EMERSON, REID'S

INSURANCE OBSERVER

Vol. 3 • No. 1 June 1991

Been Down So Long It Looks Like Up

The insurance market was so soft that underwriters rushed to insure a burning building.

Last June we questioned the existence of the insurance cycle. Having just read close to seventy-five recently published insurance company annual reports (this is a rite of spring for us), we think we have something new to say: the property-casualty cycle does indeed exist, and when the upturn comes it will be sharp. But, if you're away on vacation that week you may miss it.

Nineteen-ninety was a remarkable year for the insurance industry, and a difficult one. It was proof positive the balance sheets *do* matter, that real estate *doesn't* always go up, and that return *of* investment is more important than return *on* investment.

Consumers demanded lower insurance rates. Regulators and legislators pounded the table, pointed their fingers at insurance companies, and screamed the s-word—solvency. Life insurers went to great lengths to explain that there are few similarities between themselves and Savings & Loans, but that didn't convince everyone, particularly not owners of annuities and GICs issued by Executive Life.

What struck us this year was the generally upbeat tone of most companies. Many were quick to point out that rates are inadequate, business is too competitive, and that it's someone else who owns all the bad real estate. It seems they recognize that the industry is troubled, but don't think the trouble is in their backyard. Many believe the problems can be solved by one of the following: repositioning, downsizing, sticking with the basics, being a market leader, targeting niches, restraining growth, making strategic acquisitions or focusing on core businesses. We're skeptical. Even if the old problems are solved, new ones will arise. The insurance business remains extremely competitive because insurance is a commodity business in which thousands of companies are offering essentially generic products.

Despite this problem, some companies were able to turn in dandy performances: 20th Century Industries, the parent of 20th Century Casualty, is a case in point. If you don't live in the hazy wasteland known as Los Angeles you may not be familiar with the company, but their strategy is simple and their execution superb (which is one of the reasons we're a shareholder). 20th Century sells automobile and homeowner's insurance directly to consumers, and they do it cheaper than anyone else. They got their start selling auto insurance to good drivers, and that's still the cornerstone of their business. Over the last five years their combined ratio has averaged 97.6 percent, which is particularly impressive considering that they charge ten to twenty percent less than the competition. Even more impressive, though, is their operating expense ratio of just 10%. To put that number into perspective, the average company's expense ratio is about 30%. It's not surprising, therefore, that 95% of 20th's insureds renew their policies each year, and that existing policyholders refer 80% of new business. Over the last decade

20th Century's premiums have increased 800% to $740 million, while return on equity has averaged 26%.

Low costs aren't the only way to succeed, though, as General Re has demonstrated. How is it that they've managed to achieve exceptional returns over the long haul? We suspect they have an awful lot of smart people working for them.

General Re's balance sheet is pristine. CEO Ronald Ferguson reminds us, "General Re has long warned about the risks associated with inadequately capitalized reinsurance operations." Despite a 13.3% increase in premiums last year (and a combined ratio of 99%) premium volume has shrunk 18% since 1986, and the premium-to-surplus ratio is an ultraconservative .7 to 1.

One thing puzzles us: If General Re is forecasting continued growth in 1991 (and it is) but still reporting satisfactory loss ratios, how badly off can the insurance industry be? Have we entered a two-tiered reinsurance market where those with the most powerful balance sheets can charge premium prices for their financial strength? Our gut tells us there isn't any widespread flight to quality. Yet.

Year in, year out, Berkshire Hathaway's Warren Buffet writes the world's best annual report, even though it is printed cheaply and carries no pictures. We think it should be required reading for everyone in business, particularly the insurance business.

Buffet, whose past comments on the insurance industry have been especially enlightening, thinks it will be at least a year or two before the insurance cycle turns. "Results will improve only when most insurance managements become so fearful that they run from business. . . .When that moment arrives, Berkshire will be ready—both financially and psychologically—to write huge amounts of business."

