

Business Insurance

Tornadoes hit Illinois county; damages nearing \$150 million

PLAINFIELD, Ill.—A cluster of tornadoes devastated an area of northern Illinois last week, killing 27 people, injuring more than 350 and causing more than \$135 million in total damages.

The twister hit the Will County communities of Plainfield, Crest Hill and Joliet, about 15 miles southwest of Chicago.

Gov. James R. Thompson and President Bush Wednesday declared Will County a state and federal disaster area.

Continued on next page

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McCarran floor vote in House possible

By JERRY GEISEL

WASHINGTON—Time is running out for several risk management and commercial insurance-related proposals now pending in Congress.

Business lobbyists say proposals to amend the McCarran-Ferguson Act, create a uniform federal product liability reform law and further amend the Risk Retention Act will not be enacted before the 101st congressional session ends next



month. Lobbyists say there is an outside chance that the House of Representatives could act on the McCarran-Ferguson legislation, while the Senate might take up the federal product liability measure.

But, even if that occurs, there will be no time for further congressional action on those proposals; the McCarran-Ferguson proposal has yet to be considered even at the committee level in the Senate, while House committees with jurisdiction over product liability reform legislation have not given the issue serious attention this session.

However, all these proposals will be back on the legislative agenda *Continued on page 85*

Huge airline war risk claim Kuwaiti loss could exceed \$600 million

By STACY SHAPIRO

LONDON—Kuwait Airways Corp.'s London-based broker is notifying aviation hull war risk underwriters of a huge potential claim stemming from the confiscation of aircraft and parts by Iraq during the invasion of Kuwait.

The broker, Willis Faber & Dumas Ltd., a unit of Willis Faber P.L.C., will not say what the total potential loss is, though other observers believe it is between \$450 million and \$640 million.

Stephen Merrett, the Lloyd's aviation hull war risk underwriter leading Kuwait Airways' coverage,

contends that he has not been notified of the potential claim, though other aviation underwriters say they have.

The claim, even at \$450 million, would be the largest aviation-related claim in history. The largest claim stemming from the crash of a jetliner is the estimated \$370 million hull and liability loss from the crash of a Japan Air Lines 747 jetliner in August 1985 (*BI*, Oct. 26, 1987; Aug. 19, 1985).

The largest aviation hull war risk claim on record is the \$100 million loss of a Japan Air Lines jetliner that mysteriously exploded over the Atlantic Ocean in June

1985 (*BI*, July 1, 1985).

Kuwait Airways lost many of its 18 aircraft, as well as spare parts and equipment, when Iraqi troops took over the Kuwait airport on Aug. 2. The airline's fleet was insured for more than \$1 billion.

Reports have said that most of Kuwait's aircraft have been flown to Baghdad since the invasion. Many of Kuwait's businesses, including Kuwait Airways, are now headquartered in London and are being operated by the Kuwaiti royal family.

However, some of the airline's aircraft were at airports outside Kuwait when the invasion oc-

curred. The exact number of airliners taken by the Iraqis has not been released.

Also stranded at the airport was a British Airways Boeing 747 jetliner with 367 passengers and crew (*BI*, Aug. 13).

One aviation underwriter told *Business Insurance* that "a preliminary loss estimate" was sent to insurers on Aug. 22 by Willis Faber, notifying underwriters of a potential maximum loss of \$300 million for the Kuwait Airways jetliners on the ground at the Kuwait airport, plus \$150 million for the loss of spare parts.

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Top executives of major insurers get big pay hikes

By DEBORAH SHALOWITZ

It's getting mighty crowded at the top.

Twelve chief executives of major commercial insurers and reinsurers received more than \$1 million in cash compensation last year, up from eight in 1988.

And the average cash compensation—salaries and cash bonuses—for 30 major insurance and reinsurance CEOs also topped \$1 million last year at \$1,076,827, according to a *Business Insurance* study of proxy statements.

That figure represents a 15.6% increase from \$931,266 in 1988, the largest since *BI* began surveying proxy statements in 1986. In that

first survey, only four CEOs topped the \$1 million mark.

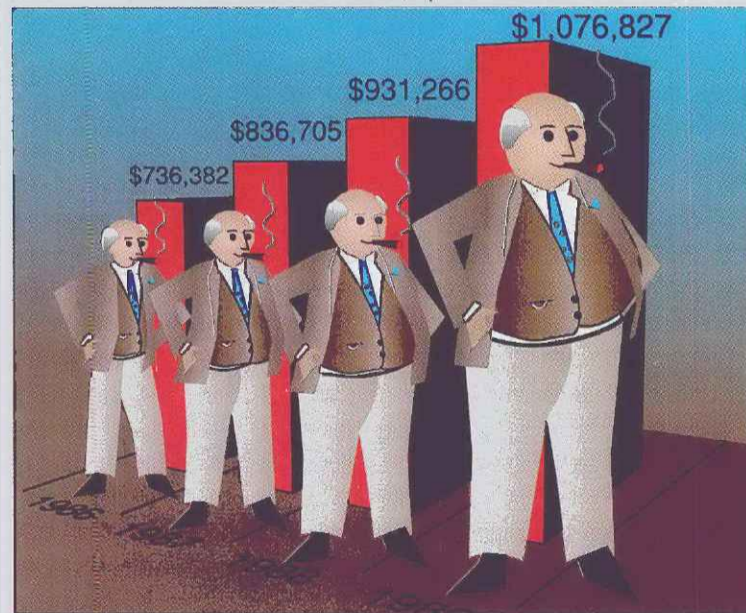
Chief executives have managed to keep well ahead of inflation. From 1986 to 1989, average compensation in the *BI* survey has risen 41.1%—or close to triple the 15.1% rise in the Consumer Price Index over the same period. "Clearly, compensation is becoming more aggressive," said Michael Emig, a Wyatt Co. consultant in Washington, D.C.

Several consultants attribute the gains in part to a recognition of the complexity of the CEO's job. Competition, they say, is increasing for skilled, financially savvy chief executives.

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Insurer CEOs get fatter checks

The average cash compensation of chief executives of 30 leading commercial insurers hit the \$1 million mark for the first time in 1989, up 41% from 1986.



Source: Company proxy statements

BI/JOHN SMITHER

Courts draft different rules for reinsurers

By STACY ADLER

NEW YORK—Three recent rulings by New York federal courts reveal that courts are developing different rules for reinsurers than for primary insurers.

The decisions, among the first to define how a reinsurer can avoid coverage due to late notice of a claim, also signal that reinsurance disputes increasingly will be taken

to the courthouse, observers say.

Because some 40% of the reinsurance in the United States is written by foreign companies, attorneys say these early reinsurance precedents are of worldwide interest.

These decisions demonstrate that "courts are clearly going to apply different standards to reinsurers" than primary insurers, said reinsurance attorney Stuart Cotton of Mound, Cotton & Wollan in New

York.

"The courts are recognizing that reinsurance is a different transaction," agreed reinsurance attorney Vincent Vitkovsky, who recently opened the New York office of Los Angeles-based Buchalter, Nemer, Fields & Younger.

In the most recent decision, a New York federal court said that a reinsurer must show it has been prejudiced by a cedant's late notice

before it can avoid coverage.

The decision is significant because primary insurers in New York do not have to show they were prejudiced by late claims to avoid coverage.

The Aug. 6 ruling by the U.S. District Court for the Southern District of New York stemmed from a dispute between Christiana General Insurance Corp. of New York in Tarrytown, N.Y., a unit of

Norwegian insurance group Storebrand A/S, and Great American Insurance Co. of Cincinnati, a unit of American Financial Corp.

Christiana wrote facultative reinsurance for Great American, which in turn wrote excess liability insurance for American Honda Motor Co. Inc. of Gardena, Calif.

Christiana claimed Great American did not properly notify it of *Continued on page 82*

Munich Re retains its ranking as largest reinsurance company

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Lloyd's of London initiates historic changes to make it a more competitive market force

Page 3

Update

Tornadoes slam Illinois towns

Continued from previous page

Preliminary estimates by the Illinois Emergency Services Disaster Agency are that overall damages will exceed \$135 million, said Dave Smith, chief of field services for the agency.

Estimates of insured damages are expected later this week from the American Insurance Services Group's Property Claim Services Division.

Early damage estimates from the ESDA include:

- More than \$50 million of destroyed homes and apartments in nine different subdivisions.

- \$35 million of damage to the Plainfield High School and the Grand Prairie Elementary School.

- \$6 million of damages to St. Mary Immaculate Roman Catholic parish buildings in Plainfield. The parish's church, school, rectory and ministry center were destroyed, said James Lynch, director of administration for the Diocese of Joliet, who said all of the damage would be covered by The Catholic Mutual Group in Omaha, Neb., a unit of the Catholic Relief Society of America.

Catholic Mutual operates "as a self-insurance fund for 87 dioceses and numerous other religious order properties in the United States," said Bruce Quail, account services representative.

- \$2.8 million in commercial damages, including general cleanup costs and emergency workers' pay.

- \$2.7 million in damages to public facilities in the Will County area, including the cost of debris removal, road repairs and damage to public buildings. The county is eligible for federal assistance to pay for those damages, ESDA's Mr. Smith said, noting that the figure was a preliminary estimate. However, it is uncertain whether the county would be eligible for federal assistance to pay for additional damages.

Estimates on tornado and hail damages in other Illinois counties and in northern Indiana were unavailable late last week, but ESDA and insurers termed damages there as extensive.

The twisters demolished mostly residential properties.

For example, Allstate Insurance Co. expects more than \$12 million of insured homeowners damage. "We're expecting about 1,450 customers in that area to file claims for residential property, contents of homes and apartments and automobiles," a spokesman said.

Allstate is estimating \$30,000 in commercial property damage to small businesses and one apartment complex the company insures, the spokesman said.

State Farm Insurance Co. also was hit hard by personal lines losses but expects to suffer few commercial losses. The insurer is expecting about 5,000 claims and approximately \$40 million in losses as a result of the tornadoes and hail damage, a company spokesman said.

But, Nationwide Mutual Insurance Co. estimates it will be hit with "well under \$100,000" in both personal and commercial claims.

And, the national insurance companies of Kemper Group do not expect to be hit hard with storm-related losses. Kemper has received only two commercial claims totaling \$35,000 and three homeowner claims, a spokesman said.

Chicago-area utilities, including Commonwealth Edison Co. and Illinois Bell, also sustained losses in the storm and were attempting to restore service to the storm-stricken area late last week.

Com Ed suffered damages "in the millions." Com Ed reported that the twisters knocked down seven steel transmission towers, power lines and 300 electric poles.

Illinois Bell also suffered "quite a bit of damage" to its equipment, a spokesman said. The company estimates it will spend roughly \$3 million to replace cables and terminals, including labor.

The Illinois Bell spokesman characterized the loss as relatively minor in relation to the number of operations Illinois Bell maintains in the state. But, he said the \$3 million loss would come out of the phone company's capital budget because only its central offices, not equipment elsewhere, are insured.

Separately, a July 11 hail storm in the Denver area caused an estimated \$625 million in insured property damage, an upward revision from an initial estimate of \$450 million made by the AISG. It is the costliest hail storm on record.

Helicopter crash investigation

EAST TROY, Wis.—National Transportation Safety Board officials are investigating a helicopter crash last week that claimed the lives of blues-rock guitarist Stevie Ray Vaughan and four others.

A Bell Jet 206B Ranger helicopter early on Aug. 27 crashed into a ski slope near Alpine Valley Music Theater, where Mr. Vaughan, rock guitarist Eric Clapton and blues artist Robert Cray had performed hours earlier.

The helicopter was en route to Chicago's Midway Airport. Messrs. Clapton and Cray, along with other musicians, were on three other helicopters that reached the airport safely.

All four helicopters were owned by a Chicago charter firm, Omniflight Helicopters Inc. Omniflight's aviation insurance was underwritten by United States Aircraft Insurance Group of New York, and placed by Marsh & McLennan Cos. Inc. of New York. Neither USAIG nor M&M would comment on coverages or limits. Omniflight officials referred calls to USAIG.

Investigators are focusing on the foggy conditions as well as human and mechanical failure as possible causes for the crash, said a spokesman at the NTSB office in Chicago.

A spokeswoman for the Federal Aviation Administration in Oklahoma City, which also is involved in the investigation, verified that the pilot, Jeff Brown of East Chicago, Ind., had been involved in two other accidents in 1977 and 1989. Neither involved fatalities or injuries. Mr. Brown also was killed in last week's crash.

Asbestos suit effort criticized

CINCINNATI—A federal appellate court last week chastised one of the federal judges attempting to create a nationwide class-action lawsuit for asbestos injury claimants.

The 6th Circuit U.S. Court of Appeals said U.S. District Judge Thomas D. Lambros went beyond his jurisdiction as a federal trial

Continued on page 86

Courts split over liability of lenders for site cleanup

By STACY ADLER

SAN FRANCISCO—A recent federal appellate court ruling attempting to clarify lender liability for hazardous waste cleanup costs reflects the confusion courts are having in this area of the law.

In a narrow ruling, the 9th U.S. Circuit Court of Appeals held that a municipal entity that issued revenue bonds to a firm to promote industrial development is not liable for cleanup costs because it was not involved in managing that firm.

This is only the second time a federal appellate court has ruled on the liability of lenders for the cost of cleaning up hazardous

waste sites.

In a much broader ruling, the 11th U.S. Circuit Court of Appeals in May said any lender with "the capacity to influence the corporation's treatment of hazardous waste" could be held liable for cleanup costs under the Comprehensive Environmental Response, Compensation & Liability Act, better known as the Superfund Act (BI, June 4).

Attorneys say the differences in these two opinions, both of which interpreted the secured lenders exemption in the Superfund Act, reveals the difficulty courts are having in this area.

These cases "reflect the confusion courts have in addressing

lender liability for CERCLA cleanups," said Tom Greco, associate general counsel for the American Bankers Assn. in Washington, D.C.

"The secured creditor exemption has very little legislative history," observed environmental attorney Elizabeth Conklyn of Bogle & Gates in Seattle.

"The intent of Congress is not clear," she said. "Therefore, courts are having a very difficult time interpreting the provision."

"This is an evolving area of the law," agreed environmental attorney Ivar Azeris of Claussen, Miller, Gorman, Caffrey & Witous in Chicago.

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Ruling could affect other hotel fire litigation

Chair maker not liable in blaze

By LOUISE KERTESZ

SAN FRANCISCO—In the first court decision of its kind, a California jury says upholstered chair manufacturer Shelby Williams Industries Inc. does not have to compensate the Cathedral Hill Hotel Inc. in San Francisco for losses stemming from a 1983 blaze.

The hotel sued the Morristown, Tenn.-based manufacturer in December 1984 in state Superior Court in San Francisco seeking \$13.5 million in compensatory damages and unspecified punitive damages.

Cathedral Hill Hotel, owned by

Sammons Enterprises Inc. of Dallas, sustained \$12 million of property losses in the fire and has paid victims \$3.1 million. Three people died and about 25 were injured in the fire (BI, Dec. 26, 1983).

The hotel is considering appealing the decision, according to attorney James Fetterly, a principal with the firm Fetterly & Gordon of Minneapolis, Minn.

The hotel charged that Shelby Williams failed to warn the hotel of the hazards of polyurethane foam the manufacturer used in making upholstered chairs.

Those chairs were highly flammable and fueled the fire, the suit

charged.

The suit further charged that toxic fumes were emitted when the chairs burned, exacerbating injuries.

Cathedral Hill Hotel's complaint cited 12 causes of action, including negligence, product liability, negligent misrepresentation, manufacture of misbranded hazardous substances and indemnity for claims brought against the hotel for injuries, deaths and property damage.

The hotel also named as defendants eight manufacturers of building products, such as wall co-

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BI, Lloyd's Press to co-host World Insurance Congress

The first World Insurance Congress, sponsored jointly by *Business Insurance* and Lloyd's of London Press Ltd., will be held July 1 through 3, 1991, in London.

"With the theme 'Restructuring for Opportunity' the congress will provide a forum for executives of insurance companies, reinsurance companies and insurance brokerages as well as risk managers to discuss and debate important issues confronting the increasingly global insurance marketplace," said *Business Insurance* Publisher Alfred Malecki.

Plenary sessions for all registrants will be held each morning, with a selection from concurrent ses-



sions available to registrants in the afternoon. An exhibition area at the congress site, The Queen Elizabeth II Conference Centre, also will provide registrants with an opportunity to meet their counterparts from around the world.

The conference program is being prepared by *Business Insurance* Associate Publisher and Editor Kathryn J. McIntyre in conjunction with Cees Schrauwers, a partner and director of insurance consulting with Coopers & Lybrand Deloitte in London, who was appointed by Lloyd's of London Press.

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Inside

✓ This week's editorial applauds employers that continue to offer health care coverage for dependents of military reservists who have been called to duty. **PAGE 8**

✓ Although 1989 clearly brought the decline of Communist regimes in Eastern Europe, what is to follow is by no means as clear for risk managers, says Douglas N. Smith of Johnson & Higgins in International Issues. **PAGE 47**

✓ Marijuana users represent a greater threat to workplace safety than cocaine users, a preliminary study contends. **PAGE 71**

✓ Hughes Aircraft Co. may appeal jury's denial of full coverage for \$4 million satellite claim. **PAGE 73**

✓ The National Assn. of Casualty & Surety Agents contends that E.C. regulators are not addressing potential problems for U.S. companies in the forthcoming single market. **PAGE 79**

✓ The European Community hopes to soon develop uniform asset valuation rules for insurance company accounts. **PAGE 79**

✓ Most—but not all—risk managers oppose repeal of McCarran-Ferguson antitrust exemptions, a new BI survey shows. **PAGE 84**

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Big changes at Lloyd's

Market striving to improve competitive position

By STACY SHAPIRO

LONDON—Lloyd's of London is in the midst of a metamorphosis intended to make it a stronger, more marketable and more competitive force in the insurance world.

After years of discussion, Lloyd's will implement a number of dramatic changes in the next year designed to benefit the policyholders that purchase coverage from Lloyd's underwriters, the brokers who place the coverage and the members who provide Lloyd's with its capacity.

The changes, already agreed to by the Council of Lloyd's, the market's governing body, include:

- Allowing for the first time some business to be placed in the market without the use of a Lloyd's broker. Beginning in October for 1991 renewals, personal lines and commercial auto business may be placed with a "Lloyd's entity" such as a syndicate servicing company operated by a Lloyd's managing agency.

- Eliminating market barriers on Jan. 1, which will allow all syndicates to write all classes of business: marine, non-marine, aviation and motor. New "composite" syndicates will be able to write, for example, all-risk insurance packages—perhaps combining marine, non-marine and aviation coverages—which before would have required policies written separately by marine, non-marine and aviation syndicates.

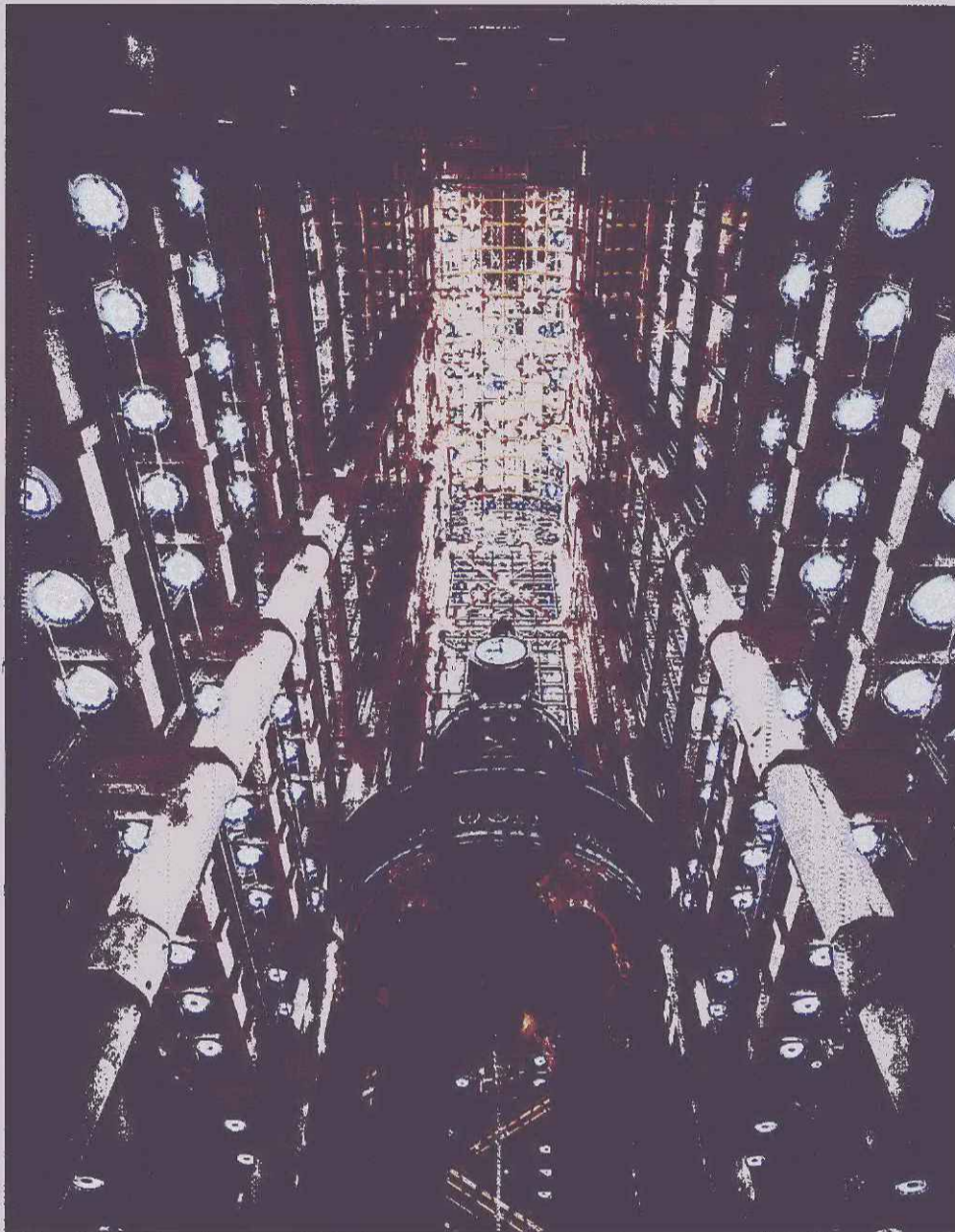
- Developing a unified claims system next year, whereby all four markets will use the same procedure to process claims, thus reducing the amount of time it takes for a claim to be paid. There are discussions in the market that the marine, non-marine and aviation markets may unite their claims departments into one claims office, but that is not expected to occur before 1992.

- A major revolution in the processing of policies through the computerized London Insurance Market Network, which by the end of the year will eliminate the use of millions of old-fashioned computer punch cards used by underwriters.

- Creation of the first centralized marketing and advertising campaign ever produced by Lloyd's (see story, page 38).

"We are really beginning to make progress—it takes time in a marketplace like ours—in getting ourselves more modernized, more up-to-date, more efficient, more cost-effective," said Lloyd's Chairman Murray Lawrence.

Now that regulatory reforms proposed in



Lloyd's is using this dramatic shot of its atrium in its ad campaign. See story, page 38.

1987 by a Parliament-appointed committee headed by Sir Patrick Neill are fully implemented, "we want to simplify the system without losing any of its qualities and make

it a good deal more user-friendly," added Chief Executive Alan Lord.

"The council's main attention has turned to facilitating the development of the busi-

ness... (in particular) improving the market's relationship with Lloyd's brokers."

Meanwhile, the Council of Lloyd's is also considering other monumental moves to make the market more attractive to members who contribute the capacity needed by Lloyd's syndicates.

There is speculation that the number of new members had declined in the past few years because the risks currently outweigh rewards. The huge number of syndicate accounts kept open by big underwriting losses in earlier years, plus recent catastrophe losses, bolsters that fear (see story, page 43).

Lloyd's total underwriting capacity this year rose slightly to 11.07 billion pounds (\$17.82 billion at appropriate exchange rates; see story, page 4) from 10.9 billion pounds (\$19.73 billion) in 1989. But 2,316 members resigned effective this year, cutting membership to 28,770 from 31,329 in 1989. Only 312 new members joined this year.

Premium capacity grew this year only because 4,975 members increased the amount of capacity they write. The average underwriting capacity per member rose to 385,000 pounds (\$619,850) in 1990 from 350,000 pounds (\$633,500) in 1989.

However, Lloyd's soon will publish proposals to allow members' agents to offer "pooling arrangements"—somewhat similar to a mutual fund—that would allow members to spread their risk by investing in a pool composed of many syndicates.

The object of this proposal, known as Members' Agent Pooling Arrangements or MAPA, is to reduce the number of huge losses to some members by spreading losses among all participants in a pool.

Lloyd's also is in the "advanced stages" of setting up a company to reinsure syndicates' open years of account, thus letting syndicates close their accounts.

The Council of Lloyd's in the past year has enforced sanctions on underwriting agencies that keep syndicate accounts open and, as a result, the number of open years has been reduced to 92 since Lloyd's announced its 1987 global results in June, from 115 when the market announced its 1986 results in September 1989.

Reserves for outstanding and incurred-but-not-reported claims for the accounts not closed totaled 911.9 million pounds (\$1.47 billion) at the end of the 1987 accounting year, up 2.9% from 886.4 million pounds (\$1.6 billion) in 1986 (BI, July 2).

Continued on next page

Munich Re tops ranking of 20 biggest reinsurers

Nearly \$2.3 billion in net written premium volume separates Munich Reinsurance Co., the world's largest reinsurance company, from No. 2 Swiss Re Group in the second annual *Business Insurance* ranking of the world's largest reinsurance companies.

Munich Re of West Germany wrote \$6.5 billion in net reinsurance premiums in 1988, the most recent year for which reinsurance-related financial statements are available. With net premiums falling or up only modestly for many companies, Munich Re's rose 11% from \$5.8 billion in 1987.

Its closest contender—Swiss Re Group of Zurich—wrote nearly \$4.2 billion in net reinsurance premiums in 1989, down 7.7% from \$4.5 billion in 1988.

Swiss Re wrote \$1.9 billion more in net reinsurance premiums than the third-largest reinsurer, Employers Reinsurance Co. of Overland, Kan. Employers Re reported net premiums totaling \$2.3 billion in 1989.

Together those three companies account for about 43% of the \$29.6 billion in net reinsurance premiums written by the Top 20 world rein-

surers.

However, if Lloyd's of London were included in the *BI* ranking, it would be the world's largest reinsurer based on its \$6.52 billion net reinsurance premiums written in 1989, up from \$4.95 billion in 1988.

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

U.S. and West German companies dominate the rankings. Those 11 reinsurers—six from the United States, five from West Germany—generated more than \$17.6 billion in net premiums, or about 59% of the Top 20's total volume.

Three of the largest reinsurers are Japanese. However, Yasuda Fire & Marine Insurance Co. Ltd. incorrectly reported its financials for the *BI* survey last year when it ranked No. 4 and is now ranked as the 20th-largest reinsurer with 1989 net reinsurance premiums of \$545.7 million.

One Dutch company appears for the first time on the list. Netherlands Reinsurance Group wrote nearly \$705 million in net reinsur-

ance premiums in fiscal 1989. Included in those figures is Netherlands' recent acquisition of Victory Insurance Holdings Ltd., the reinsurance arm of Legal & General Assurance Society Ltd. in London.

Switzerland, Italy, Sweden and the United Kingdom each claim one of the 20 largest reinsurers.

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 reinsurance and life/health reinsurance. The companies answered a *BI* questionnaire.

More detailed financial information on these reinsurers, comments from their key executives on the state of the global marketplace and an explanation of how they were ranked appears on page 61.

In addition, the second annual *Business Insurance* directory of leading worldwide reinsurers begins on page 63. Reinsurers that write primarily property/casualty reinsurance and that have net written reinsurance premiums totaling more than \$300 million are included. ■

World's largest reinsurers

All amounts in thousand of dollars

Reinsurers	Net reinsurance premiums written 1989
Munich Reinsurance Co.	\$6,475,596
Swiss Re Group	4,193,802
Employers Reinsurance Corp.	2,254,667
General Reinsurance Co.	1,796,611
Assicurazioni Generali S.p.A.	1,704,549
Cologne Reinsurance Co.	1,464,219
Skandia International Insurance Corp.	1,242,208
Hannover/Eisen & Stahl Reinsurance Co.	1,180,748
Mercantile & General Reinsurance Co. P.L.C.	1,062,012
Societe Commerciale de Reassurance	1,031,504
Gerling-Konzern Globale Reinsurance Group	949,538
American Re-Insurance Co.	908,212
Tokio Marine & Fire Insurance Co. Ltd.	903,683
CIGNA Reinsurance Operations	745,763
Frankona Reinsurance Co.	743,167
Netherlands Reinsurance Group	704,769
The Toa Fire & Marine Reinsurance Co. Ltd.	573,878
Continental Reinsurance Group	563,952
Prudential Reinsurance Co.	549,296
The Yasuda Fire & Marine Insurance Co. Ltd.	545,769
Total	\$29,593,944

Source: *BI* survey

Lloyd's

Continued from previous page

Mr. Lawrence expects "a considerable number" of the remaining 92 open years of account to be closed within two to three years.

Others, however, "have major, major problems—either major uncertainties to do with pollution and asbestos, or they haven't got a home to go to because there is no ongoing syndicate (since the original syndicate has stopped underwriting)," said Mr. Lawrence.

"For those, we are looking long and hard—but quickly—at the possibility of a central vehicle that could quote (reinsurance premiums) on a syndicate basis. And if the syndicate managers didn't like the quote, it might be offered to individual names and they might be able to take up the offer on their share" of the syndicate's losses, Mr. Lawrence explained.

This reinsurance-to-close trans-

action with the reinsurer, which would be owned by Lloyd's, would be made "on a fully commercial, arm's-length basis," he said.

The proposed reinsurer has been euphemistically called "Runoff Re" and "Leopardcover," in reference to Lioncover Insurance Co. Ltd., which Lloyd's formed to reinsure the runoff liabilities of syndicates formerly managed by PCW Underwriting Agencies Ltd. (BI, Aug. 27).

However, Mr. Lawrence detests the name "Leopardcover" since it implies that the facility would be similar to Lioncover, which it would not. The new facility "will be fully commercial," he said.

Lloyd's is now having advanced discussions with U.S. and U.K. tax authorities as well as the British Department of Trade and Industry about the new reinsurer.

"There are a lot of hurdles to overcome and we are working on them as hard as we possibly can,"

Mr. Lawrence said.

Many of the changes that are either taking place at Lloyd's or are in the final stages of consideration have been bandied about for several years (BI, Aug. 28, 1989; Aug. 29, 1988).

lized statistics, underwriters have told the Council of Lloyd's that Lloyd's brokers have slowly reduced the amount of business that they show Lloyd's underwriters ever since the Lloyd's Act of 1982 forced brokers to sell their Lloyd's

'Divestment was a big mistake,' says David Robertson, chairman of Lloyd's Non-Marine Underwriters' Assn. 'And most of us would like to see Lloyd's syndicates allowed to own Lloyd's brokers if it can't be the other way around.'

Discussions in the past year between the exchange and Lloyd's Underwriting Agents Assn. and members of Lloyd's Insurance Brokers Committee have made it obvious that immediate changes are needed to attract more business.

Although there are no centra-

underwriting agencies in a move known in the market as "divestment."

"Divestment was a big mistake," summed up David Robertson, chairman of Lloyd's Non-Marine Underwriters' Assn. "And most of us would like to see Lloyd's syndi-

cates allowed to own Lloyd's brokers if it can't be the other way around."

Lloyd's underwriters have historically depended solely on Lloyd's brokers to produce business and to market Lloyd's throughout the world.

"We sit as underwriters waiting for the business to come to us," said Mr. Robertson. "But the broker will have the London Underwriting Center (see story, page 14), the whole of Europe, the Japanese market and the American market. We're just another market... so we must be more pro-active."

Lloyd's is doing just that, actively marketing its own name and working more closely with the public rather than depending solely on Lloyd's brokers for business.

Mr. Lawrence, for example, this year visited Kentucky, one of two U.S. states in which Lloyd's is licensed, to see why Lloyd's has made "such poor use" of its license in that state. He said he discovered that Lloyd's does not get much business from Kentucky because agents didn't know much about the market or what it underwrites.

"There was an aching void," said Mr. Lawrence. "They hadn't been visited by underwriters and the brokers who had visited them had come on specific interests and were not on a general selling mode."

"This is why I don't subscribe to the view that we can leave it up to the brokers to do our selling job," said Mr. Lawrence. "I think we've got to do it as a combined effort."

Since Mr. Lawrence's visit to Kentucky agents, Lloyd's premium volume from the state has risen 300%, he said.

Lloyd's underwriters—accom-

Continued on page 6

Lloyd's uses special rules for conversion

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

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

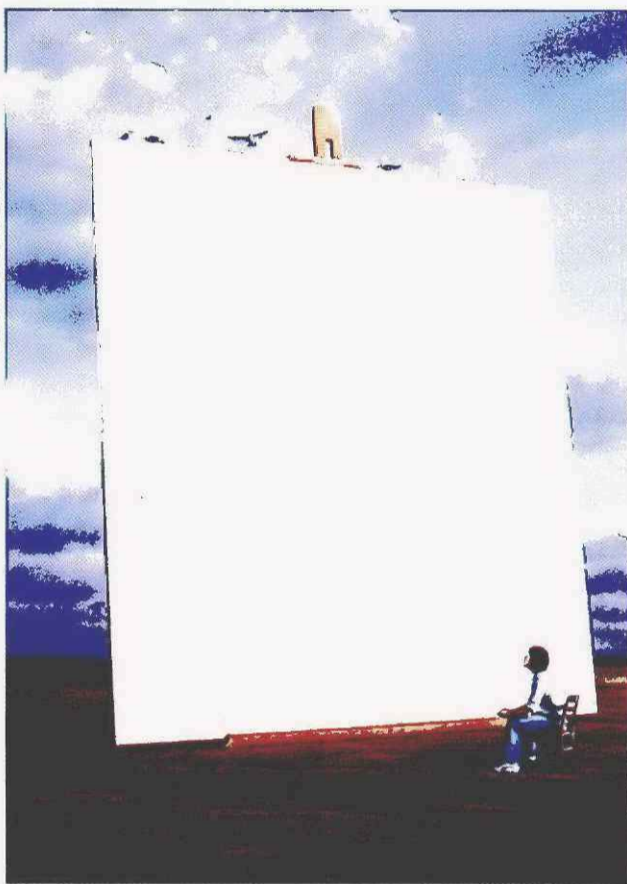
To convert its results, Lloyd's uses the exchange rate at the end of the year in which the underwriting year actually closes. For example, since the 1987 underwriting year closed on Dec. 31, 1989, Lloyd's uses the year-end 1989 exchange rate of \$1.61 to convert its 1987 results from pounds to dollars.

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 1988 underwriting year, Lloyd's uses the year-end 1988 exchange rate of \$1.81.

When the 1988 underwriting year finally closes at the end of this year, Lloyd's will then use the year-end 1990 exchange rate to convert its 1988 results.

To determine its annual gross allocated premium capacity in terms of dollars, Lloyd's uses the exchange rate at the end of the preceding year. For example, to calculate syndicates' 1990 capacity, Lloyd's used the year-end 1989 exchange rate of \$1.61 to convert dollars into pounds. Under this formula, 1990 gross capacity of 11.1 billion pounds is \$17.9 billion.

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



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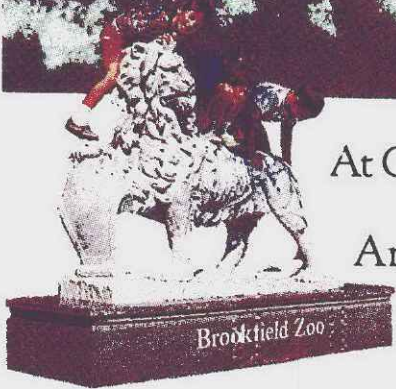
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Endangered Golden Lion Tamarin

At Wausau, we believe the relationship between insurer and policyholder can be fragile. Without understanding and proper attention, it can easily become extinct.



Lloyd's

Continued from page 4

panied by brokers—now will visit policyholders more frequently than ever before in accordance with agreements between the Council of Lloyd's and the LIBC, sources in the market have said.

This is part of "the New Deal" between Lloyd's underwriters and brokers that was launched this year (see story, page 27).

Lloyd's has also negotiated with Lloyd's brokers other changes to attract more business into the market without alienating Lloyd's brokers.

For example, the Council of Lloyd's finally decided this year to allow syndicate service companies operated by managing agents to place personal lines and commercial auto business in Lloyd's without using a Lloyd's broker as an intermediary. There currently are 40 such syndicate service companies outside the traditional Lloyd's market.

Originally, the council also was going to allow small commercial business to be written directly through these syndicate service companies rather than through Lloyd's brokers. However, there was so much opposition from brokers, the idea was dropped.

"There was a lot of disappointment among non-marine underwriters (who are most affected by the change) that the definition of personal lines did not include small commercial business, which is uneconomical for brokers to place in Lloyd's," said Mr. Robertson, voicing the views of others in the market.

However, "there are (syndicate) service companies already formed and more will be formed, maybe even on a collective basis by a group of syndicates," he said.

Mr. Lawrence, an underwriter by background, doesn't rule out that these service companies will one day place commercial lines business. However, this is not envisaged for the near future, the chairman said.

The Council of Lloyd's also this year acted to remove the barriers among the four markets—marine, non-marine, aviation and motor—to allow all syndicates to write all classes of business. Lloyd's worked for more than 200 years without these barriers before they were

erected this century.

The removal of the barriers was pushed through with the support of Lloyd's Underwriting Agents Assn. and the LIBC because it would attract more package insurance business into the market. However, the move was strongly opposed by the four associations representing underwriters in the markets.

"The brokers were all for it," said Mr. Robertson of Lloyd's Non-Marine Underwriters Assn. "The agents' association said they were for it. But the market practitioners were against it, at least against the timing of it. However, Lloyd's Council felt our future was with brokers who are our marketing arm and felt that if (brokers) wanted it, we should do it."

Many of the market's underwriters opposed the removal of the barriers because the process will take time that could have been spent on what they consider more urgent matters, like the classification of risks. The classification of risks, however, will go ahead in

September for the 1991 account so the market for the first time will know the volume of business written for each class of business.

"Although association chairmen fought to stop" the removal of market barriers, now that it's passed through council, it is like a cabinet decision—you support it," said Mr. Robertson. "Barriers, after all, are coming down in Europe and you have freedom of trade. So why not have freedom of trade in Lloyd's?"

"The criticisms are sort of vague" against removing barriers, said Mr. Lawrence. Those criticisms included "that it is going to increase competition; make more people get into classes of business which they don't know anything about. I think this is very defeatist. Heavens above, we are a society above all that competes for and thrives on freedom. And yet we have the biggest restrictive practice of our own... that is a new thing (in Lloyd's 303-year history)."

"The need for (four separate markets) is no longer there," he

said.

Mr. Lawrence, however, said he doesn't believe that the vast majority of syndicates will quickly change the way that they are doing business and will remain specialized. "What the council doesn't do is tell the market how to write its business. But what the council

'The need for' four separate markets 'is no longer there,' says Lloyd's Chairman Murray Lawrence.

does do is to see that we make it as easy as possible for the market to write business in the way they wish to in a way that's constant with sensible regulation with the view toward the policyholder and the (Lloyd's) name.

"If there are seen to be blocks to doing business, it is up to the council to decide whether those blocks should be there or not, and if they shouldn't be and it's safe to remove them, then remove them. But not everyone has to take advantage of that."

Meanwhile, changes are going on in the backrooms of Lloyd's to speed the flow of claims and policy information via the LIMNET computer network to improve service to brokers and policyholders.

For example, Lloyd's is unifying its claims system to enable a leading underwriter to agree a claim for other underwriters participating on a policy.

The three relocated claims offices for the marine, non-marine and aviation markets will all be housed in Lloyd's 1958 building across from the market's 1986 building and will use the same methods to settle and process claims. These three offices may one day be amalgamated into one office, but that is not envisaged until at least 1992.

In addition, Lloyd's Policy Signing Office is computerizing its policy administration so it eventually can offer all policy information on computer screens in brokers' offices and Lloyd's underwriting room.

The first step in this process will be completed at the end of the year when all outgoing information, which used to be issued to underwriters on computer punch cards, will be issued electronically, says LPSO General Manager

Howard Hughes.

The elimination of the punch cards "is a major revolution," said Mr. Hughes, noting this is "the first major application" of LIMNET.

In the next four to five years, all the information that is currently presented to the LPSO by brokers and underwriters—including the famous line slips and Lloyd's policy wordings—will be input through Lloyd's electronic placing system, Mr. Hughes added, though he noted the full implementation of computerization "depends on the speed of the slowest."

Meanwhile, Mr. Lawrence will step down at year-end after two years as chairman and a total of eight years as a member of the Council of Lloyd's. He will be replaced by current Deputy Chairman David Coleridge (see story, page 20).

During his tenure Mr. Lawrence was credited with helping push the Lloyd's Act of 1981 through Parliament; disciplining a number of brokers and underwriters for misdeeds in the 1970s and early 1980s; implementing the Neill recommendations; and enforcing bylaws that will allow the forthcoming changes to take place at Lloyd's.

He says his two personal achievements are his chairmanship of Lloyd's computer leasing committee in the early 1980s, when the market was faced with hundreds of millions of dollars in computer leasing insurance losses, and his achievements as a member of Lloyd's Underwriting Agents Regulation Committee.

In the future, he plans to spend more time at Murray Lawrence & Partners, the underwriting agency of which he is chairman, and "do other things which I love. I love golf, for example, and I want to put more into it."

Mr. Lord's five-year contract as chief executive was to expire in February, but has been extended until June 1992 when Mr. Lord will be 63.

Mr. Lord, who was an outsider when he became chief executive, hopes that someone within the Corporation of Lloyd's will take his place.

"I believe that a chief executive should grow his own timber," he said. Therefore, he has hired people who are excellent candidates for the post.

Once his successor is in place, Mr. Lord says he wants to spend his last three months "with my feet up, learning how to work a personal computer."

Largest Lloyd's syndicates

Based on 1990 gross allocated capacity in millions of pounds

Syndicate	Managing agency	Underwriter	Capacity ¹			
			1990	1989	1988	1987
Marine 418	Merrett Underwriting Agency Management Ltd.	S. Merrett	£216.2	\$348.1	£242.1	\$438.2
Non-marine 210	Sturge Non-marine Syndicate Management Ltd.	A.G. Lee	185.8	315.2	176.4	319.3
Marine 206	Sturge Marine Syndicate Management Ltd.	M.J.H. Maughan	177.9	286.4	193.8	350.8
Non-marine 190	Three Quays Underwriting Management Ltd.	R.D. Hazell	163.6	263.4	158.8	287.4
Non-marine 362	Murray Lawrence & Partners	R.J.R. Keeling	146.7	236.2	143.4	259.6
Marine 367	F.L.P. Secretan & Co. Ltd.	A.D. Pilcher	134.0	215.7	142.5	257.9
Marine 448	Wellington Underwriting Agencies Ltd.	A.M. England	121.5	195.6	130.1	235.5
Non-marine 510	R.J. Kiln & Co. Ltd.	G.D. Gilchrist	115.2	185.5	114.9	208.0
Marine 483	Methuen (Lloyd's Underwriting Agents) Ltd.	P.R. Chandler	114.6	184.5	124.9	226.1
Marine 488	Charman Underwriting Agencies Ltd.	J.R. Charman	113.6	182.9	105.4	190.8
Marine 932	Janson Green Management Ltd.	J.R.L. Youell	112.6	181.3	123.6	223.7
Non-marine 386	Janson Payne Management Ltd.	M.W. Payne	104.4	168.1	105.2	190.4
Motor 979	Cuthbert Heath Underwriting Ltd.	W.H.J. Ritchens	102.4	164.9	89.1	161.3
Marine 406	Wellington Underwriting Agencies Ltd.	S.I. Crowley	101.6	163.6	110.6	200.2
Marine 282	M.J. Marchant Underwriting Ltd.	M.J. Marchant	100.9	162.4	100.5	181.9
Non-marine 839	Castle Underwriting Agents Ltd.	A. Sharp	98.7	158.9	92.5	167.4
Aviation 960	Sturge Aviation Syndicate Management Ltd.	B.E. Beagley	94.3	151.8	95.9	173.6
Non-marine 33	Roberts & Hiscox Ltd.	I.N. Thomson	92.7	149.2	93.9	170.0
Marine 735	Wren Underwriting Agencies Ltd.	A.F. Jackson	89.3	143.8	90.1	163.1
Motor 330	Edwards & Payne (Underwriting Agencies) Ltd.	D.M.W. Farley	88.1	141.8	72.2	130.7

¹Converted at applicable exchange rate

Source: Lloyd's of London

Independence

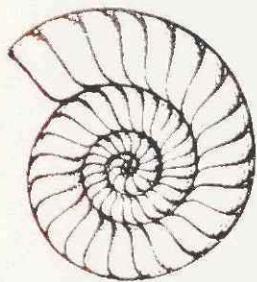
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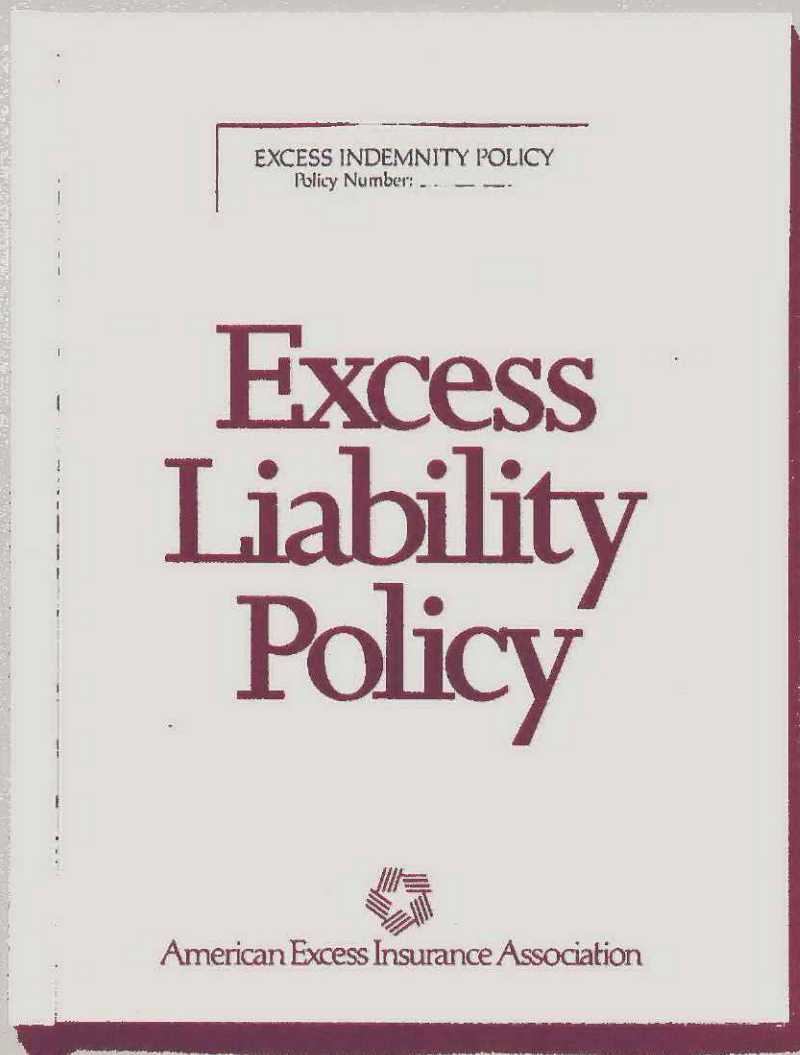
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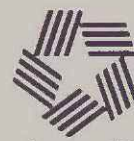
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Opinions

Employers do their part

WE APPLAUD EMPLOYERS that—despite no legal requirement to do so—are continuing to offer health care coverage for dependents of military reservists called up for active duty because of the Middle East crisis.

More than half of 114 benefit managers responding to a survey conducted last week by the International Foundation of Employee Benefit Plans at its conference in Williamsburg, Va., said their companies will continue covering employees on active duty.

A smaller, but more detailed, survey of 47 employers conducted by Hewitt Associates found that 13 employers will continue coverage for both employees and dependents for periods ranging from 30 days to one year, generally at normal cost. Seven employers will continue coverage for dependents only for six months to indefinitely at normal cost, while 11 other employers will continue coverage on some other basis. The remaining 16 employers either will discontinue coverage or haven't made a decision.

Companies that extend health care coverage to military families are making the right decision. Military reservists, often through considerable financial sacrifice and possible great personal danger, are helping to protect the nation's interests. It seems that the least their employers can do is protect employees' families from big health care expenses.

From a public relations point of view, employers that immediately yank coverage for employees activated for military service and their dependents would, deservedly so, get a black eye.

On the positive side, employers continuing regular health care coverage will earn the goodwill of military reservists and their families. That is certain to increase employee loyalty and productivity when the crisis ends and the employees return to



“OUR THOUGHTS AND BENEFITS GO WITH YOU!”

work.

No one expects employers to indefinitely continue regular health care coverage for reservists called up for active duty. Fortunately, there is a federal government health plan—known as CHAMPUS—that provides health care coverage for dependents of reservists whose military commitments exceed 30 days.

However, there are certain gaps in CHAMPUS. The program, for example, only provides limited dental coverage, so employers may want to fill this void through their own health care programs.

Just as employers are doing their part, we hope the regulatory agencies do their share and provide timely guidance on a wide variety of questions that employers are asking about how the activation of reservists affects other employee benefit programs.

Letters

Price Forbes emphasizes wholesale broker role

To the editor: We look forward each year to your Surplus and Specialty Lines issue and, in particular, to the rankings of the 10 largest wholesalers. However, we were most disappointed this year to find Price Forbes North America misclassified as a managing general agent/underwriting manager (*BI*, Aug. 13). Even though there has been a change in

the way we report our results from prior years, both Crump E&S Group and Southern Marine & Aviation Underwriters (Price Forbes' two major operating units) continue to be wholesale brokers.

While our organization has many MGA contracts with both domestic and Lloyd's of London markets, we most certainly

should not be ranked in the category in which we were placed.

We consider our organization to be the second-largest wholesale broker in North America if placed in the proper category.

Orville D. Jones
President
Crump E&S Group
Dallas

■ *Editor's note: Business Insurance ranked Price Forbes North America as a managing general agent/underwriting manager because the company reported that 51% of its 1989 premium volume was generated as an MGA or underwriting manager, while only 49% was generated as a broker.*

ARIG not subject to U.N. trade ban

To the editor: In the article, "Middle East Insurers Face Uncertain Future," in the Aug. 13 issue of *Business Insurance*, you state that "most Western insurers and brokers will suspend dealings with ARIG following a United Nations call for a ban on trade with Iraq and the government it installed in Kuwait."

I would point out that this statement is incorrect, since Arab Insurance Group B.S.C. is a Bahrain-registered company—as indicated later in the article—and is not affected by the ban.

I would be grateful if you would highlight this fact.

David W.F. Baker
Public Relations
Arab Insurance Group B.S.C.
Al Manama, Bahrain

Wrap-up program responds to rail fire claims

To the editor: The July 23 article on the Los Angeles Metro Rail tunnel fire and the wrap-up insurance program that covered property damage included some incorrect information.

The story quoted an official of District Insurance Administrators saying that a \$10 million reserve was set up for the fire loss when, in fact, a \$5 million reserve was initially set. Builders risk damage from the fire is currently estimated at \$3 million.

The official also was quoted as stating that to date only \$357,000 in property damage claims had been paid. However, under the builders risk insurance coverage, eight claims had been filed before the tunnel fire, for a total of \$583,000 in

incurred losses. Of these, \$57,000 have been paid by the insurer or by contractors under the deductible provision of the policy. One claim for \$300,000 is in subrogation against a third party and one claim is being adjusted by Allianz Insurance Co.

Only hours after the fire broke out on Friday, July 13, Sedgwick James Inc., administrator of the wrap-up program, contacted Allianz, the primary insurer. The damage was assessed over the weekend and on Monday morning the Los Angeles County Transportation Commission was presented with a \$1 million check as an advance payment of the damage claim.

This illustrates how quickly a wrap-up program can respond to such a disaster. Construction is able to move ahead much more rapidly than if a myriad of individual insurers, rather than a single insurer, were involved in the investigation, adjustment and settlement of the loss.

Wally Ryland
President
Construction Services Division
Sedgwick James Inc.
New York

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Lloyd's expects overall loss for 1989

By STACY SHAPIRO

LONDON—Lloyd's of London, the world's third-largest reinsurer, expects to post an overall underwriting loss when its 1989 results are posted in 1992.

If the market does post an overall loss, it will be the first time in 23 years—since the aftermath of Hurricane Betsy in 1966 and 1967—that Lloyd's syndicates have reported an aggregate loss.

As a result, many marine and non-marine syndicates that have been hit the hardest by the series of catastrophe losses over the past 2½ years are likely to increase their reinsurance rates at year-end, observers say. They say direct insurance rates are not likely to increase until later next year or in early

1992 (see stories, pages 16 and 51).

Lloyd's syndicates also are anticipating a hard reinsurance market in 1991 by asking members to increase their capacity to take the opportunities of increased premiums, said David Harrison, chairman of members agency Harrison Brothers (see story, page 55).

It is the view of the market that 1989 "could be a loss," said Lloyd's Chairman Murray Lawrence. "Most people I talk to don't expect to be on the wrong side in 1989, but others will be. Clearly, there were some major losses and if (syndicates) were heavily into catastrophe-type business and they got their figures wrong on their liabilities vs. their own reinsurance program, they could be in for a bad year.

"And, of course, rates were generally low in 1989," he said. "But even in the two years when Lloyd's made an overall loss (in 1966 and

'If it were logical, the market would have turned six months ago,' says Mr. Lawrence.

1967), a great number of names made profits."

However, underwriters cannot ignore the estimated \$17 billion in catastrophe losses that have occurred worldwide between Sep-

tember 1989 and May of this year, "on top of a (soft) market that is making precious little money," Mr. Lawrence said. As a result, rates must go up, he predicted.

The catastrophe losses—starting with Hurricane Hugo last September and continuing through the European windstorms early this year—"are all short-term property losses that have to be paid quickly, within nine months of the event, whether it's direct or reinsurance," he said.

"Now all that money's got to be found from somewhere. I refuse to believe that water can flow uphill. The market's got to change," he said, though he does not know when. "There's no logic or reasoning behind the time for change. Suddenly one morning a number of

people get out of bed and say, 'This has got to stop.' And it stops."

There could be all sorts of factors that trigger a turn in the market, such as a stock market crash, the failure of a large insurer or reinsurer, or "a minor thing which is the final straw," he said. "It's emotional, not logical. If it were logical, the market would have turned about six months ago."

In 1989, Lloyd's had 401 syndicates with total allocated capacity of 10.96 billion pounds (\$19.84 billion at the appropriate exchange rate).

Last year, 61%, or 3.6 billion pounds (\$6.52 billion), of the market's total net premium volume of 5.9 billion pounds (\$10.68 billion) was produced by reinsurance business, according to Lloyd's Policy Signing Office.

Net premium volume at Lloyd's for 1989 may be altered slightly when Lloyd's closes the account in 1992 under its three-year accounting system because different currency exchanges and different methods of calculation will be used, the LPSO points out.

Specifically, of the reinsurance that was written last year:

- 39.9% of net premium volume was excess-of-loss reinsurance, up from 25.6% in 1988.
- 11.1% was facultative reinsurance, down from 12.4% in 1988
- 10% was treaty reinsurance, down from 10.1% in 1988.

In addition, the number of reinsurance transactions during the first six months of this year continues to climb, increasing 8.8% over the same period last year, the LPSO said.

This year, Lloyd's has the same number of syndicates—401—but gross premium income capacity has increased slightly from last year to 11.07 billion pounds (\$17.82 billion). However, total capacity allocated to Lloyd's syndicates stands at 10.74 billion pounds (\$17.29 billion), while 327 million pounds more (\$526.5 million) is not allocated to any specific syndicate, a Lloyd's spokesman said.

Allocated capacity at Lloyd's this year is broken down as follows:

- 4.58 billion pounds (\$7.37 billion) is non-marine capacity.
- 4.26 billion pounds (\$6.86 billion) is marine capacity.
- 974 million pounds (\$1.57 billion) is aviation capacity.
- 887 million pounds (\$1.43 billion) is motor capacity.

In addition, there is a total of 47 million pounds (\$75.7 million) of capacity for livestock, life, credit reinsurance and other risks.

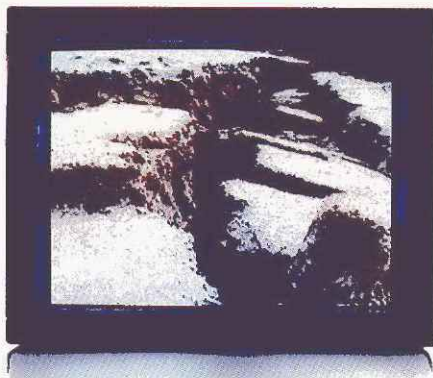
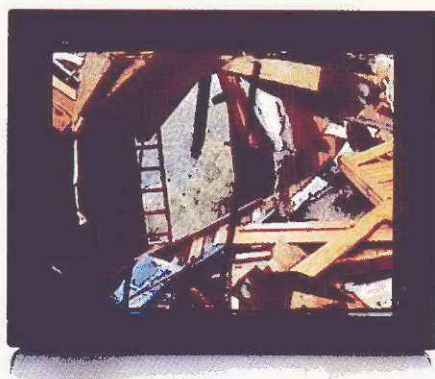
This year, there are 28,770 members, down from 31,329 members last year (see stories, page 3 and page 48). The members this year include 312 new members and 6,329 overseas members from more than 70 countries.

There are 260 Lloyd's brokerages, down three from last year (see story, page 27).

Lloyd's this year moved the announcement of its global results to June from September. As a result, Lloyd's has already announced its 1987 global profits, which fell 21.6% to 509.2 million pounds (\$819.8 million) from a record 649.5 million (\$1.18 billion) in 1986 after members' expenses but before taxes.

Before members' expenses are deducted, profits declined 13.1% to 880.8 million pounds (\$1.41 billion) in 1987 from 1.01 billion pounds (\$1.83 billion) in 1986.

The decline in profits in 1987 was understandable because 1986 was a vintage year, when rates rose significantly and few major losses occurred (BI, July 2).



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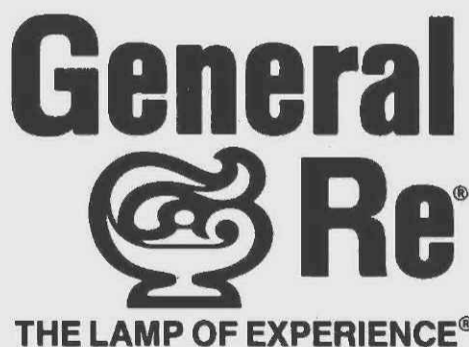
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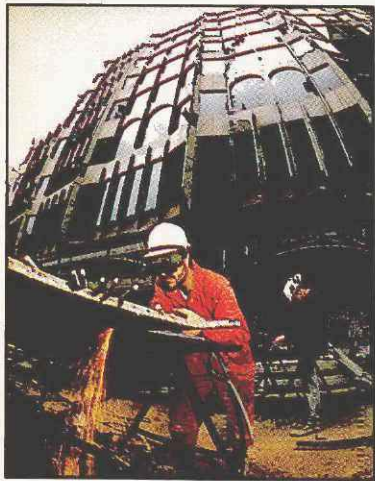
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London Underwriting Centre debut nears



The LUC currently is under construction in the City of London, near the Lloyd's building.

By CAROLYN ALDRED

LONDON—London's third major underwriting center is gradually taking shape a few hundred yards from Lloyd's of London and the Institute of London Underwriters.

The new London Underwriting Centre, designed to house up to 100 non-marine insurance and reinsurance companies, is well on schedule for its opening early in 1992, according to Victor Blake, chairman and chief executive of CNA Reinsurance of London Ltd. Mr. Blake is the man spearheading the plans to create a third underwriting center in London.

The LUC is currently under construction at 3 Minster Court in the heart of the City of London, which is London's financial district.

The "shell and core" of the building, a seven-story Italianate office complex arranged around a vast central atrium, is due to be handed over to the insurance companies within the next eight months, according to Mr. Blake.

Market Building Ltd., a management and leasing company formed and owned by 24 of the LUC's founding insurers, then will spend about 50 million pounds (\$96 million) fitting out the interior of the building, Mr. Blake said.

The building's interior, planned by YRM Partnership, is being carefully laid out to maximize efficiency and ensure a pleasant working environment for both underwriters and brokers, said Mr. Blake.

MBL has noted the advantages and disadvantages of both the

Lloyd's building and the ILU building and has consulted widely with the brokerage community about their needs and desires, he noted.

At least 80 companies, representing 100 underwriting operations, are already committed to leasing office space in the complex, which will translate into a 95% occupancy rate, Mr. Blake pointed out.

And, if everything goes according to schedule, the building should be ready for occupancy in October 1991, although Mr. Blake expects most companies will move in after the January 1992 renewal season.

"We wouldn't expect to have the official opening until after March 1992," he said.

Mr. Blake takes obvious pride in

the progress that London insurance companies have made since his dream of a third underwriting center first took shape just a few years ago.

"We have reached a milestone because the building as a project is almost done. We are now anxious to make sure that the thing is more than the sum of its parts," he commented.

"We want to make the point and show the world that London is getting its act together," Mr. Blake stressed.

About "100 companies have gotten together and formed a central facility. I can't think of anything similar that has been done before" in London's financial community, he remarked.

Although the LUC initially will not operate as an exchange in the same way as Lloyd's or the ILU does, the creation of a central underwriting building for London's large and varied "company market" will mark an important phase for the overall London insurance market, Mr. Blake said.

Meanwhile, the London company market also has made progress in merging the two market associations that formerly represented

'We want to show the world that London is getting its act together,' says Victor Blake.

both the non-marine insurers and reinsurers operating in London.

The Reinsurance Offices' Assn., which represents more than 100 reinsurance companies, and the Policy Signing and Accounting Centre Ltd., which has 134 insurance and reinsurance company members, are merging to form the London Insurance & Reinsurance Market Assn., to be known as LIRMA.

The merger is due to formally take place on Jan. 1, said Mr. Blake, who currently is chairman of PSAC.

Merging the two associations makes great sense because it will help increase efficiency in the market and avoid duplication of effort, according to Mr. Blake.

The merger should work smoothly because most of the associations' responsibilities are complementary to one another, he pointed out.

For example, PSAC is principally a "practical organization which provides a bureau-type function," whereas the ROA is a "representational body putting forward the industry's view to government and the media and providing advice on policy wordings, etc.," Mr. Blake said.

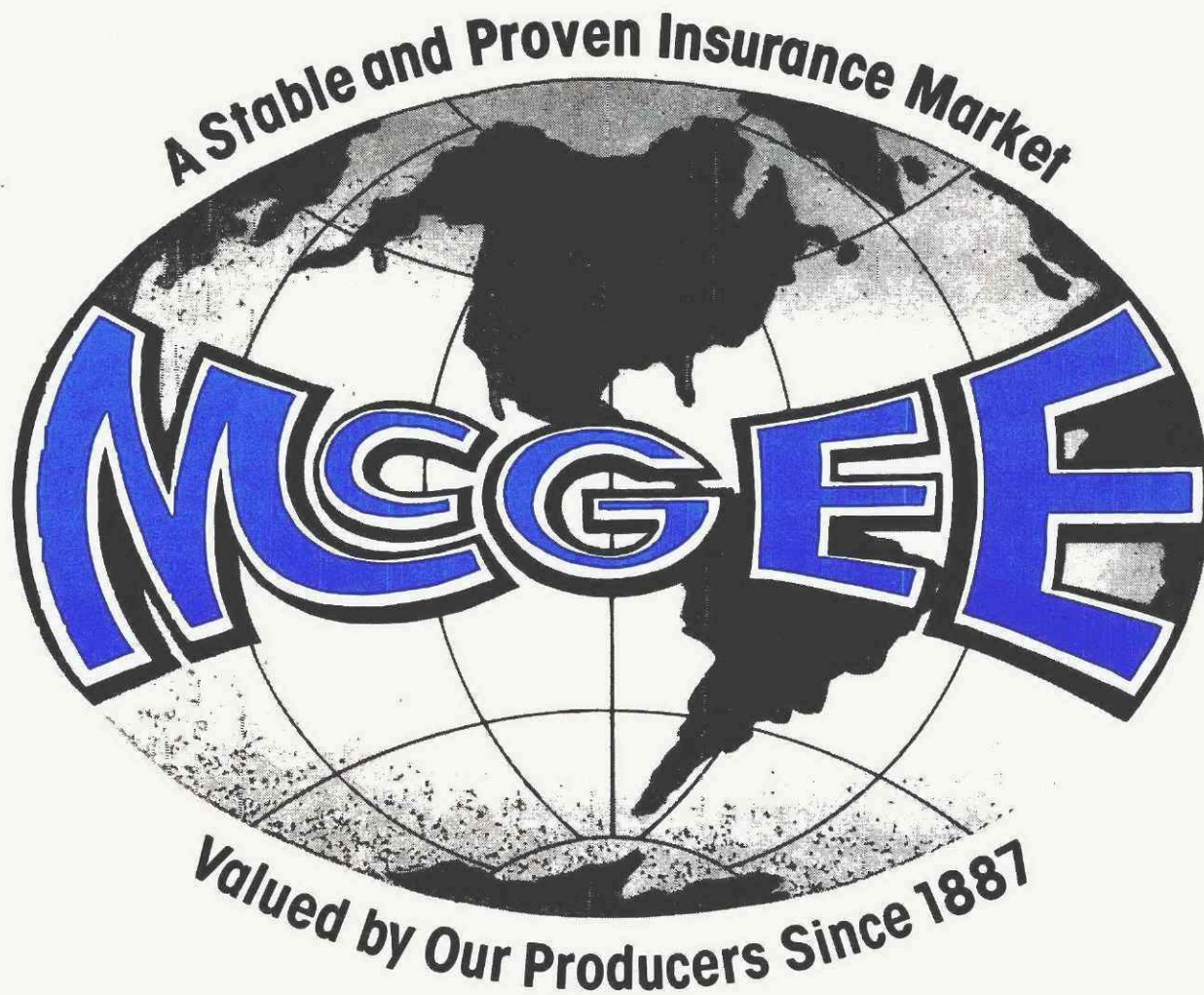
By merging the two organizations, "you provide a complete and complementary service," he said.

Meanwhile, Mr. Blake foresees LIRMA and the LUC working together within five years to create an underwriting exchange that is more than just a building housing a multitude of insurance and reinsurance companies.

However, creating an insurance exchange along the lines of Lloyd's or the ILU is a "terribly, terribly complex issue, and we don't want to be too ambitious at this stage," he said.

"There's a lot to be gained in just saying initially that we are putting people for convenience and efficiency under one roof," Mr. Blake commented.

