of huge punitive damage awards, a surge in litigation against health insurers is likely, insurers and others say.

"By holding out the promise of a pot of gold at the end of the rainbow, the legislation encourages litigation," argues James Dorsch, Washington counsel for the Health Insurance Assn. of America, a trade group in Washington, D.C.

"With the possibility of punitive and compensatory damages, you have a tremendous potential for litigation," agreed Mary Lynn Eubanks, a consultant with Hewitt Associates in Lincolnshire, Ill.

Insurers and others say the additional defense costs and the cost of the awards themselves will translate into higher health insurance costs, which will be passed onto buyers already reeling from several years of double-digit health insurance premium increases.

"Of course it would affect employers by driving up health insurance costs. It would exacerbate what is an already very serious affordability problem for employers," said the HIAA's Mr. Dorsch.

"To the extent that insurers are hit with additional expenses, they are not going to absorb them, but will pass them on to policyholders," agreed Henry Saveth, a principal with benefit consultant A. Foster Higgins & Co. Inc. in New York.

"The costs will go right to employers and employees," said Mary Nell Lehnhard, vp of Blue Cross/Blue Shield Assn.'s office of government relations in Washington, D.C.

Business groups also worry that giving juries the right to decide cases involving an insurer's handling of a claim will lead to big verdicts against insurers.

"Juries can be very sympathetic to tragically ill people. The terms of a contract not withstanding, if a jury has to decide between an insurance company and a tragically ill person, who do you think a jury will decide in favor of? The answer is obvious," said Ellen Goldstein, director of health care policy with the Assn. of Private Pension & Welfare Plans in Washington, D.C.

Even if insurers successfully defend themselves, the litigation costs will be enormous, insurers say.

"Whether you win or lose, you still can spend hundreds of thousands of dollars in litigation expenses," says BC/BS' Ms. Lehnhard.

In addition, the legislation would raise health care costs in more subtle, but still significant ways, benefit experts say.

For example, an insurer underwriting a managed care plan would be more reluctant to deny payments for care that the insurer believed was unnecessary or not cost-effective if they were threatened with the possibility of a big court award for denying the treatment.

"The legislation really torpedoes managed care. Insurers would be facing a loaded gun—the threat of puni-

tive damages—on every decision they have to make. The legislation says to insurers: 'Pay every claim and keep your mouths shut,'" said the HIAA's Mr. Dorsch.

"There is a concern that gun-shy insurers will pay everything because of the threat of punitive damage awards," said Mr. Saveth of Foster Higgins.

Aside from boosting costs commercial health insurance costs, benefit experts worry that the legislation also could hurt employers that self-insure health care programs.

Both the Berman and Metzenbaum bills say that nothing in ERISA shall exempt any insurance company from state statutory or common law that provides remedies against insurers in administering an employee benefit plan or processing claims.

Neither bill, though, defines "insurance company" and some benefit experts worry that an employer that self-funds and self-administers its health care program could be considered an insurance company.

However, shortly after introducing his legislation, Sen. Metzenbaum said the measure was only intended to apply to health and disability policies written by commercial insurers.

Acknowledging that the bill is not clear on the point, Sen. Metzenbaum said his intent is that the measure only apply to insurance companies and not to self-insured plans, including those that purchase stop-loss insurance.

Sen. Metzenbaum said he has told his staff to clarify the bill to eliminate any ambiguity on this point.

But even if that ambiguity is cleared up, it might take years of litigation to determine exactly what is a self-funded plan.

"This would be a big area of litigation. What is a self-insured plan and what is not?" asked Hewitt's Ms.

Eubanks, noting that the U.S. Supreme Court has never directly ruled on the issue.

And even if self-insured plans were not directly affected by the legislation, it could still increase self-insurers' costs, benefit experts say.

For example, even if an employer was not subject to state penalties for mishandling claims, courts might interpret the legislation as allowing litigation under state law against insurers that served as the third-party claims administrators for self-insured plans, said the HIAA's Mr. Dorsch of the HIAA. That would lead insurers acting as TPAs to boost their fees, he said.

Others also argue that if one link in ERISA's pre-emption provisions were removed, it would only be a matter of time—especially as more companies self-fund their health plans—until legislators proposed removing the exemption protecting self-insured employers for punitive damages for claims handling errors.

"You have to wonder what the next step would be, especially if more companies move to self-insure their health care programs," said Mr. Dorsch.

In addition, benefit experts say, punching a hole in the ERISA pre-emption armor would create an opening for efforts to strip away other ERISA pre-emption provisions.

For example, ERISA now bars states from requiring self-insured plans to offer specific types of benefits. However, states can require insurers to offer specific benefits in their policies. These benefit mandates drive up the cost of insured plans, insurers say.

If ERISA pre-emption is removed for claims payments, "We are headed down the path of creating other exemptions from ERISA pre-emption," Ms. Eubanks said. ■

"It creates a dangerous precedent," said Dr. Roger Taylor, a consultant and national leader for health care at The Wyatt Co. in Washington, D.C.