EMERSON, REID'S
INSURANCE OBSERVER

David Schiff, Editor

Emerson, Reid's Insurance Observer is published by Emerson, Reid & Company, Inc., the leading General Agent, Intermediary and Specialist in New York DBL, 10 Columbus Circle, New York, N.Y, 10019. Telephone: (212) 765-2103. Subscriptions are free to insurance brokers and agents, and $30 for others.

Concentrating risk

In the meantime Buffet waits, patiently. Berkshire wrote just $590 million in premiums last year, a drop in the bucket compared to its $6.3 billion in surplus. Despite the market's softness, they have found one class of business they like—"super-cats"—insurance against major catastrophes. Buffet explains: "The buyers of these policies are reinsurance companies that themselves are in the business of writing catastrophe coverage for primary insurers. . . . For a $10 million policy we might receive a premium of, say, $3 million. Say, also, that we take in annual premiums of $100 million from super-cat policies of all kinds. In that case, we are very likely in any given year to report either a profit of close to $100 million or a loss of well over $200 million. Note that we are not spreading risk as most insurers do; we are concentrating it." Most insurers have neither the financial wherewithal nor the desire to take this type of calculated risk.

Buffet also expounds on what he calls the "loss/float ratio," which is a company's underwriting loss divided by the average float on claims. For example, Berkshire's 1990 underwriting loss was $26 million and their average float was $1.6 billion. That means they were able to "borrow" $1.6 billion from policyholders at the nominal interest rate of 1.65 percent. An insurance company that achieves an underwriting profit actually would have a cost of funds less than zero. Of course, most companies don't make an underwriting profit. As Buffet explains, "Many well-known insurance companies . . . incur an underwriting loss/float cost that . . . produces negative results for owners. In addition, these companies, like all others in the industry, are vulnerable to catastrophe losses that could exceed their reinsurance protection and take their cost of float right off the chart. Unless these companies can materially improve their underwriting performance—and history indicates that is an almost impossible task—their shareholders will experience results similar to those borne by the owners of a bank that pays a higher rate of interest on deposits than it receives on loans."

Buffet's comment raises an important question: Given the amount of guesswork and inaccuracy of loss reserves, how do you know if an insurance company is really making money? We pondered that one while reading The Continental Corporation's annual report. Over the last five years their combined ratio has averaged 109.5 percent; last year it was 114.3 percent.

Continental report troubling

The Continental, a Best "A" rated company, is one of the old, respected names in the insurance business, and their Revolutionary War soldier logo has a patriotic feel to it, which may be a plus in these flag-waving times. But their annual report bothered us. Of course it mentioned the usual hokum about their "pursuit of excellence" and "clarity of strategic focus." That kind of language is to be expected, and we shouldn't hold it against them. But other comments were puzzling. Chairman John Mascotte's upbeat message to shareholders opens with, "Being ahead of the game has its advantages." This mystifying comment must have left readers scratching their heads because, financially speaking, Continental has been a chronic underperformer. Shareholders' equity remained static during the past decade, earnings declined, and the stock price is about the same as it was in 1980. In fact, the shares are currently changing hands at 70% of book value, a good indication of investors' sour perception of the company. (By way of contrast, Chubb's shares sell for 200% of book.)

Mascotte also told shareholders,

"We've been able to earn our shareholder dividend over the last two years despite being in a soft market." Let's examine that statement. Continental's annual dividend is approximately $145 million, or $2.60 per share. In 1989 and 1990 the company earned $153 million and $141 million, respectively ($2.74 and $2.53 per share). But a quick gander at the income statement reveals that Continental would have lost money in 1989 had they not booked $207 million of capital gains. The 1990 numbers were also boosted due to $128 million of gains. Of course, there's nothing wrong with taking a profit. It's just that these realized capital gains were more in the nature of bookkeeping transactions than what we would call *core operating earnings*, and we think they mask Continental's true performance. During 1990, for example, despite the $141 million of reported earnings, Continental's shareholders' equity *declined* by $227 million, almost $4 per share.