He pointed out that the LUC already "has tremendous pulling power and is a big talking point already in the U.S. and Europe." ■



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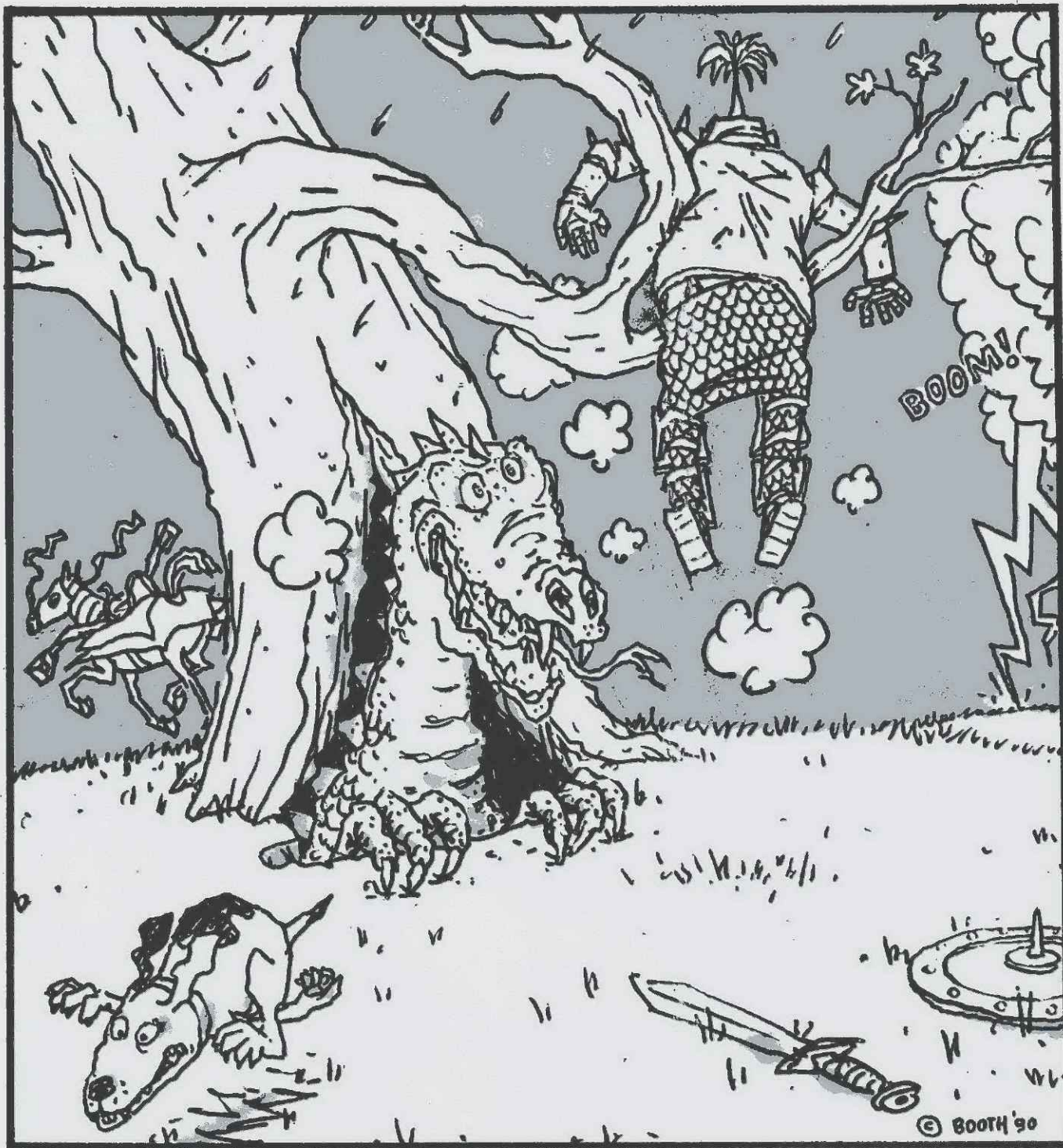
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Non-marine market feels pinch of big losses

By STACY SHAPIRO

LONDON—The world's non-marine reinsurance market will "be extremely tight" during 1991 reinsurance renewals, which begin at the end of this month, predicts Lloyd's of London's non-marine association chairman.

As a result, non-marine insurance rates may start to climb next year, predicts David Robertson, chairman of Lloyd's Underwriters' Non-Marine Assn.

"The reinsurance market will be extremely tight for 1991 when renewals begin at the end of September," Mr. Robertson said. "We are hopeful that the lack of reinsurance capacity will increase insurance rates at least slightly sometime next year."

However, other international reinsurance executives note that they do not see the overall reinsurance market tightening soon, though they do expect property catastrophe and retrocessional rates to rise (see story, page 61).

Mr. Robertson explained that because reinsurance capacity is expected to be reduced, Lloyd's and other non-marine underwriters will have to retain more of the business they cede to their reinsurers, "so the underwriters will look at the rates that they are charging" for direct insurance.

"The natural disasters which occurred during the latter part of 1989 and early part of 1990 will undoubtedly have a profound effect on the insurance and reinsurance market worldwide," added Alan G. Lee, underwriter for syndicate 210, in his 1989 annual syndicate report. Syndicate 210 is Lloyd's largest non-marine syndicate, managed by Sturge Non-Marine Syndicate Management Ltd.

"There are now noticeable increases in rates and premiums in certain areas. I believe that these increases will inevitably spread throughout the industry, being fueled by the huge costs being borne by the reinsurance market and the potential reduction in reinsurance capacity."

Lloyd's is expecting the entire market to produce an overall loss in 1989 because of the series of disasters that struck worldwide insurance markets. Natural disasters will hit the non-marine market harder than the man-made disasters, which mainly will hit the marine market (see story, page 51). Those natural disasters include the earthquakes in San Francisco and Newcastle, Australia; Hurricane Hugo; and the Christmas freeze affecting the southern part of the United States, Mr. Lee said.

Meanwhile, this year Lloyd's is already up to the letter "R" in its list of catastrophic losses, noted Mr. Robertson of the LUNMA. These include the series of European storms in January and February of this year, which are expected to cost more than 5 billion pounds (\$8.1 billion at current exchange rates) in worldwide insurance losses, he noted in Lloyd's 1987 global results.

The first storm to hit the U.K. in January—known as 90A—by itself "will cost as much or more to the London market" than the October, 1987 windstorm—known as 87J—which cost a total of 3 billion pounds (\$5.76 billion) and was the Lloyd's non-marine market's largest single loss before this year, said Mr. Robertson.

Storm 90R is a July 11 wind and hailstorm in Denver, which will cost insurers worldwide 250 million pounds (\$480 million), he said (BI, July 23).

As a result of these losses, "quite a lot should happen" to non-marine insurance rates next year, said Mr. Robertson. "But I don't know

if it's going to. There is still a lot of competition (and) underwriters worldwide are writing business freely, particularly in non-dollar coverages, to pay for losses. And they are trying to gain market share for the opening of Europe in 1992."

Also, it's doubtful that any non-marine syndicates have closed down as a result of the series of disasters, although a number of marine syndicates have shut their doors, according to Mr. Robertson.

However, one or two syndicates have merged as a result of the disasters, particularly those that wrote London market excess-of-loss reinsurance, he said.

"And there will be more (mergers) next year because it will be uneconomical to be small," Mr. Robertson said.

"There's a bit of doom and gloom in the market," he added. "But some underwriters were overwriting two or three years ago" because rates were so high. "I think when the market turns, it will turn quickly."

"There is no doubt in my mind that all these events (losses) will concentrate underwriters' minds as to the best way to trade in the future. The true risk takers—and those underwriters who are capable of analyzing each risk and setting appropriate terms, conditions and premiums—will be best placed, as against those underwriters who have continually hidden behind numerous reinsurance in order to make a trading profit," Mr. Robertson said.

Lloyd's non-marine market this year is the largest market in

Lloyd's, with total allocated capacity increasing 7% to 4.6 billion pounds (\$6.92 billion) from 4.3 billion pounds (\$7.78 billion) in 1989. The number of non-marine syndicates also grew by six to 184 syndicates from 178 in 1989.

Lloyd's only comprises about 2% of the world's non-marine insurance capacity, however.

The non-marine market currently writes all classes of non-marine insurance and reinsurance, of which about half are U.S. risks. The market is specifically known for leading U.S. ceding companies' reinsurance; specialist coverages such as directors and officers liability and professional liability; and property insurance of large corporate risks.

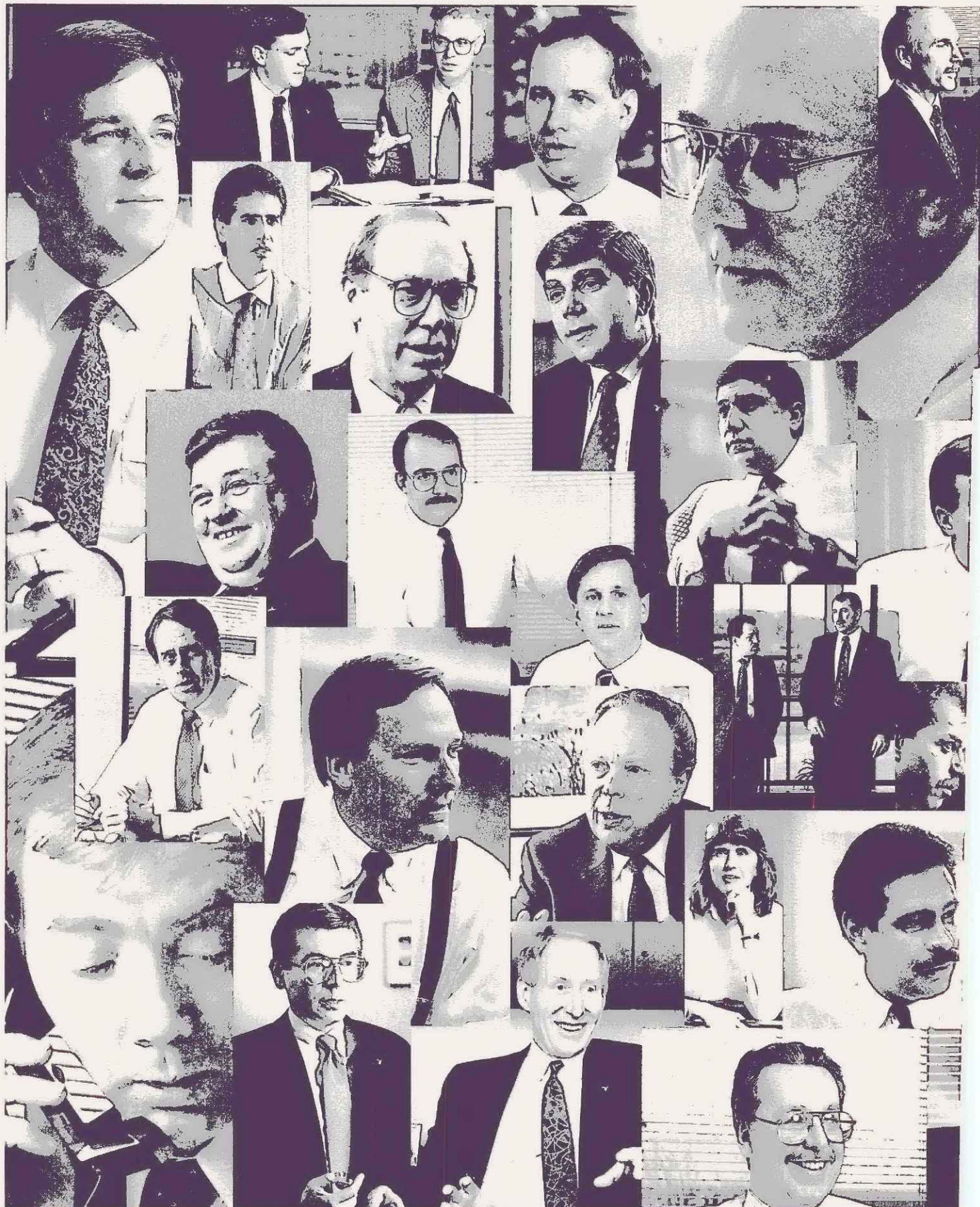
However, Lloyd's non-marine market hopes to write more per-

sonal lines business, like homeowners coverage, following the Council of Lloyd's decision to allow syndicates to write personal lines insurance directly rather than through Lloyd's brokers (see story, page 27).

Direct dealing affects non-marine underwriters most of all," Mr. Robertson said.

Lloyd's is also introducing composite syndicates next year, which will remove distinctions between marine vs. non-marine syndicates, although syndicates still will specialize in particular types of insurance, he added. It will also mean that marine underwriters will be able to write more non-marine business now that the amount of marine risks is on the decline, he said.

Continued on next page



Largest Lloyd's non-marine syndicates

Based on 1990 gross allocated capacity in millions of pounds

Syndicate	Managing agency	Underwriter	Capacity ¹			
			1990		1989	
210	Sturge Non-Marine Syndicate Management Ltd.	A.G. Lee	£185.8	\$299.1	£176.4	\$319.3
190	Three Quays Underwriting Management Ltd.	R.D. Hazell	163.6	263.4	158.8	287.4
362	Murray Lawrence & Partners	R.J.R. Keeling	146.6	236.0	143.3	259.4
510	R.J. Kiln & Co. Ltd.	G.D. Gilchrist	115.2	185.5	114.9	208.0
386	Janson Payne Management Ltd.	M. Payne	104.4	168.1	105.3	190.6
839	Castle Underwriting Agents Ltd.	A. Sharp	98.7	158.9	92.5	167.4
33	Roberts & Hiscox Ltd.	I.N. Thomson	92.8	149.4	94.0	170.1
1067	Merrett Underwriting Agency Management Ltd.	S.J. Burnhope	85.7	138.0	74.4	134.7
1066	Merrett Underwriting Agency Management Ltd.	K. Barrett	80.3	129.3	73.6	133.2
404	Cuthbert Heath Underwriting Ltd.	R. A. Lissenden	78.6	126.5	76.1	137.7

¹Converted at applicable exchange rate N/A-Not available

Source: Lloyd's of London

BIVHOLLY SEGUINE

Continued from previous page
However, Lloyd's is suggesting that composite syndicates that write non-marine business be-

registered with the Lloyd's Underwriters Non-Marine Assn. Non-marine underwriters are also looking for new business from

Europe. Specifically, Sturge Lloyd's Agencies Ltd., on behalf of non-marine syndicate 210 and other Sturge syndicates, "has been

successful in its application to join the French Bourse," said Mr. Lee, referring to the French insurance exchange (BI, March 12). "I hope that this bridgehead will be the first of further advances into Europe, providing opportunities for increasing the volume of business from that continent."

Lloyd's non-marine market's 1987 global profits, released in June this year under Lloyd's three-year accounting system dropped 27% to 281.9 million pounds (\$453.9 million) from 385.6 million pounds (\$697.3 million) in 1986.

However, the property insurance account produced a "satisfactory" underwriting profit of 300 million pounds (\$483 million) in 1987, despite the October 1987 windstorm, said Mr. Robertson in Lloyd's global results.

Unfortunately, the 1987 non-marine results were "severely reduced by the deterioration in the earlier years," he said.

The deterioration, due almost entirely to U.S. asbestos and pollution claims, is the main reason why 92 mainly non-marine syndicates' accounts have been left open, according to Lloyd's. The reserves for outstanding and incurred-but-not-reported claims for accounts not closed totaled 911.9 million pounds (\$1.47 billion) at the end of last year, up 2.9% from 886.4 million pounds (\$1.6 billion) a year ago.

"Nevertheless, underwriters continue to defend their position vigorously and take some comfort from recent U.S. court decisions," said Mr. Robertson, referring to decisions in which the pollution exclusion clause has been affirmed.

Meanwhile, even though property/casualty insurance rates were falling in 1988, Lloyd's non-marine market should still produce a profit when the 1988 accounts are closed next year, he said.

However, "record catastrophe losses worldwide" and "international overcapacity and implacable competition" among primary underwriters will put pressure on the market's profits in 1989, he said.

Meanwhile, nearly all of Lloyd's 10 largest non-marine syndicates increased their allocated premium income capacity this year.

Lloyd's largest non-marine syndicate—and second-largest syndicate in the entire market—syndicate 210, managed by Sturge Non-Marine Syndicate Management Ltd. and underwritten by Alan G. Lee, increased its capacity 5% to 185.8 million pounds (\$299.1 million) from 176.4 million pounds (\$319.3 million) last year.

Mr. Lee noted in his annual report that 1987 was the last year for syndicates 210 and 204 to publish combined results following the split of the syndicates into two distinct underwriting units.

The syndicate reported pretax profits before members' charges of 37.7 million pounds (\$60.7 million) for 1987, only slightly less than the 35.3 million pounds (\$63.9 million) in 1986.

"1987 was generally a very acceptable trading year, with a meaningful amount of business being offered at rates conducive to making a profit for our names," Mr. Lee said. "However, we did have some natural disasters affecting such areas as our U.K. and European property and householders accounts, as well as our Canadian and South African business."

In addition to those disasters, syndicates 210 and 204 have had to "make (unspecified) provisions for the various claims being made against Lloyd's members and managing agencies" insured by the syndicates, Mr. Lee said. Some members agencies and managing agencies are being sued for negligence by members in regard to open underwriting years.

Also, the syndicate has increased reserves for pollution, asbestos and "other product-related accounts affecting our post-1970 years," he said.

Lloyd's second-largest non-marine syndicate is syndicate 190, which is managed by Three Quays Underwriting Management Ltd. and underwritten by Richard D. Hazell, also increased its allocated capacity this year by 3% to 163.6 million pounds (\$263.4 million) from 158.8 million pounds (\$287.4 million) in 1989.

Lloyd's third-largest non-marine syndicate, 362, is managed by Murray Lawrence & Partners and underwritten by Richard Keeling. The syndicate increased its capacity slightly to 146.6 million pounds (\$236 million) from 143.3 million pounds (\$259.4 million) in 1989.

Lloyd's fourth-largest non-marine syndicate, 510, which is managed by R.J. Kiln & Co. Ltd. and underwritten by G.D. Gilchrist, in-

Continued on next page



Call one...

Long-term ties key to Spreckley's success

By STACY SHAPIRO

LONDON—Nurturing long-term relationships is the only way to become a success at Lloyd's of London and also guarantees the market's future, says a leading financial institution underwriter.

"When you come to Lloyd's, you realize that you are just a beneficiary of 300 years of history and the trustee of the future," says Colin Spreckley, senior underwriter for non-marine syndicate 1007, managed by Spreckley Villers Hunt & Co. Ltd. "It's a good principle to bear in mind. I get perturbed about the number of underwriters who don't have this principle in mind. If we only trade as an island, then the future of Lloyd's will suffer."

Each person in the market should give something that is "value-added" to Lloyd's, he said. "You have to have good relationships (with everyone). There is more mileage in the long-term approach."

This approach—and sheer hard work—has enormously benefited

Non-marine

Continued from previous page
increased its capacity slightly to 115.2 million pounds (\$185.5 million) from 114.9 million pounds (\$208 million) in 1989.

Lloyd's fifth-largest non-marine syndicate is syndicate 386, managed by Janson Payne Management Ltd. and underwritten by Michael Payne. It is the only syndicate of the Top 5 whose capacity decreased, dropping to 104.4 million pounds (\$168.1 million) from 105.3 million pounds (\$190.6 million) last year.

Meanwhile, there has been a number of changes in the order of the next five largest non-marine syndicates.

Moving up to sixth place from seventh last year is syndicate 839, managed by Castle Underwriting Agents Ltd. and underwritten by Alec Sharp, which increased its capacity to 98.7 million pounds (\$158.9 million) from 92.5 million pounds (\$167.4 million) in 1989.

Moving down to seventh from sixth is syndicate 33, managed by Roberts & Hiscox Ltd. and underwritten by Ian Thomson, after its capacity was cut to 92.8 million pounds (\$149.4 million) from 94 million pounds (\$170.1 million) in 1989.

Moving up two places to the eighth position is syndicate 1067, managed by Merrett Underwriting Agency Management Ltd. and underwritten by Stephen Burnhope, with capacity increasing 13.2% to 85.7 million pounds (\$138 million) from 74.4 million pounds (\$134.7 million) in 1989.

Syndicate 1067 and the only new syndicate among the 10 largest non-marine syndicates this year—syndicate 1066—are two of the three syndicates that were once syndicate 799, which once was one of Lloyd's largest syndicates. Syndicate 799, underwritten by Robin Jackson and managed by MUAM, was split into three syndicates at the beginning of 1988.

Syndicate 1066, managed by MUAM and underwritten by Ken Barrett, is the ninth-largest non-marine syndicate, with capacity increasing to 80.3 million pounds (\$129.3 million) from 73.6 million pounds (\$133.2 million) in 1989.

Syndicate 404, managed by Cuthbert Heath Underwriting Ltd. and underwritten by R.A. Lissenden, moved down to 10th place from ninth, although it increased its capacity to 78.6 million pounds (\$126.5 million) from 76.1 million pounds (\$137.7 million) in 1989. ■

Mr. Spreckley.

Mr. Spreckley joined Lloyd's in 1960 at age 16. At Lloyd's brokerage Willis Faber & Dumas Ltd., he starting as an office worker for two years, handling claims for another two years and then doing a one-year stint as a broker.

As a broker, Mr. Spreckley placed business with underwriters at non-marine syndicate 210, managed by R.W. Sturge & Co., including Alan Lee, who is now senior underwriter for the syndicate.

"One day (the Sturge underwriters) said there was a vacancy that I should apply for, so I did," he said. Out of 80 applicants, only two were selected and one of those was Mr. Spreckley.

Starting out as a clerk at the Sturge underwriting box, Mr.

Spreckley looked for an opportunity to underwrite. Sturge's syndicate 210 was having underwriting problems in the early 1970s and decided to shed unprofitable classes of business, including bankers blanket bonds and jeweler's block.

"I asked if I could underwrite the bankers blanket bond and the jeweler's block and they said 'you've got a year to make it profitable,'" Mr. Spreckley recalls.

"I knew nothing about underwriting the business," he said. But the first bank that came to the underwriting box was located in Kuwait, where a friend of Mr. Spreckley's, a loss adjuster, could verify the bank's financial strength. With this information, Mr. Spreckley added a zero to the

limit being offered and a zero to the premium "and I got the order."

"Within three months, I was king of the banks," he said. "We got a ton of business." Few underwriters were writing the coverage at the time, so Mr. Spreckley could afford to be entrepreneurial and offer what he thought was best and still get the business.

"I wanted to lock the business into the future," he said. "So I met with the banks personally to establish a relationship with them which has remained over time. Their business was just a series of transactions at first, but within six months I had gained their trust."

Mr. Spreckley left Sturge in 1979 when Lloyd's underwriter Ted Nelson asked him to join syndicate 546, managed by K.F. Alder (Un-

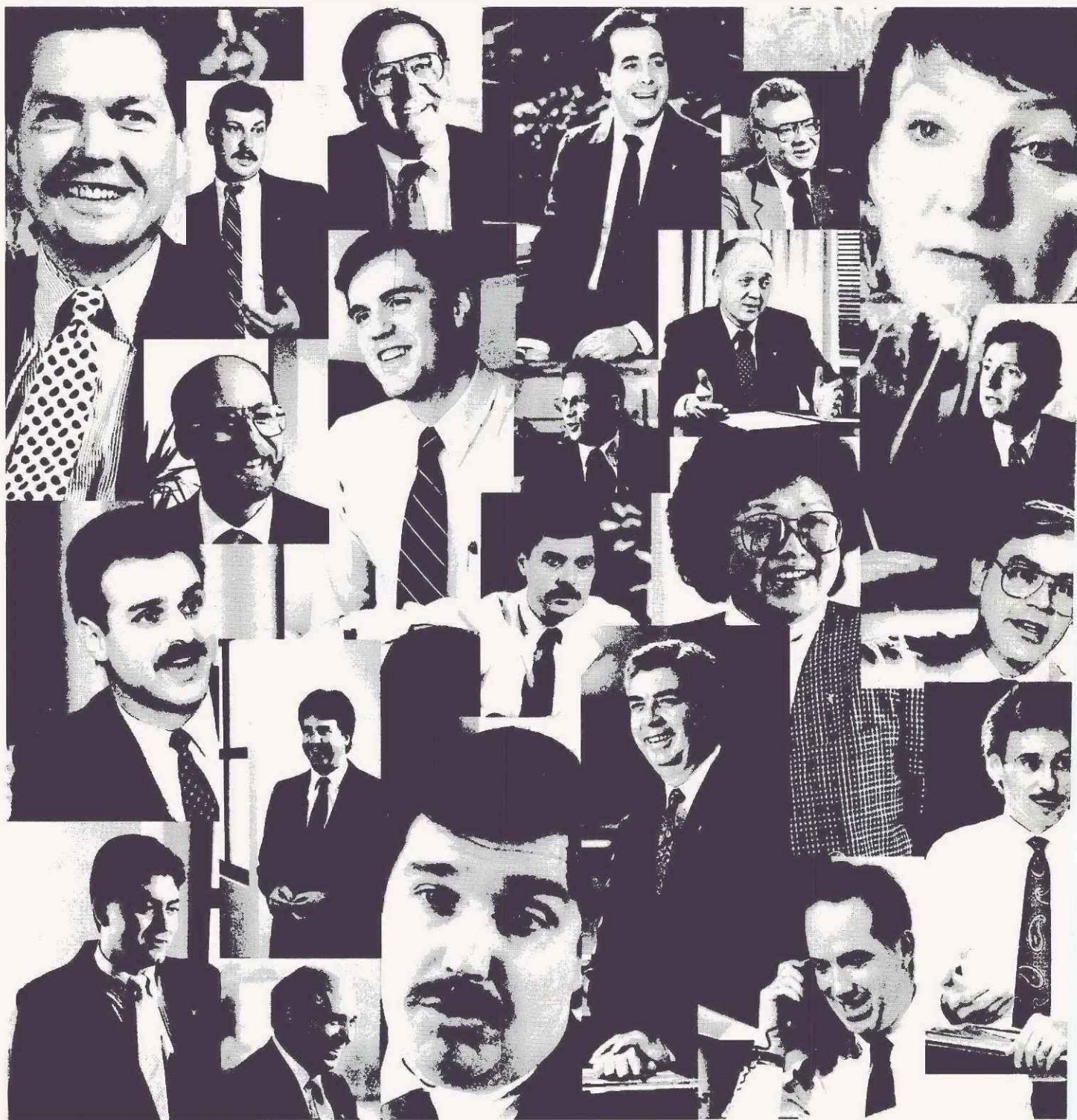
derwriting Agency) Ltd.

"Ted Nelson was one of the most respected underwriters in the marketplace at the time," Mr. Spreckley recalled. "For him to ask me to join his syndicate was one of the most tremendous accolades."

While with the K.F. Alder syndicate, Mr. Spreckley and deputy underwriter David Newman wrote the first computer crime policy for electronic fund transfers (*BI*, Nov. 19, 1981).

However, the move to K.F. Alder became a headache in the 1980s when authorities investigated directors of Adler's parent company, Bellew, Parry & Raven (Holdings) Ltd. A disciplinary committee headed by Richard Southwell found in December 1988

Continued on next page



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Continued from previous page
that reinsurance transactions conducted by four BPR executives went beyond the bounds of market practice (BI, Dec. 12, 1988; Jan. 2, 1989).

Two executives, John Raymond Parry and Frederick Charles Raven, were expelled from Lloyd's and each fined 150,000 pounds (\$288,000 at current exchange rates). They later charged that most members working at Lloyd's before the early 1980s could have been found guilty of the same offenses.

Another executive, Arthur H.B. Grattan-Bellew, was suspended for five years and also fined 150,000 pounds. And Mr. Nelson, a former Lloyd's Council member, was suspended for two years and also fined 150,000 pounds for, among other things, failing to disclose fully to his names that he controlled companies that did business with his syndicates.

It was a "juvenile decision" not to know that when he joined K.F. Alder, he was joining the BPR operation, said Mr. Spreckley. But a promise he would get his own syndicate someday influenced his decision, which may have been a mistake, he conceded.

Fortunately for Mr. Spreckley—who had no involvement with the alleged offenses and was not personally investigated—he was well-known in the market as an honest and hard-working underwriter.

"And because of the way I have treated people, (the BPR affair) has never affected me," he says.

However, when the investigations started rolling in 1983, "I could see a big question mark on my future," Mr. Spreckley recalls. He realized he needed to move to a more secure post to safeguard "my three kids and great wife."

Mr. Spreckley also had reinsurers, syndicate colleagues and clients to think about. "Leaving

Lloyd's was no solution," he said.

He chatted privately to a close friend who is a Lloyd's broker about his quandary and the broker "behind my back went to Tony Cassidy and told him about me." Mr. Cassidy, a Lloyd's underwriter

'Rates did not do what was expected at year-end' in light of the catastrophes, says Mr. Spreckley.

and director of underwriting agency Cassidy Davis Ltd., called Mr. Spreckley to suggest that he start his own syndicate.

Mr. Cassidy and Mr. Spreckley agreed that Cassidy Davis would own a portion of the agency that would run the new syndicate and

Mr. Spreckley would own the other portion. Nothing was put in writing, however, and Mr. Spreckley would not be specific about the values involved.

Syndicate 1007 was launched in 1985. In that year, as rates were soaring, Mr. Spreckley wrote 87.5% of his business for BPR's syndicate 546 and 12.5% for syndicate 1007. By 1988, Mr. Spreckley wrote 50% of his business for syndicate 546 and 50% for 1007. When the BPR agency was acquired by R.W. Sturge & Co. in October 1988, it appointed a new underwriter for syndicate 546, and Mr. Spreckley remained underwriter for syndicate 1007.

In July 1988, Spreckley, Villers & Hunt bought out Cassidy Davis' shares in the agency, so that it is now 100% independent.

Allocated capacity rose 25% at syndicate 1007, to 65 million pounds (\$104.7 million) from 52 million pounds (\$94.1 million) in

1989.

In 1987, the most recent year to close under Lloyd's three-year accounting system, the syndicate showed a 2.7 million pounds (\$4.3 million) pretax profit on gross premiums of 13.7 million pounds (\$22.1 million) and allocated capacity of nearly 12 million pounds (\$17.8 million), according to the syndicates' accounts. Though the net underwriting result was 1.2 million pounds (\$1.9 million), the syndicate earned another 1.2 million in gross investment income and 316,182 pounds (\$509,053) in capital appreciation.

Today, the syndicate is run by five underwriters in addition to Mr. Spreckley, who writes all classes and oversees the syndicate and the agency, which employs 30 people.

About 22% of the syndicate's capacity is allocated for financial institutions coverages, both insurance and facultative reinsurance. This class of business is written by Mr. Spreckley and deputy underwriter and partner Rupert Villers, who is a leading underwriter in this area and specializes in bank coverages. He worked with Mr. Spreckley at Sturge and then became a financial institutions broker at Sedgwick Group P.L.C. Mr. Villers later moved, with his financial institutions team, to Spreckley when the syndicate began writing in 1985.

Sue Curtin, who came with Mr. Villers from Sedgwick, underwrites the "financial institutions No. 2 account" which is a following line on financial institutions line slips. She is also "my personal deputy on the syndicate and agency side," said Mr. Spreckley.

Roughly 38% of the syndicate's capacity last year was property excess-of-loss reinsurance coverage both worldwide and in the London market. This coverage is written by Jane Ledger, another part of Mr. Villers' team.

Roughly 29% of the syndicate's capacity last year was long-tail business, mainly professional liability and medical malpractice. This class is written by Jim Hunt.

The other 11% of the syndicate's capacity last year was mainly short-tail property insurance worldwide and personal accident coverages, which are written by Mark Godfrey.

Meanwhile, "this has been the toughest year," said Mr. Spreckley.

Even after Hurricane Hugo and the San Francisco earthquake hit at the end of last year, costing insurers billions, "rates did not do what was expected at year-end," said Mr. Spreckley, who contends they should have risen. "I argued with everybody. I'm seeing renewal rates and I'm blowing a gasket."

Mr. Spreckley's determination to charge fair rates has given him the nickname in the market "Rhino" because "I'm tough-skinned and charge a lot," he said. He has been known to refuse some business lately because rates are too low.

After renewals, Mr. Spreckley decided to take time off in late January and early February—just at the time that windstorms struck the United Kingdom and parts of continental Europe.

"I took a week off because I was so exhausted," he said. "On the first day 90A (the first and largest of a series of storms) hit, I live in a thatched roof cottage and I'm watching all this (destruction) on television and all I wanted to do was go back to work. But while my mind was back at work, my (presence at home) kept the family happy."

Although there isn't expected to be a cash call on his syndicate, Mr. Spreckley expects the losses from 90A to be worse than the losses from the October 1987 windstorm in the United Kingdom.

Meanwhile, Mr. Spreckley has
Continued on next page



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Spreckley

Continued from previous page

been working all year to put together his reinsurance programs for 1991, which the market begins to underwrite in the autumn. The program—which started in February—is now almost entirely in place and is led by world-class reinsurers that have always supported him, he said. “We meet with our reinsurers three times a year (because) it’s so important to have quality reinsurers.”

He anticipates an “evaporating reinsurance market” will create shortfalls on reinsurance programs of 25% or more at year-end, which will push insurance prices upwards. And he says, “there will be blood on the streets” as the losses come home to roost.

In particular, Mr. Spreckley says that his syndicate will increase directors and officers liability rates for U.S. thrifts by a minimum

of 25% next year. “If I don’t get the price, I will lose the business,” he said.

However, “if you have a real relationship with your clients, they will have to understand why the price is going up,” said Mr. Spreckley, who visits his ceding company clients and shows them why the expiring pricing is wrong. He also has extensive claims reviews costing up to \$200,000 paid by the syndicate to examine his clients’ loss records to see if an increase is justified and if the underwriting strategy is correct.

The stress has been so great this year, in fact, that Mr. Spreckley went to the doctor for a physical earlier this year and said, “I am under real pressure, but I feel all right. But what can I do to continue to feel all right?” The doctor told him to work fewer hours—which he refuses to do—exercise and eat less fat.

As a result, Mr. Spreckley bicy-

cles 15 miles each way to and from work three days a week, arriving at the office at 6:30 a.m. But business is never far from his mind: he keeps a portable phone on his bike.

After showering and changing, he eats microwaved porridge while making phone calls to places like Australia and does his paperwork before the rest of the staff get in around 8:30.

He sits at the underwriting box usually between 11 a.m. and 1 p.m., when he always takes time off to have a relaxing business lunch. “I eat four Dover soles a week,” he said. “By the time lunch comes around, I’ve put in a day’s work.”

The hardest part of his day is leaving between 5:30 and 6 p.m. when the rest of his staff is still working. “It’s the hardest thing to do, walking past all the staff still working,” he said. “But they are latebirds coming in at 8:30 a.m. and leaving at 8 p.m. Their styles are different than mine.” ■

Coleridge ready—but not anxious—to take the helm as Lloyd’s chief

By STACY SHAPIRO

LONDON—David Coleridge, apparently the next Lloyd’s of London chairman, says he previously never had any desire to be the head of the market.

Mr. Coleridge even intended to step down next year as deputy chairman of Lloyd’s—a post he has held since 1988—because “two years is enough.”

“I didn’t want to go on just

hanging around,” explained Mr. Coleridge, chairman of Sturge Holdings P.L.C., the largest underwriting agency group at Lloyd’s.

“You spend a lot of time (as deputy chairman), but you don’t achieve a lot over at Lloyd’s in many ways. Lloyd’s has got to be run and you help make decisions, but I can get much more done here (at Sturge). Running a business is much easier” than being a deputy chairman at Lloyd’s, Mr. Coleridge said.

Besides, he admits he was only deputy chairman because his good friend and current Chairman Murray Lawrence had asked him to take the post.

But, when the Council of Lloyd’s announced in June that it would like Mr. Coleridge to run for election in November as the next chairman of Lloyd’s, Mr. Coleridge could not turn away.

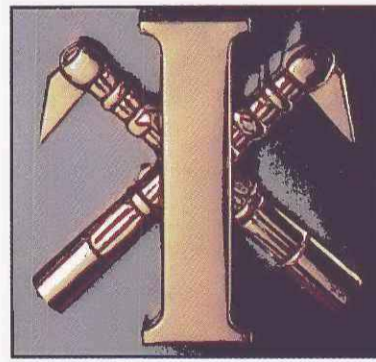
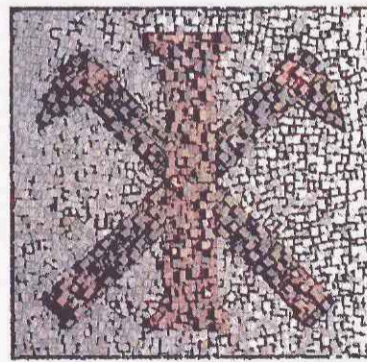
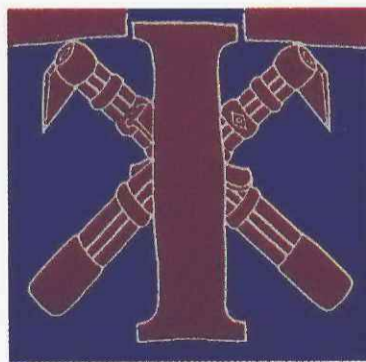
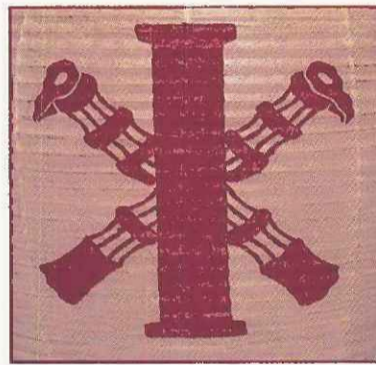
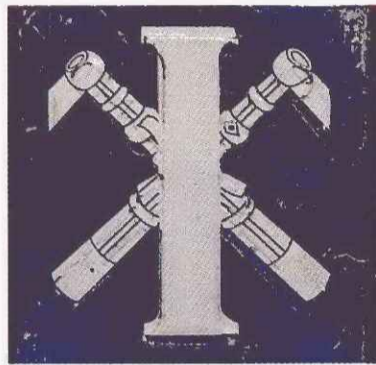
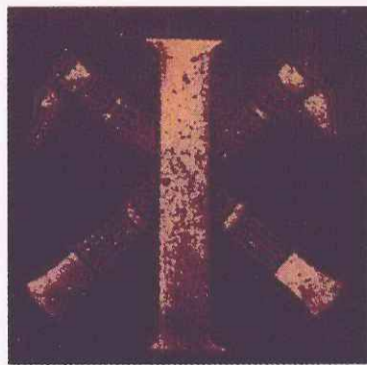
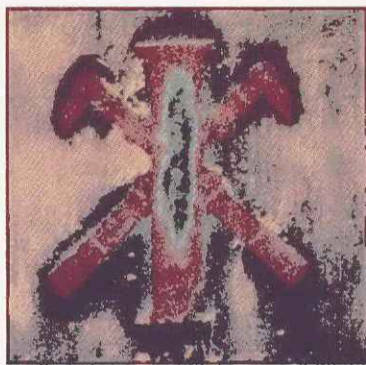
“It would be churlish not to accept,” Mr. Coleridge said. “It’s a great honor to be asked. If those who have the authority of choosing a chairman have decided that, of all people, they would like you to do the job more than anyone else, you can’t run around and say, ‘No, I can’t be bothered.’ I think that’s terrible.”

“Also, Lloyd’s has given me a very happy, comfortable life. I’m 58, and I don’t intend to work forever. Therefore, I have a lot to be very grateful and thankful to Lloyd’s for. It’s a marvelous place.”

Mr. Coleridge does not want to disclose what he hopes to achieve



Mr. Coleridge



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‘It would be churlish not to accept,’ David Coleridge says. ‘It’s a great honor to be asked.’

if he is elected chairman of Lloyd’s.

However, he has some very clear views about the future of the market.

Above all, Lloyd’s units—through agents and the Corporation—must reduce their expenses to attract brokers into the marketplace, according to Mr. Coleridge.

To do that, Lloyd’s management and members agencies will have to become bigger to provide administrative services to more syndicates and members, thereby reducing syndicate overhead costs, Mr. Coleridge said.

For example, Sturge, which accounts for 12% of the market’s underwriting capacity, “can bring savings because we can do a tremendous amount of things centrally,” Mr. Coleridge said.

“Every Lloyd’s unit has just to get bigger. All agents have got to do this, and I think some are finding it financially difficult to do so.”

Mr. Coleridge previously said he expects Lloyd’s in the future to consist of 100 large syndicates. *Continued on page*

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Coleridge

Continued from page 20
cates. There currently are 401 Lloyd's syndicates.

However, he recently told *Business Insurance*: "Syndicates don't necessarily have to be huge. I think many of them will get much bigger. But, I think the syndicates can create a very proper business for themselves and prosper, providing they've got the management behind them and the resources. And, the only way the syndicates can have the resources—quite truthfully, if it's small—is to be managed by a much bigger operation.

"A managing agent can manage 10 syndicates probably more cheaply than the 10 can manage themselves." Small syndicates will survive only if they actually lead business and have some very special value for brokers, he added.

Mr. Coleridge also believes that the days are over when a Lloyd's broker had to walk around the market to get dozens of underwriters to write small percentages on a line slip.

Instead, the broker wants to see no more than approximately 10 underwriters with each writing about 10% of the coverage to complete a slip, he said.

"In the old days, there were no alternative markets. There are too many alternative markets now in the world, not just in London. Brokers tell me they can place business perfectly well by just sitting in their offices and sending telexes or faxes. So what's the point of going into Lloyd's and spending all day picking up bits and pieces of lines? Who wants to see 93 underwriters with the last one writing half a percent? I just don't think it works any longer," Mr. Coleridge said.

But, Lloyd's units also can cut expenses by investing in computer systems that will give Lloyd's an edge over other markets by having more information on hand without hiring additional people to collate it, he said.

In addition, the Corporation of Lloyd's could be more efficient and perhaps cut costs by reducing the 55 committees that run the market, Mr. Coleridge admitted.

"Lloyd's is going to have to cut its expenses," he asserted. "We are going to have to cut our expenses very strongly in the next 18 months to two years rapidly. The best way to cut expenses is to amalgamate syndicates and reduce the numbers of staff."

One of the major expenses at Lloyd's is running its futuristic building, which Mr. Coleridge believes was a mistake to build.

"There's no doubt that it's an expensive building, and there's no doubt that it was a mistake as a building, in my view. I mean, I don't mind working in it. I like it. I'm totally used to it. There's nothing wrong with the working conditions. In fact, it's an exciting building in many ways, and it's well known and all that. But, it's a very expensive building to operate, and it cost a huge sum of money," he said.

The building cost 200 million pounds (\$296 million at year-end 1986 exchange rates) to construct, which Mr. Coleridge said was "much too much money."

Though the market is awarding him its highest accolade, the new chairman thinks his life has been uneventful.

"I find that my life really and truly is humdrum," Mr. Coleridge observed. "To be honest with you, I have made very little effort to be where I am. I think some people consciously make an effort to do all sorts of things. They make an effort, I suppose, to get to the top of their chosen career. Some people strive to do all sorts of things.

"I've been very fortunate, very lucky in life. I've had a very easy

life. I've worked reasonably hard, but no harder than many people. But, I haven't actively tried to become chairman of Sturge or to become chairman of Lloyd's or anything. I mean, I didn't even want to be on the Committee of Lloyd's."

Mr. Coleridge does not show his emotion readily, but he is a family man who would rather be with his wife and three children than anywhere else.

Mr. Coleridge's son, Nicholas, who is editorial director of Conde Nast Publications Ltd.—publisher of such magazines as *Vogue*, *Tatler*, *House & Garden* and *World of Interiors*—says his mother, Susan, is "the power behind the throne." The Coleridges have been married for 35 years.

In an interview with the *Sunday Times* last year, Nicholas Coleridge was quoted as saying, "My father is quite obviously the person who is very good at doing what he does, but looking at my parents' home, it

is arranged absolutely entirely by her, and all decisions about decorations and how we live are made by her. I think only on one occasion when I was 11, was my father allowed to go and buy a lampshade of his own choosing. He brought something back that was not at all

affect his mood remotely," he said of his father. "He has that brilliant thing of being able to leave the office and completely switch off from it, and so he seldom talks about it. I quite often ask out of interest, and then he'll describe whatever is going on, but he makes very light

ber of Lloyd's, Mr. Coleridge thought that when he left the elite prep school Eton he would join the Green Jackets, which is a British military regiment stationed in Winchester.

But when he went for his physical, he was told he had flat feet.

The rejection was one "which I didn't argue with," he said.

Mr. Coleridge had been in the Junior Training Corps as a lance corporal while at Eton and "loathed it," he said.

"I was the only member of the Eton JTC who had his uniform lined because the fabric tickled."

When Mr. Coleridge discovered that he was not going into the army, he decided to try to get into Oxford. But he was so late in signing up, that the only way to get in was to take examinations in an effort to get a scholarship.

However, Mr. Coleridge walked into the wrong room and took an

Continued on next page

Mr. Coleridge had been in the Junior Training Corps as a lance corporal while at Eton and 'loathed it,' he says. 'I was the only member of the Eton JTC who had his uniform lined because the fabric tickled,' he recalls.

good and had to be returned."

Nicholas Coleridge observed that his father is "extremely laid back."

"Although I suppose in his office there must be moments when there are problems, they don't seem to

of his firm and of his successes" in London's financial district.

But for a quirk of fate, Mr. Coleridge might not have become the next chairman of Lloyd's or even worked in the market.

Although his father was a mem-

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English literature examination instead of the history exam that he had been studying for for eight weeks.

"Had there been a question on Samuel Taylor Coleridge, I might have been all right," said Mr. Coleridge, referring his ancestor, the famous British poet who wrote "The Rime of the Ancient Mariner."

But the questions were about other famous writers, such as William Shakespeare.

"I did my best," he said, and the examiners said they would take the mistake into account. "But as I hadn't done brilliantly on the other exams, Oxford did not award me a scholarship."

So, in 1950, at the age of 18, Mr. Coleridge started looking for a job and went for an interview at Lloyd's broker Glanvill Enthoven with then-Chairman B.P. Cromie.

Mr. Coleridge landed the job and

joined the broker's fire department—which places property insurance covering buildings against loss from fire—as a clerk responsible for calculating the property rates for U.K. companies.

Then Mr. Coleridge became a junior fire broker at Glanvill, where he was responsible for walking around the Lloyd's underwriting room completing line slips for U.K. risks.

Mr. Coleridge recalls that he liked this job because "it was good fun" and allowed him to do his work in the morning, then run down to the West End on the other side of London to have lunch with his sweetheart, now Mrs. Coleridge, without anyone noticing he was missing.

"Those were nice days then," he said.

Mr. Coleridge specialized mainly in non-dollar business at Glanvill and continued to specialize in that throughout his brokerage and un-

derwriting career.

Mr. Coleridge might have stayed at Glanvill and never moved to Sturge. But, one day Glanvill's chairman, Mr. Cromie, decided to sell the company to Charterhouse Group.

Glanvill is now part of Jardine

to sell it to make provisions for his wife when he died.

The answer did not satisfy Mr. Coleridge. "I couldn't have afforded to have bought all of the company, but I could have bought some of it, and probably I could have raised some money for others

Mr. Coleridge joined non-marine syndicate 210, which now is the biggest non-marine syndicate. 'They used to give you a handwriting test, which was my main worry because my handwriting is dreadful,' he says. 'Anyway, they took me on.'

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Mr. Coleridge, who was then in his mid-twenties, asked Mr. Cromie why he did not sell the company to the staff. Mr. Cromie replied it was easier to sell to Charterhouse and that he needed

to buy it in the firm. And there were others at Glanvill who had money, too, so we probably could have bought it between us."

So, in 1957 Mr. Coleridge decided to try underwriting. He applied for a job as an entry boy with

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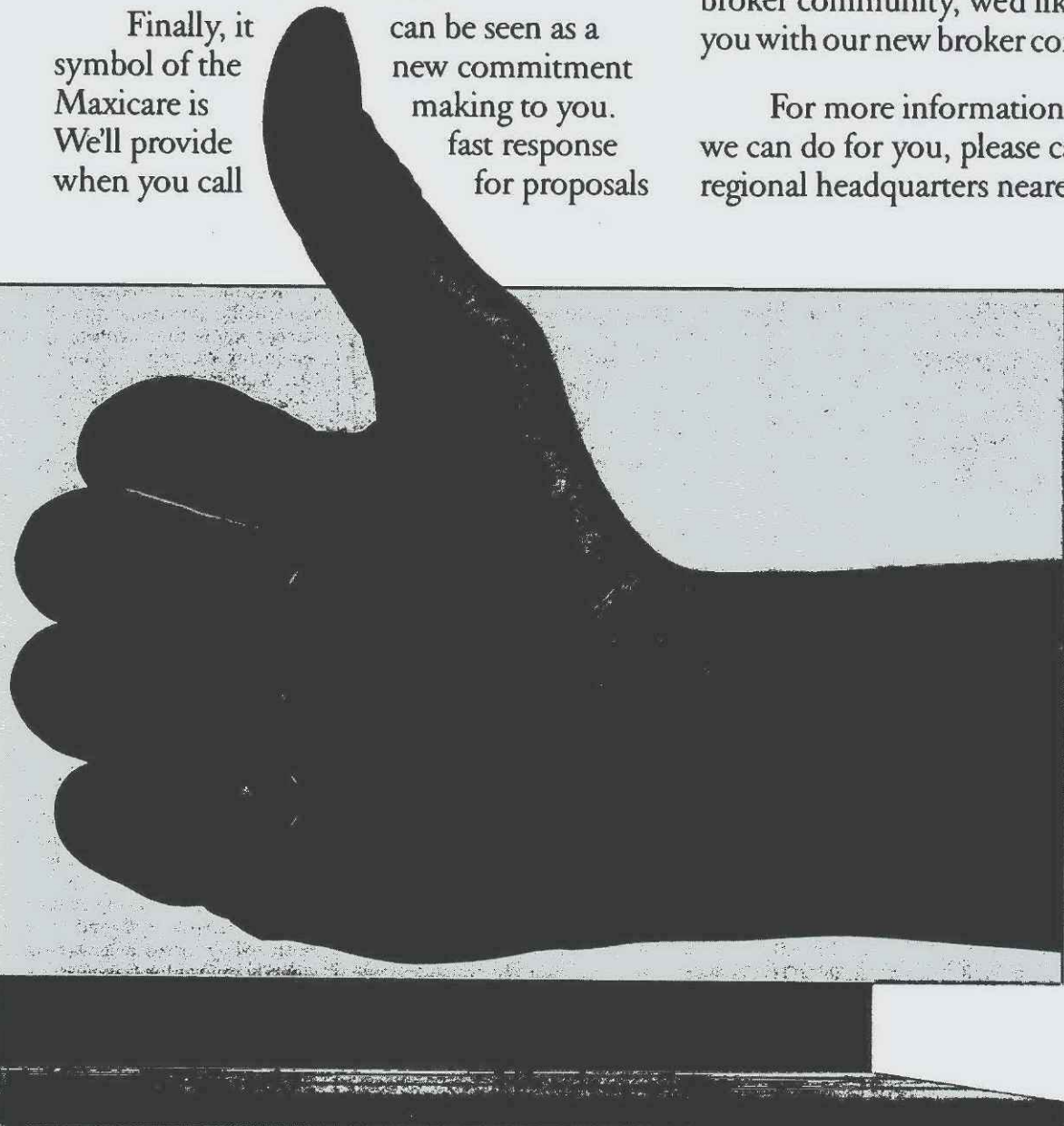
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A.L. Sturge & Co., which even then was one of the largest agencies at Lloyd's, with allocated capacity among its marine, non-marine, aviation and motor syndicates of between 30 million and 35 million pounds.

Non-marine syndicate 210, which Mr. Coleridge joined, may have been the biggest non-marine syndicate then, as it is now, with about 25 million pounds of capacity.

"They used to give you a handwriting test, which was my main worry because my handwriting is dreadful," Mr. Coleridge recalled. "Anyway, they took me on."

He and Ralph Rokeby-Johnson built the syndicate until October 1987, when both retired from underwriting. Syndicate 210, which is still the largest non-marine syndicate at Lloyd's and the second-largest syndicate in the market with 185.8 million pounds of capacity (\$299.1 million at year-end 1989 exchange rates) is now headed by underwriter Alan Lee (see story, page 16).

Until the 1980s, Sturge was a large financial partnership. When partners retired, it was the company's rule that their shares be passed on to those partners who remained in the firm. In the 1970s, many of Sturge partners reached age 65 and began retiring, including Sturge Chairman Raymond Sturge, a former Lloyd's chairman. Eventually, only three partners remained—marine underwriter Michael Maughan and Messrs. Rokeby-Johnson and Coleridge.

"Between us, we had 100% of the firm by the end of the 1970s," Mr. Coleridge said. "We really ended up owning (without having) to buy it."

The three partners decided to spread the shareholdings among the staff at Sturge and established private shares in the company.

Then, in the early 1980s, they decided to invite the syndicate's members to become shareholders in the firm and placed about 15% of the group's shares with members and institutions.

By 1985, there was pressure by private shareholders to offer shares to outsiders.

"So we allowed them to be publicly quoted which they have been ever since," Mr. Coleridge said.

Once the shares were published on the International Stock Exchange in London, Sturge Holdings P.L.C. started to grow.

Today, Sturge Holdings is the largest group of managing and members' agencies in Lloyd's. Its six managing agencies control syndicates that have an allocated capacity of nearly 1.2 billion pounds (\$1.93 billion at year-end 1989 exchange rates), or 12% of the market's total capacity of just over 10 billion pounds (\$16.1 billion).

Sturge Holdings' four members agencies also manage the affairs of members who write a total of nearly 1.1 billion pounds (\$1.77 billion) of capacity.

Among the group are the largest non-marine and aviation syndicates in the market and the second-largest marine syndicate in the market (see related stories).

Sturge Holdings also plans to buy Donner Underwriting Holdings Ltd. (BI, Aug. 6).

Mr. Coleridge said that if he becomes chairman of Lloyd's, he then will relinquish all the directorships and chairmanships he has in the various divisions of Sturge Holdings.

However, he will remain chairman of Sturge Holdings. "I'll certainly come into my office every day," he said. "My firm now is over 12% of the whole of Lloyd's in terms of capacity and membership. So, if I want to know what is going on in the market, I've got it available," he explained.

"I can get information from the ground here."

Broker focuses on financial services clients

By CAROLYN ALDRED

LONDON—Lloyd's of London broker Special Risk Services Ltd.—established just 2½ years ago—is growing rapidly by concentrating on one set of clients: companies in the dynamic financial services sector.

Chairman Stephen Wenman formed the company in January 1988 to provide brokerage services for the financial services industry—and no one else.

SRS “was formed because the people who started the company believed that the financial sector needs a specialist broker focused on its business,” Mr. Wenman explained.

“The financial services industry is becoming a bigger and bigger

part of our economy and no broker had focused itself specifically for it, although there are several Lloyd's brokers who have succeeded by specializing in several other areas,” he said.

As a result, Mr. Wenman and four colleagues resigned from Willis Faber P.L.C. late in 1987 and began putting SRS together.

The fledgling company initially operated from the ground floor of Mr. Wenman's four-story house in London's financial district.

“The children were somewhat annoyed to be moved out of their playroom,” Mr. Wenman quipped, recalling the company's early days.

Soon the company outgrew Mr. Wenman's ground-floor accommodations.

The company started with three

main operating divisions offering:

- Bankers blanket bonds, fidelity and fraud insurance, and computer crime insurance.

- Professional liability insurance, including errors and omissions and directors and officers liability coverage for the financial services sector.

- Financial guarantees, securitization for financial transactions and credit enhancement tools.

However, “we quickly found ourselves also getting involved in reinsurance as more and more primary underwriters and insurers began to seek facultative and treaty reinsurance cover” for the new types of coverage they are writing, said Mr. Wenman.

As a result, SRS established a reinsurance division in late 1988.

More recently, a “project research division,” complete with its own research and development budget, was set up to formulate new products and provide additional services.

Putting together a business plan on his home computer, Mr. Wenman realized that attracting top-notch employees should be his primary goal.

“I realized that the only thing that mattered were the people that went into it,” he said, noting that that remains SRS' philosophy today.

Establishing a brokerage is not capital-intensive. “The only thing that would determine the success or failure is the quality of people that we can attract and that's all that a broker is,” he said.

“For a risk manager of a North American bank, what he or she is buying is the technical expertise and placing ability of a relatively few individuals who manage his or her account,” Mr. Wenman said.

“The whole culture of the company (SRS) relies on adding value for the client,” said Mr. Wenman. “Everyone in the company is driven by the clients' needs.”

Since its formation, SRS has grown from six employees to about 50. It moved into a new office suite in the heart of London's insurance center and has subsidiary offices in Paris and New York.

Despite such rapid growth, Mr. Wenman says he tries to ensure that every employee can play a part in running the company.

Every employee is welcome to attend board meetings each Wednesday evening. An agenda of the forthcoming meeting is circulated each Monday, and any employee is entitled to add an item.

Its five founders still own SRS but a stock option program lets employees share the success, said Mr. Wenman. “Being a meritocratic company has stood us in good stead.”

“We do not use titles and our lack of a hierarchical structure has been a key part of our growth,” he says. “Colleagues are motivated to fulfill their own responsibilities and talent rather than for political ends.”

Mr. Wenman also believes that training should be made available to all staff members.

An in-house training course is open to all employees, and the company encourages employees to take additional courses in foreign languages, public speaking and management.

Besides focusing on attracting and retaining high-quality employees, SRS also takes great care in selecting secure insurers which with to place business, he noted.

“We had put virtually none of our clients' business into Weavers except where the client specifically asked for Weavers' capacity,” said Mr. Wenman, referring to the H.S. Weavers (Underwriting) Agencies Ltd. line slip.

The Weavers line slip was a leading London underwriter of D&O and professional liability insurance. It stopped writing earlier this year when its leading insurer Walbrook Insurance Co. Ltd., was forced to stop underwriting following concerns about its reserve (BI, April 2).

SRS's success in placing D&O and other liability business with other markets “reflects our specialist placing power,” said Mr. Wenman.

One of the most important markets for SRS is Lloyd's, though Lloyd's regulations prevent its underwriters from writing financial guarantee, securitization and credit enhancement business.

The rules banning this type of business stem from the 1920s when an underwriter at Lloyd's was hit with heavy losses after writing financial guarantee business.

Mr. Wenman thinks it is absurd that Lloyd's still has not changed its rules to accommodate the growing form of insurance. “There's a lot of good business out there that Lloyd's is missing.”

Mr. Wenman also believes Lloyd's loses business by continuing to insist that only its broker can place coverage in the market.

Although SRS was accepted as full Lloyd's broker very quickly Mr. Wenman believes the system is outmoded. “I think it's wrong for Lloyd's to continue a cartel of on accepting business from Lloyd brokers,” he said.

Continued on page .

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SRS

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"I think brokers should be properly regulated and that Lloyd's does a good job regulating them, but historically cartels have always brought problems," he said, adding that with increased resources the government-sponsored Insurance Brokers Regulatory Council could regulate all brokers sufficiently.

Many Lloyd's brokers obtain business simply because they are Lloyd's brokers and not because they are adding value to the transaction, according to Mr. Wenman. "I like to think all the business coming to us is coming to us because we were experts rather than the fact that we are Lloyd's brokers."

SRS's first venture overseas was SRS Inc., a New York subsidiary designed to meet the growing demands of U.S. clients.

The office is staffed by Senior Vp Alexia Daly and Vp John Vergara. The company offers clients brokerage services for financial guarantees; real estate and other asset-backed financings; mortgage-related products; professional liability insurance; and fidelity and fraud insurance.

In Paris, SRS opened subsidiary Risque et Finance S.A., which is run by Pierre Armandi and Eric Remus. The company deals with French clients and French insurers and focuses on arranging insurance and reinsurance support for asset-

backed transactions, including mortgage loans; commercial property insurance; and professional liability and banking insurance such as fidelity and fraud coverage.

In addition, in its London headquarters, SRS has assembled several teams of brokers responsible for various aspects of its business.

For example, the "Crime Team" places fidelity, fraud and computer crime insurance. This division is managed by Jeremy Adams, a founding SRS broker.

Types of coverage offered include bankers blanket bonds; fidelity insurance covering theft by employees; forgery coverage; insurance of bullion and securities on premises and in transit; credit card insurance; safe deposit box insurance; and mortgage fraud insurance.

Electronic and computer crime policies cover fraudulent input of data; fraudulent preparation or modification of electronic instructions; and fraudulent transmittal of electronic instructions to or from another company.

One of the crime division's latest products is a policy protecting financial institutions against facsimile and voice-initiated fraud. The policy was developed in response to expected changes in U.S. law next January that will make banks and other financial institutions liable for such risks.

This risk is not covered by a bankers blanket bond unless an employee is involved and can be identified as being involved in the

fraud, noted Mr. Adams.

Continental Guaranty & Credit Corp. of New York markets the product—named FX 90—in the United States. It is reinsured via SRS into the London market.

Another SRS founding broker, Francis de Zulueta, heads the division that places D&O and professional liability insurance. Mr. de Zulueta stresses that his clients are all financial institutions with par-

action enhancement and protection for various financial arrangements, including securitized residential mortgage funding; financial guarantees supporting other asset-backed receivables including credit and charge cards, lease and automobile receivables, and commercial debt; mortgage indemnity guarantee schemes; commercial property investment and development projects; portfolio insurance;

other financial instruments," she noted.

The project research and consultancy division, headed by Andrei Luboff, was created to develop new products; new techniques and new structures and vehicles. The division has its own research and development budget, and is not expected to produce a profit.

"Big broking houses don't go in for R&D because they are profit-center orientated. The more effort that is placed in R&D, the better it pays off," said Mr. Luboff.

The expertise of SRS' clients is very high and you "really have to be wide awake and on your toes" to provide the service they require, he said.

Companies keenly appreciate the need for constant development of products and services.

"We like to think of ourselves as lateral thinkers, not hidebound by yesterday's products," said Mr. de Zulueta. And that need for change and growth will continue, he said.

"The 1990s are going to see tremendous changes. The approach toward financial risks and risk management will be viewed very differently. The fact that we will move into a paperless society and that computers will take over many more functions will mean the responsibilities will move from one set of people to another," said Mr. Luboff. Meanwhile, "the potential of fraud is increasing on an international basis. Risks in the financial sector are getting higher and wider," he warned.

'For a risk manager of a North American bank, what he or she is buying is the technical expertise and placing ability of a relatively few individuals who manage his or her account,' says SRS Chairman Stephen Wenman.

ticular needs and risks.

Most "are not interested in standard (policy) wordings but need products specially built for them," he said. As a result, SRS tends to look for customers who will be long-term clients and are interested in more than just price, said Mr. de Zulueta.

The division also operates Professional Liability Surveys Ltd., which provides an "impartial service to identify and measure professional indemnity risks," according to the company's promotional literature.

Dane Douetil, also an SRS founder, heads the financial risks division. The division provides trans-

and insurance alternatives to bank letters of credit.

Its clients include leading financial institutions including J.P. Morgan & Co. Inc., Salomon Brothers Inc., Goldman Sachs & Co. and Citicorp in the United States.

SRS' reinsurance division, which is headed by Mary Otto, provides reinsurance brokerage services, mainly for financial risks.

Expanding the reinsurance market for this type of risk has been crucial to the development of financial risk insurance, according to Ms. Otto. "As a company we have been instrumental in educating underwriters, particularly in Europe, about securitization and

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Lloyd's brokers fear role in jeopardy

By CAROLYN ALDRED

LONDON—Lloyd's of London brokers and underwriters are working together to strengthen their 300-year-old relationship.

In an effort known in the market as the "New Deal," leading brokering and underwriting executives are discussing how to work together to increase the flow of business into Lloyd's, explained John Garner, chairman of Lloyd's Insurance Brokers' Committee.

The new accord between the brokers and underwriters has grown markedly since a group of leading brokers and underwriters spent a day last October discussing how to achieve a closer working relationship, Mr. Garner said.

The meeting was called partly because of fears that the traditional close business relationship between Lloyd's brokers and underwriters was weakening.

For example, some Lloyd's underwriters were planning to bypass Lloyd's brokers in an effort to attract certain kinds of business, like personal lines business and low-premium commercial business. Underwriters had complained that Lloyd's brokers were not bringing enough of this business into the market.

Meanwhile, brokers argued that doing business with Lloyd's un-

Brokers, underwriters seek accord

derwriters often was more expensive and more inefficient than with insurance companies, particularly for big-volume, low-premium business.

However, it is in the interest of both Lloyd's brokers and underwriters to increase the amount of business underwritten at Lloyd's, Mr. Garner said.

To develop ways of attracting new business into the market, Lloyd's last year established a Business Issues Committee, which includes the chairman and deputy chairman of the LIBC and the chairmen and deputy chairmen of each of the four market associations of Lloyd's, which represent marine, non-marine, aviation and motor underwriters (see story, page 38).

The LIBC recently sent a five-page memo to its members outlining progress that has been made in several areas. The memo partly was sent to dispel concerns among some brokers that "direct dealing"—underwriting business that is not placed by a Lloyd's broker—was gaining favor at Lloyd's.

"There has been a lot of press about direct dealing and we have a number of brokers who are worried about Lloyd's going direct," Mr. Garner said in an interview.

"Some of our members place 100% of their business with Lloyd's and are deeply concerned about the concept of direct dealing. We should make it very clear to our members exactly what has been agreed," he stressed.

As a result of discussions between the LIBC and the Council of Lloyd's, it was agreed that Lloyd's underwriters should be permitted to write personal lines business, including coverage for individual proprietors but not for companies and partnerships, on a direct basis. Such a system already is used by Lloyd's motor market, which writes automobile insurance.

However, "it has now been confirmed that Lloyd's brokers will remain the exclusive channel through which underwriters will write their commercial business," Mr. Garner stressed in the memo to LIBC members.

Personal lines and motor insurance will be the only areas of business that "may be accepted by Lloyd's underwriters without the involvement of a Lloyd's broker," the memo says.

Underwriters also are reaching out to areas outside London to attract new business, like small commercial lines business, through the establishment of "service companies."

Underwriting business through a service company works in the same way as a binding authority: The service companies can accept business through the regional offices of Lloyd's brokers or non-Lloyd's brokers and then place the business 100% into Lloyd's through a Lloyd's broker.

An example of this was the move by Merrett Holdings P.L.C. in 1987 to set up a service company in Birmingham to attract small commercial lines business from the West Midlands area of England (*BI*, Dec. 14, 1987).

The LIBC accepts that using service companies can be a cost-effective way of attracting low-premium business from regions outside of London and encourages underwriters with service companies to work with the regional offices of Lloyd's brokers, Mr. Garner said.

However, the LIBC warns that brokers should not agree to act as a funnel between a service company, or some other binding authority arrangement, and Lloyd's syndicates if the arrangement is "purely cosmetic."

"Brokers should think twice before entering a cosmetic arrangement. If you don't add service, you

won't be in the chain for much longer," said David Hough, secretary of LIBC.

"Brokers should carefully consider the long-term implications of entering into such arrangements. In the long run, the Lloyd's broker will only remain in the chain if he can demonstrably add value to the transaction. Cosmetic arrangements give underwriters strong grounds for arguing for greater direct access to producing retail intermediaries," the LIBC memo warns.

Meanwhile, "Lloyd's is currently looking at the regulation requirements (for syndicate service companies) and LIBC will be consulted," the memo says.

Lloyd's also is now making several changes that will make it easier and cheaper for Lloyd's brokers to do business with Lloyd's syndicates, said Mr. Garner.

For example, in a controversial decision last year, the Council of Lloyd's announced that the barriers between Lloyd's four markets—marine, non-marine, aviation and motor—will be removed beginning in January.

As a result, underwriting agents will be able to form composite syndicates able to write all kinds of insurance, instead of restricting their underwriting to only certain types of risks.