Insurers and employers claim that any benefits of the Berman and Metzenbaum bills would be far outweighed by the damage they could cause.

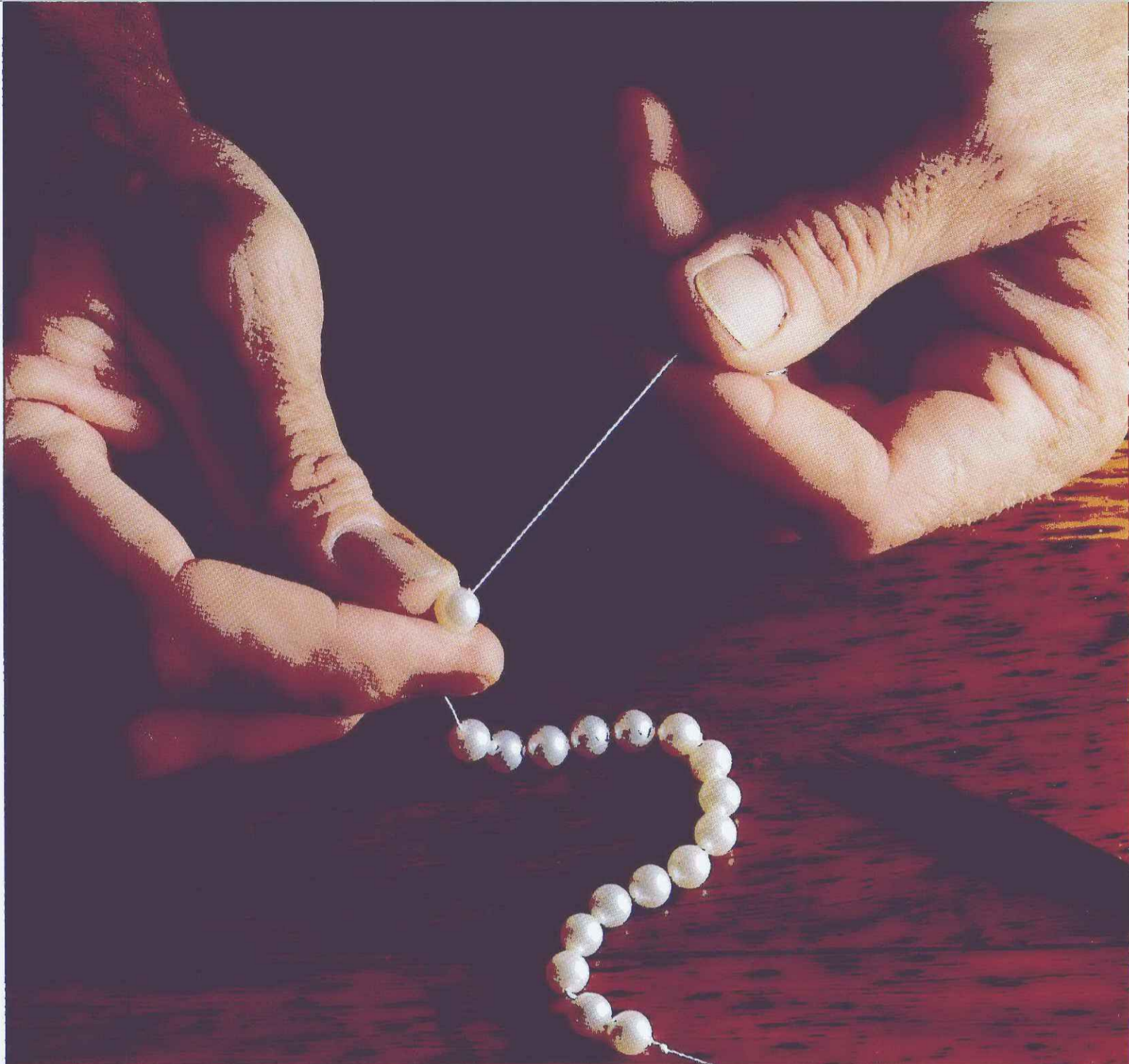
While some participants might receive multimillion-dollar awards, that must be weighed against the danger of making health insurance less affordable, said BC/BS' Ms. Lehnhard.

"At a time when too many of our citizens lack health care coverage and at a time when the cost of providing health benefits is skyrocketing, legislation that will discourage the expansion of coverage and accelerate the rate of increase in the cost of health benefits is ill-advised," according to a statement submitted to the Senate Labor and Human Resources Committee by the ERISA Industry Committee, a Washington, D.C.-based benefits lobbying group representing large employers.

Others say that the very premise of the legislation—that insurers, because of ERISA pre-emption, lack sufficient incentives to properly pay health claims—is false.

"Insurers have every reason to pay legitimate claims," says Mr. Dorsch. Failure to do so can result in litigation, in lost business from employers, terrible public relations problems as well as big defense costs plus, in certain cases, the participants' legal costs, he said.

"There is no evidence of any widespread denial of legitimate claims," said Stuart J. Brahs, vp-federal governmental relations in the Washington, D.C., office of The Principal Financial Group, a diversified insurance and financial services company. ■



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