One could argue that, given Continental's sorry underwriting performance, shareholders are better off if the company pays out a big dividend whether it is earned or not, since paying out an unearned dividend over a prolonged period is akin to liquidating. Of course, as a holding company, Continental is dependant upon dividends or advances from its insurance units, and these are subject to state and regulatory restrictions that limit the amount of money that can be upstreamed. It has been our experience that companies that are unable to earn their dividends over time generally cut their dividends. (That's exactly what happened with USF&G, which we wrote about last year.)

Are there any other reasons why Continental's management might have had an incentive to take gains to bolster earnings? A skeptic might say yes. Continental has an Executive Compensation Program that "provides for annual incentive payments in cash to key employees, based on corporate performance . . ." Continental also has a Long-Term Incentive Plan that "is designed to foster a closer identity between the interests of Continental's key employees and its shareholders . . ." It's worth noting that Mascotte's base salary was $645,000 last year, and that over the last three years he received an additional $475,000 under the Annual Management Incentive Plan, 7,272 shares of stock and $267,000 in cash under the Long-Term Incentive Plan, and $309,000 under the Stock Equivalent plan. During that period Continental's book value declined 9% and earnings slipped 28%, which makes one wonder whether those incentive plans really fostered a closer identity between the interests of employees and shareholders. A skeptic might also wonder what Mascotte's compensation would have looked like had the earnings or equity *actually grown.*

One company where both shareholders and management have prospered is Chubb, which turned in its fifth year in a row of record earnings. Despite "heavy price competition, excess capacity and aggressive tactics by many insurers seeking to maintain market share," Chubb turned in a combined ratio of 99.7 percent.

What does the future hold in store?

Although pricing pressures have "lessened somewhat," Chubb sees "little evidence of meaningful price increases except in some specialty segments of the market."

Some insurance companies have noble goals. The Progressive, for example, writes about their "Core Values": integrity, the golden rule, aspiration, excellence, and profit. We couldn't help chuckling at president Peter Lewis's goal to "delight customers" and "create an auto insurance experience that exceeds consumers' highest expectations." *Delight customers*? *Auto insurance experience*? Come on! But who are we to laugh? Peter Lewis has built a successful billion dollar company and we haven't. And you know what? Now that we think about it, Emerson, Reid has been providing brokers and agents with a delightful DBL experience for years, so maybe we're on the right track.

Quiet revolution

In our September 1990 issue we wrote about the quiet revolution in products liability. You may recall that two Cornell law professors, Henderson and Eisenberg, determined that there had been an abrupt judicial shift, with the trends now favoring defendants. That's good news for casualty insurers. The St. Paul, the largest insurer of medical liability in the world, has lowered its prior years' loss reserves by $1.5 billion over the last four years, and the combined ratio on their medical business was just 79% last year, down from 101% two years earlier. Given that this is one of the longest-tail classes of business around, if we apply Buffet's loss/float ratio, we realize that the profits from such successful underwriting results are enormous. Alas, the future may be more difficult than the recent past. As president Douglas Leatherdale mentions, "We have recently detected a bottoming out of the decline in the frequency of losses. It is too early to tell if frequency will stabilize at present levels or begin to rise again, but we can and will react promptly to changes in loss costs." That may be easier said than done, particularly since he doesn't expect the market to tighten in 1991. We find it hard to believe that any insurance company in this universe can write long-tail liability at a combined ratio much less than 100% over time. Either rates will go down or claims will go up.

Marsh & McLennan is an exceptional firm that seems to make one right move after the other. What many don't realize is that just 56% of their revenues comes from insurance services these days, down from 83% ten years ago. The company's Consulting and Investment Management operations have grown significantly and account for 44% of revenues. Although Marsh is highly profitable, earnings have been flat during the last four years due to the soft market. Chairman Frank Tasco acknowledges the "difficult operating environment" but doesn't dwell on it. He runs a giant worldwide operation and feels "confident" that Marsh's strategy will continue to pay off well into the future. We wouldn't bet against them.