Continued on next page

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Largest Lloyd's brokerage groups

Ranked by 1989 Lloyd's brokerage revenues in millions of pounds

Parent company	Lloyd's brokerage revenues ¹				Total revenues ¹				Lloyd's brokerage subsidiaries
	1989		1988		1989		1989		
Sedgwick Group P.L.C.	£169.4	\$272.7	£164.9	\$298.5	£647.3	\$1,042.2	£597.9	\$1,080.8	18 Lloyd's brokers
Willis Faber P.L.C.	160.0	257.6	159.3	288.3	280.8	452.1	259.2	417.3	9 Lloyd's brokers
Alexander & Alexander Services Inc.	93.8	151.0	86.4	156.4	775.7	1,248.9	684.4	1,238.8	6 Lloyd's brokers (Alexander Howden Group Ltd.)
Marsh & McLennan Cos. Inc.	91.1 ²	146.7 ²	134.7	243.8	1,525.1	2,455.1	1,268.0	2,295.1	4 Lloyd's brokers (C.T. Bowring & Co. Ltd.)
Inchape P.L.C.	58.8	94.2	54.9	99.4	103.0	165.8	94.8	171.6	3 Lloyd's brokers (Bain Clarkson Ltd.)
Jardine Matheson Holdings Ltd.	43.0	69.2	39.8	72.0	149.9	241.3	122.2	221.2	4 Lloyd's brokers (Jardine Insurance Brokers)
C.E. Heath P.L.C. ³	41.6	67.0	39.1	70.8	125.4	201.9	102.6	185.7	8 Lloyd's brokers
Hogg Group P.L.C.	40.5	65.2	36.8	66.6	102.1	164.4	86.5	156.6	3 Lloyd's brokers
The Frizzell Group P.L.C.	38.1	61.3	36.1	65.3	53.5	86.1	48.7	88.1	4 Lloyd's brokers
Walsham Brothers & Co. Ltd.	36.6	58.9	28.9	52.3	49.3	79.4	34.5	62.4	1 Lloyd's broker

¹ Converted at applicable exchange rates. ² Excludes Bowring U.K. Ltd. which was removed from list of Lloyd's brokers. ³ Fiscal year ends March 31.

Source: Lloyd's of London

BI/HOLLY SEGUIE

Continued from previous page
The removal of market barriers was strongly advocated by the LIBC

and by Lloyd's underwriting agents, though many underwriters opposed the idea.

However, the action will enable Lloyd's to write far more business, said Mr. Garner. "It was a hugely

complicated process getting a package policy placed at Lloyd's." For example, major corporations

with a wide variety of exposures—including property, aviation, marine, auto fleet and liability risks—often would end up with a multitude of policies from each different market at Lloyd's.

Since such programs currently are time-consuming to place and can lead to gaps in coverage, package policies often are placed with insurance companies that can provide all the coverage needed under one policy, Mr. Garner said.

The decision to abolish market barriers "was taken in support of the brokers' belief that this was an essential step if Lloyd's is to compete on the same playing field as the insurance companies," the LIBC memo explains.

"As you will be aware, this decision had a very mixed reception from underwriters," the LIBC adds.

The Council of Lloyd's has made several other controversial decisions to improve procedures at Lloyd's, the LIBC points out.

Last year, the council announced plans to launch a new claims settlement system that would reduce the number of underwriters having to agree to each claim payment. The claims procedure also will be speeded up with the increased use of computer links (BI, Nov. 27, 1989).

"Again, these changes were not universally popular but are being implemented and hold out the hope of a significant improvement in the speed of claims handling," the memo said.

Both the dismantling of market barriers and the new claims settlement system "show that the Council of Lloyd's is prepared to take unpopular decisions if it is felt that they are in the long-term interest of the market," the LIBC says.

Meanwhile, progress is being made on the London Insurance Market Network—a computerized system linking Lloyd's underwriters, broker and London market insurance companies, said Mr. Garner, adding the LIMNET will greatly improve efficiency in processing business in the London market.

Although initially there were great fears among brokers and underwriters that computerized trading would eradicate the traditional practice of face-to-face negotiation, its main purpose is to streamline back-office functions like claims administration and policy processing, Mr. Garner said.

"I am utterly convinced that the London market will survive doing what it's best at—that's writing our usual business, particularly the Lloyd's market. And writing non-standard business requires face-to-face contact," he pointed out.

However, LIMNET is "going to save a huge amount of paper and people slogging around and checking things," he said.

"A whole lot of renewal and endorsement business will be done via the network and that's how it should be done. If you have a difficult risk, will be placed face-to-face," he said.

The entire London insurance market is increasingly working together on the LIMNET project, he said.

Continued on page 1



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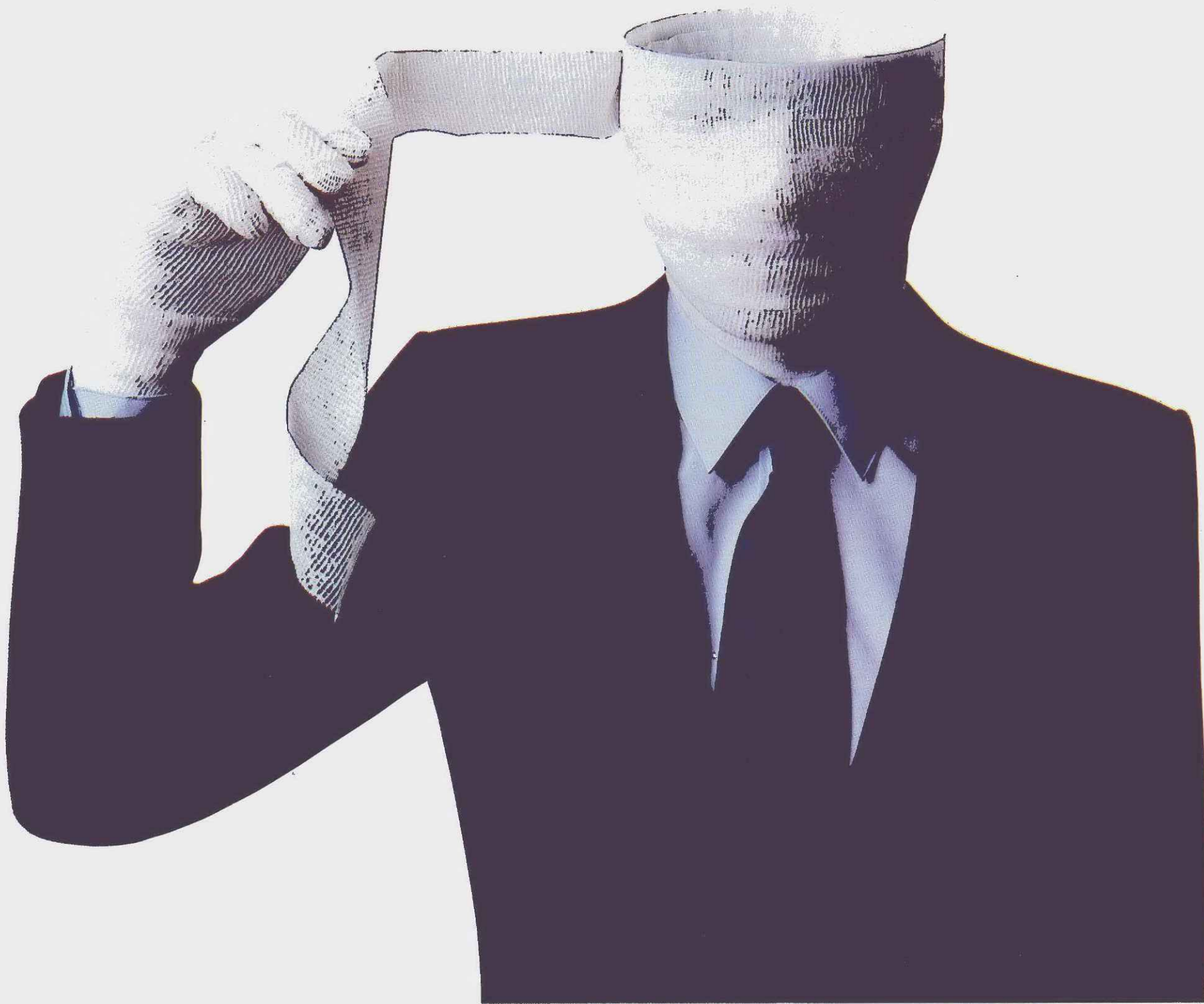
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Lloyd's brokers

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For example, the LIBC, Lloyd's, the Institute of London Underwriters, which represents London insurance companies writing marine business, and the London reinsurance market are developing a joint project for placing insurance and reinsurance via LIMNET. That system should be ready for a trial run next summer, he said.

Another example of cooperation among Lloyd's underwriters and Lloyd's brokers to attract new business is the recent efforts to boost awareness of Lloyd's, both in the United Kingdom and overseas.

For the first time in its history, Lloyd's is centrally marketing and advertising the Lloyd's of London name (see story, page 38).

Lloyd's has involved the brokers heavily in its marketing efforts. For example, Lloyd's developed a logo brokers can use to advertise that they

are Lloyd's brokers.

"The Lloyd's brokers logo, which has recently been launched, is a tangible sign of Lloyd's support for its brokers which assureds can easily identify as attaching special status," the LIBC says in its memo.

Lloyd's is working closely with the brokers to increase Lloyd's recognition in the U.K. market.

Ironically, Lloyd's of London is known far more widely overseas than in its home country, Mr. Garner noted.

"The chairman of Lloyd's is very aware that while much selling of Lloyd's name is done overseas, little or nothing is made of the home market. To redress this imbalance, the chairman is making a number of visits to regional centers in the United Kingdom "to understand better local needs and explain what Lloyd's has to offer," Mr. Garner explained in his memo.

"These visits are being planned in close consultation with the principal

U.K. retail brokers," he added.

"At the same time Lloyd's has set up a U.K. Business Development Committee with a number of retail Lloyd's brokers and underwriters," according to the memo.

Members of the committee have visited the offices of U.K. regional brokers and a series of recommendations are being drawn up to make Lloyd's more attractive for U.K. business, Mr. Garner said.

"One small step has been the agreement to allow (regional) offices of Lloyd's brokers to have separate broker numbers, allowing them to process business through Lloyd's Central Accounting without having to go through their London office," he said in the memo.

Meanwhile, "perhaps one of the more visible signs of the desire to see Lloyd's brokers reintegrated into Lloyd's has been the abolition of substitutes charges," he said.

The charge was assessed to all Lloyd's brokers "for the privilege of access to the market," Mr. Garner said.

And "while in itself it is not a significant change, it is a reflection of the general wish to make Lloyd's a more attractive market for brokers," Mr. Garner said in his memo.

The move will save Lloyd's brokers 3 million pounds (\$5.8 million) annually.

Mr. Garner agrees that compromises have been made by both Lloyd's and its brokers during the last year to increase the cooperation.

However, in general, "the changes in the access to Lloyd's rules agreed (to) by the council stop far short of what many underwriters wished to see. It therefore behooves Lloyd's brokers to work closely with Lloyd's underwriters to explore new business initiatives and to cooperate to seek to bring more business into the Lloyd's market," Mr. Garner said in his memo.

"Equally we have made it clear to underwriters that they must provide the right products at the right price and with much improved after-sales service if they hope to compete with the insurance companies," he added.

"What is clear is that if Lloyd's is unsuccessful in attracting more business, then this debate will be reopened and Lloyd's brokers' virtually exclusive right to access Lloyd's underwriters will be strongly challenged," he warns.

Currently there are 260 Lloyd's brokers, down three from 263 last year, Lloyd's statistics show. The 10 largest Lloyd's brokerage groups together owned 60 Lloyd's brokers last year (see chart).

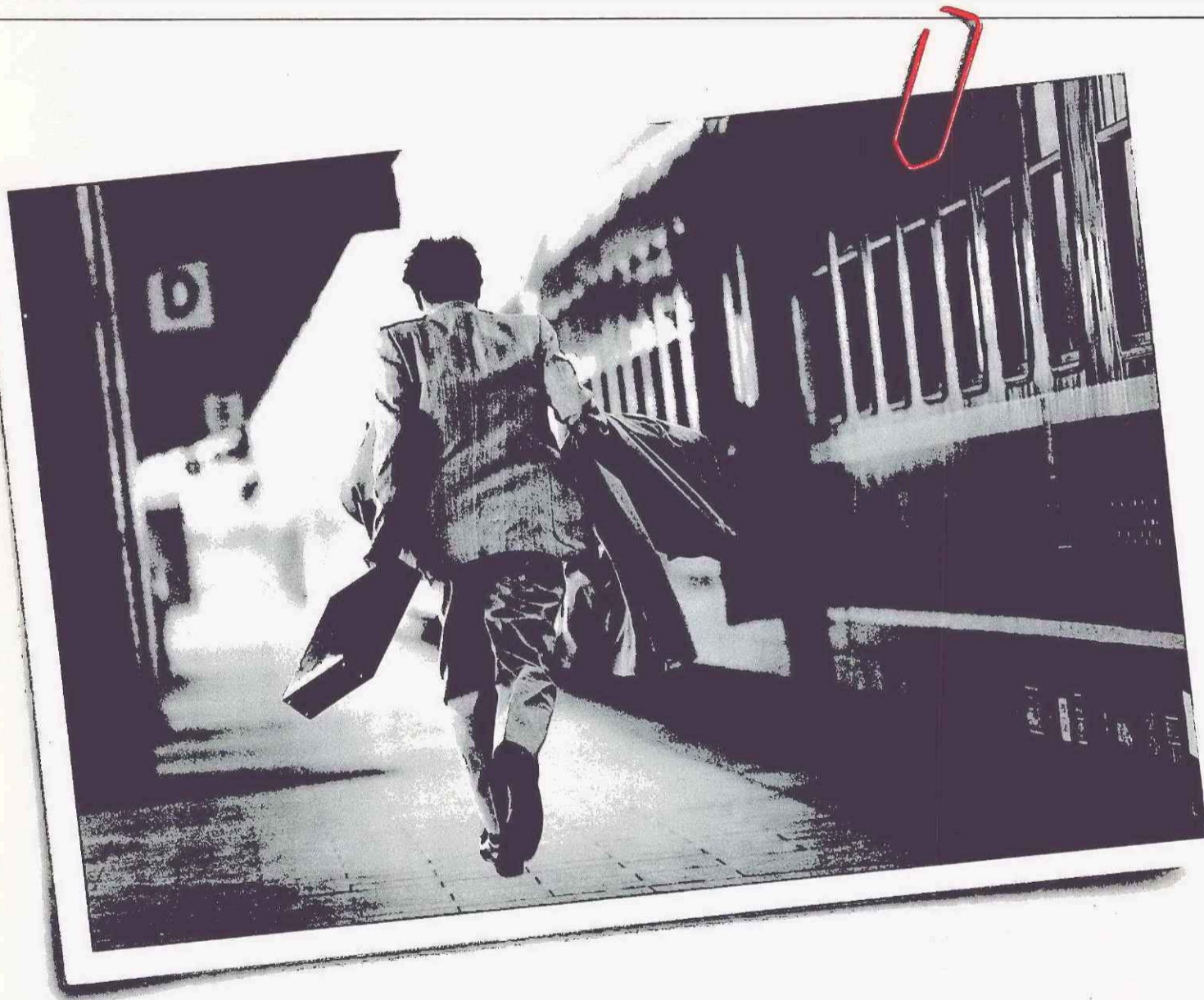
Lloyd's ranks the 10 largest Lloyd's brokerage groups based on the total amount of revenues produced by registered Lloyd's brokers within the group. However, some of these revenues come from business that is not placed with Lloyd's.

Marsh & McLennan Cos. Inc. slipped from third position to fourth position after the removal of Bowring U.K. Ltd. as a Lloyd's broker. Bowring U.K. accounted for 37.3 million pounds (\$67.5 million) in Lloyd's brokerage revenues in 1988.

New to the Top 10 Lloyd's brokers is Walsham Brothers & Co. Ltd. a specialist in London market excess-of-loss brokerage. Walsham Brothers reported Lloyd's brokerage revenues of 36.6 million pounds (\$58.9 million) in 1989, up 26.6% from 28.9 million pounds (\$52.3 million) in 1988.

Lowndes Lambert Group Ltd. slipped from 10th position to 12th position among the Lloyd's brokers as its Lloyd's brokerage revenues fell 28.2% to 21.6 million pounds (\$34 million) from 30.1 million pounds (\$54.5 million) in 1988, according to Lloyd's statistics.

Meanwhile, in 11th position was The St. Paul Cos. Inc., which owned Lloyd's broker Minet Holding P.L.C., with 1989 Lloyd's brokerage revenues of 29 million pounds (\$46 million).



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Citicorp eyes U.S. brokerage presence

By STACY SHAPIRO

LONDON—Citicorp Insurance Brokers Ltd., one of Lloyd's of London's largest brokerages, is closely watching legal developments in Delaware to determine if it will be able to establish retail insurance brokerage operations in the United States.

U.S. banking regulations generally prohibit bank holding companies—like Citicorp, the New York-based conglomerate that owns the brokerage—from operating commercial property/casualty insurers and brokerages within U.S. borders.

So Citicorp has expanded its London-based commercial lines brokerage operation into Latin America and the Far East.

However, Delaware Gov. Michael N. Castle in May signed S.B. 193, the nation's first law allowing banks domiciled in the state to underwrite and sell all lines of insurance nationally. A few states have long allowed state-chartered banks to sell insurance within their borders. The law currently is being challenged by a group of insurance trade associations (*BI*, June 4; May 28).

The new law "would give us insurance broking powers in 30 states, including the big ones such as New York and California," says David Woodward, chief executive of Citicorp Insurance Brokers in London. Several Citicorp subsidiaries are domiciled in Delaware.

Expansion into the U.S. retail brokerage market is a top priority at CIB, but "we're in a wait-and-see situation," said Mr. Woodward, referring to efforts to block the law. "While the Delaware legislation is important to us, there are several levels of challenge at the moment. So we may sit on our hands for a period, although that's not the bank's style."

Other insurance subsidiaries of Citicorp may test the waters in the United States before CIB makes a move, Mr. Woodward added. No other Citicorp units write traditional commercial property/casualty coverages, though five offer some type of insurance products and four of those have U.S. offices. They are:

- AMBAC Indemnity Corp. in New York, which writes municipal bond insurance.

- Capital Markets Assurance Corp. in New York, which writes financial guarantee coverages that guarantee timely payment of principal and interest for investment-grade taxable debt.

- Citicorp International Trade Indemnity Inc. of Woodcliff Lake, N.J., which writes political risk insurance.

- Argos Companhia de Seguros, a joint venture with Chubb Corp. in Sao Paulo, Brazil, which is the oldest insurance company in Latin America and writes all classes of property/casualty insurance and employee benefits for commercial clients.

- Several life insurers, including Family Guardian Life Insurance Co. in St. Louis and companies in Australia, Belgium, the United Kingdom and West Germany.

Only a few years ago, "the name Citicorp would not immediately have been associated with insurance," said James McLane, president and chief executive officer of New York-based Citicorp Insurance Group Inc., the immediate parent of CIB, in a new brochure. "Today, Citicorp is an active new force in insurance around the world."

For the moment, Citicorp has opened insurance businesses "in those countries around the world where we were permitted to do so

and where it made good business sense," Mr. McLane said. "We decided to enter the industry in a gradual, paced way so that we could learn as we went along."

The marriage of banking and insurance is ideal, Mr. McLane added, because they share the same basic economic functions: obtaining funds from surplus sectors, distributing them to deficit sectors

and transferring and diversifying risk. "Banking and insurance are natural partners at Citicorp," he said.

"We look forward to participating in an even broader array of insurance activities in the U.S. and around the world as the world's financial markets become increasingly deregulated," he said.

Citicorp moved into insurance

brokerage in June 1984, when it acquired Lloyd's broker Grindlay Brandts Insurance Brokers Ltd. from Grindlays Bank.

Brandts, with 170 employees, had been a Lloyd's broker since 1805 and specialized in construction risks and financial institution coverages like bankers blanket bonds.

Citicorp's objective at the time

was to develop into one of the top 10 or 15 brokers in London within five to 10 years (*BI*, Sept. 2, 1985).

Citicorp Insurance Brokers now employs 730 people and expects to make \$67 million in gross revenues this year. CIB is also one of the 15 largest Lloyd's insurance brokers, according to Lloyd's of London, with Lloyd's brokerage revenues of

Continued on next page

R

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Continued from previous page
20.6 million pounds (\$33.2 million)
at year-end 1989.

Peter Carlson, former risk manager of shipping firm Morre McCormick in New York, moved to London in late 1986 to serve as chairman of CIB and "build up the brokerage," Mr. Woodward said.

CIB's first major recruiting drive in January 1987 brought 28 people, including some senior brokerage directors, from Lloyd's broker C.E. Heath P.L.C. These employees helped make CIB a major Lloyd's

broker in the marine, non-marine and aviation markets, Mr. Woodward said.

Continued defections and the fear that PWS Holdings P.L.C. would acquire Heath convinced the senior executives to find alternative employment, recalls John Bassett, former chairman of Heath's aviation division and now chairman of CIB's aviation division.

A merger with PWS "would have been a disaster," Mr. Bassett said. "So we all sat down at dinner one night and talked about having our

own company. Three days later we approached Citicorp."

They approached Mr. Carlson at CIB because of Citicorp's glowing financial reputation throughout the world, according to former Heath executives who are now at CIB.

"When you get to some parts of the world, Citicorp has been around for over 100 years," Mr. Woodward said.

Altogether, 40 people left Heath to join CIB, including:

- Mr. Bassett, who has seen the

aviation division grow to 36 people from an initial 12. The division places 50% aviation insurance and 50% aviation reinsurance for all types of aviation risks, including airline hull and liability, aviation products, helicopters, airports, and accident/health coverages.

- Tony Hamilton, former chairman of Heath's Latin American division and now chairman of CIB's Latin American division, with offices in Brazil, Argentina, Chile, Venezuela and Mexico.

- John Percy-Davies, former

chairman of Heath's international division and now chairman of CIB's international and non-marine divisions, which incorporates political and financial risks and risk management consulting. Mr. Percy-Davies headed a drive to widen CIB's focus from specializing in construction and financial institution risks to large industrial corporate risks.

CIB's international division is also expanding in the Far East where it has offices in Australia, Hong Kong, Indonesia, Japan, Malaysia and Singapore.

- Tony Frost, former chairman of Heath's marine division and now chairman of CIB's marine and energy insurance and reinsurance division, which employs about 80 people.

- Hugh Tilney, former director of C.E. Heath Development, now chairman and managing director of financial reinsurance at CIB, which is a start-up operation.

CIB doubled in size in February 1989, when it bought professional liability insurance broker Nelson, Hurst & Marsh (Holdings) Ltd. Nelson, Hurst, whose senior directors and former shareholders signed commitments to work with CIB for two to five years, specializes in professional liability insurance, including Lloyd's broker errors and omissions insurance, architects E&O, and directors and officers liability coverages.

Nelson, Hurst also places North American casualty risks, London market excess-of-loss reinsurance, and owns a U.K. retail brokerage in Southampton, Mr. Woodward said.

The merger was a good fit, "because there wasn't much fallout" of brokers leaving, Mr. Woodward said.

"And it doubled our size," he said, adding that the name Nelson, Hurst & Marsh is still used for professional liability business.

However, after the Nelson, Hurst acquisition, Mr. Carlson wanted to return to the United States. Citicorp decided that the non-U.K. international retail brokerage side of CIB would be headquartered in New York under Mr. Carlson's auspices, Mr. Woodward said.

But it was clear from the beginning that retail, wholesale and reinsurance operations should be headquartered in London where the three divisions intertwine and the heads of the divisions are based, Mr. Woodward said. "It was a bit of a false step that CIB could be run out of New York," Mr. Woodward said.

However, Mr. Carlson did not want to return to London, so Citicorp recruited Mr. Woodward to be chief executive in London. Mr. Woodward, who arrived in July, 1989, was president of Reliance Insurance Co. of Philadelphia. He also is an Englishman who lived in the United States for 10 years and wanted to return home.

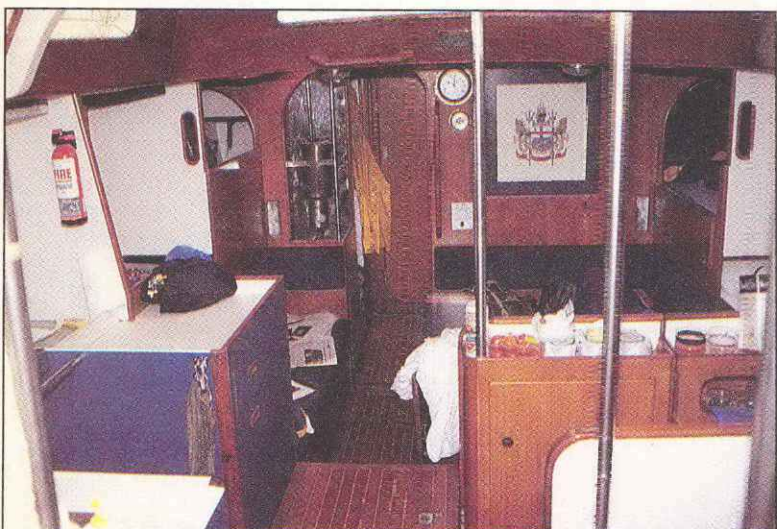
Now, "we want to develop the retail side" of CIB, Mr. Woodward said. This year, CIB will open offices in Spain and possibly in Poland, where the banking conglomerate has conducted business for many years from its office in Vienna, Austria. CIB also has plans to open offices in Greece, France, Taiwan and South Korea.

CIB will continue to look for clients within the regions in which it opens offices, rather than follow British or American clients around the world like other insurance brokerage groups have done. "We don't have American clients to follow anyway, so when we set up a company in a country, we're there to dig the ground locally," Mr. Woodward said.

And CIB will continue to keep its eye on opportunities in the United States. "If we go into the U.S., we hope we'll offer new approaches to insurance broking," Mr. Woodward said. ■



Decorum stowed away aboard Lutine



Stacy Shapiro

By STACY SHAPIRO

LONDON—While Lloyd's of London is well-known for its luxurious trappings and its sense of decorum, you won't find them on the market's yacht.

At 11 a.m. on an August Saturday, one of the Lutine's 16 skippers is lying in his bunk next to the chart table.

He and the rest of the mostly inexperienced crew are just awakening after attempting to sail to Cherbourg, France, from Portsmouth Harbor in England. They were forced to turn around about

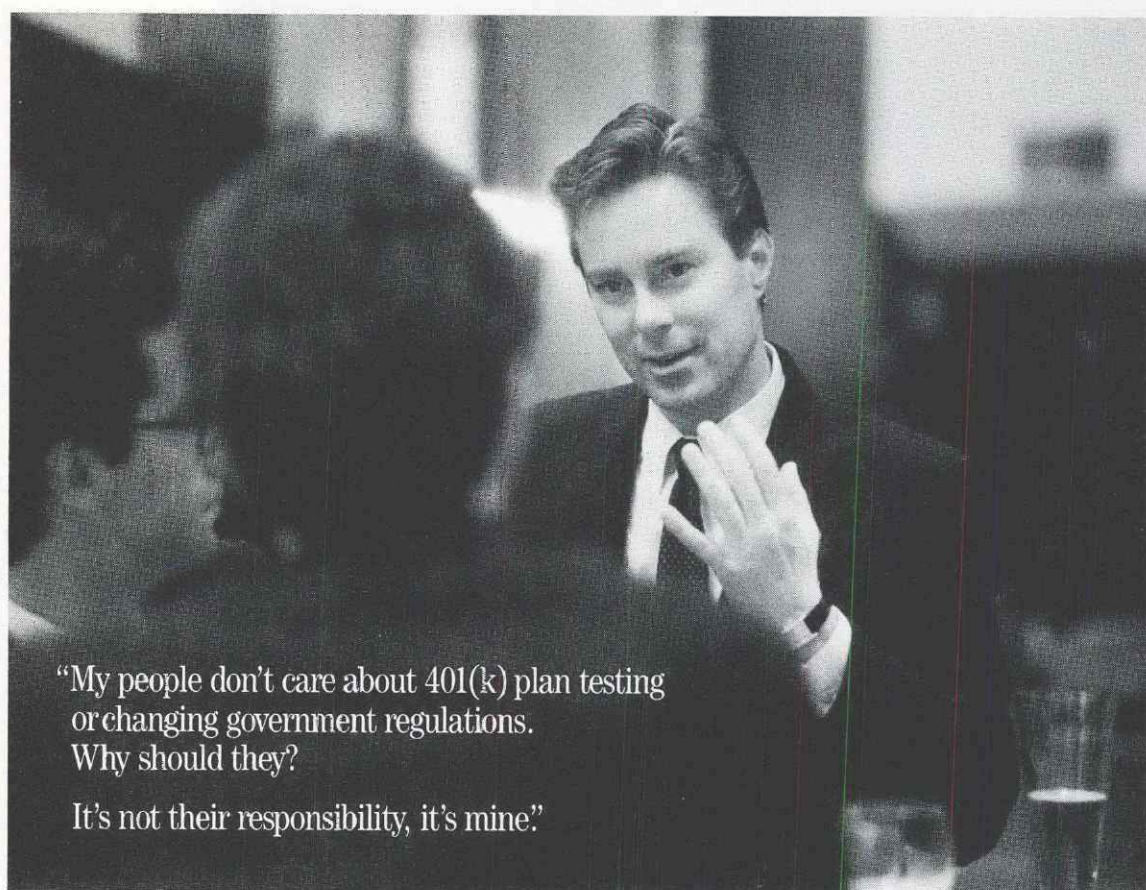
2:30 a.m. because the weather was too rough for most of the amateurs on board.

Wet oilskins hang over the icebox where the food and drink are piled on top of each other for the weekend. Bread and peanut butter have been left out after sandwiches were made following the failed attempt to sail to Cherbourg. Cold spaghetti from the night before remains in pots.

And eight other bodies are strewn around the cabin in bunks and on benches, in various states of sleep and snoring.

"This is when the Daily Express says, 'They sailed on the luxurious yacht Lutine,'" said the skipper, John Newton, from his bunk, drawing laughter from everyone around—who is awake.

Only the crest on the wall gives away the well-heeled owner of this unkempt cabin: Lloyd's.



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For the Lutine is far from luxurious.

Before coming on board, guests expect Lloyd's yacht to epitomize the wealth of the insurance market that owns it. They expect china, cut crystal and silver cutlery. Instead they find practical plastic plates and cups and stainless steel utensils.

First-time visitors expect opulence like stand-alone showers and individual sleeping cabins. If there is a shower, however, it's a well-hidden secret. Although the bunks are comfortable, one of them is near a leak and two others in the forward cabin are normally covered by various sails.

The only extravagant item in the cabin is the fold-out table, the top of which is outlined by the Lloyd's Yacht Club pennant in inlaid laminate, which is said to have cost as much as 2,000 pounds (\$3,840).

Despite the modest accoutrements, the Lutine—which is either chartered by Lloyd's Yacht Club members or is used by the club for racing—sails like a dream.

Built in 1970, it is one of only about 20 Nicholson 55s built and one of the few not owned by the British Army, Navy or Air Force. The Lutine is 55-feet long and sloop-rigged, with a 15-foot-8-inch beam.

Except for those that sail in the Whitbread around-the-world race, there are very few private yachts longer than the Lutine, says Mr. Newton, chairman of the Lutine Management Committee at Lloyd's and director of Lombard Communications P.L.C., a public relations firm whose clients include Merrett Holdings P.L.C. and other Lloyd's underwriters.

Those sailing The Solent, the stretch of sea running between England's mainland and the Isle of Wight, know the Lutine well. And the yacht is highly regarded for its racing accomplishments in these waters, this year coming fourth in Class I in the Royal Ocean Racing Club's Cowes-to-Le Havre race; first in the Cowes-to-Deauville race; and second in the "Lutine Bell" race to Cherbourg, which is sponsored by Lloyd's.

The Lutine was refitted in the winter of 1987 and the spring of 1988 for between 80,000 and 90,000 pounds (\$153,600 to \$172,800 at current exchange rates) after the Lloyd's Yacht Club failed to raise around 350,000 pounds (\$672,000) for a new yacht which would have been the third Lutine owned by Lloyd's.

"The entire boat was totally stripped out," Mr. Newton says.

The whole hull structure was examined and the bulkheads and stringers—some of which were fractured—were repaired. The yacht was rewired and replumbed, since before the refit the Lutine didn't have a pressurized water system or hot water.

Also, the navigation system was overhauled.

The Lutine, classed A1 for insurance purposes at Lloyd's, is insured at Lloyd's through broker Bowring Marine & Energy Ltd. Its hull and machinery are insured for 180,000 pounds (\$345,600), and it carries 1 million pounds (\$1.92 million) of third-party liability insurance.

The yacht also has an unlimited amount for employers liability insurance, which covers the full-time boson on board.

The Lutine, which is in the water between April and November each year, is docked at Gosport Yacht Club along with other yacht owned by Lloyd's brokers Willi Faber P.L.C., Sedgwick Group P.L.C. and Alexander Howde Group Ltd.

Lloyd's aviation market faces overcapacity

By STACY SHAPIRO

LONDON—Lloyd's of London's aviation insurance market will be a very different place in three years, a Lloyd's members' agent contends.

"Both insurance companies and Lloyd's syndicates will merge or cease business to meet the problem of overcapacity" in the aviation market, predicts David Harrison, chairman of Harrison Brothers, in a recent report to Lloyd's members.

Also, within three years, the market will have eliminated the current divisions between the aviation, marine, non-marine and motor markets and will have introduced composite syndicates (see story, page 3). However, this move won't affect aviation syndicates as much as non-marine and marine syndicates, noted Robin Eliot, chairman of Lloyd's Aviation Underwriters Assn.

Forty-four aviation syndicates, plus many marine and non-marine syndicates, now write aviation business. About 30 London insurance companies also write aviation coverages, said Mr. Harrison.

However, as aviation rates continue to tumble, worldwide aviation premium volume is expected to drop to \$250 million from \$350 million in 1989. And claims are projected to total around \$800 million, compared with \$1.3 billion last year, according to Mr. Harrison.

The loss of 28 jetliners in 1989 and notices of huge pollution claims (see story, page 37), on top of "worldwide overcapacity and fierce competition in 1989 and 1990... will have a significant effect upon both direct and reinsuring (aviation) underwriters during the next six months," Mr. Eliot said.

Airline hull and liability premiums have dropped to as low as 10% of what was paid in 1986, when worldwide airline premiums totaled \$1.2 billion, meaning that "there must be a substantial realignment of the London market as the losses of 1989 are called for payment," said Mr. Harrison.

Aviation underwriters do not anticipate rate increases in the foreseeable future.

Although aviation war risk insurance rates have stabilized—and war risk rates have skyrocketed for airlines that operate at Middle East airports—"I do not anticipate any sign of rates going up," said Mr. Eliot. "I've seen renewals of airlines in the past few weeks with more rate reductions being quoted. So I don't see any sign that rates are on the turn."

There are signs that aviation reinsurance may cost more when treaties come up for renewal at year-end, Mr. Eliot said. And at least one group of airlines has extended its current 12-month hull and liability program by another six months, as allowed in the expiring coverage, which may mean that the group was not quoted lower rates but hopes it will be in six months, he added.

"It could be a straw in the wind" that rates are increasing, he added.

But with tremendous capacity in the aviation insurance market, Mr. Eliot says he cannot predict whether airlines will pay more or less during the Oct. 1 airline renewal season, when 75% of the world's airlines renew their insurance programs.

"Rates are continuing to come down almost as fast as the Berlin Wall," added L.A. Hudson, Lloyd's underwriter for aviation syndicate 925 managed by Sturge Aviation Syndicate Management Ltd. in his 1989 report to members issued earlier this year.

"The only chinks of light have been the elimination of 18-month policies due to pressure on direct underwriters from key proportional reinsurers and a hardening in war risk rates for hulls," Mr. Hudson said.

market cycle, however, "cannot be far away," he said.

"I have already written off our 1990 year," added Brian Beagley, underwriter for Lloyd's largest aviation syndicate, syndicate 960, also managed by Sturge Aviation, in his 1989 accounts. "Rate reductions continue unabated... Undoubtedly many organizations will become scarcer and much more expensive, and the climate will then improve. Will all of this occur in time for our 1991 account? The answer is—I don't know."

Profits recorded by the Lloyd's

aviation market fell 7.6% to 246.2 million pounds (\$396.4 million) in 1987, the most recent year closed under Lloyd's three-year accounting system, from banner-year profits of 266.3 million pounds (\$482 million) in 1986.

In addition, underwriting profits fell 23.2% to 176 million pounds (\$283.4 million) in 1987 from 229.3 million pounds (\$415 million) in 1986. Some 23 Western-built jetliners crashed in 1987, killing 776 people.

However, declining underwriting profits in the aviation market were

partially offset by a 49.3% rise in investment return to 91.4 million pounds (\$147.2 million) in 1987 from 61.2 million pounds (\$110.8 million) in 1986.

Falling aviation rates, coupled with the crash of 24 jetliners with worldwide claims likely to exceed \$900 million, may reduce aviation account profits further in 1988, said Mr. Eliot (BI, July 2).

Meanwhile, the Lloyd's aviation market's total allocated premium capacity remained virtually static in 1990, increasing to 974 million

pounds (\$1.57 billion) from 973 million pounds (\$1.76 billion) in 1989. There were 44 aviation syndicates at Lloyd's in both 1990 and 1989.

The aviation syndicates at Lloyd's mainly write airline hull and liability insurance and reinsurance. However, the market also writes aviation product liability insurance and reinsurance; some personal accident coverage; hull and liability insurance for corporate and private jets and helicopters; and various types of satellite coverage.

Continued on next page

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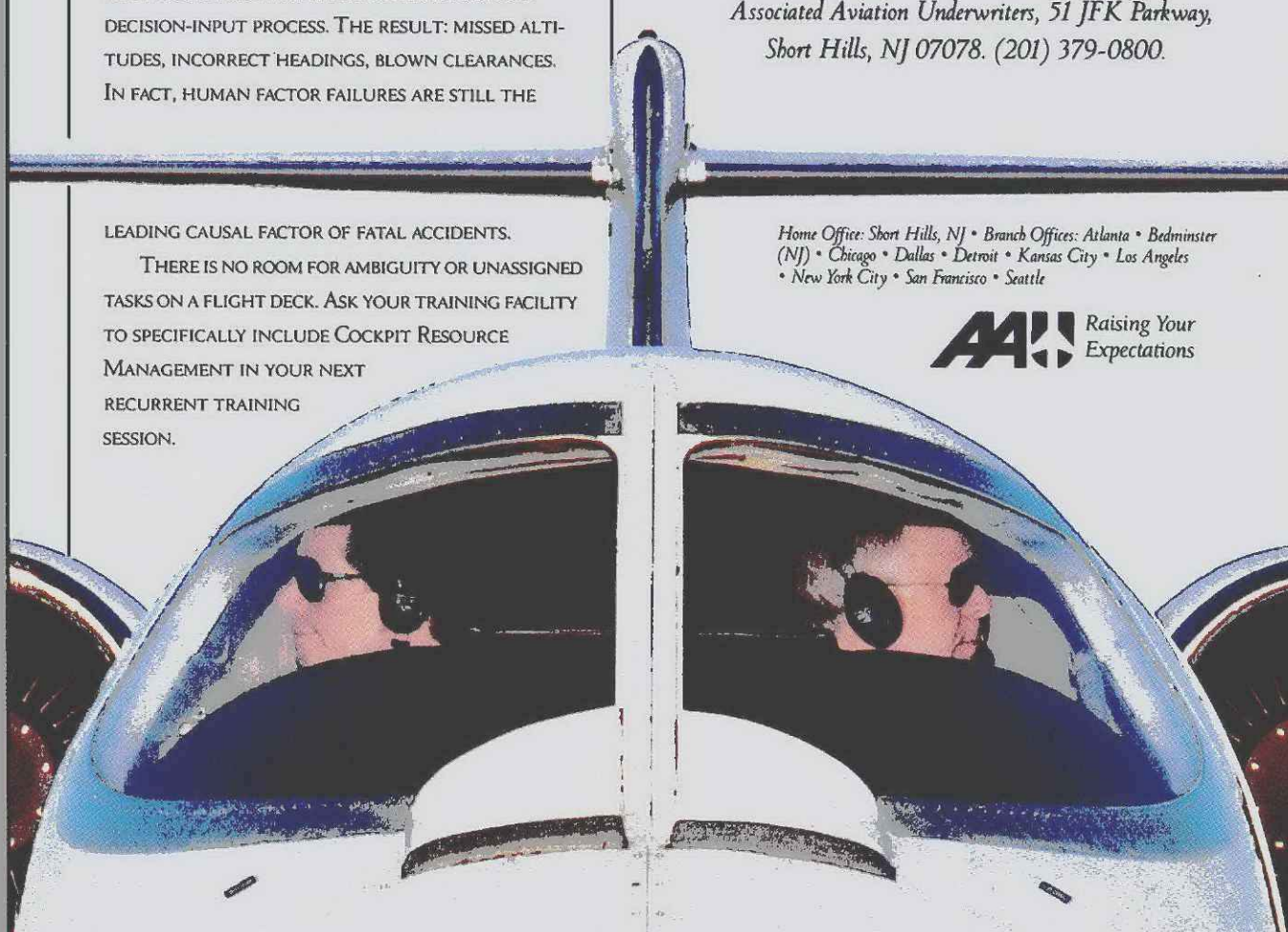
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The bottom of the soft aviation

Aviation insurers

Continued from previous page

Whatever direct aviation insurance that is not written by Lloyd's aviation syndicates usually returns to the market in the form of reinsurance. For example, when an underwriter refuses to insure an airline insurance program at current low rates, it is insured in other markets that, in turn, cede the business back to London.

In addition, many foreign airlines' accounts are reinsured with Lloyd's underwriters because the direct insurance must be written by domestic insurance companies.

The premium capacity offered by most of the largest aviation syndicates remained virtually the same in 1990 as last year.

For example, the largest aviation syndicate—syndicate 960, managed by Sturge Aviation and underwritten by Mr. Beagley—slightly decreased its capacity to 94.4 million pounds (\$152 million) this year from 95.9

million pounds in 1989.

Cutthroat rating in 1988, which continued "severely" in 1989, meant that "our response was to reduce our book of business severely," said Mr. Beagley, meaning that less capacity was necessary.

"With the current confused state of the aviation market, capacity requirements for 1991 are difficult to predict," he said. "When the return to sensible rates comes, the increase in rating may well be violent; however, it is unlikely that additional capacity for 1991 will be required."

Syndicate 960's profits for the 1987 underwriting year dropped 20% to 27.7 million pounds (\$44.6 million) from 34.7 million pounds (\$62.8 million) in 1986, which was the best year for aviation underwriters in the 1980s. "The (1987) year closed with an excellent result, albeit somewhat lower than last year's (1986)," said Mr. Beagley.

Meanwhile, Lloyd's second-largest aviation syndicate, syndicate 950

Largest Lloyd's aviation syndicates

Based on 1990 gross allocated capacity in millions of pounds

Syndicate	Managing agency	Underwriter	Capacity ¹			
			1990	1989	1988	1987
960	Sturge Aviation Syndicate Management Ltd.	B.E. Beagley	£94.4	\$152.0	£95.9	\$172.9
950	Oxford Syndicate Management Ltd.	J.C. Nevitt	69.6	112.1	66.5	120.4
48	Methuen (Lloyd's Underwriting Agents) Ltd.	T. Salmon	62.6	100.8	66.5	120.4
97	Wellington Underwriting Agencies Ltd.	R.J. Morse	56.9	91.6	56.0	101.4
545	F.L.P. Secretan & Co. Ltd.	T.O. Pitron	53.5	86.1	56.2	101.7
270	A.J. Archer & Co. Ltd.	R.J. Maylam	47.6	76.6	48.4	87.6
800	Wren Underwriting Agencies Ltd.	J.A. Westcott	44.3	71.3	44.4	80.4
340	Gravett & Tilling (Underwriting Agencies) Ltd.	J.P. Tilling	43.4	69.9	46.5	84.2
53	G.P. Eliot & Co. Ltd.	R.F. Eliot	41.5	66.8	42.0	76.0
271	Langton Underwriting Agents Ltd.	R. Pearson	33.1	53.3	N/A	N/A

¹ Converted at applicable exchange rate N/A-Not available
Source: Lloyd's of London

BVHOLLY SEGUINE

managed by Oxford Syndicate Management Ltd. and underwritten by J.C. Nevitt, increased its allocated capacity 4.7% this year to 69.6 million

pounds (\$112.1 million) from 66.5 million pounds (\$120.4 million) in 1989.

Syndicate 48, managed by Meth-

uen (Lloyd's Underwriting Agents) Ltd. and underwritten by Tim Salmon, remained the third-largest in aviation capacity despite a 5.8% decrease in capacity to 62.6 million pounds (\$100.8 million) this year from 66.5 million pounds (\$120.4 million) in 1989.

Syndicate 97, managed by Wellington Underwriting Agencies Ltd. and underwritten by Rodney Morse, moved up to fourth place in terms of 1990 capacity from fifth place in 1989 because it increased its capacity to 56.9 million pounds (\$91.6 million) from 56 million pounds (\$101.4 million).

Meanwhile, syndicate 545, managed by F.L.P. Secretan & Co. Ltd. and underwritten by Terry Pitron, dropped one spot to fifth place after reducing its allocated capacity 4.8% to 53.5 million pounds (\$86.1 million) from 56.2 million pounds (\$101.7 million) in 1989.

New to the ranks of the Top 10 aviation syndicates this year is No. 10-ranked syndicate 271, managed by Langton Underwriting Agents Ltd. and underwritten by R. Pearson, with 33.1 million pounds (\$53.3 million) of capacity this year. It replaces syndicate 431, managed by Wren Underwriting Agencies Ltd., which has a capacity this year of 28.5 million pounds (\$45.9 million). ■



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Aviation market to hit turbulence: Morse

By CAROLYN ALDRED

LONDON—Lloyd's of London aviation underwriter Rodney Morse entered the market at the suggestion of his local pub's owner.

After leaving school at the age of 16 and being offered several jobs, Mr. Morse did not know which way to turn.

"My local pub landlord said he knew a Lloyd's broker and suggested that's what I do," Mr. Morse recalled.

Following that advice, Mr. Morse worked for Lloyd's broker Price Forbes Ltd., now part of Sedgwick Group P.L.C., from 1960 to 1964.

Thirty years later Mr. Morse is the underwriter for Lloyd's fourth-largest aviation syndicate.

Syndicate 97, managed by Wellington Underwriting Agencies Ltd., has a premium capacity of 56.9 million pounds (\$91.6 million) and is one of the world's leading underwriters of aviation product liability coverage.

The syndicate has a staff of 12, including Mr. Morse's deputy underwriter, Phil Freeman; assistant underwriters Trevor Curties and Guy Hillyard; personal accident underwriter David Ozanne; and claims manager Mike Tarling.

Mr. Morse began his underwriting career with syndicate 97 in 1964 as a "scratch boy"—a filing clerk in the syndicate.

By January 1986 he had worked his way up to become the syndicate's chief underwriter, taking over a syndicate with a stamp capacity of 28 million pounds (\$40.6 million).

It was a tough time to take over the syndicate, Mr. Morse recalls. The previous year had been a "terrible year for losses" and by the January 1986 renewal season "rates were soaring."

And the combination of soaring rates and the rapid appreciation of the British pound vs. the U.S. dollar made it very difficult for Lloyd's aviation syndicates to not exceed their premium capacity, Mr. Morse

noted.

The business has not gotten much easier since.

Aviation insurers made huge profits in the bonanza year of 1986, but rates have dived since and show no signs of stabilizing, said Mr. Morse.

As a leading underwriter of aviation product liability coverage, syndicate 97 bore the first signs of a softening market well. Rates tend to fall faster and lower for airline hull and liability insurance than for product liability insurance, he noted.



Mr. Morse

In fact, rates for airline risks dropped so quickly that Mr. Morse remembers going away for his spring vacation in 1987 while rates were still climbing. By the time "I came back rates were going down."

Some months later, aviation product liability rates also began to fall, he remembers.

"Product liability rates haven't got as ludicrously low yet as airline rates, but it's going to be difficult to make a profit if they continue to fall," he said.

Syndicate 97's product liability rates remained healthy for a time because many aviation underwriters at the time did not write product liability insurance. However, as the market grew softer, many underwriters who had said they would never "touch product liability insurance began to write it furiously," he said.

For many years, Syndicate 97 has led product liability insurance for large airframe and engine manufacturers as well as small manufacturers of aircraft components.

In 1987, the latest underwriting year to close under Lloyd's three-year accounting system, more than 40% of its business was product liability insurance, said Mr. Morse.

Among its policyholders are engine manufacturers Rolls-Royce P.L.C.; Teledyne Continental Motors; and Westinghouse Electric Corp.

About 12% of the syndicate's business was other liability coverage, including airline liability; 10% was hull all-risk insurance; 6% was personal accident insurance; and 27% was excess-of-loss reinsurance. The remainder was made up of other risks.

It made profits of 11.7 million pounds (\$18.8 million) on gross premiums of 35.4 million pounds (\$57 million) in 1987.

Profits, said Mr. Moore, would have been much higher had the syndicate not had to increase reserves for past underwriting years, primarily resulting from potential pollution and latent disease claims.

The syndicate's annual report notes that it produced a pure underwriting profit of 9.7 million pounds (\$15.6 million) in 1987, but losses and increased reserves in previous years cut net underwriting profits to 1.5 million pounds (\$2.4 million).

Potential environmental losses now are a major concern across the aviation market, said Mr. Morse.

The first sign that aviation underwriters could be hit with major pollution claims occurred in 1983 when Shell Oil Corp. asked some aviation underwriters to help pay for the cleanup of the Rocky Mountain Arsenal near Denver.

Since then, the aviation insurance market has been confronted with two more major cleanup claims, notes Mr. Morse.

The first claim, currently in litigation, involves hundreds of millions of dollars in bodily injury and cleanup claims over chemicals allegedly washed into the ground by Hughes Aircraft Corp. at Tucson Airport.

At least 1,600 residents of Tucson sued Hughes in state court. Hughes has brought the city of Tucson and the Tucson Airport Authority into the action as third-party defendants. Since then, Tucson Airport Authority

has admitted liability, allowing residents to file suit directly against the airport's insurers, according to Mr. Tarling, syndicate 97's claims manager, who is helping coordinate the litigation for the London insurers.

The insurers have filed a declaratory action to determine whether they are liable for the claims and cleanup costs, he said.

The case, like many pollution claims, involves hundreds of insurers spread over many coverage years, noted Mr. Morse.

Meanwhile, just last year the aviation market was advised of a second major claim that could produce hundreds of millions of dollars in losses, noted Mr. Morse.

Lockheed Corp. is accused of polluting groundwater at a waste site in Burbank, Calif.

"Each year the (aviation) market seems to get advised of new environmental claims. I don't think the aviation market has had to pay a loss yet, but it is spending a lot of money in legal fees defending them," noted Mr. Morse.

Even without the threat of major

environmental claims the aviation market is heading for calamity, he said. If rates do not rise soon, "then people will start to fall by the wayside."

For example, in 1989 the estimated worldwide premium for airline and major aviation product liability risks was \$350 million, while total claims are expected to exceed \$1 billion, he points out in syndicate 97's annual report.

"Although at this stage I am not forecasting a pure underwriting loss for this year, this must be taken as a real possibility," he said, forecasting the result of the syndicate's 1989 underwriting year, due to be closed in 1992.

Massive losses eventually will cause an aviation market contraction and "a lot of mergers between brokers, Lloyd's syndicates and companies" in the aviation field, he said.

However, syndicate 97 will be big and strong enough to survive the turbulence, he predicted confidently. "We have a good broad-based account, we are well-reserved, well-managed and have a good team." ■

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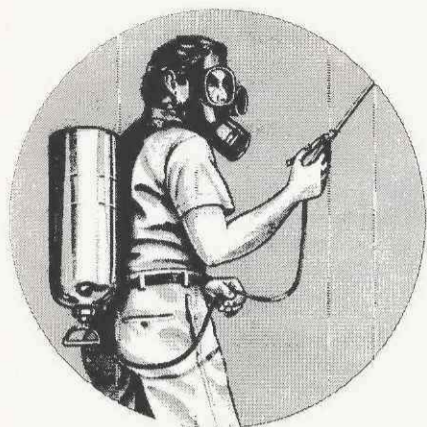
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Lloyd's embarking on marketing blitz to hike recognition of market worldwide

By CAROLYN ALDRED

LONDON—Lloyd's of London believes its name is one of the most undersold brand names in the history of advertising.

As a result, Lloyd's has launched a central marketing and advertising campaign for the first time in its history in an effort to boost Lloyd's recognition worldwide and increase the flow of business into the market.

"Everyone is agreed that Lloyd's of London is arguably one of the most underexploited brand names in the world. It is a seethingly valuable piece of weaponry waiting to be capitalized on to attract profitable business into the market," said Peter Hill, head of public affairs for Lloyd's.

Ironically, the name Lloyd's of London is more recognized overseas than in Britain. In fact, a recent survey conducted by Lloyd's showed that much of the British public have no idea what Lloyd's is at all.

Indeed, a *Business Insurance* reporter recently spotted an American tourist outside the Lloyd's building explaining the history and business of the insurance market to a Londoner who had asked the American what the building behind him was.

However, while many Americans do recognize Lloyd's as an international insurance marketplace, most associate the marketplace just with shipping insurance and insurance of exotic risks, like the famous policy written to insure Betty Grable's legs.

"There is a clear need for the Council (of Lloyd's) to put policy support behind raising the level of awareness and where appropriate, with the cooperation and support of the market, in developing a marketing strategy to market the products and services of the Lloyd's market," Mr. Hill pointed out.

Launching a cohesive marketing campaign on behalf of the hundreds of brokerage and underwriting businesses that make up the Lloyd's market, he concedes, will not be easy.

"We had to have an overall macro strategy which has the support and commitment of all sections of the market," Mr. Hill explained.

"The difficulty is that we are not a unitary business so that everything has to be based upon consultation with the players in the market," he said.

However, "I am persuaded that (the Corporation of Lloyd's) has a very important role to play in the marketing of Lloyd's," Mr. Hill added.

"I think it's a very exciting concept because a marketing strategy for (an insurance) market is very different from a marketing strategy for a company or a product," he said.

He stressed that the function of the Corporation of Lloyd's is to increase public awareness without taking over the traditional marketing operations of Lloyd's brokers or underwriting agents.

Lloyd's hopes that running corporate advertising campaigns and providing central marketing facilities will "encourage brokers to play a bigger part (in marketing Lloyd's) and will encourage underwriting agents to seize opportunities," Mr. Hill explained.

Last year, Lloyd's hired London-based advertising and marketing consultant Valin Pollen to "assist in the major task of developing a marketing strategy and advise in communications," according to Mr. Hill.

And, in September 1989, on the day Lloyd's announced its 1986 global results, Lloyd's took out an advertisement in several British

Continued on next page

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Continued from previous page
newspapers and trade publica-
tions.

"That was the first piece of ad-
vertising ever done by Lloyd's cen-
trally," said Mr. Hill.

Lloyd's repeated the advertising
exercise this year on June 28 with
the publication of the 1987 global
results, the latest year closing
under Lloyd's three-year account-
ing system. The latest advertise-
ment showed a large photograph of
the famous glass roof and atrium of
the new Lloyd's building shot from
below the Lutine Bell with the caption, "The Roof That Covers the
World" (see photograph, page 3).

The ad appeared in British news-
papers and internationally circu-
lated magazines such as The Econ-
omist.

And on July 2—the day after
cross-border trading of many types
of commercial insurance went into
effect in the European Community
—Lloyd's published advertise-
ments in six European insurance
magazines in the native language
of each magazine.

The advertising also incor-



**LLOYD'S
BROKERS**

porated a new logo designed for
Lloyd's brokers.

The logo, a diagram of Lloyd's
atrium and the words, "Lloyd's
Brokers," was designed earlier this
year for all Lloyd's brokers to use
to identify themselves.

The logo is intended to be incor-
porated in the brokers' stationery,
advertising and company bro-
chures.

The logo "was designed to visi-
bly distinguish the registered
Lloyd's broker and to generate in-
creased awareness among brokers
of their links with us," said Mr.
Hill.

Lloyd's also is able to provide its
central public relations and media
marketing services to syndicates,
underwriting agencies or sectors of
the market to help market individ-
ual projects.

For example, bloodstock un-
derwriters and the public affairs
department last year worked to-
gether to produce and distribute a
leaflet to Kentucky bloodstock
agents outlining the types of cover-
age and services the market can
offer.

"Business has improved signifi-
cantly in bloodstock insurance this
year," thanks partly to the help
of that effort, Mr. Hill pointed
out.

This month, the market is pub-
lishing a set of advertising guide-
lines, explaining how underwriting
agents, Lloyd's brokers and others
may use the name of Lloyd's of
London in marketing and advertis-
ing.

Lloyd's also has commissioned a
series of market research surveys
of brokers, policyholders and po-
tential policyholders to get a
clearer idea of how Lloyd's is per-
ceived.

The Corporation of Lloyd's will
hold two market meetings this fall
to discuss the results of the sur-
veys, said Mr. Hill.

Lloyd's also will be taking a
more active role in trade exhibi-
tions and conferences.

For example, Lloyd's plans to
have a booth at AssureExpo, a
commercial insurance exhibition
in Paris next February, and it also
may sponsor an exhibit at next

year's Risk & Insurance Manage-
ment Society Inc. conference in
New Orleans.

Central advertising activity is "a
good example of the enabling and
facilitating activity Lloyd's is try-
ing to provide," pointed out An-
drew Duguid, head of market ser-
vices.

Lloyd's currently is working on
several other projects to provide
more streamlined and effective
central operations to enable the
market to operate more efficiently,
Mr. Duguid said. It is all part of
Lloyd's strategy to make the mar-
ket more attractive and more cost-
effective to brokers and policy-
holders.

**Lloyd's may sponsor
an exhibit at the
Risk & Insurance
Management Society
Inc. conference.**

"The central role is essentially a
facilitating and enabling role. We
are trying to improve the position
in certain areas where there may
be problems," Mr. Duguid pointed
out.

For example, Lloyd's currently
is working on the introduction of

new claims agreement procedures
to speed up the market's
often-criticized claims handling
process, said Mr. Duguid (see story,
page 3).

Lloyd's also is working to im-
prove the use of computer technol-
ogy in the market and is helping
syndicates hook up to and operate
the London Insurance Market Net-
work, a computer network that
eventually will link all brokerages
and underwriters in the London
market.

The Corporation of Lloyd's also
is working to rebuild the relation-
ship between underwriters and
Lloyd's brokers. A Business Issues
Committee has been established

where the chairman and deputy
chairman of each Lloyd's under-
writing association work together
with the chairman and deputy
chairman of Lloyd's Insurance
Brokers' Committee to discuss
business issues and methods of
trading, said Mr. Duguid, who is a
member of the committee (see
story, page 27).

Other efforts being made by
Lloyd's to help underwriters and
brokers improve the level of ser-
vice they offer include language
classes provided through Lloyd's
Training Centre. In fact, the lan-
guage courses have been so popu-
lar, most are completely booked,
said Mr. Duguid.



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Roberts & Hiscox has eye for art risks

By CAROLYN ALDRED

LONDON—While major Japanese insurance companies have astounded the art world by spending tens of millions of dollars to buy some of the world's most famous paintings, a small Lloyd's of London underwriting agency has been building up its own collection of famous art.

Walking around the offices of Roberts & Hiscox Ltd. is like walking around a private art gallery, with paintings by artists such as Edward Burra and Walter Sickert filling the available wall space.

The paintings are the result of agency Chairman Robert Hiscox's passion for art and reflect an important aspect of the agency's business: underwriting fine art coverage.

In fact, non-marine syndicate 33, the largest syndicate managed by Roberts & Hiscox, is one of the London market's leading fine art insurers.

Most of the works of art insured by syndicate 33 belong to private art collections, although the syndicate also underwrites insurance for art galleries and dealers.

And, earlier this summer, Roberts & Hiscox decided to expand its underwriting of high-value private assets, including fine art, antiques and classic cars.

The underwriting agency, like a growing number of Lloyd's agencies, believes that Lloyd's is missing out on business because of the chain of brokers involved in placing any piece of business into the market.

As a result, Hiscox has established a service company called Hiscox Insurance Agencies Ltd. to market and service its own coverage.

Business will be initially placed with the service company by various sources—including regional offices of Lloyd's brokers and non-Lloyd's brokers.

The coverage then will be placed through a Lloyd's broker—to conform with Lloyd's rules—with syndicate 33, which will write 100% of the policies.

One of the first products developed by HIA is a homeowners insurance policy aimed at the top end of the market (BI, May 21).

Mr. Hiscox believes that "complicated and innovative business will continue to be brought by Lloyd's brokers into the Lloyd's underwriting room, but that it is too expensive to send bread-and-butter business into the room."

Lloyd's "has got to become more accessible" to the insurance buyer and the regional broker, according to Mr. Hiscox.

He denied that the new arrangement will reduce the business placed by Lloyd's brokers.

"The purpose of HIA is to get business into Lloyd's that is not already being shown here," he pointed out.

Mr. Hiscox has a reputation at Lloyd's of being an outspoken critic of many of Lloyd's practices and decisions. However, Lloyd's—along with fine art—is one of the main loves of his life.

And, as head of an agency that is owned entirely by Mr. Hiscox and the other directors of the company, he still sees a bright future for the market.

"We are the best at what we do and I defy anyone to produce better underwriters than those at Lloyd's," Mr. Hiscox stated.

"Lloyd's has been written off so

many times in the past but we have always come through," he pointed out. For instance, Mr. Hiscox well remembers when he first joined his father's underwriting agency in the 1960s, after the Lloyd's market had been hit with massive losses and members were resigning in droves.

Roberts & Hiscox's history as an underwriting agency goes back to 1927 when A.E. Roberts asked W. Hatch to underwrite for him at Lloyd's. In 1938, Mr. Hiscox's fa-

ther, Ralph Hiscox, joined the agency and formed a non-marine syndicate that was to be the predecessor to syndicate 33. At the time, the fledgling syndicate had attracted just seven Lloyd's members.

In 1946, after the end of World War II, Roberts & Hiscox was officially formed.

Ralph Hiscox later became a prominent underwriter in the market and even served as chairman of Lloyd's in 1967 and 1968.

Following his father's footsteps in the Lloyd's market, Robert Hiscox in 1964 joined broker Durnell & Fowler Ltd., which was subsequently bought by Willis Faber P.L.C.

Mr. Hiscox later joined the agency on Sept. 3, 1965, as an "entry boy"—writing information into syndicate record books.

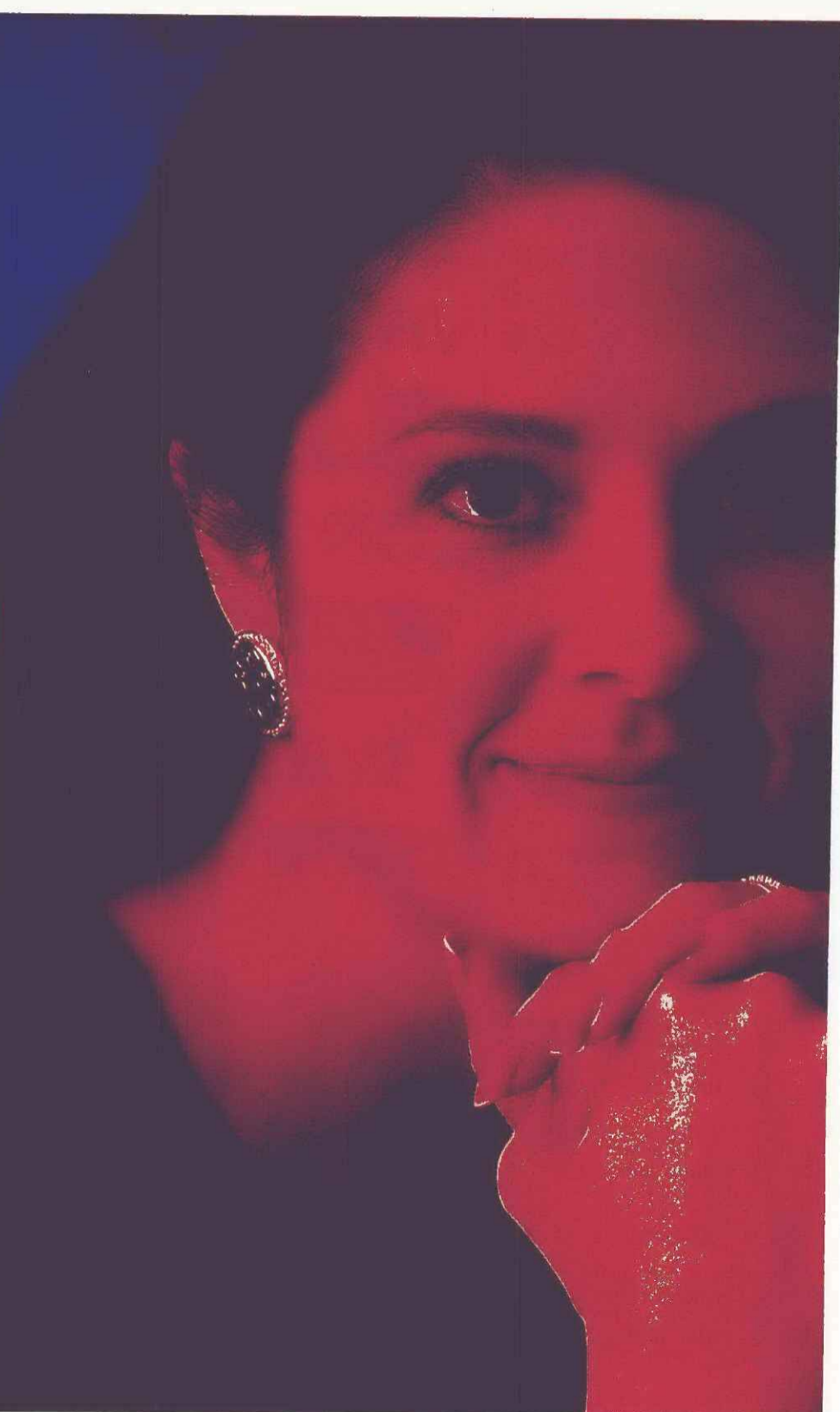
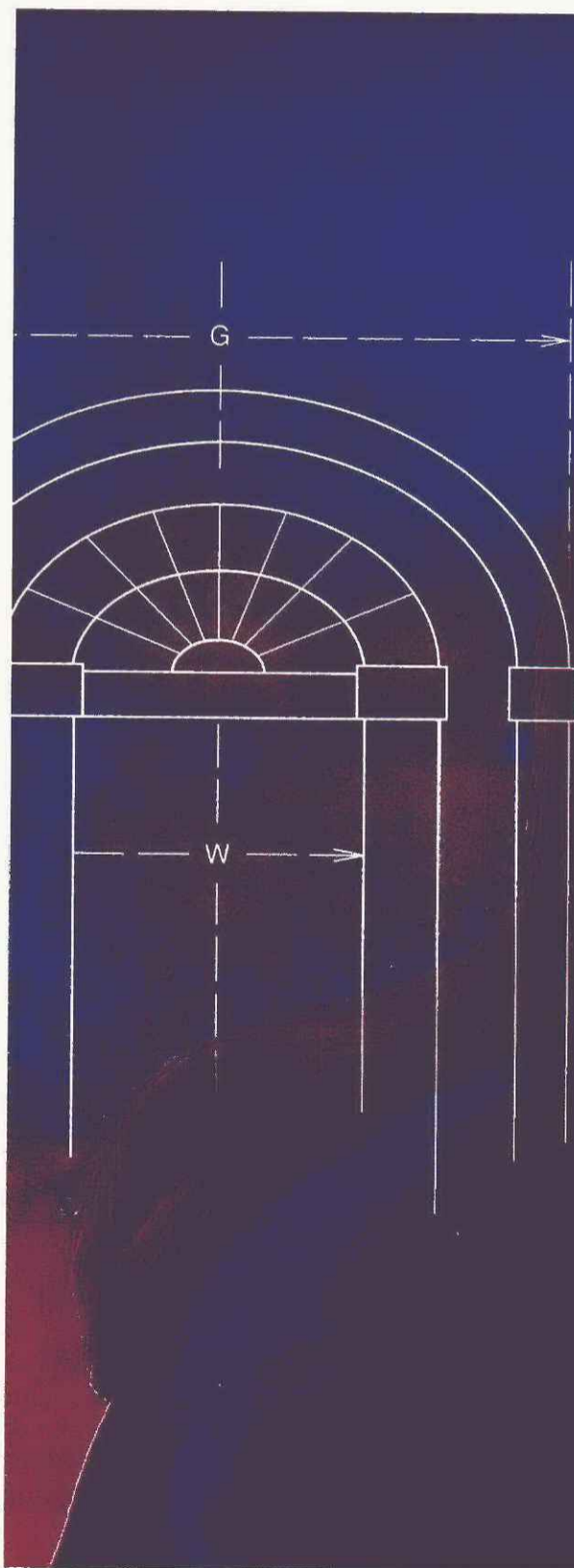
It was an inauspicious start, he recalls. "Hurricane Betsy was still blowing the week I joined," he noted.

Hurricane Betsy was to become a major loss for Lloyd's underwriters, wreaking havoc on many syndicates and bringing the market to an "all-time low," Mr. Hiscox recalled.

Just a few years later in 1970, Mr. Hiscox's father died at the age of 63. Robert Hiscox and George Miller, a fellow partner in the agency, subsequently bought out the remaining partners, and Mr. Hiscox in 1977 bought Mr. Miller's

Continued on next page

THE H O M



OLD PROSON

Largest Lloyd's managing agencies

Based on 1990 premium capacity in millions of pounds

Managing agency	Premium capacity ¹	
Sturge Holdings P.L.C.	£1,190.0	\$1,927.8
Merrett Holdings P.L.C.	632.4	1,018.2
Wellington Underwriting Agencies Ltd.	423.4	681.7
Janson Green Management Ltd.	356.0	573.2
Bankside Syndicates Ltd.	335.2	539.7
Murray Lawrence & Partners Ltd.	330.7	532.4
Wren Underwriting Agencies Ltd.	308.3	496.4
A.J. Archer & Co. Ltd.	303.1	488.0
Three Quays Underwriting Management Ltd.	301.3	485.1
Methuen (Lloyd's Underwriting Agents) Ltd.	284.4	457.9

¹Converted at applicable exchange rate

Source: Lloyd's of London

BI/JOHN SMITHER

Continued from previous page
stake in the agency.

In 1970, the agency's gross premium revenues for the two syndicates managed by Roberts & Hiscox totaled only 3.9 million pounds (\$9.4 million at applicable exchange rates) and things did not look promising.

Syndicate 33 had lost money consistently from 1962 to 1966 and the agency's marine syndicate had lost money for four years.

Moreover, syndicate 33 had attracted no new Lloyd's members for seven years, Mr. Hiscox recalled.

"Every time you opened a letter, you dreaded another resignation"

from a Lloyd's name, he said.

However, Roberts & Hiscox was not alone in its suffering.

"In the late 1960s syndicates were packing up daily," he said. However, "I fundamentally believed that Lloyd's underwriters had made money for 300 years and this was a temporary blip. The whole media at the time had written Lloyd's off."

Mr. Hiscox, though, also realized that he had to take drastic measures to change the agency's fortunes.

Mr. Hiscox and his staff "cleaned the syndicate's account out to make money again," he said. "We examined the numbers and

kept the good business and dropped the rest."

Notably, syndicate 33 stopped underwriting U.S. liability business, a decision other underwriters would not make until years later.

The "old years (of account) were getting worse and I am a very simple man. I want to know what I've won at the races when I leave after the last race," he said. "If you can't add up your profit at the end of three years, how do you know where you stand?"

Meanwhile, in 1973, Mr. Hiscox persuaded Nicholas Thomson to join the agency as underwriter for syndicate 33. Since then, Mr. Thomson "has driven (the syndicate) on enormously by a devotion to sound underwriting principles," said Mr. Hiscox.

In 1988 Nigel Prescott replaced Mr. Hiscox as the syndicate's fine art underwriter, leaving Mr. Hiscox more time to manage the agency.

By last year, syndicate 33 had built up premium capacity of 92.7 million pounds (\$167.8 million) and wrote gross premiums of 49.2 million pounds (\$79.2 million).

Fine arts insurance comprised about 20% of the syndicate's 1989 premium volume; 25% was commercial and industrial insurance; 17% was catastrophe reinsurance; 11% personal sickness and accident coverage; 10% was homeowners insurance; 9% was political risk coverage; 4% was professional indemnity insurance; and 4% was other lines of business.

About 42% of the syndicate's premium volume was written in U.S. dollars; 5% in Canadian dollars and 53% in British pounds and other currencies.

In 1987, the last year closed under Lloyd's three-year accounting system, the syndicate made a profit of 13 million pounds (\$20.9 million) on gross premium volume of 47 million pounds (\$75.7 million).

Meanwhile, the syndicate will close its 1985 account when it closes the 1988 account at the end of this year. The agency had been forced to keep open syndicate 33's 1985 account for two additional years because of a dispute over a runoff reinsurance policy the syndicate ceded to fellow Lloyd's syndicate 317/661, managed by R.H.M. Outhwaite (Underwriting Agencies) Ltd.

The disputed reinsurance contract was determined last year through arbitration to be valid (BI, July 3, 1989). A second arbitration decision to determine the amount owed by the Outhwaite-managed syndicate is currently being awaited by syndicate 33.

"Based on our absolute conviction of the strength of our legal position regarding the runoff reinsurance... and after due allowance for probably irrecoverable legal costs in connection with this year's arbitration, we have decided to close the 1985 and prior years into the 1988 account after a small surplus has been paid to names on the 1985 account," the syndicate's annual report says.

Meanwhile, the agency's oldest syndicate is marine syndicate 625/626, whose predecessor was originally formed in 1927.

The syndicate, which is underwritten by Tim Humm, has a stamp capacity of about 40 million pounds (\$64.4 million) this year.

In 1989, 62% of syndicate 625/626's business was hull and energy insurance; 16% was cargo insurance; 10% was liability insurance; 6% was non-marine insurance; and 6% was war risk insurance.

The syndicate reported a profit of 2.5 million pounds (\$4 million) in 1987 on gross premium volume of 20 million pounds (\$32.2 million).

A much newer syndicate man-

Continued on next page

E T O D A Y

Our one-of-a-kind lady in L.A.

Cindy Langbehn says she first learned to see things from the customer's viewpoint as a flight instructor at her dad's flying school.

That was before she joined The Home 15 years ago. Since then Cindy's risen to Underwriting Manager for Personal Lines in Southern California.

"I'm still dealing with the kind of people I gave flight training to," she says. "Like surgeons, attorneys and CEOs. But now my clients also include a few movie stars and celebrities."

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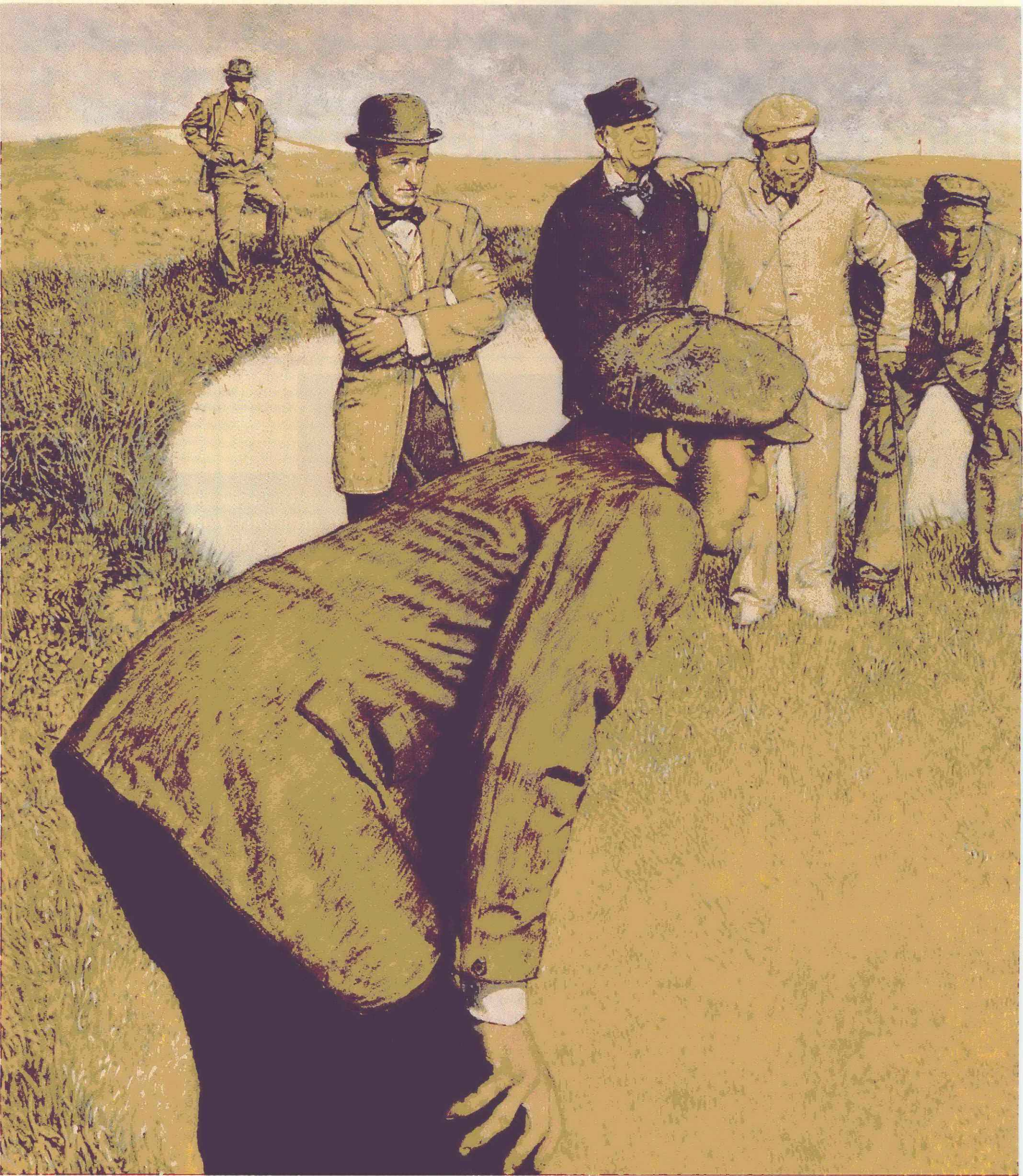
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And it's making people like Cindy Langbehn stars in their own right.

The Home underwrites Commercial Lines, Major Accounts, Specialty Lines and upscale Personal Lines.

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A N E W T E A M

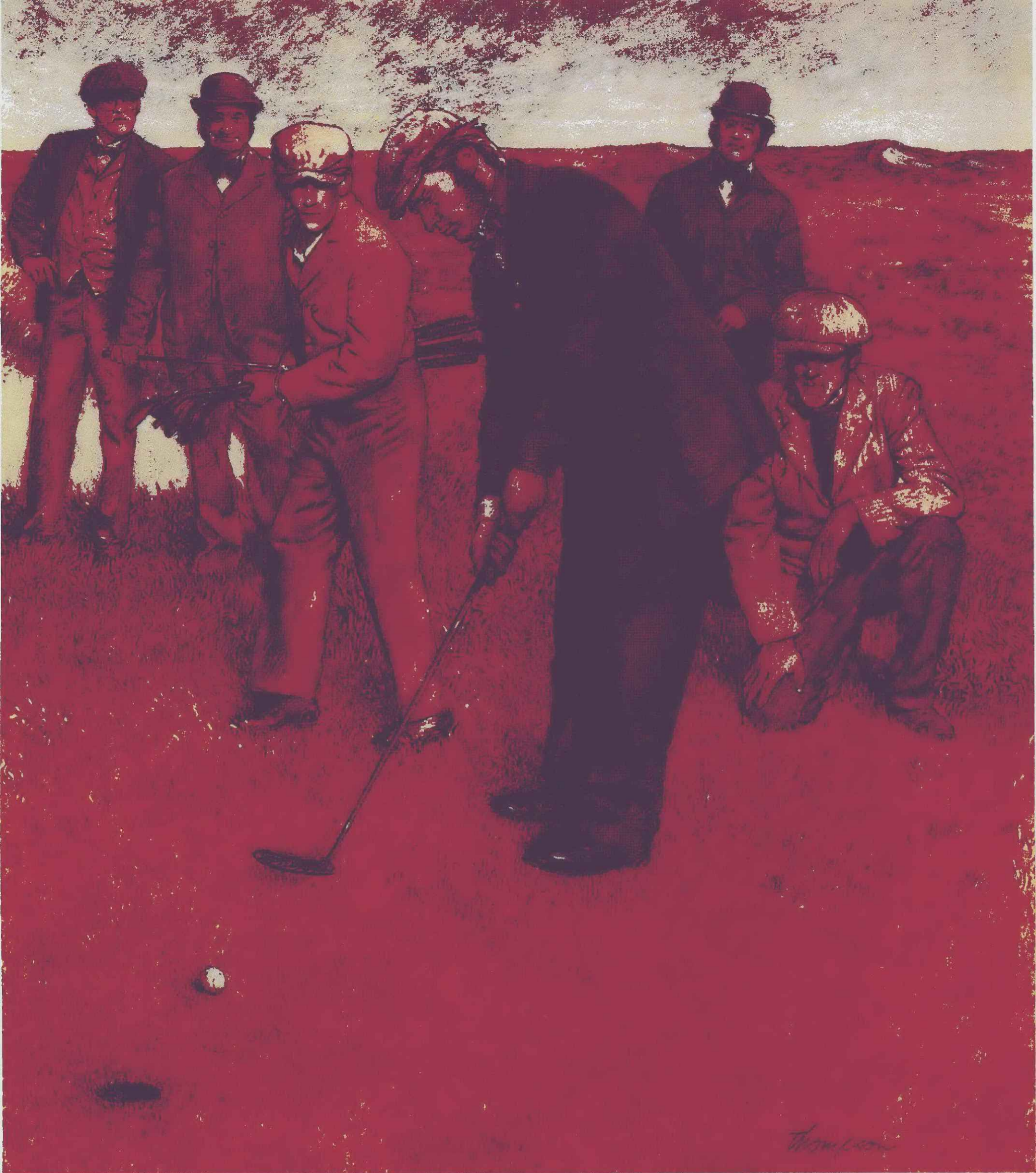


In 1860, when Willie Park, Sr. won the first British Open,

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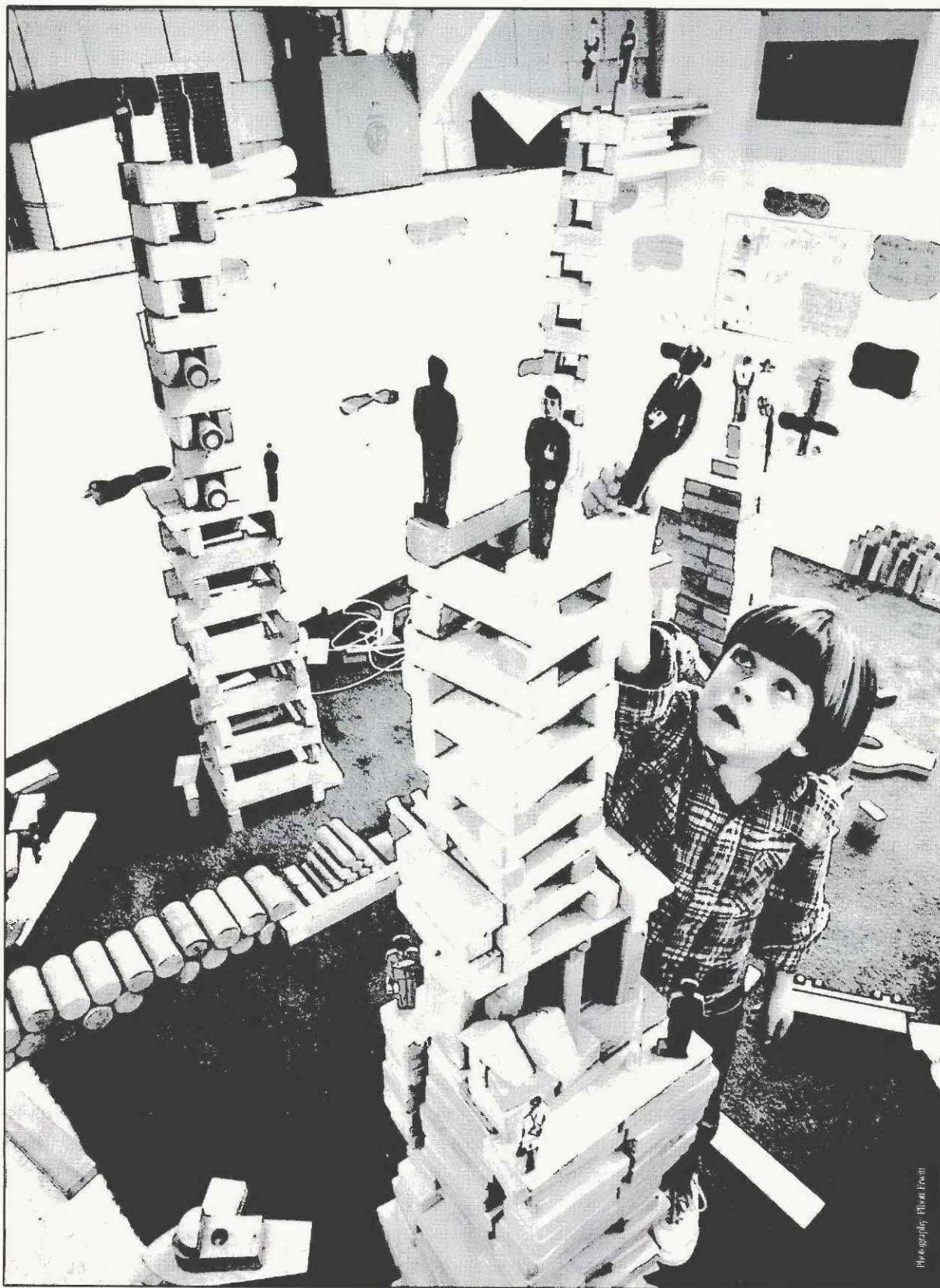
Allendale had been a loss control champion for 25 years.

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Eastern Europe faces bumpy road

By Douglas N. Smith

WHILE IT IS TRUE that *perestroika* and *glasnost* have forever changed the way business is conducted in Eastern European countries, the issues and challenges facing Central and Eastern Europe in 1990 are no less serious than those the region faced in 1989. Economic recovery and electioneering are inherently less glamorous pursuits than revolt against dictatorship. If 1989 clearly brought the decline of Communist regimes in the East, what is to follow is by no means as clear.

The Communists abdicated power when they did largely because they had driven their economies to the brink of ruin. Unfortunately, the emerging democracies of the region are left to govern the ruins left behind by their predecessors. The legacy of more than four decades of oppression and economic mismanagement is a formidable one:

- From Berlin to Leningrad, the industrial base is obsolete.
- Poorly constructed roads, dams and bridges are crumbling.
- The environment reeks of industrial waste and pollution.
- And, of course, each country faces a massive burden of debt.

Perhaps the most damaging legacy, however, is psychological—a dependence on state-provided or state-subsidized jobs, goods and services—and the lack of entrepreneurial skills that results from such a situation. Take away a handful of state-run monopolies, a few million troops and a few thousand nuclear warheads and you expose economies as bad as those of some Third World countries.

Simply put, the road ahead for Eastern Europe and the Soviet Union is tough but negotiable. The West's stake in the new democracies is substantial and so are the opportunities for trade.

Foremost among the obstacles facing companies selling to Eastern Europe is the lack of convertible currencies. And, even when payment can be arranged in a hard currency, there likely will be an acute shortage of that currency. The privatization of Eastern European economies is quickly eroding the reputation of these countries as punctual, responsible payers. Already some Japanese and West German companies are gathering on the doorsteps of insurance companies to report serious delinquencies on Soviet Union receivables.

Another currency issue is that the demand for Western goods—from capital equipment to soft drink concentrate—far exceeds the availability of hard currency to pay for these goods. But, rather than dismiss new business opportunities as a result of this impediment, entrepreneurs are finding unconventional ways to develop initial business in this region, such as trading goods for goods or "countertrade."

Countertrade can be extremely complex and should be managed by a full-time countertrade specialist. Success requires a detailed knowledge of East/West business dealings and a thorough investigation of potential opportunities.

While a successful countertrade arrangement can eliminate currency problems, other trade concerns such as free flow of products in and out of countries and government intervention with contracts still exist.

A further problem is that as the makeup of companies changes and new organizations are formed, it is difficult to determine if a company in Eastern Europe is private or public, which could affect the insurance coverage of any enterprise. Newly formed cooperatives and trade union businesses are signing contracts with eager Western businessmen every day. Never having had to face bottom-line budget management before, these businesses sign agreements to purchase goods and services in exchange for dollars they do not have or will not have access to.

Once backed by the national government or ministry of finance, foreign trade organizations may now be exposed to the threat of insolvency. Conversely, more

International issues

and more export-oriented companies—many of them Western joint ventures—are being authorized to spend some of their hard currency earnings, but keeping up with which ones have those powers and which ones don't can be difficult.

Import/export embargoes and license cancellation have historically been used as political tools and have created hindrances to Eastern European trade. President Carter's Soviet grain embargo in 1979 and President Reagan's prohibition in 1981 of U.S. contractor participation in the Euro-Soviet natural gas pipeline are two examples.

While fewer and fewer products are on the U.S. Commerce Department's restricted trade list today, embargo/license cancellation can still hinder trade. Even advanced technology, which has especially benefited from trade liberalization, is not without its opponents among congressional conservatives. A supply contract entered into today for the manufacturer and sale of a precision machine tool six months down the road still represents a significant risk of embargo/license cancellation.

In a keenly competitive environment, however, sooner or later there will be pressure to extend payment terms beyond your comfort zone, which can be another cause for anxiety. If companies that are used to receiving payment upon delivery are suddenly faced with extending terms to 120 or 180 days or longer just to keep the business, management will probably have some sleepless nights.

Finally, the banking industry is not fostering trade in Eastern Europe as enthusiastically as in other areas. Normally, the banking industry actively participates in the trade through direct loans to the buyer, confirmation of letters of credit and discounting of accounts receivable. Today, many commercial banks, especially in the United States, are remaining on the sidelines, reluctant to increase their cross-border exposures. This has the two-fold effect of limiting opportunities for trade and increasing opportunities for credit and political risk underwriters who can offer an alternative risk transfer strategy.

Aside from the obvious economic problems associated with trade in Eastern Europe, political risk—loosely defined as arbitrary acts by either the importer's or exporter's government that affect a contract—further complicates the trade environment and should be considered as well.

There are a number of coverages available for export trade that protect against perils such as non-payment, currency inconvertibility, import/export embargo as well as civil disturbances:

- Contract repudiation/termination coverage protects against the unilateral termination of a contract by a government buyer when there is no cause for such action, while non-payment insurance protects against failure or refusal of a government buyer to pay.
- Currency inconvertibility covers a change in law that restricts the exchange of local currency into the currency of the contract or the subsequent transfer of those funds out of the buyer's country.
- Import/export embargo and license cancellation coverage extends coverage to actions of the seller's as well as the buyer's country.
- Insurance also is available to protect against frustration of the contract for reasons outside the control of the buyer or seller, such as war, revolution and insurrection.
- Failure to honor arbitration award coverage protects against the refusal of buyers to honor an arbitration award against them under a contract.
- And, finally, non-delivery of countertrade goods essentially covers the failure of the various parties to perform as agreed.

Some of these coverages apply only to public buyers. The ever-increasing presence of private buyers in the trade equation in Eastern Europe requires a more comprehensive form of political risk insurance known as export credit coverage. This insurance combines

many of the political risk coverages discussed with coverage for commercial default and insolvency of the buyer.

Export credit and political risk insurance are available from two sources: public sector and private financial institutions. Government-supported schemes are available in 36 countries. The U.S. government, through the Export-Import Bank and the Foreign Credit Insurance Assn., offers commercial and political risk insurance in four Eastern European countries: Hungary, Czechoslovakia, Yugoslavia and Poland. President Bush is working with Congress to extend similar privileges to the Soviet Union.

Ex-im Bank/FCIA programs are competitively priced, can cover up to seven-year payment terms and carry the full faith and credit of the U.S. government. However, as with all government programs, there may be significant coverage restrictions, such as a requirement that products be substantially of U.S. origin or that a local bank, such as the State Bank of Czechoslovakia or the Hungarian Foreign Trade Bank, guarantee the payment obligation. Moreover, since Ex-im Bank is funded through the federal budget, its programs have been severely curtailed in light of the federal budget deficit.

Other industrialized countries have similar government-supported schemes and many are not as restrictive as those in the United States. If you are manufacturing in France, Belgium or Italy, for example, you would be wise to see what programs are available in those countries.

In stark contrast to the rigid government programs stands the private insurance market. The private market, without the deep pockets of government treasuries, has enhanced its viability by being flexible and responsive to the needs of its clients, while at the same time adhering to sound underwriting principles. The key private underwriters are Lloyd's of London, American International Underwriters Overseas Ltd., Pan Financial Insurance Co. Ltd., the P.A.R.I.S. Pool and Citicorp International Trade Indemnity Co.

How are the underwriters responding to all the causes for concern regarding trade with Eastern Europe? The general tone seems to be one of caution peppered with enthusiasm for the potential trade opportunities that exist in this region.

Most private underwriters have been insuring trade throughout Eastern Europe for years and have enjoyed excellent experience. The recent changes have resulted in a considerable increase in demand for their product, of which there is only a finite amount of capacity. Until additional reinsurance capacity becomes available, underwriters will be carefully choosing which transactions to consider. And if many more payment delays are reported out of the Soviet Union or elsewhere in Eastern Europe, there will be a shift to more conservative underwriting.

Political risk insurance is certainly not a panacea, but it can help smooth the edges of uncertainty when venturing into a highly charged and volatile environment such as Eastern Europe. It is important to understand the product is a useful financial tool, and not an unconditional guarantee.

The economic opportunities in Eastern Europe are great, but there is no question that the climate for trade is less than perfect. There are many risks to be considered. With the proper research and advice, the obstacles will be made less forbidding. Understanding your risk transfer options is one way to be sure the mix of risk and return is in your favor. ■



Douglas N. Smith is vp and manager of the International Department of Johnson & Higgins in New York. His column appears the first Monday of every month.

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closing: September 5
demographic section: Insurer Topics: Conferences & Exhibits

issue: September 24
closing: September 11
editorial feature: Reinsurance: Monte Carlo Rendez-Vous Report
conference report: IAIABC; ISCEBS; NAPSLO

issue: October 1
closing: September 19
demographic section: Agent/Broker Topics: Customer Service & IIAA Conference Report

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Lloyd's names

Continued from page 43
move to a smaller property" in order to pay their underwriting debts, she said.

A "net outflow" of names in recent years is likely to continue, she says. "It's a time of much change for Lloyd's and it's also a time of great difficulty for the insurance market worldwide."

Lloyd's total underwriting capacity this year increased to 11.07 billion pounds (\$17.82 billion) from 10.9 billion pounds (\$19.73 billion) in 1989.

With 2,316 members resigning effective this year, total membership fell to 28,770 from 31,329 in 1989 and 32,080 in 1988. Only 312 new members joined this year.

However, 4,975 existing members increased their capacity this year, raising the total underwriting capacity per member to 385,000 pounds (\$619,850) from 350,000 pounds

(\$633,500) in 1989. Meanwhile, "Lloyd's is upgrading its financial requirements for membership with the interests of the names at heart," Ms. Archer noted.

Lloyd's has increased the asset requirements for a new name to 250,000 pounds (\$477,500) in an effort to attract only members who can really afford to take the high risk of investing at Lloyd's.

"For all these reasons, it is not surprising that the number of names is slimming down but that average premium income (written by each name) is rising," Ms. Archer added.

Raymond Nottage, deputy chairman of the Assn. of Lloyd's Members, pointed out that in the mid-1980s, "Lloyd's recruited too many people who could not really afford to be in Lloyd's."

And, "the most distressing cases (of personal losses) have occurred" in recent years to those members who could not afford to be in the market and therefore were unable to afford to invest in a wide spread of syndicates, said Mr. Nottage.

"I suggested in 1984 that they should stop recruiting more members and encourage existing members to take bigger lines," he said.

"Members of Lloyd's need to have substantial wealth. Lloyd's has now increased the means test to 250,000 pounds. Whether this will attract more of the right names to Lloyd's, only time will tell," he said.

However, "I expect Lloyd's will have sufficient capacity for the near future with existing membership increasing their lines. Lloyd's doesn't have to break a blood vessel at the moment to get sufficient capacity," said Mr. Nottage.

Some names argue that the incentive to remain a member can decrease as one's wealth increases.

Stephen Wenman, chairman of Lloyd's broker Special Risks Services Ltd., joined Lloyd's in 1984, because he had enough money to pass the Lloyd's means test.

"It's been very profitable," said Mr. Wenman. But "I don't think it's a particular privilege to be a name anymore and I probably wouldn't join as a new name now.

"I've got more assets now so I've got more to lose. A lot of working names (Lloyd's members who actively work in the market) join originally because they haven't got much to lose but can gain a lot," he said.

Now that Mr. Wenman is wealthier, "I have more to lose and there's less pressure for me to maximize my income now so the trade-off isn't worth it," he explained.

However, as a Lloyd's broker, Mr. Wenman is "committed to Lloyd's and I will stay a member.

"I've got no particular wish to resign. Anyway I've got a couple of open years, so if I did resign I'd be stuck with the tail and that would put me off resigning," he added, referring to syndicates that have not yet closed past accounting years. Members who resign remain responsible for losses owed from past years.

Indeed, open syndicate accounts, which underwriters have been unable to close at the scheduled time because of uncertainties over potentially huge liabilities from past underwriting years, are a major concern to Lloyd's members.

Many "members affected by open years are unhappy and strained in their financial resources," pointed out Mr. Nottage.

"No one should consider joining Lloyd's until the open year question is solved," warned Tom Benyon, a member since 1984.

Mr. Benyon was chairman of the Assn. of Lloyd's Members from 1983 to 1986 and currently is chairman of a committee of names who are suing over losses sustained by syndicate 553, managed by CJW (Underwriting Agencies) Ltd. He is a public critic of many of Lloyd's practices and believes the market must act decisively and promptly to solve the problem of syndicates that cannot close their

Continued on next page

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Continued from previous page
underwriting accounts.

"Someone coming into the market now would be foolhardy to do so until Lloyd's solves the problem of the open years. Half the names in the market currently are stuck on an open year," he pointed out.

"I think the chairman of Lloyd's should write a letter to every new name warning him of the problems of the open years," he said.

However, "it is not in the market's interest to clear up the problem too quickly because a lot of names would leave" if they did not face open years of accounts, said Mr. Benyon.

Because of changes in personal tax laws within the United Kingdom during the last 10 years and increasing management expenses at Lloyd's, together with several huge losses in the market, the "risk/reward ratio is now way out of line for names at Lloyd's," contends Mr. Benyon.

Meanwhile, many Lloyd's members fear they will be dipping into their assets over the next three years to cover losses in the 1988, 1989 and 1990 underwriting years, said Mr. Nottage of the ALM.

Most names "are not looking forward to results of the next few years. The catastrophes (of recent years) may mean that Lloyd's may be in an overall loss position for the first time in 20 years," he predicted.

"You may argue that it's the bottom of the cycle and names should stay in, but it will diminish the confidence of some members," he said.

However, many members are confident that Lloyd's will sort out the problems that are fueling their concerns. And members point out that Lloyd's still is a good investment for those who can afford it.

"Lloyd's has lived down the years being ingenious and I have no doubt that there are great minds working at Lloyd's to solve the problems," said Mr. Nottage.

In general, Lloyd's "is a good market and there are a lot of financial opportunities," said Mr. Benyon.

The standard of advice given to Lloyd's members has improved considerably in recent years, members and market executives point out.

"Names are better advised than they were. Members' agents are much better and the market has got rid of the weaker agents," said Robert Hiscox, a member of Lloyd's and chairman of Lloyd's underwriting agency Roberts & Hiscox Ltd. (see story, page 40).

Meanwhile, U.S. members of Lloyd's probably are more bullish about membership in Lloyd's than their British counterparts, according to Lloyd's member Richard S. West, president of Parker & West Management Inc. in Boston, an investment adviser for Lloyd's names and Lloyd's syndicates.

"The U.S. name tends to write more (premium) than the average British name and we are more risk-orientated," said Mr. West.

High U.K. tax rates, particularly in the 1970s, meant the tax man would pick up a large portion of losses. And that made British members less aware of the "downside" of investing than the U.S. name, he explained.

Mr. West admits that "there is going to be a lot of blood on the carpet" when the 1989 underwriting year closes, but a name must look at Lloyd's as a long-term investment, he stressed.

Mr. West, who joined the market in 1969 when Lloyd's first opened its doors to foreign citizens, plans to run for election to the Council of Lloyd's. If elected, he would become the first American elected to the council.

"It will do Lloyd's no harm to have some outsiders (on the council) with a different point of view. What is needed is somebody to give them a different perspective about what is going on in the world," he said.

Although Mr. West believes Lloyd's faces "a real uphill battle in market-

ing" and increasing its recognition both in the United Kingdom and overseas, he remains extremely optimistic about the future.

"Lloyd's is probably the best-financed insurance market in the world at the moment and when the contraction in excess capacity occurs and rates go up, Lloyd's will come back into its own again," he said.

"I think Lloyd's has some very interesting possibilities as an investment," said Mr. West, pointing out that his commitment to Lloyd's is so firm that his wife and five children are all members.

"Lloyd's in the last 300 years has been better than any other investment in the City," London's financial district, agreed underwriting agency chairman Mr. Hiscox.

However, he warns: "Membership (in) Lloyd's is like a minefield strewn with gold Krugerrands—if you go in slowly, you can make a lot of money, but if you rush in, you can blow yourself up." ■

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ILU welcomes recognition of market in U.S.

By CAROLYN ALDRED

LONDON—The Institute of London Underwriters, a marine insurance market made up of London insurance companies, is increasingly being recognized as a single entity in the United States, says ILU Chairman Declan McMahon.

Many of the ILU's 116 member companies have done business individually in the United States for years, but until recently the ILU has not been officially recognized as one entity by most U.S. state regulators.

In fact, until this spring, Maryland had been the only state to accept the ILU as an accredited reinsurer. However, in May and June both Alabama and Missouri also recognized the ILU as an accredited reinsurer, said Mr. McMahon.

And New York, one of the most prominent U.S. states for insurance and reinsurance business, has recently modified its insurance regulations to allow New York-domiciled insurers to receive credit for reinsurance purchased from ILU members.

However, the ILU first must establish a trustees' surplus fund of \$100 million and ensure that each member company individually establishes a trust fund to cover its U.S. liabilities, Mr. McMahon said.

The trustees' fund will be financed by each ILU member on a flat-fee basis, plus an additional amount depending on how much business each member writes in the United States, said Mr. McMahon.

Meanwhile, the National Assn. of Insurance Commissioners has amended its Model Law on Accreditation for Reinsurance to include the ILU as an accredited insurer, said Peter Worsfold, the ILU's general manager.

The amendment—known as the ILU amendment—was ratified at the NAIC meeting in Baltimore this summer and is expected to be adopted by most states, he said. Once the ILU has obtained status throughout the United States as an accredited reinsurer, it plans to seek similar approval to write U.S. surplus lines business, said Mr. McMahon.

Mr. McMahon believes U.S. regulators' recognition of the ILU marks an important step in the history of the exchange. However, he is quick to point out the hard work that his predecessors and the ILU's secretariat have carried out over the years to attain this status.

When the ILU began petitioning the NAIC for recognition, "we started off from a base of ILU—who?" noted Tony Funnell, the ILU's deputy general manager, adding that nobody had heard of the market.

However, the ILU has increased its profile internationally and is continuing to do so, said Mr. McMahon.

For example, in the past year ILU executives have visited the Soviet Union, Poland and Hungary as capitalism has begun to reappear in Eastern Europe.

Although very much a London market institution, the ILU already has strong international ties and its member companies write a huge percentage of the world's marine insurance and reinsurance business.

The ILU consists of 116 underwriting members. The institute increased its recognition as a marketplace when its member companies in 1986 moved into one building located in Leadenhall Street just yards from Lloyd's of London.

ILU members write total premiums of about 2 billion pounds (\$3.84 billion), or about the same volume that is written by the Lloyd's marine market.

Like the Lloyd's market, ILU underwriters subscribe to a collective insurance policy, known as an ILU policy, which brokers carry from underwriter to underwriter until 100% of the risk is placed.

Meanwhile, like Lloyd's, the ILU

is gearing itself up to provide better service to policyholders in an increasingly competitive and global marketplace.

It speeded up its claims procedures several years ago by introducing weekly claims settlements and, like the rest of the London market, is preparing to introduce a fully electronic claims payment system.

All ILU members have been told that payment of claims via the computerized London Insurance Market Network—LIMNET—will be mandatory next January, said Mr. McMahon.

Many ILU members already are settling and processing claims electronically and the number is increasing rapidly, he said.

ILU underwriters, along with Lloyd's marine underwriters, also recently made efforts to increase un-

derwriting discipline in the market following several major losses.

At the end of last year, marine underwriters introduced new restrictive underwriting guidelines to reduce the amount of business placed in the market via brokers' line slips and to increase the number of leading underwriters who must agree to the terms of each risk placed via such a slip (*BI*, Dec. 4, 1989).

A broker's line slip is prearranged capacity with underwriters for certain types of risks to certain limits. Until recently, brokers had been able to commit all the underwriters on the slip to underwriting the risk by obtaining the approval of only the leading one or two underwriters on the slip.

The new guidelines were introduced to "try and improve discipline in the market and it is working," said

Mr. McMahon.

The stricter binding procedures have made underwriters "far more aware of what they are writing and of the premiums that they should be charging and that are achievable," he said.

However, rates in the direct marine insurance market—other than one or two oil and energy accounts—have not risen despite the fact that the market has been pounded with massive losses in recent years, noted Mr. McMahon.

For example, since the \$1.4 billion Piper Alpha oil rig loss in July 1988 (*BI*, July 11, 1988), the marine market has also been hit with claims from the March 1989 Exxon Valdez oil spill in Alaska (*BI*, April 3, 1989); Hurricane Hugo in September 1989 (*BI*, Oct. 2, 1989; Sept. 26, 1989); and the October 1989 explosion at a Phil-




lips Petroleum Co. plant in Pasadena, Texas (*BI*, Oct. 30, 1989).

But Mr. McMahon believes that as increased reinsurance costs begin to take hold, marine underwriters will be forced to raise their rates. "I am optimistic of the future, but the market will be slimmer and the standard of underwriting must improve."

However, Mr. McMahon believes the ILU will continue to play a major role in the world's marine insurance market.

Currently, the ILU is busy preparing to host this year's annual conference of the International Union of Marine Insurers, along with the Lloyd's marine market.

The conference will begin Sept. 17 in London and will attract 950 delegates and spouses from 48 countries, making it the largest IUMI conference ever, said Mr. McMahon. ■

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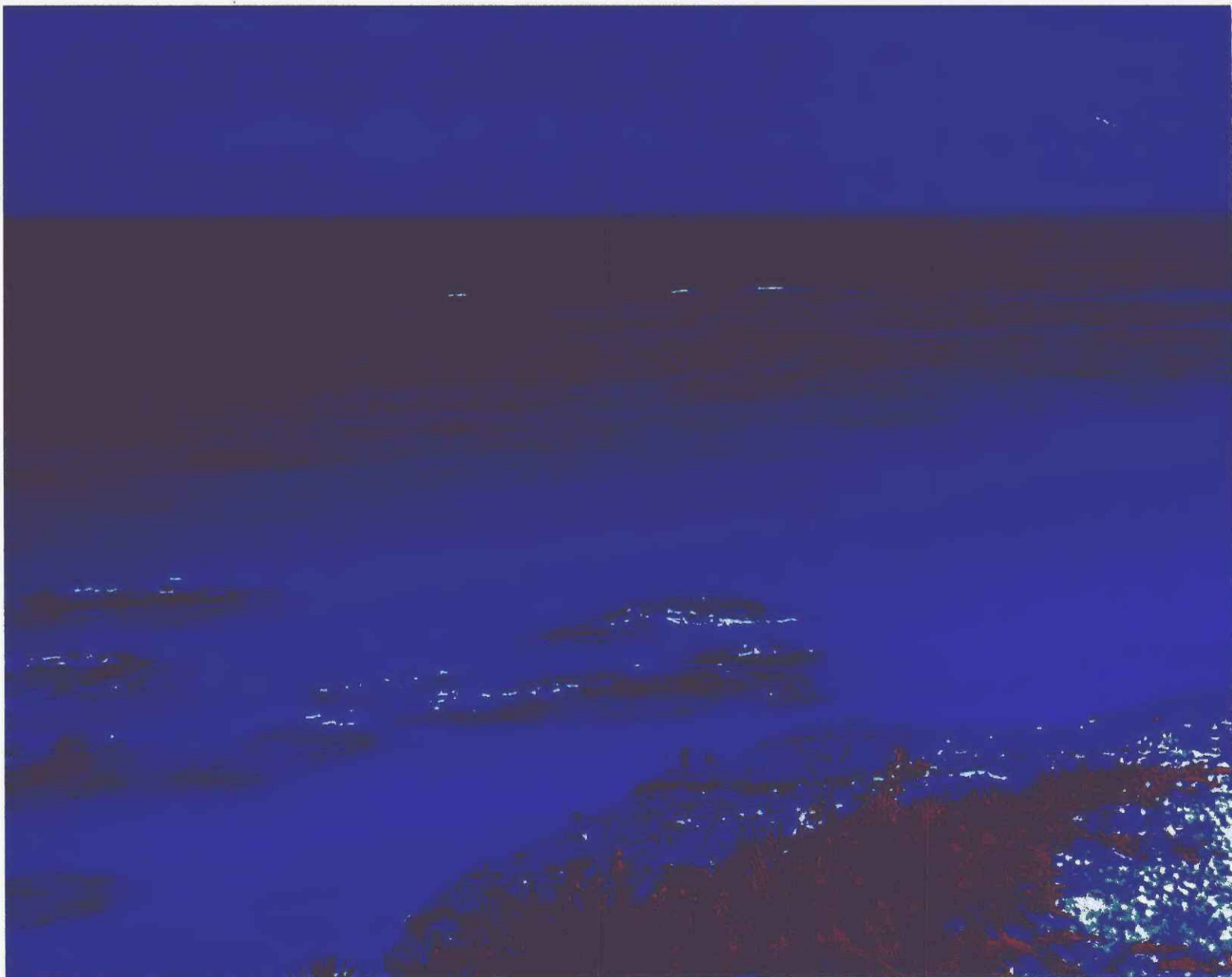
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We see a world

As losses mount, marine rate hikes called imminent

By CAROLYN ALDRED

LONDON—Large rate hikes are imminent as Lloyd's of London's marine insurance market suffers through one of its worst periods of losses ever, says the head of Lloyd's marine underwriters association.

In the last few years, "there have been more major losses than" in the mid- to late 1960s, when Hurricane Betsy belted the Lloyd's marine market, said Derek Wills, chairman of Lloyd's Underwriters'

Assn., which represents marine underwriters.

Claims from that 1965 storm resulted in overall losses at Lloyd's in the 1965, 1966 and 1967 accounting years, the last years in which Lloyd's syndicates as a whole failed to produce a profit. Those losses forced many syndicates out of business during the late 1960s.

And, according to Mr. Wills, marine insurance "market conditions are much more difficult" now than after Hurricane Betsy.

Largest Lloyd's marine syndicates							
Based on 1990 gross allocated capacity in millions of pounds							
Syndicate	Managing agency	Underwriter	Capacity ¹				
			1990		1989		
418	Merrett Underwriting Agency Management Ltd.	S. Merrett	£216.2	\$348.1	£242.1	\$438.2	
206	Sturge Marine Syndicate Management Ltd.	M.J.H. Maughan	177.9	286.4	193.8	350.8	
367	F.L.P. Secretan & Co. Ltd.	A. D. Pilcher	134.0	215.7	142.5	257.9	
448	Wellington Underwriting Agencies Ltd.	A.M. England	121.5	195.6	130.1	235.5	
483	Methuen (Lloyd's Underwriting Agents) Ltd.	P. R. Chandler	114.6	184.5	124.9	226.1	
488	Charman Underwriting Agencies Ltd.	J.R. Charman	113.6	182.9	105.5	191.0	
932	Janson Green Management Ltd.	R. Youell	112.6	181.3	123.6	223.7	
406	Wellington Underwriting Agencies Ltd.	S. I. Crowley	101.6	163.6	110.6	200.2	
282	M.J. Marchant Underwriting Ltd.	M.J. Marchant	100.9	162.4	100.6	182.1	
735	Wren Underwriting Agencies Ltd.	A. F. Jackson	89.3	143.8	N/A	N/A	

¹Converted at applicable exchange rate N/A-Not available
Source: Lloyd's of London

B/HOLLY SEGUINE

Already several syndicates have stopped underwriting or merged with other syndicates as a result of marine-related losses like the \$1.4

billion Piper Alpha loss in July 1988. Several also have been forced to make cash calls for the 1988 underwriting year, even though that

underwriting year has not yet closed under Lloyd's three-year accounting system.

"It is regrettable that the effect of the (losses) of the past few years" is to force some syndicates to close, "but Lloyd's is full of checks and balances," he said. "And if an organization isn't trading profitably, the normal financial effects follow and it has to close."

However, syndicate mergers and closures will help to reduce the excess capacity in Lloyd's marine market and "the health of the market is always increased when capacity drops. It's all part of the simple economic facts of life. The market is readjusting in the face of losses to meet the next upswing," Mr. Wills pointed out.

Reduced capacity and increasing reinsurance costs in the market likely will mean marine underwriters will start to raise rates dramatically within the next year, Mr. Wills predicts.

Already marine excess-of-loss reinsurance rates have skyrocketed and "substantial (insurance) premium increases will gradually emerge towards the end of this year and the beginning of next year," he said.

Since the massive Hurricane Betsy loss, Lloyd's marine market consistently produced profits. However, profits certainly will be down when Lloyd's 1988, 1989 and 1990 results are released, said Mr. Wills, who would not rule out the chance of an overall loss in the marine market during any of those years.

In 1988, the market "was hit by the Piper Alpha loss, which was a major loss. Meanwhile, the hull and cargo accounts were suffering continued deterioration in rates during this time," said Mr. Wills.

"Together, this is obviously going to produce a year where results from different syndicates are going to vary widely depending on the mix of business they wrote," he said.

"I cannot say whether there will be an overall loss for 1988, but some syndicates certainly will have (end-of-the-year) losses," he predicted.

During both 1988 and 1989, the Lloyd's marine market was hit with a string of losses that, besides Piper Alpha, include:

- The \$300 million loss of an oil drilling platform owned by Petrobras S.A. in Brazil in April 1988 (*BI*, May 30, 1988).
- Claims battering marine excess-of-loss reinsurance underwriters from the October 1987 windstorm that devastated parts of Western Europe (*BI*, Oct. 26, 1987).
- The March 1989 Exxon Valdez oil spill off the coast of Alaska (*BI*, April 3, 1989).
- Hurricane Hugo, which belted a string of Caribbean islands and South Carolina in September 1988 (*BI*, Sept. 25, 1989).
- The October 1989 explosion at the Phillips Petroleum Co. petrochemical plant in Pasadena, Texas

Continued on next page

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Marine market

Continued from previous page
(BI, Oct. 30, 1989).

"I would have thought 1989 is going to be a difficult year, although it is too early to say whether the market will make an overall loss," he said.

Meanwhile, the 1987 accounting year, the year just closed under Lloyd's three-year accounting system, produced total marine market profits of 291.9 million pounds (\$484.6 million) on net premium volume of 1.47 billion pounds (\$2.37 billion).

Both figures were off from 1986, when profits were 352.1 million pounds (\$637.3 million) on net premiums of 1.32 billion pounds (\$2.39 billion) (BI, July 2).

As a sign of the bad times for marine underwriters, premium capacity for most of Lloyd's largest marine syndicates shrank in 1990 compared with 1989 (see chart).

The market's largest marine syndicate remained syndicate 418, underwritten by Stephen Merrett and managed by Merrett Underwriting Agency Management Ltd. However, the syndicate's capacity was reduced to 216.2 million pounds (\$348.1 million) this year from 242.1 million pounds (\$438.2 million) in 1989.

Syndicate 418 also failed to close its 1985 underwriting year for the third consecutive year because of uncertainties over runoff reinsurance policies it wrote in 1982.

Syndicate 206, managed by Sturge Marine Syndicate Management Ltd. and underwritten by Michael Maughan, remains the second-largest marine syndicate at Lloyd's, but its capacity also slipped to 177.9 million pounds (\$286.4 million) from 193.8 million pounds (\$350.8 million) in 1989.

At the marine market's third-largest syndicate—syndicate 367, managed by F.L.P. Secretan & Co.

Ltd. and underwritten by Anthony Pilcher—capacity fell to 134 million pounds (\$215.7 million) in 1990 from 142.5 million pounds (257.9 million) last year.

Meanwhile, A.M. England took over as underwriter for syndicate 448, the market's fourth-largest, following the retirement of David Beaumont.

Capacity at syndicate 448, managed by Wellington Underwriting Agencies Ltd., fell to 121.5 million pounds (\$195.6 million) in 1990, from 130.1 million pounds (\$235.5 million) in 1989.

Syndicate 483, managed by Methuen (Lloyd's Underwriting Agents) Ltd., is a new entry in the ranks of the five largest marine syndicates, even though it also has less capacity than in 1989. Capacity for the syndicate, which is underwritten by Peter Chandler, fell to 114.6 million pounds (\$184.5 million) from 124.9 million pounds (\$226.1 million) in 1989. ■

Jilted journalist Youell thriving as underwriter in marine market

By CAROLYN ALDRED

LONDON—Richard Youell really wanted to write articles, not insurance.

However, at the age of 48, Mr. Youell now is one of Lloyd's of London's most respected underwriters, leading some of the biggest accounts in the London marine and energy insurance mar-

ket.

Accounts led by Mr. Youell's syndicate include the reinsurance for the International Group of Protection & Indemnity Clubs and OIL Insurance Ltd., the huge Bermuda-based oil industry insurer.

In addition, the syndicate leads extensive insurance packages for major energy companies like Exxon Corp. and Occidental Petroleum Corp.

Mr. Youell's path to his underwriting box at Lloyd's, however, was an unusual one.

While he studied law at Oxford University and at Gray's Inn in London, he really wanted to be a journalist.

As a result, after completing his legal training, Mr. Youell joined the legal department of The Times of London. He hoped, by working as a lawyer for the newspaper, he would be able to secure an "NUJ card." In those days, membership in the National Union of Journalists was necessary to work as a journalist almost anywhere in the United Kingdom.

"I even managed The Times' staff canteen in an effort to get an NUJ card," Mr. Youell recalls.

However, after two years at The Times and realizing he wasn't winning the hearts of NUJ officials despite appealing to their stomachs, Mr. Youell turned his ambitions elsewhere.

At that time, Lloyd's underwriter Peter Green, later to serve as chairman of Lloyd's in the early 1980s and be knighted by Queen Elizabeth II, was anxious to attract more university graduates to his syndicates, then managed by Lloyd's broker Hogg Robinson Group P.L.C. So, in 1965, Mr. Youell joined syndicate 932 as a trainee underwriter.

At the beginning, "I really didn't know anything about Lloyd's and thought it was an exclusive club for wealthy people," Mr. Youell said.

He joined the syndicate shortly after Sir Peter had taken over as lead underwriter from his father, Toby Green. Mr. Youell immediately found himself writing a wide range of business, from hull and cargo insurance to aviation insurance and energy insurance.

In the late 1960s, while claims from Hurricane Betsy left much of the Lloyd's market reeling, syndicate 932 was already earning a reputation for its daring underwriting.

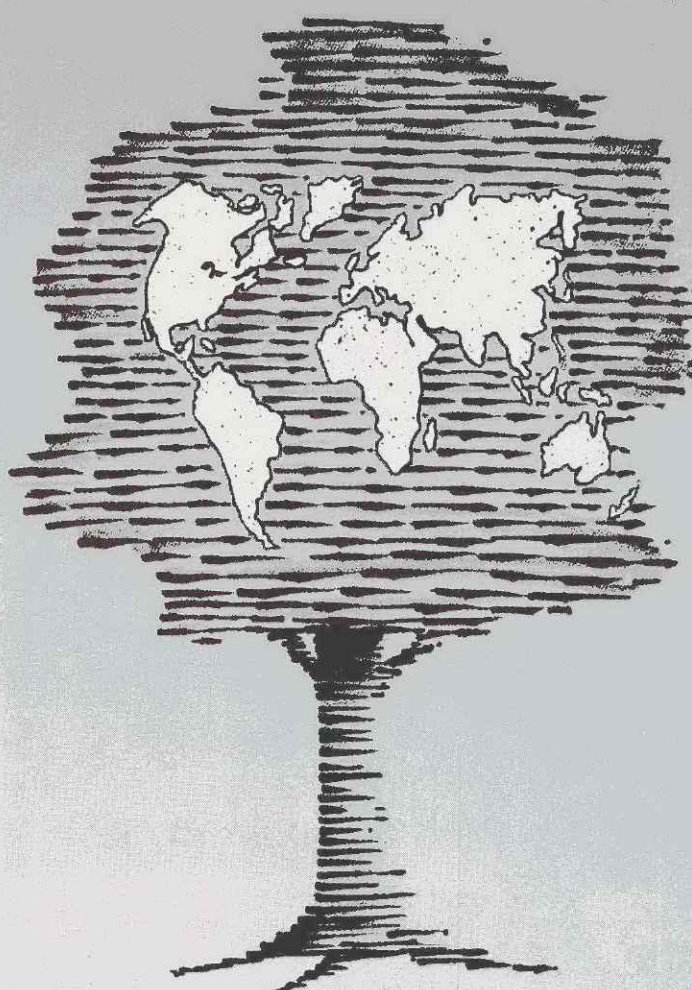
The syndicate was a leading underwriter of oil and gas rig business, which was regarded as "adventurous stuff then," notes Mr. Youell. And "we became a big leader of liability business" in the marine and energy market and "still are probably best known today for our liability involvement," he added.

Mr. Youell admits that liability insurance has caused much suffering for some syndicates at Lloyd's. Non-marine syndicates that wrote North American liability business in the past have been

Continued on next page



Mr. Youell



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belting with losses from asbestos and other long-tail claims, and many syndicates have been unable to close underwriting accounts because of great uncertainty over future losses from environmental and asbestos claims.

Meanwhile, many observers fear that Lloyd's marine syndicates now are making the same mistakes their non-marine colleagues made in the past.

"Liability underwriting in the marine market has earned itself a bad name because there seem to be an infinite number of underwriters who are now prepared to write and lead liability business. Back in the 1970s there were very few leaders," he said.

As a result, "brokers have gotten away with placing a lot of things in the last few years that they wouldn't have done before," said Mr. Youell.

"Liability underwriting is still in a state of confusion. I am not sure that everyone writing liability is a dedicated liability underwriter. It is distressing that liabilities today are being written on the same basis that they were written on before. The lessons have not been learned and the same problems will occur," he warned.

Mr. Youell, who regards himself as a dedicated liability underwriter who is in the market for the long term, has adopted stringent guidelines for writing liability business and rigidly adheres to the claims-made policy form.

"We are one of the firmest marine underwriters in insisting on claims-made wordings wherever possible and declining a great deal of business written on an occurrence or 'bastard' claims-made form," he said.

"Inevitably that means there's a lot of business we turn down," he added.

Mr. Youell is aware that he is running against the tide in the market at the moment, but he is not ashamed of his position. In fact, his office in Lloyd's has a picture of a lone green sheep struggling to run in one direction amongst a herd of white sheep all heading in the opposite direction.

And, Mr. Youell sees signs that the market is changing once more and that perhaps the market may turn his way again.

"The market is beginning to change, and the sins of the last few years are beginning to visit us all. The increase in claims and increase in costs is beginning to make some underwriting operations no longer viable," he pointed out.

Mr. Youell underwrites for three syndicates, now managed by Janson Green Ltd., which all write identical business according to a predetermined proportion. The largest syndicate, 932/989, has 3,015 members and a premium capacity of 140 million pounds (\$225.4 million). Syndicate 936/279 has 366 members and a premium capacity of 19 million pounds (\$30.6 million), while syndicate 79/650 has 971 members and a 34 million pound (\$54.7 million) capacity.

Business is allocated 77.5% to syndicate 932, 7.5% to 936 and 15% to 79.

The syndicates' underwriting account "is made up of a general marine book of both property and casualty risks with a continuing emphasis on energy-related business," according to syndicate 932's annual report.

"This is complemented by a similar but smaller non-marine book of business, and minor participation in a few more specialized areas of insurance," it adds.

"The hull and cargo books remain the backbone of the marine account, but three years of unremitting competition and pressure on rates have provided little opportunity for expansion or devel-

opment in these areas, and maintaining our account has only been achieved at some risk to profit margins," Mr. Youell notes in the report.

"The rig account includes a wide range of oil and energy company exposures, often written together in a single 'package' policy. Most of this business emanates from the U.S.A. and is capable of producing losses of dramatic size but, nevertheless, is still competitively rated. It includes cost of well control and pollution risks as well as property damage on platforms, rigs and pipelines and general liabilities arising from the energy companies' operations and products," the report notes.

"The syndicate's non-marine casualty book continues to be closely monitored. The long-term hazards of casualty business have been addressed by the use of policy forms of a more restrictive nature. Competition has made this endeavor more difficult to maintain, but we will continue to decline business where we fear a long-term and unknown exposure unless offered on an appropriate policy form," Mr. Youell says in the report.

Sixty-two percent of syndicate 932's 1987 premium volume was marine coverage, including 14% short-tail energy business and 24% liability business; 20% was non-marine business; 15% was aviation business; and 3% was war risk business.

Half of the syndicate's total book of business was long-tail business, the report notes.

Mr. Youell, who is a quiet-spoken man, admits writing liability business requires "nerve and optimism."

There is "a constant worry on behalf of (Lloyd's) names for liability underwriters. If a liability syndicate aggregated its total potential commitment, it would be quite frightening," he admitted.

However, "it's not the big loss that often makes you want to throw in the towel; it's the unfair and improper loss that does," he said.

A "straightforward catastrophe loss of the type both the assured and underwriter assumed was covered is OK," he noted, pointing out that it is the unexpected and unjust awards often handed down by U.S. courts that make underwriters furious.

For the 1987 underwriting account, the year just closed under Lloyd's three-year accounting system, syndicate 932/989 wrote gross premiums of 98.4 million pounds (\$158.4 million). The syndicate reported a pure underwriting loss of 8.26 million pounds (\$13.3 million) after increasing reserves for past underwriting years. However, after investment income, the syndicate made an overall profit of 13.8 million pounds (\$22.2 million).

The 1988 account, meanwhile, is faring worse than previous years', according to the syndicate's annual report. Premium income fell during 1988 due to declining rates, while the marine market was hit with several major losses.

For example, the explosion of the Piper Alpha oil rig in the North Sea in July 1988 "produced a gross loss of \$37 million (\$70 million) to the syndicate, and although our excess-of-loss (reinsurance) program responded for most of this amount, reinstatement premiums became due and inevitable rises for such reinsurance will be payable in future years," the report notes.

And in 1989 more major losses, like the March 1989 Exxon Valdez oil spill, Hurricane Hugo in September 1989 and the October 1989 explosion at the Phillips Petroleum Co. petrochemical plant in Pasadena, Texas, contributed to plague the marine market.

"Perhaps more serious than the major losses was the general inade-

Continued on next page

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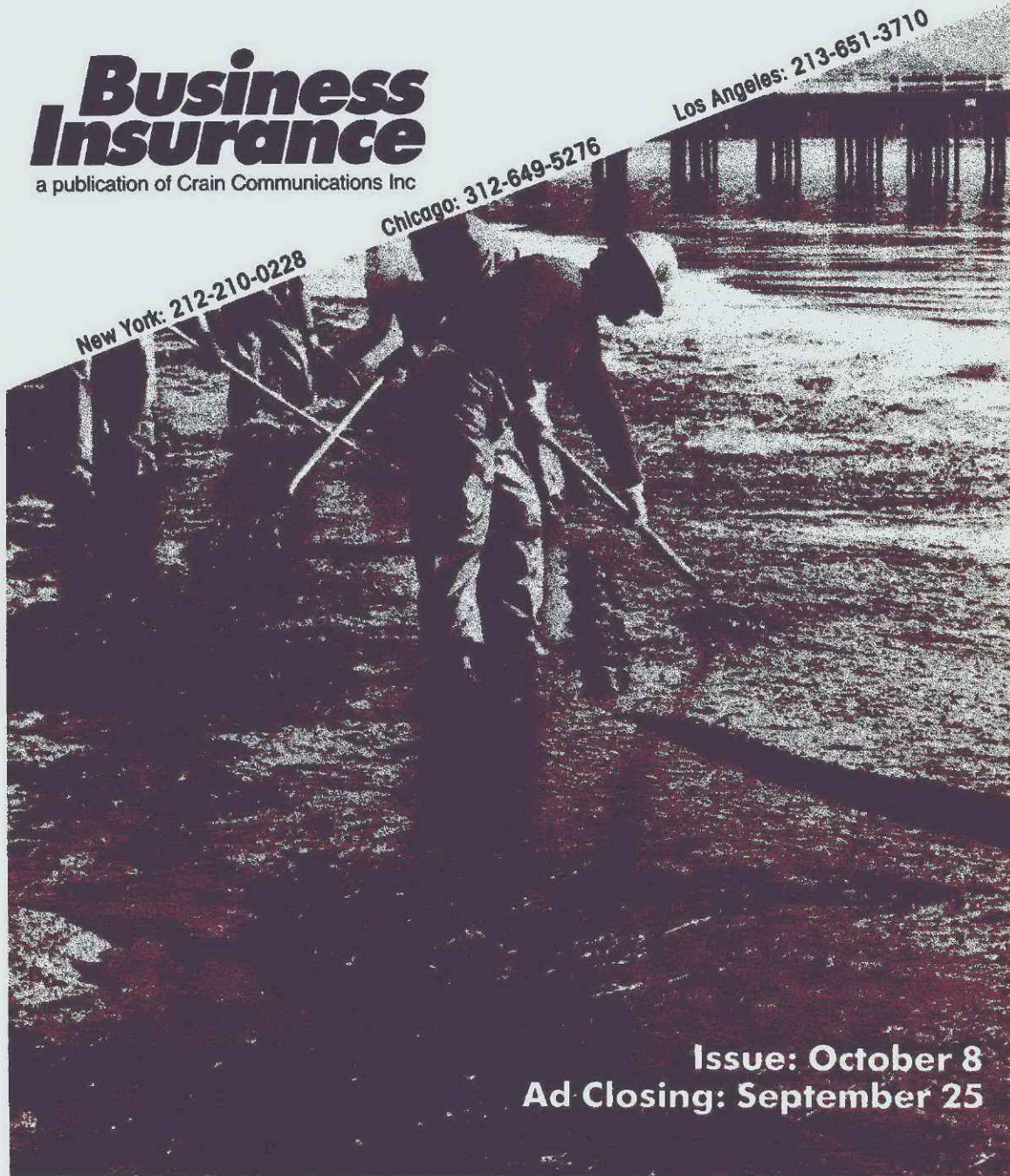
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Youell

Continued from previous page
 quacy of rating of the whole book of business and the unwise extensions of coverage readily granted in the market. This is a more insidious danger, for its consequences will take some years to manifest themselves," the report notes.

"All of these factors do not make it possible to be optimistic for the outcome of the year," Mr. Youell notes in the report.

Moreover, Mr. Youell is not very optimistic that matters will improve in the near future.

While excess-of-loss reinsurers already are hiking rates, the "XL market is naive in assuming that direct underwriters can increase premiums at will," he said. As a result, for "the next two years we are going to be in a very tight squeeze between a very demanding XL market and the assureds."

However, during that period Mr.

Youell foresees "no fundamental change in the makeup of the (syndicate's) account."

Meanwhile, Lloyd's recent decision to remove the existing barriers that separates business into four major markets in Lloyd's—marine, non-marine, aviation and motor—is "unlikely to have a significant effect on the syndicate," Mr. Youell notes in his report.

"We already write marine, non-marine and aviation business...and if a significant adjustment of the mix of these elements seems desirable, we will seek names' approval," he notes.

Janson Green Holdings Ltd., the employee-owned underwriting agency company whose subsidiary manages Mr. Youell's syndicates, is examining several initiatives to boost business.

"Our wish to take advantage of any opportunities presented in Europe or in acquiring business other than through Lloyd's brokers may lead to our cooperating with other managing agencies to this end, but I believe this will take some time and will affect the way we write business rather than the nature of the business itself," he said.

Janson Green Holdings Ltd. was acquired by the management and employees of Hogg Robinson's managing agency in 1986 as a result of Lloyd's rules that barred

'Control of your own destiny must be difficult in a large company,' says Richard Youell.

Lloyd's brokers from owning managing agencies. The agency includes subsidiary Janson Green Ltd.

In total the agency manages six Lloyd's syndicates and a members' agency; a service company; a loss adjusting company; and a property company.

Mr. Youell, who is a director of the agency, hopes the agency will continue "to expand from natural growth and from underwriters wishing to join us."

Being an independent agency owned by employees enables Janson Green to "attract quality underwriters and to maintain their interest in the business," he said.

"Most people who make good underwriters like working in small groups and having a high degree of independence. Control of your own destiny must be difficult in a large company," Mr. Youell said.

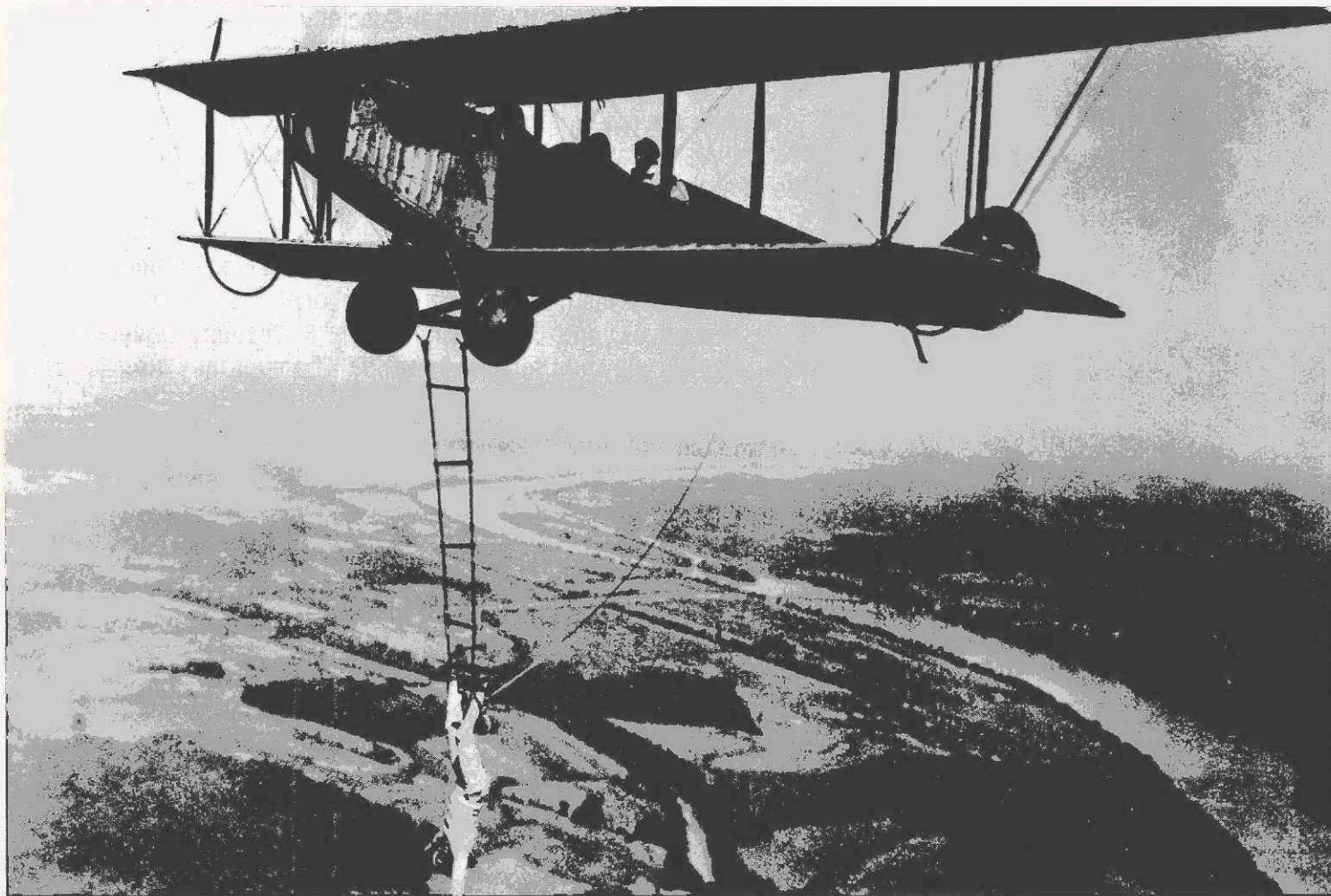
Despite Mr. Youell's successful career at Lloyd's, he admits he "would find it difficult to recommend underwriting or any financial work in the City of London to my children because of the pressure and frustrations" of working in the City, London's financial district.