One brokerage that has shown dramatic growth in the last five years is Hilb, Rogal and Hamilton, which now does over $100 million a year in commissions. Most of HRH's growth has come from acquisitions. In 1990 alone they bought 28 firms, and now have more than forty offices across the United States. This acquisition spree reminds us a bit of the 1960s and 1970s, when the big brokerage houses began swallowing up the smaller ones. Of course, hypergrowth is extremely difficult to manage, and impossible to maintain forever. In the meantime, we watch with great interest.

Bad business

Wilson Wilde, president of The Hartford Steam Boiler Inspection And Insurance Company knows that insurance is far from the best business in the world: "[It] continues to exhibit all the characteristics of a mature industry: competition focused on price, little product differentiation, too many competitors, excess capacity, and marginal rates of return." If all that's true (and we believe that it is), why is Hartford Steam Boiler so profitable? The answer is that they aren't exactly in the insurance business. Of course, they collect premiums and issue policies, but their real business is providing technical and professional services that contribute to the safety, reliability and efficiency of plants and equipment. Of their 4,000 employees, 2,500 are scientists, engineers or technicians, and, unlike most insurance companies where the bulk of the premium dollar goes for the payment of claims, just 37% of premiums are paid out in claims. The other 51% goes for expenses associated with engineering, loss prevention and inspection. Still, Hartford Steam isn't immune to the vagaries of the insurance business. They were unable to raise prices on large accounts last year, and had to walk away from some business. Mr. Wilde does not predict an upturn in the market in 1991.

W.R. Berkley says the industry is underreserved and predicts further deterioration.

The tone of W. R. Berkley's annual report is vastly different from most others. Chairman William Berkley doesn't gloss over the industry's problems; he is blunt and gloomy, at least for the near future. "Today, many 'experts' are predicting a favorable change in the insurance marketplace," Berkley writes. "We hope they are right, but at present we see a continued deterioration in most sectors of the market. The few segments that have not yet deteriorated are likely to as 1991 proceeds." He thinks that many companies are underreserving, thereby producing results that only *appear* good. What will make this ridiculous behavior stop? "This industry only changes direction when forced to do so because of financial or regulatory pressures," Berkley says.

AIG's Hank Greenberg, one of the great insurance men of all time, has a rosier view of the marketplace. (For the record, he did last year, too.) "There were signs during the year that an upturn in the market was close at hand," he told shareholders. "Particularly in the more specialized classes that are important to AIG."

But Greenberg thinks the regulatory environment remains troublesome and confiscatory. "If one believes in a market economy, then rates must find an economic level in the marketplace without interference from the public sector. If the industry itself wishes to cut rates, so be it. If companies need to increase rates to achieve a reasonable profit, they should not be prohibited from doing so. If this occurred in a foreign country, we would surely view it as expropriation of our capital."

Greenberg expects Congress to devote some "much needed" attention to the subject of insurer solvency in 1991. Perhaps the biggest surprise in AIG's annual report was that Greenberg came mighty close to saying he was in favor of repealing the McCarran-Ferguson Act. "The current U.S. state regulatory system puts our insurers and the industrial sector of our economy at a competitive disadvantage, adding unnecessarily to insurance costs. . . . A Federal charter for commercial and industrial coverages or a single-state system similar to the European Community model would enable our industry to operate more efficiently both domestically and in world markets. We would favor such an approach."

Greenberg runs a strong company. One of the fittest. Perhaps that's why he's something of a corporate Darwinist. He concludes his letter to shareholders by saying, "We do not live in a riskless society and it simply is not possible to provide an economic 'safety net' for everyone. . . . As the U.S. moves toward taking more of the risk away from individuals and shifting it onto society and government, individual responsibility will surely erode. . . . In the commercial sector, at least, buyers of insurance products should be able to assess the qualities of the companies from which they are purchasing coverage, and to live with the consequences of their decisions."

Strong words, but we don't disagree.

♦

They Said It

In an article describing the financial problems afflicting various Blue Cross plans, the *Wall Street Journal* wrote the following:

"A plan with negative surplus, such as the New Jersey plan, which had a $124 million surplus deficit in 1990, can continue to operate as long as its cash flow covers its claims and expenses. *'You can keep paying yesterday's bills with tomorrow's money on your cash flow, provided you keep business coming in,'* [emphasis added] says Donald Daniels, president of the New Jersey plan."

What a way to run a business.

Born to Be Wild?

Any time we see rapid growth in a financial company we raise our eyebrows and wonder. Bold projections are easy to make; they are hard to realize. It's one thing to peer into the promised land; it's another to make it there. A case in point is Fred Carr, chairman of First Executive.

Fred Carr must have been sitting on top of the world at the end of 1987. He had turned the staid life insurance industry upside down and built a giant insurance company in the process. First Executive had $17 billion in assets and $54 billion of insurance in force. Yet Carr's empire now lies in ruin. What went wrong?

To blame Executive Life's demise on the Drexel daisy chain—to say that it is a result of some unproven illegal conspiracy—is simplistic. We believe that Executive's prosperity can be traced to one good idea, and that its failure can be attributed to that same good idea.

In the 1970s Carr realized that the stodgy financial services industry was going to undergo rapid change; deregulation and immediate access to information would forever alter the old ways of doing business. Carr understood that long-term fixed-rate instruments such as mortgages and bonds—long a staple investment for insurance companies—left their owners with significant interest rate risks and little in the way of upside potential. Carr's alternative was to buy value, and he found that in "junk bonds" with a relatively short duration. The high-yield bonds of those days were a different species from those of today. They tended to be relatively safe senior securities that had been downgraded—"fallen angels"—and they offered the potential of capital appreciation if their issuers' credit rating improved. In contrast, the credit ratings of AAA bonds had only one direction to go—down.

So Carr built a "consumer oriented company," one whose primary goal, for both policyholders and the company, was "capital accumulation." He believed, perhaps mistakenly, that interest rate risk was "the number one risk to financial institutions." No one will ever accuse Carr of taking too much interest rate risk, but as it turned out, interest rate risk would have been vastly preferable to the awesome credit risks he took.

In April 1989 Carr wrote: "When we reach 1998 there will be perhaps ten great life insurance companies in the market. . . .We intend to be in that group."

How fast the high and the mighty fall! At that time First Executive's stockholders' equity was $1.5 billion, ($1.1 billion if marked-to-market) and earnings were over $200 million. Today, First Executive's stockholders' equity, marked-to-market, is *negative*, with the magnitude being in the billions of dollars.

Is Fred Carr's downfall a tragedy? Our erudite friend John Cauman has explained that a *tragedy*, in the Aristotelian sense, is the downfall of a great man. In those terms, therefore, it isn't tragic that many retirees may see much of their life savings wiped out by Executive Life's failure. (Although it is certainly heart-wrenching.) But Fred Carr is a different story. He traveled from humble beginnings to glorious peaks; in the

1960s, for a brief moment, he was one of the hottest gunslinging mutual fund managers around—until his speculative investments blew themselves up. In the 1970s and 1980s he created one of the largest life insurance companies in America, only to see it come crashing down—when his speculative investments blew themselves up again. His fall has elements of tragedy.

F. Scott Fitzgerald, reflecting on his own life as well as others, said, "There are no second acts in American lives." Yet why did Carr—who had a second act—repeat the mistakes of his first act?

In 1980 he told shareholders, "While we do not profess clairvoyance, we do confess our conviction of, and commitment to, change." In 1982 he wrote, "It is better to abandon an outdated concept than to be abandoned by one's customers." In 1989 he reiterated, "Our strategies must be flexible."

What is it that makes a man throw caution to the wind? What is it that makes him stick to a once-successful-but-now-obsolete investment formula with a slavish, single-minded determination bordering on the pathological?

"In America, nothing fails like success," Budd Schulberg wrote. Perhaps Carr, having tasted a second success, became afraid to deviate from the source of that success—junk bonds—and therefore doomed himself to obsolescence.