However, it is vital that Lloyd's attract dedicated and bright people to the market, he pointed out.

"People used to fall into Lloyd's by mistake. It would be better if the market was peopled by those who wanted to come in," he noted.

Meanwhile, "it's an increasingly difficult and frustrating job to be an underwriter of a syndicate. In the future we are going to need very high-caliber people to respond to the very difficult disciplines required," he said.

"It's no longer just a matter of a Lloyd's underwriter sitting at his box and graciously accepting risks. It's very much a matter of running a big business in a very strange environment. And Lloyd's is a very strange environment. It's strange because although it's changing (its methods of doing business), it still maintains very eccentric ways of doing business," Mr. Youell said.



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Harrison calls the shots for agency's names

By STACY SHAPIRO

LONDON—Lloyd's of London members agent David Harrison provides a personalized service in his plush office to a small group of wealthy and titled Britons who each write up to 1 million pounds (\$1.92 million) in the market.

He decides which syndicates his 120 members should be on and the capacity they should write; whether they should move to other syndicates or resign from the market; and whether they should buy stop-loss reinsurance.

In short, "the members are given no choices," said Mr. Harrison, chairman of Lloyd's members' agency Harrison Brothers.

"I feel it's my job to make decisions for names," he explained. "I feel that it is a transfer of confidence, so that when people walk away they feel relaxed and happy."

Even his office—a three-story townhouse—is very inviting. The agency's headquarters—located miles away from Lloyd's near fashionable Sloane Square—are decorated more like a comfortable home, complete with kitchen and cushy sofas near a fireplace.

Photos of his relatives and paintings of his homes in London, Norfolk and Majorca adorn the office walls.

And, his long-time companion, Elizabeth "Libby" Lowne, acts as his second assistant, keeping his diary and appointments organized.

"I've always wanted to offer a service to members that I would have wanted myself," said Mr. Harrison, who himself is a Lloyd's member.

"I've wanted to deal with members with the same aspirations and fears as myself. I don't want people who sign a check for 5,000 pounds and gnash their teeth, or sign a check for 100,000 pounds and not care. I've looked for people who are somewhere in between."

Harrison Brothers members are mainly the elite or entrepreneurs who were born in the United Kingdom.

They include the Mountbatten family, in particular Lord Norton Louis Philip Catchbull Romsey, who is the son and heir of Baron Brabourne and Countess Mountbatten of Burma. The Mountbatten family is related to the royal family.

The agency has no American members, but "they would be ideal for me because the rich ones would probably make a judgment about me, and once they've made up their mind would say 'get on with it,'" Mr. Harrison said. "It's tempting, but nobody (from the United States) has asked me."

Harrison Brothers members are the type that Lloyd's should attract, Mr. Harrison believes. "People who should be members of Lloyd's should have liquid assets and investments and can afford to take a loss and not need the money to live," he said. "I think a lot of the money that I make for my members goes on school fees."

Harrison Brothers' 120 members this year are writing a total capacity of 65 million pounds (\$124.8 million), or an average of 541,667 pounds (\$1 million) per member, Mr. Harrison said.

However, many of the members write up to 1 million pounds (\$1.92 million) each, he said.

Mr. Harrison spreads this capacity over 137 syndicates. Each member has no more than 50,000 pounds (\$96,000) or 10% of his individual capacity—whichever is less—on any one syndicate. So even a disastrous loss at one syndicate should not wipe out all of the profits that members should make with other syndicates, he said.

"Not one of my names has had to write out a check" to pay for syndicate losses, Mr. Harrison said. "I try to keep my names happy. One discontented name can cause a lot of work, and there is very little work here" in the agency.

The Assn. of Lloyd's Members notes that Harrison Brothers produced a pretax 14% return on its members' capacity in 1986 and an 11% return in 1987.

Mr. Harrison said that with 1 million pounds (\$1.92 million) of capacity, he can generate aftertax earnings of between 50,000 and 80,000 pounds (between \$96,000 and \$153,600) for a member. "That's not small beer, and you're doing nothing," he said.

Mr. Harrison chooses the underwriters that he supports very carefully. "I don't like un-

derwriters who can't count. I like underwriters who are 45, have two kids in private school and drink water at lunchtime. I don't like underwriters who own airplanes, yachts, strings of racehorses or are sex maniacs," he said.

If members had avoided those kinds of underwriters, "you would have missed all the problems at Lloyd's except for Outhwaite," said Mr. Harrison, referring to the runoff reinsurance disputes with Lloyd's underwriter Richard Outhwaite's syndicate 317/661.

Harrison Brothers missed the Outhwaite situation "for other reasons," Mr. Harrison said. That was "purely by luck," he said.

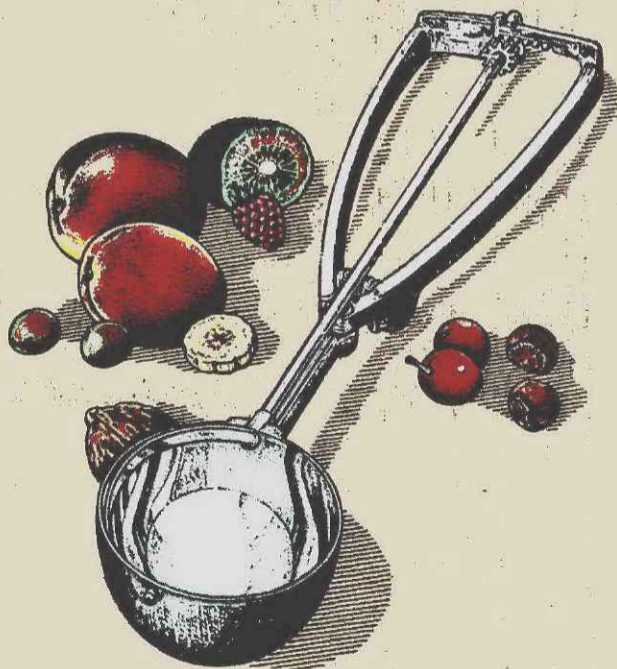
But Harrison Brothers members are now on Mr. Outhwaite's syndicate because "he is a first-class

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Harrison Brothers

Continued from previous page
 underwriter," Mr. Harrison said.
 "His (not yet closed) 1988 and 1989 solvency figures are one of the best of the syndicates available in our agency, and we support him as we have since 1984," Mr. Harrison explained.
 Besides examining the performance of underwriters, Harrison Brothers also considers the types of people who work at their offices and in the Lloyd's underwriting box, and the level of organization in the managing agency.
 To do this, Mr. Harrison—a member of Lloyd's Underwriting Agents Assn.—visits Lloyd's nearly every day during underwriting hours. Starting between 10 a.m. and 11 a.m. and ending about 4 p.m., he reviews syndicates and finds out what's happening in the market. He examines the books in underwriters' offices rather than in

Lloyd's underwriting room because he wants "to meet the office people and see if the place looks neat and tidy and the underwriter can grab information quickly" to show he's organized, Mr. Harrison said.
 As the year draws to a close, Mr. Harrison already has started working on his selection of underwriters and allocation of capacity for 1991.
 For example, he has decided to remove 5.1 million pounds (\$9.8 million) of capacity from several syndicates for various reasons. "I leave a syndicate if there is a change in the terms of trade, a change in the underwriter which I don't like, or outside influences which have changed."
 In fact, 3.5 million pounds (\$6.7 million) is being removed from syndicates because they are either writing U.S. liability risks on an occurrence basis or are reporting U.S. liability claims they had not

anticipated, he explained.
 "One hundred percent of Lloyd's losses come from 15% of the business—all U.S. liability business," he said, exaggerating to make a point.
 "I avoid it wherever possible and

'To be a members' agent was to be an investigative accountant,' says Mr. Harrison.

only support syndicates that write it on a claims-made basis. I withdraw names from syndicates where I find that they are writing occurrence wordings again."
 Meanwhile, managing agents are clamoring at Mr. Harrison's door asking him whether his members

want to write more capacity in 1991 because underwriters believe that rates—particularly in reinsurance—will harden next year, he said.
 "It's like 1985 all over again," when the reinsurance rates soared and capacity plummeted, Mr. Harrison said.
 Mr. Harrison also is considering whether to increase each member's allocated capacity on individual syndicates for 1991, now that composite syndicates are being considered in the market and many syndicate mergers are taking place. Composite syndicates will write marine, non-marine, aviation and motor risks. Each of those risks previously were written by separate syndicates.
 One underwriter, in fact, is currently considering merging three syndicates that Harrison Brothers supports into one syndicate.
 "What do I do?" Mr. Harrison wonders.

Mr. Harrison said he may consider increasing his members' maximum participation on any one syndicate to more than 50,000 pounds.
 "But, I still wouldn't have more than 10% of any member's capacity on any one syndicate."
 Mr. Harrison's own profile is typical of what he seeks in a Harrison Brothers member.
 A graduate of Oxford University and a qualified accountant, Mr. Harrison became a partner of his father's accounting practice, Harrison, Son, Hill & Co., in 1963. While he was there, Mr. Harrison also became a director of Old Kentucky Restaurants, one of the first fast-food chains in Britain.
 When the restaurant chain had grown to 35 outlets, Old Kentucky went public and subsequently was taken over by Centre Hotels.
 He decided to leave his family's firm in 1976 when his father retired because his elder brother wanted to merge the company with Robson Rhodes, another accounting firm. Mr. Harrison explained that he did not want to work for anyone else.
 In search of another career, Mr. Harrison joined Lloyd's with the money from the sale of his Old Kentucky shares. Mr. Harrison "realized that to be a members' agent was to be an investigative accountant."
 After talking to several underwriting agencies—which incorporate members and managing agencies—Mr. Harrison joined R.W. Sturge & Co. and set up his own members' agency. The agency was authorized by Lloyd's in November 1977. It took on 15 members in 1978 to underwrite for 1979.
 Mr. Harrison stayed with Sturge until 1984 when Sturge went public on the International Stock Exchange in London.
 Mr. Harrison bought the minority shareholding in Harrison Brothers from Sturge because he "didn't want to be a small cog in a big wheel."
 He explained: "I've never wanted to work for anyone in my life. I'm unemployable."
 In 1984, Harrison Brothers had 44 names with 9.7 million pounds (\$14.1 million at year-end 1983 exchange rates) in capacity.
 Today, the agency is still only run by a handful of people. Aside from Mr. Harrison and Ms. Lowne, the other employees are:
 • John Moffatt, agency manager, who came with Mr. Harrison from Sturge.
 • John Cowlshaw, full-time syndicate analyst and qualified accountant. Mr. Harrison analyzed all the syndicates himself until January this year.
 • Peter Eastwood, a director of the agency who is developing computer systems.
 • Yvonne Dymond, a Lloyd's member and first assistant to the chairman. Ms. Dymond looks after the affairs of new names, among other things.
 • Lindsay Allen, computer systems manager. Ms. Allen's father was one of the original agency directors of Merrett Holdings P.L.C.
 However, Mr. Harrison believes that the days of independent members' agencies such as his "are numbered."
 He predicts that within five years, surviving members' agencies will be part of larger groups that own managing agencies or brokerages.
 And, he admits that it is "tempting" to be part of a larger underwriting agency now.
 Mr. Harrison also is chairman of managing agency Spreckley Villers Hunt & Co. Ltd.
 Whatever happens, "I doubt I will be independent in five years' time," Mr. Harrison said. "But I don't want to sell now." ■

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Mr. Harrison said he may consider increasing his members' maximum participation on any one syndicate to more than 50,000 pounds.
 "But, I still wouldn't have more than 10% of any member's capacity on any one syndicate."
 Mr. Harrison's own profile is typical of what he seeks in a Harrison Brothers member.
 A graduate of Oxford University and a qualified accountant, Mr. Harrison became a partner of his father's accounting practice, Harrison, Son, Hill & Co., in 1963. While he was there, Mr. Harrison also became a director of Old Kentucky Restaurants, one of the first fast-food chains in Britain.
 When the restaurant chain had grown to 35 outlets, Old Kentucky went public and subsequently was taken over by Centre Hotels.
 He decided to leave his family's firm in 1976 when his father retired because his elder brother wanted to merge the company with Robson Rhodes, another accounting firm. Mr. Harrison explained that he did not want to work for anyone else.
 In search of another career, Mr. Harrison joined Lloyd's with the money from the sale of his Old Kentucky shares. Mr. Harrison "realized that to be a members' agent was to be an investigative accountant."
 After talking to several underwriting agencies—which incorporate members and managing agencies—Mr. Harrison joined R.W. Sturge & Co. and set up his own members' agency. The agency was authorized by Lloyd's in November 1977. It took on 15 members in 1978 to underwrite for 1979.
 Mr. Harrison stayed with Sturge until 1984 when Sturge went public on the International Stock Exchange in London.
 Mr. Harrison bought the minority shareholding in Harrison Brothers from Sturge because he "didn't want to be a small cog in a big wheel."
 He explained: "I've never wanted to work for anyone in my life. I'm unemployable."
 In 1984, Harrison Brothers had 44 names with 9.7 million pounds (\$14.1 million at year-end 1983 exchange rates) in capacity.
 Today, the agency is still only run by a handful of people. Aside from Mr. Harrison and Ms. Lowne, the other employees are:
 • John Moffatt, agency manager, who came with Mr. Harrison from Sturge.
 • John Cowlshaw, full-time syndicate analyst and qualified accountant. Mr. Harrison analyzed all the syndicates himself until January this year.
 • Peter Eastwood, a director of the agency who is developing computer systems.
 • Yvonne Dymond, a Lloyd's member and first assistant to the chairman. Ms. Dymond looks after the affairs of new names, among other things.
 • Lindsay Allen, computer systems manager. Ms. Allen's father was one of the original agency directors of Merrett Holdings P.L.C.
 However, Mr. Harrison believes that the days of independent members' agencies such as his "are numbered."
 He predicts that within five years, surviving members' agencies will be part of larger groups that own managing agencies or brokerages.
 And, he admits that it is "tempting" to be part of a larger underwriting agency now.
 Mr. Harrison also is chairman of managing agency Spreckley Villers Hunt & Co. Ltd.
 Whatever happens, "I doubt I will be independent in five years' time," Mr. Harrison said. "But I don't want to sell now." ■

Women hail inroads, but say bias persists

By STACY SHAPIRO

LONDON—Women still face some challenges in building careers at Lloyd's of London, but overall they have come a long way in the community since they were first allowed to become members 20 years ago.

There are a surprising number of female brokers, deputy underwriters and claims managers in the market, and there are even Lloyd's waitresses working alongside the traditional waiters in what was not so long ago an exclusively male club.

However, not a single woman underwriter has her own syndicate, and only a few women are members of the boards of directors at the major Lloyd's brokerages.

Discrimination—some blatant, some subtle—has not totally disappeared.

"You find pockets of it," admitted Maureen Swage, executive director of the non-marine facultative re-insurance department of Willis Faber & Dumas Ltd.

"But, I think it is in bits and pieces. It's not really very much nowadays. Things have moved on in the last 20 years," said Mrs. Swage, who was the first non-member female broker that Lloyd's allowed to place business in its underwriting room (see story, page 59).

For example, at some Lloyd's affiliates—such as brokers and managing and members agencies—there are departments that "for some odd reason just don't have any women above the level of secretary," she said.

"I think there are certain companies, for instance, where there are no women underwriters. I can remember somebody once saying to me that if you have a certain number of people employed in a department and there aren't any women above a certain level, even though they could deny it, there is a 'de facto' operation of prejudice because there are women available, and they are either not promoting them or giving them the opportunity."

Even at the Marine Club, a private restaurant/club just opposite Lloyd's main entrance, women still are not accepted as members, though they may dine there if they are accompanied by a male member.

Women in the market have contemplated boycotting the club, or starting one exclusively for women, but they fear losing the respect of male counterparts and being ridiculed as "feminists."

Besides, women value the club for the important male contacts they can make there.

"Every time I go down to the Marine Club, I make a fuss about it," Mrs. Swage said. "The whole thing's so stupid."

In addition, one Lloyd's-related firm that has asked not to be named notes that it has been formally accused of giving unequal pay to a woman. The woman—who the firm has described as a troublemaker because she has also accused the firm of sexual harassment but lost her case—and the firm are settling out of court.

The firm now plans to implement job evaluation schemes to prevent any more pay discrimination allegations.

Some women in the market also feel they have to act more like men to work in the Lloyd's environment.

For example, some feel they should never discuss their children for fear their male counterparts will stop taking them seriously, even though men can discuss their children freely without this concern.

"I've been told never to discuss children at work," said one woman in the market. "I won't ever have my children's picture on my desk because I must be the opposite of what (men) expect."

The woman said that in every interview she has had in the Lloyd's

community, she has been asked about her attitude toward marriage and children. "The fact that I have been asked... is a sign of prejudice," she said.

However, Mike Harrison, director of personnel at Sedgwick Group P.L.C., the largest Lloyd's brokerage, said: "We never question women about their marital plans. That would be extremely stupid to ask. What's more important is to ask men and women what their attitude is toward mobility."

In another example of alleged discrimination against women, one non-marine underwriter has been notorious for refusing to do business with female brokers.

However, the underwriter recently retired.

Some men working in the Lloyd's market concede that Lloyd's long

history as an all-male preserve has made them wary of hiring women.

"At first, I thought I could only employ men at the underwriting box," said Colin Spreckley, senior underwriter for syndicate 1007, which is managed by Spreckley Villers Hunt & Co. Ltd.

"Lloyd's only allowed women in recently, so I grew up in the market believing that women weren't allowed. Now, providing they fit in, it's a matter of who can do the job," he said.

Mr. Spreckley currently employs four women at his underwriting box, including two specialist underwriters (see story, page 18).

And, another woman is scheduled to return to the box soon from maternity leave.

Despite their setbacks, women have made inroads at Lloyd's.

"In the past two years, there seems to have been a large increase in the number of women working on the underwriting side," observed Deborah MacDonald, a leading political risk underwriter on Lloyd's largest syndicate—syndicate 418, managed by Merrett Underwriting Agency Management Ltd.

"Before that, the market was slow in hiring women. I've been in the market since 1981, when I felt extremely conspicuous because there were so few women around," she said.

Ms. MacDonald, who earned a law degree at Durham University, was the first woman broker for Investment Insurance International (Managers) Ltd., Hogg Group P.L.C.'s leading political risk brokerage division.

However, "now, the numbers seem

to be more equal," she observed. Ms. MacDonald especially notices the increased number of women in the political risk field.

When Ms. MacDonald accepted an offer from Merrett political risk underwriter Barnabus Hurst-Bannister to become his deputy and the first woman underwriter on a Merrett-managed syndicate, Hogg replaced her with another woman, Dierdra Green, who is now executive director of III.

And, Merrett today has about a half-dozen women underwriting on its marine and non-marine syndicates.

On one recent day, four female political risk brokers showed business to Ms. MacDonald—who is the syndicate's political risk underwriter now that Mr. Hurst-Bannister is dep-

Continued on next page



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Women at Lloyd's

Continued from previous page
uty to Stephen Merrett, syndicate
418's senior underwriter.

And, as far as women not reaching the highest positions at syndicates and brokerages, Ms. MacDonald said that "20 years isn't a long enough cycle for that to happen."

Most Lloyd's underwriters join syndicates after a stint with a Lloyd's broker. It is simply a matter of time before the many women doing such training—or who are now deputy underwriters—excel at the highest levels in their fields, she said.

"We're taking on far more women in the broking area, particularly those with languages," said Julia Fish, corporate communications director for Sedgwick and one of four people on a core executive committee reporting to Sedgwick Chairman David Rowland.

An example of that Sedgwick hiring practice is Sally Evans, a univer-

sity graduate who majored in Chinese and geography. Sedgwick recently hired Ms. Evans to spend 18 months learning about Sedgwick and brokering before transferring to Beijing for two years as the company's sole correspondent broker in China.

In the market, "there used to be a wariness about taking women on because they believed that they couldn't count on women making Lloyd's their career, and to some extent there's still that feeling," Ms. Fish admitted.

"I have some sympathy with that, but it's short-sighted. Women can bring to their jobs a different approach, because they seem better at detail, and they are more perceptive than their colleagues. As brokers, they can feel the atmosphere when they walk into a room and they can change their approach to fit the mood," Ms. Fish contends.

Sedgwick employs 29 women as brokers placing business at Lloyd's, 13 with Sedgwick Broking Services

Ltd. and 16 with reinsurance subsidiary E.W. Payne Cos. Ltd.

Merrett's Ms. MacDonald thinks that women underwriters get more respect than women brokers in Lloyd's, though that is generally true for men underwriters and brokers, too.

However, Ms. MacDonald recalled that her first few years underwriting in the Merrett box were difficult "because of the burden of being a woman."

Although Ms. MacDonald usually has a deadpan expression when negotiating with brokers, some male brokers in the early years believed that she was too emotional for the job.

Ironically, though, one male broker had a tantrum when she would not underwrite some business of his, accusing her of being over-emotional about it. "The broker wailed at me, and I said, 'How dare you,' and suggested that if he didn't like my decision, perhaps we should

see Stephen Merrett (senior underwriter of the syndicate) about it."

The broker left and others on the syndicate who heard the argument said that if it had happened to them, the broker would have been banned from the box.

"Lloyd's women (underwriters) don't think they can afford to be moody," Ms. MacDonald said.

Other aspects of working at Lloyd's also can prove difficult for some women, Willis Faber's Mrs. Swage said.

For example, some female brokers have problems traveling "in areas of the world where it is not expected that women can travel alone. In some hotels, I've felt a bit threatened," she said.

Traveling also can be difficult for female brokers and underwriters who have children.

Ms. MacDonald said that when her daughters, now in their 20s, were growing up, "the most I would travel at any time was two weeks."

However, Ms. MacDonald said she is not averse to traveling, even though she and her husband, insurance executive Patrick Agnew, have a 1-year-old child. She has been out of the country six times this year, mainly to the United States to lecture on political risk insurance.

Maternity leave benefits and child care are additional hurdles for women at Lloyd's.

When Ms. MacDonald had her son, William, last year, she had to negotiate her maternity leave from Merrett. "I was generally aware of an attitude (in the market) that I wouldn't be coming back," said Ms. MacDonald, who all along intended to return.

Taking off a month before the birth and two months afterward did not hamper her return to underwriting, she said.

Setting up a daycare facility would be the "single biggest thing that Lloyd's could do to encourage more women to work" after having children, Ms. MacDonald said.

Some firms in the market say they are reconsidering their maternity benefits and the lack of child-care facilities to encourage women to return to work after having children.

For example, Sedgwick "is actively considering introducing maternity leave bonuses," Mr. Harrison said.

In addition, the Corporation of Lloyd's is allowing at least one female senior executive to work part-time while her children are growing up in the hope that she will one day return full-time.

Irene Dick, a trial lawyer instrumental in drafting the Lloyd's Act of 1981 and lobbying for the bill, has been working part-time since her first child was born in 1982. She set up the corporation's planning department and currently acts as parliamentary liaison, lobbying members of Parliament and European Commission executives.

Mrs. Dick—who has two children, 4 and 7—works four and sometimes five mornings a week. She occasionally works more hours, but only when necessary.

"I enjoy working part time because I don't feel guilty about the time I give my work or my family," she said.

But, Mrs. Dick, who admits she can afford a full-time nanny, personally does not favor a nursery at Lloyd's. Such a facility would mean uprooting the children from their home every day and possibly disrupting her for every little problem, she said.

However, offering the choice of part-time work or day care might reduce staff turnover, she admitted.

Each working woman must make her own choices about her children, Mrs. Dick said.

"When I worked full-time, I worked from 8 a.m. to 8 p.m. every day, and I have friends with children who still do that. I have one friend who sees her children at weekends, and that's her choice. When she employs a nanny, she tells whomever she's hiring that she is looking for a surrogate mother," she said.

"I plan to continue to work part-time until a gun gets put to my head or my children no longer need me. But you can only speak for yourself," she said.

Ms. MacDonald observed that it is easier to work underwriting hours than broker hours.

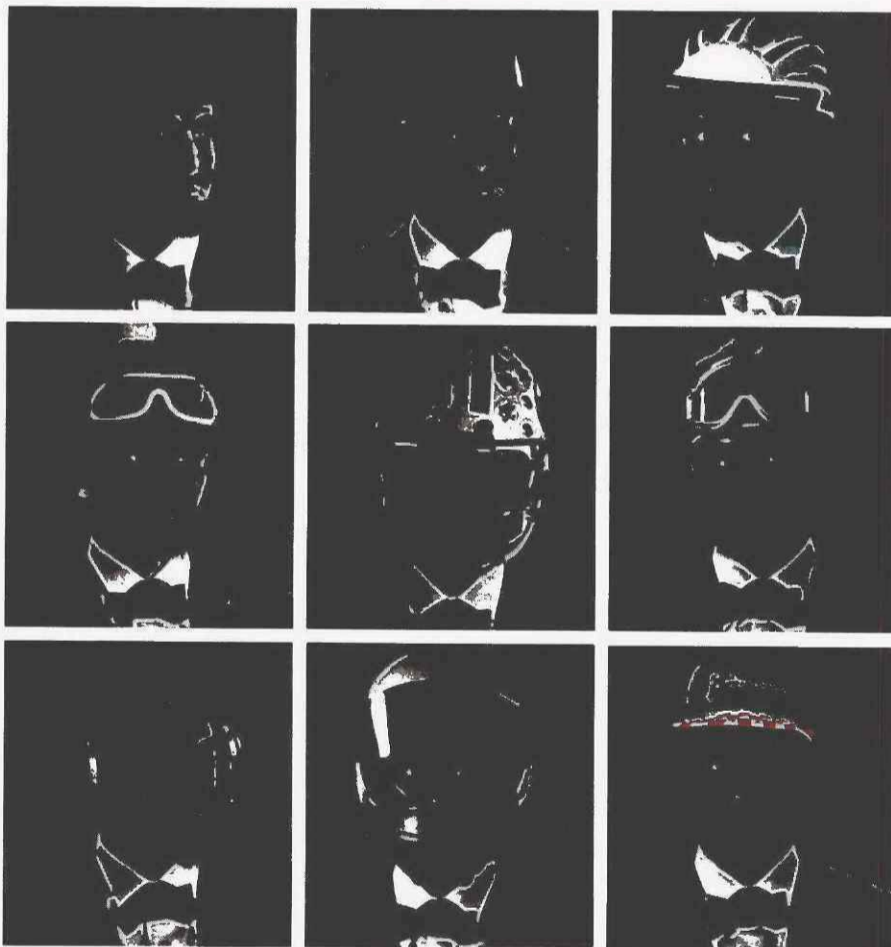
Lloyd's underwriters can work from 9 a.m. to 5 or 6 p.m., while Lloyd's brokers often work until late in the evening, either entertaining or talking to clients overseas.

Despite all of the problems of working in the market, some women at Lloyd's say they have thoroughly enjoyed their careers.

"I am eternally grateful to Merrett for taking the risk, so to speak, of hiring me," Ms. MacDonald said. "Overall, I have had a good time."

"I have thoroughly enjoyed my time at Lloyd's," Mrs. Swage said. "I have been met with a lot of encouragement and help in the market. I've had a tremendous time." ■

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Women faced uphill battle to join Lloyd's

By STACY SHAPIRO

LONDON—Female membership at Lloyd's of London today is strong, but women broke into the once all-male market in a backhanded manner, a Lloyd's spokesman said.

Foreign men were allowed to become Lloyd's members on Jan. 1, 1969—a year before British women, he noted. Until then, only men in the United Kingdom and the Commonwealth countries were accepted.

"It looked as if Lloyd's preferred foreign men to British women," the spokesman said.

After an "outcry," British women were allowed to become members in 1970 and foreign women were allowed to become members in 1971, he said.

The first two female Lloyd's members were Margery Hurst, founder of employment agency Brook Street Bureau, and K.F. Alder, the wife of a prominent Lloyd's underwriter.

But, women brokers were not allowed into the underwriting room until 1972 because resistance had not abated.

"The reason is because it was thought that the less scrupulous broking houses would employ beauties and the men (underwriters) didn't stand a chance," said the Lloyd's spokesman, suggesting the underwriters would accept the business based on their attraction to the women brokers.

Nevertheless, the Lloyd's Committee, under then-chairman Sir Henry Mance, decided in January 1972 to allow women members to place business in the Lloyd's underwriting room.

The first woman member allowed to broker in the room was Liliana Archibald, then director of Lloyd's brokerage Adam Brothers Contingency Ltd. Mrs. Archibald is currently an adviser to Lloyd's on European issues—like European

Community directives and how they affect Lloyd's and Lloyd's brokers—and a board director of Lloyd's brokerage Holman Wade Insurance Brokers Ltd.

Following that breakthrough, the Lloyd's Committee in 1974 allowed women brokers into Lloyd's who were not members. Those female brokers—like their male counterparts who are not Lloyd's members—were given "substitute" tickets to gain entry into the underwriting room.

Maureen Swage, now executive director of the non-marine facultative reinsurance department of Willis Faber & Dumas Ltd., was the first woman broker with a "substitute" ticket.

In 1973, soon before she stepped foot into the underwriting room, "I can remember going to a cocktail

party in December given by one of the insurance companies, and I was introduced to one of the directors there who was connected to a broking house. I was introduced as going into Lloyd's on the second of January," Mrs. Swage recalled.

"This chap, who was on the Committee of Lloyd's at the time, said, 'I think you ought to know I voted against you.' I said, 'Well, OK. It's a free country.'"

"He said: 'It took us 10 minutes to decide to admit women and 20 minutes to work out the loo (bathroom) accommodation.' Because, of course, Lloyd's (1958 building) had been built with only gents' (restrooms) because there weren't any women around the floor of Lloyd's. So, they actually had to find a gents' loo that wasn't too far from the main room and convert it."

Because the Committee of Lloyd's did not think many women would come into the underwriting room, they gave keys out for the ladies' restroom, Mrs. Swage recalled. But so many women started working in Lloyd's that it eventually shelved that policy.

Mrs. Swage—who has worked at Willis Faber since 1968—admits she was very nervous on her first day at Lloyd's. Accompanied by Michael White, currently deputy chairman of the International Reinsurance Group at Willis Faber, she first went to see Lloyd's non-marine underwriter David Coleridge, "who has always been supportive of women in Lloyd's."

Mr. Coleridge is expected to be the next chairman of Lloyd's (see story, page 20).

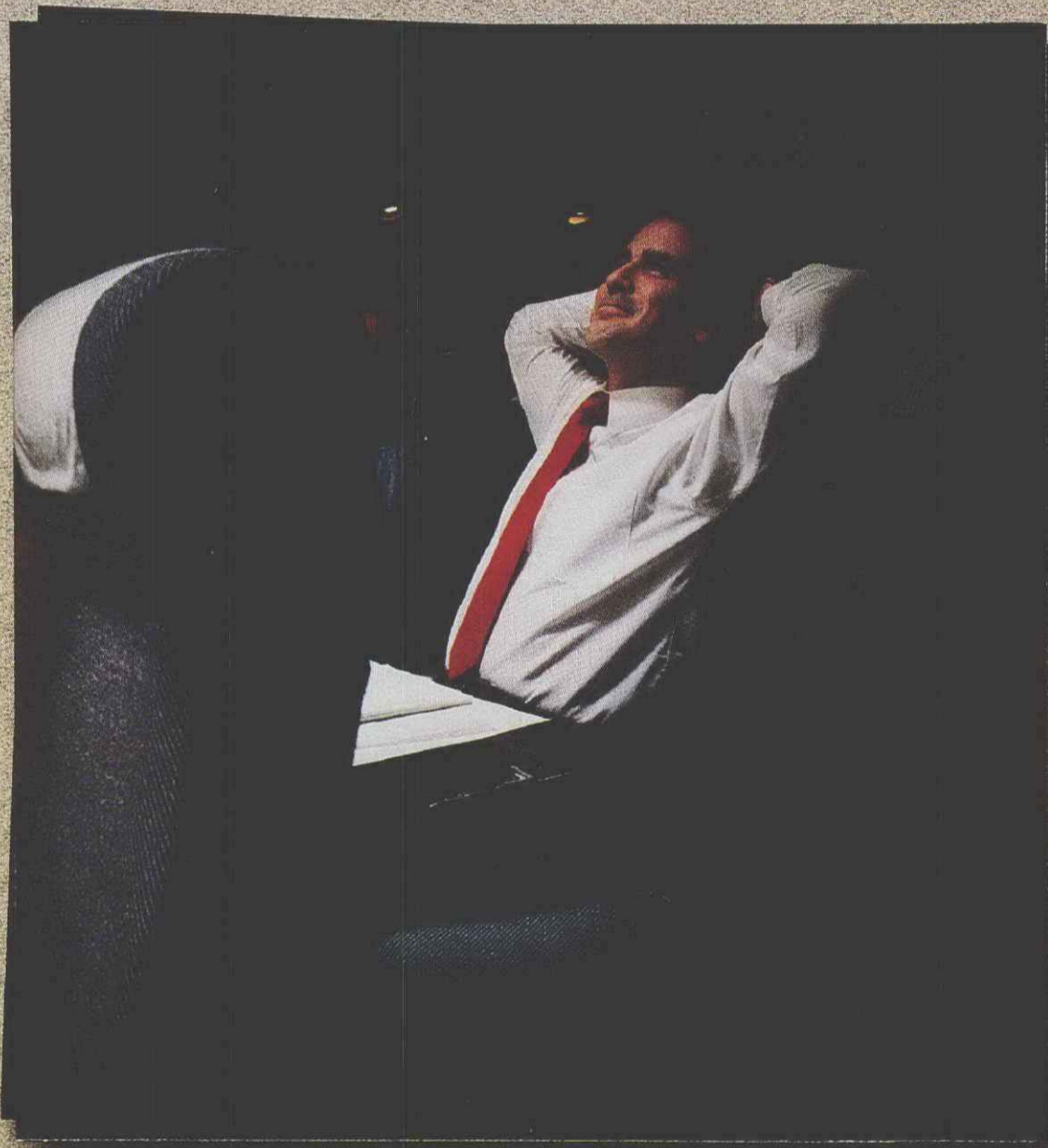
Early in her career at Lloyd's,

Mrs. Swage stood out and was known by a lot more people than she actually knew, she recalls.

"I was walking through Lloyd's one day and there was one underwriter with a group of his names standing around beside him and he was explaining what Lloyd's was and all the rest of it. As I walked past, I heard him say, 'There you see history walking past.' It was really rather lovely."

Lloyd's did not document the first female deputy underwriter or claims person in the underwriting room, but it would have been about the same time women brokers were allowed in the room, a Lloyd's spokesman said.

However, no female senior underwriter controls her own syndicate 20 years after the first female Lloyd's member was admitted. ■



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Around the states

Wyoming to launch pool for uninsureds by Jan. 1

CHEYENNE, Wyo.—Wyoming is the 24th state to establish a health insurance pool for individuals who cannot obtain coverage from commercial insurers.

Officials hope to have the non-profit pool—which was authorized by legislation effective last month—operating by Jan. 1.

Wyoming residents are eligible for pool coverage if they have been refused health insurance coverage "for health reasons by one insurer"; refused health insurance "except at a rate exceeding the pool rate"; or refused health insurance "except with a reduction or exclusion of coverage for a pre-existing health condition" if that reduction or exclusion is more restrictive than the pool's coverage, according to the Wyoming Health Insurance Pool Act.

People not eligible for pool coverage include those who have health insurance; those eligible for Medicaid or Medicare; those who terminated coverage in the pool less than 12 months before applying for pool coverage; and inmates of public institutions.

Premiums of up to 200% of "individual standard risks" are allowed

by the law. Annual deductibles will be at least \$2,500 and lifetime benefits will be capped at \$250,000.

In addition, the pool will incorporate as yet unspecified cost-containment measures.

As in a number of other states with the high-risk pools, any deficits in the Wyoming pool will be funded by assessments on all health insurers and health maintenance organizations in the state. Assessments can be offset against state premium taxes.

Insurer assessments will be based on premiums written in Wyoming, said Carolyn Johnson, the state's senior assistant insurance commissioner. The state's only operating HMO will be assessed in the same manner.

The law also specifies that other "insurance arrangements" will also be assessed for pool expenses "to the extent not pre-empted by federal law."

Assessments on self-insured employer health care plans and multiemployer health care trusts are now pre-empted under the Employee Retirement Income Security Act, Ms. Johnson explained. But lawmakers included language pertaining to "insurance arrangements"—including self-insured and multiemployer plans—in case ERISA is amended to allow assessments of such plans, she said.

In existing state high-risk pools, premiums usually cover about half of pool expenses, said Aaron Trippler, vp-member services of Communicating for Agriculture of Minneapolis, a non-profit association that has kept statistics on state-administered high-risk pools since 1976.

Total pool costs in Wyoming would not likely reach \$1 million until the pool is in operation for three years, Mr. Trippler said.

The pool's seven directors sent out requests for a plan administrator to insurers and third-party administrators, said John P. McBride, staff attorney for the Wyoming Department of Insurance.

Its proposal assumes an estimated 300 people will be eligible, though the number could be lower given the state's low population, said Mr. McBride.

Sept. 4 is the deadline for bids from companies interested in administering the pool.

Proposals will be considered Sept. 14 and the board is tentatively scheduled to select an administrator by Sept. 24, Mr. McBride said.

After an administrator is chosen, the pool will establish a schedule of benefits, he said.

While the level of benefits to be offered by the pool has not been determined, the law establishing the pool specifies that medical costs associated with organ transplants, cosmetic surgery or "other procedures as determined by the board" will not be covered.

Coverage also will be excluded for pre-existing conditions for at least six months from the effective date of coverage.

However, this exclusion will be waived if an individual's health insurance is involuntarily terminated and he or she applies for pool coverage within 31 days.

Under a sunset provision, the law authorizing the pool will expire on June 30, 1995.

At the end of 1989, 53,712 people were enrolled in the "high-risk" health insurance pools in the 14 states where pools were then operational, according to Communicating for Agriculture.

—By Louise Kertesz

Texas work comp

AUSTIN, Texas—Rate hikes and premium surcharges put in place earlier this year are expected to chip away at the record deficit racked up by the Texas Workers Compensation Assigned Risk Pool, officials report.

The pool's 1989 deficit, announced earlier this month, stood at \$551.2 million, the largest shortfall since the facility was established in 1953. The deficit was \$461.8 million in 1988.

The deficit has showed a steady climb since 1985, when escalating claims pushed it to \$73.5 million that year. The deficit rose the following year to \$182.3 million and in 1987 stood at \$334.2 million.

The deficit each year is paid by assessing all insurers that write workers compensation insurance in Texas.

Gerald Whelpy, chief financial officer of the pool, said that although no calculations have been made for 1990, "we are guardedly optimistic" that the deficit is being reduced because of rate hikes and premium surcharges instituted this year.

Late last year, the Texas State Board of Insurance adopted rules that called for a 15% rate hike on policies renewing in 1990. In addition, employers with bad loss records are paying surcharges of up to 100% of their premiums (BI, Jan. 22).

Those increases come on top of a 22% rate hike that went into effect this year (BI, Nov. 20, 1989).

The pool, which is the largest writer of workers comp coverage in the state, wrote about \$800 million in premiums last year, or approximately 23% of the total workers comp premiums in Texas.

Synott L. McNeel, chairman of the pool's governing committee, said the 1989 deficit "dramatically demonstrates just how bad the workers compensation problem has become in Texas in recent years."

But Mr. McNeel said last year's passage of sweeping workers comp reforms in Texas also should help to ease pressure on the pool.

The law, which was passed in December and goes into effect on Jan. 1, among other things allows some corporations to self-insure their workers comp exposures and allows similar small businesses to band together to purchase workers comp coverage under a single policy (BI, Dec. 18, 1989).

In addition, the law is expected to reduce litigation costs by scrapping Texas' unusual trial de novo system, which has led to nearly all Industrial Accident Board decisions being challenged with an appeal for a jury trial.

—By Michael Bradford

Kansas primary

TOPEKA, Kan.—Assistant Insurance Commissioner Ron Todd will face state Sen. Paul Feleciano, D-Wichita, in the November general election for insurance commissioner.

Mr. Todd, a Republican, defeated state Rep. Jim Braden, R-Clay Center, a life insurance agent and speaker of the Kansas House of Representatives, in the Aug. 7 primary. Mr. Todd was endorsed by Fletcher Bell, the current commissioner who will retire at the end of his term.

Sen. Feleciano, who was first elected to the state House in 1970 and to the Senate in 1976, is ranking minority member of the Senate Judiciary Committee and a former life insurance agent. He is currently owner of a truck plaza.

—By Mark A. Hofmann

Catastrophes and competition

Heavy losses will push up only some reinsurance rates

By CHRISTINE WOOLSEY

Worldwide reinsurance market conditions generally will remain fiercely competitive through 1991, reinsurance executives predict.

The overall international reinsurance market will not harden soon, even though global reinsurance executives characterized 1989 as "the year of the catastrophes" and acknowledge that reinsurers also suffered some considerable losses in early 1990.

These losses, leading worldwide reinsurers say, are hardening the property retrocessional marketplace and could push up rates for higher-layer catastrophe coverage in 1991.

Among the major catastrophes to hit the United States and Europe over the last 18 months are Hurricane Hugo, which battered the Caribbean and the southeastern United States; the Northern California earthquake; the explosion at a Phillips Petroleum Co. petrochemical plant in Pasadena, Texas; and the series of windstorms that swept through Europe earlier this year.

Natural disasters caused a record \$7.64 billion in insurable U.S. property damage last year alone, estimates the American Insurance Services Group's Rahway, N.J.-based property claim services division.

But these losses will not change the direction of the overall global reinsurance market, say executives responding to the second annual Business Insurance survey of the

world's largest reinsurers.

An executive at Societe Commerciale de Reassurance in Paris pointed out that "it was predicted that such catastrophic events would harden...the market, but we foresee no short-term changes that will improve overall pricing."

"The downward trend is likely to continue or at best stabilize in 1990," predicted the SCOR executive.

This year SCOR ranks as the world's 10th-largest reinsurer with 1989 net written reinsurance premiums of \$1.03 billion. And, with its acquisition of Paris-based UAP Reassurances in November 1989, SCOR is the only French reinsurer in the Top 20.

Michael W. Fedyna, a vp in the property/casualty global reinsurance division of CIGNA Corp. in Philadelphia, agreed that "the anticipated turn in the underwriting cycle following Hurricane Hugo and the California earthquake did not materialize and generally competitive conditions continue to prevail throughout most of the world for property/casualty reinsurance."

CIGNA, which fell short of the Top 20 last year, is the 14th-largest reinsurer with \$745.8 million in net reinsurance premiums written in 1989.

Mark W. Hinkley, senior vp at Skandia America Reinsurance Corp. in New York characterized the worldwide reinsurance marketplace as "highly competitive, professional, over-capitalized."

Skandia America reported 1989

net reinsurance premiums written of \$292.3 million. Its parent company, Skandia International Insurance Corp. in Stockholm, Sweden, reported approximately \$1.24 billion in net reinsurance premiums last year, making it the world's seventh-largest reinsurer.

"Competition for business con-

tinues without abatement," mainly because "large segments of Weavers' business (are) finding (their) way back into the American market," commented Mahmoud M. Abdallah, senior vp at American Reinsurance Co. in Princeton, N.J.

H.S. Weavers (Underwriting) Agencies Ltd. in April stopped writing new business in March after the British government ordered the Weavers line slip's leading insurer, Walbrook Insurance Co., to stop writing because of concerns over the Walbrook's solvency (BI, April 2).

Net written reinsurance premiums of \$908.2 million dropped American Re to 12th-largest in 1989 from eighth place in 1988.

While the overall international reinsurance market remains competitive, many global reinsurance

executives say that the recent catastrophe losses are triggering changes in the retrocessional and property catastrophe reinsurance marketplaces.

John Austin, managing director of Mercantile & General Reinsurance Co. P.L.C in London, stated in the company's annual report that 1990 has continued the trend of natural disasters with "a series of major storms in Northern Europe which will clearly give rise to large losses in the reinsurance and retrocession markets."

"In our view this experience must inevitably lead to major changes in the availability and pricing of catastrophe protection during the coming months," Mr. Austin predicted.

Net written premiums of about \$1.06 billion in 1989 made Mercantile & General the world's ninth-largest reinsurer.

Franz Schmitz, board member of Aachen Reinsurance Co. in Aachen, West Germany, which fell short of the Top 20, said that "catastrophic covers" may experience some hardening.

Ernesto Jutzi, deputy general manager of Zurich-based Swiss Re Group, the world's second-largest reinsurer with 1989 net written premiums of about \$4.19 billion, said: "Despite the noticeable increase in frequency and severity of big losses during 1989, prospects for 1990 didn't look too bad at the beginning of the year until the series of very serious windstorms shook up the industry."

But, he said, "problems of high

exposure, inadequate terms and conditions, and finally the availability of capacity and security have become dramatically evident."

Philip Marcell, chairman of New York-based Continental Reinsurance Corp., characterized the global reinsurance market as being "in a state of flux."

Mr. Marcell agreed that "property retrocessional capacity is expensive and limited as a result of recent catastrophe losses," causing "property excess-of-loss pricing to increase."

Continental Re ranks as the world's 18th-largest reinsurer with 1989 net premiums written totaling about \$564 million.

W. Mick Taylor, senior vp at Employers Reinsurance Corp. in Overland Park, Kan., said the 1989 catastrophes' impact on the property retrocessional marketplace "will continue through the remainder of 1990."

Employers Re ranks as the world's fourth-largest reinsurance company with combined 1989 property/casualty and life/health net reinsurance premiums of about \$2.25 billion. Figures reported for Employers Re last year did not include the company's life/health business (BI, Aug. 28, 1989).

While Employers Re's overall net premium volume exceed those of General Reinsurance Co., it should be noted that General Re is larger on a property/casualty basis. Stamford, Conn.-based General Re reported 1989 net written premi-

Continued on next page

'The downward trend is likely to continue or at best stabilize in 1990,' predicts a SCOR executive.

World's largest reinsurers

Ranked by net property/casualty and life/health premiums written. All amounts in thousands of dollars.

Rank	Company	Net reinsurance premiums written 1989	Net reinsurance premiums written 1988	Net reinsurance premiums earned 1989	Net reinsurance premiums earned 1988	Policyholders' surplus (reinsurers only) 1989	Losses & loss adjustment expenses 1989	Loss ratio 1989	Underwriting expenses 1989	Expense ratio 1989	Combined ratio 1989	Combined ratio 1988
1	Munich Reinsurance Co. ^{1,2}	\$6,475,596 ³	\$5,830,878 ³	\$6,485,171 ⁹	\$5,768,756 ³	\$1,106,448	\$4,256,371	75.8%	\$1,705,796	30.4%	106.2%	106.5%
2	Swiss Re Group	4,193,802	4,541,244	4,254,408	4,508,148	1,479,186	3,173,490	74.6	1,041,480	25.1	99.7	NA
	European General Reinsurance Co. ³	524,386	684,722	540,017	680,577	57,351	447,587	89.9	149,547	28.5	118.4	NA
	North American Reinsurance Corp.	630,100	623,600	599,100	679,200	588,100	482,300	80.5	229,500	36.4	116.9	102.6
	Bavarian Reinsurance Co.	542,630	576,789	551,167	562,295	189,321	399,538	72.5	148,751	27.4	99.9	100.7
	Union Reinsurance Co.	351,033	298,035	313,290	276,390	87,872	228,596	73.0	126,717	36.0	109.0	108.6
3	Employers Reinsurance Corp.	2,254,667	2,015,256	2,257,314	2,034,964	1,648,062	1,497,567	80.1	1,078,358	26.0	106.1	100.8
4	General Reinsurance Co.	1,796,611	1,780,247	1,803,082	1,921,097	2,682,636	1,272,207	70.6	521,478	29.0	99.6	99.1
5	Assicurazioni Generali S.p.A.	1,704,549	1,555,331	1,667,305	1,536,551	3,881,652	1,121,343	67.3	514,090	30.2	97.4	96.2
6	Cologne Reinsurance Co.	1,464,219 ⁴	1,168,592	1,422,843	1,131,288	206,616	1,070,204	75.2	386,143	27.1 ⁵	102.3	95.9
7	Skandia International Insurance Corp.	1,242,208	1,005,875	1,160,394	958,609	1,165,962	882,167	76.0	431,107	34.7	111.1	111.4
	Skandia America Reinsurance Corp.	292,313	247,756	292,484	268,903	345,271	228,443	78.1	103,330	35.3	113.5	104.9
8	Hannover/Eisen & Stahl Reinsurance Co.	1,180,748	1,155,458	1,164,132	1,167,385	459,258	953,057	81.9	314,893	26.7	108.6	101.2
	Hannover Reinsurance Co.	711,426	739,460	699,892	757,064	302,251	573,288	81.9	206,920	29.1	111.0	100.9
	Eisen & Stahl Reinsurance Co.	469,323	415,998	464,240	410,321	157,007	379,769	81.8	108,755	23.2	105.0	102.0
9	Mercantile & General Reinsurance Co. P.L.C.	1,062,012	971,165	NA	NA	427,459	1,011,100	95.2 ⁶	347,494	32.7	127.9	123.7
10	Societe Commerciale De Reassurance	1,031,504	959,047	1,209,104	1,140,426	825,341	977,669	80.9	400,553	25.8	106.7	103.3
	SCOR US. Corp. and subsidiaries	102,108	110,649	101,248	112,063	115,752	195,255	74.4	31,083	30.4	104.8	95.2
11	Gerling-Konzern Globale Reinsurance Group ²	949,538	923,956	925,584	907,229	180,833	609,988	65.9	287,337	30.3	96.2	97.5
12	American Re-Insurance Co.	908,212	976,399	912,599	990,843	649,493	682,144	74.8	270,402	29.8	104.5	101.9
13	Tokio Marine & Fire Insurance Co. Ltd. ^{1,7}	903,683	901,584	NA	NA	16,165,591 ^{8,9}	NA	NA	NA	NA	NA	NA
14	CIGNA Reinsurance Operations	745,763	673,670	640,238	668,440	538,428	605,762	81.8	247,942	33.2	115.1	105.8
15	Frankona Reinsurance Co.	743,167	710,884	739,169	701,614	200,170	470,464	63.6	207,347	37.8	101.4	101.2
16	Netherlands Reinsurance Group ^{2,10}	704,769	737,085	NA	NA	244,350 ⁴	NA	NA	NA	NA	NA	NA
17	The Toa Fire & Marine Reinsurance Co. Ltd. ¹	573,878	599,148	NA	NA	140,176	130,513	NA	NA	NA	NA	NA
18	Continental Reinsurance Group	563,952	759,194	576,238	752,348	304,335	483,431	83.9	188,767	33.4	117.3	116.3
19	Prudential Reinsurance Co.	549,296	568,515	542,438	596,064	504,581	405,397	74.7	205,029	37.3	112.0	114.0
20	The Yasuda Fire & Marine Insurance Co. Ltd.	545,769	608,571	NA	NA	1,367,461	NA	NA	NA	NA	NA	NA
	Totals	29,593,944	28,442,099	25,760,020	25,336,542	34,178,127	19,602,874	71.6	8,148,218	30.3	101.9	99.0

All figures converted to U.S. dollars at fiscal year-end exchange rates. Unless otherwise noted, fiscal years ending Dec. 31, 1989; Dec. 31, 1988.

1. Not consolidated 2. Fiscal years ending June 30, 1989; June 30, 1988. 3. Fiscal years ending Dec. 31, 1988; Dec. 31, 1987. 4. Estimate 5. Expenses incurred to premiums earned. 6. Losses incurred to premiums written. 7. Fiscal years ending March 31, 1989; March 31, 1988. 8. Parent company capital and surplus. 9. Fiscal years ending March 31, 1990; March 31, 1989. 10. Includes Victory Insurance Holdings Ltd., acquired in 1990.

Top reinsurers

Continued from previous page
 ums of \$1.8 billion, most of which is property/casualty reinsurance.

One reinsurance executive said recent catastrophes may have made some major property insurers and reinsurers gun-shy. "Catastrophes have made reinsurance companies more aware of their property exposures, and ready to underwrite more casualty business," said Continental's Mr. Marcell.

However, the world's largest reinsurer pointed out that underwriting U.S.-based liability business does not appeal to European reinsurers.

Munich Reinsurance Co., the world's largest with \$6.48 billion in net reinsurance premiums written for the fiscal year ending Dec. 31, 1988, states in its Management Board's report: "As in the past years, the liability results of insurers and reinsurers continue to be burdened above all by risks emanating from the United States."

For example, the "effects of late claims—typical of a number of U.S. risks—must be emphasized. They have reached economic dimensions going far beyond the area

Uniform data for reinsurers proves elusive

Ranking the world's 20 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 would The Toa Fire & Marine Reinsurance Co. As a result, their net premiums are understated. For example, Munich Re's total is missing \$263 million in premiums written retained by Munich American Reinsurance Co. in New York, which is why MARC is not noted in the chart on page 61 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, 1987. That was the most recent information available from European General Reinsurance Co.

Companies also use various fiscal years: U.S. and several European reinsurers use calendar years, while some West 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. *Business Insurance* 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—such as those from the same day for each reinsurer—would alter the rankings somewhat.

Finally, reinsurers around the world value their assets differently so a comparison of reported policyholder surplus among the reinsurers also is deceiving. The West 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 capital and surplus figures for 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.

of insurance. Claims involving damage caused over a long period by gradual pollution," including asbestos-related claims, "are one example," the Munich Re report says.

Furthermore, the crisis in the U.S. savings and loan industry may trigger claims that eventually will be paid by reinsurers.

"With the deposit guaranty funds exhausted, the intention is to recover some of the losses from the managers, auditors and real estate consultants involved and, thus, from their professional liability insurers," the report states.

Litigation in Europe, as in the United States, is becoming a major factor for liability insurers and reinsurers, said the Munich Re report.

"Court decisions have had the effect of softening traditional liability principles more and more in favour of the claimant," the report states, noting the European Com-

munity's product liability directive represents a step toward the establishment of no-fault liability.

"For European insurers, this step will lead directly to an increase in claims frequency," the report says. "The insurance industry therefore requires its clients to be prepared to pay an appropriate price for liability risks."

Global reinsurance executives eagerly await a tightening of the overall reinsurance market, but most predict the soft market will remain through 1991.

CIGNA's Mr. Fedyna said, "we hope to see some hardening in the property market for 1991 renewals, primarily in those markets hardest hit by the heavy level of catastrophe losses in 1990 and the markets or lines with inadequate prices."

However, he said, "we expect improvement to develop slowly, with little impact on reported results until 1992-93. Reinsurers' reported results are likely to deteriorate further in 1991."

rate further in 1991."

Executives from West Germany-based Hannover Reinsurance Co. expect property insurance to remain tighter than casualty business, which they expect to remain soft.

Combined, Hannover Re and Eisen & Stahl Reinsurance Co., whose ownership is identical although they operate as separate companies, rank as the world's eighth-largest reinsurance organization with 1989 net written premiums totaling \$1.18 billion.

Continental's Mr. Marcell agreed that "casualty prices may remain stable or decrease slightly" in 1991. And, he said, "it is likely that terms and conditions will soften, thereby increasing exposures."

Jurgen Zech, chairman of Cologne Reinsurance Co. in Cologne, West Germany, said that "the turn of the cycle will not occur before the mid-1990s."

Cologne Re ranks as the world's

sixth-largest reinsurance company, reporting 1989 net reinsurance premiums written of approximately \$1.46 billion.

Mr. Zech said overcapacity will continue to absorb any further catastrophe losses in 1990. "It is doubtful whether cat losses in 1990 will lead to higher rates in 1991."

However, Mr. Jutzi of Swiss Re warned that "corrective measures have to be taken now."

Large insurance companies "are increasingly financially oriented and tend to unload only their top exposure and peak risks on reinsurance. Reinsurers have huge catastrophe exposures which make portfolios more and more unbalanced," he said.

The SCOR executive agreed: "As ceding insurers become stronger" as a result of the trend toward mergers and acquisitions, "they will rely less on reinsurance for small losses. They will look to rein-

Continued on next page

HOW ARKWRIGHT MINIMIZE YOUR COST OF RISK.

Continued from previous page

insurance to protect them against big losses and they will look to reinsurer quality," namely "well-capitalized reinsurers with stronger balance sheets."

Erich Herrgen, a board member of Bavarian Reinsurance Co. in Munich, which fell short of the Top 20, said that "higher premium retentions on the insurers' side will persist but will not necessarily be matched by a lower exposure on the reinsurers' side, due to significant trends toward higher sums insured."

Mr. Taylor of Employers Re also noted the effect of mergers and acquisitions on the industry.

"There will be fewer but larger reinsurers in the future as a result of consolidation among the primary carriers," he said.

"With these companies retaining a greater portion of their business and providing greater capacity, there will be less reinsurance pre-

mium available."

Mr. Hinkley of Skandia America predicted "continued consolidation among smaller reinsurers and reinsurance intermediaries."

"The major share of the reinsurance market will be, in the future, controlled by fewer but larger companies," said the SCOR executive.

Continental's Mr. Marcell warned that "until the number of reinsurance companies reduces, it is unlikely that pricing generally will increase to levels necessary to produce reasonable profitability. This is particularly true in the light of the consolidation and mergers that have taken place in Europe, since in the short term these moves are reducing the amount of reinsurance purchased."

Dr. Herrgen of Bavarian Re noted that "cross-border acquisitions and cooperations in Western Europe are intensifying market integration and competition, forcing

insurers to innovate."

In fact, global reinsurers will be forced to act aggressively to make a name for themselves in the currently soft marketplace.

General Re's annual report states: "Our aim is to be the best reinsurance company in the world."

The company is stressing professionalism and profitability over size, but General Re's report also states General Re's intention of becoming "possibly someday, the largest reinsurance company in the world."

Mr. Schmitz of Aachen Re said, "security and quality will be more important to ceding companies, rather than cheap prices."

Mercantile & General's Mr. Austin stressed the importance of providing "all-around service" to clients.

"In this end we continue to devote considerable resources to information services and claims han-

dling, as well as to the training needs of our clients," he said.

For example, M&G Re held two three-week courses on international reinsurance for its clients in 1989 and conducted seminars on accounting and reserving techniques used in India, Singapore, Hong Kong and the Philippines.

Other reinsurers, like Munich Re, say that a presence in foreign client countries is imperative.

"It is essential that we endeavor to maintain the closest possible contact with our clients. This requires a permanent on-the-spot presence in foreign markets to ensure that local needs can be recognized quickly, followed up and satisfied as fully as possible," the Munich Re report states.

Munich Re plans to continue to develop and expand its network. In January 1989, for example, it opened offices in Seoul, South Korea; Athens, Greece; and Istanbul, Turkey. ■

Directory of largest worldwide reinsurers

A

Aachen Reinsurance Co.

Schloss-Rahe-Strasse 15, D-5100 Aachen, West Germany; 49-241-1860; fax: 49-241-186-205

	1989*	1988*
Premiums written	\$344,084,884	\$348,329,965
Treaty	95.6%	95.2%
Facultative	4.4%	4.8%
Domestic	59.7%	NA
Foreign	40.3%	NA
Premiums earned	\$339,484,277	\$343,589,304
Capital & surplus	\$77,891,789	\$82,106,900
Losses	\$229,924,406	\$232,045,199
Loss ratio	67.7%	67.5%
Expenses	\$229,924,406	\$232,045,199
Expense ratio	29.4%	32%
Combined ratio	97.1%	99.5%

* Fiscal years ended Dec. 31, 1988; Dec. 31, 1987.

Year founded: 1853.

Parent company: AMB Aachener und Munchener Beteiligungs-Aktiengesellschaft.

Subsidiaries: LURECO S.A., Irish European Reinsurance Co.

Employees: 153.

Locations: One domestic, four foreign.

Principal officers: Arno Morenz, chairman; Harry Hauptmann, Franz Schmitz and Hermann von Treskow.

Contact: Christian Netzel (life), 49-241-186-270; Walter Copping (non-life), 49-241-186-160 or Michael Kraus (non-life), 49-241-186-215.

Abeille Re

52, rue de La Victoire, 75009 Paris, France; 33-1-42-80-75-75; fax: 33-1-42-85-19-32

	1989*	1988*
Premiums written	\$366,910,052	\$310,987,841
Treaty	96.76%	NA
Facultative	3.24%	NA
Domestic	21.25%	NA
Foreign	78.75%	NA
Premiums earned	\$365,932,520	\$300,805,888
Capital & surplus	\$185,289,968	\$151,278,228
Losses	\$311,740,685	\$242,690,588
Loss ratio	85.19%	80.68%
Expenses	\$102,069,038	\$97,702,779
Expense ratio	27.82%	31.42%
Combined ratio	113.01%	112.10%

* Fiscal years ended Dec. 31, 1989; Dec. 31, 1988.

Year founded: 1976.

Parent company: The Compagnie Financiere du Groupe Victoire and Abeille Assurances.

Employees: 111.

Locations: One domestic, two foreign.

Principal officers: Michel Laparra, Jacqueline Simon, Gerard Oberty, Claude Porret and Jacques Dard.

Contact: Juergen Brendel, senior vp; 212-809-7100.

American Re-Insurance Co.

555 College Road E. Princeton, N.J. 08543; 609-243-4200; fax: 609-243-4257

	1989*	1988*
Premiums written	\$908,211,829	\$976,398,839
Treaty	53%	56%
Facultative	47%	44%
Domestic	87%	NA
Foreign	13%	NA
Premiums earned	\$912,599,250	\$990,842,766
Capital & surplus	\$649,493,456	\$583,696,890
Losses	\$682,144,441	\$742,615,342
Loss ratio	74.75%	74.95%
Expenses	\$270,401,831	\$263,185,493
Expense ratio	29.77%	26.95%
Combined ratio	104.52%	101.9%

* Fiscal years ended Dec. 31, 1989; Dec. 31, 1988.

Year founded: 1917.

Parent company: Aetna Life & Casualty Co.

Subsidiaries: American Re-Insurance Co. (U.K.) Ltd., Reaseguradora Bernardo O'Higgins S.A.

Employees: 1,086.

Locations: 13 domestic, 11 foreign.

Continued on next page

HELPS LONG-TERM

Arkwright customers know there's more to the cost of risk than insurance premiums.

A major catastrophe can mean loss of market share, shelf space, reputation, key employees—in some cases, loss of the business itself.

Cost of risk also involves various forms of self-insurance, the installation of safety and protection equipment and the expense of maintaining a risk management department.

One of the most important ways Arkwright helps minimize your cost of risk is through risk analysis. Working with engineers from the Factory Mutual Engineering Organization and Factory Mutual International, Arkwright helps you identify, evaluate and control risk.

Knowledge of your operations through regular visits is critical to helping you lower your cost of risk over time—and no one is better qualified than Arkwright to do this.

ARKWRIGHT

Arkwright Mutual Insurance Company
Hobbs Group, Inc.

Continued from previous page

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-American Re-Insurance Co, 609-243-4280.

Assicurazioni Generali S.p.A.
 Piazza Duca Degli Abruzzi 2-34132 Trieste, Italy; 39-40-6711; fax: 39-40-671600

	1989*	1988*
Premiums written	\$1.7 billion	\$1.5 billion
Treaty	97.5%	94.3%
Facultative	2.5%	5.7%
Domestic	23.9%	NA
Foreign	76.1%	NA
Premiums earned	\$1.7 billion	\$1.5 billion
Capital & surplus	\$3.9 billion	\$3.4 billion
Losses	\$1.1 billion	\$1 billion
Loss ratio	67.25%	65.98%
Expenses	\$5.1 billion	\$4.7 billion

Expense ratio	30.16%	30.24%
Combined ratio	97.41%	96.22%

* Fiscal years ended Dec. 31, 1989; Dec. 31, 1988.

Year founded: 1831.
Subsidiaries: La Concorde, Erste Allgemeine, Generali Belgium, Generali Rueckversicherung, Union Suisse.

Employees: 21,200.
Locations: Nine domestic, 41 foreign.

Principal officers: Enrico Randone, chairman; Eugenio Coppola di Canzano, Fabio Fegitz, managing directors; Umberto Della Casa, Camillo Giussani and Luigi Amato Molinari.

Contact: Giorgio Balzer, 212-602-7600.

Axa Reinsurance
 40 Rue du Colisee, 75008 Paris, France; 33-1-40-75-55-00; fax: 33-1-45-62-44-50

	1989*	1988*
Premiums written	\$364,332,917	\$339,831,388
Treaty	85%	NA

Facultative	15%	NA
Domestic	60%	NA
Foreign	40%	NA
Premiums earned	\$347,084,714	\$349,721,080
Capital & surplus	\$104,889,425	\$105,462,870
Losses	\$298,373,682	\$291,385,712
Loss ratio	85.9%	83.3%
Expenses	\$87,398,363	\$82,109,050
Expense ratio	25.2%	23.5%
Combined ratio	110.1%	106.8%

* Fiscal years ended December 31, 1989; December 31, 1988.

Year founded: 1937.
Parent company: Axa Midi Assurance.

Subsidiaries: Axa Re Asia, Axa Re UK, Axa Re USA, Axa Re Canada. Financial results of subsidiaries are not included above.

Employees: 211.
Locations: Three domestic, four foreign.

Principal officers: C. Excoffier, chairman/chief executive officer; J.M. Nessi, senior executive vp; J.P. Benoit and G. Fedida, senior vps; J.P. Guillaumie, vp.

Contact: R. Lippincott, president/ chief executive officer-Axa Re USA.

B

Bavarian Re

Sederanger 4-6, 8000 Munchen 22, West Germany; 49-89-3844-0; fax: 49-89-3844-279

	1989*	1988*
Premiums written	\$576,788,807	\$542,630,378
Premiums earned	\$562,295,198	\$551,167,187
Capital & surplus	\$190,749,979	\$189,320,947
Losses	\$405,483,119	\$399,538,314
Loss ratio	72.1%	72.5%
Expenses	\$164,852,593	\$148,751,135
Expense ratio	28.6%	27.4%
Combined ratio	100.7%	99.9%

* Fiscal years ended Dec. 31, 1988; December 31, 1987.

Year founded: 1911.
Parent company: Swiss Reinsurance Co.

Employees: 295.
Principal officers: Peter Frey, Erich Herrgen, Walter Hofmann, Inge Mahlstedt, Stefan Schroder, Stefan Lippe.

C

C.C.R.

31 Rue Henri Rochefort, 75017 Paris, France; 33-1-40-54-28-00; fax: 33-1-40-54-28-28

	1989*	1988*
Premiums written	\$438,789,978	\$405,457,894
Treaty	97%	96.44%
Facultative	3%	3.56%
Domestic	88%	NA
Foreign	12%	NA
Premiums earned	\$440,668,633	\$317,034,908
Capital & surplus	\$348,694,025	\$296,147,281
Losses	\$363,376,021	\$187,984,686
Loss ratio	82.46%	59.29%
Expenses	\$110,504,444	\$103,133,496
Expense ratio	27.56%	27.79%
Combined ratio	110.02%	87.08%

* Fiscal years ended Dec. 31, 1989; Dec. 31, 1988.

Year founded: 1946.
Subsidiaries: CNP International, SCOR S.A., SCORFIN, SCOR Re Asia, Sorema North America. *Continued on next page*

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Answer: c) All of the above



How to use directory

The second 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 in the directory. 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 companies' 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. The fiscal year of each company is 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.

Financial information related to reinsurance, including net premiums written, net premiums earned, total capital and surplus, loss and loss adjustment expenses, and underwriting expenses are given, followed by loss ratios, expense ratios and combined ratios. The percentage of reinsurance business written as treaty and as facultative reinsurance are included, as well as the percentage of reinsurance written in domestic and foreign markets.

The company's **year founded** 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 1989 and number of worldwide **locations** are included. Names and titles of **principal officers**, as well as a **U.S. contact** complete the listings.

Although every effort is made to publish complete and accurate listings, *Business Insurance* is not able to verify all the information provided by the reinsurers.



The Dai-Tokyo Fire & Marine Insurance Co. Ltd.

1-6 Nihonbashi 3-chome, Chuo-ku, Tokyo, Japan; 81-3-272-8811; fax: 81-3-271-4156

	1989*	1988*
Premiums written	\$340,554,816	\$384,146,428
Treaty	100%	NA
Domestic	0.1%	NA
Foreign	99.9%	NA
Premiums earned	\$332,445,947	\$377,346,456
Capital & surplus	\$1.5 billion	\$1.2 billion
Losses	\$294,299,662	\$342,053,552
Loss ratio	88.53%	90.65%

Continued on next page

1989; December 31, 1988.
Year founded: 1978.
Parent company: Continental Corp.
Subsidiaries: Continental Reinsurance Corp., Continental Reinsurance Corp. International Ltd., Continental Reinsurance Corp. (U.K.) Ltd., Unionamerica Insurance Co. Ltd.

Employees: 308.
Principal officers: Continental Reinsurance Corp: Philip Marcell, chairman; Winifred Baker, president; Continental Re London: Ian Sinclair, managing director-underwriting; Continental Reinsurance Corp.: Gary French, executive vp; Constance Curnow, senior vp.

Contact: Winifred Baker, president-Continental Reinsurance Corp; 212-440-7877.

Continental Reinsurance Group
 180 Maiden Lane, New York, N.Y. 10038; 212-440-7800; fax: 212-440-7656

	1989*	1988*
Premiums written	\$563,952,000	\$759,194,000
Treaty	95.3%	94.2%
Facultative	4.7%	5.8%
Domestic	92.9%	NA
Foreign	7.1%	NA
Premiums earned	\$576,238,000	\$752,348,000
Capital & surplus	\$304,335,000	\$275,498,000
Losses	\$483,431,000	\$638,187,000
Loss ratio	83.9%	84.8%
Expenses	\$188,767,000	\$239,441,000
Expense ratio	33.4%	31.5%
Combined ratio	117.3%	116.3%

* Fiscal years ended December 31,

Dec. 31, 1988. Figures for 1989 are estimates.
Year founded: 1846.
Parent company: Colonia Versicherungs AG, 51.1%.
Subsidiaries: Cologne Life Reinsurance Co., Cologne Reinsurance of America, Cologne Reinsurance Co. (Bermuda) Ltd., Cologne Reinsurance Co. Ltd., The Cologne Reinsurance Co. of South Africa Ltd., Cologne Life Reinsurance Co. of Australia Ltd.
Employees: 778.
Locations: Two domestic, 22 foreign.
Principal officers: Jurgen Zech, chairman; Gerd Hofmann, Georg Lorenz, Peter Lutke Bornefeld, Lothar Meyer, Arnd Saacke, Wilhelm Zeller, members-board of executive directors.

Continued from previous page
 cial results of subsidiaries are not included above.
Employees: 126.
Locations: One domestic.
Principal officers: Alexis Ruset, chairman/general manager; Claude Thevenot, deputy general manager; Rene Vandamme, commercial; Gerard Boulter, accounting/finance; Max Dessagnat, technical; Herve Labory, agricultural risks; Olivier Meyer, communication/real estate; Gabriel Wache, data processing; Jean-Marc Letailleur, staff management/in-house logistics.

Chiyoda Fire & Marine Insurance Co. Ltd.
 1-9, Kyobashi 2 Chome, Chuo-ku, Tokyo 104, Japan; 81-3-281-1111; fax: 81-3-275-0780

	1989*	1988*
Premiums written	\$322,041,473	\$342,807,052
Treaty	99%	99%
Facultative	1%	1%
Domestic	65%	NA
Foreign	35%	NA
Capital & surplus	\$741,800,628	\$552,670,409
Losses	\$207,942,490	\$251,396,038
Expenses	\$44,843,147	\$44,506,583

* Fiscal years ended March 31, 1989; March 31, 1988.

Year founded: 1897.
Locations: 222 domestic, 16 foreign.
Principal officers: Tsutomu Ohshima, chairman; Takashi Toyabe, president/executive director; Osamu Sato and Terumi Watanabe, senior vps/executive directors; Yoshimi Takakaoka, senior managing director.
Contact: Junicki Kumagai, chief representative for U.S. operation; 212-306-8748.

CIGNA Reinsurance Operations
 One Franklin Plaza, Philadelphia, Pa. 19102; 215-523-2841; fax: 215-523-3144

	1989*	1988*
Premiums written	\$745,763,000	\$673,670,000
Treaty	81%	82%
Facultative	19%	18%
Domestic	52%	51%
Foreign	48%	49%
Premiums earned	\$740,238,000	\$668,440,000
Capital & surplus	\$538,428,000	\$480,076,000
Losses	\$605,762,000	\$500,238,000
Loss ratio	81.8%	74.8%
Expenses	\$247,942,000	\$208,699,000
Expense ratio	33.2%	31%
Combined ratio	115.1%	105.8%

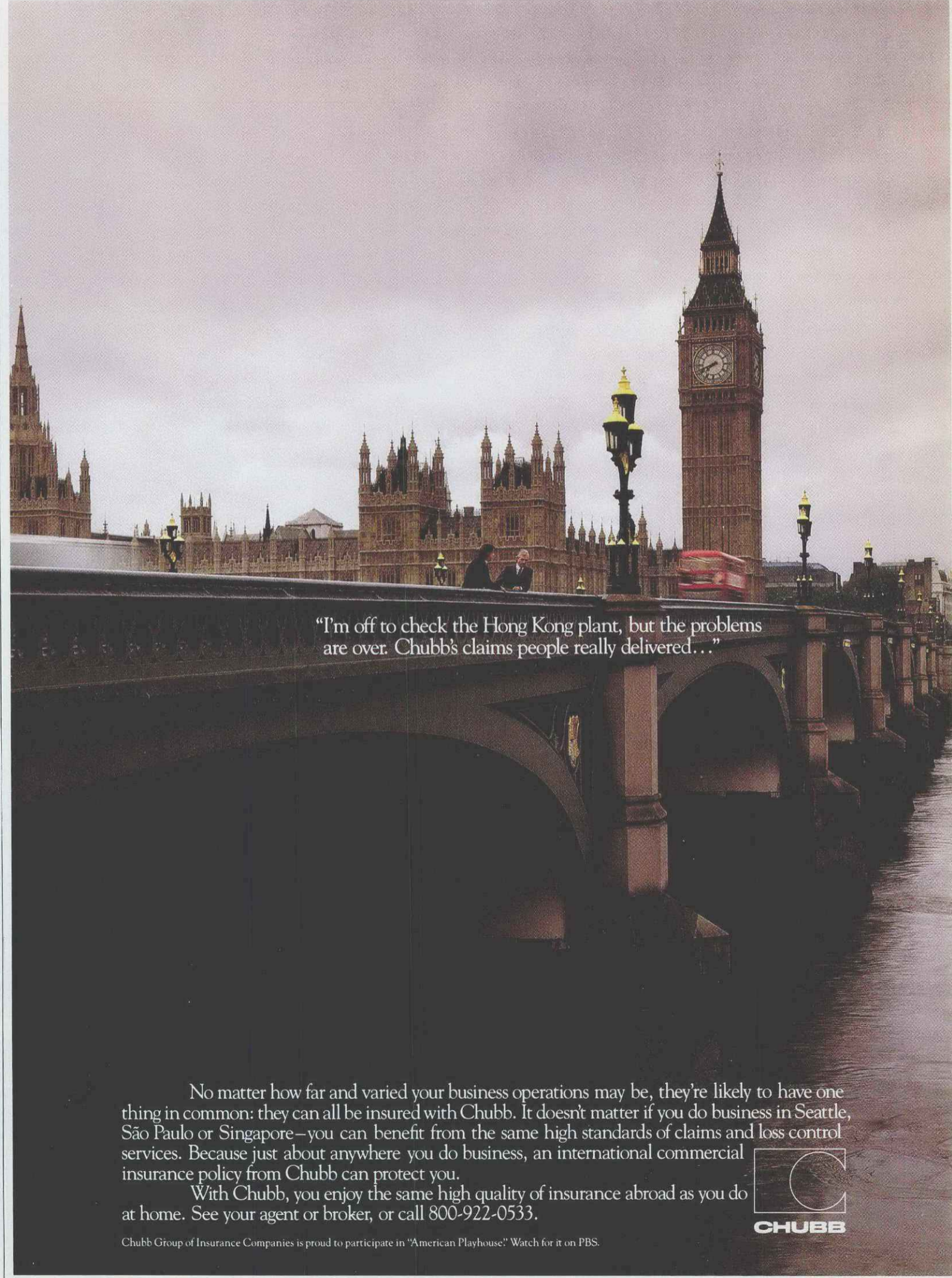
* Fiscal years ended Dec. 31, 1989; Dec. 31, 1988.

Year founded: 1947.
Parent company: CIGNA Corp.
Subsidiaries: CIGNA Reinsurance Co., CIGNA International Insurance Co. Ltd. (Bermuda), CIGNA Reinsurance Co. S.A./N.V., Connecticut General Life Insurance Co., CIGNA Reaseguros S.A., CIGNA Re U.K. Ltd., Life Insurance Co. of North America.
Employees: 654.
Locations: Three domestic, 13 foreign.
Specialties: Property, treaty casualty, marine, agriculture, engineering, accident, aviation, bonding and credit, financial reinsurance/finite risk, life and health.
Principal officers: Norman M. Wayne, president-Property & Casualty Reinsurance Division; Francine Newman, president-Life Reinsurance Division; Harry J. Larzelere, president-North American Property & Casualty Reinsurance Operations; Thomas J. Mahoney, general manager-CIGNA Reinsurance Co. S.A./N.V.; Reginald Green, general manager-CIGNA Re UK Ltd.; James Gaytan, senior vp-Latin America, Far East and U.S. International Operations.
Contact: Norman M. Wayne, 215-523-2452.

The Cologne Re
 Theodor-Heuss-Ring 11, D-5000 Cologne 1, West Germany; 49-221-7759-0; fax: 49-221-7759-494

	1989*	1988*
Premiums written	\$1.5 billion	\$1.2 billion
Treaty	92.6%	90.28%
Facultative	7.4%	9.72%
Domestic	41%	NA
Foreign	59%	NA
Premiums earned	\$1.4 billion	\$1.1 billion
Capital & surplus	\$206,615,730	\$142,665,377
Losses	\$1.1 billion	\$781,371,410
Loss ratio	75.2%	69.1%
Expenses	\$386,143,498	\$303,457,743
Expense ratio	26.3%	25.9%
Combined ratio	102.3%	95.9%

* Fiscal years ended Dec. 31, 1989;



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Spotlight report

Continued from previous page

Expenses.....	\$53,998,610	\$59,964,642
Expense ratio.....	15.86%	15.61%
Combined ratio.....	104.39%	106.26%

* Fiscal years ended March 31, 1990; March 31, 1989.

Year founded: 1918.
Subsidiaries: Southwest International Reinsurance Co.
Employees: 51.
Locations: One domestic, two foreign.

Principal officers: Isao Kuzuhara, managing director; Sukeo Tsukada, deputy general manager; Katsuya Kimura, general manager.
Contact: Ken-ichi Shibuya, chief representative-New York liaison office; 212-826-8110.

* Fiscal years ended Dec. 31, 1988; Dec. 31, 1987.

Year founded: 1918.
Parent company: Swiss Reinsurance Co.
Principal officers: Paul E. Christen, chairman; H.R. Kaufmann, T. Obrist and A. 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

	1989*	1988*
Premiums written	\$415,738,695	\$601,019,723
Treaty.....	100%	100%
Domestic.....	81.5%	NA
Foreign.....	18.5%	NA
Premiums earned	\$460,661,791	\$650,810,543
Losses.....	\$293,209,825	\$441,390,700
Loss ratio.....	63.7%	67.8%
Expenses.....	\$133,201,366	\$171,942,040
Expense ratio.....	32%	28.6%
Combined ratio.....	95.7%	96.4%

E

Eisen & Stahl Re
Karl-Wiechert-Allee 50, 3000 Hannover 61, West Germany; 49-511-5604-0; fax: 49-511-5604-188

	1989*	1988*
Premiums written	\$469,322,542	\$415,998,118
Treaty.....	99%	99.4%
Facultative.....	1%	0.6%
Domestic.....	80%	NA
Foreign.....	20%	NA
Premiums earned	\$464,239,968	\$410,321,063
Capital & surplus	\$157,007,110	\$147,266,862
Losses.....	\$379,769,044	\$312,041,370
Loss ratio.....	81.8%	76%
Expenses.....	\$108,755,318	\$108,911,496
Expense ratio.....	23.2%	26.2%
Combined ratio.....	105%	102.2%

* Fiscal years ended Dec. 31, 1989; Dec. 31, 1988.

Year founded: 1923.
Parent company: Haftpflichtverband der Deutschen Industrie V.a.G. (HDI), 50.6%.

Employees: 109.
Locations: One domestic.
Specialties: Financial guarantee, medical malpractice, aviation, political risks, alternative market concepts.

Principal officers: Claus R. Binger, president; Theo Dielman, board of management; Jurgen Lang, Dirk Lohmann, Hans Rohlf, underwriting officers.

Contact: Jurgen Lang, 49-511-5604-360; Dirk Lohmann, 49-511-5604-330; Hans Rohlf, 49-511-5604-290.

Employers Reinsurance Group

5200 Metcalf, P.O. Box 2991, Overland Park, Kan. 66201; 913-676-5200; fax: 913-676-5221

	1989*	1988*
Premiums written	\$2.3 billion	\$2 billion
Treaty.....	60.6%	NA
Facultative.....	39.4%	NA
Domestic.....	84.3%	NA
Foreign.....	15.7%	NA
Premiums earned	\$2.3 billion	\$2 billion
Capital & surplus	\$1.6 billion	\$1.3 billion
Losses.....	\$1.5 billion	\$1.2 billion
Loss ratio**.....	80.1%	74.8%
Expenses.....	\$1.1 billion	\$937,143,000
Expense ratio**.....	26%	26%
Combined ratio**.....	106.1%	100.8%

* Fiscal years ended Dec. 31, 1989; Dec. 31, 1988.

** Ratios relate to property and casualty business only.

Year founded: 1914.
Parent company: General Electric Financial Services Inc.

Subsidiaries: Employers Reinsurance Corp. (U.S.), Nordisk Reinsurance Co. (Denmark), Employers Reinsurance Ltd. (U.K.), First Excess & Reinsurance Corp. (U.S.).

Employees: 769.
Locations: 10 domestic, five foreign.

Principal officers: Michael G. Fitt, chairman/president/chief executive officer; Delmar L. Burton and Thomas S. Case, executive vps; W. Mick Taylor, senior vp; Kaj Ahlmann, managing director of Nordisk Re; Robin Snook, managing director of Employers Reinsurance Ltd.

Contact: W. Mick Taylor, senior vp-Employers Reinsurance Corp., 913-676-5209.

European General Reinsurance Co. of Zurich
Mythenquai 50/60, 8022 Zurich, Switzerland; 41-1-208-2121; fax: 41-1-208-2999

	1989*	1988*
Premiums written	\$524,385,756	\$684,722,356
Premiums earned	\$540,017,442	\$680,576,688
Capital & surplus	\$57,351,258	\$65,983,180
Losses.....	\$447,587,298	\$557,070,296

* Fiscal years ended Dec. 31, 1989; Dec. 31, 1988.

Year founded: 1983.
Parent company: United States Fidelity & Guaranty Co.
Employees: 42.
Locations: One domestic.
Principal officers: Paul B. Ingrey, president; James N. Stanard, executive vp; John R. Berger and Alan M. Willemsen, senior vps; Roland W. Jackson, senior vp/comptroller.
Contact: Roland W. Jackson, 201-898-9393.

Frankona Reinsurance Co.
Maria-Theresia-Strasse 35, 8000 Munich 80, West Germany; 49-89-9228-0; fax: 49-89-9228-395

	1989*	1988*
Premiums written	\$743,167,480	\$710,883,940
Treaty.....	93.5%	93.5%
Facultative.....	6.5%	6.5%
Domestic.....	61%	NA
Foreign.....	39%	NA
Premiums earned	\$739,169,200	\$701,613,700
Capital & surplus	\$200,170,300	\$198,813,540
Losses.....	\$470,464,280	\$456,117,880
Loss ratio.....	63.6%	65%

Expenses.....	\$207,346,700	\$198,041,020
Expense ratio.....	37.8%	36.2%
Combined ratio.....	101.4%	101.2%

* Fiscal years ended June 30, 1990; June 30, 1989.

Year founded: 1886.
Parent company: Gerling-Konzern Globale Versicherungs-Beteiligungs-AG, 50.4%.

Subsidiaries: Frankona Reinsurance Co. (UK), Frankona America Life Reinsurance Co. (USA), Frankona America Service Co. (USA), Frankona Servizi (Italy), Frankona Singapore. Financial results of subsidiaries are not included above.

Employees: 520.
Locations: One domestic, five foreign.

Principal officers: Achim Kann, chairman; Klaus Bultmann, deputy chairman; Kristian Gross, Reinhard Hinne, Gunter Jacobs, Dieter W. Luer, members of the board.

Contact: Robert Adams, president-Frankona America Life Reinsurance Co./Frankona America Service Co., 816-346-6541 or Karl Mayr, executive vp-Frankona Reinsurance Co., 816-346-6536.

G

General Reinsurance Corp.
695 E. Main St., P.O. Box 10351, Stamford, Conn. 06904-2351; 203-328-5000

	1989*	1988*
Premiums written	\$1.8 billion	\$1.8 billion
Premiums earned	\$1.8 billion	\$1.9 billion
Capital & surplus	\$2.7 billion	\$2.3 billion
Losses.....	\$1.3 billion	\$1.3 billion
Loss ratio.....	70.6%	70%
Expenses.....	\$521,478,197	\$517,766,472
Expense ratio.....	29%	29.1%
Combined ratio.....	99.6%	99.1%

* Fiscal years ended Dec. 31, 1989; Dec. 31, 1988.

Year founded: 1921.

Parent company: General Re Corp.
Subsidiaries: North Star Reinsurance Corp., General Star Indemnity Co., General Star National Insurance Co.

Continued on next page

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Continued from previous page

Employees: 2,400.
Locations: 18 domestic, 11 foreign, including affiliates.
Principal officers: James Eric Gustafson, Tom Nason Kellogg, Kenneth John Lestrangle, Dallas Wayne Luby, Thomas James McCarthy Jr., Peter Maurice Nance, Philip Wahmann Ness Jr. and Jerry Sanford Wilbourn, senior vps; Edmond Francois Rondepierre, senior vp/general counsel/secretary; Louis John Forgiione, vp/treasurer.

Gerling-Konzern Globale Reinsurance Group
 Gereonshof, D-5000 Cologne 1, West Germany; 49-221-144-1; fax: 49-221-144-3718

	1989*	1988*
Premiums written	\$949,537,727	\$923,955,995
Domestic	65.4%	NA
Foreign	34.6%	NA
Premiums earned	\$925,584,451	\$907,228,887

Capital & surplus	\$180,833,488	\$185,162,140
Losses	\$609,987,790	\$618,120,650
Loss ratio	65.9%	68.1%
Expenses	\$287,337,136	\$271,409,650
Expense ratio	30.3%	29.4%
Combined ratio	96.2%	97.5%

* Fiscal years ended June 30, 1989; June 30, 1988.

Year founded: 1954.
Parent company: Gerling-Konzern Versicherungs-Beteiligungs-Aktiengesellschaft.

Subsidiaries: Gerling Global Life, Gerling Global Reinsurance, Gerling Global General & Reinsurance Co. Ltd., Gerling Global Reinsurance, Gerling Globale.

Employees: 536.
Locations: One domestic, 23 foreign.

Principal officers: Richard Wolterreck, chairman; Uwe Eymer, Gerhard Niebuhr, Norbert Strohschen, Paul-Robert Wagner and Anton Weiler, executive board members.

Contact: Wolfgang Schlaeger, Gerling Global Reinsurance Corp., 212-752-8900.

H

Hannover Reinsurance Co.

Karl-Wiechert-Allee 50, 3000 Hannover 61, West Germany; 49-511-5604-0; fax: 49-511-5604-188

	1989*	1988*
Premiums written	\$711,425,892	\$739,460,081
Premiums earned	\$699,892,197	\$757,064,170
Capital & surplus	\$302,250,642	\$299,506,963
Losses	\$573,287,643	\$531,191,168
Loss ratio	81.9%	70.2%
Expenses	\$206,920,323	\$226,841,513
Expense ratio	29.1%	30.7%
Combined ratio	111%	100.9%

* Fiscal years ended Dec. 31, 1989; Dec. 31, 1988.

Year founded: 1966.
Parent company: Haftpflichtverband der Deutschen Industrie V a.G.

Subsidiaries: Insurance Corp. of Hannover (USA), International Insurance Co. of Hannover Ltd., Hollandia Reinsurance Co. Ltd., Hollan-

dia Life Reassurance Co. Ltd. Financial results of subsidiaries are not included above.

Employees: 231.
Locations: One domestic, 10 foreign.

Specialties: Financial guarantee, medical malpractice, aviation, political risks, alternative market concepts.

Principal officers: Claus R. Bingenmer, president; Theo Dielmann, Jurgen Lang, Dirk Lohmann, Hans Rohlf, underwriting officers.

Contact: Jurgen Lang, 49-511-56-04-360; Dirk Lohmann, 49-511-56-04-330; Hans Rohlf, 49-511-56-04-290.

K

Kemper Reinsurance Co.

Long Grove, Ill. 60049; 708-540-2600; fax: 708-540-2014

	1989*	1988*
Premiums written	\$328,439,000	\$308,883,000
Treaty	98%	NA

M

The Mercantile & General Reinsurance Co. P.L.C.

Moorfields House, Moorfields, London EC24 9AL; 44-71-628-7070; fax: 44-71-588-4629

	1989*	1988*
Premiums written	\$1.1 billion	\$971,164,500
Domestic	29.4%	33.7%
Foreign	70.6%	66.3%
Premiums earned	NA	NA
Capital & surplus	\$427,548,600	\$295,508,900
Losses	\$1 billion	\$888,516,050
Expenses	\$347,494,200	\$313,232,200

* Fiscal years ended Dec. 31, 1989; Dec. 31, 1988.

Year founded: 1907.
Parent company: Prudential Corp.

Subsidiaries: The Mercantile & General Reinsurance Co. of Australia Ltd., The Mercantile & General Reinsurance Co. of Canada, The Mercantile & General Reinsurance Co. of America; The Mercantile & General Reinsurance Co. of South Africa Ltd.

Locations: Two domestic, 11 foreign.

Principal officers: John Lock, managing director; Mile Brown, chief actuary, Roger Sansom, John Austin and Michael Harney, general managers.

Contact: Paul Hawksworth, president/chief executive officer-The Mercantile & General Reinsurance Co. of America, 201-898-9480.

Munich Reinsurance Co.

Koniginstrasse 107, D-8000 Munich 40, West Germany; 49-89-38-91-0; fax: 49-89-39-90-56 or 49-89-39-90-57

	1989*	1988*
Premiums written	\$6.5 billion**	\$5.8 billion**
Domestic	55%	NA
Foreign	45%	NA
Premiums earned	\$6.5 billion**	\$5.8 billion**
Capital & surplus	\$1.1 billion	\$1.1 billion
Losses	\$4.3 billion	\$4.3 billion
Loss ratio	75.77%	76.73%
Expenses	\$1.7 billion	\$1.7 billion
Expense ratio	30.4%	29.8%
Combined ratio	106.2%	106.5%

* Fiscal years ended June 30, 1989; June 30, 1988.

** Fiscal years ended Dec. 31, 1988; Dec. 31, 1987.

Year founded: 1880.
Subsidiaries: Munich Re of Canada (MROC), Munich American Reinsurance Co. (MARC), MARC-Life, Munich Reinsurance Co. of South Africa (MRSA), Munich Reinsurance Co. of Australia (MRA), Great Lakes Reinsurance Co., New Re. The financial results of subsidiaries are not included above.

Employees: 1,656.
Locations: One domestic, more than 65 foreign.

Principal officers: Horst K. Jannot, chairman; Hans-Jurgen Schinzler, Wolf Otto Gauer, Claus Konrad, Rudolf Ficker, Dieter Gobel, Edith Lukas, Fedor Nierhaus, Dieter Nonhoff, Hans Raffler, Ralph Roth, Hans-Dieter Sellschopp, Hans-Wilmar von Stockhausen.

Contact: John N. Lombardo, president/chief executive officer-Munich American Reinsurance Co.; 212-310-1600.

Continued on next page



Continued from previous page

N

Netherlands Reinsurance Group

P.O. Box 141, 1180 AC Amstelveen, The Netherlands; 31-20-434545; fax: 31-20-438318

	1989*	1988*
Premiums written	\$704,768,750	\$737,084,910
Capital & surplus**	\$244,350,000	NA

* Fiscal years ended June 30, 1989; June 30, 1988.

** Estimate.

Parent company: Nationale-Nederlanden Group, 51%.

Principal officers: J. Kleiterp, chairman; H. Huizinga, vice chairman; J.L.M. Bartelds, E. Coppola di Canzano, F. Fegitz, D.J. Groninger, G.F. Jonckheer, T.M. West, R. Wijkstra.

North American Reinsurance Corp.

237 Park Ave., New York, N.Y. 10017; 212-907-8174; fax: 212-907-8728

	1989*	1988*
Premiums written	\$630,100,000	\$623,600,000
Treaty	88.8%	NA
Facultative	11.4%	NA
Domestic	99%	NA
Foreign	1%	NA
Premiums earned	\$599,100,000	\$679,200,000
Capital & surplus	\$588,100,000	\$623,400,000
Losses	\$482,300,000	\$464,400,000
Loss ratio	80.5%	68.4%
Expenses	\$229,500,000	\$213,300,000
Expense ratio	36.4%	34.2%
Combined ratio	116.9%	102.6%

* Fiscal years ended Dec. 31, 1989;

Dec. 31, 1988.

Year founded: 1910.

Parent company: Swiss Reinsurance Co.

Subsidiaries: Atrium Corp., J.K. Battershill Reinsurance Intermediaries, Western Atlantic Management Corp.

Employees: 428.

Locations: 10 domestic.

Specialties: Excess, pro rata, property and casualty, surety, engineered risk, marine, financial risk.

Principal officers: N. David Thompson, president/chief executive officer; Albert W. Davis, executive vp-marketing; Charles E. Mabli, executive vp-financial; James P. Quinn, executive vp-special lines; Darius G. Baker, group vp-facultative; William H. Stempson, group vp-underwriting.

Contact: Albert W. Davis, executive vp-marketing, 212-907-8073.

P

Prudential Reinsurance Co.

3 Gateway Center, Newark, N.J. 07102-4077; 201-802-8888; fax: 201-802-2541

	1989*	1988*
Premiums written	\$549 million	\$569 million
Treaty	83.7%	77.6%
Facultative	16.3%	22.4%
Domestic	78.44%	NA
Foreign	21.56%	NA
Premiums earned	\$542 million	\$596 million
Capital & surplus	\$505 million	\$415 million
Losses	\$405 million	\$467 million
Loss ratio	74.7%	78.3%
Expenses	\$205 million	\$203 million
Expense ratio	37.3%	35.7%
Combined ratio	112%	114%

* Fiscal years ended Dec. 31, 1989;

* Fiscal years ended Dec. 31, 1989; Dec. 31, 1988.

Year founded: 1973.

Parent company: The Prudential Insurance Co. of America.

Subsidiaries: Le Rocher Compagnie Reassurance S.A., Le Rocher U.K. Ltd.

Employees: 643.

Locations: Eight domestic, four foreign.

Principal officers: James E. Dwane, president; Dewey P. Clark, Thomas J. Gallagher and Jean F. Webb, senior vps; Craig E. Eisenacher, senior vp/comptroller.

Contact: Robert G. Murray, vp-public relations; 201-802-2083.

S

St. Paul Group Reinsurance

385 Washington St., St. Paul, Minn. 55102; 612-221-7911

	1989*	1988*
Premiums written	\$416,934,000	\$314,252,000
Treaty	70%	NA
Facultative	30%	NA
Domestic	70%	NA
Foreign	30%	NA
Premiums earned	\$372,034,000	\$292,250,000
Losses	\$347,918,000	\$223,794,000
Loss ratio	93.5%	76.6%
Expenses	\$130,154,000	\$96,260,000
Expense ratio	31.2%	30.6%
Combined ratio	124.7%	107.2%

* Fiscal years ended Dec. 31, 1989; Dec. 31, 1988.

Year founded: 1853.

Parent company: The St. Paul Cos. Inc.

Subsidiaries: St. Paul Fire & Marine Insurance Co., St. Paul Fire & Marine Insurance Co. (UK).

Employees: 417.

Locations: Two domestic, one foreign.

Principal officers: V.T. Boghos, chief executive-St. Paul UK, James P. White, chief executive-St. Paul Re.

Contact: James P. White, chief executive-St. Paul Re, 212-239-9205.

SCOR Reinsurance Co.

110 William St., New York, N.Y. 10038; 212-513-1777; fax: 212-406-9296

	1989*	1988*
Premiums written	\$102,108,414	\$110,649,465
Treaty	60%	60%

Facultative	40%	40%
Domestic	85%	NA
Foreign	15%	NA
Premiums earned	\$101,247,991	\$112,063,195
Capital & surplus	\$115,751,604	\$108,539,237
Losses	\$195,255,351	\$159,478,256
Loss ratio	74.4%	65.8%
Expenses	\$31,083,333	\$32,599,786
Expense ratio	30.4%	29.5%
Combined ratio	104.8%	95.2%

* Fiscal years ended Dec. 31, 1989; Dec. 31, 1988.

Year founded: 1974.

Parent company: SCOR U.S. Corp.

Employees: 113.

Locations: Four domestic.

Principal officers: Jerome Karter, president/chief executive officer;

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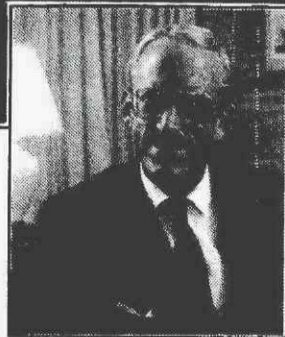
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Agent/Broker Topics

A monthly editorial section sent exclusively to agents and brokers

20 most productive agencies

Based on 1989 revenues per employee

Rank	1989	1988	Company	Revenue/employee			Gross revenues			Employees		
				1989	1988	% change	1989	1988	% change	1989	1988	% change
1	1		Healthcare Insurance Services Inc.	\$259,805	\$234,639	10.7	\$8,833,366	\$7,273,804	21.4	34	31	9.7
2	2		Joseph Held Co. Inc.	240,625	168,182	43.1	1,925,000	1,850,000	4.1	8	11	-27.3
3	*		R.P. O'Brien & Co. Inc.	183,333	150,000	22.2	1,100,000	450,000	144.4	6	3	100.0
4	6		Seaman Ross & Wiener Inc.	182,313	152,778	19.3	2,917,000	2,750,000	6.1	16	18	-11.1
5	8		The Sklover Organization	172,222	138,889	24.0	1,550,000	1,250,000	24.0	9	9	-
6	3		Frank Crystal & Co. Inc.	168,281	166,944	0.8	26,925,000	24,040,000	12.0	160	144	11.1
7	*		The Redland Group Inc.	163,617	60,233	171.6	49,085,000	12,950,000	279.0	300	215	39.5
8	4		James Econn & Co.	150,031	157,035	-4.5	7,201,484	7,694,691	-6.4	48	49	-2.0
9	6		May-Davis Inc.	150,000	150,000	-	750,000	750,000	-	5	5	-
10	11		Cal-Central Insurance & Management Services Inc.	149,300	132,200	12.9	1,493,000	1,322,000	12.9	10	10	-
11	16		Wright & Co.	147,484	123,735	19.2	4,572,000	4,207,000	8.7	31	34	-8.8
12	*		Herbert L. Jamison & Co.	138,222	136,282	1.4	16,172,000	14,991,000	7.9	117	110	6.4
13	*		The Ebersberger Cos.	136,364	119,048	14.5	3,000,000	2,500,000	20.0	22	21	4.8
14	14		B.R.I. Coverage Corp.	134,758	107,115	25.8	32,881,000	27,100,000	21.3	244	253	-3.6
15	*		The Wood Insurance Group Inc.	134,429	91,125	47.5	941,000	729,000	29.1	7	8	-12.5
16	*		The Cal-Surance Cos.	132,013	109,294	20.8	21,122,000	18,580,000	13.7	160	170	-5.9
17	12		Tanenbaum-Harber Co. Inc.	131,690	131,071	0.5	18,700,000	18,350,000	1.9	142	140	1.4
18	7		Kornreich Insurance Services	131,126	139,706	-6.1	19,800,000	19,000,000	4.2	151	136	11.0
19	9		Ulrich, Voorhees, Warner Associates Inc.	130,385	135,444	-3.7	6,780,000	6,095,000	11.2	52	45	15.6
20	13		Schwartz Brothers Insurance Agency Inc.	129,571	112,435	15.2	8,163,000	7,083,405	15.2	63	63	-

* Not in Top 20 based on 1988 revenues.

Source: BI survey

Soft market strategies

Productive agents mix creativity, basics

By LAURA MAZZUCA

Basic business sense and a dash of creative thinking provide the one-two punch that the nation's most productive agencies are using to beat the soft market.

Thin margins and tough competition are just now forcing agencies to pick up on practices that other businesses have used for years. For instance, many are adopting formal sales programs, developing and following business plans, and structuring salaries and job descriptions.

Boosting premium volume, of course, remains an important factor in contending with a soft market. But it is only one factor. Rather than relying solely on increased commercial property/casualty insurance sales, many successful agencies continue to explore other avenues, including

investment income, employee benefits and wholesale brokerage commissions.

Principals at several of the nation's most productive agencies spoke defiantly of market-cycle mentality.

"You run a business based on the conditions in your company. You shouldn't run a business reacting after the fact, though this is what the industry has done for too long," said James W. Crystal, chairman and chief executive officer of Frank Crystal & Co. Inc. The New York agency was No. 6 on the *Agent/Broker Topics* list of the nation's most productive agencies, with 1989 revenues per employee of \$168,281.

"Cycles are strictly of your own

making to give you a reason to fail," said George H. Ebersberger Jr., president of The Ebersberger Cos. in Severna Park, Md.

"Good productivity is like building a pyramid: You lay the blocks, set the parameters, and if you do it every year, you get better at it," said Mr. Ebersberger, whose agency landed the No. 13 spot with 1989 per-employee revenues of \$136,364, up 14.5% from \$119,048 in 1988.

Agent/Broker Topics' second annual look at the 20 most productive agencies, as measured by revenues per employee, is based on information submitted by agents and brokers for *Business Insurance's* 19th annual report on U.S. brokers (*BI*, June 18).

Glancing quickly at the figures, one might be fooled into thinking the market was hardening already.

After all, the average per-employee revenues among the Top 20 grew 12% to \$158,278 from \$141,094 in 1988. And, total gross revenues for the Top 20 increased nearly one-third to \$233 million from \$178 million.

In that same year, agency workforces grew by one-fifth. An average Top 20 agency employed 79 people in 1989, up 19.7% from 66 in 1988, and the total employee count for the 20 most productive increased 20% to 1,585 from 1,313 in 1988.

But rather than indicating a market swing, those figures suggest big-volume selling and the

pursuit of new lines of business.

Indeed, agents from coast to coast still bemoan slumping market conditions.

"It's still a horrendous insurance market," with only "minor" bottoming of prices, said Kenneth S. Held, president and chief executive officer of Joseph Held Co. Inc. of New York, which was the second most-productive agency for the second consecutive year.

He blames the loss of several clients last year on "absolutely mindless rate cutting" by the New York branch offices of insurance companies whose home offices are unaware of the situation.

Other agency principals say attempts to raise rates in selected lines are failing.

Insurers "are trying to harden it up, but it's lasting much longer than other soft markets," said Ro-

Continued on next page

Frank Wright says his No. 11 agency, a specialist in governments and associations, 'doesn't have a soft market.'
Page 68E



Steve Barrett



Rory O'Brien's young agency is ranked No. 3. Page 68H

David Lubarsky



Steve Glowacki

Drought brings a bumper crop for Redland Group, says Richard Gibson, president of the No. 7 agency. Page 68F

Productivity

Continued from previous page
bert K. Harris, chairman of Tanenbaum-Harber Co. Inc., a New York agency that ranked No. 17 with 1989 per-employee revenues of \$131,690.

In California, especially in the past 18 months, market conditions have been "inconsistent, soft and very fast," said Ronald J. Stewart, president of Cal-Central Insurance & Management Services Inc. in Fresno, Calif. With 1989 revenues per employee of \$149,300, the agency ranked 10th in the A/BT survey.

A sluggish market and intense competition could spell disaster for many agencies. But savvy principals are surviving and even thriving.

One reason, they say, is that for those who know how to use it, the soft market is proving to be a good time to solidify agency structures.

Frank Crystal & Co., for one,

added 16 employees in 1989, hiring producers and others whose prices will rise when the market hardens. Crystal ranked sixth with \$168,281 of revenues per employee in 1989, up 0.8% from \$166,944 in 1988.

R.P. O'Brien & Co. Inc., the No. 3 agency with \$183,333 of revenues per employee in 1989, is using a prolonged real estate slump in the Northeast as leverage in renegotiating its lease (see story, page 68F).

Healthcare Insurance Services Inc., a medical malpractice specialist in Houston, anticipates a continuing soft market in that line.

So the agency—which for the second straight year sits atop the A/BT ranking—acquired an administrative services firm last year. The agency attributes its 50% revenue increase in 1990 to that purchase. Revenues per employee rose 10.7% to \$259,805 from \$234,639 in 1988.

Other agencies are taking advan-

tage of declining software prices to upgrade or replace automation systems (see story, page 68J).

Consultants and agents themselves agree that careful planning should precede such growth.

Salaries, overhead and other nuts-and-bolts items should be included in this review. But plans also can cover matters of business philosophy, such as which niches to pursue.

"Although margins are tight and getting tighter, firms which outperform the industry have two things in common: a good budget and solid business and strategic plans," said Timothy J. Cunningham, senior consultant at Hales & Associates Inc. in Westchester, Ill.

He and other consultants say agents and brokers now realize that efficient operations with long-term goals entail a permanent mindset. No longer are the ideas treated like contingency plans to be dropped when

things get busy again.

"Even when the market hardens this time around, people aren't going to go back to their old sloppy ways," predicted Sharon D. Cunningham, a consultant with Business Management Group in Hartford, Conn.

More mid-sized clients are requesting help in drawing up formal business plans. Many, she said, had never thought about them before.

Internal plans have never been slighted at Wood Insurance Group Inc., said President David A. Wood, who founded the Phoenix, Ariz.-based business in 1986. At least two months go into developing each plan.

With per-employee revenues increasing 47.5%—to \$134,429 from \$91,125 in 1988—Wood was No. 15 in the A/BT listing.

Keeping a close eye on a long-term business plan has worked well for Healthcare Insurance Services, said President William F. Galtney.

"We concentrate on larger accounts in our niche business and stick with our strategic plan to maintain certain operating margins."

Mr. Galtney predicts that hospital and medical malpractice coverage—largely unscathed so far by the soft property/casualty market—will see rate reductions next year.

But, after per-employee revenues rose 10.7%, to \$259,805 in 1989 from \$234,639 in 1988, Mr. Galtney says performance will tail off next year.

"Our margins won't be quite as good next year as this year. I wouldn't be surprised if next year we're only at about \$200,000 revenues per employee," he said.

To counteract the expected softening of the medical malpractice market, Healthcare Insurance Services plans to expand into the reinsurance intermediary business. That move will also serve clients that are launching self-insurance programs.

More business also is expected from Professional Risk Management Services Inc. of Washington, D.C., the claims services and administration firm it acquired in 1989.

As principals take a longer view of agency development, rather than focus on simple year-to-year survival, short-term fluctuations in profits are taken with a grain of salt.

"We do not consciously cut staff in the soft market, and we do not cut services to our clients—we simply become less productive and less profitable," said James Econn, chairman and chief executive officer of James Econn & Co. in Los Angeles.

He downplayed the 4.4% slide in the agency's revenues per employee to \$150,031 in 1989 from \$157,035 in 1988, which dropped the agency to No. 8 from No. 4 in the A/BT ranking.

"We take the longer-range approach, much as do the Japanese," he said. "They sacrifice short-term profits for market share and therefore (realize) long-term profits."

Virtually all of the 20 most productive agencies said specialization is a key component in their plans to remain productive. Niche marketing, total account selling and investment income all are noted as having important roles in generating revenue.

Case in point: The Sklover Organization in Westbury, N.Y.

Revenues per employee there rose 23.9% in 1989 mainly because the agency, a specialist in credit card enhancement products, added purchase protection and double warranty coverages to its roster, according to President Richard Sklover.

Ten years ago, credit card enhancements accounted for only 20% of revenues. By 1990, that figure was 70%.

"Success in today's market is more about marketing than insurance," Mr. Sklover said. "You have to constantly come up with new ideas to stay in business."

Per-employee revenues of \$172,222, up from \$138,889 in 1988, ranked Sklover No. 5 in the listing.

Howard Miller, director of production at BRI Coverage Corp. of New York, credits its No. 14 ranking to its 1985 decision to specialize.

Before making that move, the agency "examined the industry very carefully" and hired an outside consultant to train its underwriters and staffers on expertise.

Since then, BRI has added asbestos abatement, fur industry, demolition and long-haul trucking coverages to its long-established marine expertise.

Such "industry selling" is the main reason BRI's per-employee revenues climbed 25.8% to \$134,758 from \$107,115 in 1988, Mr. Miller said.

"We're doing the same as last year, only more so," Mr. Held said. Joseph Held Co. increased its revenues per employee by 43% to \$240,625 and retained its No. 2 position by adding several large new accounts and using loss control services to counter slack commissions.

Held, which specializes in commercial

Continued on next page

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Continued from previous page
cial real estate coverages, also increased its volume in Florida after Hurricane Hugo, he said.

Specialization is nothing new for many agencies.

Schwartz Brothers Insurance Agency Inc. of Chicago began specializing in construction and real estate risks in the early 1960s, when these niches comprised 50% of its business, said David W. Kunkel, chief operating officer. "We were doing target marketing before it became a catchword."

Schwartz Brothers—No. 20 on the A/BT list with per-employee revenues of \$129,571, up 24.1% from \$112,435 in 1988—later added other niches like payment and performance bonds and coverage for meatpackers and golf club manufacturers.

"Once you write a few of them, it's easy since they all have the same types of exposures," Mr. Kunkel said.

Specialization carries with it one potential pitfall: saturation.

"We look for areas where there aren't 50 brokers looking for the same thing," said Mr. Ebersberger of The Ebersberger Cos. "Focus on doing three things well rather than 25, and the world is your pie."

The agency has carefully targeted trade groups since 1985 and now places 70% of the coverage for architects/engineers and auto dismantlers in the Maryland region.

An accountant errors and omissions program developed through this process now generates close to \$1 million annually in premium volume. The program also doubles as an account selling approach, since the agency's accountant clients now refer their own clients to Ebersberger.

Successful agencies also are targeting geographic regions.

Healthcare Insurance Services is taking a hard look at the states in which it does business. "Some states offer better opportunities to us than others," said Mr. Galtney.

In some of the 40 states where the agency places business, "fierce competition among (insurers is) driving prices down to levels that can't be sustained," he said.

Principals also are selling service more and are forging closer links to major commercial clients by catering

Six new agencies new to Top 20

There was a lot of jockeying for position in the 1990 *Agent/Broker Topics* 20 most productive agency listing.

Six agencies are making their debuts in this year's most productive rankings: third-place R.P. O'Brien & Co. Inc., seventh-place The Redland Group Inc., 12th-place Herbert L. Jamison & Co., 13th-place The Ebersberger Cos., 15th-place The Wood Insurance Group Inc., and 16th-place The Cal-Surance Cos.

Productive newcomers displaced several agencies.

While Healthcare Insurance Services Inc. and Joseph Held Co. Inc. held onto their first- and second-place rankings, respectively, R.P. O'Brien usurped the No. 3 spot formerly held by Frank Crystal & Co. Inc., which dropped to sixth place this year.

Also declining were: James Econn & Co. (to eighth from fourth place); May-Davis Inc. (to ninth from sixth place); Tanenbaum-Harber Co. Inc. (to 17th from 12th place); Kornreich Insurance Services (to 18th from seventh place); Ulrich, Voorhees Warner Associates Inc. (to 19th from ninth place); and Schwartz Brothers Insurance Agency Inc. (to 20th from 13th place).

Results of the A/BT survey are based on the gross revenues reported for 1989 and number of employees reported by 244 agencies and brokerages (see chart, page 68A).

—By Laura Mazzuca

to their personal insurance needs.

"Total account selling is the key to our business right now," said Alex M. Seaman, president of Seaman Ross & Wiener Inc. The Jericho, N.Y., agency moved up a notch to No. 4 in the ranking for most productive agencies by increasing its employee benefits, life/health and related coverages to 20% of its total revenues in 1989. Revenues per employee rose 19.3% in 1989 to \$182,313 from \$152,778 in 1988.

Total account selling is far superior to marketing because the agency not only creates a bond with the client, but also produces "quality referrals," Mr. Seaman explained.

Focusing on servicing existing accounts, rather than marketing for new ones, keeps turnover low among targeted manufacturing, wholesale and real estate companies, he said.

At Frank Crystal & Co., meeting the needs of the financial institu-

tions, aviation and garment manufacturers it targets has caused the agency's seven-year-old employee benefits department to grow much faster than its general property/casualty business, Mr. Crystal said.

Successful agencies also are making money in wholesale brokerage.

Joseph Held increased wholesale brokerage to 17.5% of revenues in 1989 from 10% in 1988 using its commercial property expertise to assist other brokers in creating programs for coastal condominiums, Mr. Held said.

And Cal-Central, which specializes primarily in workers compensation programs for funeral homes with multiple locations, places the coverage statewide through a wholesale division, Mr. Stewart said.

To generate new business and improve retentions, successful agencies also have restructured sales departments, Ms. Cunningham said.

Principals, realizing that they cannot do it all anymore, are hiring sales managers to do "basic things, like run sales meetings and train people," she said. "They're setting much higher goals for sales people."

They also are taking a more sales-centered approach, with customer service representatives taking on more technical and sales responsibilities to free up the outside producers to generate more business, said Catherine C. Oak, senior consultant at Russell Miller Inc. in San Francisco.

Early each week, a tightly run telemarketing department at Ebersberger sets up 10 to 15 appointments for producers, Mr. Ebersberger said. The agency's "hit ratio" is 60% of what it quotes, he noted.

Other agency employees are undergoing similar restructuring (see story, page 68D).

"Agents are being hit in the pocket and want to get more out of their

staffs," Ms. Cunningham observed.

To hold onto valued employees—and to protect themselves against errors and omissions exposures—principals are providing employees with written performance reviews and training courses in all areas of agency operation, she said.

But as agencies grow, "it's harder to maintain that high revenue per employee," warned Tim Cunningham, the Hales & Associates consultant. "It gets tougher to keep the thing going."

Agencies can go through several cycles of reaching an optimum size before they are forced to add new employees—and consequently, learn to become efficient all over again. Therefore, agencies with many employees must "stick to the basics and run the firm like a business," he said.

"It's a matter of fine-tuning to make the process just a little bit better," says Mr. Cunningham. ■

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Wright & Co.

Continued from previous page

Early successes led to government and insurance company referrals, according to Mr. Wright.

One of Wright & Co.'s most important contracts is an exclusive agreement with the U.S. Agency for International Development.

The federal agency ran into problems in the mid-1970s with workers comp insurance. At the time, it was spending \$16 to \$17 per \$100 of payroll for basic coverage for teachers, researchers, accountants and other U.S. citizens working abroad under AID government contracts, Mr. Wright said.

To hold down costs, Wright & Co. applied stringent loss control techniques, changed the coverage to a five-year contract and encouraged Insurance Co. of North America, a division of CIGNA Corp., to bid on the contract to underwrite the coverage.

INA was awarded the contract.

The agency's workers comp rates now are down to \$3 to \$4 per \$100 of payroll, and it is in its third five-year contract, he said.

Competition with alphabet brokers for other governmental work is fairly regular. However, "we've probably taken more business from them than they've taken from us," Mr. Wright said.

Other growth comes through developing specialty programs.

For example, Wright & Co. recently developed a private passenger auto program, underwritten by CIGNA, that offers attractive rates for FBI employees.

This is in addition to Wright & Co.'s other long-standing, employee-funded programs for the FBI, in which employees fund long-term disability, retirement savings, life, accidental death and other insurance plans.

Mutual Life Insurance Co. of New York Inc., INA and several other companies underwrite the programs, he said.

Since all the federal government programs are regularly offered to employees on an open enrollment basis throughout the year, the number of individual policyholders is continually growing, Mr. Wright pointed out.

And, state, county and municipal governments may be the next target for expanding those insurance programs.

Faced with a steadily increasing number of policyholders, the agency relies heavily on automation.

Only five of the 34 employees in Wright & Co.'s single office are producers. The remainder are administrative—including claims processors, customer service representatives and data entry personnel.

The agency even sends out payments for most government claims—except professional liability claims—making automation that much more important.

He describes the firm's new Motorola computer system run on software by Computer Dynamics Inc. as "the cutting edge for the insurance industry as a whole." The new system is 40 times faster than its predecessor, and its storage capacity is 40 times greater as well, he estimates.

In addition, an optical scanner allows employees to enter reports and other data directly into the system, Mr. Wright said.

The firm also has a high-speed laser printer that allows swift turnaround time for many projects.

Technology of all sorts—from fax machines to telexes to telephone conference calling functions—is important because Wright & Co. has narrow specialties and far-flung customers, Mr. Wright said.

Without automation, "we'd have to have 200 people to do all this" he said.

With automation, 34 staffers—up from 31 in 1989—will suffice. ■

Drought nurtures Iowa agency

By LAURA MAZZUCA

COUNCIL BLUFFS, Iowa—When farmers sought multiperil crop coverage to hedge their bets in 1989 after their crops shriveled and died during the 1988 drought, The Redland Group Inc. was ready.

The Council Bluffs, Iowa-based agency had banked that farmers would seek this previously little-used coverage and had geared up to meet that expected demand.

And, "we reaped the advantage of production of scale," said Richard Gibson, president of Redland Group and subsidiary American Agriculture Inc., a wholesaler that markets crop insurance nationwide.

"Our management was already in

place, as well as our computer system, so the additional expense to handle this increase was marginal," he said.

That foresight paid off for The Redland Group.

In 1989, federally reinsured multiperil crop insurance premiums increased nearly 250% to \$80 million from \$23 million in 1988. Multiperil crop insurance represented 53%, or \$26 million, of the agency's \$49.1 million of premium volume in 1989, up from 29%, or \$3.8 million, of \$12.9 million of premium volume in 1988.

And, the agency projects that multiperil crop insurance premium volume will increase nearly 9% this year to \$87 million.

The strong performance of the cov-

erage—which protects farmers against crop loss from droughts, floods, insects, wind and hail—propelled Redland to No. 7 on the A/BT list of most productive agencies with per-employee revenues of \$163,617 in 1989, up 171.6% from \$60,233 in 1988.

With Omaha, Neb., just across the Missouri River from Council Bluffs, The Redland Group's retail business, which is handled by its retail subsidiary Insurance Agents Inc., predominantly is Main Street business.

The retail division—formed in 1945 and Redland's oldest division—handles coverage for such policyholders as food manufacturers, chemical and fertilizer companies, public utilities, school districts and truckers, said

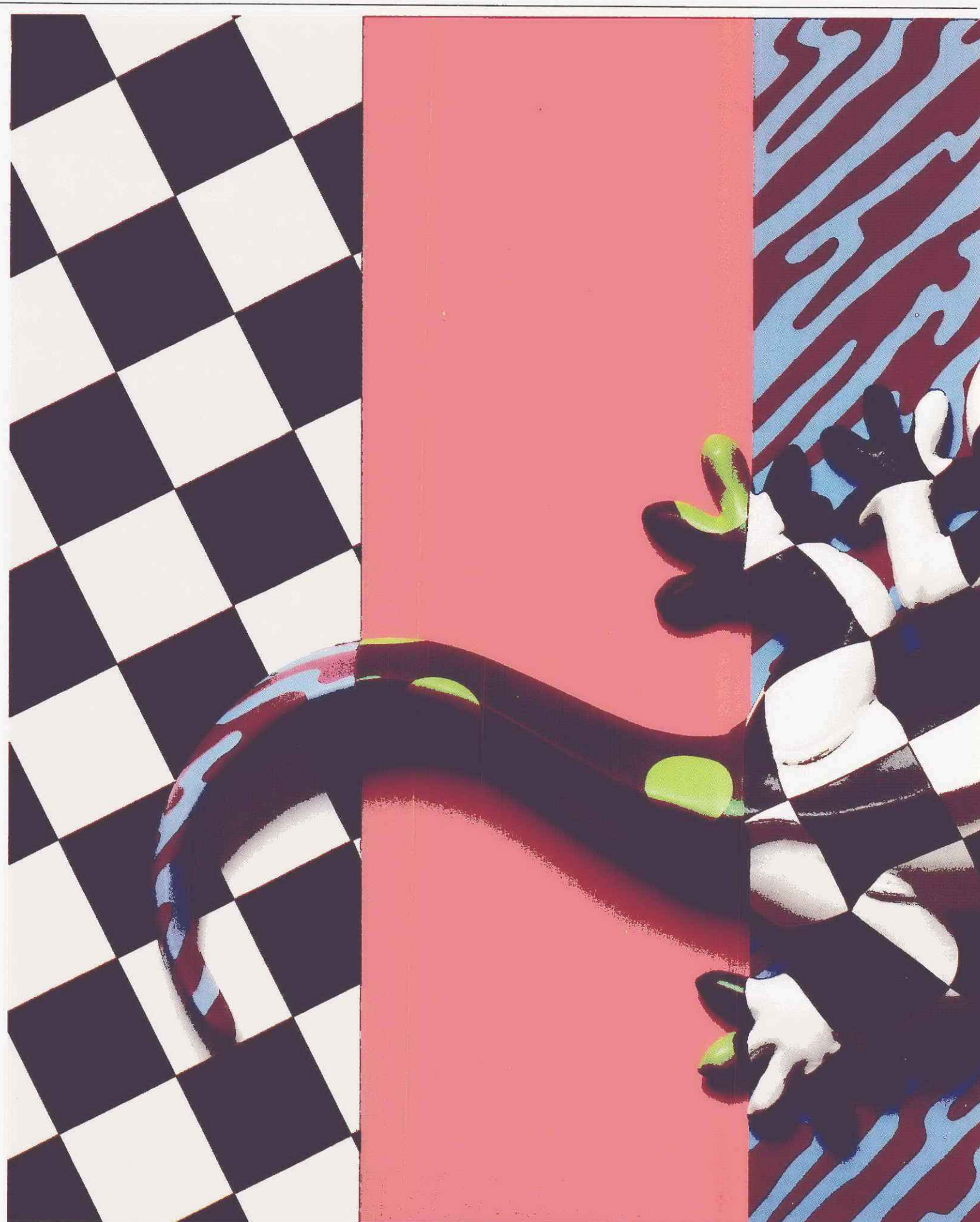
Omer C. Trout, executive vp and secretary of The Redland Group.

In addition, growth in group health and accident sales also has been "dramatic" since 1987. Growing by 60% a year for those three years, these lines now represent about 15% of The Redland Group's total retail business, Mr. Trout said.

But, commercial retail business comprised only 4%, or less than \$2 million, of gross revenues in 1989, down from 13%, or \$1.7 million, of gross revenues in 1988, down from 13%, or \$1.7 million, of gross revenues a year earlier.

The agency's greatest growth was in its wholesale division, spurred by increasing demand for the multiperil

Continued on next page





Steve Glowacki

Top executives of The Redland Group include, from left, Richard C. Gibson, Gary L. Hurley and John Nelson.

Continued from previous page
crop coverage, was in the wholesale division.

Revenues from wholesale business increased to 88%, or \$43.2 million, of the agency's gross revenues in 1989, up from 63%, or \$8.2 million, in 1988.

That largely is because Redland Group anticipated that farmers burned by the 1988 drought wouldn't take chances in 1989.

National multiperil crop insurance losses exceeded \$1 billion in 1988, and the government-initiated crop disaster relief program paid in excess of \$4 billion during the same period, said a Redland representative.

All farmers who received disaster relief from the federal government in 1988 were required to have multiperil coverage in 1989, said Mr. Trout, observing that the federal coverage requirements were a boon for Redland.

But, many other farmers who did not seek federal disaster relief also

sought the multiperil crop coverage, Mr. Trout said. "When you have a drought that's that pervasive, it takes the gambler out of people."

In addition, banks that make loans for seed, equipment and other necessities often require farmers to carry the coverage, he said.

Indeed, farmers are beginning to look at multiperil crop coverage as a cash-flow tool that guarantees at least their production costs, Mr. Trout said.

Meanwhile, Redland Insurance Co., an affiliate of The Redland Group that is the primary market for farm-related coverages placed by the wholesale division, was formed in 1979.

In 1989, The Redland Group invested about \$250,000 in computer equipment for its wholesale division and an additional \$400,000 in micro-computers for marketing.

"We've had good luck with tech-

nology on the wholesale side," Mr. Trout said.

The Redland Insurance Co.'s 3,000 independent agents were the first to use a personal computer rating system for multiperil crop coverage in their marketing efforts, Mr. Trout said. They also use portable computers to process the business.

The Redland Group's computer system was designed specifically to enhance its wholesale business, which handles multiperil and crop/hail coverage and property/casualty insurance for barns and livestock.

And, marketing adds about 10% in wholesale growth annually, Mr. Trout noted. "It kept us growing in an area where growth comes pretty hard," he said, referring to the wholesale division.

In addition, The Redland Group's retail division in 1989 replaced its "outdated, homegrown, patched-together computer system" with a system developed by Insurnet, Mr. Trout said. This expense probably will not be recouped until 1991, when the new database is completed, he said.

A minicomputer system processes claims, compiles statistics, performs accounting functions, and produces management reports, he said.

Meanwhile, the growth of the wholesale division fueled expansion in areas besides revenues.

Staff was increased nearly 40% to 300 in 1989 from 215 a year earlier. The 300 employees—including 75 producers and 50 managers—are spread over five locations.

Among those locations are three new offices: U.S. Ag in Lubbock, Texas, a 1989 acquisition that added 30 employees and \$10 million in wholesale premium volume; and small offices in North Dakota and Kentucky used only for claims processing.

But, along with expansion came new problems.

Holding down expenses became very difficult.

And, "we did not process the business to our normal high standards of timeliness," Mr. Gibson conceded.

The Redland Group hopes that reorganizing its staff into territorial teams, a move prompted by an \$80,000 Coopers & Lybrand study of the group's operating efficiency, will improve service and lower costs.

On the wholesale side, that restructuring could prove particularly important. Processing of crop coverage policies already has been improved by applying "assembly-line production": Clerical workers are separated into small teams, each of which handles a single task like opening mail or phoning clients, Mr. Trout explained.

Processing speed has increased 40% since last year, Mr. Gibson said.

With policyholder demands for efficiency higher than ever, agency officials are more conscious of careful hiring and of training clerical, agent and field staff, according to Gary Hurley, vp of The Redland Group and president of Insurance Agents Inc., its retail subsidiary.

"We have made a concerted effort to hire qualified people to maximize each person's productivity," he said. "We test our applicants extensively and attempt to hire individuals with proven track records."

The Redland Group encourages staff to take outside insurance-related coursework and pays for it, but training is done primarily in-house and on the job, Mr. Trout said. The company hired a training coordinator this year to oversee these programs, he said.

Expansion in the United States and abroad is in the brokerage's plans.

For example, Argo International, a recently formed subsidiary, will market crop insurance services on a global basis, Mr. Gibson said.

Acquisitions will be considered, but The Redland Group's "emphasis is always on a quality earning stream as opposed to growth for growth's sake," Mr. Hurley said. ■

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Young agency successful in soft market

By LAURA MAZZUCA

RYE, N.Y.—There were no hard feelings when Rory O'Brien left Fred S. James & Co. Inc. in 1988 to start his own agency, though some colleagues thought he was nuts for establishing a new agency in a soft market.

"They were good to me," Mr. O'Brien said of James. "I didn't leave because I was unhappy with the people or the organization, but because I told them from the start that I always wanted my own business."

Entrepreneurialism is all well and good, his detractors said. But, they still questioned his timing.

However, the one-time small agency life insurance salesman be-

lieves that "it's much easier to sell insurance in a soft market," when many competitors cut back on employees and services.

"The only thing (the soft market) changes is the manner in which you seek new clients," he said. And, "if you continue new-business efforts, that answers the question of market swings."

Despite dire predictions from many quarters two years ago, Mr. O'Brien's philosophy seems to be vindicated.

With revenues-per-employee surging 22.2% to \$183,333 in 1989 from \$150,000 in 1988, R.P. O'Brien & Co. Inc. landed the No. 3 spot on *Agent/Broker Topics'* list of the nation's most productive agencies. Gross revenues for the agency increased 144%

to \$1.1 million in 1989 from \$450,000 in 1988.

Making the venture a success has not been an easy task for the president of the youngest agency on the list, he said. And, the long workdays show few signs of abating, he said.

"Because we have no name recognition, getting appointments is a tougher accomplishment for us," he explained. "It doesn't come easy, but it will be easier some day, at least in some particular areas."

But, from the outset, Mr. O'Brien was confident his start-up agency would succeed because of the soft market: With competitors cutting staffs to hold down expenses, some clients would feel the pinch in ser-

vice and look elsewhere.

A lesson learned at James—now part of Sedgwick James North America—also served him well.

Most major brokers are after huge multinational accounts, leaving a gap in the mid-market range. So Mr. O'Brien resolved to concentrate on accounts with annual premiums of \$50,000 to \$1 million in niches like real estate, financial institutions and professional liability.

These policyholders are in an awkward position, because they are too big for a small agency to handle and too small to interest most alphabet houses, he said. And, because many of these policyholders lack risk managers, they need more attention than many big brokers can afford to de-

vote to them.

With this in mind, Mr. O'Brien struck out on his own in May 1988 with only a secretary and \$250,000 in seed money from mortgaging his houses.

"We didn't have any outside investors or sources of funds outside of my own," he said. "We started with zero—we had nothing to lose."

But, he did have 14 years of experience, ranging from being a small-agency life insurance agent to placing multinational accounts at James.

Good working relations with insurers also helped.

Before launching the business, Mr. O'Brien contacted several major insurers to ensure their support: Aetna Life & Casualty Co. of Hartford, Conn.; Chubb Corp. of Warren, N.J.; Royal Group Inc. of Charlotte, N.C.; Crum & Forster Inc. Basking Ridge, N.J.; CNA Financial Corp. of Chicago; Continental Insurance Co. of New York; Albany Insurance Co. of New York; and Kemper Group of Long Grove, Ill.

Then reality struck.

Mr. O'Brien realized that O'Brien & Co. lacked the cachet of a James. Appointments were hard to come by.

Part of the problem initially was location. While James is headquartered in midtown Manhattan, O'Brien & Co. is located "in an office complex in Rye, where you wouldn't even know there's an office complex," Mr. O'Brien explained.

Referrals now are picking up gradually, but "90% of our business is new business development—cold calling," he said.

Although prospecting is hard work, his experience has helped, he said. However, a two-year non-compete contract prevents him from taking on any of his old James clients.

As an entrepreneur, Mr. O'Brien does a lot of selling himself. But the firm does not want "to hit the stone wall" by continuing to rely mainly on his efforts, he said.

In only its second month of operation, the agency got an immense boost when Michael F. Power, another former James broker, joined as an inside service representative, Mr. O'Brien said.

Experience with Fortune 1,000 accounts made Mr. Power ideal for the job, according to Mr. O'Brien.

The agency, in fact, now places business for some Fortune 100 companies or their subsidiaries.

But O'Brien & Co. does not actively seek out such accounts because the profit levels are too low, Mr. O'Brien said. "We're looking for accounts that don't require national brokers, but TLC. These buyers realize that they'll get a lot more attention here."

The brokerage now retains about 95% of its accounts upon renewal.

However, heavy competition in the New York area has taken its toll—an estimated 2% of the broker's business are lost on renewal.

And, a few clients were asked politely to find another broker because "their (claims) philosophy was not necessarily the same as ours," he said.

Mr. O'Brien said he is equally particular about his employees, making a point of hiring only top-notch people, whether they are needed right away or not.

For instance, Mr. O'Brien hired a risk management consultant who "used to feel guilty about getting a paycheck because she didn't have anything much to do to," Mr. O'Brien said.

However, because of improved business, "she's not complaining about that anymore."

Mr. O'Brien also has his eye on another risk management consultant

Continued on next page

October November December

Customer Service IIAA Conference Report

Are agents and brokers delivering what their clients are looking for? BI editors will focus on how agents and brokers can improve the service they give to clients and look at customer service representatives, their responsibilities and their compensation. Plus, this section will report on happenings at the annual convention of the Independent Insurance Agents of America.

Issue: October 1
Ad Closing: September 19

Automation: Interface With Insurers

BI editors examine state-of-the-art automation equipment and software that agents use to communicate with their insurance companies. Plus — inside views — agents talk about hardware and software, what systems and programs they're currently using, what works best for them with insurers, and what doesn't

Issue: November 5
Ad Closing: October 24

PIA Conference Report

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Agent/Broker Topics



David Lubarsky

'Honestly, after we grow, I don't know how long we can sustain this revenue per employee,' Rory O'Brien says of his 2-year-old agency.

Continued from previous page
who has experience at two alphabet houses. "If we don't arrange to hire him now, we'll be in a bidding war for him two years from now" when the market hardens and the big brokers begin looking for such consultants again, he said. "We consider him an investment in the future."

Half of the agency's six-person staff has worked for direct writers or alphabet houses, and most staff members have earned Associate in Risk Management, Chartered Property & Casualty Underwriter or other professional designations, Mr. O'Brien said.

Skilled professionals, of course, command high salaries. And, Mr. O'Brien said smaller agencies have the flexibility to negotiate on compensation and benefits that the major brokerages often lack.

"The place to trim your costs is not with your staff," he said.

Mr. O'Brien instead likes to cut costs in other less sensitive ways, such as getting the best buys on office supplies and postage services.

"It becomes a contagious attitude," Mr. O'Brien said. "You watch costs on everything, and everybody becomes involved in it."

More importantly, the agency has negotiated shrewdly for its offices and used the space wisely.

The firm holds a five-year lease on its 2,100-square-foot space in Rye, which is accessible from New York City, Westchester County and Connecticut, he said.