When we interviewed him in 1989 (before First Executive's problems hit the big time) Carr said he worried about everything, and he warned of the dangers of real estate, which made up a big chunk of other life-insurance-company portfolios. He told us that he and Milken were not buddies, as was often reported—they just did business together. "But why do you own *so much* junk?" we kept repeating. Carr, who struck us as a reflective, soft-spoken, avuncular sort of guy, said he believed in what he was doing—he hadn't sold any stock and was in it for the long haul. Whether his answer was disingenuous, we may never know.

Fred Carr played a dangerous game. Twice he chose to fly too close to the sun.

It doesn't look like there will be a big third act in Fred Carr's career. Not in the insurance industry, anyway.

What A Long Strange Trip It's Been

Is America just a vast stretch of fast-food joints, superhighways and shopping malls, or is it something else? In March we took a journey to find out, a journey into what was, for us anyway, the heart of darkness—Disneyworld.

As usual, we traveled by car. We're not afraid of flying; we just prefer the feel of the open road. Given our usual disdain for the beaten track, why did we, of our own volition, head towards Orlando, the Mecca of central Florida? Suffice it to say we did it for a kid.

Michael Eisner, Disney's chairman, has predicted that the 1990s will be "the Disney Decade." That gives us the willies, and we sure hope it's not true. When it comes to corporate philosophies, we feel more comfortable with the Zen overtones of "there is no finish line," than with the syrupy refrain, "it's a small world, after all."

The world of Disney is one of unrelenting cheer, and the Disney vision of history is simple: yesterday was great, today is wonderful, and tomorrow is even better. Even if that had once been our outlook, it no longer would have been after experiencing *Body Wars*, an Epcot Center ride that should be titled *Motion Sickness Wars*.

That Disneyworld holds an attraction for most people is undeniable.

WAYCROSS, GA.

(Even Richard Nixon loved the place; letters he wrote to Walt Disney and his successors are on display in the Magic Kingdom.) Unfortunately, that was one of the few cheap thrills. Perhaps because he can get away with it, the Mouse charges an arm and a leg for everything, and we felt guilty dropping so much money there when we could have been spending it in any one of the depressed but colorful towns scattered across the South.

Waycross, which we visited after Disneyworld, is one such town. It's located next to the Okefenokee Swamp in southern Georgia, and is about as far from an interstate as you can get, the nearest city of any size being Jacksonville, Florida, eighty miles away. We approached Waycross on a two-lane state road from Tifton, having driven through long stretches of pine forests as well as the little towns of Enigma, Alapaha, Glory, Willacoochee and Axson.

Trees cover 65% of Georgia, and sixty-four thousand people work in the state's $8.6 billion forestry industry. A high-quality Georgia pine takes twenty-five to thirty-five years to produce using modern farm-management practices. "Trees grow jobs" was a sign we saw often.

For 4,500 years the only inhabitants of the Okefenokee Swamp were Indians: Creeks, Chicksaw, Choctaw, Seminole, Coweta and Yamacraw. The first whites moved to Ware County (Waycross is the county seat) around 1818, and from then on life just got worse for the Indians. In 1838 a band of Seminoles raided the Wilder homestead and killed eight people. Why these "surly, drunk savages"—as one local report characterized them—went on a killing spree is not mentioned in any of the accounts we read, although one can easily surmise. Some years earlier, in what has become known as the Cherokee Trail of Tears, the Cherokees in Georgia had been forcibly relocated west of the Mississippi. The Seminoles probably knew what was in store for them.

Shortly after the "Last Indian Massacre" the Seminoles were driven out of the state and into the Florida Everglades.

"The growth of the railroad is synonymous with the growth of Waycross," wrote Robert Latimer Hurst, a local historian. The first railroad in the area was the Savannah, Albany & Gulf. It was absorbed by the Atlantic & Gulf in 1863, which in turn was acquired by the Southern Express, which was reorganized as the Savannah, Florida & Western—The SF&W—in 1879. The SF&W became part of the Plant System, founded by Henry Bradely Plant after whom one of Waycross's main streets is named. The Plant System and the Brunswick & Western lines gave birth to a small community when they crossed in Waycross.