In 1988, early in an unusually soft real estate market in the Northeast, Mr. O'Brien secured lucrative lease terms. The first six months of the first year were rent-free, as were the

first three months of the second year, a particularly attractive feature for a start-up firm with little income early on, he said.

But, the deals did not stop there.

The former tenants offered to sell all of their new furnishings—including a state-of-the-art phone system—to the agency at a reasonable price. "What was probably a \$50,000 item, we got for the equivalent of \$6,000 to \$8,000," he said.

And, as the Northeast real estate slump lingers, Mr. O'Brien hopes to renegotiate the lease for more space at a reduced rate.

Frugality also has served him well in investments.

While commercial retail brokerage accounted for 91%, or \$1 million, of agency revenues in 1989, investment income increased to 8% of revenues, or \$88,000, last year from 6.5%, or \$29,250, in 1988, Mr. O'Brien said.

"Right now there's no debt to our organization, but initially I had my life savings behind it, so I've had to be a very frugal person to begin with," he said. "We really scour the marketplace for the best places for our money to be."

A portion of the agency's business also depends on such services as group life/health insurance and employee benefits plans, he said.

Total revenues for 1990 are running about \$150,000 ahead of last year's \$1.1 million pace, with half of that gain attributable to increased life/health sales.

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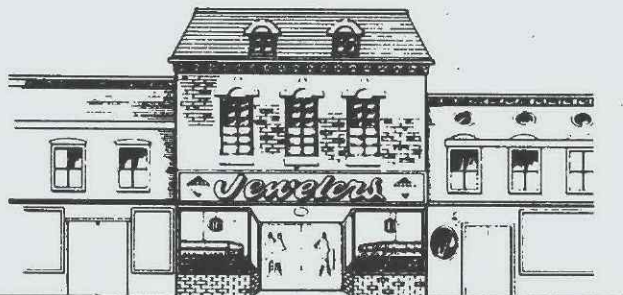
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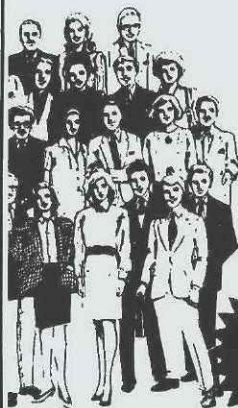
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Keeping up with pace of automation

By LAURA MAZZUCA

Many agencies are left behind: Experts

Enhanced functions and falling prices make automation upgrades attractive to many agencies, but consultants warn against impulsive purchases, especially for firms that now use systems only for accounting.

Because agencies are processing more business, they need new systems all the more, some agency principals point out. Many are buying or at least considering upgraded systems that promise to outperform equipment only a few years old.

Agencies also are taking advantage of prices driven down in recent years by technological progress and a saturated market.

Those prices are luring agencies that have outgrown the functions and capacity of their systems, said Sharon D. Cunningham, a consultant with Business Management Group in Hartford, Conn.

However, most agencies fail to take full advantage of available technology, according to principals at the most productive insurance agencies, agency consultants and other experts.

Only about 20% of automated agencies use their systems for marketing, rating or any other non-accounting functions, said Richard J. Kasyjanski, vp of agency services for the Independent Insurance Agents of America in Alexandria, Va.

And, the scramble to remain profitable in the soft property/casualty

insurance market leaves agencies little time for learning to use automation systems, Mr. Kasyjanski explained.

Rapidly growing agencies are especially interested in the expanded memory and other capabilities the new systems offer, said Catherine C. Oak, senior consultant with Russell Miller Inc. in San Francisco.

Such agencies want systems able to produce forms that follow ACORD standards and to handle rating systems and other peripheral software, she added.

ACORD is a White Plains, N.Y.-based institute formed and funded by the insurance industry to establish data processing standards for insurer-agency transactions.

For example, Schwartz Brothers Insurance Agency Inc. of Chicago, No. 20 on the A/BT most productive agency list, recently added a certificate of insurance program to its Harte software system to update and process annual certificates. That chore—which would take four weeks manually—now only takes five hours, said David W. Kunkel, chief operating officer.

"It paid for itself the first time we used it," he said.

Some agencies use the new computer offerings to break away from systems developed by insurers and

marketed to agents.

They want new software systems because "they are not as influenced as in the past by companies or company assistance programs," Mr. Kasyjanski said.

For example, about 500 agencies now using software developed by EBS Inc., a division of Travelers Corp., will soon be forced to change

Consistent use of a system is the key to successful automation, says BRI's Mr. Miller.

systems.

Travelers announced in June that it was phasing out its EBS line and joining the Alliance for Production Technology, a joint venture of several insurers and systems vendors trying to develop standardized software (A/BT, Aug. 6).

However, existing EBS service contracts will continue to be honored, said a spokesman for the Hartford, Conn.-based insurer.

In addition, more agencies are showing an interest in computerized rather than manual transactional filing, which is becoming increasingly available in new automation systems, said Ms. Cunningham of Business Management.

Instead of creating a paper account file for each client, agency staffers enter all daily transactions, including date and time, into a computer data base.

Computerized transactional filing teaches the agency staff to rely on computer information, which means the data base will be kept current, Ms. Cunningham said.

The technology, available on Redshaw, Applied Systems and other agency automation software, is moving agencies closer to the "paperless office," Ms. Cunningham said.

But the lack of single-entry, multiple-insurer interface is becoming a thorn in the side of the agency system, said Ms. Oak of Russell Miller.

"They're disturbed that multiple entry is such a waste of time," Ms.

O'Brien & Co.

Continued from previous page

Personal lines at O'Brien & Co., as at nearly every agency whose principals were interviewed, are perceived as more of a service to clients than as a profit item. Only 1% of total revenues in 1989 were attributable to personal lines.

"We encourage our commercial clients to let us look at their personal lines business as part of the total service package we offer them," Mr. O'Brien said. "But because we do a full analysis on it, it makes the profit level of personal lines very thin."

Mr. O'Brien said he is not averse to buying an agency that meets his needs.

No stranger to soft-market investing, Mr. O'Brien may just find buying a compatible agency soon preferable to paying a higher price when the market hardens.

However, Mr. O'Brien emphasized that he would not make an acquisition just "to satisfy an insurance company's growth requirements."

As the agency grows, its president realizes that its productivity will inevitably decline. "Honestly, after we grow, I don't know how long we can sustain this revenue per employee," he says.

Oak said.

"There's a lot of hostility (among agents) about how much of the insurance company's work they have to do without getting paid for it," unless they have underwriting authority, she said.

Many agencies also are attracted to a single, uniform data base that produces a standard output.

A "cleaner, better, more standardized" product is more important than the ability to process more information faster, said James W. Crystal, chairman and chief executive officer of Frank Crystal & Co. Inc. of New York, the sixth most-productive agency in the A/BT rankings.

Crystal probably will soon update the customized McCracken automation system it has had for five years, he said.

Standardization of insurance data is especially important for agencies that concentrate on large commercial accounts and are devoted to becoming paperless.

However, such large, complex accounts can be very difficult to computerize, Mr. Crystal admits.

Attractive prices also are prompting agencies to automate or upgrade existing systems.

For instance, The Ebersberger Cos.—No. 13 on the A/BT most productive agency list—has used the Redshaw Inc. system for nine years but plans to buy the latest generation Redshaw package, which costs one-sixth of what the company's systems cost 10 years ago, said President George H. Ebersberger Jr.

The Saverna Park, Md., agency paid \$150,000 for the Redshaw system in 1981. That system can be purchased today for only \$25,000, he noted.

Many principals at successful agencies said their automation systems had more than paid for themselves over the years.

Agencies processing large volumes of business find the systems particularly useful.

"Our commission per employee, at

\$180,000, is the best in the country," boasted Mr. Ebersberger, who credits efficient use of the agency's Redshaw system for these good results. "We find we have six commercial people with spare time left over to do other things because they're not overwhelmed with paperwork."

Without its powerful new system—Computer Design software run on a Motorola computer—Wright & Co. would be unable to conduct business, said Frank L. Wright, chairman and chief executive officer (see story, page 68E).

Because the Washington, D.C., agency specializes in coverage for government entities in the United States and abroad, it needs huge capacity.

Its new system speeds up processing and can store up to 4 billion bytes of information.

However, agencies looking for innovative packages should beware of predatory software companies trying to increase sales in an already saturated market, warned Ms. Cunningham of Business Management Group.

Consistent use of a system is the key to successful automation, said Howard Miller, director of production for BRI Coverage Corp. of New York. "You've got to do it at all times in order for it to be efficient."

BRI, which has been automated since 1980, is "in the process of re-doing everything" to meet the demands of increasing business, he said.

However, at least one of the 20 most-productive agencies has no plans to rush to automate its operations.

"We are probably the least automated office in America. This is by design," said James Econn, chief executive officer and chairman of James Econn & Co., a Los Angeles agency that ranked eighth on the A/BT list.

"We will automate when we are convinced that the expenditure will pay a greater return in reduced expense than leaving in the bank the money necessary to automate," Mr. Econn said.

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Business Insurance

IATA, PIA agree in principle to merger

ALEXANDRIA, Va.—The Independent Insurance Agents of America and the National Assn. of Professional Insurance Agents—the nation's two largest agent trade groups—agreed in principle to pursue plans to consolidate on a national level at an Aug. 21 meeting of their top executives (A/BT, Aug. 6, 1989).

The two organizations established a joint committee to plan the consolidation. A feasibility study on the matter is due to the IATA and PIA boards by March 1, 1991.

"We believe that a substantial majority of independent agents favor a study of consolidation of IATA and PIA National to create a single national voice to further their interests," the associations said in a joint statement. "This resolve recognizes our concerns for market and economic conditions that grow more challenging each year for independent agents. Establishing one new structure is a desirable goal that will provide leadership, direction and resolution which will be of maximum benefit to our members individually and collectively."

Direct writing survey

WASHINGTON—Four out of five independent agents responding to a recent poll of trade group members said they either represent direct writers now or would do so if approached.

Sixty-five percent of the 163 agents responding to the National Assn. of Professional Insurance Agents poll said they would work with a direct writer. Another 14% said they already represent direct writers; and 21% said they would not work with direct writers.

Recent shifts in personal lines marketing have continued to erode the barrier between the independent agency system and direct writers.

Agents responding favorably to working with direct writers said that problems with agency insurers were part of the reason for the shift.

"The things that made the agency system so great in the past—loyalty, integrity, mutuality of purpose—are all gone," one agent said.

"Independent companies are trying to force out the small independent agent. I don't see direct writers doing this," wrote another agent.

"We're in a survival mode, and that means doing business with direct writers," another agent responded.

Survey results were published recently in *Action*, the PIA's monthly national newsletter.

IVANS pilot project

GREENWICH, Conn.—The Insurance Value Added Network Services has recently introduced a pilot program that will give independent agents access to IVANS, the industry's largest electronic network for transacting insurance business.

The product, called "Agencies Services Network," will provide electronic communications between agents and their associations, other agents and insurers, and also will provide access to information data bases and third-party vendors, said IVANS President Robert Y. Barham.

"This new service will give agents access to a vast array of information and services including E-mail, bulletin board services, third-party vendor products and insurance news," he added.

Before the development of the Agencies Services Network,

ABT briefs

IVANS was available to independent agents only through the insurers with which they did business, said an IVANS spokesman.

The pilot program for "Agencies Services Network" will run through the end of 1990 and will eventually involve 200 agents and representatives from the National Assn. of Professional Insurance Agents, the Independent Insurance Agents of America, the National Assn. of Casualty & Surety Agents, ACORD Corp., IVANS and International Business Machines Corp., the network facilitator.

Consumer legislation

BALTIMORE—Gov. William D. Schaefer recently signed into law a consumer education and advocacy program to be run by the Maryland Insurance Division.

The legislation is designed to help consumers find answers to insurance questions and to help them file complaints with the Insurance Division.

The program culminates months of discussion and negotiations between insurance agents and local consumer activists, under the um-

rella organization name of the Maryland Insurance Issues Alliance.

It is the first group to duplicate at the state level model agency-consumer cooperative efforts developed by the Consumer Insurance Interest Group and the National Assn. of Professional Insurance Agents.

Yates appointed

WASHINGTON—Jeffrey M. Yates, executive vp and general counsel of the Independent Insurance Agents of America, has been recently appointed to the United States Chamber of Commerce Task Force on Financial Services.

The task force is one of several that examines key financial service issues that affect the Chamber's membership. The group will explore proposals to restructure the financial services industry and deposit insurance system, problems within the thrift industry and its federal bailout, and restrictions on the availability of credit.

Other members appointed to the task force include Rachel Strauber, vp of legal and external affairs for Citicorp's Citibank unit; Thomas Schneider, executive vp and chief financial officer of Dean Witter Financial Services Group; and Daniel P. Tully, president and chief executive officer of Merrill Lynch & Co.

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Mar 12	Feb 27	International Captive & Reinsurance Forum	Bermuda
Apr 16	Apr 4	Insurance Marketing Services	Orlando, FL
Apr 30	Apr 17	Risk & Insurance Management Society	Boston
May 28	May 15	National Assn. of Insurance Brokers	Sea Island, GA
Jun 4	May 22	National Assn. of Insurance Commissioners	Baltimore
Jun 11	May 30	Group Health Assn. of America/GHI	Los Angeles
Jun 11	May 30	Public Risk Management Assn.	Reno, NV
Jun 18	Jun 5	National Assn. of Insurance Women	Denver
Aug 13	Jul 31	American Risk & Insurance Assn.	Orlando, FL
Sep 3	Aug 21	Monte Carlo Rendez-Vous de Septembre	Monte Carlo
Sep 10	Aug 28	Independent Insurance Agents of America	Chicago
Sep 10	Aug 28	Intl. Assn. of Industrial Accident Boards & Commissions	New York
Oct 8	Sep 25	Self-Insurance Institute of America	Washington, DC
Oct 8	Sep 25	National Assn. of Casualty & Surety Agents & Executives	Greenbrier, WV
Oct 8	Sep 25	Chartered Property & Casualty Underwriters	Washington, DC
Oct 22	Oct 9	Baden-Baden Conference	Baden-Baden, W. Germany
Oct 22	Oct 9	RIMS Singapore	Singapore
Nov 12	Oct 30	National Assn. of Professional Insurance Agents	Atlanta
Nov 12	Oct 30	National Assn. of Independent Insurers	Los Angeles
Dec 3	Nov 19	National Assn. of Insurance Commissioners	Louisville, KY

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Continued from previous page
Sylvain Boueil, senior vp/chief underwriting officer; John T. Andrews Jr., senior vp/general counsel/corporate secretary; William K. Lowery, senior vp/chief financial officer; Michael F. Walsh.

Contact: Barry E. Golub, vp/controller-Scor Reinsurance Co.; 212-513-1777, ext. 233.

Skandia America Reinsurance Corp.

1 Liberty Plaza, New York, N.Y. 10006; 212-978-4700

	1989*	1988*
Premiums written	\$292,313,000	\$247,756,000
Premiums earned	\$292,484,000	\$268,903,000
Capital & surplus	\$345,271,000	\$325,970,000
Losses	\$228,443,000	\$186,863,000
Loss ratio	78.1%	69.5%
Expenses	\$103,330,000	\$87,673,000
Expense ratio	35.3%	35.4%
Combined ratio	113.5%	104.9%

* Fiscal years ended Dec. 31, 1989; Dec. 31, 1988.

Year founded: 1900.

Parent company: Skandia Group Ltd.

Subsidiaries: Skandia Canada Reinsurance Co., American European Reinsurance Corp.

Employees: 430.

Locations: Six domestic, two foreign.

Principal officers: James F. Dowd, president/chief executive officer; Steven J. Bensinger, executive vp/chief financial officer; Charles H. Jaeger Jr., executive vp; Anders Grabo, senior vp/chief underwriting officer; Fred K. Ellis, senior vp/chief investment officer; Thomas M. Tobin, senior vp/general counsel; Gerard A. Dugan and Mark W. Hinkley, senior vps.

Skandia International Insurance Corp.

Sveavagen 20, P.O. Box 7693; S-10395 Stockholm, Sweden; 46-8-788-4500

	1989*	1988*
Premiums written	\$1.2 billion	\$1 billion
Premiums earned	\$1.2 billion	\$958,609,303
Capital & surplus	\$1.2 billion	\$1 billion
Losses	\$882,166,978	\$751,863,531
Loss ratio	76%	78.4%
Expenses	\$431,107,124	\$359,327,548
Expense ratio	34.7%	35.7%
Combined ratio	110.7%	114.2%

* Fiscal years ended Dec. 31, 1989; Dec. 31, 1988.

Year founded: 1855.

Subsidiaries: Skandia International Insurance Corp.

Employees: 807.

Locations: One domestic, 17 foreign.

Principal officers: Hans Dalborg, executive vp-Skandia Group/chief executive officer-Skandia International; Karl Olof Hammarkvist, John Engstrom and James F. Dowd, chief operating officers.

Contact: Mark W. Hinkley or Hans Benndorf, 212-978-2850.

Societe Commerciale de Reassurance

Immeuble SCOR-1, Avenue du President Wilson, 92074 Paris, Cedex 39, France; 33-1-42-91-04-32; fax: 33-1-47-67-04-09

	1989*	1988*
Premiums written	\$1 billion	\$959,047,440
Domestic	35%	NA
Foreign	65%	NA
Premiums earned	\$1.2 billion	\$1.1 billion
Capital & surplus	\$825,340,800	\$773,542,480
Losses	\$977,668,800	\$881,973,760
Loss ratio	80.9%	77.3%
Expenses	\$400,553,400	\$378,106,640
Expense ratio	25.8%	26%
Combined ratio	106.7%	103.3%

* Fiscal years ended Dec. 31, 1989; Dec. 31, 1988.

Year founded: 1970.

Subsidiaries: SCOR Reassurance, SCOR-Vie, UAP Reassurances, La Vittoria-Ri, SCOR Re, SCOR UK, SCOR Re Canada, SCOR Re Asia, SCOR Re Australia, Rockleigh.

Employees: 1,050.

Locations: One domestic, 13 foreign.

Specialties: Life, fire, accident, auto liability, transportation, aviation, credit and surety insurance.

Principal officers: Patrick Peugeot, chairman/chief executive officer; Francois Negrier, president-reinsurance; Jacques Blondeau, president-operations; Serge Osouf and Gerard Francois, group senior vps.

Contact: Jerome Karter, 212-513-1777.

The Sumitomo Marine & Fire Insurance Co. Ltd.

27-2, Shinkawa 2-Chome, Chuo-ku, Tokyo 104, Japan; 81-3-297-6673; fax: 81-3-297-6895

	1989*	1988*
Premiums written	\$333,262,083	\$363,702,430
Capital & surplus	\$1.3 billion	\$1.1 billion
Losses	\$220,128,825	\$237,405,762

* Fiscal years ended March 31, 1989; March 31, 1988.

Year founded: 1893.

Subsidiaries: Sumitomo Marine Re Management Inc. Financial results of subsidiaries are not included above.

Locations: domestic, two foreign.

Principal officers: Sumao Tokumasu, president; Tadashi Konishi, Takashi Onoda and Kazumi Sato, executive vps.

Contact: Tohei Shimoda, general manager-U.S. operations; 212-488-0600.

Swiss Re Group

Mythenquai 50/60, CH-8022, Zurich, Switzerland; 41-1-208-21-21; fax: 41-1-208-29-99

	1989*	1988*
Premiums written	\$4.2 billion	\$4.5 billion
Domestic	6.8%	NA
Foreign	93.2%	NA
Premiums earned	\$4.3 billion	\$4.5 billion
Capital & surplus	\$1.5 billion	\$1.7 billion
Losses	\$3.2 billion	\$3.4 billion
Loss ratio	74.6	75.1
Expenses	\$1.1 billion	\$1.2 billion
Expense ratio	25.1	25.6

* Fiscal years ended Dec. 31, 1988; Dec. 31, 1987.

Year 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 Reassurance Co., Canadian Reinsurance Co., Australian Reinsurance Co. Ltd., Swiss-South African Reinsurance Co., Ltd.

Employees: Approximately 3,074.

Locations: One domestic, 13 foreign.

Principal officers: Walter Diehl, chairman/chief executive officer; Arnold W. Saxer, general manager/deputy chief executive officer.

Contact: N. David Thompson, president/chief executive officer-North American Reinsurance Corp., New York; 212-907-8040.

Continued on next page



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Spotlight report

Continued from previous page

T

The Toa Fire & Marine Reinsurance Co. Ltd.

6, Kanda-Surugadai 3-chome, Chiyoda-ku, Tokyo, Japan; 81-3-253-3171

	1989*	1988*
Premiums written	\$573,877,641	\$599,147,904
Capital & surplus	\$140,176,120	\$130,513,017

* Fiscal years ended March 31, 1989; March 31, 1988.

Year founded: 1940.

Subsidiaries: The Toa—Re Insurance Co. of America, The Toa—Re Insurance Co. (U.K.) Ltd., The Toa—Re Management Co. Ltd. Financial results of subsidiaries are not included above.

Employees: 200.

Locations: Three worldwide.

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; 81-3-212-6211; fax: 81-3-214-3944 or 81-3-214-3979

	1989*	1988*
Premiums written	\$903,683,276	\$901,583,568
Domestic	75.8%	NA
Foreign	24.2%	NA
Capital & surplus	\$16.2 billion	\$20.7 billion

* Fiscal years ended March 31, 1990;

March 31, 1989.

** Parent company capital and surplus.

Year founded: 1879.

Parent company: Tokio Reinsurance Co. Ltd.

Subsidiaries: Tokio Reinsurance Co. Ltd. Financial results of subsidiaries are not included above.

Employees: 11,026.

Locations: 481 domestic, 39 foreign.

Principal officers: H. Takeda, chairman; S. Kono, president; H. Kubota and K. Matsushita, executive vps; T. Kagawa, senior managing director.

Contact: Noriaki Itakura, 212-422-8400.

Transatlantic Holdings Inc.

80 Pine St., New York, N.Y. 10005; 212-770-2000; fax: 212-785-7230

	1989*	1988*
Premiums written	\$472,389,941	\$449,930,578
Treaty	71%	NA
Facultative	29%	NA
Domestic	88%	NA
Foreign	12%	NA
Premiums earned	\$486,281,023	\$426,243,588
Capital & surplus	\$305,228,157	\$266,081,682
Losses	\$387,835,515	\$343,568,475
Loss ratio	79.8%	80.6%
Expenses	\$128,049,624	\$107,641,943
Expense ratio	27.1%	23.9%
Combined ratio	106.9%	104.5%

* Fiscal years ended Dec. 31, 1989; Dec. 31, 1988.

Year founded: 1952.

Subsidiaries: Transatlantic Reinsurance Co., Putnam Reinsurance Co.

Employees: 220.

Locations: Five domestic, four foreign.

Principal officers: Joseph V. Taranto, president; Richard M. Green, senior vp/controller; S. Lawrence Kelly, Robert F. Orlich and James D. Yulga, senior vps.

Contact: David W. Smith, vp/general counsel; 212-770-2162.

U

Union Re

Genferstrasse 27, CH-8027, Zurich, Switzerland; 41-1-209-9111; fax: 41-1-201-18-95

	1989*	1988*
Premiums written	\$351,033,050	\$298,035,000
Treaty	95.8%	96.4%
Facultative	4.2%	3.6%
Domestic	10%	NA
Foreign	90%	NA
Premiums earned	\$313,290,350	\$276,390,000
Capital & surplus	\$87,871,750	\$87,179,400
Losses	\$228,596,250	\$202,930,200
Loss ratio	73%	73.4%
Expenses	\$126,716,900	\$104,895,000
Expense ratio	36%	35.2%
Combined ratio	109%	108.6%

* Fiscal years ended Dec. 31, 1989; Dec. 31, 1988.

Year founded: 1923.

Parent company: Swiss Reinsurance Co.

Employees: 159.

Locations: One domestic, one foreign.

Principal officers: R. Holzach, chairman; W. H. Diehl, vice-chairman; P.C. Colombo; M.H. Angelil; U. Baumgartner, H. Hasler, M. Kochli, W.J. Wid, first vps.

Unione Italiana di

Riassicurazione S.p.A.

Via dei Giuochi Istmici 40, 00194 Rome, Italy; 39-6-32393-1; fax: 39-6-3273398

	1989*	1988*
Premiums written	\$475,724,756	\$384,102,213
Treaty	95.4%	96.9%
Facultative	4.6%	3.1%
Domestic	70.96%	NA
Foreign	29.04%	NA
Premiums earned	\$412,964,928	\$341,725,076
Capital & surplus	\$189,420,601	\$172,110,906
Losses	\$344,141,784	\$277,434,538
Loss ratio	83.3%	81.2%
Expenses	\$147,272,732	\$113,511,882
Expense ratio	30.9%	29.6%
Combined ratio	114.3%	110.7%

* Fiscal years ended Dec. 31, 1989; Dec. 31, 1988. Figures for 1989 are esti-

mates.

Year founded: 1922.

Subsidiaries: Unione Italiana Reinsurance Co. of America Inc., Unione Italiana (U.K.) Reinsurance Co. Ltd., La Consorziale-Societa Italiana di Riassicurazione S.p.A. Financial results of subsidiaries are not included above.

Employees: 433.

Locations: Two domestic, three foreign.

Principal officers: Mario Luzzatto, chairman; Lorenzo Pallesi and Enrico Randone, deputy chairmen; Arrigo Bianchi di Lavagna, general manager; Luciano Cristallini, joint general manager; Gianfranco De Giusti and Ernesto Frey, senior managers.

Contact: Umberto Saggese, 516-365-1127.

Y

The Yasuda Fire & Marine Insurance Co. Ltd.

26-1, Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo 160, Japan; 81-3-349-3111; 81-3-348-3041 or 81-3-348-3047

	1989*	1988*
Premiums written	\$608,571,298	\$545,768,933
Capital & surplus	\$1.4 billion	\$1.3 billion

* Fiscal years ended March 31, 1990; March 31, 1989.

Year founded: 1887.

Subsidiaries: The Yasuda Fire & Marine Insurance Co. of Europe Ltd., The Yasuda Fire & Marine Insurance Co. of America, The Yasuda Reinsurance Co. Ltd. Financial results of subsidiaries are not included above.

Employees: 10,830.

Locations: 526 domestic, 30 foreign.

Principal officers: Yasua Goto, president; Hirotoishi Nishie, Takatsugu Kawashima and Hisakichi Yamamoto, executive vps.

Contact: Shinya Shimohira, general manager-North America Dept., 212-466-6300.

Fire litigation

Continued from page 2

verings and carpets, three architects and interior designers and a carpet padding installation firm.

All other defendants—including the maker of the polyurethane foam used in the Shelby Williams chairs—have settled with Cathedral Hill Hotel for a total of \$4.1 million, according to Shelby Williams attorney Nelson C. Barry Sr. of Bishop, Barry, Howe, Haney & Ryder in San Francisco.

The verdict sets a precedent for furniture manufacturers as well as establishes the safety of the popular product, Mr. Barry said.

Indeed, Mr. Barry said, this verdict may influence defendants who have not settled suits resulting from the New Year's Eve 1986 fire at the DuPont Plaza Hotel in San Juan, Puerto Rico, which killed 96 people and injured 125.

Many defendants in that case have settled (BI, July 17, 1989), but those remaining "may become militant" as a result of the Cathedral Hill Hotel verdict, Mr. Barry said.

The Cathedral Hill Hotel verdict also is important because other manufacturers have settled before trial in suits challenging the safety of the polyurethane foam in upholstered furniture, said Shelby Williams Vp Peter

Defendants in the San Juan case 'may become militant' because of the ruling, Mr. Barry says.

Barile.

Ironically, Shelby Williams was defendant in the DuPont Plaza litigation but settled in June for "a nominal amount, way below" the cost of continuing its defense, Mr. Barry said.

Neither Mr. Barry nor Mr. Barile would reveal the amount.

However, Mr. Fetterly, who also represented the DuPont Plaza hotel in litigation along with other defendants that provided products used in the hotel until those defendants reached out-of-court settlements in May 1989, disagrees that the verdict is significant.

He said the Shelby Williams decision "would not have an effect" in similar cases "nor should it," because "the evidence is almost uncontroverted" that polyurethane foam is a dangerous material.

However, Mr. Barry said courts have awarded damages to plaintiffs in other suits against manufacturers of rigid—rather than flexible—polyurethane, a structural material.

Those manufacturers falsely advertised that the material was self-extinguishing, he said.

As a result of the Cathedral Hill Hotel verdict, the hotel's liability insurer will have to reimburse Shelby Williams' liability insurer for \$1 million in costs it incurred defending itself in litigation filed by a fire victim, according to Mr. Barry.

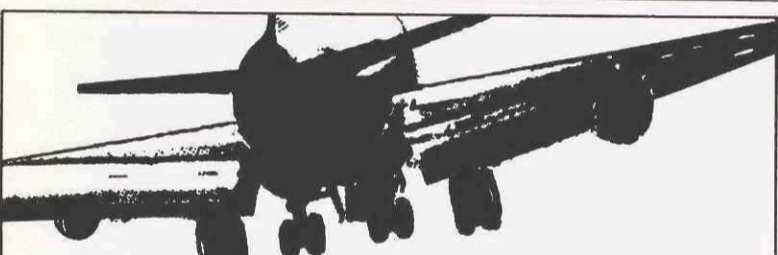
Shelby Williams' insurer, Novato, Calif.-based Fireman's Fund Insurance Co., settled that case for \$600,000 and racked up \$400,000 in defense costs, he said.

Shelby Williams had \$500,000 in bodily injury liability coverage and \$100,000 in third-party property liability coverage with Fireman's Fund, Mr. Barry said.

Fireman's Fund has spent about \$2 million defending Shelby Williams in the Cathedral Hill Hotel litigation, Mr. Barry said.

Travelers Insurance Co. of Hartford, Conn., wrote the hotel's primary liability and property coverage.

The presiding judge, Carlos Baker, is scheduled to enter final judgment in the case this month, Mr. Barry said.



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Marijuana bigger threat than cocaine: Study

By MARK A. HOFMANN

Marijuana users represent a greater threat to workplace safety than cocaine users, according to preliminary research compiled for a manufacturer of drug testing equipment.

The research also claims that random drug testing is the most effective way to stem workplace drug abuse.

However, some employee assistance professionals question the validity of that conclusion.

Research for "Effects of the Use of Illicit Drugs in the Workplace" was done by Kaim Associates Inc., a consulting firm in Weston, Conn., specializing in information services for the health care industry. Kaim Associates conducted the research for Hoffmann-La Roche Inc. of Nutley, N.J., a drug company and major provider of drug testing equipment.

The study is a "literature survey," drawing its conclusions from an examination of medical journals, newspaper articles, professional publications and books dealing with drugs in the workplace, explained Edward H. Kaim, president of Kaim Associates. The completed survey will not be available for several weeks, he said.

According to the survey, 8% of all full-time employees in the United States use illegal drugs at least once a month. Among those, 87.5% use marijuana.

A statistically insignificant number of all workers use cocaine each month, the study found.

Among workers age 18 to 25, the incidence of illegal drug use is more than double that of the workforce as a whole: 19% of full-time

employees in this age group use illicit drugs at least once a month, the study found. Seventeen percent of the workers in this age category use marijuana, compared with 14% who use cocaine, the survey said.

Marijuana hampers job performance more significantly than cocaine because marijuana impairs judgment, while cocaine's greatest impact is on the user's health, particularly the cardiovascular system, Mr. Kaim noted.

The survey's most intriguing finding is how long the effects of marijuana use linger, he said.

"Most users of marijuana may be under the impression that they can smoke marijuana and an hour or two hours later go to bed and get up and go to work," Mr. Kaim said. But data gathered by the survey indicates that the level of impairment can linger as long as 24 hours after using marijuana, he said.

"The user is unaware he is impaired that long," Mr. Kaim said.

However, job-performance impairment from using cocaine dissipates after a few hours, he said.

Employers can use several measures to successfully reduce drug use in the workplace, according to the preliminary report.

"A number of case studies have demonstrated that it is possible to substantially reduce the prevalence of drug use in the workplace. The most dramatic reductions reported to date have been made with programs that employ random drug testing," the report says.

"Random drug testing is certainly the most effective way of reducing the prevalence of drug use," Mr. Kaim said.

For example, the U.S. military cut the prevalence of illicit drug

use by roughly 50% between 1982, when it instituted random drug testing, and 1988, Mr. Kaim said.

In addition, a West Coast utility cut the incidence of illegal drug use among workers at one of its nuclear power plants to less than 1% from 3.2% just before drug testing was implemented, he said. Mr. Kaim did not know over how long usage was reduced.

However, "that doesn't mean it's the only way," Mr. Kaim, referring to random drug testing. "There's very good evidence that employee assistance programs are cost-effective."

EAPs reduced workplace accident rates by as much as 81%, according to studies of several different programs at different companies, Mr. Kaim said.

EAPs also were credited for reducing absenteeism by 80% among participants in several programs, he said.

Mr. Kaim also pointed out that although the study confined itself to workers' use of illegal drugs, "alcohol remains a vastly bigger problem" in the workplace.

But, "illicit drug use is gaining and it's not an insignificant problem," he said.

Several employee assistance professionals—including the company that sponsored the study—agreed that drug use is prevalent in the workplace, but questioned the effectiveness of random drug testing.

"I'm in favor of applicants knowing in advance that they'll be tested," said Gerard Marini, executive director-drug abuse policy initiatives for Hoffmann-La Roche, which sponsored the study. Just getting someone to go without drugs to pass a test is a positive

development, he says.

However, "I look at drug testing not as something that will catch someone, but merely as an early intervention diagnostic tool," Mr. Marini said.

Wisconsin Bell Inc. in Milwaukee does not use random drug testing because it is not cost-effective, according to Jerry Binkley, corporate coordinator-employee/family assistance programs.

In addition, it conflicts with Wisconsin Bell's "people-oriented" philosophy and can stigmatize the

person tested, he said.

The Home Depot Inc., an Atlanta-based chain of home supply stores, also does not support random drug testing.

"We felt that random drug testing sends a message of lack of trust," said Deedy Rogers, wellness coordinator.

Instead, both Wisconsin Bell and Home Depot generally view selective, rather than random, drug testing as a valuable intervention tool.

Continued on next page



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Drug testing

Continued from previous page

Mr. Binkley said Wisconsin Bell will test employees for drug use only in four situations: when there is probable cause; for pre-employment screening; during or after an employee's participation in a substance abuse rehabilitation program; and when hiring company drivers, as required by state law.

"We don't see as many chronic marijuana users as we do cocaine users," Mr. Binkley noted. He estimated that the cost of treating all drug dependency and personality disorders cost Wisconsin Bell about \$9 million annually in lost productivity.

Home Depot tests employees for drug use in cases involving probable cause; after a worker is involved in a serious workplace accident; after participation in a rehabilitation program; and when an employee is a candidate for promotion, Ms. Rogers said.

The company dismisses employees

with fewer than two years of service who test positive for drug use, she said.

Employees with two or more years can keep their jobs if they undergo treatment paid partially under the company's major medical insurance program.

Ms. Rogers would not disclose the company's costs for the program.

Ms. Rogers explained the company will offer assistance to only employee with two or more years of service because if the company is going to make a "major investment" in cash by treating a drug-dependent employee, it needs to have evidence that the employee has made a major investment of his or her own time in the company.

"My sense is that the attitude of American industry (toward drug users) is hardening. They're getting really tough," said Mr. Marini of Hoffmann-La Roche.

"I'm talking about being firm but fair, and I'm concerned that the fairness is disappearing," he said. ■

WIC

Continued from page 2

Lloyd's of London Press is an independent publishing subsidiary of Lloyd's of London.

Advising on the program are H. Felix Klocman, a principal and vp of consultant Tillinghast, a division of Towers, Perrin, Forster & Crosby Inc., and two partners of the London-based law firm of Gouldens: Martin Piers and Ian Lupson.

Mr. Klocman also will address the congress on "Rethinking Risk Management."

These remarks will follow a morning session devoted to the issue of "Corporate Restructuring" in the worldwide insurance marketplace, which will be addressed by several leading insurance company executives from around the globe.

The other two morning sessions will address "The Distribution System" and "Catastrophes."

Within the context of the distribution system, Johnson & Higgins President David A. Olsen will address the role of captive insurance companies in the worldwide insurance market.

J&H, through subsidiaries around the world, manages more captive insurers than any other organization.

And, ACE Ltd. Chairman John Cox will discuss the role of private insurers in the worldwide marketplace. Mr. Cox, the founding chairman of ACE in 1985, developed the underwriting guidelines for ACE, which at fiscal year-end Sept. 30, 1989, had \$1.1 billion in capital and surplus and \$141 million in net written premiums.

Bermuda-based ACE offers excess liability insurance limits of \$200 million excess of \$100 million.

In addition, two insurance brokerage executives—John T. Sinnott, president of Marsh & McLennan Worldwide Services in New York, and Christian Dahms, a partner with Jauch & Hubener in Mulheim, West Germany—will debate how brokers can best serve their clients worldwide.

The debate will be moderated by Edith Lichota, former risk manager for Irving Trust Co. and now president of her own consulting firm, Lichota & Associates of Norwalk, Conn.

Each afternoon, registrants will be able to select two concurrent sessions to attend. Among the issues to be addressed are financial reinsurance, professional liability insurance, the Green Movement, product liability and toxic torts, insurance regulation, recent directives affecting the European Community, claims handling following catastrophes and the convergence of banking and insurance services.

"More program specifics and additional speakers from around the world will be announced shortly," Ms. McIntyre said.

"Business Insurance is teaming up with Lloyd's of London Press to capitalize on the combined global resources and experience in covering subjects of interest to the insurance business worldwide," Mr. Malecki said.

In addition to the program for registrants, the congress is offering a program for accompanying persons that includes a tour of Blenheim Palace, the birthplace of Sir Winston Churchill, and a day of polo at Guard's Polo Club, Windsor Great Park.

The congress will conclude the evening of July 3 with a casino ball for conference registrants and their accompanying guests.

After the congress, registrants may wish to spend a day at the Henley Royal Regatta, which is an optional post-conference event.

The early bird conference fee for those who register before March 1, 1991, is 550 pounds (\$1,056 at current exchange rates, although registration must be paid in British pounds). After March 1, 1991, the registration fee will be 650 pounds (\$1,250 at current exchange rates), with a discount to 585 pounds (\$1,123) for each additional person from the same company. The accompanying guest's registration fee is 275 pounds (\$528). All fees are subject to British value-added tax.

Major credit cards will be accepted.

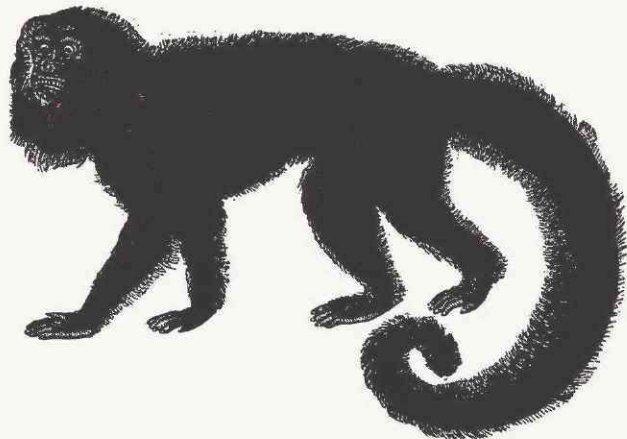
For additional information on the conference, including registration and exhibition space reservations, write either: *Business Insurance*, 220 E. 42nd St., New York, N.Y. 10017; phone 212-210-0299, fax 212-210-0704; or Lloyd's of London Press, 1 Singer St., London, EC2A 4LQ; phone 071-250-1500, fax 071-253-9907. ■



Mr. Olsen



Mr. Cox



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SEPT. 21. Retiree/Catastrophic Workshop in San Francisco, sponsored by the Health Research Institute; \$295. **Also Nov. 13** in Meadowlands, N.J.; and **Dec. 11** in Chicago. Workshop Coordinator, Health Research Institute, 1600 S. Main Plaza, Suite 170, Walnut Creek, Calif. 94596; 415-676-2320.

SEPT. 23-26. National Assn. of Mutual Insurance Cos. 94th Annual Convention & Exposition in Orlando, Fla., sponsored by the National Assn. of Mutual Insurance Cos.; \$350 for NAMIC members; \$500 for non-members. NAMIC, P.O. Box 68700, Indianapolis, Ind. 46268-0700; 317-875-5250.

SEPT. 23-28. The Management Program seminar in Princeton, N.J., sponsored by The College of Insurance; \$1,495 for College sponsors; \$1,695 for non-sponsors. **Also Oct. 28-Nov. 2.** The College of Insurance, Professional Programs, 101 Murray St., New York, N.Y. 10007; 212-964-3381.

SEPT. 24-25. The Insurance/Reinsurance Cash-Flow conference in New York City, sponsored by Executive Enterprises Inc.; \$1,045. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

SEPT. 24-26. 1990 Corporate Retirement Benefits Conference in Chicago, sponsored by the International Foundation of Employee Benefit Plans; \$615 for IFEBP members; \$690 for non-members. International Foundation of Employee Benefit Plans, Registration Department, P.O. Box 69, Brookfield, Wis. 53008; 414-

786-6700.

SEPT. 24-26. 1990 Health Care Cost Management Conference in Denver, sponsored by the International Foundation of Employee Benefit Plans; \$1,000 for IFEBP members; \$1,125 for non-members. International Foundation of Employee Benefit Plans, Registration Department, P.O. Box 69, Brookfield, Wis. 53008; 414-786-6700.

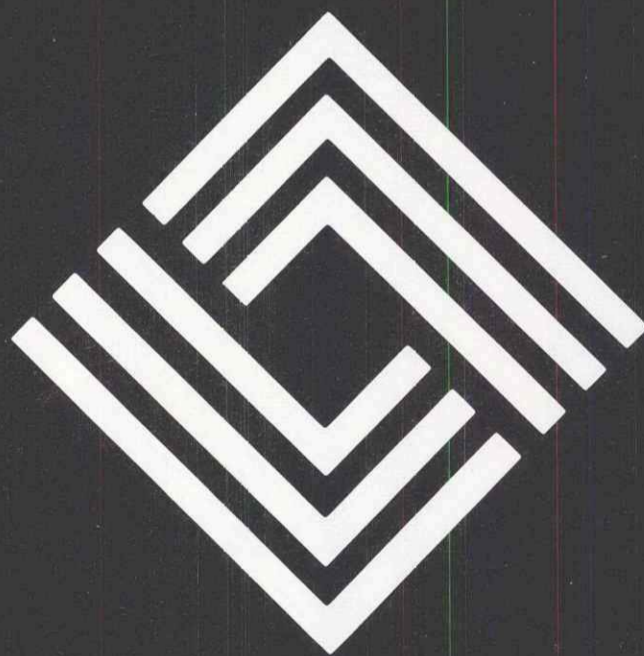
SEPT. 25-26. Insurance Regulation Course in New York City, sponsored by Executive Enterprises Inc.; \$1,045. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

SEPT. 25-28. Planning for the 21st Century conference in New York City, sponsored by William M. Mercer Inc.; \$550. Mercer International Conference, 3500 Texas Commerce Tower, 2200 Ross Ave., Dallas, Texas 75201; 214-220-3539.

SEPT. 26. Introduction to Risk Management for Non-Insurance Managers seminar in New York City, sponsored by The College of Insurance; \$195 for College sponsors; \$225 for others. **Also Nov. 7** in Atlanta. Jane Wechsler, The College of Insurance, 101 Murray St., New York, N.Y. 10007; 212-815-9201.

SEPT. 26. Insurance Carrier Solvency and Computer Security symposia in San Antonio, Texas, sponsored by The Society of Chartered Property & Casualty Underwriters; \$115 for Society of CPCU section members; \$135 for non-section members; \$150 for non-members. Bonnie Kinsley, Continuing

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Continued from previous page
Education Coordinator, The Society of Chartered Property & Casualty Underwriters, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 215-251-2735.

SEPT. 26. Insurance Market Regulation conference in London, England, sponsored by Insurance & Reinsurance Research Group Ltd.; 250 pounds (\$486) plus 15% VAT. Caroline Atkinson, IRRG Ltd., Bridge House, 181 Queen Victoria St., London EC4V 4DD; 071-236 2175.

SEPT. 26-27. The Corporate Healthcare Balance Sheet: Realistic Solutions That Go Beyond the Basics conference in New York City, sponsored by Infoline Inc.; \$1,195; 10% discount each for three or more registrants from the same company; \$895 for the main conference; \$495 for a half-day seminar. Infoline Inc., 633 Third Ave., Suite 2227, New York, N.Y. 10017; 212-557-3400.

SEPT. 26-27. Air Toxics Regulation conference in Washington, D.C., sponsored by Executive Enterprises Inc.; \$1,045. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

SEPT. 26-27. Canadian-U.S. Quick Start Bilateral Flex for Plan Sponsors conference in Toronto, co-sponsored by the Employers' Council on Flexible Compensation and GBB Buck Consulting Ltd.; \$185 for ECFC members; \$195 for non-members. ECFC Conference Center, Dept. 5063, Washington D.C. 20061-5063; 202-659-4300.

SEPT. 26-27. Duties and Liabilities of Directors and Officers conference in New York City, sponsored by the Institute for International Research; \$995; \$695 for government and non-profit organizations. Institute for International Research, 437 Madison Ave., 23rd Floor, New York, N.Y. 10022; 212-826-3340.

SEPT. 26-28. National Risk Retention Assn. Annual Meeting in Washington, D.C.; \$400 for NRRA members; \$550 for non-members. National Risk Retention Assn., P.O. Box 1740, 3421 M St. N.W., Washington, D.C. 20007; 800-999-4505.

SEPT. 27-28. Eastern Europe-Opportunities for the Insurance Industry conference in London, England, sponsored by Insurance & Reinsurance Research Group Ltd.; 499 pounds (\$970) plus 15% VAT. Caroline Atkinson, IRRG Ltd., Bridge House, 181 Queen Victoria St., London EC4V 4DD; 071-236 2175.

SEPT. 27-28. International Health Care Symposium: A Global View of Delivery and Financing in Los Angeles, sponsored by Blue Cross of California; \$200. Patricia Smith, Director of Corporate Communications, Blue Cross of California, 21555 Oxnard St., Woodland Hills, Calif. 91367; 818-703-2412.

OCTOBER

OCT. 1-2. Cost Control of Environmental Remediation Projects conference in Atlanta, sponsored by Executive Enterprises Inc.; \$1,045. Also **Nov. 14-15** in Houston. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

OCT. 1-2. Illinois Environmental Regulation Conference in Chicago, sponsored by Executive Enterprises Inc.; \$1,045. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

OCT. 1-2. Groundwater Contamination: Managing Liability and Remediation conference in Phila-

delphia, sponsored by Executive Enterprises Inc.; \$1,045. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

OCT. 1-2. Hazardous Waste Business '90: West conference in Los Angeles, sponsored by Hazardous Materials Intelligence Report; \$695. HMIR, P.O. Box 535, Harvard Square Station, Cambridge, Mass. 02238; 800-666-4430.

OCT. 1-2. Environmental Issues seminar in Boston, sponsored by the Casualty Actuarial Society; \$300 for CAS members; \$400 for non-members. Kathy Spicer, Casualty Actuarial Society, 1 Penn Plaza, New York, N.Y. 10119; 516-352-8453.

OCT. 1-2. The Three Cs of Employee Benefits: Consultation,

Communications and Commissions symposium in San Francisco, sponsored by the American Society of Chartered Life Underwriters & Chartered Financial Consultants; \$399 for society members; \$499 for non-members. American Society of CLU & ChFC, 270 Bryn Mawr Ave., Bryn Mawr, Pa. 19010; 215-526-2500 or 800-392-6900.

OCT. 2-3. Employee Benefits Course in Philadelphia, sponsored by Personnel Research Associates; \$495. Connie Quinn, PRA, 49 Oakridge Road, Verona, N.J. 07044; 201-239-6154; 201-239-6154.

OCT. 3-5. Techniques of Loss Control course in Scottsdale, Ariz., sponsored by the Risk & Insurance Management Society Inc.; \$540 for RIMS members; \$640 for non-members. Risk & Insurance Management Society, Education Department, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

OCT. 4. Insurance Procurement & Negotiations seminar in Chicago, sponsored by the American Management Assn.; \$525 for AMA members; \$575 for non-members. Also **Oct. 15** in San Francisco; **Nov. 1** in New York City. American Management Assn., P.O. Box 319, Saranac Lake, N.Y. 12983; 518-891-0065.

OCT. 4-5. Fifth Annual Non-Qualified, Deferred and Executive Compensation Conference in Chicago, sponsored by the Employers' Council on Flexible Compensation; \$185 for ECFC members; \$195 for non-members. ECFC Conference Center, Dept. 5063, Washington D.C. 20061-5063; 202-659-4300.

OCT. 4-9. Guaranteed Replacement Cost Policies seminar in White Plains, N.Y., sponsored by the Inland Marine Underwriters Assn.; \$65. John Paulson, Utica Mutual Insurance Co., P.O. Box 530, Utica, N.Y. 13503; 315-735-3321.

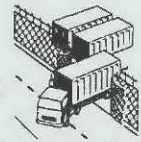

OCT. 5. Establishing an Effective Claims Management Program seminar in Chicago, sponsored by the American Management Assn.; \$525 for AMA members; \$575 for non-members. Also **Oct. 16** in San Francisco; **Nov. 2** in New York City. American Management Assn., P.O. Box 319, Saranac Lake, N.Y. 12983; 518-891-0065.



OCT. 7-10. Cleaning up Environmental Liability seminar in Washington, D.C., sponsored by The Society of Chartered Property & Casualty Underwriters; \$400 for Society of CPCU members; \$245 for spouses and guests. The Society of CPCU, Kahler Hall, 720 Providence Road, CB No. 9, Malvern, Pa. 19355-0709; 215-251-2750.



OCT. 7-10. Controlling the Costs of Workers Compensation Insurance seminar in Washington, D.C., sponsored by The Society of Chartered Property & Casualty Un-


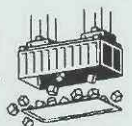
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derwriters; \$400 for Society of CPCU members; \$245 for non-members. The Society of CPCU, Kahler Hall, 720 Providence Road, CB No. 9, Malvern, Pa. 19355-0709; 215-251-2750.

OCT. 8-12. Advanced Reinsurance Practice course in London, England, sponsored by Insurance & Reinsurance Research Group Ltd.; 825 pounds (\$1,603) plus 15% VAT. Joy Bambrough, IRRG Ltd., Bridge House, 181 Queen Victoria St., London EC4V 4DD; 071-236 2175.

OCT. 10-11. Natural Resource Damages Claims and Litigation Conference in Washington, D.C., sponsored by Executive Enterprises Inc.; \$1,045. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

OCT. 10-11. Reinsurance for Underwriters Seminar in Rosemont, Ill., sponsored by the National Assn. of Mutual Insurance Cos.; \$349 for NAMIC members; \$379 for non-members. NAMIC Education Dept.,

P.O. Box 68700, Indianapolis, Ind. 46268-0700; 317-875-5250.

OCT. 10-11. Advanced Risk Management Analysis course in Denver, sponsored by the Risk & Insurance Management Society Inc.; \$545 for RIMS members; \$645 for non-members. Risk & Insurance Management Society, Education Department, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

OCT. 10-12. 44th Annual Council on Employee Benefits Fall Conference in Garden City, N.Y.; \$350 for CEB members; \$400 for non-members. C.S. Lazaroff, Goodyear Relief Assn., 1144 E. Market St., Akron, Ohio 44316; 216-796-4008.

OCT. 11. Loss Control in Public Businesses conference in Hartford, Conn., sponsored by American Insurance Services Group Inc., division of Engineering & Safety Services; \$275 for E&S subscribers; \$325 for non-subscribers. Allan M. Apo, AISG Engineering & Safety Services, 85 John St., New York, N.Y. 10038; 212-669-0482.

OCT. 11. The Electronic Marketplace conference in London, sponsored by the Insurance & Reinsurance Research Group Ltd.; 250 pounds (\$486) plus 15% VAT. Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

OCT. 14-17. 1990 International Claims Assn. Annual Meeting in Vancouver, British Columbia; \$200 for employees of ICA-member companies. C. Ernest Beane, Secretary, International Claim Assn., c/o Modern Woodmen of America, 1701 First Ave., Rock Island, Ill. 61201; 309-786-6481, ext. 302.

OCT. 15-16. Insuring Export Credit and Political Risk conference in London, England, co-sponsored by IBC Financial Focus Ltd. and The Institute of Export; 558 pounds (\$1,084). IBC Financial Focus Ltd., IBC House, Canada Road, Byfleet, Surrey, England KT14 7JL; 071-637 4383.

OCT. 15-16. Survival Thinking: The Key to Sustainable Profits in the '90s conference in Dallas, sponsored by Coopers & Lybrand; \$950. Deborah Slott, The Conference Group Ltd., 45 W. 60th St., New York, N.Y. 10023; 212-586-0880.

OCT. 15-16. First Party Property Policy Environmental Claims and Litigation seminar in New York City, sponsored by Executive Enterprises Inc.; \$1,045. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

OCT. 15-16. Changes in Insurer Data-Reporting Requirements conference in Chicago, sponsored by Insurance Services Office Inc.; \$450 for ISO member companies; \$550 for non-members. Also Oct. 29-30 in New York City. Maureen Karon, Assistant Manager, Insurance Services Office, 160 Water St., New York N.Y. 10038; 212-487-4722.

OCT. 15-17. Environmental Regulation Course in Nashville, Tenn., sponsored by Executive Enterprises Inc.; \$1,045. Also Oct. 15-17 in Chicago, Oct. 22-24 in Philadelphia and San Diego, and Oct. 31-Nov. 2 in Honolulu. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

OCT. 15-17. Insurance Loss Control Assn. Conference in Atlanta, co-sponsored by the National Assn. of Mutual Insurance Cos.; \$139 for ILCA members; \$149 for NAMIC members; \$169 for non-members. Dawne Smith, NAMIC Education

Dept., 3707 Woodview Trace, P.O. Box 68700, Indianapolis, Ind. 46268; 317-875-5250.

OCT. 15-18. Insurer Solvency Assessment course in London, England, sponsored by Insurance & Reinsurance Research Group Ltd.; 670 pounds (\$1,302) plus 15% VAT. Joy Bambrough, IRRG Ltd., Bridge House, 181 Queen Victoria St., London EC4V 4DD; 071-236 2175.

OCT. 17-18. Emerging Managers seminar in New York City, sponsored by The College of Insurance; \$395 for College sponsors; \$495 for non-sponsors. The College of Insurance, Professional Programs, 101 Murray St., New York, N.Y. 10007; 212-964-3381.

OCT. 17-18. The Hazardous Spills Management Course in Atlanta, sponsored by Executive Enterprises Inc.; \$1,045. Also Nov. 13-14 in Houston. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

OCT. 17-20. 12th Annual ASHRM Meeting and Educational conference in Dallas, sponsored by the American Society for Healthcare Risk Management; \$450 for ASHRM members; \$520 for non-members. Trudy Goldman, American Society for Healthcare Risk Management, 840 N. Lake Shore Drive, Chicago, Ill. 60611; 312-280-6430.

OCT. 18-21. Annual Independent Insurance Agents of Colorado Convention in Colorado Springs; \$145 for IIAC members; \$125 for spouses; \$190 for non-members. IIAC Inc., P.O. Box 300279, Denver, Col. 80293; 303-837-0627.

OCT. 19. FlexCan '90 Fifth Annual Conference in Toronto, sponsored by the Employers' Council on Flexible Compensation; \$185 for ECFC member; \$195 for non-members. ECFC Conference Center, Dept. 5063, Washington D.C. 20061-5063; 202-659-4300.

OCT. 20-23. 1990 American Society of Chartered Life Underwriters and Chartered Financial Consultants' National Conference in New Orleans; \$390 for society members; \$365 for new designees; \$440 for non-members. American Society of CLU & ChFC, 270 Bryn Mawr Ave., Bryn Mawr, Pa. 19010; 215-526-2500; 800-392-6900.

OCT. 21-23. American Assn. of Insurance Services Fall Conference in San Antonio, Texas; before Sept. 15: \$350, \$300 for each additional registrant from same company; after Sept. 15: \$375, \$325 for each addi-

tional registrant. Therese Sheehy, American Assn. of Insurance Services, 1035 S. York Road, Bensenville, Ill. 60106; 708-595-3225.

OCT. 22. Contractual Risk Transfer seminar in Chicago, sponsored by the International Risk Management Institute Inc.; \$235. Seminar Coordinator, International Risk Management Institute, 12222 Merit Drive, Suite 1660, Dallas, Texas 75251; 800-827-4242.

OCT. 22. Surety Bonding seminar in Chicago, sponsored by the International Risk Management Institute Inc.; \$235. Seminar Coordinator, International Risk Management Institute, 12222 Merit Drive, Suite 1660, Dallas, Texas 75251; 800-827-4242.

OCT. 22. Construction Insurance Cost Control seminar in Chicago, sponsored by the International Risk Management Institute Inc.; \$235. Seminar Coordinator, International Risk Management Institute, 12222 Merit Drive, Suite 1660, Dallas, Texas 75251; 800-827-4242.

OCT. 22. Construction Insurance Primer seminar in Chicago, sponsored by the International Risk Management Institute Inc.; \$235. Seminar Coordinator, International Risk Management Institute, 12222 Merit Drive, Suite 1660, Dallas, Texas 75251.

OCT. 22-23. Fourth Annual National Disability Management Conference and Trade Show in Miami, co-sponsored by the Washington Business Group on Health, Institute for Rehabilitation & Disability Management and Thomas L. Jacobs & Associates; \$325 for WBGH members; \$300 each for three or more member registrants from the same company; \$400 for non-members; \$375 each for three or more non-member registrants from the same company. Washington Business Group on Health, 777 N. Capitol St. N.E., Suite 800, Washington, D.C. 20002; 202-408-9320.

OCT. 22-25. Introduction to Infrared Thermography and Infrared Non-Destructive Inspection course in Dallas, sponsored by American Risk Management Corp.; \$950; reduced rates for three or more attendees from the same company. Jim Armstrong, American Risk Management Corp., 1 Independence Place, Suite 500, 4807 Rockside Road, Cleveland, Ohio 44131; 800-882-5528 or 216-447-1600.

OCT. 22-25. 10th Annual Construction Insurance Conference in Chicago, sponsored by the International Risk Management Institute Inc.; \$725. International Risk Management Institute, 12222 Merit Drive, Suite 1660, Dallas, Texas, 75251-2217; 214-960-7693.

OCT. 23. Punitive Damages-Implications for Insurers conference in London, sponsored by the Insurance & Reinsurance Research Group Ltd.; 250 pounds (\$486) plus 15% VAT. Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

OCT. 23-24. Environmental Regulation Course in Toronto, sponsored by Executive Enterprises Inc.; \$1,045. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

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The best-paid CEOs among leading commercial insurers

Rank	Firm rank	CEO/age	Company	1989 cash compensation	1988 cash compensation	% change from 1988	Market value ¹ of shares held	1989 total revenues (in millions)	% change from 1988	1989 net income (in millions)	% change from 1988
1	12	Saul P. Steinberg, 50	Reliance Group Holdings Inc.	\$6,265,000	\$4,498,000	39.3	\$237,388,170	\$4,012.4	29.2	\$21.7	(8.1)
2	14	Marshall Manley, 49 ²	AmBase Corp.	1,944,438	1,803,444	7.8	4,103,008	3,526.0	18.0	96.0	10.0
3	3	Maurice R. Greenberg, 64	American International Group Inc.	1,570,000	975,000	61.0	236,508,110	14,150.0	10.2	1,367.0	13.1
4	5	Edward J. Noha, 62	CNA Financial Corp.	1,488,484	1,373,607	8.4	30,543	9,084.0	8.8	613.5	12.3
5	7	James R. Harvey, 55	Transamerica Corp.	1,385,650	1,300,000	6.6	10,071,607	6,834.1	8.7	332.2	26.7
6	10	Harold S. Hook, 58	American General Corp.	1,234,060	1,089,000	13.3	6,382,159	4,227.0	11.0	464.0	5.0
7	18	Ronald E. Ferguson, 48	General Re Corp.	1,201,197	979,351	22.7	1,436,649	2,771.3	1.6	598.5	24.7
8	9	Jack Moseley, 58	USF & G Corp.	1,180,446	909,887	29.7	2,773,445	4,679.0	4.0	119.0	(51.8)
9	6	Ian M. Rolland, 56	Lincoln National Corp.	1,113,263	757,737	46.9	3,927,893	8,081.1	16.7	268.8	78.1
10	2	Wilson H. Taylor, 46	CIGNA Corp.	1,103,000	New CEO	NA	1,831,562	15,654.0	5.8	562.0	26.3
11	11	Dean R. O'Hare, 47	The Chubb Corp.	1,072,724	794,431	35.0	1,058,207	4,022.6	5.0	420.8	17.0
12	1	James T. Lynn, 62	Aetna Life & Casualty Co.	1,051,538	1,136,538	(7.5)	1,287,001	19,671.0	10.4	676.4	(5.2)
13	21	James F. Orr III, 47	UNUM Corp.	965,404	780,156	23.7	3,710,256	1,934.2	15.3	155.4	17.7
14	13	Robert J. Haugh, 64	The St. Paul Cos. Inc.	954,293	919,267	3.7	4,020,258	3,788.6	4.2	398.2	12.1
15	4	Edward H. Budd, 56	Travelers Corp.	950,000	840,000	13.1	5,044,678	12,523.0	2.1	455.0	727.3
16	28	Ronald L. Bornhuetter, 57	NAC Re Corp.	852,684	787,437	8.3	2,897,857	239.4	21.0	25.6	23.1
17	15	John J. Byrne, 57	Fund American Cos. Inc.	850,000	1,124,539	(24.4)	125,911,250	3,490.0	(5.8)	73.0	(68.9)
18	8	John P. Mascotte, 50	Continental Corp.	844,231	601,538	40.3	1,813,464	6,078.6	3.4	153.1	17,297.7
19	25	William R. Berkley, 44	W. R. Berkley Corp.	842,173	786,100	7.1	55,221,025	550.8	3.1	55.8	(6.1)
20	26	Wilson Wilde, 62	The Hartford Steam Boiler Inspection and Insurance Co.	805,179	679,230	18.5	5,643,788	484.5	8.5	77.6	9.8
21	20	Patrick G. Ryan, 52	Aon Corp.	789,292	471,923	67.3	285,382,840	2,324.7	6.3	232.4	29.4
22	17	Joseph E. Leuke, 63	Kemper Corp.	650,590	415,696	56.5	5,614,860	2,773.7	14.4	307.4	39.3
23	24	Alan R. Gruber, 62	Orion Capital Corp.	600,135	528,786	13.5	2,601,264	821.8	7.8	30.3	19.5
24	29	James F. Billett Jr., 45	Trenwick Group Inc.	543,243	490,444	10.8	5,464,419	122.0	1.4	15.8	15.3
25	16	Bruce Maines, 63	SAFECO Corp.	529,664	484,334	9.4	3,472,136	2,934.4	8.9	300.2	11.8
26	27	James A. McIntyre, 57	Fremont General Corp.	466,386	483,944	(3.6)	3,576,328	466.5	18.0	17.6	15.8
27	22	Joseph L. Marcum, 66	Ohio Casualty Corp.	443,412	352,750	25.7	31,951,177	1,424.6	1.6	101.5	(20.7)
28	23	William R. Stover, 67 ³	Old Republic International Corp.	342,333	312,983	9.4	51,307,752	1,181.9	6.7	98.9	94.3
29	30	Patrick Peugeot, 52	Scor U. S. Corp.	165,989	New CEO	NA	306,274	121.3	(4.9)	9.6	(44.5)
30	19	Warren E. Buffett, 59	Berkshire Hathaway Inc.	100,000	100,549	(0.5)	3,303,948,800	2,483.9	0.8	447.5	12.1

¹ Stock values as of Aug. 22 ² Resigned in March 1990 ³ Resigned in August 1990

Source: Company proxy statements and annual reports

BYCYNTHIA WATSON

Compensation

Continued from page 1

And net income increased last year for many insurance and reinsurance companies, the consultants added.

For the fourth consecutive year, Saul P. Steinberg, 50, chief executive officer of Reliance Group Holdings Inc., topped the industry's pay scale. His cash compensation rose 39.3% to \$6.27 million from \$4.5 million in 1988.

At the same time, Reliance's net income dropped 8.1%. A spokesman said the net income figure "masks some very notable accomplishments," such as the sale of Reliance's Days Inn subsidiary.

Reliance had a "very active and very productive year," he noted, in response to questions about Mr.

Steinberg's compensation.

A Forbes magazine survey rated Mr. Steinberg the fourth-highest compensated CEO of a publicly held U.S. company in 1989. Reebok International Ltd.'s Paul B. Fireman leads the field with \$14.6 million; followed by Herbert J. Siegel, of Chris-Craft Industries Inc., \$13.7 million; and Michael D. Eisner of The Walt Disney Co., \$9.6 million.

Mr. Steinberg also held 45.2 million shares, or 60.7% of Reliance's common stock, as of Feb. 22. That stock was worth \$237.4 million as of Aug. 22.

In addition, the Steinberg Group—which includes Mr. Steinberg, his family and an affiliated trust—holds 78.8% of Reliance's common stock, which was valued at \$309 million as of Aug. 22.

Robert M. Steinberg, chief operating officer of the company and Mr. Steinberg's brother, received cash compensation of \$3.1 million last year. That total would have left him second on the insurance CEO compensation list.

Marshall Manley, 49, of AmBase Corp., was in fact the second-highest-paid insurance CEO, also for the fourth consecutive year.

Mr. Manley received cash compensation of \$1.94 million in 1989, up 7.8% from \$1.8 million in 1988. AmBase's net income rose 10.0% last year.

However, Mr. Manley was forced out as AmBase's CEO in March (BI, March 19). George T. Scharffenberger, a former chairman, was elected president and CEO. Mr. Scharffenberger's 1989 cash compensation was \$1.5 million.

Maurice R. Greenberg, 64, of American International Group Inc., moved up seven notches to No. 3 among insurance industry CEOs last year. His 1989 compensation was \$1.6 million, up 61% from \$975,000 in 1988. AIG's net income rose 13.1% last year.

And, as of Aug. 22, Mr. Greenberg's holdings of AIG common stock were worth \$236.5 million.

Following closely at No. 4 was Edward J. Noha, 62, of CNA Financial Corp. His compensation rose 8.4% to \$1.5 million in 1989 from \$1.4 million. CNA's net income rose 12.3% last year.

Fifth on the list of highest-paid CEOs was James R. Harvey, 55, of Transamerica Corp., whose compensation rose 6.6% to \$1.39 million from \$1.3 million in 1988. Transamerica's net income surged

26.7% last year.

The difficulty of running a large insurance or reinsurance company warrants such salaries, asserted several executive compensation consultants.

Insurance "is not a simple, regulated service that managers are there basically just to run," noted David Cates of Hewitt Associates in Lincolnshire, Ill. "It's a very difficult industry" undergoing a lot of restructuring and consolidation, he added.

Whenever "management has a number of strategic challenges to face," highly skilled executives are needed, he continued. "The price for executives who can deal with those issues is getting up there."

Wyatt's Mr. Emig noted that insurance CEOs must have legal, tax,

Continued on next page

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Compensation

Continued from previous page
actuarial and underwriting skills. "People like that are few and far between and those people are expensive."

Consultants note a further factor in rising salaries: Competition for talented chief executives is no longer limited to commercial insurers. Prompted by deregulation, banks and associations are entering the insurance business.

"If a bank wants to offer insurance, it'll go out and get an insurance industry executive," said Mr. Emig. "The compensation of the person will then reflect the practices of the bank, not the insurance industry."

Even so, consultants say, insurance industry CEOs are not making out like bandits compared with those in other industries.

"The insurance industry is not out of whack with the rest of the economy," Mr. Cates said. "If any-

thing, it's on the conservative side."