In 1870 Waycross was inhabited by less than fifty people. Ten years later there were a few hundred people, and by 1890 the population was 3,000. There were five downtown area hotels, with more to come in the next decade. The population had doubled to 6,000 by 1902, when The Plant System merged into the Atlantic Coast Line. Today Waycross is the home of CSX's Rice Yard, the largest rail switching and classification facility east of the Mississippi.

The Ruskin Commonwealth, a utopian communal society with 300 people, was organized five miles west of town in 1899. "We hold sacred to the common use and benefit the collective ownership of the means of production and distribution." That credo sounded nice but it didn't work, and the colony lasted only a few years.

But Waycross prospered and soon became known as "The Queen City of South Georgia." A 1907 brochure called it a "magic city" in "the center of the most prosperous section of the United States." Pictures from that time depict broad avenues, tree-lined streets, attractive hotels, grand houses, gazebos, municipal buildings, parks and golf courses. Parlor rooms at the Phoenix Hotel started at $2.

In 1911 the Savannah *Morning Herald* wrote, "Every street is lined with towering oaks, presenting an appearance not to be found elsewhere in the country."

In 1924, Harlee Branch, city editor of the Atlanta *Journal*, spoke of Waycross in glowing terms: "With an almost ideal climate, with as fine a system of highways and lateral roads as exists in any county, with up-to-date school systems, with an almost unsurpassed railroad service, with a God-fearing population . . . one can only predict growth and prosperity within the next decade or two that will amaze the remainder of the state."

Waycross, the "gateway to Florida's playgrounds," was then the sixth largest city in Georgia with a population of 20,000. Nine freight trains and sixty-two passenger trains passed through daily. There were five bus lines. Waycross was also home to 600 pound Elks Club member Will T. Brinson, who was known as "The biggest Elk in the world."

Walking the streets of Waycross gives one the feeling of having entered the Twilight Zone.

The decline of the railroad as a major force in American life coincides with the decline of Waycross, and in the automobile age the city became a downbound train. *Georgia* magazine described it recently: "As small cities go, Waycross is not exactly homely, although in all truthfulness it is not beautiful either. Downtown is a helter-skelter jumble of meandering streets and railroad tracks. Architecturally it is a bomb. . ."

Although the Chamber of Commerce tells us that Waycross is "the car floor mat capital of the world," today the downtown hotels are closed, and the Lyric Theater is empty. The population has shrunk to 16,294, and most of the shops are gone. Walking the streets gives one the feeling of having entered the Twilight Zone; life is frozen in a different time. It's hard to believe that just forty years ago Elliston's corner drug store was open from 7:00 a.m. to 11:00 p.m., with six soda jerks manning the long soda fountain.

Like so many other small towns and cities throughout America, downtown Waycross is inhabited mainly by memories—it has been bypassed by time and modern life, and the lonely streets and empty buildings only hint at the small-town charm they once possessed.

Not far from downtown is a highway littered with the places that now define our culture—strip malls, Wal-Marts, McDonald's and gas stations.

It was a hot Saturday morning and we were standing on a downtown corner looking perplexed, when Ben Childers came over and asked if we needed any help. Turns out that Ben, who is originally from Kentucky, has spent the last thirty years in Waycross and runs the local Y. "My wife and I have found our home here," he told us with just a trace of a Southern accent in his voice.

Ben also told us that Waycross's depressed downtown has been on the upswing for the past ten years. He then filled us in on some local history and drew us a map.

We wandered about town, then visited the INSURAN*CENTER* and had a chat with its owner, Harold Wilson. (We're checking to see whether that qualifies us to write off the entire trip.) We exchanged stories about the insurance business, the economy and life in small towns and big cities, then shook hands and said goodbye. It was time for lunch.

DK's Barb-a-que on Pittman Street is an unattractive cinder-block structure with a smokehouse out back, but it's been in the same spot for thirty years. The South is filled with barbeque joints like this, and DK's was one of the best we sampled. We had a half side of ribs slow-cooked over a hickory fire and smothered with a spicy red sauce that tasted of smoke, vinegar and sugar. We ate cole slaw and drank sweet iced tea and bought two bottles of the barbeque sauce to go.

We then drove to the Okefenokee Swamp, where the cartoon character Pogo and his swamp critter friends come from, and took a boat ride through the still waters filled with gators and cooters. We watched a Civil War reenactment in which the Confederates forced the Yankees to retreat. Although still full from lunch, we bought a snow cone made from shaved ice and sweet peach syrup. It sure tasted good.

As we drove out of Waycross heading towards Savannah we noticed a bumper sticker that read "Fight crime, shoot first."

It makes you wonder.

♦

Probe

Alan Press first got our attention when he sent us a letter that said of our Insurance Observer, "It is really a superb piece. You write beautifully. I only wish it came out more often." Clearly, Alan was a perceptive man and a shrewd judge of insurance literature, so we picked up the phone and gave him a call. We're glad we did.

Alan is an agent for The Guardian and was president of the National Association of Life Underwriters. He has testified before the House and the Senate, given numerous speeches, and written many articles. He is a knowledgeable guy who enjoys talking. Which brings us to *Probe*, a newsletter he publishes with John Angle, the retired CEO of The Guardian, and Edward Keenan, the former editor of *Life Association News*. *Probe* lives up to its name. It is opinionated, articulate, provocative and inquiring; it speaks its mind. If you're in the life insurance business, or at all interested in the life industry, you should probably read it. Recent issues have dealt with topics such as these: A. L. Williams, easy money huckster Charles Givens and his best-selling *Wealth Without Risk*, and leveraged life insurance holding companies.

Probe is published twenty-two times a year. Individual subscriptions are available for $75 from Probe, Inc., Route 1, Box 88a, Nanjemoy, MD 20662.

♦

A Product Too Good to Ignore

Ordinarily we don't go around telling insurance brokers what to do, but sometimes we just can't help ourselves. What troubles us ever so slightly is that so many brokers—particularly property-casualty ones—are overlooking what may well be the biggest growth industry in the insurance business. What we're referring to is Long Term Disability, commonly referred to as LTD.

Demand for LTD is growing rapidly, and the market is extremely under-penetrated. Although 85% of American income earners have some form of health insurance, only 27% have *any* form of disability coverage. Employees have a much greater chance of being disabled than dying. For example, a thirty-two year old is $6\frac{1}{2}$ times more likely to be disabled for ninety days than to die. Even at age sixty-two his probability of disability to death is still more than two to one.

Part of LTD's appeal is that today's group policies offer high value coverage at a relatively low cost. As the average life span has increased over the years, so has the average length of disabilities, and in the future it will be the rule, rather than the exception, to have LTD coverage. This has created an excellent opportunity for brokers. Think of it: there are ninety-three million employees who have no coverage.

Emerson, Reid has long been recognized as the leading general agent and specialist in the statutory disability market, and we have carved out a niche for ourselves in the LTD market, as well. Give us a call. We won't steer you wrong.

An Insurance Broker—1991

♦

New Jersey TDB—Kiss the State Fund Goodbye

Unlike New York, where most of the DBL is written with private insurance carriers, in New Jersey most of the TDB (Temporary Disability Benefits Law) is written through the State Fund, which (obviously) doesn't pay any commissions. That's crazy! Emerson, Reid has a number of very competitive markets that are actively seeking TDB.

In case you need a refresher in TDB, here it is: the law requires employers in New Jersey to provide short term disability benefits to their eligible employees who are unable to work because of an off-the-job injury or sickness.

The benefit is $66\frac{2}{3}\%$ of the average weekly wage to a maximum of $272 per week. Rates are a percentage of the first $14,000 of annual wages per person.

Benefits begin on the eighth day of disability and there is a twenty-six week duration. If an employee is disabled for three consecutive weeks following the waiting period, benefits are retroactive to the first day of disability.

A significant lead time is generally needed to write TDB because there's a decent amount of paperwork involved, so it's important to get started as soon as possible.