At the 100 largest U.S. industrial companies, median total annual compensation for chief executives was \$1.3 million in 1989, according to a recent survey by TPF&C, a division of Towers, Perrin, Forster & Crosby Inc.

The median CEO compensation was \$950,000 at the 30 insurance and reinsurance companies studied by *Business Insurance*.

In some cases, other executives outearned the CEO.

At Fund American Cos. Inc.—formerly Fireman's Fund Corp.—Robert W. Bruce III, president and chief investment officer topped the 1989 pay list with cash compensation of \$5.49 million.

At Fremont General Corp., CEO James A. McIntyre received cash compensation of \$466,386 in 1989, less than the \$541,737 paid to his brother, David L. McIntyre, former president and CEO of subsidiary Fremont Insurance Group Inc.

Thomas R. Anderson, executive vp of Kemper Corp., received cash compensation of \$948,943 last year, 46% more than the \$650,590 paid to CEO Joseph E. Leucke.

In two other cases, executives outearned their CEOs.

Scor U.S. CEO Patrick Peugeot received \$165,989 in 1989, making him the second-lowest paid on the list. Yet Executive Vp Jerome Karter received cash compensation of \$318,532. Mr. Karter, however, also is president and CEO of subsidiary Scor Reinsurance Co.

And at Old Republic International Corp., A.C. Zucaro, the president and chief financial officer, received slightly higher cash compensation than recently retired CEO William R. Stover: \$351,500 compared with \$342,333.

Lower-ranking officers outearning the chief executive remains "unusual," said Hewitt's Mr. Cates. "Either the CEO is such a substantial owner that his pay is kept depressed, or there is a special compensation arrangement for someone other than the CEO."

For an example, one needs only to look at the bottom of the CEO pay rankings, where Warren E. Buffett, 59, of Berkshire Hathaway Inc., has resided for four straight years.

Even with Berkshire Hathaway's net income rising 12.1%, Mr. Buffett's cash compensation fell 0.5% to \$100,000 in 1989. Meanwhile, Vp Michael A. Goldberg received \$2.25 million.

Mr. Buffett, however, controlled 516,242 shares, or 45%, of the company's outstanding stock as of March 1. That stock was valued at \$3.3 billion as of Aug. 22, down from \$3.96 billion a year ago.

Several other CEOs own more than 5% of their companies' common stock, including:

- Patrick Ryan, who as of Feb. 27 owned 13.3% of Aon Corp.'s stock, valued at \$285.38 million as of Aug. 22.

- John J. Byrne, who as of March 13 owned 7.7% of Fund American's stock, valued at \$125.91 million as of Aug. 22.

- William R. Berkley, who as of March 30 owned 14.2% of W.R. Berkley Corp.'s stock, valued at \$55.22 million as of Aug. 22.

- Mr. Stover, who as of March 30 owned 9.2% of Old Republic's stock, valued at \$51.31 million as of Aug. 22.

Cash compensation actually dropped last year for four chief executives.

Mr. Byrne of Fund American had the steepest decline, falling 24.4% to \$850,000 from \$1.1 million in 1988. His company's net income dropped even more sharply—by 68.9%—in that year.

In response to questions about the figures, a company spokesman said, "All of senior executives' compensation is linked to how the company performs."

Consultants, however, warn against trying to draw a direct link between current CEO compensation and a company's profitability.

"Performance is something that you have to look at over the longer term," Mr. Emig said. "Insurance has always been a long-term proposition."

Arrangements tying compensation to financial results increasingly span several years, Mr. Cates noted. The judgment period tends to be three to five years but can be as long as 10 years, he noted.

Aetna Life & Casualty Co., for example, has a "management incentive plan" that bases rewards on annual financial results and a "performance unit plan," which bases them on performance over four straight fiscal years.

A "long-term incentive plan" at The Hartford Steam Boiler Inspection & Insurance Co. bases rewards on performance over three consecutive years.

Many other insurers have similar long-term incentive plans. ■

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INTERNATIONAL

Embargoes causing insurance problems

By CAROLYN ALDRED

LONDON—Trade embargoes against Iraq and Kuwait could create some confusion between insurers and policyholders, according to a London law firm.

Trade sanctions approved by the United Nations after Iraq invaded Kuwait last month have been adopted by many nations, including the United States and all European Community nations.

As a result, policyholders and insurers "must take care to comply with the sanctions," Clyde & Co., a London law firm, warns in a nine-page bulletin outlining the implications of the embargo.

"If contracts are entered into or performed in breach of the (regulations), then this may affect the validity of the policies of marine, credit and political risk insurance," the firm said.

Executing marine and credit insurance contracts for underwriters,

their insureds and bankers "is likely to be very complex as a result of the sanctions," it said.

"Existing policies of marine, political risk and credit insurance are clearly going to be of considerable importance in the coming weeks in relation to cargoes already dispatched to Iraqi and Kuwaiti buyers," Clyde & Co. points out.

"Mitigating losses will be of central importance and there may be severe problems and difficult questions concerning the making of lawful arrangements to redirect cargoes or having them returned to their place of origin. Many of the problems afflicting traders will also incidentally affect insurers insofar as those traders are insureds under policies already accepted," the bulletin explains.

In addition, "the width of policy wordings and overlap between war cover and Institute Clauses (standard London market marine clauses, which exclude war risk



coverage) will be crucial in both cargo and hull markets," Clyde & Co. predicts.

"There are also potential areas of difficulty concerning illegality and/or (contract) frustration under policy coverage for existing ventures," the law firm points out.

"As far as future business is concerned, all insurers and their insureds must take care to comply with the sanctions. There is a particular danger that insurance arrangements may be seen as acts

promoting other activities banned by the embargo and thus illegal in themselves. Much Gulf-orientated business will have to be looked at with care," Clyde & Co. warns.

"As far as reinsurers are concerned, considerable difficulty may be experienced where Iraqi or Kuwaiti insurance companies are involved, both receiving premium, paying claims and resolving monthly bordereaux," it notes.

The U.N. Security Council Resolution requires U.N. member countries to prevent:

- The import of all commodities/products originating in and exported from Iraq/Kuwait.

- Any activity by member countries' citizens, or any activity within U.N. member countries, that promotes the export or dealings in Iraqi/Kuwaiti commodities/products.

For example, service industries such as insurance or banking could fall into this category. This provi-

sion also bans such dealings aboard members' flagged vessels.

- The sale or supply of any commodities/products by U.N. members' citizens or by U.N. member countries to any person or entity in Iraq/Kuwait. This provision also bans the use of U.N. member countries' flagged vessels to ship goods to Iraq/Kuwait.

There are exemptions for medical supplies and possible exemptions for foodstuffs in humanitarian circumstances, according to Clyde & Co.

- Providing the Iraqi government or any commercial, industrial or public utility operating in Iraq/Kuwait any funds or other financial/economic resources.

In the United Kingdom, the resolution has been implemented in several pieces of legislation.

Throughout the 12-member European Community, regulations implementing the resolution took effect Aug. 7.

Aussie company held liable for ship damage

By KATE McILWAINE

BRISBANE, Australia—An Australian company is appealing a court order to pay damages of \$1.66 million Australian (\$1.38 million) after a boat it manufactured caught fire less than two months after it was launched.

In addition, NQEA Australia Pty. Ltd.—a ship builder in Cairns, Queensland—is contesting the court's finding that its builders risk insurance policy does not cover the award.

The boat, a 100-foot-long aluminum catamaran called Reef Link II, was used to ferry tourists from Townsville, Queensland, to the Great Barrier Reef. It could carry up to 400 passengers, but there were only 53 on board when it caught fire July 5, 1987.

The company that owned the boat, Reef Link Pty. Ltd. of Townsville, filed a claim for damages under its marine hull policy, which was underwritten by C.E. Heath & Co. (Australia) Pty. Ltd. of Sydney, an underwriting affiliate of broker C.E. Heath P.L.C.

A spokesman for Reef Link said the claim was for more than \$2 million Australian (\$1.6 million). The catamaran was valued at \$2.7 million Australian (\$2.2 million), he said.

C.E. Heath paid Reef Link's claim and then, under its subrogation rights, sued NQEA, claiming that the vessel was poorly constructed.

Queensland Supreme Court Justice Kelley agreed, saying in his

Continued on page 81

LONDON
J&H Ltd. recruits team of brokers to expand wholesale operations

By CAROLYN ALDRED

LONDON—Johnson & Higgins Ltd., the London-based operation of New York-based Johnson & Higgins, has recruited a team of financial risk insurance brokers from rival broker Alexander Howden Ltd. as part of a move to boost its wholesale operations.

John Howe and Stephen Ambidge, formerly joint managing directors of the HJL Insurance Brokers division of Alexander Howden, will head up J&H Ltd.'s newly formed professional and financial risks division beginning today.

Several other brokers from HJL will join at a later date to work in the new division, which will be responsible for placing bankers blanket bond insurance, bankers professional liability, directors and officers liability, and errors and omissions insurance.

"We have a large book of financial institutions business, and we wanted the top people to handle it," said J&H Ltd. Co-chairman Charles Carter.

Meanwhile, J&H Ltd. will continue to build its operation to handle more of Johnson & Higgins' London wholesale business following Willis Faber P.L.C.'s decision to merge with Corroon & Black Corp., Mr. Carter said. The merger is expected to be completed later this year.

Willis Faber currently is a member of the UNISON network of worldwide brokers originally put together by J&H to provide brokering services for its clients overseas. However, Willis' forthcoming merger with Corroon & Black has led to speculation that Willis will lose its position in the UNISON network.

J&H acquired J&H Ltd., formerly known as Carter Brito e

Cunha Ltd., in 1986 primarily as a reinsurance broker.

However, "we are building up our operation to place more wholesale business now," Mr. Carter said.

J&H Ltd.'s total number of staff has increased to 140 from about 100 earlier this year, and the brokerage is looking to hire more people "as and when we need them," Mr. Carter said.

Meanwhile, Alexander Howden already has replaced its financial risks brokerage team.

A team of seven specialist brokers, headed by Richard Webster, left Lloyd's of London broker J. Besso & Co. Ltd. to join Alexander Howden.

Mr. Webster, who will become chief operating officer of HJL, joined the company on Aug. 24, according to an Alexander Howden spokesman.

Continued on next page

Agents' group criticizes regulation in E.C.

By MICHAEL BRADFORD

WASHINGTON—Insurance regulators in Europe are not addressing potential problems for policyholders and insurers with the single insurance market in the European Community, contends the National Assn. of Casualty & Surety Agents.

NACSA is concerned about the absence of any regulations mandating insurers writing non-life coverage throughout the European Community to use standardized insurance policy forms.

Washington-based NACSA also is concerned about what it perceives as the European Community's disregard of insurance company solvency and a lack of regulation of reinsurers in the European Community.

Some insurers, though, say difference-in-conditions policies should resolve any coverage problems resulting from the lack of common policy forms.

And, while they agree there is a lack of standard E.C. regulations

Insurance becomes 'a very difficult task' without common policy forms, says NACSA's Mr. Huber.

on insurer solvency, they note that many E.C. countries individually have strong solvency regulations.

An E.C. directive that took effect July 1 allows the cross-border sale of insurance without insurers having to establish operations in all countries in which they write business. The move is one step toward the creation of a single European trade market by 1992.

But purchasing and writing insurance in several E.C. nations becomes "a very difficult task" without common policy forms, according to J. Martin Huber, executive vp of NACSA.

NACSA officials met earlier this summer in Brussels and Paris with

officials from the European Community's Insurance Directorate; the Committee of European Insurances; the E.C. financial service center of the American Chamber of Commerce of Brussels; and the Bureau of International Producers of Assurances & Reassurances.

The groups discussed NACSA's concerns as well as concerns of European insurers writing business in the United States.

"The E.C. insurance people have complained that our licensing laws make doing business in the United States difficult for a European insurer," noted Mr. Huber. "We were told repeatedly that the structure of the United States market is inhospitable to European insurers because of our system of individual state regulation."

Mr. Huber acknowledged that the licensing procedure in the United States is "an administrative burden." However, he added that once European companies are licensed in the United States, "doing business in all of those

Continued on next page

E.C. hopes to develop insurer accounting rules

By DENISE CLAVELOUX

BRUSSELS, Belgium—European Community ministers will be turning their attention to a proposed E.C. directive on insurance company accounts when they return from the summer holidays.

The Italian government, which currently holds the presidency of the E.C.'s Council of Ministers, has earmarked this proposal for receiving top priority and hopes to have it approved by year-end.

The directive was first proposed in December 1986 by the E.C. Commission, which initiates community policies and supervises them. The proposed directive aims to ensure communitywide comparability of insurance company accounts.

The proposed directive was revised in 1989 following severe criticism from the European Parliament concerning provisions regarding asset valuation and other issues. The parliament believed that, under these rules, insurance companies could build up large, hidden reserves.

The latest proposal by the European Commission now lays down an asset valuation system that gives insurers the option of using either the historic/purchase value of the asset or its current value. However, to ensure that insurers' accounts are comparable, assets

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NACSA protest

Continued from page 79
states is easy because of the common forms that are used."

Also at the meeting, NACSA was "told that the European Community is moving toward a system under which insurers and insurance agents established in any one member state will be able to engage in insurance activities throughout the community."

But without a common policy form, "providing insurance services in the E.C. will be decisively more difficult for a U.S. insurer or agent than it would be for a European insurer providing similar services" in the United States, Mr. Huber said.

NACSA is urging the U.S. Department of Commerce to discuss the association's concerns with E.C. insurance regulators.

Mr. Huber and Ken A. Crerar, NACSA's vp of government affairs, penned a letter to Deputy Assistant Secretary Linda Powers of the Department of Commerce, outlining the trade group's concerns about business dealings in a single E.C. insurance market.

"We just wanted to bring this to the attention of the Department of Commerce because we know that they're going to be negotiating these issues in their trade talks," Mr. Huber explained.

"We wanted them to be aware, on the issue of U.S. insurers doing business in the E.C., that it is not going to be quite as simple as perhaps the E.C. would have them believe."

The letter states: "Given the rather distinct legal systems as well as different languages used in the European Community, the failure to adopt common forms and policies would appear to make the community more fractured than the American market. In other words, comparison of policies for identical risks located in, say England and Greece, would appear to be more difficult than for identical risks located in, say Oregon and Florida. But those kinds of comparisons are important to an agent servicing a large and (scattered) business enter-

prise."

Other trade groups agree with NACSA that common policy forms are needed throughout Europe, but those organizations are not taking a strong stance on the issue.

For example, the Risk & Insurance Management Society Inc. supports the concept of common policy forms as "very valuable to the consumer" but is not actively pursuing the issue, said Howard Greene, director of governmental affairs.

In addition, the National Assn. of Insurance Brokers shares NACSA's concern for common contracts but is not actively addressing the issue, a spokeswoman confirmed.

However, not all international insurers believe that NACSA's concern over the lack of standardized policy forms in the European Community is well-founded.

For example, Stewart H. Steffey Jr., senior vp-field management for CIGNA Corp. of Philadelphia, said he views the debate over the lack of common policy forms in the European Community as a "relatively small issue."

He pointed out that CIGNA, which has 51 branch offices throughout Europe, can outline policy forms and conditions for a multinational risk in about two days.

Mr. Steffey acknowledged that "it would be nice if there were common policies within the Common Market."

But, he added that the "differences in policy forms and conditions just aren't that great."

Mr. Steffey said policyholders and intermediaries who deal with insurers that have a strong presence in Europe should not experience problems with policy forms and terms and conditions. "We see little inability to respond to an agent or insured's needs on a large risk."

And, difference-in-conditions policies can take care of any problems with coverage written across European boundaries, said Robert Lynyak, deputy chief underwriting officer—overseas operations for Chubb Corp. of Warren, N.J.

Continued on next page

LONDON

Continued from previous page

U.S. purchase planned

A group of four Lloyd's of London underwriting agencies plan to purchase a majority shareholding in a California-based underwriting agency with Lloyd's binding authority in an effort to bring Lloyd's underwriting operations closer to its U.S. producing brokers.

Murray Lawrence & Partners Ltd., Lloyd-Roberts & Gilkes Ltd., G.P. Mann Underwriting Agency Ltd. and R.F. Bailey Underwriting Agencies Ltd. are negotiating to purchase a majority shareholding in San Francisco-based J. Linneman & Co. Inc. for an undisclosed amount.

J. Linneman already has binding authority to write facultative reinsurance for property and auto risks for certain underwriters at Lloyd's—including some in the agencies seeking to make the purchase—placed through Lloyd's broker Ellinger Heath Western & Co.

The arrangement will not change as a result of the proposed deal.

"However, we feel we would better serve some of our (U.S.) broker relationships by having someone nearer the source of the risk," said Lloyd's underwriter Richard Keeling of Murray Lawrence & Partners.

The move is the latest in a series of initiatives by Lloyd's underwriters to move closer to their existing and potential sources of business (see stories beginning on page 3).

Willis profits rise

Willis Faber P.L.C. reported a 33% rise in its half-year profits just prior to its scheduled merger with Corroon & Black Corp.

Pretax profits for the six months ended June 30 increased to 57.7 million pounds (\$100.9 million) from 43.5 million pounds (\$76.1 million) for the same period in 1989.

In addition, total revenues increased 9.5% to 173.3 million pounds (\$303.1 million) from 158.2 million pounds (\$276.7 million).

"I believe these are excellent results in difficult trading conditions," said Chairman Roger Elliott.

"These results demonstrate that the group has completed the implementation of our strategic moves of the previous three years and that we are producing the results for which those were undertaken," Mr. Elliott said, referring to Willis Faber's 1987 acquisition of Stewart Wrightson P.L.C.

"We are now enthusiastically working with Corroon & Black in planning the further realization of the strategy, which we will be able to implement from the day when Willis Corroon comes into being. The work of the project teams established under the transition committee to review both groups' activities has started, in order to enable us to make the most of the opportunities presented by the merger," Mr. Elliott said.

INTERNATIONAL

Continued from previous page

"You write a master DIC policy," then write the "scattered policies in scattered languages" to cover commercial exposures, Mr. Lynyak said. If, for some reason, the primary policies covering the risks do not respond to a claim, the DIC coverage will, he said.

"Perhaps someday, in a more perfect world, policies will match," Mr. Lynyak said. "Eventually, as other issues, like common currency, are addressed, I think we will see common policies."

In the meantime, "major multinationals can adequately protect themselves with a DIC policy," he said.

Mr. Steffey said NACSA's concern applies more to U.S. insurers that do not already have a presence in Europe or to agents who do not have commitments with insurance companies well-positioned there.

"U.S. agents need to look more aggressively at (insurers) already able to provide a strong market in Europe," he suggested.

"And, at the same time, we're challenging ourselves and others to communicate what we have put in place in Europe," he said of insurers established in that part of the world.

NACSA also is disturbed by what it believes is a lack of concern by the European Community about the potpourri of insurer solvency regulations throughout the market.

In NACSA's letter to the Department of Commerce, the association stated: "It is not clear to us that effective cross-border solvency regulation will inevitably follow in the wake of the current E.C. directives. Apart from some guidelines on technical reserves, we understand that solvency regulation will remain the responsibility of the member states and not the community as a whole."

The letter goes on to say that insurance agent members of NACSA "believe that the protection of solvency is the paramount insurance regulatory concern faced today both

in the United States and Europe."

CIGNA's Mr. Steffey agreed that the solvency of European insurers should be a bigger concern for the European Community.

"It's difficult to judge the financial stability of European insurers, and that's an important issue," Mr. Steffey said.

"The problem is, in Europe, you have a whole different basis of accounting," he said.

Therefore, an insurer that is financially fit by European standards might not make the grade with U.S. accounting methods, he pointed out.

But, Mr. Lynyak of Chubb said that solvency regulation by some individual countries is very strong.

The intensity of insurer solvency regulation "might differ from place to place," he said. "But if you say a German regulator is not concerned about solvency, you're looking to get punched in the nose."

And, he noted, "the British are very

concerned about solvency."

NACSA also is concerned about an absence of E.C. reinsurance regulations.

The association says in its letter to the Department of Commerce: "We understand that the current and proposed E.C. directives will not deal with the reinsurance market. Our members are keenly interested in that market because of the prominent role played by reinsurers in the placement of large commercial risks."

Although NACSA "applauds the avoidance of over-regulation," the organization wonders "whether an effective insurance regulatory scheme can overlook the critical role played by reinsurers," the letter says.

The letter concludes: "We are hopeful that the E.C. directives lead to a European marketplace in which all insurance companies and all insurance agents can compete to the advantage of their customers." ■

E.C accounting

Continued from page 79

also would have to be valued—in notes to an insurer's accounts—using the method not used in the accounts themselves.

The commission claims that including both methods of valuation in all insurers' accounts will not only improve comparability but will prevent insurance companies from building up hidden reserves.

The commission's proposal also says that investment fund gains and other business gains related to life insurance may be disclosed in the insurers profit and loss statement, even though such unrealized investment gains normally are not reported for insurers using current-cost valuation.

Specific provisions are also being written into the proposed directive regarding Lloyd's of London, which—because of its structure—would

have difficulty complying with the general rules.

However, this is subject to negotiation between British officials and the European Commission.

A final proposal regarding Lloyd's should be available by the end of the month.

So far, all of the E.C. member nations have said they agree with the European Commission's proposal, except for West Germany, Italy and Luxembourg, which are questioning the provisions on asset valuation. They believe these rules could be too burdensome.

Britain, Ireland and The Netherlands also want unrealized gains from non-life insurance business to be included in insurers' profit-and-loss statements.

The Italian government is confident that these minor reservations can be overcome and that the accounting directive can be adopted within the next few months. ■

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Shipbuilder

Continued from page 79

25-page judgment that the vessel was not of the best workmanship and was not free from design and construction faults.

He blamed the fire, which began in the engine room, on design faults that the builder should have corrected during construction.

Prior to the release of Justice Kelley's verdict, NQEA asked its builders risk insurer, Suncorp Insurance & Finance Pty. Ltd. of Brisbane, Queensland, to indemnify it for any damages awarded against the boat builder.

However, after examining NQEA's builders risk policy, Justice Kelley observed that it had expired before the fire broke out.

The justice further noted that the policy covered vessels only while they were under construction at NQEA's Cairns dockyard, not after delivery to owners.

NQEA has appealed Justice Kelley's decision to the full panel of the Supreme Court of Queensland. No date has been set for the appeal hearing.

Meanwhile, in an unusual action, the parties involved in the case agreed to take out a life insurance policy on Justice Kelley, who is due to retire this month. Justice Kelley's age was not available.

The policy was designed to indemnify the parties for court costs incurred in the case in the event Justice Kelley died before a verdict was rendered, which would necessitate a new trial.

However, Brisbane solicitor Frank Turner, a member of C.E. Heath's legal team, said that the ruling was handed down earlier than expected and before the life insurance policy was bound. He would not disclose the cost of the trial, saying only that the case "was very expensive to fight." ■

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Reinsurer rulings

Continued from page 1

claims against Honda for injuries resulting from the use of all-terrain vehicles. Those claims eventually pierced Great American's—and thus Christiana's—coverage.

In the 1980 and 1981 policy years, Great American wrote \$10 million in coverage excess of \$15 million for Honda. In 1982 Great American wrote \$10 million excess of \$17 million; and in 1983 Great American wrote \$7 million excess of \$18 million.

For each of these policy years, Great American retained \$250,000 of the risk and reinsured a portion with Christiana. In 1980 and 1981, Christiana reinsured \$500,000 of the risk; in 1982 and 1983, Christiana reinsured \$1 million of the risk. The portion of the risk not retained by Great American or ceded to Christiana was reinsured by other underwriters that were not parties to the lawsuit.

Many of these reinsurers have paid Great American, while others were awaiting the outcome of the Christiana litigation.

Great American placed its reinsurance with Christiana through Willcox, Barringer & Co. of New York, which is now Willcox Inc., a unit of Johnson & Higgins.

Under the Christiana reinsurance contracts, Great American was obligated to give "prompt notice" of "any occurrence or accident" likely to affect the reinsurer. The certificates required that no-

tice be relayed through the intermediary. And, the contracts provided Christiana with an opportunity to participate in the defense of any claim.

Honda's ever-increasing liability for ATV claims caused it to tap much of its primary insurance and excess insurance in the early 1980s. By mid-1985, 161 ATV-related deaths had been reported nationwide.

However, it wasn't until May 1987 that Great American contacted Willcox in an attempt to notify its reinsurers. Because Willcox was winding down its facultative department, Great American assumed responsibility for notifying the reinsurers.

Great American provided written notice to its reinsurers in June 1987.

Christiana sued in federal court in New York in November 1987 alleging it did not have to honor its reinsurance contracts with Great American because the ceding company failed to give timely notice of the Honda ATV claims.

Christiana alleged that Great American should have given notice in early 1985 when, with publicity over ATVs mounting, Great American could have foreseen that its coverage would be pierced.

Christiana also pointed out that Honda's insurance broker, Johnson & Higgins, notified Great American in April 1985 that given the current rate of losses in the 1979 and 1980 policy years, Great American's excess coverage could

be pierced.

However, Great American claims that it could not be certain its coverage would be pierced before a 1987 audit.

The court agreed: "Up to the completion of the audit in April 1987, actual penetration of (Great American's) layers, while likely, was far from certain, and the timing of such penetration was speculative."

The court noted that there are

To avoid liability, a reinsurer must show prejudice because 'reinsurers have no duty to defend claims, nor is the potential staleness of a claim as significant a concern to a reinsurer as it is to a primary insurer,' says Judge Peter K. Leisure.

two ways to calculate losses on an insurance policy: on an incurred basis and on a paid basis. Incurred losses are losses actually paid plus reserves put in place to cover what are expected to become losses based on pending claims. Paid losses are just that: those actually paid.

The court concluded: "Only when it is sufficiently certain that the excess insurer's layers will be pierced on a paid basis, so that the excess insurer sets reserves for probable claims, should the excess insurer be required to inform its reinsurers that their liability is likely to be affected."

The court went on to say that to avoid coverage Christiana, unlike a primary insurer, would have to show that it was prejudiced by a lack of timely notice.

"The policy considerations underlying New York's rule that primary insurers need not demonstrate prejudice when an insured breaches a notice provision are not present in a reinsurance contract," explained Judge Peter K. Leisure. "Reinsurers have no duty to de-

fend claims, nor is the potential staleness of a claim as significant a concern to a reinsurer as it is to a primary insurer," he said.

"Thus, reinsurers must show prejudice in order to avoid liability under a reinsurance contract," ruled Judge Leisure.

The court remanded the case for a jury trial to determine whether Christiana was prejudiced by Great American's delay in giving notice.

Great American attorney Thomas R. Newman of Bower & Gardner in New York said having a different standard for primary insurers and reinsurers made sense.

"In the primary insurance context, the insurer has the obligation and duty to defend claims. He must gather evidence and interview witnesses before memories fade," he explained. But a reinsurer does not have this obligation, Mr. Newman noted.

Reinsurance attorney Mr. Cotton agreed: "There is a lot less reinsurers can do once they are given notice of claim. They don't have to jump into the fray as primary insurers do."

"The court is recognizing that there should be a presumption that the ceding company is going to adequately defend the claim," added reinsurance attorney Mr. Vitkovsky.

In his decision, Judge Leisure discussed two other recent rulings from New York federal trial courts that dealt with the issue of notice in the reinsurance context.

In *Travelers Insurance Co. vs. Buffalo Reinsurance Co.*, U.S. District Judge John M. Cannella held on June 22 that a reinsurer does not have to prove that the lack of prompt notice caused prejudice. Judge Cannella held that a reinsurer is excused from paying under its contract if the cedant gives notice late and without a "reasonable" excuse for the delay.

Although this opinion has since been vacated, it does not appear that Judge Cannella changed his view that a reinsurer need not show prejudice when notice has not been provided in a timely fashion.

Continued on next page

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Continued from previous page
ion, said Judge Leisure.

In the second decision, *Unigard vs. North River Insurance Co.*, U.S. District Judge Robert W. Sweet on July 12 disagreed with Judge Cannella's analysis.

He said that whether a reinsurer can void coverage based on late notice involves the "custom and practice" of the reinsurance industry.

Attorneys looking at all three of these rulings together say they reflect that federal courts are struggling to fashion rules for reinsurance that differ from those rules established for primary insurance.

"These three decisions certainly show that New York courts are moving toward recognizing reinsurance as a separate arena from insurance," said Mr. Cotton.

Reinsurance attorney Larry Brandes of Miller, Singer, Raives & Brandes in New York agreed: "Rather than just apply the laws of the insurance industry, these courts attempted to understand the nuances of reinsurance."

The attorneys add that it is appropriate to fashion different rules for reinsurance because the relationship between a reinsurer and a ceding company is very different from the relationship between a primary insurer and a policyholder.

"The relationship of reinsurers

and reinsureds is one that, theoretically, involves sophisticated parties in a continuing relationship," explained Mr. Cotton.

"Reinsurance is an arms-length transaction," agreed Mr. Vitkowsky.

"There are not the same considerations as when a Mom-and-Pop grocery is involved," he said.

As a result, "courts are viewing

prejudice is for a jury to decide.

"Until we know what the courts mean by prejudice, it is hard to predict what impact these decisions will have," Mr. Brandes commented.

In addition, all three judges said that "custom and practice" in the reinsurance industry would be relevant.

This is significant because rein-

'These three decisions certainly show that New York courts are moving toward recognizing reinsurance as a separate arena from insurance,' says reinsurance attorney Stuart Cotton of Mound, Cotton & Wollan in New York.

reinsurance as insurance between consenting adults," he quipped.

However, Gerald Fish, vp and special counsel at North American Reinsurance Corp. in New York, said: "It doesn't make sense to have different rules for reinsurers."

"Reinsurance, generally speaking, is simply a form of insurance," Mr. Fish said.

The attorneys for Christiana could not be reached for comment.

The attorneys note that all three judges said the issue of what constitutes late notice in the reinsurance context and what constitutes

reinsurance arbitrators base their decisions on industry custom and practice, explained reinsurance attorney David Spector of Mayer, Brown & Platt in Chicago.

"For a long time, reinsurers that were trying to avoid their obligations preferred the courts to arbitration, hoping that the application of legal principles without insight into the custom and practice of the reinsurance industry would benefit them," Mr. Spector said. "That is becoming less true."

Three reinsurance decisions in one state in the span of three

months reflects the recent surge in reinsurance litigation.

Dissatisfied with the arbitration process, which can be as costly and time-consuming as litigation, more and more ceding companies and reinsurers are turning to the courts (*BI*, Nov. 6, 1989).

According to Mr. Spector, prior to these three decisions "there were only six or seven cases in this century dealing with late notice in the reinsurance context."

He said three cases in three months is "incredible."

And, most attorneys predicted there would be many more reinsurance decisions in the future.

"Litigation has now become an accepted part of the reinsurance relationship," explained Mr. Vitkowsky.

He noted that most reinsurance disputes were once resolved over lunch in the Drug and Chemical Club, a former private club in New York.

"That club no longer exists and neither does that method of resolving disputes," said Mr. Vitkowsky.

Because reinsurers and ceding companies have been increasingly turning to the courts to resolve their disputes, the first legal precedents defining the reinsurance relationship are now being created.

These precedents "help give both parties a better understanding of where they stand," said American

Re's Mr. Fisher.

And because a great deal of reinsurance in the United States is written by overseas reinsurers, attorneys predict these three court decisions will be of interest worldwide.

"These decisions are useful in telling alien reinsurers where they stand in the U.S. market," said Mr. Fisher.

"To the extent reinsurance is placed in or retroceded to London, if litigation is brought in a United States forum and U.S. law is applied to interpret the reinsurance agreements, these decisions may be cited as precedents," agreed Mr. Newman.

Mr. Spector noted that foreign reinsurers will look to these decisions for guidance in dealing with insolvent ceding companies, like Mission Insurance Co. or Transit Casualty Co.

"The real importance of these late notice rulings is not in situations involving solvent companies, but in situations involving insolvent companies," he said.

"Courts considering the obligations of reinsurers to an insolvent company will consider these cases," he commented.

And, Mr. Brandes noted that several major reinsurers "are rewriting their certificates and adding clauses in response to the precedents being set by courts." ■

Info

• Reprints of a report by the Health Policy Corp., of Iowa, "Healthy Iowans: A Blueprint for an Affordable and Excellent Health System that Works for Iowans," are now available. The 20-page paper presents a health system restructuring blueprint that reflects the health care needs of Iowans. The paper describes the recommended roles, responsibilities, and working relationships of all professions and individuals involved in providing health care. "The blueprint focuses on continuously improving value," said HPCI Chairman Charles S. Johnson. "It builds in incentives to control cost increases while improving quality, effectiveness and access to health services." The report is available prepaid for \$1. Multiple copy discounts are also available. Contact HPCI, Two Ruan Center, Suite 330, Des Moines, Iowa 50309; 515-244-1211.

• "How We Compare" is a statistical study of the Illinois Insurance Exchange and surplus lines insurers. The study provides information about the Illinois Insurance Exchange and its individual syndicates and compares this data with results of companies operating in the same arena. It consists of four sections: general information on the Illinois Insurance Exchange, its operations and its business; a ranking of the Illinois Insurance Exchange in comparison to U.S. surplus lines insurers on the basis of nine standards; background information on insurance cycles and the development of the surplus lines industry; and a glossary of key insurance terms. Free copies of the study are available from Ms. Terry Ryan, Assistant Vp, Illinois Insurance Exchange, 175 W. Jackson Blvd., Suite 1234, Chicago, Ill. 60604; 312-939-2400.

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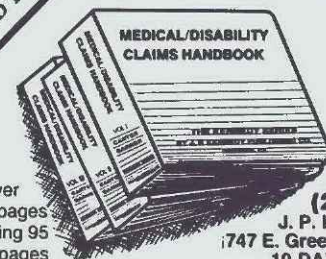
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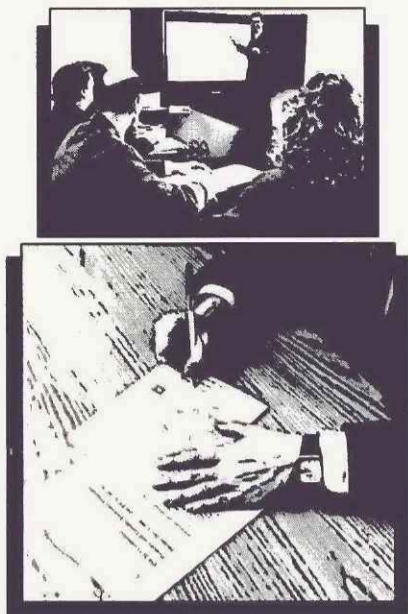
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Some risk managers give support to repeal of McCarran: Survey

By JAMES M. BURCKE

Most risk managers oppose McCarran-Ferguson amendments now before the House of Representatives.

However, about a quarter of those responding to a recent *Business Insurance* Risk Management Board survey said they favor the proposal to eliminate insurers' current exemptions from federal antitrust law.

The bill, H.R. 1663, introduced by Rep. Jack Brooks, D-Texas, throws into question whether a wide range of industry practices might be considered violations of federal antitrust law. In particular, experts are uncertain if insurers would still be allowed to adjust loss data for inflation and other future trends, a process known as "trending." Thus, observers are unsure if rating bureaus like the Insurance Services Office Inc. could continue to issue prospective loss cost information to insurers (*BI*, June 25; June 18).

Coast financial services company with more than \$7 billion in assets.

Many risk managers say the Brooks legislation would hinder insurance industry operations and practices.

"How would brokers and insurance companies cooperate in the development of markets or new products?" asked the risk manager for a Midwest manufacturer with \$1.6 billion in annual sales.

The Brooks legislation "would make it difficult for small insurers to compile good loss data. It also would make it difficult for any new insurers entering the market," agreed the risk manager for a Southern California manufacturer with \$70 million in annual sales.

"McCarran-Ferguson is necessary for the operation of the insurance industry," said the manager of corporate risk management for a nationwide retailer.

"Insurers' problems are in poor management, not law. Changing the law will complicate the management problem for years while

Risk Management Board

In addition, the bill specifically eliminates insurers' antitrust exemptions for tying the purchase of an insurance policy to another product offered by an insurer; allocating specific geographical areas or customers among insurers; and activities that would force certain insurers out of specific markets.

On a narrow vote, the House Judiciary Committee passed the Brooks legislation in June. However, many observers say there is little chance that the entire House will consider the bill before adjourning this fall (see story, page 1).

Just more than half—51.7%—of the risk managers responding to the Risk Management Board survey opposed the Brooks bill. Another 26.6% say they support the legislation, while a surprising 21.7% of the risk managers said they had no opinion.

Many opponents of the bill point out that joint activities by insurers, including the sharing of information about rates and loss costs, benefit insurance buyers.

"Antitrust has a very negative connotation whereas the sharing of information between parties in an industry could be for the common good," pointed out Joseph Wells, insurance administrator for the city of Kansas City, Mo. "Would it not be good for automakers to band together to develop a car that gets 50 miles per gallon in town, seats five adults, has 10-mph bumpers, etc.?"

"The McCarran-Ferguson Act has generally helped consumers, not hurt them," said the corporate risk manager for a Midwest-based manufacturer with \$218 million in annual sales.

"The insurance industry is unique and companies must be permitted to share information," said Phillip C. Bly, risk manager with Brush Wellman Inc., a manufacturer based in Cleveland.

"The more data available, the more reliable the data," summed up the vp-insurance of a parcel delivery company with \$12 billion in annual sales. "Small insurers just starting out would be in an unfair competitive situation."

"No evidence exists that the current exemptions have overly restricted or otherwise hardened the market," said the vp of risk and insurance management at a West

insurers try to figure out how to operate under the new law without having solved old management problems," said Keith W. Grand, risk manager for the city and county of San Francisco.

Other risk managers oppose the Brooks legislation because they agree with insurers that it is poorly drafted.

"Make changes for the good... but don't waste time and money in court trying to figure out what was intended or wanted," advised C.E. Duckworth, risk management technician for Clarksburg, W. Va.-based CNG Transmission Corp.

The bill's "language is vague and may prohibit the sharing of information with the industry, thus resulting in inadequate rates," said the insurance analyst for a manufacturing and direct sales company with \$300 million in annual sales.

One risk manager said that federal heavy-handedness has hurt other industries.

"Look at the airline industry," remarked the director of properties/insurance at a communications company with annual sales of \$100 million.

And a few risk managers wondered whether federal legislators had better things to do than amend McCarran-Ferguson.

"Congress should spend time promulgating laws which severely and instantly penalize fraud, racketeering and incompetence within the insurance industry," recommended the risk manager for a Midwest marine transportation and repair firm with more than 300 employees.

"Leave it alone and focus on the more important issues, such as insolvency, setting guidelines for regulations, etc.," said the corporate insurance manager for a financial institution with \$8.2 billion in assets.

However, many risk managers believe that insurers have abused their antitrust immunity and therefore support the Brooks legislation.

"Without the antitrust protection, more insurers would have to operate in an open, honest manner," said James D. Birchfield, risk manager for the National Rural Electric Cooperative Assn. Inc. in Washington, D.C.

"I believe that collusion exists

Continued on next page

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Congress

Continued from page 1
when the 102nd Congress is called to order next year.

For example, the drive to amend the McCarran-Ferguson Act will continue to be pushed by consumer groups, observed Tom O'Day, associate vp in the Washington, D.C., office of the Alliance of American Insurers.

"McCarran-Ferguson is not going away," Mr. O'Day said.

While these proposals will remain on the congressional agenda, new issues, the foundation of which could begin to be laid this month, will join them.

For example, a congressional panel this month will hold the first of what is likely to be a series of hearings on ways to reduce the risk of insurer insolvency.

Indeed, some experts say the solvency issue may supplant McCarran-Ferguson as a focus of congressional attention.

They note that legislators—traumatized by their inability to stop the collapse of many savings and loan institutions before the S&L industry's problems snowballed into a national crisis—want to be certain that a similar catastrophe is not on the doorstep of the property/casualty insurance industry.

"Whether the comparisons to the savings and loan industry are valid is not important. What is important is that the savings and loan experience will increase the concern of legislators about the health of another financial services industry—insurance," said Howard Greene, director of governmental affairs at the Risk & Insurance Management Society Inc. in New York.

In the waning weeks of this congressional session, though, much attention will be on legislation—H.R. 1665—that would modify the 45-year-old McCarran-Ferguson Act and strip insurers of most of their immunity from federal antitrust law.

That measure—introduced by House Judiciary Committee Chairman Jack Brooks, D-Texas, and approved by the committee in June on a 19-17 vote—would eliminate insurers' exemptions for, among other things:

- Price fixing. The measure does not detail what would be considered price fixing, but it seemingly would allow insurers to jointly "collect, compile or disseminate historical loss data" and to "determine a loss development factor applicable to historical

McCarran survey

Continued from previous page
among insurers (regarding) rate setting and coverage issues. Insurance companies should operate in an open, competitive environment," said the risk manager for a real estate management and development company with \$200 million in annual sales.

"I support greater competition in all areas," said the director of corporate risk management for a manufacturing and hotel management company with \$450 million in annual sales.

"The current system has led to virtual rate cartels," said the president of a baking company with \$200 million in annual sales.

Several risk managers asked why insurance companies should be immune from antitrust laws while other industries are not.

"I do not feel any company or industry should be excluded from antitrust action," said the director of risk management for a manufacturer with \$500 million in annual sales.

"Why should insurance companies be exempt from antitrust laws?" asked the director of risk administration for a retail food concern with 25,000 employees. "The rest of business is subject to them and it may clean up some areas of public distrust of (insurance) companies."

One risk manager recalled the

loss data."

Experts have said that the bill is not clear on whether insurers or advisory organizations would be allowed to jointly adjust historical loss data to reflect inflationary and other future trends, which is known in the insurance industry as "trending" (BI, June 25; June 18).

A committee report that might resolve this issue still was not available last week.

- Tying the sale of insurance to any unrelated insurance product.

- Allocating specific geographical areas or customers among competitors out of specific markets.

- Monopolizing or attempting to monopolize "any part of the business of insurance."

Insurers' current antitrust exemptions, say industry critics, limit competition and drive up the price of insurance.

If the Brooks bill were enacted, the result would be lower insurance prices for consumers and stabilizing of the insurance cycle, said Pam Gilbert, legislative director for Public Citizen's Congress Watch, a Washington, D.C.-based consumer advocacy organization.

But insurers have argued that repeal of the exemptions would be a disaster for both commercial and personal lines insurance buyers. Insurers have maintained the vagueness of the legislation throws into question whether a wide range of joint industry activities might be considered violations of federal antitrust law.

"There would be continuing litigation over what we could or could not do. This is not a well-crafted bill," said Mr. O'Day of the Alliance of American Insurers.

Besides opposition by insurers, RIMS has publicly stated that it opposes changes to McCarran-Ferguson. And, a majority of risk managers also oppose the legislation, according to a new *Business Insurance* survey (see story, page 84).

It remains to be seen, though, whether the merits of overhauling the McCarran-Ferguson Act will be debated on the House floor before the legislative session ends.

Some observers say it is doubtful—given the shortness of time and a tight legislative calendar—whether the House Rules Committee will issue the needed go-ahead to permit debate and a vote on the Brooks bill.

"It is getting pretty late. I just don't see a vote," said Barbara Haugen, director of federal affairs for the Na-

past when advocating tougher standards for insurers.

"The unavailability of liability insurance in the '80s showed some abuses in the marketplace," noted Frank T. McGovern, risk manager for Connecticut Mutual Life Insurance Co. in Hartford, Conn.

While the Brooks bill would leave in place sections of McCarran-Ferguson that leaves primary regulation of the insurance industry up to the states, some risk managers thought the legislation should implement a system of federal regulation to solve perceived problems with state supervision of insurers (BI, Aug. 27).

"Insurance companies are too large and complex to be regulated by the state. The Brooks bill should go farther," said the risk and benefits manager for a Southern California electronics company with \$2.4 billion in annual sales.

Risk managers and other corporate executives who are responsible for risk management functions are invited to join the Business Insurance Risk Management Board. Just send a card with your name, title, company and address, noting you would like to join the Risk Management Board, to Kathryn J. McIntyre, Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. You will receive several surveys annually.

tional Assn. of Insurance Brokers in Washington, D.C.

"It will be difficult to schedule a vote," agreed Mr. O'Day of the Alliance.

But consumer groups say that a House floor vote is likely and that the representatives will pass the Brooks bill.

"If we get a rule (permitting a House floor vote), passage is for certain. What congressman will want to vote against price-fixing in an election year?" said J. Robert Hunter, president of the National Insurance Consumer Organization in Alexandria, Va.

Insurance industry officials say it currently is impossible to predict the

'The Senate has done zippo' on McCarran-Ferguson this session, Mr. O'Day said.

result of a House floor vote on Rep. Brooks' bill.

But everyone agrees—regardless of whether or not the Brooks bill is voted and passed by the House—the measure will not go any further this year.

"The Senate has done zippo" on McCarran-Ferguson this session, Mr. O'Day said, noting the lack of activity by the Senate Judiciary Committee, which this month will have its agenda filled with President Bush's nomination of New Hampshire jurist David Souter to the Supreme Court.

"There is not enough time for the Brooks bill to go anywhere this session," agreed Mr. Greene of RIMS.

"Essentially, it is a dead bill," concurred David Pratt, vp-federal affairs with the American Insurance Assn. in Washington, D.C.

Still, if the House were to approve the Brooks bill, "we would be in a much stronger position next year," said Ms. Gilbert of Public Citizen's Congress Watch.

In any case, Rep. Brooks will be back with his proposal next year, pointed out the AIA's Mr. Pratt.

Meanwhile, another issue of importance to risk managers—federal product liability reform legislation—seems headed for a replay of 1986.

That year, then-Senate Majority Leader Robert Dole, R-Kan., pulled a product liability reform bill from the Senate floor in late September after it became clear that the measure's opponents were prepared to filibuster against the bill (BI, Oct. 6, 1986).

As was the case in 1986, the Senate Commerce Committee this year approved a reform bill, but very late in the session, significantly decreasing the chances that the Senate leadership will allow time for floor de-

Kuwait Airways

Continued from page 1

He said the claim was made on Kuwait Airways aviation hull war risk policy. The policy commenced July 1 for a 12-month period. Mr. Merrett, underwriter for Lloyd's marine syndicate 418 managed by Merrett Underwriting Agency Management Ltd., leads the coverage. Marine underwriters often write aviation war risk coverage.

Others in the market say that the Kuwait Airlines claim totals \$638 million.

Although Willis Faber would not discuss the details of the claim, Michael Woods, deputy manager of the aviation division of Willis Faber, confirmed that "a preliminary claims advice has been notified" to underwriters.

However, Mr. Merrett said, "that is inaccurate. No claim has been notified. . . no claim has been filed, although obviously there is some concern."

Other underwriters also question whether underwriters can be "officially" notified of a claim by the

bate and a vote on the bill (BI, Sept. 4).

If Sen. Robert Kasten, R-Wis., the sponsor of the current product liability bill, does seek a Senate floor vote, opponents are certain to begin a filibuster.

While backers of the Kasten bill, S. 1400, believe they have the 50 votes needed to pass the bill, they are less certain if they could get the 60 votes necessary to break a filibuster.

"If there was time for an up-and-down vote on the merits of the bill, we believe we could get the bill passed," said Liberty Magarian, an attorney at the Washington, D.C., firm of Crowell & Moring and co-counsel for the Product Liability Alliance, a business coalition that favors enactment of federal product liability legislation.

However, even if the Senate were to approve the Kasten proposal, there is no chance that the House would follow suit this late in the session.

The Kasten bill is "deader than a doornail," said the AIA's Mr. Pratt.

Still, Senate passage of the Kasten bill would give the federal product liability legislation important momentum for the next congressional session, Ms. Magarian said.

Indeed, while backers of federal product liability legislation have yet to win a Senate or House floor vote—despite nearly a decade of efforts—the issue is not going away, observers say.

"This is the type of issue that keeps coming back. It is too important to too many people," said RIMS' Mr. Greene.

The Kasten bill would, among other things:

- Eliminate joint and several liability for non-economic damages in product liability cases.

- Shield a product manufacturer from liability if a claimant was under the influence of a drug or an alcoholic beverage and that condition was at least 50% responsible for the accident.

- Bar most product liability suits involving capital goods products that are more than 25 years old.

- Reduce a product liability award by the amount of workers compensation benefits received by the plaintiff.

- Make product sellers responsible only for harm caused by their own negligence. They would be responsible only if the manufacturer could not be brought to trial or did not have the funds to pay an award.

No congressional action is expected on legislation, H.R. 4351, introduced by Rep. Jim Slattery, D-Kan., that would overturn several court decisions that have made it more difficult and expensive for insurers to provide coverage to purchasing groups formed under the Risk Retention Act.

Kuwaitis since the United Nations has imposed trade sanctions on doing business with Iraq and Iraqi-controlled Kuwait.

"It's a question of who can file a claim," said a Lloyd's aviation underwriter who did not wish to be named.

Underwriters also are wondering whether a claim can be paid during the embargo. And, they are wondering whether the loss is just temporary since the United Nations has demanded that Iraqi president Saddam Hussein pull out of Kuwait.

Meanwhile, since transferring its operations to London, Kuwait Airways has renegotiated its hull and liability insurance program for the reduced fleet. These jetliners currently are not being flown commercially.

Kuwait Airways' all-risks hull and liability program—which excludes hull war risk coverage—previously had been placed along with two other Middle East airlines, Saudi Arabia Airlines and

Among other things, the Slattery bill would make clear that a purchasing group insurer only has to be admitted in one state and maintain capital and surplus of at least \$3 million.

By contrast, federal appeals courts have ruled in two separate decisions that state insurance regulators can require a purchasing group insurer domiciled in another state to be licensed in their state before it can do business there (BI, Aug. 13).

Critics of these decisions say multiple state licensing of purchasing group insurers would increase insurers' costs and clash with the intent of the Risk Retention Act: to facilitate the group purchase of commercial liability insurance.

The Slattery bill, though, will likely not even come up for a vote in the the House Energy and Commerce Committee, where it is pending, its backers acknowledge.

"As a practical matter, risk retention legislation will not be enacted this year. There simply is not enough time," said James Anderson, a vp with the National Risk Retention Assn. in Washington, D.C.

Mr. Anderson says introduction of the Slattery bill and a hearing on the proposal did increase congressional understanding of problems associated with the 1986 law.

Other observers, though, say that it will take another liability insurance crunch for there to be any chance that Congress will make further changes to the Risk Retention Act.

"While I would hope that would not be the case, realistically there isn't much chance for congressional action before the next hard market," says Mr. Greene of RIMS.

The tail end of the current congressional session, however, may mark the beginning of congressional consideration of another issue: insurer solvency.

Rep. John Dingell, D-Mich., whose Oversight and Investigations Subcommittee has held a series of hearings since 1988 probing the cause of such well-known insurance company failures as Mission Insurance Group Inc., Integrity Insurance Co. and Transit Casualty Co., is set to begin a new round of hearings or possible solutions to reduce the likelihood of future insolvencies (BI, Feb. 19).

The first hearing will be held Sept. 14.

"There is no limit on what could be on the table," said the AIA's Mr. Pratt, adding though that it is clear that Rep. Dingell does not favor outright federal regulation of the insurance industry.

One possible approach that could be discussed, say industry lobbyists, would be minimum federal solvency standards for state adoption.

The hearings by Rep. Dingell's committee are expected to continue well into next year.

Gulf Air, while its hull war risk coverage was placed separately.

Aviation hull war risk underwriters continue to charge additional premiums for Middle Eastern airlines and other flights landing in the Middle East. The additional premium rates range between 0.0125% of a hull's insured value to 0.05% of insured value.

Aviation war risk underwriters are not allowed to insure aircraft flying to or from Iraq and Kuwait under the trade sanctions, said Mr. Merrett, except in special circumstances.

For example, airlines like Virgin Airways last week were prepared to fly to Baghdad to pick up thousands of women and children hostages that President Hussein had agreed to free.

Individual hull war risk rates will be quoted for these flights, since governments have given the airlines permission to break the embargo "for humanitarian reasons," said Mr. Merrett.

Lender liability

Continued from page 2

"The Supreme Court will have to address this issue, unless the legislature takes some action," Mr. Azeris said.

The contrasting decisions by the 9th and 11th circuits "highlight the need for congressional relief," Mr. Greco said.

"Banks are being forced into expensive litigation," he said. "Third parties are using the confusion in the law to get into the deep pockets of solvent banks."

Two bills now before Congress would limit lender liability for pollution cleanup costs.

Rep. John J. LaFalce, D-New York, chairman of the House Small Business Committee, has introduced H.R. 4494, which would exclude lenders from Superfund liability when they attain ownership or control of property through a security interest or in connection with a lease.

That bill also would exempt lessors and corporate fiduciaries from Superfund liability when they hold legal title for purposes of managing an estate or trust.

Sen. Jake Garn, R-Utah, the ranking Republican on the Senate Banking Committee introduced a similar bill, S. 2319, in April.

Several hearings have been held on both bills, according to Mr. Greco of the ABA. And, Congress still could act on the bills this session, he said.

"The best hope for the industry is that Congress will do something with these bills," said environmental attorney Roger Truitt of Thelen, Marrin, Johnson & Bridges in Washington, D.C. "We should not have courts groping at congressional intent."

The secured lenders exemption in the Superfund Act, which was pivotal in both court decisions, provides that any "person who, without participating in the management of a . . . facility, holds indicia of ownership primarily to protect his security interest" in the facility, will be exempted from Superfund liability.

As a result, lenders that hold property only as security interest for loans are not liable for cleanup costs. However, lenders who "participate in the management of the facility" are liable.

The problem is that "participating in the management" is left undefined.

The 11th Circuit's ruling, which involved Fleet Factors Corp. of

New York, interpreted this provision to mean "participating in the financial management of a facility to a degree indicating the capacity to influence the corporation's treatment of hazardous wastes."

"It is not necessary for the secured creditor to involve itself in the day-to-day operations of the facility in order to be held liable," wrote Judge Phyllis A. Kravitch, for the three-judge panel.

"Rather, a secured creditor will be liable if its involvement with the management of the facility is sufficiently broad to support the inference that it could affect hazardous waste disposal decisions, if it so chose," the court concluded.

This ruling terrorized the lending community because it appeared to expand liability for cleanup costs, according to attorneys.

However, the 9th Circuit's more recent ruling did not appear to expand lender liability, in part because the court did not establish a rule defining what "participating in the management" means, attorneys say.

"We leave for another day the establishment of a 9th Circuit rule on this difficult issue," said the court in its Aug. 9 ruling.

However, the court did say that "it is clear from the (CERCLA) statute that, whatever the precise parameters of 'participation,' there must be some actual management of the facility before a secured creditor will fall outside the exception."

It is wrong to equate "the power to manage with actual management," said Judge Alex Kozinski, writing for the three-judge panel.

"A creditor must, as a threshold matter, exercise actual management authority before it can be held liable for action or inaction which results in the discharge of hazardous wastes," the court ruled.

"Merely having the power to get involved in management, but failing to exercise it, is not enough," the court concluded.

Attorneys predict that the 9th Circuit ruling will be influential to

the extent that it clarifies the 11th Circuit ruling by requiring actual participation in the management of a facility, rather than just having the power to participate.

"Lenders will read this case to say that general power (to participate in the management of a facility) is not sufficient to make a lender liable" said environmental attorney Ms. Conlon.

"Paper transactions are not enough," she said. "Even if the paper transactions appear to give lenders certain management powers."

The 9th Circuit's ruling stemmed from pollution at a lead recycling plant in St. Helens, Ore. The plant was owned by Bergsoe Metals Corp., which is now in bankruptcy.

The trustee of the Bergsoe estate and the primary lender to Bergsoe, United States National Bank of Oregon, sued the former shareholders of the corporation seeking to hold them liable for the costs of the cleanup.

The former shareholders then sought to hold the Port of St. Helens, a municipal corporation that issued revenue bonds to construct the plant, liable for the cleanup. The shareholders argued that the port should be liable because it held the title to the property.

However, the 9th Circuit ruled that even though the port was technically the owner of the property, it acted as a secured lender.

"The court was willing to look at an entity with actual ownership in polluted property and treat it like a security interest because there was no involvement in the management," explained corporate attorney O. Kirby Colson III of Hinchaw, Culbertson, Moelmann, Hoban & Fuller in Chicago.

The 9th Circuit went on to say that because the port did not have any actual involvement with the facility, it is protected by the secured lenders exemption to the Superfund Act.

The former shareholders of Bergsoe have not decided whether they will appeal, an attorney said.

Meanwhile, still unresolved is the issue of whether the bank or the former shareholders will be held liable for the cleanup. A trial on who will be held liable for the cleanup costs is scheduled to begin in October in federal district court in Portland.

In re: Bergsoe Metal Corp.; United States Court of Appeals for the 9th Circuit, No. 89-35397.

'We should not have courts groping at congressional intent,' says attorney Roger Truitt.

Four LUI units to be wound up

LONDON—The court-appointed administrators of London United Investments P.L.C., parent company of H.S. Weavers (Underwriting) Agencies Ltd., are winding up four LUI subsidiaries prior to putting them under a court-approved "scheme of arrangement."

Joint administrators Colin Bird and Alan Barrett, partners with the accounting firm Price Waterhouse, last week presented winding-up petitions in the British High Court and the Bermuda Supreme Court for LUI subsidiaries Kingscroft Insurance Co. Ltd., Lime Street Insurance Co. Ltd., and El Paso Insurance Co. Ltd., all in London, and Bermuda-based Mutual Reinsurance Co. Ltd.

The companies had at one time participated as insurers or reinsurers on the Weavers line slip, formerly one of the largest line slips for U.S. casualty business, before being put into runoff. The scheme of arrangement is part of the administrators' plan for running off all the business written under the Weavers line slip, including business written by LUI's largest insurance subsidiary, Walbrook Insurance Co. Ltd. (BI, July 30).

Directors of the companies and the administrators "are now approaching representatives of the major policyholder groups in order to set up an informal committee for the purposes of discussing the commercial aspects of the schemes," the administrators

said. In addition, "discussions will continue to be held with the major brokers and insurance authorities in the U.K., U.S. and Bermuda" about the schemes, they said.

"Given the number of policyholders and the long-tail nature of the business insured by (the companies), it is anticipated that these arrangements will take some time to implement," said the administrators, estimating that the companies together wrote coverage for more than 100,000 policyholders.

Meanwhile, Anderson C. Lucas, a director and senior casualty underwriter at Weavers, resigned "to pursue other business opportunities."

—By Carolyn Aldred

Newton libel award overturned

SAN FRANCISCO—A federal appeals court in San Francisco has overturned a \$5.3 million libel award against the National Broadcasting Co. in a suit filed by singer Wayne Newton.

In 1986, a federal jury had awarded Mr. Newton \$22.8 million after finding the network defamed him in 1980 and 1981 broadcasts

that tied him to organized crime. A federal judge later cut the award to \$5.3 million (BI, Jan. 23, 1989; Nov. 23, 1987).

Floyd Abrams, a New York attorney representing NBC, said: "Obviously, we're very pleased by the ruling. This is a case which ought never to have been brought in the first place.

"It is a weak case, so weak in fact that the Court of Appeals concluded that there was no proof at all that the reporters had acted recklessly," said Mr. Abrams of Cahill, Gordon & Reindel.

Mr. Newton's attorney could not be reached for comment late last week.

—By Judy Greenwald

Update

Asbestos suit effort criticized

Continued from page 2

judge in his attempts to create a "global" solution to the asbestos litigation problem and forbade him from holding a Sept. 14 hearing on a national class action (BI, Aug. 20).

Judge Lambros' Aug. 20 order "does not acknowledge the jurisdictional limitations within which a district court operates," the appellate court said.

However, it is unclear what Judge Lambros' future role will be in attempts to establish a nationwide class-action suit.

Legal efforts have begun to resolve these jurisdictional problems.

The 6th Circuit's order does not affect any of the nine other federal judges who signed the Aug. 20 order because they are not in the 6th Circuit.

A judge in Texas who also signed the order is scheduled to hold a hearing Sept. 14 on the merits of a nationwide class-action for asbestos injury claimants.

Kodak, drug firms face lawsuit

NEWARK, N.J.—Eastman Kodak Co. and several pharmaceutical companies face a suit seeking at least \$16 million in compensatory damages as well as class-action status, charging that a diagnostic dye they produce caused crippling and incurable spinal injuries.

Pantopaque, a dye used to diagnose back and spinal injuries, was manufactured and distributed by Alcon Pharmaceutical Laboratories Inc. and Lafayette Pharmaceutical Inc., both of Fort Worth, Texas, using a compound produced by Kodak, according to the lawsuit filed last week by the St. Louis firm of Wittner, Poger & Rosenblum.

Among other things, the suit charges that Kodak and the pharmaceutical companies failed to properly test Pantopaque and fraudulently concealed the danger that the dye can cause arachnoiditis, a crippling spinal disease.

The suit seeks a minimum of \$50,000 in actual damages and an unspecified amount of punitive damages for each class plaintiff. As of last Friday, more than 320 people who claimed they were injured by Pantopaque were seeking to join in the suit, said Greg Wittner, a partner with Wittner Poger.

A Kodak spokesman would not comment. Lawyers for Alcon and Lafayette could not be reached.

Reinsurance results deteriorate

WASHINGTON—U.S. reinsurers' first-half combined ratio deteriorated to 107.2% for 1990 from 104% in 1989, according to a survey by the Reinsurance Assn. of America.

The 68 reinsurers surveyed for 1990 posted a 75.9% loss ratio and a 31.3% expense ratio, the RAA said. In the first half of 1989, a comparable group reported a 73.8% loss ratio and 30.1% expense ratio (BI, Oct. 2, 1989).

For the first half of this year, reinsurers reported \$5.1 billion in net premiums written, a 4.5% increase over the \$4.9 billion written for the comparable period a year ago.

Underwriting losses totaled \$388.9 million, while investment income amounted to \$1.4 billion so far in 1990. Taxes incurred totaled \$238.4 million and net income totaled \$785.4 million.

Former executives denounced

LONDON—A British government official says he will seek to prohibit three former London market executives from ever serving as directors of British companies for their role in a complex fraud involving bogus reinsurance arrangements for Lloyd's of London syndicates formerly managed by PCW Underwriting Agencies Ltd.

Trade and Industry Secretary Peter Lilley said he plans to seek a court ruling against Peter Cameron-Webb, Peter Dixon and John Wallrock under the Company Directors' Disqualification Act.

The announcement followed last week's publication of two long-awaited Department of Trade and Industry reports into the PCW affair and the alleged transfer of millions of dollars from syndicates formerly managed by Alexander Howden Group Ltd.

London police issued arrest warrants in December 1988 on charges of conspiracy to defraud, conspiracy to steal and theft of money for Messrs. Cameron-Webb and Dixon, both former directors of PCW. However, the warrants were issued too long after the alleged offenses for them to be extradited from the United States, where it was believed they were living.

John Wallrock, former chairman of Minet Holdings P.L.C., which is the parent of PCW, was sued last year by five Lloyd's members for his role in the affair (BI, Nov. 13, 1989; April 10, 1989).

Former Lloyd's underwriter Ian R. Posgate and former Alexander Howden Chairman Kenneth V. Grob were found innocent of criminal charges connected with the Howden affair following a lengthy court case last year (BI, Aug. 21, 1989).

Sphere Drake, Crawley venture

HAMILTON, Bermuda—Sphere Drake Insurance P.L.C. of London and Jonathan Crawley, former president of Aneco Reinsurance Underwriting Ltd., are jointly forming an underwriting management firm in Bermuda.

Mr. Crawley will head Drake Underwriting Management (Bermuda) Ltd. and hold a 49% stake in the venture.

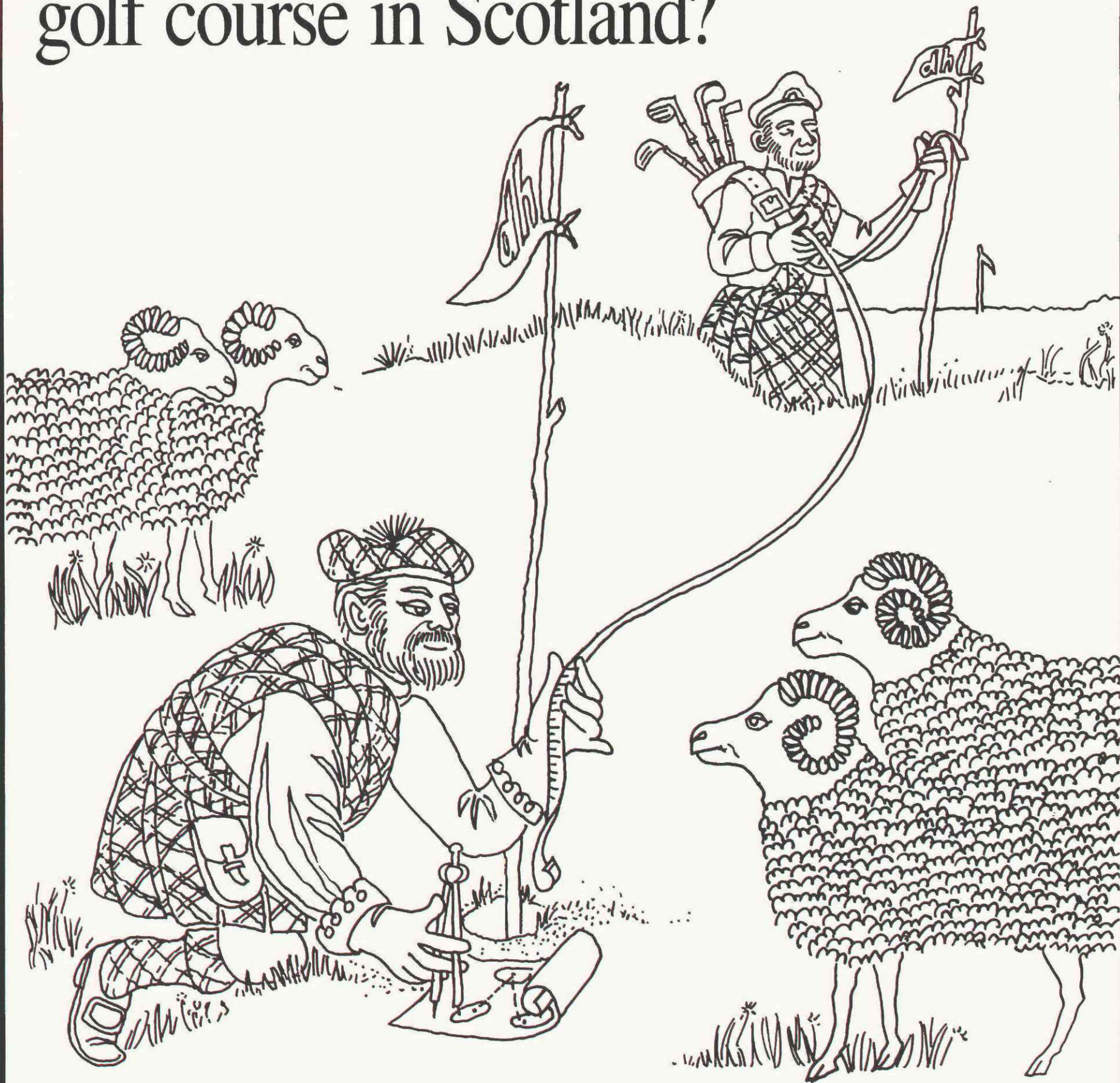
Mr. Crawley, who resigned from Aneco in July, after his proposed management buyout of Aneco's business failed (BI, July 16), said that the new company would provide excess-of-loss reinsurance to captives and captive-type companies such as risk retention groups, charitable trusts and small mutuals.

Maximum capacity for a single program initially will be \$1 million, "but I would expect that to increase as our portfolio develops," he said.

Mr. Crawley said he hoped to write \$25 million to \$50 million in premiums in 1991. He stressed that there was plenty of room in Bermuda for both Drake Underwriting and Aneco, which last year wrote \$11 million of captive business and is Bermuda's leading captive reinsurer.

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